

NON-BANKING FINANCE CO VALUED AT ₹1,050 CRORE

Warburg to Buy 70% in Future Cap

PE co to pay ₹162 a share for 66%; open offer, capital infusion to take total cost to ₹800 cr

OUR BUREAU
MUMBAI

US private equity giant Warburg Pincus has agreed to buy a controlling stake in financial services firm Future Capital Holdings for about ₹800 crore. The move is a part of its strategy to tap opportunities in India's capital-starved micro, small and medium enterprises sector.

Warburg will pay ₹102 a share to buy 66% stake, valuing the non-banking finance company at ₹1,050 crore. In addition, Warburg will infuse ₹100-crore worth of fresh equity taking the total investment to ₹795 crore. Future Capital Holdings is currently part of the Kishore Biyani-led Future Group.

The deal involves a three-way transaction, including a primary issue of preference shares. Warburg will buy 40% from Future Value Retail and Pantaloon Retail, both part of the Future Group, which will be left with the residual 13.6% stake. Warburg will then make an open offer for 26% stake. If the offer fails to get Warburg shares equivalent to 26%, Future Group will make up for the shortfall by selling part of its stake.

The \$40 billion buyout firm will simultaneously infuse ₹100 crore in Future Capital by subscribing to cumulative convertible preference

shares, helping the NBFC ramp up operations. After the three-way transaction gets over, Warburg will hold 70% stake in Future Capital. FCH plans to focus on mortgages given directly to SMEs and two-wheeler financing. "What we can bring as Warburg Pincus is patient capital," said Vishal Mahadevia, managing director, Warburg Pincus. V Vaidyanathan, vice-chairman and MD of FCH, will be elevated as chairman and managing director. Warburg will have two representatives on the board, including its managing director Vishal Mahadevia.

The deal also involves a lock-in clause under which Vaidyanathan will remain in the saddle for up to five years. Although Warburg joined the race for FCH two months ago, it quickly completed the deal as it was satisfied with the processes crucial for NBFCs to succeed. "It's a deal of serendipity. I was seated next to Warburg executive in a Delhi-Mumbai flight. That's when we started talking. We managed to complete everything in two months," said Vaidyanathan.

The deal will add one more NBFC to Warburg's portfolio at a time when the sector is being squeezed by new rules imposed by a concerned regulator; the Reserve Bank of India. In March, Warburg bought a stake in AU Financial, a Rajasthan-based NBFC. In-

dia has 12 million MSMEs that need capital to expand in a growing economy.

The deal will probably mark the successful end to Future Group chairman Kishore Biyani's efforts to extricate Pantaloon from a morass of high debt and poor cash flows. Investors had criticised Biyani for focusing on finance at the expense of the core retail business. The group has been trying to find a partner or a buyer for finance and some of its other businesses, and though there were offers for Future Capital last year, the retail deal involving Pantaloon's fashion business was sealed a month ago.

In May, Pantaloon Retail agreed to transfer its apparel fashion business to a joint venture with the Aditya Birla Group. "This transaction is in line with our stated intention to exit from non-core businesses of Pantaloon Retail and is aimed at deleveraging and further strengthening the balance sheet of the company," Biyani said. Biyani, along with former Goldman Sachs executive Sameer Salin, set up Future Capital hoping to capitalise on the surge in consumer demand. Salin later parted ways to form Everstone Capital.

Calculus ►► 12
Growth Prospects Lure PE Firms to NBFCs ►► 13

The New Future

- MORTGAGES DIRECTLY GIVEN TO SMEs
- TWO-WHEELER FINANCING
- DURABLE FINANCING ■ GOLD LOANS
- MEDIUM ENTERPRISES
- OTHER BUSINESSES



How the Deal is Done

- Warburg will buy 40% from Future
- Will make open offer for 26%
- Fresh shares of ₹100 cr to be infused
- Post transaction, Warburg to hold 70% stake

UPNESH

We Believe in Backing a Strong Team, Management: Warburg MD

Co will grow at 30% a year with 80-90% focus on MSMEs, says Future Cap MD Vaidyanathan

ET Q&A

US-based Warburg Pincus, one of the first private equity firms to have come to India in 1994, is bullish on the country's NBFC sector and has bought majority stake in two NBFCs - Future Capital Holdings and AU Financials - in the last two months. Warburg, known to be associated with companies like Bharti Airtel, HDFC and Kotak Mahindra Bank, sees India as an important investment destination despite its ups and downs. In an interview to **Shilpy Sinha** and **Sabarinnath M. Warburg Pincus MD Vishal Mahadevia** and Future Capital vice-chairman and MD **V Vaidyanathan** talk about their plans and expectations from the deal. Excerpts:

This is your second consecutive investment in the NBFC space after AU Financials. Why are you bullish on this sector despite RBI's clampdown?

Vishal Mahadevia AU Financial and Future Capital are different companies. We had invested in HDFC, Kotak Mahindra Bank and Max India. There is need for credit in MSME segment. This requires long-term investment. The RBI acknowledges the importance of the sector. MSME is under-penetrated in India. There are 12 million MSMEs and they need capital by understanding their cash flows.

An opportunity to back the best in class management team to address under-served section of the market attracted us to Future Capital. We

will have a strongly capitalised company that can create financial service.

You have recently exited from Kotak Mahindra Bank and bought substantial stake in two NBFCs. What is the strategy?

Mahadevia We are not exiting banks and getting into NBFC. We had 10% stake in Kotak Mahindra Bank and we invested many years ago. Banks continue to be attractive in India, but it is appropriate to exit from a company at a time when the next round of institution needs to come in. We had 10% in HDFC as well, while in Bharti and Max India we had more than 20%. We are not a hedge fund or a public market investor, but we look at companies from the long-term perspective. In the last two years, we have invested \$700 million in companies. We continue to feel India is important even as it goes through ups and downs.

Will you look at more investment in the NBFC sector?

Mahadevia We believe in backing a strong team and management with system and control. There are multiple models, but it is all about backing the team and the people. Future Capital is a vast opportunity.

What kind of return do you expect from this investment?

Mahadevia Future Capital is not a start-up or a fully-grown company. In another 5-10 years, we are looking to build the company. It is a financial services company and as private equity, we

would like to make premium on stock market return. If the stock market is expected to give 15% return, private equity would expect 500-1000 basis points above the market.

Warburg was not in the race a couple of months back. How did this deal happen?

V Vaidyanathan There were discussions with other private equity players. Warburg came very late and once they got in, it wasn't difficult. They were very methodical and quick. The deal came through by an accident.

Where would you like to take this company three years from now?

Vaidyanathan We would probably grow at 30% per annum on this base. We would like to directly lend around 80-90% to MSMEs. About 40% will be mortgages, 10% in two-wheeler, 10% into durable finance and 10% in gold loans and 20% in medium-sized enterprises needing capital, like firms in manufacturing and real estate space. Even though more capital is available, we will stick to these areas.

Will you continue using Future outlets to tap customers?

Vaidyanathan We have a long-term contract of 10 years for branches in stores of all formats of the Future Group. We get access to millions of customers through retail chain and it is a unique property to us. We are doing mainly durables finance from the stores, but also offer other financial products.



We believe in backing a strong team and management with system and control. There are multiple models, but it is all about backing the team and the people. Future Capital is a vast opportunity

VISHAL MAHADEVIA
MD, Warburg Pincus



There were discussions with other private equity players. Warburg came very late and once they got in, it wasn't difficult. They were very methodical and quick. The deal came through by an accident

V VAIDYANATHAN
VC & MD, Future Capital