



PRIVATE EQUITY INVESTMENT – FUND RAISING PROCESS

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AGENDA

Where Do You Begin ?

Planning For PE

Role Of Advisors

Investment Process

Structuring The Business

Business Plan And Marketing collateral

Short List And Evince Interest From The Investors

Valuation and Negotiation

Term Sheet

Due Diligence

Definitive Agreement

Exit Options

Q & A

WHERE DO YOU BEGIN?

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Planning Stage



Implementation Stage

PLANNING FOR PE

PLANNING FOR PE

Prepare for a partner

- Value the experience and input potential of the PE Fund
- Expect questions, information requests
- Flexibility will be key virtue

Articulate business strategy

- Define niche or unique selling proposition (USP) for the business
- Develop growth plan strategy - diversify customer base or product line / offering or geographic presence
- Develop implementation plan for the strategy

Structuring of the Business

- Bring scattered businesses under one entity
- Simplify the Business Structure

Developing management team

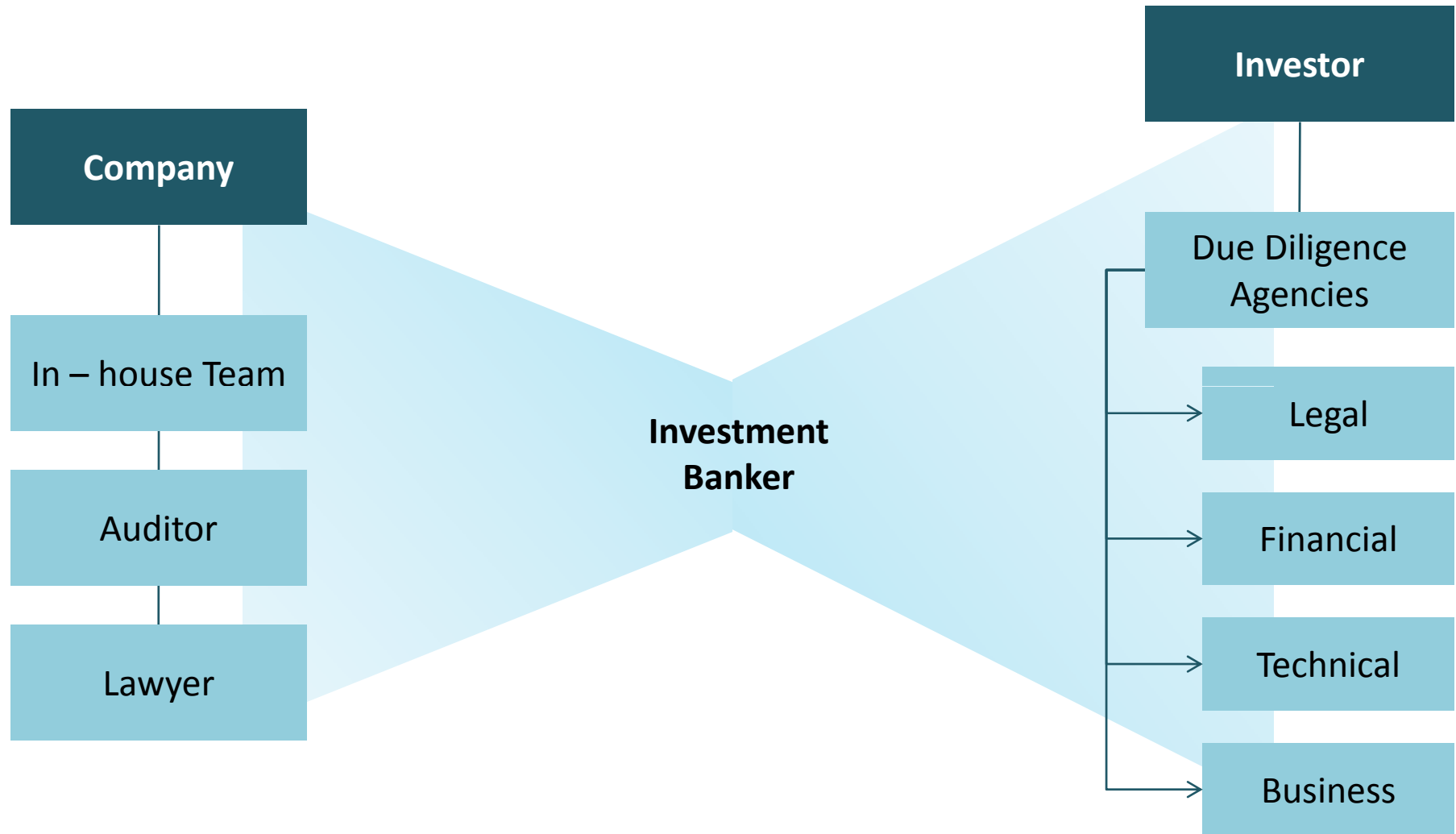
- Professional management in key functions
- Experienced in scaling up and managing growth

