

T&I GP Interview

Abhay Havaldar, General Atlantic

Abhay Havaldar grew up, went to school and university, and has worked all of his professional career in Bombay. All of which helps explain why he has one of India's best investment track records. He earned an electrical engineering degree from Bombay University after which he joined India's then nascent IT industry in one of the Tata family's many businesses, where he spent 13 years, leaving in 1994. He says he doesn't remember the exact size of Tata Group when he left while he was head of sales for Tata's (TUL) IT services in the eastern United States, but that it was probably not more than \$25 million in annual revenues; compared to multi-billion dollar per annum company of today. At the time, Tata was just beginning a transition from project based services to outsourcing services in the US and he worked on service support, projects and engineering as Tata's regional manager, doing whatever it took to win, develop, run and collect money for doing US-based work.

Asked why electrical engineering, he told T&I, as have many of his peers from the era, that earning an EE degree was a part of the times when India's top Universities didn't have separate computer science programs, so anyone interested in computers studied in electrical engineering schools. Asked about why one leaves Tata, Havaldar says that at the time, it was not so clear that his work, and that of Tata and others in outsourced projects, was scalable so he returned to graduate school in London at the London Business School, where he earned an MSc.



The move to London was not as sudden as it may appear; as an employee of Tata, Havaldar had lived around the world; four years in London, three years New York, a year in Atlanta, a year in Toronto and six months in Beijing, so he had considerable exposure the world. At LBS he participated in one of the three global Sloan Business Programs (London, Stanford and MIT), graduating in 1995. While earning his MSc he met a and joined a number of people who were raising an investment fund for India; a group later famous as India's first broad venture capital company, Draper International, where there were four partners: William Draper (the son of General William Draper Jr.), Robin Richards, Kiran Nadkarni and Havaldar. Richards knew Havaldar through common friends who were studying at Stanford and it was Richards who recommended Havaldar as someone who knew India and who could help Draper and she to invest locally from the fund that the pair wanted to raise to invest in India. Kiran was a banker at ICICI and Havaldar brought the team his experience in technology and in Indian businesses.

Draper International raised only \$45 million for its '95 vintage venture capital fund, with \$15 million of its capital coming from its GP's and leverage from a single institutional investment which came from government sources, the Overseas Private Investment Corporation (OPIC). ICICI arguably, had the first venture fund for India, but Draper

International was the first foreign venture fund in India. That fund made 20 plus investments, before returning a multiple of the fund capital to its investors and today the fund still has realizations to make. Draper International (DI) still holds approx 15% of Rediff.com, by way of example; today Rediff has a \$600 to \$700 million market cap and Draper International had originally invested less than a million dollars. And there were others at least as successful, including: Selectica, Torrent, Geometric Software, First Aid, Entevo, and more. Of the failures, Havaladar won't recall the names but clearly remembers their investments into India's first Tele-shopping network and CMM, a television post-production studio.

Havaladar stayed at DI until 2002 when new investments from the fund ended in its seventh year and at the time when Bill Draper's son Tim was making a start in his venture investing career. Because foreign investing was far from Tim's plans, Havaladar says that the quartet at Draper International made a decision to go their separate ways, parting as good friends. Today Bill and Robin remain in business today in San Francisco, as Draper Richards, but Bill has a new investment firm as well, Draper Investment.

On his own in 2002, Havaladar began raising his own Indian fund, along with Ramadan Raghavendran, who had worked for General Atlantic, but their timing was inauspicious; setting out on 9/11/2002, and afterwards the pair decided against raising their own fund. Raghavendran went to New York to run T.H.Lee for a period, while Havaladar joined General Atlantic, in 2002, based in Bombay, as a principal, and was made a managing director later. At the time, he says that it was hard to imagine that the firm would have \$800 million invested in India as it does today, let alone having made the number of exits it has made.

T&I: Your first investment for General Atlantic in India was what?

AH: GA had two investments they wanted to make in India when I joined; Daksh and Patni. They needed someone local to help them close and manage those investments, so I joined to help them make, close and support those two investments.

