

Agriculture is Gaining Corporate Currency

Traditionally seen as unorganised and fragmented, agri-business has now become a hot sector, finds **Radhika P Nair**

Across the country, the business of growing, harvesting, transporting and packaging food is emerging as a hot entrepreneurial opportunity as the market for processed foods with better quality expands rapidly.

Agri-businesses in areas ranging from farm inputs, logistics and warehousing, processing and marketing dairy and food produce are scaling operations and raising cash from a plethora of risk capital investors keen to get a share of this fast growing pie.

By 2015, the Indian food industry is estimated to grow to \$258 billion, up from the current level of \$181 billion, according to a report by Ernst & Young India and FICCI. While the sector's low productivity and shortages in supply were earlier seen as problems, investors are now sensing an opportunity for high growth.

Earlier this month, Standard Chartered PE (SCPE) announced a \$25-million investment in basmati processing and marketing company Bush Foods. Shortly before that, came the report that World Bank's investment arm, IFC, was planning to invest \$30 million in another basmati rice company, Dunar Foods. Traditionally seen as an unorganised and fragmented segment, agri-business has become a hot sector with a slew of big-ticket private equity investments in the past few months.

"Supply will never catch up with demand. Landmass is limited and there is a limit on what can be done to increase productivity," says Rajesh Srivastava, chairman and managing director, Rabo Equity Advisors, the investment advisor of the



seen a surge in investments in the recent past. In 2009, IAF had made an investment of \$10 million in LT Foods, one of India's largest basmati rice exporters. In 2010, international PE major Blackstone had invested \$63 million in another basmati rice exporter, REI Agro.

Bush Foods, a basmati rice procurement, processing and marketing company, was founded in 1992 in Sonapat in Haryana and has a presence in both the domestic and export markets. They raised funds to expand their manufacturing and processing facility. Recently, the firm also launched a ready-to-eat line of products. "Basmati rice is seeing a significant growth in the domestic and export market," says Rahul Raisurana, managing director of SCPE.

Companies are also expecting more than just funds from investors. "The money is not the only factor: Entrepreneurs expect investors to bring market linkages and information, especially about the international market," says Hemendra Mathur, managing director of SEAF India Investment Advisors, who have set up an agri-focused fund. Bush Foods' chairman and managing director Virkaran Awasty agrees with this assessment.

He says they had a lot of funding options, but went with Standard Chartered because they are a well-known international brand. "Through them, we can access bonafide information about markets across the globe that we would never have got on our own," he adds.

ANCILLARY SECTORS

Ancillary sectors have also seen investments in the past few months. In 2010, Rabo Equity Advisors invested \$11 million in Vacmet India, a company that manufactures

packaging materials for the food sector. In March this year, a warehousing management company, Sonhanal Commodities (SLCM), raised ₹35.5 crore in its second round of funding from Mayfield India and Nexus Venture Partners.

In May 2010, they had raised ₹10 crore from Nexus. Sandeep Sab-

governance processes and enhanced brand valuation," says Sabharwal. "The second round of funding was a validation. It showed the first round was not a fluke and that this company is good."

FARM PRODUCE

While investments have mostly been in processing, marketing and ancillary sectors, companies focusing on farm production have also received investments.

Bottom-of-the-pyramid equity fund, Aavishkaar, which has always focused on the agri-business sector, made an investment in InI Farms earlier this year. The start-up, established by Pankaj Khandelwal and Purnima Khandelwal in September 2009, claims to be a farm-to-fork company and is concentrating on pomegranate cultivation. InI is setting up farms under the contract farming, leased and owned models. Since receiving the funding, they have been reaching out to farmers, mostly in Maharashtra and Madhya Pradesh.

The start-up has set up 100 acres of farms in Maharashtra (under all three models) and will acquire an additional 1400 acres by July. "There is scope for improvements in productivity and quality in the agri-sector. We felt we can add value at the farm-end of the agri value chain," says Pankaj Khandelwal.

DAIRY INDUSTRY

The dairy sector is another area that has plenty of opportunities for increasing yields and also for improvements in supply chain. Not surprisingly, there have been quite a few investments in this segment as well. Carlyle made an investment of \$22 million in Andhra Pradesh based Tirumala Milk Products in 2010 and in 2008 Moti-

lal Oswal had taken a stake in Prag Milk Foods for ₹60 crore.

In January this year, Aavishkaar had invested in an Orissa-based start-up, Milk Mantra. The company will focus on retailing of fresh milk and fresh milk products, lassi, yoghurt, and hopes to start distribution in Bhubaneswar with this calendar year. "With the right management and by implementing best practices it is possible to improve productivity in dairy and get good returns," says Srikun Misra, founder, Milk Mantra.

NEW AGRIFUNDS

Apart from the rise in investor interest, new sector-focused agri funds are also being launched. Three agri-related funds were launched in 2010. In September 2010, Small Enterprise Assistance Funds (SEAF) set up the SEAF India Agribusiness International Fund with a target corpus of \$75 million.

