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# EMPOWERING TIMES



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Dear Reader,

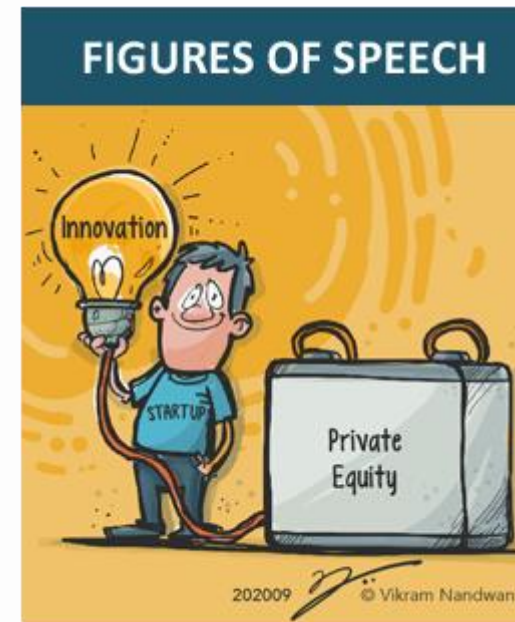
Indian Private Equity (PE) & venture capital investments clocked in a new all-time high in 2019 crossing USD 48 billion after two consecutive record-setting years. Analysts looked forward to the year 2020 with optimism. However, the recent slump in the Indian economy amid the pandemic has created uncertainties concerning investing activities.

Looking back at the global financial crisis of 2008 could provide few insights into how PE investing could navigate through the pandemic. Many PE investors are staying on the side lines and are adopting the 'wait and see' approach until there is some stability in the market. Although this seems natural, going by history, high returns often emerge in times like these and can offset the losses during the downturn.

ET this month looks at the '**Challenges for Private Equity Firms in the Covid-19 Era**'. On the **Podium**, **Sid Talwar** - Co-founder & Partner at Lightbox, shares his thoughts on the impact of the pandemic on private equity firms while looking at bright opportunities in this crisis.

In the **Thinking Aloud** segment, **Jay** backs the importance of PE firms without which innovative entrepreneurs and their disruptive ideas would cease to exist. In the **We Recommend** section, we review **HDFC Bank 2.0** where author Tamal Bandyopadhyay examines the Bank's digital journey and its exciting future ahead.

In **Figures of Speech**, **Vikram's** toon does not undermine the power of private equity!



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## THINKING ALOUD

### Private Equity: Santa Claus or Mephistopheles?

Jay

The recent IPO of Rs. 110 crores of Happiest Minds has been oversubscribed 151 times over its offer price making it one of the most successful initial market offering of shares in this decade according to reports. Clearly the happiest minds in the country right now are all the earliest investors in the company, JP Morgan Asset Management, Intel Capital and Ashok Soota, the Founder!

In retrospect everyone is wiser (and perhaps envious) but in 2011, when the firm was established, how many would have backed this unknown horse? The Founder, of course, had a sterling track record but at 68 years many would have said that his best days were past him. Along with his co-founders whom he persuaded, perhaps the small group of believers in him were the venture capital and Private Equity firms who saw merit in his dreams. Some of those early backers have now hit the jackpot - and well deserved too.

Who are these early investors and what makes this group of money managers tick? The private equity players have a mystique around them which makes them both reviled and admired at different times. The history of modern private funding of firms and the rise of venture capital can be traced to the post-World war II days, with the story of the IPO success of the famed Digital Equipment Corporation (DEC) perhaps validating the stupendous success

in picking early winners to the game - an investment of USD 70,000 in 1957 by American Research & Development Corporation (ARDC) generated a value of USD 355 million in 1968! The concept has evolved and today the Private Equity sector is often seen as a broad label that encompasses firms that could be active in angel investing, early stage venture funding, leveraged buy-outs or funding a firm in different forms for providing working capital, restructuring, fuelling growth, or other similar reasons. Each of these could be in the hands of specialized experts with some firms focused in their own chosen areas and some other larger firms having wider sweep.

Be that as it may, the rise of technology firms in Silicon Valley from the 1990s has created a stir that has brought the private funders into the limelight like never before. The legendary tales of private investors and firms like Kleiner Perkins (famed by their former moniker, Kleiner Perkins Caufield & Byers) have raised the profile of this sector as much as the leveraged buyout deals that Kohlberg Kravis Roberts (KKR) did in its heydays of the 1980s.