T&I: At that point, Indian investing appeared to be venture, growth, private equity?

AH: I had looked around and come to the conclusion that venture investing was going to be difficult at that point in time. But I thought that there was a lot of value in doing private equity, focused on growth.

T&I: How did you work with GA to expand their investments in India?

AH: General Atlantic had been an investor in Draper so they knew us.

T&I: How did you expand the GA program in India over the last five years?

AH: We started with the Patni investment, then did Daksh. The third investment was Genpact, alongside Oak Hill, and the fourth, NDTV, a television news channel. We then invested in Jubilant Organosys and ShareKhan. Then last year we acquired a 5% position in the National Stock Exchange (NSE) of India., followed by a positions in Hexaware, a IT services provider, Infotech Enterprises, an engineering design services provider and IBS, a provider of travel, transportation and logistics solutions. We have invested a total

of nearly \$800 million to date with two exits: Daksh which was sold to IBM and ShareKhan which was sold to CVC.

T&I: Talk a bit about your investment thesis in India.

AH: We have two broad themes for our investments. The first is outsourcing in general. We started in IT, the most mature sector, with Patni and Hexaware, two large IT investments and then [moved on to] business services, with Daksh and Genpact. We have also focused on solutions oriented providers with industry expertise, in high growth industries including pharmaceutical outsourcing with Jubliant. Engineering outsourcing, in which Infotech is active, and travel/transport with a recent investment in IBS. So one theme is on high growth within outsourcing as well as within certain sectors. And as new sectors develop outsourcing opportunities, we intend to participate.

T&I: And of those exits to date?

AH: We've fully exited Daksh and have received some liquidity from Patni and Genpact.

T&I: On to your second broad theme of investment?

AH: Our second main theme relates to the growth expected from domestic consumption. Initially we focused on two sectors: financial services and media. Our financial services investments to date are NSE and ShareKhan, and within media our investment is NDTV.

T&I: Describe your investment process for us. You invest from a fixed allocation, on an opportunistic basis from a global GA fund?

AH: GA is not a fund but an evergreen structure allowing us flexibility in both investment stage and geographic deployment. There is no allocation by region, but as a partner you need to meet the commitment size of your colleagues from around the world.

T&I: Put your investment pace into context for the rest of the firm around the world.

AH: [India investments by GA] are currently at from 20% to 25% of the firm's global commitments. So our nine investments are out of about 50 around the world.

T&I: Do you invest outside of India but within the region?

AH: We haven't had the bandwidth to do any investing outside of India, but we aren't limited in any way, shape or form.

T&I: Describe your team and the firm in India today.

AH: We are based from our office in Bombay. We currently have about ten employees. We started with me. In 2003 we added Jimmy Mahtani. In 2004 we added Sunish Sharma another associate. In 2005 we added an analyst. In 2006 we added another principal and we promoted Sunish to principal, giving us two principals. In 2007 we promoted two principals to managing director and we recruited another managing director, Ranjit Pandit. We see a lot of value in the group of us being together for the short time that we are not traveling.

T&I: What is your travel schedule like for India?

AH: We insure that we are all in the office for Monday and Friday, so the middle of the week is reserved for travel. I average one night and two day trips [per week]. Bombay is very well connected to all of India so I mostly make day trips.

T&I: What is deal flow like?

AH: Last year we logged — I won't say "saw" because that is a bit difficult to define but last year we logged — 86 deals. That is, we were interested and we put them into our database. We saw a lot more deals, but when we log a deal and put it into our database that means that we are interested in them.

T&I: You met with all of that 86?

AH: Correct. And we made about 3 investments. I think that 3 to 4 investments per year is probably the right pace for us. Investing somewhere from \$250 million to \$300 million per annum.

T&I: These are all made from the GA fund which is?

AH: An evergreen fund, private held, primarily by about 20 high net worth families.

T&I: Which means that you have a larger pool of capital that you could draw upon?

AH: We could, but we've invested about \$3 billion in the last two years, so it's fair to say that we don't feel constrained by the size of our pool of capital or our opportunities. We plan to invest about \$2 billion per year going forward.