Retain good advisors

- Engage experienced advisors / bankers
- Attorney and Accountant are your business partners
- Broad base your Board of Directors

ROLE OF ADVISORS

KEY ADVISORS TO A PRIVATE EQUITY TRANSACTION



Get the RIGHT Advisor!

ROLE OF KEY ADVISORS

Investment Banker

- Planning – Formulating Strategy with the Promoter for PE deal
- Execution – Documentation and Marketing the Deal
- Closure – Negotiating and closing the deal

Auditor

- Long association and trusted advisor to the promoter
- Crucial role in decision making
- Business Restructuring and Due Diligence Preparation
- Hand holds the promoter from start to end

In-house Team

- Arranging documentation and necessary data
- Supporting the advisors at all levels

Due Diligence Agencies

- Financial
- Legal
- Technical
- Business

Lawyer

- Legal Compliance and due diligence
- Negotiating the legal terms of the deal
- Documentation and legal compliance pertaining to the transaction

ROLE OF INVESTMENT BANKER

Planning Stage

- Strategy Formulation
- Business Restructuring
- Preparation of IM and Business Model
- Assessing the valuation
- Regular MIS
- Internal Audit

Execution

- PE Placement – Deal making and Negotiations
- Co-ordination for Due Diligence
- Co-ordination for Completion of CPs and CSs

Compliance

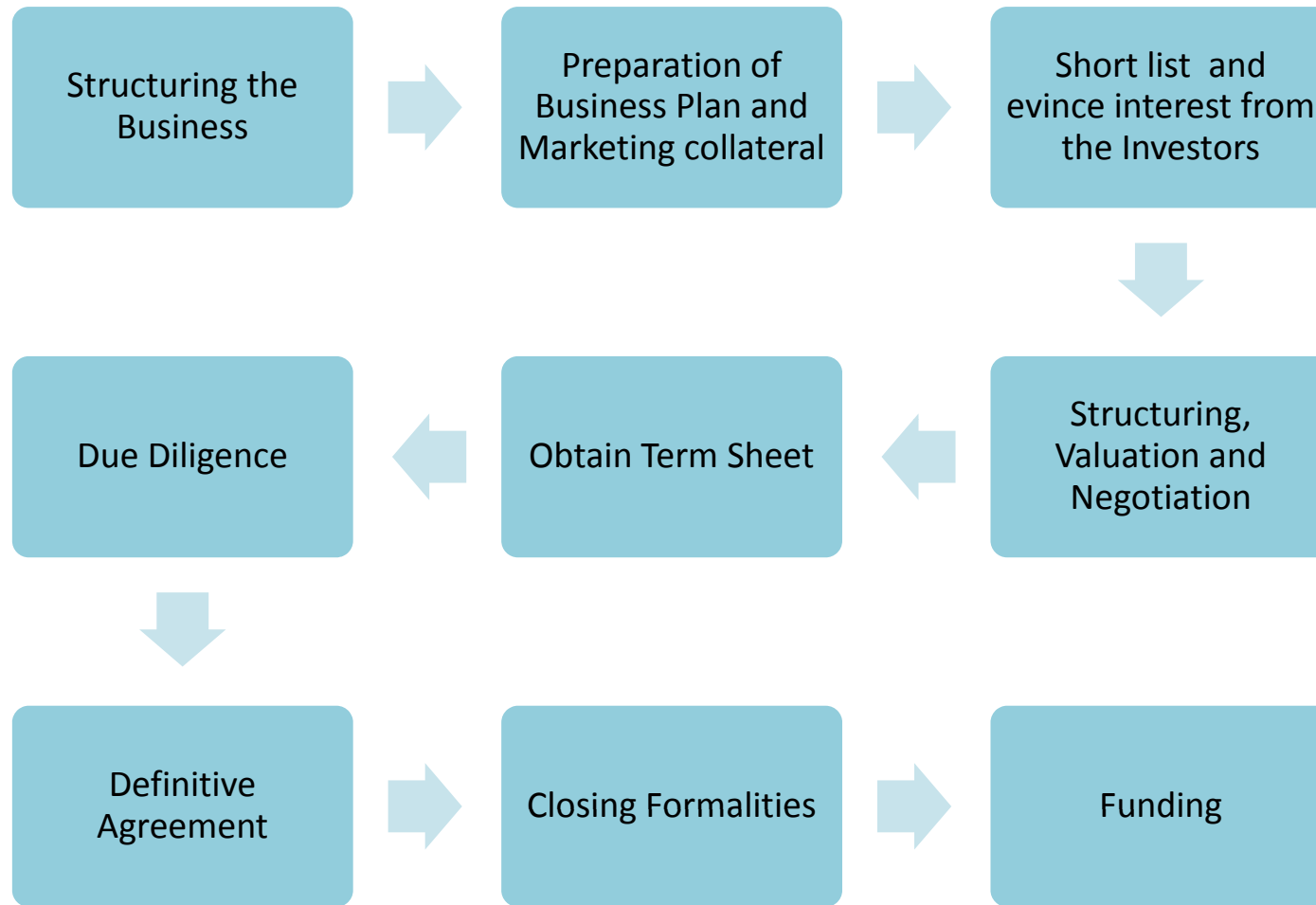
- Auditing
- Legal Compliance
- Corporate Governance
- Review of Legal documents

