

India growth story gets blank-cheque companies back

TNN | Jun 21, 2017, 04.00 AM IST

BIGGEST INDIA NASDAQ IPO	
<ul style="list-style-type: none"> > The Rajiv Shukla-led Constellation Alpha Cap is an India-focused special purpose acquisition co (SPAC) > SPACS, which are also known as blank-cheque cos, are vehicles used by industry experts or buyout specialists to acquire assets in a specific sector or geography 	 <ul style="list-style-type: none"> > In the previous boom year of 2007, at least 6 India-specific SPACS had raised capital > Now Constellation Alpha has raised \$144m from the biggest Indian Nasdaq IPO ever > It's also the largest emerging market SPAC ever – bigger than Chinese, Russian, Brazilian ones

Mumbai: India-focused special purpose acquisition companies (SPACs), also known as blank-cheque companies that raise capital on foreign bourses for acquisitions here, are resurfacing. The first such SPAC in over a decade, Constellation Alpha Capital raised \$144 million on the Nasdaq, signaling peak US investor interest in the India growth story. Marquee investors BlackRock, DE Shaw and Moore, among others, are said to have participated in the blank-cheque IPO to build an Indian business through acquisitions.

The Florida-based Constellation Alpha, floated by Rajiv Shukla, a former CEO of Pipavav Defence and Engineering, told investors that it would benefit from the economic and investment reforms unleashed by Prime Minister Narendra Modi. SPACs are vehicles used by industry experts or buyout specialists to acquire assets in a specific sector or geography. At least six

India-specific blank-cheque companies had raised capital in the previous boom year of 2007.

The earlier blank-cheque companies were driven by India's demographics. But this time investors are mainly excited about Modi's economic agenda, the regulatory filings of Constellation Alpha showed. It would look at acquisitions in the range of \$250-500 million and chase a good company rather than a sector, though the SPAC had mentioned healthcare and manufacturing as possible sectors when it filed for listing in May this year. Former Pfizer country head Kewal Handa, ex-Tata Sons director Alan Rosling and retired Karnataka chief secretary J Alexander are directors on the board of Constellation Alpha, which has raised capital just ahead of Modi's US visit next week.

"This shows an enhanced interest from SPACs in the Indian market. Global investors are turning to India also because of Modi's 'Make in India' and 'Invest India' campaigns. As long as the structure and nature of foreign investment is unambiguous, this will further raise the visibility of Indian companies among global investors," said Sumit Agarwal, partner, Suvan Partners and former Sebi official.

Former Morgan Stanley and Pfizer dealmaker Shukla and his team pointed out to investors that there were only 12 Indian companies listed in the US compared to 122 Chinese and 26 Brazilian. This provided international investors an effective route to participate in the fastest growing major economy through a dollar-denominated, liquid stock subject to the mandated corporate governance and transparency standards, said the filings.

In 2015, ex-MGM chief Harry Sloan and former co-president of Sony Pictures Entertainment Jeff Sagansky floated a SPAC, Silver Eagle Acquisition, which ended up buying a 38% stake in Videocon d2h for \$273 million and listing it on the Nasdaq. Videocon d2h and DishTV are currently executing a merger deal to create India's largest direct-to-home TV service with 27 million subscribers. Last year, online travel agency Yatra reverse-merged with another US blank-cheque company Terrapin 3 Acquisition. However, these companies were not floated with the explicit intent of acquiring India-specific assets.

SPACs entered the Indian investment scene in 2007, though it was relatively a non-starter. Half a dozen of them had raised about \$500 million to acquire under-valued, mid-sized Indian companies. Trans-India Acquisition, backed by former ICICI Bank chairman N Vaghul, and Atlas Acquisition Holdings, floated by former Sunglass Hut CEO James Hauslein and Gaurav Burman of Dabur family, were the prominent ones. Millennium India Acquisition, India Hospitality, Phoenix India and India Globalization Capital were other blank-cheque companies that raised funds for local buyouts. Many of them wound up, hit by the subprime crisis and the Wall Street crash following the Lehman Brothers collapse.

SPACs have made a comeback with the US capital flow to emerging markets reviving in recent quarters — aided by the bounce-back in commodity prices that help economies like Brazil. Over the last five years, the aggregate dollar volume of the American SPAC market is 70% more than the entire IPO dollar volume of the Indian market. Players like Texas Pacific Group, Apollo Global, Avenue Capital and Wilbur Ross have raised blank-cheque companies, according to Constellation Alpha. The funds raised are held by a trust and drawn down for approved investments. It is dissolved and cash returned to investors if the company is unable to find deals within the prescribed time-frame, which is usually 24 months.