

Date:29/05/2008 URL:

<http://www.thehindubusinessline.com/2008/05/29/stories/2008052950220900.htm>

[Back](#) In investment banking, you either score a century or a duck

Investors today are taking a closer look at the future — the growth plans and execution strategy, management team and their outlook, sensitivity of the business to fluctuations in market conditions and a host of other aspects.



MR C. VENKAT SUBRAMANYAM, FOUNDER DIRECTOR, VEDA CORPORATE ADVISORS PVT. LTD.

Starting with an M&A deal for MaFoi Consultants in May 2004, the list of ‘representative transactions’ in www.vedacorp.com shows the Landmark-Trent deal concluded last month, as the latest. Having closed transactions aggregating over \$500 million in value across industries, Veda, a Chennai-based boutique investment bank, continues ‘to manage marquee transactions& #8217; in venture capital (VC), private equity (PE) and mergers and acquisitions (M&A) for emerging corporates and established groups in the manufacturing, technology, consumer products and services domains.

“We started as a boutique firm. Today, we are close to a 20 member team and no longer a boutique in the strict sense,” says *Mr C. Venkat Subramanyam*, Founder Director, Veda Corporate Advisors Pvt. Ltd, during a recent lunch-hour interaction in *Business Line*.

“However, we have consciously retained to an extent the boutique flavour in the way we function,” he adds. “We still retain a reasonably high level of director intervention in transactions, we take ownership of our client issues as if they were our own and we believe that we bring some warmth to our relationships in an otherwise cold world of numbers!”

An associate member of the Institute of Company Secretaries of India, he has worked as Associate Director, Corporate Finance with Ernst & Young (E&Y) India Pvt Ltd. In 1998, Mr Subramanyam co-founded with Mr M. Vinod Kumar, a chartered accountant, Mantra

Consultants Pvt Ltd, a venture catalyst firm in Chennai. “Mantra was a pioneering firm in south India in the areas of venture capital syndication, particularly for start-up and early-stage companies in the technology domain,” reminisces Mr Subramanyam. Mantra was acquired by E&Y. Prior to Mantra, he had six years’ experience in merchant banking and capital markets, including a stint with the NBFC arm of the Arvind Mafatlal Group.

Excerpts from the interview:

What are the popular myths about investment banking?

When one looks at investment banking, the first thoughts are invariably about the big deals, the fat fees, the rubbing of shoulders with successful entrepreneurs, and all the excitement that goes with it. What people overlook is all the travails and tribulations that an investment banker faces before clinching a deal and the agony when a deal falls at the last hurdle. In investment banking, you either score a century or a duck! Nothing in between!

The other myth in the Indian context is that investment banking and Mumbai have always been synonymous and that all successful investment banking firms need to have a Mumbai origin. While this was truly the case for many years, the world is changing.

You speak of three Es in the context of investment banking. Can you elaborate?

I have always felt that a successful investment banker is one who manages the three Es well —egos, emotions and expectations. While we, as investment bankers, generally represent entrepreneurs, the fact remains that we need to smartly address these softer issues on both sides to a transaction. And invariably the success of a transaction hinges on how well an investment banker handles these issues.

Egos very often come in the way of entrepreneurs taking the right decisions, understanding their limitations, the need for capital infusion and changing the profile of the business to make it more competitive.

Emotions come in typically when an entrepreneur has to take some emotionally difficult decisions: the decision to sell a business is a very painful one for most entrepreneurs and as an investment banker one needs to be sensitive and supporting in such a situation.

And, finally, expectations. I have rarely come across a deal where the expectations of both the entrepreneur and the investor coincide. The investment banker has to make this happen.

What are your insights about the receptivity of different regions within the country?

Southern and western India, for a variety of reasons, seem to be preferred regions for most investors, and witness the maximum transaction activity. Within South, I should say that Bangalore is a very vibrant market that is comfortable with both PE and M&A products; Hyderabad has always preferred the capital market route.

Chennai is an interesting mix of the new and the old: there are entrepreneurs who are comfortable with PE and M&A, while one will still come across quite a few who swear by debt! The Coimbatore belt somehow has always remained lukewarm to PE and M&A, whereas interestingly we see the Kerala belt opening up quite fast.

What are the sectors that are the most active these days? And what have fallen by the way side.

It's the domestic consumption story that has captured the fancy of investors today. In a matter of two years, the wheel has turned full circle. In 2006, it was all about the outsourcing story! Healthcare, financial services, food and agriculture, and infrastructure support services are some of the hot areas today. Auto ancillary, textiles and IT have fallen by the way side and it will be interesting to see how the power and infrastructure sectors, the hottest ones in 2007, play out this year.