COST OF ADVISORS

- Advisor's fees (usually around 2 - 4%, depends on the quantum of fund raising)
- Fees to due diligence agencies (usually a lump some amount – finance/accounts, legal, environmental, technical)
- Fees for the legal documentation

INVESTMENT PROCESS

PE/ VC INVESTMENT PROCESS

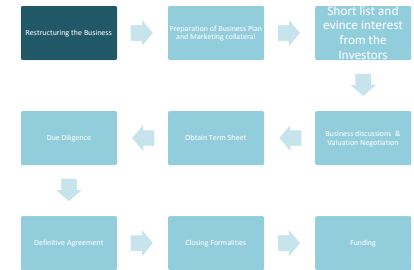


Time Frame 4 to 8 months

TIME FRAME FOR INVESTMENT

Timelines																														
	Month 1				Month 2				Month 3				Month 4				Month 5				Month 6				Month 7					
<i>Cumulative Weeks</i>	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27			
Restructuring of the Business	█	█	█	█																										
Preparation of Marketing Collateral				█	█	█	█	█																						
Shortlist and Contact Investors					█	█	█	█																						
Business Discussion & Valuation Negotiation									█	█	█	█																		
Obtain Term sheet													█	█	█															
Due Diligence																	█	█	█	█										
Definitive Agreement																					█	█	█	█	█	█				
Closing Formalities																									█	█	█			
Funding																													█	█

Depending upon case to case total time frame would be 5-8 months

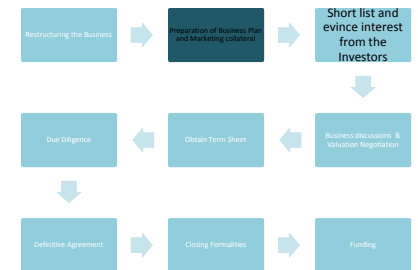


STRUCTURING THE BUSINESS

Companies need to structure their businesses in order to create investor interest

- Scattered businesses
- Cross holdings in the business
- Fragmented holdings
- Value split across entities
- Multiple businesses