It is to the credit of a private equity player that they boldly tread where the conventional banking systems loath to go. The reason is not far to seek. The entrepreneurial nature of the fund managers is what creates the fund in the first place having raised money from varied and multiple sources, be it high net-worth individuals, Family offices, or even other smaller funds. The task of deployment of the money collected means that they need to allocate it to avenues that offers high multiples in the quest for maximising returns during the life of the fund. Consequently, they scout viable firms that meet their objectives and having invested, they monitor their capital to ensure that the investee firm delivers on its promise.

Seems like a logical and simple process, isn't it? Why then does the PE firm get a bad name? A promising start-up with a proven track record in search of new investors for scaling up was being wooed by multiple PE players. Talking to others who had walked the path before, the firm's founder kept checking out his capital raising options. The unnerving message he heard was the comment that falling for the charms of the smooth-talking PE manager would be akin to sleeping with a cobra. It would come back to bite him, he was told.

I believe that is an uncharitable comment on the nature of the private equity sector. The professed aim of the sector is maximising returns (which is what most stakeholders want in any case) and all PE managers will tell you that there is more to them than just money. Done right, they actually bring tremendous value to an investee firm in terms of market connections, good systems and practices, access to talent, potential customers, etc. However,

what gives them a bad reputation is the sordid manner in which they sometimes push their financial agenda ahead of the needs of the entrepreneur who lets them in through the door.

The business market can be cruel to firms and business leaders. That is a reality that cannot be wished away. Viewed from the lens of the private funder, the access to capital that he provides to a firm in need is a risk that demands careful scrutiny. Underperformance at the firm for any reason can lead to expensive write-off to the private funder, which in turn hurts the returns that he is committed to generate to the fund's backers. From the Fund Manager's perspective, an unsteady hand at the wheel could be disastrous for a company and therefore, the fund's representatives consider it their duty to unwaveringly call the shots in the face of any sentiment that hurts the profitable operations of the investee company.

Fiscal and managerial discipline in a firm is ultimately useful for the firm's efficiency and effectiveness. However, living a regimented existence is never easy. Hence, the love-hate relationship between an investee firm and the sponsors of hard capital that fuel the firm.

On the other hand, let us also acknowledge that if it wasn't for the risk taking appetite of a private equity firm, many of today's landmark firms would not have seen the light of day (think Uber, et al) or would not have risen to the heights that they have (think Airbnb, Oyo, et al). The innovative entrepreneur needs support as he attempts to disrupt the world with dynamic new ideas, products and services. Their genius rides on the shoulders of brave financial wizardry that only a private equity firm can marshal as they are masterminds who look into the future and see success when others only sense jeopardy in the current situation & project corporate catastrophe.

Santa Claus is part of children's folklore and is best left there. Let's not seek him in the money markets. Realistically, there are no angels in the money market who will dole out capital for the asking without expecting any returns ever. If you are a firm in play, understand well that the Private Equity firm is partnering with you for a specific reason. If you make the Faustian pact, do so with eyes open. Complaining about it later is a case of sour grapes. Recognise that the partnership is actually enabling you to achieve your destination in a manner that you have chosen perhaps because the other options that you explored are not feasible.

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## Podium

Sid Talwar

Co-founder & Partner at Lightbox



*Sid Talwar moved to India in 2001 to found Evolv, a vocational training company funded by Singapore Technologies. Over 6 years, Sid grew Evolv to 300 employees training and assessing over 20,000 people a year across 200 cities in South Asia, East Asia, and the Middle East. In 2007, he eventually sold it to NIIT - Asia's largest training company. He worked with NIIT for 3 years heading Evolv as well as Litmus and Uniqua (NIIT's foray into assessments and JV with Genpact). In 10 years of leading Evolv, Sid became a master's in education technology (and continues to explore advancements in this market at Lightbox.)*

*An entrepreneur at heart, Sid left NIIT to get back into the start-up game. Over the next few years leading up to Lightbox, he has advised several start-ups, angel funds, and a very special NGO called Magic Bus.*

*As enterprising at play as he is at work, he launched a restaurant called The Hungry Monkey, which has won multiple national awards and international recognition.*

*Lightbox is a venture capital firm based out of Mumbai actively building early stage consumer technology businesses. The team behind Lightbox represents one of the most successful track records in VC in India. Investments included InMobi, InfoEdge, Cleartrip and ShopClues.*

*A mix of entrepreneurs, technologists and investors, the firm's most recent investments include Furlenco, Rebel Foods, Melorra and Dunzo.*

**ET: It is sometimes cynically said that Private Equity firms are two-faced: angels on the one side (while giving money), and devils on the other (while demanding their pound of flesh)! At the outset, please share with our readers what makes a Private Equity firm an important part of an economy.**

**ST:** Honestly, I don't know any industry that doesn't have its share of demons and angels. Private capital is no different. The important thing is to make sure one doesn't generalize any one industry as either only demons or only angels.

