The rise of boutique investment banks in India

Suveen K. Sinha June 27, 2012

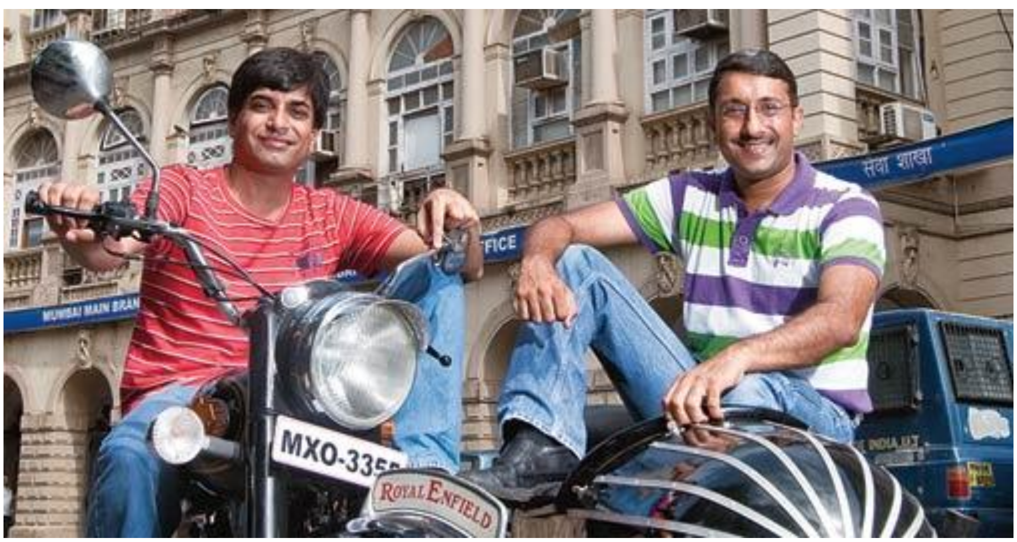
{table}It was amusing to see my host, a man of about 40, dressed in a white shirt with two front pockets, with flaps. Didn't those things go out with tail fins on cars? Useless paraphernalia.

Not quite, it turned out. When the time came to pay the bill for our lunch, my host - MH for short; it would be tactless to name him - did not reach for his wallet in the back pocket. Instead, he undid a flap in front and took out a wad of currency notes. "We have not yet spent all of the fees we earned the last time," he said with a disarming smile. And thereby hangs a tale.

A few months ago, a man in his fifties climbed up the steps to MH's office, caught his breath, put a satchel on the table and said: "Here."

The satchel was packed with Rs 25 lakh in cash. MH had raised some working capital for this man's small business and he, brimming with gratitude, had come to pay the fees.

{table}MH did not expect cash, but recovered quickly and told the client to come back after two days. When the client came back, MH simply kept the satchel. The client, unable to contain his curiosity, asked what had changed.



Vipul Shah (L) and Mehul Savla | RippleWave Beginning: July 2008 |
First meaningful deal: May 2010 **| No. of significant deals:** 3 **| Value:** Rs 650 crore **| Size of the team:** 4

Two things had. One, MH had installed a rock solid safe in his office. Two, he had got pest control done. Couldn't have allowed anything to eat into his fees, could he? MH's outfit, with a little burrow for an office, half a dozen researchers, one man to serve tea and coffee, and another to make photocopies and run to the bank, is what is these days called a boutique investment bank. At least a dozen of them have mushroomed in the last few years. They provide most of the services a full-blown investment bank does: advising on mergers and acquisitions, managing initial public offers, and raising all types of funds including private equity (PE) and bank debt. And they match the big boys in finesse, though one or two of them may have at some point found themselves staring at a satchel full of cash. They are happy to serve clients whose need for funds may be less than Rs 100 crore, sometimes less than Rs 50 crore. This is what the big investment banks - like Goldman Sachs, Morgan Stanley, J.P.Morgan, JM Financial and Kotak - won't do. Given the cost structures they have, with several partners, and dozens of associates and analysts getting fat paycheques, it makes sense for them to enter a deal only when the fees - 0.5 per cent in a bad market, two per cent if they are lucky - are enough to take care of the crew. For that, the deal size ought to be Rs 200 crore or more.

"We would not look at smaller deals - like $5 million (Rs 28 crore) or $10 million (Rs 56 crore)," says the M&A head of a big Wall Street firm's India unit, "unless there was some exceptional value attached." Boutiques have no such qualms. One of them - P2P Consultants - is a one-man show by Francois Montrelay, a French national who cannot get over his India hangover. Mehul Savla and Vipul Shah, who were together in school and college, have RippleWave.