Capture the entire worth of the business in one entity



BUSINESS PLAN AND MARKETING COLLATERAL

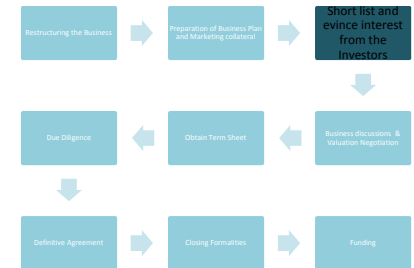
BUSINESS PLAN AND MARKETING COLLATERAL

Overview

- It is the document that details the business' history, current standing and future plans of the company
- It is a basic management tool that guides the future direction of a company and a mandatory document to seek business financing
- It provides a considered and logical framework to set out a business's short term and long term plans, shows how these plans can be achieved, and demonstrates that the plan addresses the requirements of the target audience

Contents

- Executive Summary
- Market and Competition
- Details of the Product or Services
- The Management Team
- Business Operations
- Business Strategy and Future Plans
- Cost of Project and Means of Finance
- Financial Model / Underline Assumptions
- Exit Opportunities for the Investors

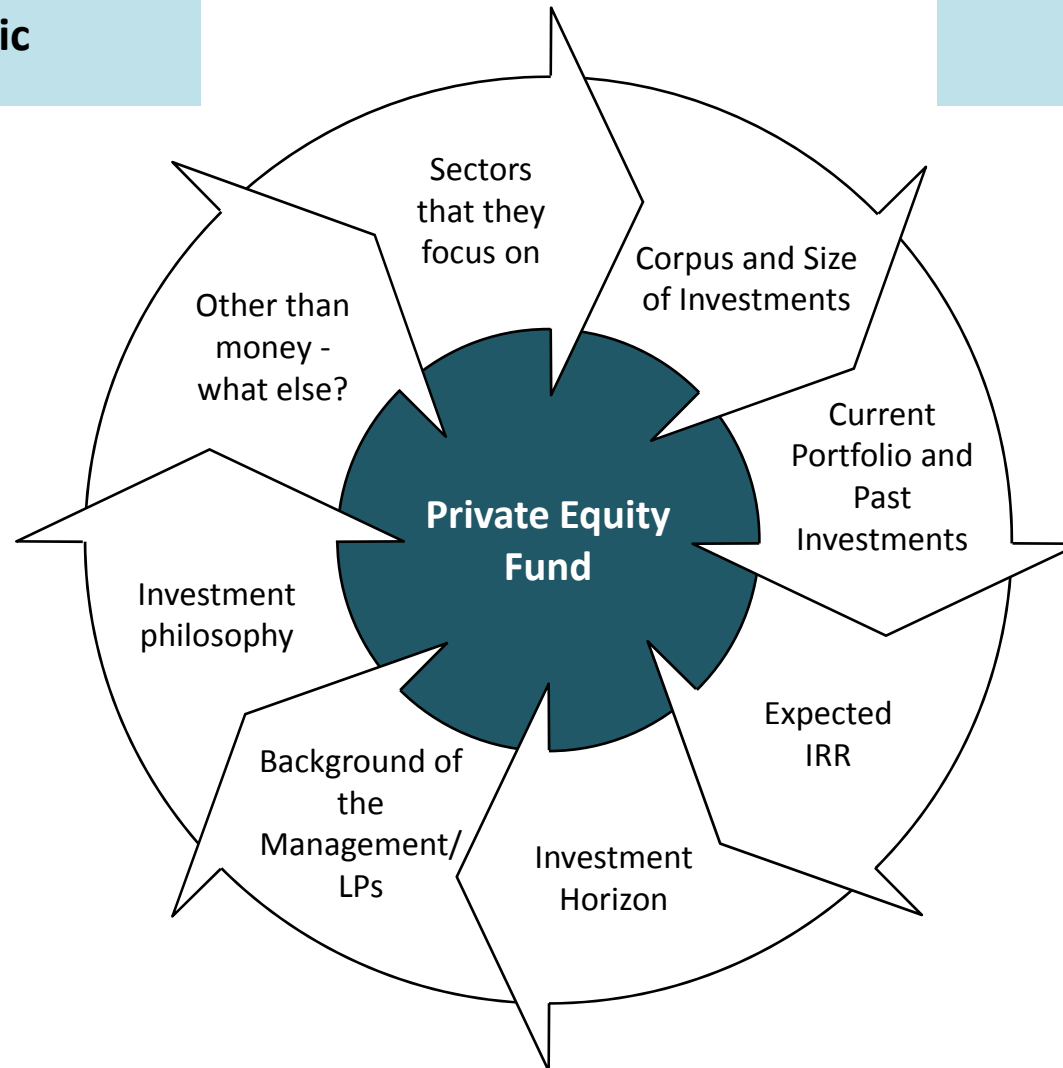


SHORT LIST AND EVINCE INTEREST FROM THE INVESTORS

IDENTIFICATION OF A FUND

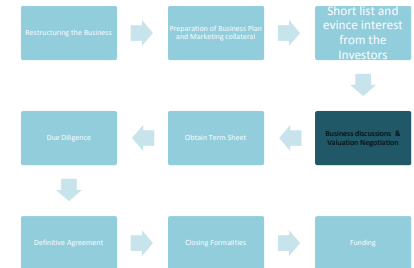
Domestic

Foreign



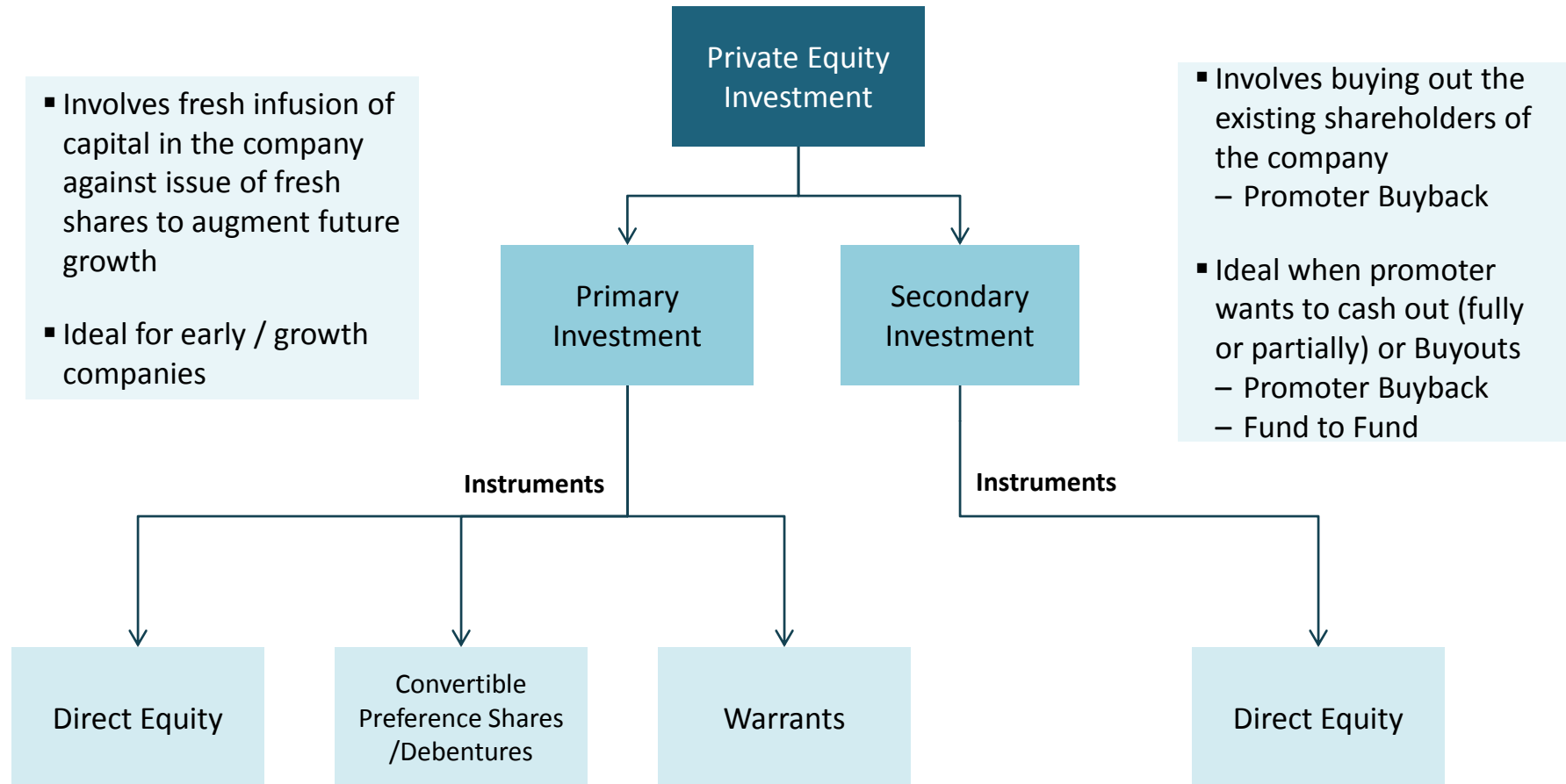
PE DISCUSSION WITH MANAGEMENT AND PLANT VISIT

