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Deepti Chaudhary; Posted: Tue, Nov 15 2011. 8:01 PM IST, LIVE MINT

Early growth-stage funds tap senior company executives

Seasoned company executives are drawn by opportunities in PE firms as they get a chance to play a larger role in not just one company

Mumbai: Early growth-stage private equity (PE) funds, which typically invest \$5-15 million (Rs. 25-75 crore) in a company, are hiring senior executives as operating partners as they focus harder on the scalability and success of portfolio companies

Seasoned company executives are drawn by opportunities in PE firms as they get a chance to play a larger role in not just one company.

Take Atul Kunwar for instance. Earlier this month he joined Mumbai-based PE firm Ambit Pragma Ventures as operating partner after quitting Mahindra Satyam, where he was heading global sales.

“Now I have the thrill of creating something new and enabling the fund to succeed,” Kunwar said. “The plan is to accelerate a process that will help the company do better than its original thesis.”

Kunwar, whose previous roles include being president at Mahindra Satyam, chief business officer at Tech Mahindra Ltd, and chief executive at Aditya Birla Minacs, will mentor and handhold Ambit Pragma’s portfolio companies.

“The PE industry intellectually appeals to people as they get to interact with multiple entrepreneurs, get a chance to explore numerous business models... This challenges one’s mind,” said Mukul Gulati, managing director, Zephyr Peacock India, a PE firm that focuses on small and medium enterprises (SMEs).

Kunwar, who could have joined another company or a bigger fund, chose an early-growth PE fund to fuel his “entrepreneurial” streak. Ambit Pragma is a \$65 million fund and its portfolio companies include Spear Logistics Pvt. Ltd, Prasanna Purple Mobility Solutions Pvt. Ltd and Beams Hospitals Pvt. Ltd. The firm is in the process of raising \$150 million for its second fund.

Many PE funds have been investing without a plan, Gulati said. As they mostly take minority stakes, fund managers are forced to adopt a hands-off approach. “People are now realizing that such an approach will not make money for them as companies need direction,” he said.

Limited partners (LPs, which invest in PE and venture funds) are pushing fund managers to adopt a differentiated investment approach. Furthermore, LPs want fund managers to demonstrate the kind of value addition they will bring to an entrepreneurial venture.

“These initiatives are all about generating returns. Even as the new partner may get a share in the ‘carry’, the idea is to create returns, which have been below expectations so far,” said Gulati. Zephyr’s plan is to add three investment officers, of which one or two will be industry experts.

Carry refers to the 20% share of profits made on investments given to fund managers as an incentive. The share in the carry is generally restricted to the partners in the fund, who go through the process of raising the fund, approaching investors, drafting the investment thesis, and bringing in deals.

Executives hired as operating partners come with considerable experience and would have shepherded a company from mid-size to large scale. “These executives...can leverage the learning of all they had done in past roles from sales to human resources to strategic decisions,” said an official of Ambit Pragma, who requested anonymity as he is not authorized to speak to the media.

ASK Pravi Capital Advisors Pvt. Ltd, a joint venture between the ASK Group and Pravi Capital Advisors Llp, has added at least three operational experts to its team. The investment firm is raising money for a \$200 million fund.

“If you want to incentivize the functional and operational experts, you need to give a share of the carry so that the experts are aligned to the fund,” said Jayanta Banerjee, chief executive, ASK Pravi Capital Advisors. “It’s about team work and we share the spoils at the end of the fund cycle.”

While PE looks like a glamorous industry to outsiders, it’s a difficult one to break into, said Gulati of Zephyr. Also, as it’s a team-driven business, existing partners are often wary of adding new ones, fearing clashes or a lack of coordination.