PRIVATE EQUITY

# Benefit from crisis

**With commitments of $350 million for the second fund, Samena plans to raise $700 million**

Buy high, sell low, is a sure-fire recipe to disaster, which could lead any investor to bankruptcy. Shirish Saraf, vice-chairman and CEO, Samena Capital, who founded the fund in 2008, however takes pride in not only practising this philosophy, but also advocating it. The former co-founder and managing director of the Dubai-based Abraaj Capital, who manages assets of nearly $650 million across close-ended fund structures, sincerely believes in being fair across business dealings.

"You have to leave something on the table for the buyers, just as you cannot try and squeeze the sellers," says Saraf. A student of the London School of Economics, Saraf's strategy is similar to the one practised by some of the veteran traders on the BSE. Their belief was that sellers should not curse you and buyers should bless you for allowing them to make some money.

Saraf cites an example to illustrate his point. Samena had invested $6 million plus in Eicher Motors in April 2009 through an open market purchase, by way of a pre-negotiated deal with an institution by paying 12-14 per cent premium over the then ruling price. It exited the company after 23 months realising $32.4 million or 5.4 times the investment, selling the shares at a small discount to the prevailing price.

It is not just his philosophy, but his outlook and mode of operations are also at variance with that of other asset management companies. Samena principally focusses on companies in India, the Middle East and Africa which, Saraf feels, are going to be the future growth drivers of the global economy in the coming decades.

Practising what it dubs collective investments, through its shareholder-entrepreneurs spread across the targeted regions, Samena Capital has drawn on a rich pool of talent, across geographies. These anchor investors have collectively pooled in capital of $90 million and provide proprietary access to deals and opportunities in their regions.

SUDIPTA BANERJEE

*Saraf: fair deal*

Samena Capital, through its 100 per cent entity Samina GP, manages two private equity funds – Samena Special Situations Funds I & II. The $180-million Samena Special Situations Fund I was launched in August 2008 (Eicher Motors being one of the 19 investments made by this sector-agnostic fund). The fund has till now fully exited seven companies and partially exited two. Its notable exits include DP World, Emmar Properties and Voltemp .

The fund follows a hybrid investment strategy, where its investment decisions are split into two broad groups – core investments (which are of a strategic nature) and non-core ones (where investments are held largely for trading and resale).

In Ballarpur Industries, it invested through open market purchase and block deals in September 2010. In HBL Power Systems, a global leader specialising in manufacturing specialised batteries for aviation, telecom and petrochemical sectors, the fund invested $11.7 million roughly 6.8 per cent of the equity, by a preferential offer, after negotiating with the promoters.

The fund generated an impressive 122 per cent internal rate of return (IRR) on its exits. "We do not believe in leveraging," says Saraf. Despite the challenging times, faced over the last two years, the fund has returned 20 per cent of the capital to the partners in May 2011.

### Investing in stable companies

Buoyed by the performance of this fund, Samena launched a second fund – Samena Special Situations Fund II – which announced the initial closure of the fund at $350 million on 30 June 2011. It plans to close the fund at $700 million by mid-2012. A seven-year fund, SSS II, like its predecessors, will be taking advantage of out-of-favour, neglected or overlooked situations offering compelling entry valuations. It would also invest in stable, mature, small and midsize companies. It plans to invest in 20-25 companies, including building up the portfolio through PIPE deals, where it plans to invest $20 million plus in each company. Direct investments as also entering as co-investors in projects is also on the agenda:

While looking at investing opportunities more closely, Saraf, however, feels that the overall market conditions are still not conducive for entry. And that is one of the reasons he is sitting on a huge pile of cash, arguing that things could get worse, given the US and European Union crises.

He is, however, confident of India's long-term growth story, saying that the current problems are not going to last forever. "India is a functioning democracy, with its banking system insulated from the global crisis; and that makes me bullish," he says.

Even as investors are hesitant in committing capital to new funds, Samena Capital is confident of getting in another $350 million over the next six months, irrespective of the current market conditions. Ultimately, it is not the style or the philosophy which matters. At the end of the day, it's performance that counts.

• DAKSESH PARIKH