

South Asia bound

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Private equity investors in the Gulf are sitting on billions of uninvested capital. A growing portion is earmarked for India and Pakistan. Toby Lewis reports.

The growth of Middle Eastern private equity has been impressive. Strong fundraising has led to a substantial investment boom across the Middle East and North African region. But it has also encouraged firms to look for investment targets beyond MENA. Often their expansion plans evolve around South Asia.

According to a report published in July by the Gulf Venture Capital Association in Bahrain and accountants KPMG, private equity firms based in the Gulf raised \$9.8 billion in 2006, close to twice the 2005 total of \$5.7 billion in 2005. The geographical epicenter of this fundraising boom has been the United Arab Emirates: from 1998 to 2005, not including last year's takings, firms based in the country have garnered over \$5 billion of private equity capital, corresponding to 78 percent of total funds raised during those years.

As private equity fund formation generally has accelerated, individual funds have naturally grown in size. Dubai-based **Abraaj Capital**, one of the largest and most active indigenous firms in the UAE, exemplifies this trend. It is currently raising a \$2 billion infrastructure and growth capital fund in conjunction with **Deutsche Bank** and **Ithmaar Bank**, a target that is four times in excess of the firm's second \$500 million buyout fund raised in 2005 which itself was an increase of four times on the \$116 million raised for the first fund in 2003.

With liquidity still abundant among Middle Eastern institutions and oil-rich individuals, \$2 billion seems a feasible target. Frederic Sicre, an executive director at **Abraaj**, says of the infrastructure fund: "We are on course for a second close of \$1 billion by the end of September. Looking at soft commitments, we will reach the final close of \$2 billion by the end of the year."

With equity commitments pouring in and MENA economies becoming more familiar with

private equity-style funding techniques, deployment of capital is also on the rise. Naturally, local firms are first and foremost looking for investment opportunities close to home, with MENA's largest markets also proving the most fruitful.

According to the GVCA/KPMG report, deals sponsored by MENA firms in 2006 and 2007 have been skewed towards Egypt: over 60 percent of the capital invested during the period went into the country, which has a population close to 80 million. An **Abraaj** led \$1.4 billion buyout of the **Egyptian Fertilizers Company** earlier this year made a disproportional contribution to recent Egyptian deal flow, but the country is nevertheless widely and frequently cited as one of the region's most potent markets for private equity.

Beyond Egypt, regional dealmakers have also been active in the United Arab Emirates and Saudi Arabia, which accounted for 15.3 percent and 10.3 percent of capital invested, respectively.

Close ties

However, whether MENA can satisfy the local funds' hunger for assets all by itself has been a moot point for some time: a wall of money has been raised, and many observers share a concern that it will be difficult to deploy all the funds raised and to consistently generate strong returns solely in the region. Unsurprisingly given this question mark, many regional fund managers are not just waiting for the answer to become clear: instead, they are looking for investment opportunities further afield.

The most popular destination for MENA private equity capital is South Asia, specifically India and Pakistan. Sicre at **Abraaj**, whose firm like a number of its peers includes South Asia in the moniker "MENASA" to describe its geographic focus, disputes the wall of money analysis but believes it is crucial for regional sponsors to open up new markets, for instance by way of helping Middle Eastern portfolio companies to expand.

He says: "Let's say we buy a business in Jordan or the UAE; one of the ways you grow it is by entering a new market such as India or Pakistan."

There are several reasons why the subcontinent looms large in Middle Eastern firms' investment strategies. One obvious one is the short distance between the two regions: the sub-continent is only a short plane ride from MENA's airports.

Investment professionals are also conscious of cultural similarities between the Middle East and the sub-continent. "The two regions are interlinked by centuries of cultural affinities and trade, illustrated by the little known fact that in Kuwait, the Indian Rupee was legal tender up until 40 years ago," says Sicre.

Zulfi Hydari, a managing director at **HBG Holdings**, a Dubai-based investment holding company, concurs: "The region has been intertwined since the days of the [British] Empire. It is only in the last 40 to 50 years that this link has lessened with the discovery of oil in the Middle East. Yet culturally and geographically the region is interconnected."

Politically too, close ties exist to this day.

Yahya Jalil, head of private equity at **The National Investor**, a privately owned investment group in Abu Dhabi, notes: "Historically, the ruling family of the UAE has been large investors in Pakistan, which allows access to the right people in government.

With privatisation one of the largest sources of deal flow in Pakistan, we view this as an advantage [for UAE-based investment groups]."

Unsurprisingly, numerous Middle East firms have positioned themselves to grab opportunities across the Arabian Sea. In addition to working with their Middle Eastern investee companies to enter India and Pakistan, they are also looking to invest in business on the ground.

