

## Fundraising market for Indian PEs is more difficult today: Charles Daugherty

Interview with managing partner, Stanwich Advisors

Reghu Balakrishnan / Mumbai January 11, 2012, 14:32 IST



The US-based Stanwich Advisors, LLC is a leading boutique investment bank that provides advisory and fundraising services to private equity partnerships globally. Since 1996, the Stanwich Advisors has raised more than \$17 billion for more than 40 funds from leading institutional investors of across the world.

Currently, Stanwich helps a few Indian PE fund managers (General partners- GPs) to raise funds from the global markets. **Charles Daugherty**, Managing Partner, Stanwich Advisors, worked as Managing Director, Private Fund Group at Deutsche Bank and Bankers Trust Alex Brown, prior to founding Stanwich Advisors in 2003. Daugherty, an MBA from the Wharton School of Business at the University of Pennsylvania, speaks to *Reghu Balakrishnan* about fundraising scenario in India. Excerpts

### Against their good track record, Indian PE veterans are still struggling for fundraising. The reasons?

The fundraising market for Indian GPs is clearly more difficult today than it was in 2007 and 2008, with a higher number of GPs competing for less capital. While investors continue to be interested in gaining exposure to India, many are still getting comfortable with the private equity opportunity. The private equity market is very crowded in India, and a lot of fund managers are raising first-time funds that are managed by teams that have little to no shared work experience and/or limited realized track records. In addition, private equity in India has faced significant competition from the public markets, and the high valuations of private companies, a perceived lack of control and/or ability to create value by GPs, and a lack of exits have caused many investors to question whether the higher fees commanded by PE funds are justified.

### The views of Limited Partners (investors) towards Indian market?

While LPs continue to view the investment opportunity in India as attractive, the private equity market is still relatively young and there have been a limited number of portfolio company exits and, therefore, proven track records. In contrast to China, multiple arbitrage and economies of scale have proven more difficult to achieve in India, which has led to fewer liquidity events. There is also a perception that many investors were rushed into investing in Indian PE funds in 2007 and 2008 and were perhaps not as thorough with their due diligence as they should have been. A lot of private equity funds were able to raise capital without ever having proven that they could consistently source high quality deals at attractive valuations and return capital to their investors. As a result, LPs are being much more selective today with the capital that they have and will generally invest only with teams that have investment experience that reflects the complete investment cycle and, importantly, return of cash across multiple economic cycles. LPs will also increasingly look for operating experience to be a part of the GP team.

### Whether global LPs still prefer India among emerging markets?

India remains a key market for private equity in Asia, but interest from global investors in Indian funds has not kept pace recently with interest in China-focused funds. While the proportion of capital allocated to Indian funds has increased slightly from 8 per cent in 2007 to 9 per cent in 2011, capital allocated to China-focused funds has increased from 7 per cent in 2007 to 40 per cent in 2011. In addition, India-focused private equity funds must also compete with other emerging markets in Asia such as Indonesia as well as other regions such as Latin America and Turkey, which have continued to gain traction with investors over the past few years.

However, as long as the macro in India remains attractive, investors will be enthusiastic about investing in Indian private equity, particularly as the private equity market continues to mature.

### **What are the fundraising options, if the meltdown in Europe and the US continue?**

Asian funds-of-funds have raised a substantial amount of money globally and are arguably the largest source of capital for Indian GPs, as they have a pool of capital that must be invested with Asian GPs, with the largest allocations typically reserved for China and India. The majority of capital allocated to Indian PE funds continues to come from these funds-of-funds and traditional PE investors in the US and Europe. We have seen increasing interest in India from LPs in markets such as Japan and the West Asia. While West Asian LPs, which are represented primarily by high net worth individuals, family offices, and sovereign wealth funds, significantly decreased their investments to private equity funds following the financial crisis, the region has been a large source of capital for private equity in recent years and interest in India and emerging markets in general has increased.

### **What could be the fundraising scenario in 2012?**

The resulting trend has been a "flight to quality", reflected by the fact that, on the one hand, a number of fund managers have been forced to lower their fund targets or put fundraising on hold completely, while on the other hand, funds raised by experienced managers with a proven history of exiting investments have been oversubscribed. The expectation is therefore that it will be increasingly difficult for first- and second-time funds with limited realisations to raise capital, especially if the team has not worked together before or has little to no prior investing experience.