

## Our investment philosophy

We use this space to communicate with potential sellers and their representatives, what we look for in a potential acquisition. If you the reader have no personal connection with a business that might be of interest to us but have a friend who does, perhaps you could pass this message on to him.

Here's the sort of business we are looking for:

1. Enterprise value in the region of Rs.100 crores (Rs.1 billion),
2. Demonstrated consistent earning power (future projections are of little interest to us, nor are "turnaround" situations),
3. Businesses earning good returns on equity while employing little or no debt,
4. Management in place (we can't supply it),
5. Simple businesses (if there's lots of technology, we won't understand it),
6. An offering price (we don't want to waste our time or that of the seller by talking, even preliminarily, about a transaction when price is unknown).

Normally, we will not engage in unfriendly takeovers. We can promise complete confidentiality and a very fast answer as to whether we have any interest. We prefer to buy for cash, but will consider issuing stock when we receive as much in intrinsic business value as we give.

We believe we would be an ideal partner in certain situations. One, your company is listed and has a small market capitalisation (say Rs.200 crores or less). Due to the nature of capital markets, chances are that the valuation being given by market participants to your company would be below what the business is truly worth. Such inappropriate valuations lead to the unpleasant choice of either diluting your stake at a poor valuation or not getting fresh capital to grow the business. In this scenario, the whole purpose of being listed, namely the ability to raise money, gets defeated. To such entrepreneurs, we offer an alternative, at a fair valuation.

There is a second situation, where thinking about us could be worthwhile. If you, the senior management of a company, are considering a management buyout of a business. Typically, such managers think of private equity as a source of funding the buyout. If you are a management team that is looking for money without encumbrances, we offer an alternative. As mentioned above, we do not look to offer lessons in managing businesses. We also do not care much about quarterly (or even annual) numbers as long as we feel comfortable about the direction in which the business is moving and the decisions to move it in that direction are being taken intelligently. Finally, we would not be looking to take the company public within the next few years, to gain an exit for ourselves. As long as the economics of the business do not dramatically change, we would be quite happy holding on to the business over the long haul.

In both the above cases, we would prefer that there be no disruption at all in the way the business was being run prior to the change in ownership. And in both these situations, we would be happy to invest more capital, should the business need it, provided we believe that capital would earn a healthy rate of return. In short, we tend to think of ourselves as long-term owners of worthwhile businesses, which are run by intelligent and honest people. Importantly, we believe that an organisation culture takes a lot of patience and energy to build and it would be counter-productive if we try to impose our own culture on the investee company. We thus tend not to change anything, or for that matter anyone, after making the investment.

Our favourite form of purchase is one where the company's owner-managers generate significant amounts of cash, sometimes for themselves, but often for their families or inactive shareholders. At the same time, these managers wish to remain significant owners who continue to run their companies just as they have in the past. We think we offer a particularly good fit for owners with such objectives. We invite potential sellers to check us out by contacting people with whom we have done business in the past.

Over the next couple of pages we present some thoughts that are specifically intended for people who might be considering selling their family business.