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Elephant Capital Looking For Control Deals; Discloses NIIT Investment

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Elephant Capital, an India-focused private equity fund, is now looking to make investments that will give it a majority or controlling stake in a company including more deals in privately held firms. This would mark a shift in investment strategy as till now Elephant (formerly Promethean) had been largely picking small stakes in listed Indian companies through secondary market transactions.

In its interim results the AIM listed fund said that picking large equity stakes had become difficult when the bull market was in action: "This was because the valuations of small and mid cap businesses had accelerated, putting them out of reach for a small fund like Elephant, whilst entrepreneurs, confident of the continuing strength of the bull market, were unwilling to cede control." Now it feels the changed circumstances will offer more control opportunities.

VALUE OF HOLDINGS

The strategy to look more closely at privately held firms could be due to the fact that it is sitting on unrealised gains of 58% plus on its sole investment in an unlisted company- Obopay. Although it is also in the positive territory in one of its PIPE transactions- EIH where it is sitting on gains of around 31%, as per VCCircle calculations given the closing price of the scrip on June 17, it is still underwater in the remaining three investments in the listed space. (See table)

INVESTMENT IN NIIT LTD

Elephant Capital also disclosed the name of its latest investment—education services firm NIIT Ltd, which was first reported by VCCircle. Elephant Capital has announced that it made a follow on investment in NIIT Ltd (previously known as Project Einstein). In March 2008, Elephant Capital Plc invested approximately £ 1.3 million for 1 million shares in NIIT through market purchases. In October and November 2008, the Company invested a further £ 0.6 million by purchasing 1.6 million shares in the secondary market, bringing its aggregate position to 2.6 million shares.

This works out to around 1.5% stake in IT education firm NIIT Ltd for around Rs 15.5 crore, the fifth investment in India for the AIM-listed India focused private equity firm.

Elephant Capital added that while they are encouraged by the stock's recent performance, which has more than doubled from its earlier lows, it regrets not taking the opportunity to increase its position at weaker levels, but was reluctant to do so until the strategy with respect to this investment had been settled.

NO NEW INVESTMENT BETWEEN MARCH-MAY

Elephant Capital also expressed disappointment that no new investments were made in this period, but this does not reflect inactivity. It appraised approximately 70 investment opportunities over the period, of which around 10% were reviewed extensively: "However, we strongly believe that the current point in the cycle calls for discipline, not undue risk taking, and therefore felt obliged to turn down opportunities where we were not satisfied on the basis of due diligence, corporate governance or valuation. As a result of its disciplined approach to making investments, the company has conserved cash in what has been a volatile market, and is now well positioned to act if market conditions allow. With the credit markets remaining under pressure, cash and liquidity are highly valued, putting pressure on entrepreneurs to compete for investment on the basis of valuation, corporate governance and transparency standards. We

believe that these trends should create opportunities for us to invest our capital to further grow and develop the company's portfolio.”

Formerly known as Promethean India, the fund is managed by a team led by brothers Mohit and Gaurav Burman (part of the Dabur group promoter family). The firm raised £50 million in early 2007 through a public float at the AIM market in London.

In a statement early this year Elephant Capital disclosed that 58% of the fund remains uninvested and was looking at approximately 3-4 transactions by September 2010. The fund was also conducting due diligence on a firm engaged in a high growth consumer industry where ‘the barriers to entry is high’.