T&I: In terms of the size of deals the firm makes is?

AH: Our overall range is from \$50 million to \$500 million in equity [per deal] but in India we have invested from \$25 million to \$200 million.

T&I: Does that evolve moving forward?

AH: The base will change a little, the smallest investments will be a bit larger, and I think as a firm the largest investment we have made is about \$400 million outside of India.

T&I: And typically your profile as an investor is what?

AH: We're a minority growth investor, we don't do buyouts. Our desire is to take board seats generally but in India having a board seat has a connotation of control and our goal is to be engaged and to add value, so sometimes we're on a subcommittee, or something similar. But we are always engaged in the companies that we have investments in.

T&I: Your two major themes continue?

AH: Yes, but we'll continue to add themes as we continue to pursue these two themes.

T&I: Describe the various types of companies in which you invest. Public, private?

AH: Think of us in this way. We do investments and companies issue shares to us. We're mostly primary investors. Whether we make an investment in a company that is publicly listed or private, we're buying shares from the company. We don't go into the market and buy shares. Because we are active investors, it is crucial that we engage with the management and with the company before we invest in a company.

T&I: It could be a public company?

AH: Yes. But they're issuing shares on a preferential basis.

T&I: What other private equity firm's here have had the success your firm has?

AH: There are CitiGroup and others who have been in this business as long as I have and firms who have done as well as we have. I don't think that [success is] specific to us. In terms of the foreign private equity investors that were early into India, I think that probably Warburg along with us has a terrific track record.

T&I: You're a foreign offshore investor?

AH: That is correct. We are constrained in some of the domestic sectors in which we can invest, unlike some of the domestic funds.

T&I: A quick review of those sectors in which foreign investors have limitations in India?

AH: Media, Banks, Telecom, some of the financial services areas. For example in the National Stock Exchange (NSE) in New Delhi, we could only invest 5%. You have to go by sector to look at the each sector, but those are the sectors where if you are a domestic fund, you can do better in this business.

T&I: Moving forward can you consider a rupee fund?

AH: I don't think that is on the horizon. We have a pretty good structure at General Atlantic which makes it pretty difficult to have a separate, domestic fund. And we prefer our current structure as it provides us with flexibility as long-term investors.

T&I: Talk about deal valuations in India?

AH: The stock markets have done so well in India that is not conducive to continuing to make the kind of investments that we have benefited from in India to date. But we are paid to insure that when things get difficult, we can find things in which we can invest and do as well with as we have with our other work in India in the past. I wish that there was a silver bullet, but we're all looking for that.

T&I: What is your analysis of the newer foreign entry funds into India.

AH: In India, if you look at the kind of investing that we do and what we hope to achieve out here, there are a lot of opportunities for capital providers in this country. There are lots of pockets of opportunity and you need to insure that you are in the right area to benefit. I think that investing here, is less about investing in India than it is investing in sub-asset classes. There is enough room for everybody to be happy here. People are becoming confused about the various asset classes in which they invest; with some hedge funds doing what is really private equity and with some private equity firms investing, doing things that are more like hedge fund work; people doing technology working in infrastructure and infrastructure working in technology. I think that part of that is natural with people investing in the emerging world but it is interesting investing in this market and in this part of the world.

T&I: Let's walk through the various sub-classes. What is going on in India?

AH: You know I'm sure that there are people who are interested in all of this, working with start up entrepreneurs. It's going to be quite interesting. There are more and more entrepreneurs that have learned a lot about getting liquidity. I don't expect them to become private equity investors, but I do expect them to become venture capitalists. Pretty much like what happened in California. People made their money and then became venture capitalists. I expect that to happen in India over the next five to ten years. And that is going to expand the number of people in India who go out and start businesses. Otherwise starting a business is terrible, there just isn't capital available. We'll build a group of business angels and seed capitalists much as happened in California or around Boston.

T&I: Your outlook on growth and expansion capital?

AH: That is where private equity is going to play a part and where there is the most activity in India right now and for the next five to ten years. Given that fact, the issue is really going to be pricing in India, so we'll just have to be really disciplined and continue to invest through the frothy time, when nobody really wants to invest. Opportunities will be there, and we have to make profits in all kinds of markets.