It has two other people, of whom one looks after administrative functions. Cogence Advisors, owned equally by Rishi Sahai and Manish Gupta, both from the Economics Honours class of 1991 at Hindu College, has four other people, all doing research. Among the "bigger boutiques", Veda Corporate Advisors, set up by C. Venkat Subramanyam and M. Vinod Kumar, who have been together for 20 years, through three jobs and two entrepreneurial ventures, has 20 people. Jacob Mathew, M. Ramprasad and Ajay Garg left DSP Merrill Lynch to start MAPE Advisory, which has 38 people. And Equirus, which came into existence when Garg left MAPE to start his own outfit, has 40, half of them in investment banking and the other half in institutional equity.

{table}This bunch has subverted Tom Wolfe's vision of the bonusguzzling investment banker, which he outlined in The Bonfire of the Vanities, calling them the Masters of the Universe. Right now, it is all about little masters. And often they punch far above their weight.

In fact, boutiques are the ones really active in the ring right now, feasting on deals of Rs 50 crore to Rs 200 crore, which is the range where the action is. They charge the same percentage as fee that the big ones do, but get by happily in spite of the low absolute amount, a result of the smaller deal sizes, because their expenses are far lower.

Globally, boutiques are capitalising on the fact that big investment banks have lost sheen in the aftermath of the 2008 financial crisis. According to Thomson Reuters data, the market share of the 10 largest Wall Street firms, by fees, dropped to 36.3 per cent last year from

BIG DEAL

Rishi Sahai of Cogence Advisors paved the way for ₹872 crore of PE to flow into Quippo from Oman Investment Fund

Mehul Savla of RippleWave forged Schneider Electric's ₹503 crore deal to acquire Smartlink's Digilink unit

MAPE Advisory's Jacob Mathew and M. Ramprasad made it possible for Jyothy Laboratories to acquire Henkel's India unit

C. Venkat Subramanyam and M. Vinod Kumar of Veda shepherded Olympus's ₹600 crore infusion into DM Healthcare

Ajay Garg of Equirus persuaded KKR to put ₹750 crore in Dalmia Cement

Francois Montrelay of P2P facilitated the sale of Atyati to Genpact

42.2 per cent in 2007. In India, though such data is not available, Grant Thornton's Dealtracker shows 971 deals, including M&A and PE, were struck in 2010, totalling $62.2 billion. In 2011, there were more deals - 1,026 - but their combined value was lower at $54.3 billion. This shows that deals got smaller, closer to the boutique comfort zone.

"We have lost deals to boutique banks," admits Sanjay Sakhuja, CEO, Corporate Finance, Ambit Group, which started as a boutique but has since become a mid-size player, with a tall building in Mumbai's Lower Parel area proudly bearing its name. "But I'm not sure we have the DNA to do those deals."

It is not just the lower expenses that make boutiques click with clients. All six that BT spoke to insisted that their clients loved them because they were always there for the clients, mentoring them, the senior partners giving them unwavering attention from the beginning to the end. Often they cajole the client to look at new areas, and offer to raise funds to finance the foray. All this invariably results in long-term relationships, as opposed to a transaction-based one.

{table}And then there is something more. "Boutiques score on adapting and changing their model quickly," says Sahai of Cogence. None of that should come as a surprise. Most of the boutiques were born because their founders felt constrained by the big corporate set-up in which they worked, saw opportunity in deals that their employers would scoff at, and were eager to get more involved with the client. And there was adversity.

One calm September morning 11 years ago, Ramprasad and Mathew resigned at DSP Merrill Lynch. By the evening the world had changed as two aeroplanes crashed into the World Trade Centre in New York. "Hemendra bhai (Hemendra Kothari, the redoubtable head of DSP) was giving us hazaar gaalis in the morning for quitting. Next day, he was asking us if we were still sure. But we were," says Mathew.

As much as sure, they were bored. "Merrill was calling the shots and it had this thing that every deal must have a million dollars in fees," recalls Mathew. As a result, even if large clients wanted to do small deals, Merrill would be cool to those. Mathew, who was number two in the investment banking division, and Ramprasad were the men in the field and despaired every time they had to let go of a deal.

They saw a breach, which they sought to fill by putting Rs 50,000 each into a venture of their own. Three months later, they did their first deal, helping Dr Reddy's Laboratories clinch a small Rs 25 crore acquisition. It got MAPE its first fee: Rs 50 lakh. By this time, Garg, who was also at DSP Merrill Lynch, had come on board as the third co-founder. Soon it was raining deals. At last count, MAPE had done 90 of them, worth a total $3.5 billion.

It could have been 91 deals, but MAPE's efforts to help a large company, which Mathew would not name, acquire one of consumer products company Jyothy Laboratories' brands fell through. But Ramprasad and Mathew stayed in touch with Jyothy, which had been eyeing Henkel India. The trouble was that Henkel's German parent was proving to be intransigent.

