

Balancing act

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Private equity players have traditionally had a 'Barbarians at the Gate' kind of image, with tales of interference, bullying, pressure for results, and unceremonious exits. Fortunately, India Inc has seen few such examples, and with the exception of a few like the Punjab Tractors-Actis spat, which led to Actis CEO Donald Peck resigning from the board of the Chandigarh based tractor company, it's been smooth sailing.

Managing relationships successfully has been key. In Bharti's case when Warburg exited in March 2005, it was the telecom company who put forth the idea to the private equity firm as they believed that a larger float in the market would be beneficial for them.

"We were happy they were making money. We were the ones to tell them to offload their stake, and they listened to us," says Akhil Gupta, Jt MD, Bharti Tele-Ventures. Even Barings chairman Rahul Bhasin insists that it was Mphasis that was running the entire stake offloading process, and not them.

While transparency and honesty are necessary, every PE firm has enough stories to tell of unkept promises, meddling with numbers, and some really innovative excuses that promoters come up with. "What we don't like is that they show us a three-year-plan but have a 30-year-plan in mind.

You've got to be honest and transparent when you are dealing with PE investors. We too are answerable to our investors, and each fund has a specified time-line and we can't afford to have an asset-liability mismatch," explains Renuka Ramnath, MD, ICICI Ventures.

On the other hand, fiercely independent entrepreneurs complain that private equity firms prefer a very methodical approach, and that goes against the gut-feel style of functioning that some entrepreneurs are used to. But abrupt changes in the business model, and shaky business decisions can sometimes unnerve PE firms, if such changes aren't communicated well, says Ramnath, "While we are open to change in business plans, you got to be take the investors into confidence. I really believe nurturing companies is like nurturing children and you got to give them the freedom and respect, and treat them as a partner."

The problems usually begin when companies don't understand the contracts they sign. "The private equity game is getting far more sophisticated these days. With deal sizes increasing, and transactions getting complicated in terms of investors objectives and selling objectives, the people involved have to understand the mechanisms, and not many are familiar with the new terminologies and instruments being used," says Sidharth Shah, head of the private equity and venture capital practice group at law firm Nishith Desai Associates.

That said, the success of many firms with private equity participation has proved that it can be a symbiotic relationship that can create a win-win situation for both the partners. Bharti's Gupta shares his recipe for a great partnership. "I think the private equity player is as good as it wants to be. It will never interfere, and it's up to the company to be transparent. Investors like a clear picture," he says.