A by no means comprehensive selection of relevant firms includes:

Abraaj Capital, an early proponent of the strategy, having consistently targeted MENASA for a number of years. In addition to its regionally focused buyout, infrastructure and real estate vehicles, the firm is currently raising two country-specific funds as well: a \$300 million fund dedicated to India in partnership with Sabre Capital Worldwide Group in Mumbai, and another \$300 million pool for Pakistan, managed jointly with BMA Capital in Pakistan. On the real estate side, **Abraaj** is involved in constructing the Karachi Financial Towers, which will stand as the tallest building in Pakistan;

Dubai International Capital, which according to its head of regional investment Rabih Khoury, includes India and Pakistan in its definition of MENA;

HBG in Dubai, which is coming up to a final close for a \$200 million pan-regional fund that will focus on the Middle East and South Asia. Hydari says intense competition among Middle Eastern firms in North Africa is one of the reasons why **HBG** has dedicated resources to investing in Pakistan and India;

Global Investment House, a publicly listed investment group in Kuwait City, which has a host of offices across MENA.

GIH is marketing two investments funds whose remit includes South Asia: an opportunistic pre-IPO fund targeting \$1 billion in commitments, as well as a global buyout fund targeting with a \$1.5 billion target;

Bahrain-based **Arcapita**, which has put together an investment team to cover India; **The National Investor**, which is in the process of raising three mid-market funds with capacity to invest in the region. It is expected to close the first of these, a \$150 million growth capital fund, in December.

A role for private equity

India was of course a competitive private equity market even before any sponsors from the Middle East began to trawl the country for investment opportunities.

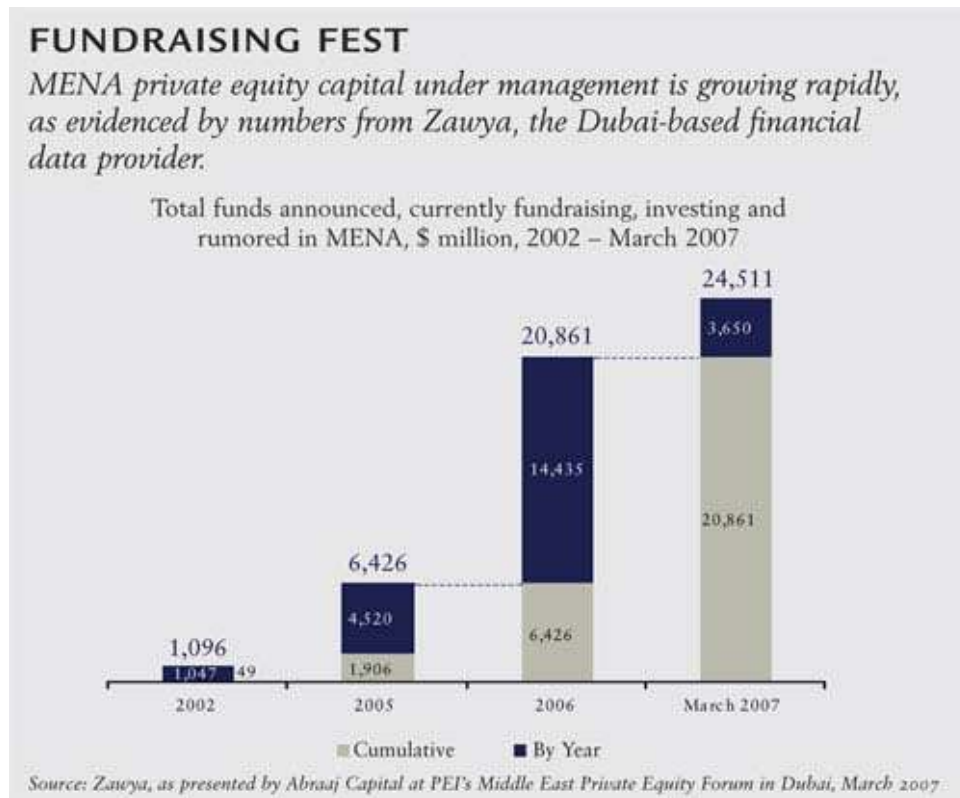
Nevertheless, the country's sheer size, strong economic growth, rising consumer spending and barriers to entry such as excessive bureaucracy and red tape mean India is still attractive to sponsors who can use access to facilitate transactions.

Pakistan, on the other hand, is a much less developed market place, but that in itself is one of the reasons why expansion minded private equity funds are taking the country seriously. Says Sicre: "Private equity is a nascent industry in Pakistan, yet from this comes opportunity.

Not many people realise it is the second fastest growing economy after China."

Many limited partners participating in emerging markets private equity still view Pakistan as an acquired taste, especially given the political uncertainties.

However, for those with an appetite for the country's particular type of private equity risk, now may be a good time to build exposure. Fund managers based in the Gulf and looking east will be very happy to help.



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Notes to Editors:

HBG Holdings (HBG) is a leading investment firm specializing in private equity and real estate investments in the Middle East, North Africa and South Asia. The shareholder base of the firm includes the region's leading private and institutional investors.

The firm pursues investment strategy focused on acquiring controlling interests in companies that provide significant opportunity for operational enhancement, financial restructuring and regional expansion. Its value creation model is unique in that it requires significant post acquisition operational involvement from the firm's management.

The firm has specialist expertise in a range of fields including consumer goods, finance, logistics, petrochemicals, energy and real estate and boasts a team with significant investment and private equity experience in the region.