

Private Equity Takes a Gulp

Businesses related to water may lack the glamour of sunrise sectors like education and healthcare, but it has attracted over ₹500 crore in private equity in the past year. The trickle will turn into a flood, says Ahona Ghosh



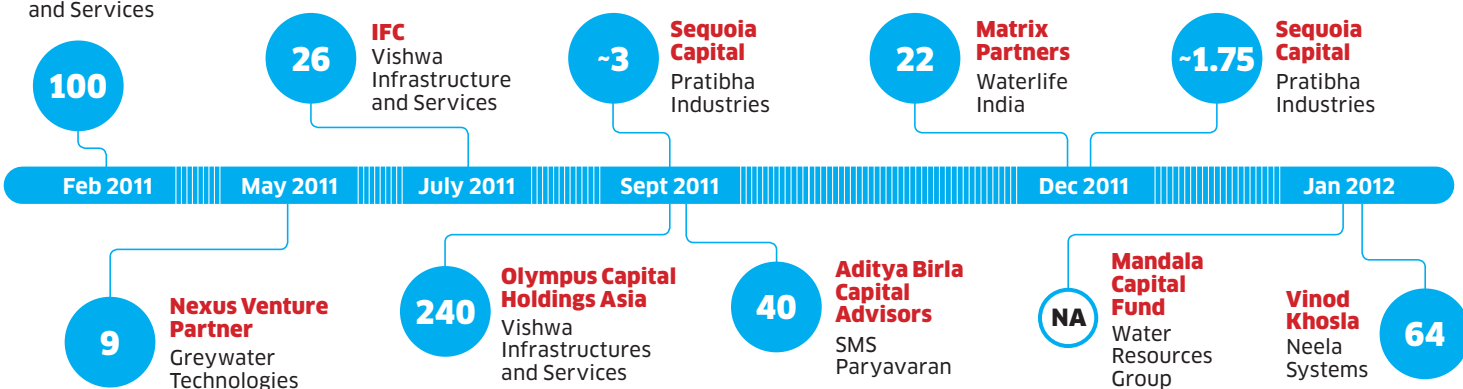
Emerging policy changes, rooted in state ineptness, are encouraging PE firms to take large sips of various water businesses

SI SHANTH KUMAR

• PE Investor
New Enterprise Associates

• Company
Vishwa Infrastructures and Services

TOTAL 505.75 (Figures in ₹crore)



SOURCE: COMPANIES AND VENTURE INTELLIGENCE DATA

The inability of the state to deliver on basic services has nurtured many a business: inverters and bottled water, to name just two. A third one is beginning to flourish: water purification and waste-water treatment. As the state increasingly relinquishes these functions to the private sector, and even discusses the idea of privatising water supply, companies in this business are seeing a likely suitor: private equity (PE).

In the past year, PE investors have invested ₹506 crore in seven Indian companies that are either in the business of purifying water for drinking or of treating waste-water for reuse (See graphic). Of this, ₹370 crore has trickled in the past five months alone into companies like Waterlife.

Started in 2009, Waterlife seeks to provide "access to safe water with a focus on underserved areas". Towards this end, the Secunderabad-based company works with state governments at the district level to set up community water-filtration plants for villages, as well as for urban slums.

Each plant filters 24,000-100,000 litres a day. They treat raw water to eliminate contaminants like fluoride, arsenic, nitrates, chloride and heavy metals.

Waterlife charges users ₹3-5 per 20 litres of water; for most, this is the price they have to pay for the ineptitude of the state. At present, Waterlife reaches 1.2 million in 1,700 villages. "In the next three years, we will cover 20-30 million people and the scale up will be very fast," says Sudesh Menon, the company's managing director.

A scale up like this made PE firm Matrix Partners invest ₹22 crore in Waterlife. "Large funding and spending in this sector has not yet happened, but it will due to the policy push," says Avnish Bajaj, managing director of Matrix Partners India.

Policy Push

Water is scarce in India. And it is projected to become scarcer, with increasing urbanisation and industrialization. At Water 2010,

organised by the Confederation of Indian Industry (CII), water availability per person is projected to fall to 1,140 cubic metres, from 5,177 in 1951 and 1,829 in 2001. This is dangerously close to the water stress line of 1,000 cubic metres.