T&I: Buyouts in India?

AH: Buyouts basically have to do with a change of control. That has begun and I expect to see more of that happening. Because it's only really recently that a lot of businesses, which bought businesses with their families have begun to recognize that you have to continue to invest and continue to take risks in order to grow businesses and not doing that is not necessarily protecting your value; in fact not doing that you may be destroying value in your investments. When people come to that conclusion, that is when you have a change of control and then you have a buyout opportunity.

T&I: What about the large family conglomerates that are spinning out subsidiaries?

AH: Yes, there are going to be a number of these conglomerates spinning out units, and focusing.

T&I: Real Estate, where more than 5 dozen funds are investing in real estate?

AH: I really have no view on trends in real estate in India, it's like, "Have Money. Will Invest." And they call themselves anything.

T&I: Finally the hot topic of investment or India, infrastructure investing.

AH: There is a lot of talk about infrastructure. There is a lot of value in infrastructure investing. But it is for people who understand it well and to understand the local conditions to do it well. It's a specialized skill. There are people who are doing that well. For us, if we ever decide to do infrastructure investing then it will only be behind people who understand it and who have done it before. You can't just think of it as a kind of generic investing skill

T&I: What is infrastructure investing in India? Power? Roads? Cell Towers?

AH: Since we don't do this I don't have a good idea of the field, but I certainly hope that they're building roads and power. I think it may also have a bit of play in the commercial and buildings space, but perhaps that's more in real estate.

T&I: A great concern within one of your two main theme areas has been the growing labor cost for India's University graduates, which makes India less competitive globally.

AH: I won't disagree with you on that but on the other hand if you're a global business and you need to deliver something, looked at from a cost perspective, there just aren't many parts of the world to which you can go and have access to the kind of costs and scale that you have in India. Having said that, if you look at the demography of most parts of the world, including the US, it looks as though there aren't that many young people any more so when people reach this kind of conclusion about employment costs, they're looking at smaller pool of 25 year olds in US versus a larger pool of 25 year olds in India. Just think of those businesses where you still need to employ a 25 year old university graduate and there is still plenty of labor arbitrage left for employing the young people in India. Think of mechanical engineer graduates in the US. You can't find enough of them. There are enough sectors where there hasn't been enough replenishing of the talent pool in western economies, because there aren't that many young people in Western economies, and among those these western countries have, they have a different set of priorities as they are graduating today than their forefathers, two generations ago.

T&I: So the trend has been from call centers, to business services to

Bio for Abhay Havaladar



Age: 45

Education: London Business School; MSc, 1994; Degree in Electrical Engineering from University of Bombay, 1982

Work History: Tata Unisys Regional Manager, 1982-1994; Draper International Partner 1995-2001; Connect Capital Partner. 2001-2002; General Atlantic, Managing Director. 2002-present.

Family: Married. One son and one daughter.

Hobbies: Current Affairs, Cricket.
Favorite Book: The Argumentative Indian

Last Book read: Topgrading by Bradford Smart

Favorite Movie: Chariots Of Fire

If I weren't in PE I'd be: A systems professional.

Advice for Foreign Investors Who Want to Participate in India:

Establishing a local presence is critical as relationships and understanding the culture are very important.

Best and Worst Investments: Best investment was Patni as it established our presence in India with a well-known and reputable IT services provider. All of our investments have performed well to date so I can't really name the worst one.

knowledge outsourcing. Where do we inevitably end up as the trend continues?

AH: People are talking about various things, accounting, management, legal, logistics. I think that I would turn this question on its head and say, I don't know a single sector where outsourcing is not happening. Healthcare, manufacturing, whatever. You can transfer whatever knowledge you need to India because of the telecom bandwidth that we have put in place. This basically means that providers of services will deliver them in any area where they can do so efficiently, wherever they have a combination of skill, scale and cost. If you look at it from the perspective of those three trade-offs, then you're going to continue to have a displacement of labor for outsourced services.

Thank You.

T&I