Understanding DNA of the Promoter	<ul style="list-style-type: none"> ▪ Genesis of the business ▪ Ownership 	<ul style="list-style-type: none"> ▪ Succession ▪ Other Business Interest
Understanding Business	<ul style="list-style-type: none"> ▪ Industry and Business ▪ Process flow and value addition:- raw material to finish good ▪ Scalability of the business ▪ Margins and profitability 	<ul style="list-style-type: none"> ▪ Risk and risk management ▪ Marketing and business development strategy ▪ Management team and key decision makers ▪ Competition ▪ Execution capability
Understanding future of the Business	<ul style="list-style-type: none"> ▪ Promoter's view on future of the Industry and its business ▪ Capex plan and utilization of fund ▪ Scalability of the business post capex 	<ul style="list-style-type: none"> ▪ Margins and profitability post expansion ▪ Team required and time line ▪ Position in the industry
Plant Visit	<ul style="list-style-type: none"> ▪ Meeting Plant manager and other key members ▪ Infrastructure ▪ Understanding step by step manufacturing process ▪ Understanding technology – machines, suppliers 	<ul style="list-style-type: none"> ▪ Quality and Test labs ▪ Sample of raw materials, intermediary and finish products ▪ Safety measures ▪ Working condition and hygiene



VALUATION AND NEGOTIATION

BROAD INVESTMENT STRUCTURE



CASE STUDY - DIRECT EQUITY

CASE A - Hotel Industry

- Chain of hotels running 4 properties
- Managing 600 rooms across properties
- Running at 80% occupancy
- Company intends to raise equity for setting-up 4 new Greenfield properties - (to be operational by FY13)

Transaction characteristics

- Highly capital intensive
- Low growth
- Low RoI, RoE and margins
- Long gestation period
- Stable business model

Projected P&L

Particulars	FY 09	FY 10	FY 11	FY 12	FY 13
Revenue	100.00	110.00	124.30	144.19	209.07
Y-o-Y Growth		10%	13%	16%	45%
EBITDA	22.00	24.20	27.97	33.16	49.13
EBITDA Margin	22%	22%	23%	23%	24%
PAT	12.00	15.40	18.02	21.63	25.09
PAT Margin	12%	14%	15%	15%	12%

Investment (FY 10), Construction (FY 11), Comm. Start (FY 12)

Why Direct Equity ?

- The state of business gives good visibility and to a certain extent confirms ability to scale up which can provide comfort to an investor
- Investor community prefers conversion within 18 to 24 months (stretched)
- Investment is into projects with long gestation cycle beyond 24 months horizon
- Thus direct equity makes sense.....

Future growth lower than expected discount by investor, early conversion on existing business or direct equity preferred

CASE STUDY - CONVERTIBLE

CASE B - Education

- Chain of coaching classes operating in multiple locations
- Total enrollment for FY10 in excess of 23,000
- Expected enrollment for FY11 is 32,000
- Well established brand
- Company intends to raise equity for setting-up a dedicated residential campus
- By FY13, projected batch strength in excess of 80,000

Transaction characteristics

- Low capital intensive
- High growth
- High RoI, RoE and margins
- Small gestation period
- Proven business model

