

In Conversation with Affirma Capital



Nainesh Jaisingh
*Founding Partner,
Chief Executive
Officer,
Affirma Capital*

Poised for debut fundraising in 2020

2020 will usher the return to a midmarket strategy core to Standard Chartered Private Equity (SCPE) when it made its first investment in 2002, except SCPE is no more, and in its place is Affirma Capital.

Affirma Capital in 2019 spun out of leading emerging markets focused Standard Chartered Bank, going back full circle when it completed a management buyout that some would say was on the cards in the aftermath of the global financial crisis. Former head Karam Butalia exited in 2008 and founded KV Asia Capital in 2010 with Vibhav Panandiker, a former SCPE director. Fast forward to 2019, Nainesh Jaisingh, who has been at SCPE since 2002, will lead the new spinout with \$700 million of dry powder from a management buyout (MBO) financed by Intermediate Capital Group (ICG).

The spinout expects to raise its maiden fund for Southeast Asia, China and India by the second half of 2020. Going forward, Affirma intends to raise separate fund vehicles for emerging Asia, South Korea, and Middle East & Africa, Nainesh Jaisingh, Partner and CEO shares with SVCA in an interview.

From 2002 to MBO

In 2002, SCPE made its debut investment in Natsteel, which had been listed in Singapore. SCPE was part of a consortium led by local hotel tycoon Ong Beng Seng and backed by Temasek Holdings in a hotly contested take-private transaction initiated by the company. This deal laid the foundation for the mid-cap private equity investor headquartered in Singapore to invest first in Asia, then Africa and Middle East, followed by real estate,

infrastructure and other asset classes as the bank attempted to grow its assets under management (AUM). This started to reverse after the global financial crisis.

“Post GFC, most banks globally were getting out of proprietary investing at different stages. Standard Chartered had built the AUM to \$5b billion in 2013, and started to take in third party capital.”

From 2013 to 2015, Standard Chartered was engaged in a series of secondary transactions to reduce the bank’s exposure to its balance sheet, and this was further accelerated in 2016 after CEO Bill Winters took over the bank. The change at the top of the bank sparked the unwinding of the principal finance business, with real estate business being sold to Actis, energy being shut down, and mezzanine being wound down, and finally, the MBO of Affirma Capital, which is sticking to SCPE core strategy from the beginning.

THE MBO

“Taking us out of the bank was a joint decision. And it was a three-party negotiation involving the team, the bank and a third party, which was ICG. The key was to ensure transparency which would then ensure that a fair deal was achieved for all parties.”

The total assets under management was \$3.5 billion, of which \$2.4b was held by LPs, and \$1.1b was held by the bank. ICG bought over Standard Chartered’s share of the assets under management, injected a further \$400 million in fresh capital into the newly formed Affirma Capital, and \$300 million came from other existing funds under management. The team also bought over the asset management business.

The combined \$700m of fresh capital will be deployed across three main geographical areas which SCPE has traditionally invested into: emerging Asia, Middle East & Africa, and South Korea. There are seven partners across Singapore, China, South Korea, India, Africa and the Middle East.

Funding first generation business and premium assets

Affirma is looking to back “first generation businesses, to institutionalise entrepreneurs, and to propel these mid-cap businesses forward.” Nainesh cites Crystal Jade, which has grown into a well-known Cantonese dining brand across the region from Singapore, Hong Kong and South China. “Crystal Jade is a brand you can count on for consistency in the quality and experience.

” The other investment in Singapore is Phoon Huat, a baking supplies business, which Nainesh shares “is very well known across the region. Since we invested, it has gained great momentum with the new stores.”

For India, a market where even established managers face challenges with exits, Affirma has a “simple strategy.” Quality, he explained, is a premium, as there are very few high quality assets in a very crowded market.

“So we back a premium brand, or businesses that have the potential to become quality assets. Here, we have historically ended up paying a premium of probably 20% versus other regions - which we would have more than made up at exits due to the quality premium - giving us a very good track record in India.” The investments in India include Varun Beverages, which the fund has made multiple public exits from, to make 2.3 to 2.4X cash, or mid 20s IRR. In another investment, Sterlite Power, “we doubled our money in three years.”

While structurally, the India story is very strong, what happens in between cycles – political and economic – is what makes planning exits more challenging. In Southeast Asia, there are ten markets, five for private equity, but all not very deep, and each unique in its own way, and therefore you need coverage.

“Until the tech boom, there was no big-ticket deal around. You see even the bigger funds had shut their offices in Southeast Asia. But the time has come for the region, driven in part by technology taking off in disparate economies, and many of the geographies having come of age, like Indonesia and Vietnam. For Singapore, Nainesh expects more take-privates as “mid-sized companies are neglected and undervalued.” Last year, Affirma partnered the CEO of Tat Hong, a crane supplier, to take the Singapore-listed company private.

Beyond Tech

“Tech is clearly disrupting traditional businesses, and VCs and PEs are overlapping a lot.” Particularly in financial services, travel and consumer products, tech is turbo-charging some sectors which we will focus on, for instance we invested in Momo, a fintech business in Vietnam. Nainesh is of the belief that despite the PE/VC overlap, “seasoned PE guys are going to back real businesses more than creating unicorns, and all the hype around unicorns.”

The shakeout in the industry is still happening, which has resulted in a surge in the secondaries market, Nainesh said, confident that the SCPE track record that now resides in Affirma, 100 investments and 55 exits in the last 17 years will stand the firm in good stead.



The Affirma Team