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News & Views

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Mr. Ramanan Raghavendran, Director, Kubera Cross-Border Fund

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Kubera Cross-Border Fund Limited ("KUBC" or the "Company") is a closed-end investment company traded on the AIM market of the London Stock Exchange. The Company makes private equity investments in cross-border companies, primarily in businesses that operate in the US-India corridor. The Company's investment manager, Kubera Partners, brings a strong track record of [investing](#) in or managing such businesses. Several of the Company's investee companies also benefit from business activities in the fast-growing Indian domestic market. KUBC is differentiated by its specialized investment focus that requires domain knowledge across multiple geographies; a combination of investment and operating skills; and the exception historical track record of its two founding partners. KUBC is the only traded fund of any scale focused on India-related private equity.

Ramanan Raghavendran, Director, Kubera Cross-Border Fund, founded Kubera in December 2006 together with Kumar Mahadeva, Founder, former Chairman and CEO of Cognizant Technology. Prior to founding Kubera, he was responsible for leading the successful cross-border investing efforts at TH Lee Putnam Ventures (THLPV) as a Senior Partner and continues to oversee the THLPV portfolio today. He was formerly a Senior Partner at Insight Venture Partners where he invested in business process outsourcing and enterprise software companies, including cross-border investing via Connect Capital, an Insight affiliate.

Prior to joining Insight, he was a senior member of the investment team at General Atlantic where he initiated the Internet-related investment effort and also led sector efforts in technology services and enterprise software. Mr. Raghavendran began his career at McKinsey & Company and holds a BSc in Finance from the University of Pennsylvania's Wharton School and a BSE in Computer Science from the University of Pennsylvania's Moore School of Engineering.

Replying to **Anil Mascarenhas** of *India Infoline*, Ramanan Raghavendran says, "We are better placed than the traditional private equity funds to take longer-term bets."

Explain in brief the concept of a cross border fund. What does it involve?

This involves investing in Indian companies that for at least part of their business, seek to sell into global markets; and also invest in US businesses that use India as a development or manufacturing back end. This requires a complex

skill set. The investor needs to have capabilities in multiple geographies and bring those skills to bear in an integrated fashion on every deal.

Does Kubera have a sector focus or is sector agnostic? Which are the sectors that excite you and why?

Our fund's name is the Kubera Cross-Border Fund. To that extent, we are a focused fund. I would say that we are 'business model' focused as opposed to sector focused. We invest in cross border companies. These are companies that are looking to build global businesses by addressing the global as well as the domestic India demand. These companies also leverage the Indian labor pool to deliver specialized outsourcing services to the western economies. In many cases, these companies target the domestic Indian market in high growth areas such as media and financial services to gain scale and then serve a global customer base. The above theme and our cross-border mandate lends itself to many sectors such as business services including IT/ITeS, healthcare, media, telecom services, logistics, food and agri value chain among others. We are very clear on what we do not do – we don't do highly domestic sectors, such as domestic [infrastructure](#), real estate and India focused retail.

You spoke about being business model focused as opposed to sector focused. At the same time you don't do deals which are very domestic focused. How do you really differentiate all these criteria because there are bound to be huge overlaps?

Not really. We do cross-border deals, while of course many of these companies also have a domestic business. This rules out a lot of things as we said earlier – real estate, retail, consumer, infrastructure, etcetera. When we look at a company, it's actually very easy for us to figure out whether it fits our focus or not.

Is your country focus on India only or any emerging market economy?

As a cross-border fund, our mandate is very broad. We have teams in India and the US. The focus so far has been on India and will remain that way as we are very positive on the market and our ability to find good businesses to back it. We have looked at other emerging markets such as Philippines and will continue to explore those opportunities.

What do you look for in the companies that you invest in? What is the typical deal size of an investment?

We look at attractive market opportunity and at a Top 3 player in the market niche and strong promoters or management team. The other factors include our ability to be a value adding partner to the management team and strong financials and a track record of growth and profitability.

Usually, what is the investment size?

Our sweet spot in terms of investment size is \$15-50mn. We can do larger transactions with a pool of co-investors, many of whom are investors in our fund.

What is the typical cycle time for an investment to be finalized? What is the process followed?

We follow a reasonably rigorous process of Pre-qualification, Qualification, Term Sheet Preparation, Due Diligence and Stage and Closure finalization. One big advantage we have is that we are a small team and can make decisions quickly. Our investment committee consists of managing partners, Kumar and Ramanan, and since they are involved in the process, there are no surprises. We address issues as they come along and there is always a greater certainty of closing investments with us, given our transparent approach.

What is your investment horizon and return criteria?

Our investment horizon is long. We have an unusual fund structure in that we are the only listed private equity fund of any scale in India. We are listed on the London Stock Exchange's AIM market in the UK. We have a 'permanent capital' structure and the fund does not have a finite life. To that extent, we are better placed than the traditional

private equity funds to take longer-term bets. Our return threshold is 25% IRR and in our investment evaluation, we typically model an exit in 3-5 year time-frame, although, as pointed out above, we may well hold some of our investments for much longer periods.

How long is long?

We do not set a time limit. Typical holding periods in private equity are three to five years – in our case, because there is no limited term to the fund. We could hold an investment for 10-15 years if that is appropriate.

What strengths does Kubera get to the table apart from capital invested?

We do not claim to be experts in the industries we invest in but as experienced long-term investors in three continents, our involvement in a supporting role to management and the board has a significant effect on future value creation. Our involvement is focused around three key dimensions that we have found are highly complementary to the vision and operational skill-set of the entrepreneurs in our family. These dimensions include:

- Deep network
- Assistance with strategy formulation, alliances and acquisitions
- Enhancing operational and governance processes

Given the global downturn, is finding capital for fresh investment a major concern for funds like you?

It is not a major concern for us given our permanent capital structure. Whenever we make an exit from one of our investments, the money will go back on our balance sheet and we can re-invest that money.

Have you seen an up tick in companies looking for PE funds given that IPOs have mostly dried up?

Yes and No. Clearly, PE is the preferred option (and in some cases, the only option) for raising capital for many companies. However, there is always a lag between the market and promoter expectations and we believe that we are still going through that phase. Overall, we believe that deal activity has remained relatively robust and will only get stronger in the coming months.

India has also seen a spate of buyouts of different companies through the PE route. Would you look at something like that if the opportunity presented itself?

Yes, we would. Our fund structure gives us a lot of flexibility to look at different deal structures. In several cases, we have evaluated backing management teams to take over and/or acquire businesses.

What is your outlook for the PE industry in India?

Our outlook is very positive. The industry is still not fully developed in India. While the transaction volumes have increased over the last 2-3 years, this is still a small number as a percentage of GDP compared to other developed markets, which have a much smaller growth rate. The macro indicators are very strong for the medium to long term. Like any story, this can't be a smooth ride so there will be bumps along the road and we believe we are going through one such bump.