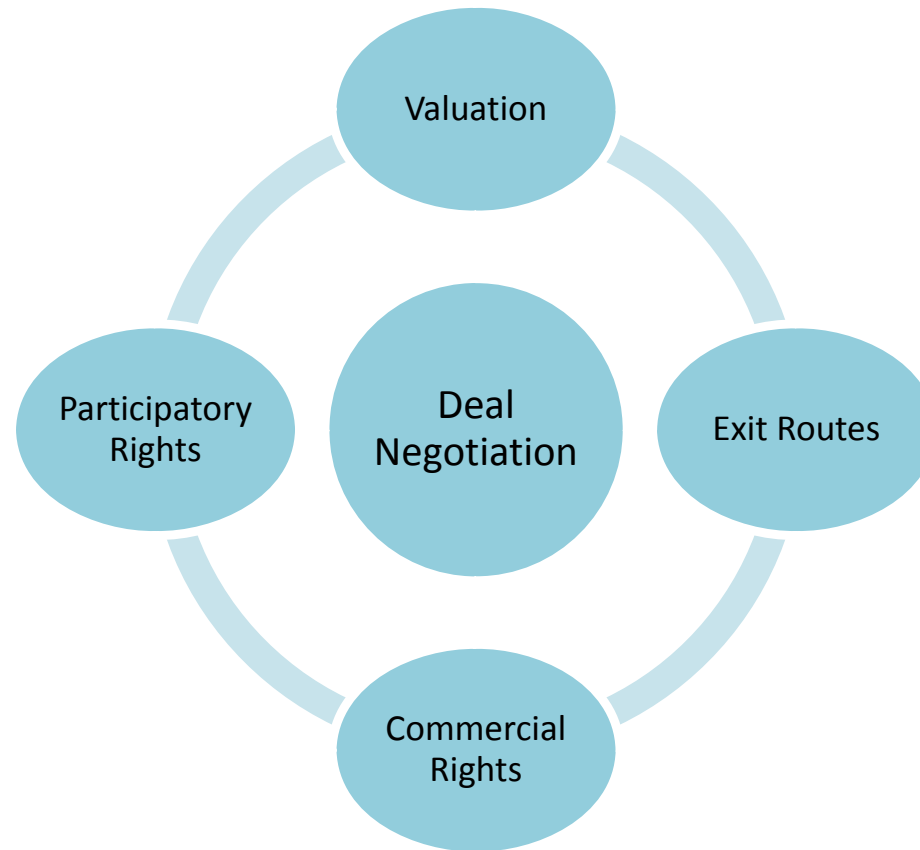
Projected P&L

INR Crore	FY 09	FY 10	FY 11	FY 12	FY 13
Batch Strength	15,500	23,500	32,000	54,100	80,000
Revenue	55.00	77.00	115.50	161.70	242.55
Y-o-Y Growth		40%	50%	40%	50%
EBITDA	24.75	34.65	52.55	74.38	112.79
EBITDA Margin	45%	45%	46%	46%	47%
PAT	13.75	15.40	23.68	33.96	41.23
PAT Margin	25%	20%	21%	21%	17%

Why Convertible ?

- The business is growing, generates good cash flows and scale up from current levels can reap huge benefits – provides comfort to an investor
- There is lot of demand-pull, hence selling additional capacities would be easier
- Investor community prefers conversion within 18 to 24 months (stretched)
- Investment is into projects with gestation cycle of 12 to 24 months
- Thus convertible structure makes sense.....

KEY ASPECTS OF NEGOTIATIONS



Negotiation is ultimately a summation of “Give(s)” and “Take(s)”

VALUATION NEGOTIATION

Hard Aspects

- Structure of proposed investment – Equity /Convertible
- Valuation benchmarking vis-à-vis comparable transactions, peer analysis, etc.
- Potential returns analysis in terms of RoCE, RoE, investor IRR
- Sector / company growth potential and other economic aspects
- Entry and Exit PE multiple as viewed by the investor
- Committed IRR in favor of investor

Soft Aspects

- Appetite for investment in the sector
- Comfort on the promoter pedigree
- Comfort on the promoter's integrity and the overall intent
 - Hard negotiations should not give a negative impression – hence should be in a subtle and structured manner
 - Investor's interest should be kept in mind during the process of negotiations which would clear the thought process to a large extent