The new National Water Policy will direct how India tackles this problem. According to media reports, the draft, which was recently circulated to experts for their views, suggests the government withdraw from its role as a service provider in the water sector, and pass on that function to communities and the private sector. "This is not anti-poor, but pro-rich, in that it will cater to those who can pay," says Dr Tushar Shah, director, International Water Management Institute, Anand, Gujarat.

However, Shah adds since government bodies are not up to the task, alternatives need to be explored. "There is room for a range of institutional arrangements," he says. "We should not be averse to having the private sector. Or to try out some cross-subsidy arrangements with them."

The policy reportedly also proposes to give subsidies and incentives to private players to conserve water, and to recycle and treat wastewater. Already, for example, the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) provides funding support to projects in the cleantech space. Such changes are drawing the private sector -- and, on their heels, PE firms -- to the water sector.

According to Ernst & Young, the water and waste management sector is growing at 15-20% annually. "India needs at least \$1 billion investment from the private sector every year to add to government spending to meet supply and demand of water," says Rajesh Sinha, principal investment officer, International Finance Corporation.

The biggest recipient of PE investments from the sector in the past year is Vishwa Infrastructures. Three investors -- IFC, New Enterprise Associates and Olympus Capital Holdings -- have infused ₹366 crore into it, in three individual lots. According to Sinha, IFC is keen to invest around \$100 million per annum, via both equity and debt, in waste-water treatment. He adds the institution is looking at two more transactions in the coming months, of between \$20 million and \$30 million. "There are funds to invest in this space, but not too many scalable projects," says Sinha of IFC, which invested ₹26 crore in Vishwa in July 2011.

Besides undertaking government contracts, Vishwa also builds and operates its own integrated water-management systems. Investors like Sinha gravitate towards companies that build their own as-

sets, as opposed to just being pure-play contractors, who dominate this space today.

IFC's investment in Vishwa is for two projects: an integrated water-management system in Khandwa and a sewage-treatment plant in Kolhapur. Vishwa charges users ₹11.50 per cubic meter (1,000 litres) of water in Khandwa. Even as pricing water remains a sensitive issue, Sinha says there is a market for it. "This is the price for good quality water from new supply systems," he says.

Tipping Point

PE investors say the holding period of such businesses is, typically, five to six years. As investments go, these fall somewhere between venture capital and private equity. "Unless a company can scale up seven to 10 times in this time period, it will not be sustainable," says Bajaj of Matrix. Adds Bharat Banka, Chief Executive Officer, Aditya Birla Capital: "We will be unhappy with anything less than 25% ROI (return on investment) in this space."

Aditya Birla Capital Advisor invested ₹40 crore in SMS Paryavaran in September 2011. SMS Paryavaran is a Delhi-based infrastructure company that undertakes projects in water supply and sewage treatment on a contract basis for municipalities and state governments.

"We have raised the money for working capital and to invest in construction equipment," says Sudhir Narayan Modak, director of SMS. SMS plans to build its own water and recycling plant, and shift to a build-own-operate-transfer (BOOT) model, like Vishwa. Margins in this business are 15-20%, says Harshad Bastikar, co-founder of Greywater Technologies, which manufactures 'plug-and-play' waste-water treatment plants for industries.

Greywater set up shop with ₹9 crore from Nexus Venture Partners in October 2010. Since then, it has sold 12 waste-water treatment plants, including to Club Mahindra, L&T and Mahalaxmi Developers. With orders for about 40 new projects, capable of generating ₹10-15 crore in revenues, it is projecting a break-even in its first full year of operations.

Nexus Venture saw an innovative model in Greywater, whose waste-water plant is a single-tank apparatus that can fit into a car garage. "It's 10-20% cheaper than conventional waste-water treatment plants," says Anup Gupta, director at Nexus.

Gupta says Greywater is eyeing complementary acquisitions. The waste-water management business is fragmented, with few large players and many smaller players, and is ripe for mergers and acquisitions going forward. "In a couple of months, we will look to raise funds again to fund an acquisition," says Bastikar. As businesses in this sector grow and innovate, the wheeling and dealing will increase further.



(left to right) Indranil Das, Sudesh Menon and Mohan Ranbaore of Waterlife India see a social business in water