On the question of the importance of private capital (which I will refer to collectively as venture capital for the sake of brevity) in the larger economy, here is my two cents. In our immediate future and beyond, invention and innovation will drive our economy, more than any other single element. And entrepreneurs are going to be the force behind it. At their side, will always be private money, in the form of venture capital, to help them in ways no one else can, and of course, for a piece of the action.

I would argue that venture capitalists come at a point of an entrepreneur's journey when no other pool of capital dares to even try. In essence, venture capitalists come in at the ideation stage, they nurture it for a short period of time, and then exit before the true value of successful companies is realised. How much innovation would the last 50 years have seen if it weren't for venture capital? How much innovation would the last 15 years in India have seen if it were not for venture capital? Dare I say, not much unfortunately. Where would the founders of Flipkart, Infoedge, Ola, and MakeMyTrip be today? Probably still standing in line at HDFC Bank's loan department hoping to meet an officer for the 100th time. And we would still be struggling to find a taxi and booking a flight. How lucky we are, as consumers (and how lucky are they, as founders), that venture capital happened to be around.

**ET: As Covid-19 continues to impact us all, businesses are faced with more uncertainty than any period since the global financial crisis. What are some of the challenges that have come about due to the pandemic on the financial services sector, and specifically on private equity firms?**

**ST:** Venture capital is not the same as traditional financial services companies. The kind of issues faced by venture capital businesses aren't the same as the larger finance sector. And although the pandemic is the biggest crisis to hit the world since the 2008 crash, it is not the same thing. Yes, both created an uncertain future. Both saw an initial collapse of the global stock exchanges. And both saw governments intervening. But that's really the only similarity. The larger financial services sector is far more secure today than it was in the aftermath of what happened in 2008.

As for venture capital, some of the largest businesses of our generation were started and funded during that time. Some of the largest software infrastructure and development tools businesses were founded then. For example, Nutanix, MongoDB, Github, and Cloudera. And, many services businesses that revolutionized how work is done today - from Square, to Slack, to Dropbox and Glassdoor. The total market value of these 8 companies is over \$30 billion. And all of them except Square are traded publicly.

And in 2009...Uber was founded.

I'm eager to see what revolutionary businesses venture capital funds during this crisis.

**ET: Private Equity players often state that they are not just about money. What is the nature of support that your firm has provided to investee firms to weather the current storm?**

**ST:** The most important thing we can provide, I would say more important than money, is to be there for our companies. To be available. To be both a sounding board, as well as a support system. To let them know they are not alone. In some cases, we have supplemented that with capital. But in every case, our capital is not the reason our founders have weathered this storm. And I can tell you today, every one of our founders have weathered it. And they know they're not out of it yet, but they also have a clear path now to move forward. It's a good place to be.



**ET: You have been an entrepreneur at heart. What attracted you to the Private Equity industry?**

**ST:** I wanted to give back to entrepreneurship something I didn't get myself - support. There are many pools of capital out there. But very few of them are truly able to support a founder in any way outside of money and potentially a few introductions. My partners and I wanted to change that. We wanted to truly be available and knowledgeable enough on their company to be of help whenever needed. That's what we strive for today. That's what we rate ourselves on. And that's what we continuously try to improve on.

**ET: Please share with us more on the story behind Lightbox ventures and your investee firms. What makes you different from other Private Equity players in the market?**

**ST:** Our investment thesis has always been about building along with our portfolio companies and not just betting on them. Being entrepreneurs ourselves, we love building products and companies and understand the importance of growing and building a business with the right set of virtues, culture and financial foundation while creating something impactful and sustainable. So, we get to know our founders early on and try and get operationally involved in the any way we can.

