"LPs Should Be More Bold on India"

A Conversation with Mounir Guen, CEO of MVision Private Equity Advisers

Perhaps we could start with your 30,000-foot view on how the Indian market has evolved over the last decade. Are there any key developments or trends that stand out to you?

The change within India has been quite difficult to grasp. There are so many moving parts—government policies, regulation, capital markets development, entrepreneurialism, middle class creation, etc.—and they're moving at such high speeds. Within this story, though, the key word is "entrepreneur." India's entrepreneurs are astounding. They are remarkable.

The first cycle—the first 12 years of private equity in India—really was one of trying to figure out how to understand and capitalize on the richness of the growth and the talent of the entrepreneurs in the market. Over the first cycle you saw two types of investment: one was following these entrepreneurial families or individuals in the public market, either directly or through PIPEs; the second was a minority growth position in companies.

The experience in India, because of the lack of control, has been mixed. However, there's a real change now in Indian private equity with a control mindset, an operating perspective and a demonstrable ability to contribute. This has enabled GPs to both differentiate themselves and demonstrate to entrepreneurs their ability to bring discipline to the balance sheet, finance growth, assist with expansion to other regions, and put in place proper governance, reporting and accounting.

How are international LPs currently viewing the India opportunity vis-à-vis other markets?

Some of the large investors are targeting 12% to 15% net returns. Since interest rates in India are close to those numbers, why incur equity risk if you've got safety through debt structures? There are some macro risk factors as well, such as currency volatility and inflation. Then you have GPs with checkered historical backgrounds in terms of their fund performance and attribution—all of which can present challenges for investors.

In my view, international investors are trickling into India. Global LPs want to do more, but they are struggling to feel comfortable putting more capital to work because, first, they do not quite grasp that India is a "must-have," as they do with China; and second, many of the general partners have not been able to scale yet. So the large investors that tend to drive private equity in today's environment have limited access—they're not going to commit US$300 million to a US$500 million fund.

What should LPs be looking for in management teams targeting deals in the country?

I think that the managers are excellent, and that they've adapted and evolved quickly. The problem is that investors are looking at 12 years of history that are irrelevant. Investors have review processes, so they go back to Fund I and ask why there were losses, why there was volatility, why they made minority investments, etc. Who cares?

What is most relevant is the governance and transparency, clarity of communications and reporting, the pipeline, the deployment velocity of this pipeline, and a clear understanding from today's general partner of how they will be driving value and performing.

There is an evolution toward excellence among India's fund managers. They're operating in this fantastic, energetic environment, and they are trying, in a way, to adapt themselves to international investors' frameworks and processes, which the LPs have used successfully in other markets. The truth of the matter is that maybe private equity should structure itself more creatively, so that it's not in a cycle where a GP has to sell phenomenal assets within a five-year holding period because they're coming back to market to raise money.

This raises a question over whether private equity is the right model for India. What is the solution, and what role—if any—can local capital play?

The question is how can we create vehicles that allow for more of a perpetual nature or more of a long-term orientation? And this requires the regulators to think very carefully about how the financial community is structured. More importantly, there must be a real effort to propel the local investor community into the asset class. We've seen this in Mexico, where the government has been exceptional in putting together structures and vehicles to create balanced pension portfolios, and to mitigate risk exposure from the nascency of their marketplace. If we can get the right structures in place to entice local investor support, and continue the current government's push forward of the economic positioning and growth of the country, India could very quickly become recognized as a "must-have," which will then bring more capital, growth and development.

What parting advice would you give to LPs considering capital commitments to India and to GPs looking to raise an India-focused fund?

Investors are getting stuck on historical track records, but those are almost irrelevant—tomorrow's another day and will be much better. LPs should be more bold; they need to think bigger and take risks—and they will be rewarded for doing so.

As for the GPs, one thing that this industry needs to remember is that humbleness is the key to success. Work hard, stay honest, and be humble; but really go for it. The success of the private equity industry in India can contribute exponentially to positive change in this great country.