In what ways do Indian entrepreneurs differ from their counterparts, say, in the US or Europe, when it comes to M&A, both during and post?

Given the cultural uniqueness, M&A has been slow to take off in India. Having said that we surely sense significant transformation over the last 4-5 years with entrepreneurs embracing the M&A option not as a last resort but as sometimes a prudent or even an opportunistic culmination to an entrepreneurial journey. One should also highlight the role that PE investors have played in accelerating this process, by mostly nudging and sometimes pushing entrepreneurs to providing them exits.

However, in a post-M&A scenario, one gets a feeling that the relationship between the acquirer and the selling entrepreneur is not probably as durable as it is in the US. The reason again is mostly cultural. Most entrepreneurs in India who have divested controlling stake have had limited corporate employment experience, except probably in the IT industry.

At times they could find it a challenge to reconcile to an employee role post-transaction as opposed to an entrepreneurial role that they have been used to for a long time. One must also add here that typically the acquirers have further complicated it by not recognising this need and adequately addressing it at the transaction stage itself by giving them some room and defining their roles better.

Have there been significant developments in the way that due diligence is done by the investors?

Typically, the levels of due diligence, business, financial and legal in these transactions have always been of the highest order and continue to be so. While a diligence on the past has always been detailed, investors today are taking a closer look at the future — the growth plans and execution strategy, management team and their outlook, sensitivity of the business to fluctuations in market conditions and a host of other aspects.

With the benefit of big picture that you enjoy, what will be your advice to retail investors?

In 2007, one probably had to be really naïve not to make money in the stock market! But my sense is that 2008 is going to test the investors. Opportunities will surely be there but only the smart ones will be able to get their choice and timing right.

Your comments about the current valuations.

In the PE context, the valuations have corrected, more sharply in some industry segments such as power and infrastructure. While PE investors are long-term investors, the reality is that market sentiments do impact their outlook as well.

In some ways, I would call this as a healthy correction since it has brought some sanity to what was a very overheated market in the Oct-Dec 2007 period.

What are the skills that are required the most in investment banking?

Let me segregate the academic skills and the soft skills.

On the academic front, understanding advanced concepts of finance and business acumen is critical. I have always believed that an accounting background really helps. It gives you the right mix of finance, accounting and legal perspective.

Strong academic background will get you to one level. Beyond that the soft skills kick in and the ones who grow and become successful investment bankers are the ones who have shaped their personality better to suit the demands of this profession.

Ability to build and sustain relationships, a flair for networking, patience and perseverance, head on shoulders (it's very easy to get carried away in this business) and the so called "closure skill"— that extra something that clinches the deal!

If you look closely at the careers of several academically accomplished individuals who have tried and failed in investment banking, you will realise that invariably the failure can be attributed to their inability to grapple with the softer issues.

For starters, can you explain the different stages in a deal?

Pre-mandate: Where you establish the first contact with a prospective client, pitch your credentials and bag the mandate

Transaction strategy: This is more of a consulting and ideation phase where you decide on transaction strategy and positioning.

Collateral preparation: Preparing the information memorandum, financial model and other collaterals. Typically the valuation exercise is also completed at this time

Road shows: Discussions with investors and selling the deal.

Term sheet: Negotiations leading to finalising an offer from one amongst the short-listed investors.

Due diligence and documentation stage leading up to closure.

About the name and the special value Veda brings to clients.

We were clear that we wanted a name that was ‘swadeshi’ (pun not intended!). It also needed to have some connotation with knowledge and also easy to spell and pronounce in English. “Veda” satisfied all these criteria!

Being entrepreneurs ourselves, I think we can relate to their aspirations, challenges and sensitivities far better. At the same time, I must add that we bring the best practices of large firms to the table and we are able to present to our clients a transaction execution team that has a large firm exposure. To put it simply, we try to give our clients the best of both worlds — our execution process is similar to a large firm but our style still retains a boutique flavour.

What are the drivers for an entrepreneur to raise PE.

The common perception is that entrepreneurs raise PE when they need money badly. The irony is that normally PE money is available when you don’t need it. Today, the motivation to raise PE for an entrepreneur is coming from different sources — some do it to get liquidity for themselves, some do it because the investors bring something more to the table than just money and the money becomes incidental to the transaction, and a few because they realise that an external push may be required to grow faster and tap the full potential which sometimes is not fully tapped because of complacency.

D. MURALI

N. S. VAGEESH

<http://AccountSpeak.blogspot.com>

© Copyright 2000 - 2008 The Hindu Business Line