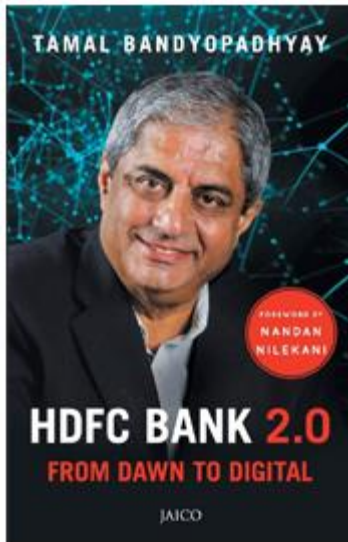
We also enjoy working with consumer tech and tech enabled businesses that sell within India, to make a better India because it's not enough for a company to be able to generate value if they're not doing it in a manner that's actually benefiting us as residents of the country and we believe in the ability of technology to play a larger role in helping build the future of India.

Having a concentrated portfolio makes it easier for us to do that effectively and that approach is what really separates us from the other players in the market.

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## We Recommend

### HDFC Bank 2.0 Bandyopadhyay Tamal



*"I want to be involved in education, I want to be involved in health, I want to be involved in digital transformation."*

- Aditya Puri - Managing Director, HDFC Bank

The words of Aditya Puri in a recent webinar is proof that HDFC Bank has come a long way in re-defining the way banking business is conducted in India. His words left the participants of this webinar wondering the way ahead especially after Puri retires on 26 October 2020. Credited with leading HDFC Bank over a 25-year journey and all set for his second innings by taking up board positions in global firms, he quotes that "finance and technology are now the same". In line with this thought, after the release of the first book on HDFC Bank, "**A Bank for the Buck**", author Tamal Bandyopadhyay pens down a sequel - HDFC Bank 2.0 - which chronicles the digital transformation of the Bank under the leadership of Aditya Puri. Divided into three parts - the digital journey, its origins and the legacy of Aditya Puri, Bandyopadhyay gives a detailed account of how digital innovation is now part of the culture at HDFC Bank.

With 85% of their banking transactions done through digital channels, a recent announcement that the Bank's customer base grew to 56 million growing from 6 million in the past two years is evidence that HDFC has been at the forefront of using fintech. The famous tagline - 'Go Digital: Bank *Aapki Mutthi Mein*' was not only a marketing hit but also helped in transforming it from a lifecycle bank to a lifestyle bank so that customers could experience

the power of mobile technology. Amid all the competition to capture a wallet share, other banks also joined the band wagon after understanding the importance of digitalization. However, HDFC has been a leader, combining global trends in technology like smartphones and cloud technology complementing India's state of the art digital public goods - Aadhaar, e-KYC and Unified Payments Interface.

Under Puri's leadership and vision, the Bank has been betting big on the use of Artificial Intelligence (AI). Case in point is the Bank's Electronic Virtual Assistant (EVA), India's first and largest AI-powered banking chatbot which handles 8 million customer interactions. HDFC Bank's OnChat is the Facebook Messenger chatbot and India's first bot to be able to send personalised communication like bill payment reminders and notifications to the customers as allowed by Facebook. The Bank's interactive humanoid Interactive Robotic Assistant (IRA) is also powered by AI. Internally, AI is also being employed for risk management, marketing, portfolio management, hiring, collections, and employee on-boarding. The Bank is also taking definitive steps in emerging technologies like IoT and blockchain. Amid all the strides, not all digital plans succeeded. For example, HDFC's plan to introduce an Integrated Voice Controlling Banking app with automobile maker Mahindra & Mahindra on the infotainment system of their cars did not bear fruit. Similarly, smartwatch banking as a concept could not be scaled up.

Tamal Bandyopadhyay weaves a detailed picture through his financial knowledge and eye for detail to portray a bank that has come a long way and is paving a way for an exciting future. While it will be hard to imagine HDFC Bank without Puri, sceptics are questioning if the Bank will falter without him and whether the digital growth will lose steam. However daunting as that may be, Puri is assured that his successor Sashidhar Jagdishan will share his vision for the Bank. In a recent heartfelt, emotionally charged letter Puri assures his employees and investors that "the best is yet to come".

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## THROUGH THE LENS



Nature photographer, **Rupesh Balsara**, spots the Stork-billed Kingfisher largely found in India and various parts of Southeast Asia. Although a highly territorial bird, it is quite solitary, less noisy and less visible, with an average life span of two years. Since their primary food include frogs, fish, crabs and shrimp, this species is spotted along rivers, coasts and mangroves.

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