MAPE took the Jyothy people three or four times to Germany and told Henkel they would pay the best price. But the Germans had their own processes and decided to conduct an auction.

The day the auction began, MAPE helped Jyothy buy the 14.5 per cent stake held by A.C. Muthiah, former chairman of Southern Petrochemicals Industries Corporation, in Henkel India. Once Jyothy had this chunk, no one else wanted to bid for the company and it fell into Jyothy's lap.

{table}"The problem with the large investment banks is that they want at least $2 million (Rs 11.2 crore) to $3 million (Rs 16.8 crore) in revenues. But there are not so many large deals around. We are happy with Rs 2-3 crore," says Mathew.

However, it was not sufficient to keep the three co-founders together. In July 2007, Garg set up his own boutique firm, and, in search of a name that would be "extremely googleable", called it Equirus, the condensed form of "equities are us".

Both MAPE and Equirus have prospered, with Garg's firm notching up 52 deals worth Rs 6,300 crore, including arranging $160 million (about Rs 750 crore at the exchange rate in those days) from Kohlberg Kravis Roberts for Dalmia Cement, and helping TD Power Systems, a manufacturer of AC generators, float an IPO that was subscribed seven times.

"It was a proud moment for us when Nikhil [Kumar, joint managing director of TD Power] said on the listing day, 'We are here today because of Equirus'," says Garg.

Mathew believes that last year some of the larger firms had just about zero revenue. "We had close to $10 million. In fact, the last year was the best in our career in terms of revenue. The bad times are actually the good times for us."

There is someone else who yearns for the bad times. "I am known as the kabadi wala (scrap dealer)," says Sahai of Cogence, oozing schadenfreude. "When the market is down, it is party time for us."

That is because Cogence has made a name for itself in secondary PE transactions. If a firm finds itself stuck in a company for lack of exit routes, Cogence helps it sell its stake to another PE or hedge fund. "I know four to five firms which are always looking for secondary transactions," says Sahai, who recites portfolios of big funds for small talk. Fittingly, Sahai's timing was worse than MAPE's. He and Gupta set up Cogence in September 2008. That was when Lehman Brothers collapsed, triggering a global financial meltdown.

Amid the debris that piled up, Cogence struck gold. It was trying to help Goldman Sachs find a good spot in the Indian telecom infrastructure industry to park some funds. Goldman did not like Cogence's candidate, Quippo Telecom Infrastructure Ltd. But Sahai stayed in touch with Quippo and promised to raise some money for it. It turned out to be a lot of money as Oman Investment Fund agreed to pump in Rs 872 crore in two tranches beginning November 2008, just two months after Cogence began.

{table}There was another boutique bank trying to find its feet on the rubble that rained after Lehman's fall. But Ripple-Wave, set up in July 2008, was less lucky than Cogence, taking nearly two years to close its first "meaningful" deal.

Savla and Shah, its co-founders, had been in touch with Quick Heal, a maker of anti-virus software, offering to raise PE for it, but the company's promoters saw no reason to dilute their shareholding. Finally, Savla pointed out to them the threat of big multinational rivals, like Symantec and McAfee, who would see Quick Heal's people - its biggest assets - as easy pickings. The only option for Quick Heal was to grow and make acquisitions of its own.

Finally, the company saw Savla's point and opened its doors to Rs 60 crore from Sequoia Capital. Last year, Savla and Shah struck their biggest deal by facilitating Schneider Electric's acquisition of Smartlink's Digilink unit for Rs 503 crore. "I chased Mr Naik [K.R. Naik, Smartlink's promoter] for six months, cold calling him. He avoided us but we kept sending him ideas. Eventually we got a meeting and the mandate," says Savla with a sigh of satisfaction.

Despite the long gestation of the first deal, not for a moment did Savla have second thoughts about his decision to take the plunge with RippleWave. This despite the fact that he had left a cushy number with J.P.Morgan, where he was heading equity capital markets for India, raising money in public offerings.

He faced the same problem as Mathew and Ramprasad: Savla's bosses wouldn't get into many deals because they were not worth their while. There was one more reason why Savla wouldn't go back to the life he had left behind. "It was increasingly a process-driven job. A typical deal would have four to five banks. The larger issues would have as many as 10 book runners. I did not feel involved."

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Montrelay of P2P, too, ran away from the corporate setup. Early on in his career, he roamed the by-lanes of the villages in Guntur, Andhra Pradesh. The French government had seconded him to work on a census-related project of the state's Bureau of Economics and Statistics. In 1983, he left - "we delivered almost nothing" - to spend the next 20 years with companies in Europe, Africa and the United States.

