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Udai Dhawan

In late 2016, London-based banking group Standard Chartered decided to exit the principal finance business after 15 years, which consisted of investment funds primarily focusing on pan-Asian infrastructure, real estate and private equity.

Two years later, the bank exited its loss-making PE business by spinning out the portfolio under Affirma Capital to London-based Intermediate Capital Group Plc (ICG) for around $1 billion as part of a management buyout (MBO).

StanChart PE, which started investing in India since 2004, had the largest exposure in the country at about $800 million

Even as StanChart's two-year effort to sell a loss-making business went on, the Indian arm of the PE unit made several exits such as Dolvi Minerals and Metals Pvt. Ltd, GMR Airports, Sterlite Power Grid.

It also made plans for public offerings of Craftsman Automation and Powerica.

In a first exclusive interaction after the sale process with VCCircle, Affirma's India head Udai Dhawan offers insights into the rare experience of MBO and the unit's road map ahead. Edited excerpts:

Could you give us some background on how the PE business was established for the bank?

The PE business dates back to 2002, when SCPE (StanChart PE) was established as the proprietary investing arm for SCB (Standard Chartered Bank). Over time, the bank established various asset classes including real estate and mezzanine capital. Private equity was the oldest and the most-seasoned asset class with a top-tier track record.

The real estate business, which also did very well, is now part of Actis. Over the past few years, the bank and the team mutually decided that it was best to spin off the PE business and this has now culminated to form Affirma Capital.

On August 1, we announced the completion of our MBO of Standard Chartered's private equity business from the bank to form an independent private equity firm, Affirma Capital. The MBO was led by seven partners who have all worked closely together for over 10 years and who built the legacy private equity business at Standard Chartered.

Affirma Capital will have $3.6 billion in assets under management with approximately $700 million of dry powder. The process took some time, given the complexity involved; we have over 50 investments across six geographies (China, India, Southeast Asia, South Korea, sub-Saharan Africa and the Middle East) and 52 investing professionals who have transitioned over.

How did the match with ICG Strategic Equity fund take place?

ICG had a strong interest in backing a seasoned team in emerging markets PE. Given our 17-year successful track record of investing in Asia, Africa and the Middle East and generating strong cash returns, there was a natural fit, as well as strong chemistry between the teams.

ICG was also highly supportive of backing us as an independent platform wherein the team would undertake an MBO, with ICG becoming an important limited partner (LP) along with our other existing LPs who are leading pension funds, sovereign wealth funds and global financial institutions.

What are the challenges in doing an MBO?

While a number of MBOs of PE businesses have taken place, I believe ours was clearly amongst the largest transactions globally; certainly, the largest in the emerging markets. Any transaction of this nature can be highly complex with multiple counterparties being involved and many moving parts.

Ultimately, it needs to be a win-win for a deal of this scale and complexity to be successfully concluded. While our process took some time, we are fortunate that our LPs including Standard Chartered Bank as well as our portfolio company partners were very supportive of the team throughout. The entire PE team has come along and is very excited for our new innings as an independent fund.

How do you view the trend of secondaries among general partners (GPs)? What is the India scope for global secondaries?

The secondary market has certainly evolved and is viewed as a very credible option for both LPs and GPs as a means for generating liquidity. There are a number of secondaries deals that have taken place in India over the past few years. I see this trend only increasing as there are many portfolios of reasonable quality but haven't been able to see liquidity for various factors including volatile capital markets.

The secondary funds are flushed with liquidity and there are also a few bankers who are starting to focus on this space in a focused manner, which will help expand the market.

Could you give the status on SCPE's existing Marina and Korea funds?

Our prior funds continue and will be now managed fully by Affirma Capital. We have had very strong performance across funds, with over a billion dollar in exits over the last three years. Out total cash exits till date have totalled about $5.5 billion.

What sectors are you bullish on in India and what is the average commitment size/investment period?

As mentioned above, we have approximately $700 million of dry powder from our LPs. In India, we have been successfully investing in the mid-cap segment for the past 17 years. We intend to continue our strategy of partnering family-owned companies and helping them grow both organically and inorganically by leveraging our global footprint.

We typically invest $25-75 million per transaction across sectors and are particularly focused on consumer-driven sectors including financial services, healthcare, business services, as well as export-oriented themes.

Our typical holding period is four to five years but can extend much further depending upon requirements of our partner promoters and circumstances. Along with our spin-out, we also announced a $50 million investment in Tirupati Medicare, India's largest nutraceutical company.

What is the game plan for existing portfolio companies? Would you consider any follow-on to the existing investments? Any road map for a potential exit pipeline?

Our portfolio in India has done very well and we have got exits of over $500 million over the past three years. The existing portfolio continues to perform nicely. We recently put in follow-on capital in Northern Arc wherein we and IIFL led a $130 million round.

We have also committed follow-on capital to various companies to fund their inorganic growth and shall invest further as and when opportunities arise. We also have a couple of portfolio companies that are ready to list as and when capital markets are conducive.