There is no right or wrong way of valuing a business

There are several ways in which it can be done

- **Capitalized Earning / Peer Comparison**

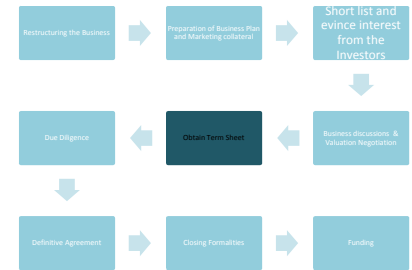
Valuation methodology that applies a multiple to the earnings of a business to capitalize those earnings into a value of a business

- **Acquisition Comparables**

Valuation methodology that Compares with similar transactions

- **Discounted Cash Flow**

Valuation methodology that based on Expected Cash Flows Discounted at the Weighted Average Cost of Capital



TERM SHEET

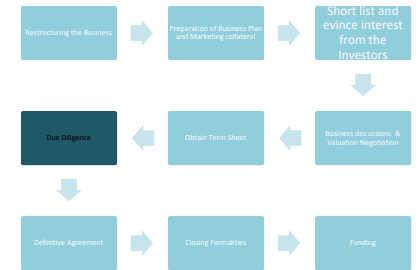
TERM SHEET

- Private equity firm sends an **Offer Letter**, setting out general terms of the proposal, subject to the outcome of the due diligence and other enquiries and the conclusion of the negotiations
- Negotiating deals with terms that are satisfactory to both sides and ensuring that stakeholders' interests are properly aligned
- A **Term Sheet** is a brief preliminary document designed to facilitate and provide a framework for negotiations between investors and entrepreneurs
- Generally focuses on a given enterprise's valuation and the conditions under which investors agree to provide financing
- Usually contains certain conditions to be met before the investment is completed and these are known as **Conditions Precedent**

Term Sheet Includes

- About Company, Promoters, Investors and Proposed Transaction
- Cost of Project, Business Plan, Current Share Holding Pattern
- Valuation
- Condition Precedent
- Principal Covenants
 - Utilization of Fund & Fresh issue of Capital
 - Anti Dilution Rights
 - No Pledging Investor's Share
 - Tag Along Rights
 - Drag Along Rights
 - Right of First Refusal
 - Liquidity Preference
- Board of Directors
- Exit





DUE DILIGENCE

DUE DILIGENCE

- Analyses and validates the financial, commercial, operational, and strategic assumptions underpinning the company through:
 - Historical financials
 - Contractual document provided by the company including all legal documents
 - Publicly available industry and competitor information, and
- Due diligence is linked to the investor's corporate strategy

Goal of due diligence is to determine whether a transaction with a given target is in line with what was communicated to the investor

TYPES OF DUE DILIGENCE

Financial

- Assessment of Historical / Current Financial numbers
- Tax benefits
- Indebtedness
- Estimating unforeseen liability out of past performance
- Management Information System

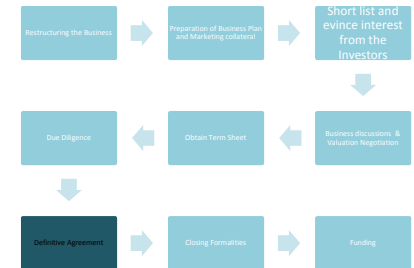
Legal

- Corporate
- Permits and Consents
- Contracts & Agreements
- Insurance
- Legal Proceedings
- Employment
- Property
- Trademark, Patent and Other Intellectual Property
- Environment Safety Public Health

Business

- Market & Business potential
- Competition & Peer Analysis
- Assumption of Financial Model
- Supplier & Distributors
- Customers

Time Frame 2 to 4 weeks



DEFINITIVE AGREEMENT AND CLOSING FORMALITIES

Share Subscription and Holders Agreement

- Definition and Interpretation
- Terms of the Agreement & Structure, Issue & Subscription
- Business Plan & Utilization of Fund
- Undertaking from Promoters, Transfer of Obligation and Restrictions
- Monitoring and Corporate Governance
- Representation & Warranties
- Liquidation Preference and Indemnification
- Confidentiality
- Governing Law and Dispute Resolution
- Miscellaneous Provisions



EXIT OPTIONS

EXIT OPTIONS

- IPO
- Sale to another Investor
- Strategic / Trade Sale
- Partial Exit
- Repurchase by Company
- Liquidation



*PE Fund raising is not the end of the Journey
Its just the beginning...*

Q&A Session

CONTACT

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THANK YOU