The same month saw the launch of Godrej Group-backed Omniv Capital with a focus on start-ups in the agri-tech space and a target fund size of \$50 million. I-Farm was launched in December 2010. Sanjeev Asthana, former president of Reliance Retail. With a target fund size of \$100 million, I-Farm is also looking at investments in all the sub-sectors of agri-business and food sector.

Experts expect investor sentiment to improve further, with the recent announcement of 100% FDI in many areas of agri-business. SEAF's Mathur says there will be higher interest from international companies who have hitherto been unable to enter the lucrative Indian market. "It is a challenge for



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HEMENDRA MATHUR

MD, SEAF India Investment Advisors

\$120-million India Agribusiness Fund (IAF). Srivastava says companies in all the sub-sectors of agri-business will witness tremendous growth.

"There will be a rise in values of companies that have a good and sound supply chain in the agri space," says Pinakiranjan Mishra, partner & national leader (retail & consumer products), E&Y India.

BRANDED PRODUCTS

Firms in the branded commodities segment, like basmati rice, have



The first round of funding proved that agriculture is not a dirty word for investors. The second round showed that the first was not a fluke

SANDEEP SABHARWAL

CEO, Sonhanal Commodities

harwal, CEO of SLCM, says warehouses were reporting storage losses of over 8% annually. "We realised that with the introduction of processes and procedures, we could bring this down to less than 1%," he adds.

The company, which was established in 1993, is today present in over 85 locations across the country and plans to expand this number to 500 in the next two years. "The funding proved that agriculture is not a dirty word for investors. The first round brought in



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PANKAJ KHADELWAL

Co-founder, InI Farms

international companies to start from scratch in a market like India," says Mathur. "They will prefer an Indian partner."

I-Farms' Sanjeev Asthana says expects international companies buying out Indian ventures as well. PE Funds have realised the agri business space offers all the right ingredients: investable companies, scope for growth and, with international companies waiting the wings, good exit options well.

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BBN's Strategic Investor Quest Falters Again

DEEPTHA RAJKUMAR
MUMBAI

Differences over valuations threaten to jeopardise renewed attempts by Mumbai-based BBN Group to induct a strategic investor, two people familiar with the development said. The group operates a country-wide chain of fine-dining restaurants under multiple brands.

The company, promoted by Pradeep Nichani and in which billionaire investor Rakesh Jhunjhunwala controls about 20%, was in talks with Bangalore-based Opus Hotels for a strategic stake sale of 55%, with the deal size estimated at about ₹200 crore. But differences over valuation proved to be a spoiler in the discussions, they said declining to be identified as they are privy to the talks.

The group operates 35 outlets in five cities under 23 brands, the flagships being Angeethi, Aromas of China, Red Bamboo Shoots, Bombay Post, Café Masala, Firangi Paani, and Indi Joe.

A banker tracking the company said due diligence by some bid-

ders raised concerns over its highly leveraged status and internal governance issues that are yet to be addressed. "Valuations in general are high in India what with the equities market having risen by almost 10% in the recent past. But, valuation is not the only factor that makes or breaks a deal," said a person familiar with the discussions, who declined to be identified.

Prakash Shetty, CMD, Opus Hotels, could not be reached for comments, while there was no response to an email to the BBN Group till late on Thursday.

This is not the first attempt by the firm to rope in either a strategic or even private equity investment partner. Earlier, consulting firm Deloitte had a mandate from the group for six months to finalise a transaction. There were reports that the New York-based India Equity Partners, or IEP, was in talks to acquire a controlling stake in the group. The deal could not be finalised due to several reasons — the primary one being valuation.

Gaurav Mathur, MD, IEP, India,

Company	Investor	Amount (\$m)	Date
Bush Foods	StanChart PE	24	Apr-11
Innovative	India Equity Partners	17	Feb-11
Sohan Lal Comm	Mayfield Nexus Ventures	1	Mar-11

SOURCE: VENTURE INTELLIGENCE

declined to comment on BBN.

The company has since then mandated o3Capital Advisors, a Mumbai-based investment firm, to find a buyer, with Fortune Financial Services handling the assignment from the potential buyer's side. Officials at both these companies were unavailable for comment.

Private equity investors have on their radar food processing companies, given the potential in an economy where close to half the population is below 25 years of age. The size of the Indian food industry, estimated at \$200 billion in 2006-07, is projected to top \$300 billion by 2015.

"There is a lot of interest in the

food and food service segment," said the director of a boutique investment bank, which has advised companies in this sector.

Companies in the BBN's business segment include Pan India Food (Copper Chimney, Spaghetti Kitchen, Penne, Bombay Blue, Cream Centre, Gelato, Noodle Bar), Speciality Restaurants (Mainland China, Sigree, Oh! Calcutta, Machan and Flame & Grill), Mars Hotels & Restaurants (Tendulkar's, Not Just Jazz By the Bay, Pizzeria), and Oriental Cuisine (Benjarong, China Town, Copper Chimney, Cream Centre, Ente Keralam, French Loaf, Kailash Parbat, Kokum and Maple Leaf Chocolate Lounge.)