



# ‘This year’ll be better for strategic buyers than for financial buyers’

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Rana Rosen

*Since 2002, General Atlantic Llc. (GA) has invested about \$1 billion across 10 companies in India. And outsourcing companies comprised 70% of that portfolio. But the firm has been shifting away from its outsourcing focus since mid-2007.*

*In a June interview with Mint, Mark F. Dzialga, a managing director at GA, said its next big bet here would be infrastructure. The firm has yet to strike a deal along this new theme, although their last deal of 2007 seems to be a hybrid of the old and the new. It was a \$60 million investment into IBS Software Services (P) Ltd, which provides software services to the travel, transportation and logistics industries.*

*Abhay Havaladar, GA’s managing director who leads its South East Asia investment initiatives, gave Mint more details about the new investment theme, issues facing the old investment theme and his thoughts on broader economic shifts. Edited excerpts:*

## **So what do you expect of the market conditions for this year?**

I am more concerned about liquidity than value. This is what we tell our firms: This year will be better for strategic buyers than for financial buyers. Because the cost of debt will be much higher.

## **Why have you changed GA’s focus in India?**

We have done outsourcing, we made some investments in consumption-led businesses and, now, we are also focused on what we think will be a significant portion of the growth. And, this arguably will be secular, meaning that what happens in the US will not affect what has to happen in infrastructure in India. It will affect outsourcing and maybe consumption, but not infrastructure. It is slightly different from what we have done before, so we are taking our time in forming our opinions on the different opportunities.

## **Is that why you haven’t made any investments along this theme, yet?**

Abhay Havaladar

Another way to look at it is that, last year, we did two investments in India, and we target two to three a year.

## **You mentioned the concept of an insulated sector. Outsourcing has been quite the opposite. Have you been concerned about the appreciating rupee?**

It is certainly an issue that we have to deal with. Outsourcing is not going to go away, but it won’t be as it was before.

Yet, there are various ways to get a sense of the issue’s magnitude. I was just in the Philippines, and they are having a larger appreciation than India, so the issue is relative. Multinationals are still building captive BPOs in India. Yes, the companies are working to bring more efficiency to the business. But if they were under pressure, they could use financial engineering.

For example, if you take debt in a different currency to acquire assets in the place, then you get a natural hedge. No company in that sector has yet done that. My view is that

people are still trying to figure out how to work their way through. It is still relatively recent.

**Are you concerned about these issues affecting your returns?**

We invest in people and we feel we have invested in good management teams. Their true value and worth come through when they have to deal with uncertainties. We are fairly comfortable that they are all thinking through it, and all of them will come up better on a relative sense if not on an absolute sense. And, as long as they do that, we will be very happy. Some of them might not make the mark, and we will do different things. But I don't see this as something that has floored these guys.

**How active are you in helping the companies make these decisions?**

In terms of coming up with the menu, we have been very useful. But, in trying to figure out what they should eat, that is a choice that they have to make.

**As you look at new investments in 2008, do you see a change in valuations given the recent stock market volatility?**

Right now, we are dealing with situations where the decision to raise capital was made in the old environment. The correction happens when the decision to raise capital is made in the new environment. But, more importantly, there has been a correction in the access and the process. Meaning, before we couldn't do what we do: engage with the company and have the time to understand them. As the public market becomes less of an attractive option, the value of this option (private equity) is now becoming more evident to them. Now we get more time with entrepreneurs.

**Do you plan to exit investments this year?**

I am in the business of ensuring some liquidity, not necessarily exits, which means selling the whole position. We have a long-term investment horizon of 5-7 years. Every year, we do plan for liquidity, but our actual actions depend on the market conditions. We are patient, and don't need to seek liquidity in short-term time frames.