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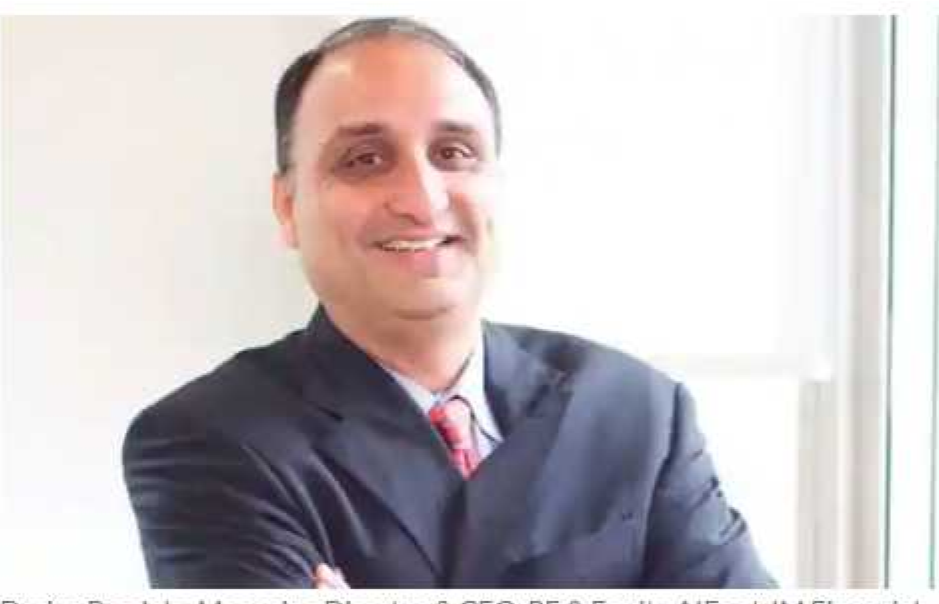
We plan to raise our third PE fund shortly, says Darius Pandole of JM Financial



Darius Pandole, Managing Director & CEO, PE & Equity AIFs at JM Financial.

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Learnings from the covid crisis have been manifold, leading to the emergence of new investment themes. These themes are driven by greater work-from-home requirements, growth in shifting of manufacturing activities to India due to supply chains diversification, among others

MUMBAI: In an interaction with Mint, Darius Pandole, managing director & chief executive, PE & Equity AIFs at JM Financial, talks about investment opportunities that the private equity investor is chasing in the current volatile environment, learnings for investors from the covid-19 pandemic and plans to raise the firm's next fund, having deployed around 70% of its current fund across seven investments.

Q: How has Covid shaped your investment strategy? Which sectors are you more bullish on in the current scenario? Which sectors are you avoiding?

Pandole: Covid-related disruptions have impacted companies across sectors. For some sectors and companies, the impact has been quite severe.

The learnings from the covid crisis have been manifold and this has led to the emergence of new investment themes. These themes are driven by greater work-from-home requirements, a rise in the shifting of manufacturing activities to India due to diversification of supply chains, movement of businesses from unorganised to organised sector, higher requirements for regular health checkup and medical diagnosis, renewed focus on health and wellness, etc. All othese trends can potentially throw up massive business opportunities across sectors such as technology, financial services, consumer, manufacturing, healthcare, which in turn, will lead to significant opportunities for PE investors.

Within these sectors, it is important to focus on key business metrics that will encourage scalability and sustainability of businesses in the new normal. For instance, within financial services, we are selectively evaluating players that have strong capital adequacy ratios, low leverage and defensible loan books which are less susceptible to COVID-related stress. Within the consumer sectors, companies that have built a strong online distribution capability to reach out to the end customer directly are developing great traction. Within autos, various areas of the EV value chain represents a tidal wave of opportunity. The long term capital and ability to value add to investee companies will make PE investors an important part of the eco-system for such emerging businesses in India. On the flip side, sectors such as travel, leisure and hospitality are likely to take longer to recover.

Q: With the second and bigger covid-19 wave, are you looking to slow down on fresh investments and focus more on portfolio management? Have you earmarked some cash in the fund for follow-on investments in your portfolio should portfolio companies need more money as a fallout of the second wave?

Pandole: We are witnessing opportunities emerging across sectors and are actively pursuing fresh investments in companies that meet our stringent investment criteria. The current environment is throwing up business models that are scalable and sustainable, and run by management teams that are competent, resilient and innovative. This mix is likely to throw up exciting long-term opportunities for value creation. JMF PE is a mid-market fund that invests growth capital in fast-growing, small and mid-sized companies, often as the first institutional investor. We're cognizant of the fact that our portfolio companies, many of which are in the early-stage of their evolution, will require additional capital. Consequently, we typically earmark approximately 10% of our fund corpus for follow-on investments.

Portfolio management continues to be a priority at this point while we evaluate fresh investments. Given the heightened volatility and uncertainty in the business environment, it is important to work closely with portfolio companies as they navigate these unprecedented times. PE investors are uniquely suited to work with Indian corporates to strengthen balance sheets, improve capital allocations, adjust business strategies, assist in recruiting, provide customer introductions and so on. All of these will drive towards a common growth agenda.

While various portfolio companies faced significant stress in the early part of last year as Covid related lockdowns took their toll on the economy, it has been heartening to note that when the economy began to recover in the second half of the year, the performance of portfolio companies improved significantly. In fact, on a monthly run rate basis, most companies have exceeded their pre-Covid business levels.

Q: Have LPs expressed concerns on fresh drawdowns in the current scenario?

Pandole: On the contrary, LP's have appreciated the opportunity to make quality investments in the current tough environment. We've done multiple drawdowns within the last year and received prompt responses both from domestic and international LPs – a testament to the quality of our investors.

Q: With seven investments done, how much capital is left in the fund? When will you look to raise your next fund?

Pandole: With the completion of our seventh investment in March 2021, the fund has deployed approximately 70% of its capital and is in the advanced stages of evaluating a few more investments. We plan to raise our Fund III shortly.

Q: Exits slowed down dramatically last year. What the outlook for exits in 2021? Will IPO exits be the most significant exit route for PE funds?

Pandole: While 2020 was a tough year for exit activity on the whole, public listings did pick up pace during the second half of the year. Majority of the money raised via IPOs in 2020 was used to provide an exit to private investors. We are also witnessing more exit activity by way of M&A as Indian corporates are becoming bolder in pushing growth via strategic acquisitions, and PE funds are increasingly looking to buy out portfolio companies from other PE funds.

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