

'WE ARE VERY BULLISH ON INDIA AND THE OPPORTUNITY THAT EXISTS HERE'

AKHIL Gupta is senior managing director and chairman, Blackstone India. The Mumbai-based executive's primary role is to source and manage private equity (PE) transactions in India, besides providing support for Blackstone's other businesses, including real estate and corporate advisory services.

Before joining Blackstone, Gupta served as ceo, corporate development, Reliance Industries and Reliance Infocomm. His

efforts at Reliance were focussed on developing its oil and gas, refining and telecom businesses. With a B.Tech degree in chemical engineering with distinction from the Indian Institute of Technology, Delhi, and an MBA from the Graduate School of Business, Stanford University, Gupta began his career at Hindustan Lever, India's largest multinational corporation in 1973. He worked in the US with different companies between 1981 and 1992.

An interview with Gupta:

Last year was a record one for global private equity funds, who collectively invested over US\$60 billion in emerging markets. Do you expect a sharp slowdown in investments this year in view of the international financial meltdown, or will the PE industry seek opportunities by acquiring equity in quality firms that could be available at a bargain?

We need to differentiate between venture funds and growth/buyout funds. Venture funds are less likely to be affected by the current downturn in deploying fresh capital. However, for growth/buyout funds, some slowdown in investments is expected this year given the global economic uncertainty compounded by the volatility of emerging market currencies.

Nevertheless, we believe the second half of the year will be a much better time for private equity investments in emerging markets. This is because growth/buyout PE deals in emerging markets do not rely on debt unlike their counterparts in developed countries.

India will present compelling investment opportunities post-election – reasonable valuations, lower competition from hedge funds and public markets, and an increasing willingness among Indian entrepreneurs to seek strategic financial partners (and not just capital providers). At Blackstone, we are excited about deploying new capital in the current environment in businesses that have strong cash flows and good fundamentals to withstand the downturn, and strong management teams.

How do you view the Indian PE scenario, where over 350 funds are currently operating? Analysts have projected PE investments could touch the US\$25 billion-mark in about five years, as against US\$10

billion last year. Do you agree?

India continues to be an attractive destination for private equity investors globally as everyone believes India is on a secular growth path of 7 per cent-plus GDP growth over a 10-15 year horizon. We expect the investment activity to be somewhat slow until the downturn persists, but we believe India will bounce back before most other economies due to low reliance on exports, a large healthy domestic economy and anticipated spending on infrastructure.

Once you start seeing the recovery in India and consequent stabilisation of the rupee, capital flows will return to India strongly. We believe India will be one of the most attractive PE markets globally over the next five years.

Private equity investments remain significantly under-represented in India and I expect that our share of the investment pie will continue to increase as the need for growth capital will continue to increase in the Indian economy.

Has the across-the-board fall in valuations in the Indian stock markets hurt sentiments in the PE industry? Will funds be hesitant while investing? Do you see some of them divesting their stake and pulling out of the country?

As an asset class, private equity typically takes a long-term view in terms of value creation. It is not unusual for PE investment horizons to range five to eight years and, hence, PE investing gets less impacted as compared to some of the other asset classes due to cyclical ups and downs of the economy or the stock market.

Also, for most part, PE funds are raised with 10-year lock-ins and do not face redemption pressures like the ones faced by





hedge funds in the current environment. Therefore, barring a few one-off cases, I do not see PE funds exiting the Indian market. In fact, they have a better environment for investment, for example, less competition from hedge funds and reasonable valuations.

At Blackstone, our focus is to use this downturn as an opportunity to build the competitive positioning of our existing portfolio companies by increasing market share, making select acquisitions and investing in quality companies run by outstanding management teams that we could not invest in earlier due to high valuations.

The real estate sector was among those that attracted the maximum investments from PE funds. But the sharp reaction and the financial crisis has seen most realty firms lose massive valuations on the stock markets. Will the realty sector lose its charm for PE funds, or could there be further infusion of funds over the coming months?

The real estate sector is going through a very challenging period due to a slowdown in consumer demand and drying up of equity and debt capital to fund projects. Given the high leverage levels of some of the developers, there is significant stress in the market and the cost of capital is very high.

We expect real estate deals in the coming months to be done at low valuations and they will be heavily structured deals with strong downside protection for investors. We also expect developers to sell some of their prime assets at attractive valuations.

What are the sectors in India that appear attractive for PE funds, both on a medium- and long-term basis? Which sectors are you looking at in the long-term?

The sectors in India which are trading at depressed valuations in the current environment but have strong long-term fundamentals appear attractive for investing. For example, sectors levered to domestic consumption, such as media, financial services and agriculture-related sectors appear quite attractive.

In addition, export-oriented sectors with strong cash flows and a sustainable global competitive advantage that are trading at all-time low valuations, such as the Indian IT/BPO sector, seem attractive for investing.

Overall, Blackstone follows a sector-agnostic investment philosophy. We invest in companies which we believe can be leaders in their industry.

Blackstone helps these companies to grow faster and in a

sustainable manner by institutionalising systems and processes, improving corporate governance and creating a balance between entrepreneurs and professionals in the management team, which is essential for the company to grow to its full potential.

Is the Blackstone Group committed to staying invested in India in the long run? Is the group bullish about the long-term prospects of the Indian economy?

Yes, Blackstone has a strong commitment to India as evidenced by the fact that our private equity business has deployed/committed over US\$800 million of capital in eight companies in India. Today, we have established three businesses in India, including PE, real estate and an India-focused mutual fund.

We believe India and China will be the strongest geographies for Blackstone outside its core business in the US and Europe. We are very bullish on India and the opportunity that exists here. We have two dedicated senior resource executives, who have run companies in the past and are solely focussed on improving the performance of its portfolio companies. We sit on the board of all our investee companies to help management teams in improving performance.

An example of our commitment is the fact that in addition to our two dedicated senior resources, at least one additional Blackstone professional is spending at least a day a week at each of our eight portfolio companies.

How long do you think will it take the global economy – especially the developed world – to emerge out of the present crisis?

Governments across most countries that have been hit with the recent financial meltdown are taking globally coordinated bold steps to revive the world economy and put it on a more sustainable trajectory.

Many are arguing that we need a different global economic order to address the structural issues that have caused this downturn. Hence, putting a timeframe to revival is unrealistic, but I am optimistic that this will not lead to a 'depression' kind of situation in the developed world.

I am hopeful this crisis will enable our leaders to address the many issues that they were afraid to target during normal times. While I will not venture to predict the global economic scenario, I think the Indian economy will be on a reasonable growth path starting from the second half of the next fiscal year. 🌱