

# Boutique Banks Come into Their Own

Boutique bankers are making hay as many medium and small-sized companies are up for grabs and are slowly emerging as a force to reckon with even among well-established players in i-banking, report **Vijay Gurav & MC Govardhana Rangan**

## Boutiques That Meet Quality

- ▶ Boutiques have limited number of rainmakers, small offices and don't put their interests in conflict with clients which the big ones do at times with proprietary investments
- ▶ The mushrooming private equity investments are one of the biggest sources of business as they keep looking to invest in small and mid-sized companies that can multiply in value, unlike large market capitalised companies
- ▶ Most takeover transactions are complex, but they get more complex when it comes to small sized companies. These are entrepreneur owned, lesser professionalism, and are often too small for the bulge-bracket bankers to even meet up
- ▶ Some successful boutique firms such as Avendus Capital and Edelweiss are expanding into full service financial firms taking their expertise to public markets such as initial public offerings
- ▶ They want to be bigger, but at the same time are not throwing caution to wind. These banks, at least for now, prefer not to leave their strength in search of a bounty



### Recent deals by Boutique Investment Bank

Boutique Investment Bank	Deal	Year
Mape Advisory Group	Benchmark AMC - Goldman	2011
Mape Advisory Group	Jyoti - Henkel	2011
RippleWave Equity	Digilink Business - Schneider Electric India	2011
Veda Corporate Advisors	Tata International - Bachi Shoes	2011
Avendus Advisors	Patni Computer Systems - iGate	2011
Equirus Capital	L&T Finance - Cholamandalam DBS AMC	2009

Jyothy Laboratories' deal is out-and-out a brainchild of Ramprasad. No Goldman or Merrill could ever think of doing such a deal in this country," says an investment banker who wanted to be a part of that deal.

That transaction was a result of the failure of a German multinational to succeed in a crowded Indian consumer market. However, that also established a successful business model — boutique banks.

Boutique banks are those which advise on mergers & acquisitions and private equity deals for smaller companies, unlike Citigroup, Bank of America Merrill Lynch that do billion-dollar deals with the help of their balance sheets. Boutiques have limited number of rainmakers, small offices and don't put their interests in conflict with clients that the big ones do at times with proprietary investments.

Jyothy Laboratories agreed to buy a controlling stake in Henkel's Indian unit last month in a deal valued at ₹119 crore which was multi-layered. But the seeds of the deal were sown in the minds of M Ramprasad, chairman and co-founder of MAPE Advisory, months ago. Mr Ramprasad, a former executive at Merrill's Indian partner DSP, knew the company, promoters and its problems too.

The sale of a struggling unit of a German company to a home-grown consumer goods maker is in itself an achievement. The first step was to convince a failing businessman, AC Muthiah of Southern Petrochemical Industries, to sell. Then convince Jyothy Labs that it is worth buying it. Then ensure Henkel sells out too, leaving Jyothy Labs with the control. And also a sale option for Jyothy.

"The Indian economy is in a mould where small and mid-sized companies need boutique investment bankers as they can not afford to hire large bankers," said Collins

Stewart Inga's founder promoter G Shiva Ganesh.

Most takeover transactions are complex, but they get more complex when it comes to small-sized companies. These are entrepreneur-owned, lesser professional and are often too small for the bulge-bracket bankers to even meet up.

That's where these briefcase bankers fit in. These are the ones who left the suffocating process-driven culture at giant firms, such as Morgan, Merrill and Goldman.

They build relationships with entrepreneurs for years and get to experiment with ideas. Know them, identify what they want, comfort them and say they could be a lot bigger than they are, with a banker's advice.

Boutique banks, such as MAPE, Collins Stewart Inga, Spark Capital and RippleWave Equity are thriving in a market where mergers and acquisitions last year doubled. Some successful boutique firms such as Avendus Capital and Edelweiss are expanding into full-service financial firms taking their expertise to public markets such as initial public offerings.

"Our approach is not transaction oriented but relationship oriented," said Jacob Mathew, managing director at MAPE Advisory. "We keep going back to clients with ideas. We compete with top bankers with large balance sheets but we don't want to become large for the sake of it. We want to offer personalised services to our clients without compromising on quality," he added.

Jyothy was not a one-off event. A few weeks before that Smartlink Network Systems sold its business for ₹500 crore to France's Schneider Electric advised by RippleWave Equity, founded by Mehul Savla, formerly JPMorgan and Vipul Shah. Spark Capital advised on Warburg Pincus' \$100-million investments in NDR Group.

But these kind of deals are not done for professional chief executives who look to show growth to shareholders and by dangling the carrot of funding. But an idea that's convincing.

"It requires a substantially long period of work," says K Ramakrishnan, executive director and head of investment banking at Spark Capital. "In boutique model, a banker gets to experiment with ideas which may not be available in an institutional hierarchy such as Goldman or Morgan," he said.

Despite the talk of the necessity of having an ability to fund transactions, boutique banks are thriving as a class at the international level.

The \$39-billion deal between AT&T and T-Mobile was advised by boutique firms, Evercore and Greenhill. Lazard was involved in a deal worth \$28.5 billion between Duke Energy and Progress Energy. Fiat, Mosaic and Deutsche Boerse are a few other companies that were advised by boutiques.

In a country where all that existed before the mid 90-s was boutique banks, the new breed has established and the familiar theme plays out.

They want to be bigger, but at the same time are not throwing caution to wind. These banks, at least for now, prefer not to leave their strength in search of a bounty.

Avendus Capital, founded a decade ago and had focused on technology deals in its early life, is moving into other businesses, including handling initial public offerings.

"It is 10 years before a Patni deal could happen," says Gaurav Deepak, managing director at Avendus Capital. "We want to be relevant to the In-

dian market that may not be possible for large foreign bankers like Goldman Sachs which are not structurally geared to service India," he added.

Patni Computer Systems' control was acquired by Nasdaq-listed iGate in partnership with Apax Partner, a private equity fund, in a billion-dollar deal earlier this year.

The mushrooming private equity investments are one of the biggest sources of business as they keep looking to invest in small and mid-sized companies that can multiply in value, unlike large-market capitalised companies.

Private equity investments in the first quarter of 2011 was \$3.3 billion, the most since the same period in 2008, data from Venture Intelligence show.

"We want to focus on a few clients where we see growth visibility," says Savla of RippleWave Equity.

Though it is advantageous not to be restrained by the institutional structure, there are drawbacks as it is difficult to attract talent because of lack of branding and the eagerness of young ones to be with big banks.

"It is a time-consuming process to acquire new clients and build relationships with them," says Inga's Ganesh. "Little capital base and limited exposure to international market are also handicaps," he says.

But there are rays of hopes after these big ones were exposed during the creditor crisis.

It is not that people in the campuses are just lured by the names. They do their due diligence and pick and choose these days.

"Talent takes time to develop," says Deepak of Avendus. "People in the campuses know. Last time at IIM on day zero we had 17," he added.

That gives a good hope when you are competing with Goldman Sachs and McKinseys.

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