By 2003, when he was Senior Vice President with ABN Amro in Amsterdam, he had had enough. "We wasted too much time in meetings. Every Monday morning, there would be a four-hour meeting to take decisions that could be taken in five minutes. These anyway would be useless decisions." He wanted to get his hands dirty doing deals and set up his one-man outfit in France.

It took him five years to realise that though he had been out of India for two decades, India never really got out of him. So P2P opened a liaison office in Bangalore. Since then he has helped Lambda Televentures, a technology company, acquire French telecom antennae maker ARIALCOM, advised a Bangalore-based electrical components maker in purchase of technology from individuals overseas, helped consumer products maker IFB export to Europe, and facilitated Genpact's purchase of Atyati, a company known for its rural banking technology platform.

Montrelay can do all this himself because he knows his role very clearly. "I won't add a single comma to any contract. That is for the legal advisors to worry about. I am not an expert on products; my clients are. I know how to bring two parties together and how to handle the process."

That might sound simple, but is far from it. In a negotiation, Montrelay's clients always speak through him. He has to face the many moments of crisis that creep into a negotiation. If something unpleasant has to be conveyed, he is the man to convey it.

"We chose Francois because he has knowledge of banking and an amazing amount of rural experience. He is so hard-working he can put the Chinese to shame," says Prakash Prabhu, the promoter of Atyati, who continues as its CEO under Genpact. "Besides, he connects with people; he can say things I would be wary of saying, and yet in a manner that makes people accept them."

According to Montrelay, it helps that he is often the only non-Indian in the room, so he can take a detached view of things. For Subramanyam of Veda, the mantra is quite the opposite. His company gets as close to the client as possible. That is one reason why Subramanyam and Kumar, the co-founders, never wanted to leave Chennai, although the city cannot be called a fertile ground for deals.

Though Veda has offices in Hyderabad, Bangalore and a recent one in Mumbai, it is Chennai that is their big playground, their understanding of the local environment their edge.

For, the business environment down south is more conservative than in the west or north. Historically, south Indian business houses like to raise funds as debt rather than by parting with equity. Rarely would you see a public issue from the TVS group, or Amalgamations.

When Subramanyam and Kumar, both of them born and brought up in Chennai, set up Veda in late 2003, their first challenge was to create a market in the city. It is a testimony to Veda's relationship building skills that its clients come back to it. It struck its first significant deal when it brought fund house Carlyle into technology company Newgen for a partial buyout worth $10 million. Seven years later, Veda arranged a deal for Carlyle to exit and a group of PE funds to check in. FSS, a payment technology company, worked with it in 2004 and 2010, Updater Services, an integrated facility management company, in 2005 and 2008, and Bharat Matrimony in 2006 and 2008. In fact, Veda's biggest deal came when working with a client a second time.

Dubai-headquartered DM Healthcare, which has 130 hospitals, clinics and pharmacies in West Asia and India, was advised by Veda in raising $45 million from India Value Fund in 2008. Earlier this year, DM again tapped Veda to raise $100 million from Olympus Capital.

"If there is one thing we are truly proud of it is that in the last 15 years we have been at the forefront of spreading the equity cult in this city, spanning two generations of entrepreneurs," says Subramanyam.

This is not to say that the big investment banks have reached a dead end. According to Bloomberg data, Morgan Stanley remains the busiest investment bank in India with nine deals worth $15 billion already this year. KPMG Corporate Finance is second with seven deals worth more than $14 billion, and J.P.Morgan is third, matching KPMG's value with its five deals. "Strong infrastructure and global synergies give large investments banks the edge," says the unnamed India head of the Wall Street firm mentioned earlier, and adds: "There is a lot of space [for the big banks and boutiques] to co-exist."

Ambit's Sakhuja goes a step further to wonder if the two could co-exist within the same company, whether Ambit should set up a boutique of its own. "We have often debated that; we might do it."

Regardless of whether Ambit goes back to its roots, the tribe of boutique banks is certain to multiply. In recent times, Standard Chartered Bank's global head of M&A Prahlad Shantigram, Kotak Mahindra's head of investment banking Falguni Nayar, and UBS India head Manisha Girotra have quit to pursue their entrepreneurial ventures. And as this article was being written, news came that Ambit Corporate Finance's Managing Director Sanjay Bansal was leaving to set up his own investment bank.

Do not be surprised if you hear their names ensconced within $25 million to $100 million deals.

As for Tom Wolfe, he abandoned the cause four years ago. In a New York Times article of September 27, 2008, 12 days after Lehman fell, he said: "American investment banking, the entire industry, sank without a trace in the last few days."

Additional reporting by Rajiv Bhuva

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