

The Economic Times

Madhvi Sally & Sutanuka Ghosal, ET Bureau Sep 9, 2011, 03.53am IST

Private Equity firms eye to invest in Indian agriculture & food sector

AHMEDABAD/KOLKATA: Dhirendra Singh, a first-generation entrepreneur, just got an investment of \$10 million from private equity firm SAIF Partners India for his Rs 70-crore juice manufacturing and marketing company Manpasand Beverages. The Vadodara-headquartered company sells juice under the brand name Manpasand across India.

"This investment will help us to strengthen our manufacturing and marketing activities," said Singh. Manpasand Beverages is not the only company in food and agri space that has got PE investments in calendar 2011 (see chart). The total deal size has increased to \$25 million in the first quarter of 2011 from \$23 million in the corresponding period of 2010.

The feeling among PE investors is the agriculture and food sector is taking a new shape in India. "With retailing and branding, a lot of investment is happening in the organic and agricultural space. Indian companies are also entering geographies like Africa and other countries for expanding footprint in agriculture.

Companies here are looking at agricultural outsourcing by opting for cheaper options in neighbouring countries so as to produce things there at less cost. All these factors are making this sector lucrative to the PE firms," said an investment analyst.

On the other hand, rising interest rates are driving companies to PEs. The firms that generally get PE investments are smaller in size and sometimes banks do not find them exciting enough to invest due to fears that their investments may turn sticky.

"Moreover, there has been a steep rise in interest rates which is holding back the expansion plans of small companies. PE investment is good," said Singh. Explaining the rationale behind their investments in Manpasand, Vishal Sood, partner, SAIF Partners, said: "The Rs 2500-crore juice market is growing at a fast pace.

Manpasand is a relatively small company compared to Pepsi, Coke and Frooti but it has a strong team and good distribution network." He added that demand for packaged food was going up due to rising disposable income and aspirations. "Consumers in tier-II and tier -III towns and cities are preferring packaged food product rather than the loosely sold product," he said.

SAIF Partners is an Asia-focussed fund, which manages assets worth \$3.5 billion. GVFL Limited (formerly Gujarat Venture Finance Limited) MD Mihir Joshi said that with the Union government promoting the food processing sector, new business models were coming up in the past 3-4 years.

"The food industry which was never considered a business is now catching the eye of the private equity companies. They see now money in this sector as the scale can be exponentially increased along with profitability," he said.

The branded food sector will continue to draw the attention of PE firms in the days ahead, said Nirmesh Prakash, partner, Ambit Pragma Ventures.

"Access to cutting-edge technology and the growth of retail in India will see the food processing sector gradually shifting from unorganised to the organised sector. At Ambit, we are weighing investment options in this sector," he said.