

Specialist i-banks face tough times as VC, PE deals dry up

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Bangalore: If 2008 showed how a sluggish market could impact the deal-making business, this year looks even more bleak for specialist investment bankers who help put together venture capital (VC) and private equity (PE) deals as also help sow up services and products for emerging companies.

Such specialist or boutique investment banks (i-banks) account for 25-30% of the investment banking business in the country, which saw fees from the activity fall 36.4% to \$757.7 million, or around Rs3,682 crore, in 2008 from \$1.2 billion in 2007, as share sales and debt offerings fell, according to data from *Thomson Reuters*. The year gone by saw robust deal-making activity in the first six-eight months, before the global financial crisis set in September with the mid-month collapse of Wall Street icon Lehman Brothers Holdings Inc.

The total value of deals— mergers and acquisitions (M&As) as also PE—in 2008 (until 15 December) dropped 41% to \$41.13 billion, compared with \$70.14 billion in 2007, according to preliminary data from Grant Thornton. The number of deals dipped by 25% to 751 in 2008 from 1,000 in the previous year.

“We are realizing that it will not be all rosy in 2009 as the number of deals will be less overall,” says K. Ramakrishnan, executive director and head of investment banking at Spark Capital Advisors (I) Pvt. Ltd.

Investment bankers such as Ramakrishnan are an important link matching companies seeking funds and VC or PE firms vying for investment opportunities. Experts say up to 40% of investment opportunities are helped by such intermediaries, who make money by charging 2-3% of the capital raised.

“Overall there will be a drop of 15% in PE and M&A deals, while values will fall by 30% to 40%. (Both ways) it will impact us,” says Ranu Vohra, managing director and CEO, Aventus Advisors Pvt. Ltd.

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Still, some in industry believe a shake-out in the market will help them in the longer term. “Men will be separated from boys,” says Spark’s Ramakrishnan, adding that classical banking will come into the forefront, which will not be deal driven. Only people with aptitude to “create deals” by providing advisory services will survive, he predicts, with long-term associations and deal history playing key roles.

With deal makers scrambling for a handful of deals, their ability to spot a deal, see value in it for both promoters and investors and help them in achieving it, will become decisive in their survival.

“Last year, a lot of investment bankers came up, few will be active in 2009, as the correction was too sharp and caught every one unaware,” says T.R. Srinivas, director, real estate and energy, Ozone Capital Advisors Pvt. Ltd.

Such investment bankers are waiting for the March-quarter results, which will allow them to calibrate expectations for the second half of 2009, given that deals are taking as many as six months to close, compared with two-three months earlier, they say.

M&A activities will be more prominent this year as a number of companies that diversified into unrelated areas may look at opportunities to get out of them, they say. Mergers could also get triggered by necessity as a few companies may look at the option of liquidating assets to generate working capital.

“Last year, our revenues from PE/M&A were in the ratio of 50:50. This year we expect the ratio to change to 30/25:70/75, as PE deals will be less than M&A,” says Ozone Capital’s Srinivas. Experts say valuations are attractive among information technology service firms (as it will continue to grow at 20%) and quite a few mid-sized US companies are interested in acquiring Indian firms.

Significant M&A activity will also take place in real estate and infrastructure sectors as new firms try to take over projects from cash-strapped incumbents. Clean technology, education (school chains), engineering services, niche manufacturing firms, pharma, retail and health care, will generate interest, too, investment banking executives said.

Also, a lot of Indian firms will acquire overseas entities, particularly in Europe. “Through such acquisitions, Indian firms not only get a geographical reach, but also equity and a brand name. We are now getting four-five such deals every day,” says Srinivas. His firm is currently advising an Indian power company on acquiring a manufacturing firm in Europe, he said, declining to give details.

Most of the boutique investment banking firms are readying for a tough year. “We are budgeting ourselves for hard times. We are trying to hold on to cash and are preparing ourselves for the next two years,” says Srikanth Narasimhan, director, Veda Corporate Advisors Pvt. Ltd.

There are others who will start providing new services to cater to capital needs. Avendus Advisors, which had 26 deals last year, says it will look at alternate areas and products to grow this year. “In 2009, we will look at providing advisory on debt and products like alternate capital through structured debt, convertibles, etc.,” says Vohra.

Viedea Capital Advisors Pvt. Ltd, a Bangalore specialist investment bank, which facilitates VC deals, will move to larger deals now, including late stage deals, according to Deepak Srinath, director and co-founder.