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STRATEGIC INVESTMENTS

PE firms get new fund source as business families look to diversify

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MUMBAI

Private equity (PE) firms, which have typically relied on banks, insurers and retail investors to raise money, now have a new source to tap—family offices, or independent companies formed to manage the wealth of families, usually through investments.

A number of family offices have been formed in India over the past two-three years as successful business families have looked to diversify their portfolios. A single-family office is dedicated to one family, while a multi-family office serves several.

Altamount Capital Management Pvt. Ltd, Evergreen Family Office and Metis Family Office Services Pvt. Ltd are some examples of multi-family offices. Banks such as Kotak Mahindra Bank Ltd and Barclays Capital, and financial services firms, including Edelweiss Capital Ltd, have also set up family offices.

"It's only over the past few years that a lot of wealth has been generated, especially among family-run businesses," said Richa Karpe, director, investments, Altamount Capital, a multi-family office.

India's population of rich individuals, at 153,000, became the world's twelfth largest in 2010, according to the World Wealth Report of Capgemini and Merrill Lynch Global Wealth Management, released last month.

"We do advise our families to invest in PE funds, but we usually look at funds which have strong teams with good track record and a sector focus that our families don't get an exposure through listed opportunities," Karpe said.

Mumbai-based PE firm Milestone Capital Advisors Ltd is raising a ₹500 crore domestic fund to invest in residential real estate, and has achieved a first

close of ₹350 crore. Apart from high networth individuals, it has also raised money from Indian family offices.

"Each year, five-seven family offices are getting set up in India... This will soon be a large source of capital for PE funds," said Ved Prakash Arya, managing director and chief executive of Milestone Capital.

Arya said investors in Milestone are all single-family offices, but declined to give their names.

Forum Synergies (India) PE Fund Managers Pvt. Ltd, a Bangalore-based PE fund, also raised money from Indian family offices at the time of its first close in December last year. The firm is raising a \$135 million (nearly ₹600 crore) fund.

As they earn more money, family businesses are paying more attention to succession planning, legacy issues and wealth management. While private wealth management services provided by banks help in money management, promoters of family-run businesses that have amassed a lot of wealth need expertise in areas of succession planning, which family offices provide.

"The demand for the business is so big," said Sunil Shah, the founder of Evergreen Family Office.

Shah started a family office three years ago after being approached by two or three wealthy families to help them in family governance and succession planning. He takes on families that have a minimum ₹100 crore turnover and a minimum ₹50 crore net worth.

I.A.S. Balamurugan and Suresh Ramanujam set up Metis Family Office Services last year, which targets mid-sized family businesses in south India. Metis also provides advisory services to help promoters run the business.

Some of these family offices are already expanding. Alta-

mount, for instance, is looking to open a Bangalore office to add to offices in Mumbai and Delhi.

Globally, family offices actively invest in PE funds. These family offices were formed after families that amassed a large amount of wealth from their businesses either sold it or looked at fresh avenues to invest for future generations. Examples include Rockefeller and Co., GenSpring Family Offices and Ford Family Office. "Initially, most of these family offices were single-family offices, and later went on to become multi-family offices," said Karpe of Altamount.

Foreign family offices that actively invest in Indian PE funds include Belgium's Verlinvest SA, Guggenheim Capital Management (Asia) Pvt. Ltd, the investment arm of the US-based Guggenheim family, and Quilvest, among others.

Some of these also look at making direct investments instead of routing it through a PE fund. For instance, in November last year, Verlinvest invested \$15 million in India's largest wine maker Nashik Vintners Pvt. Ltd, known for its Sula brand.

Samir Inamdar, co-founder and chief executive of Forum Synergies, said that compared with other investors, family offices are more flexible and quicker in decision making. "Their risk appetite is also more as they themselves have run businesses of their own."

However, one of the biggest challenges that family offices face in India is getting the trust of the families. "In many cases, it has taken us six months and 15 meetings to make a family do business with us," said Balamurugan of Metis.

Shah of Evergreen has also advised clients to invest in PE. He, however, cautions that these are early days, and returns from these PE investments will play an important role in determining the future of this budding partnership.

