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JM Financial PE's Darius Pandole On Third Fund Update, Exit Plans And More

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Darius Pandole, MD and CEO, JM Financial Private Equity

JM Financial Private Equity, the alternative investment platform of the Nimesh Kampani-founded financial services group, has raised three funds so far to make growth-stage investments in small and mid-sized companies.

The PE firm's third fund, JM Financial India Growth Fund III, marked its final close in 2023 and has invested in seven companies till date. These portfolio companies are Pharmeasy parent API Holdings Ltd, Aarman Solutions Pvt Ltd, BigHaat Agro Pvt Ltd, SilverEdge Technologies Pvt Ltd, bottled water firm Energy Beverages Pvt Ltd, farm equipment maker Balwaan Krishi, and Zoff Foods.

The PE firm intends to make a few more investments from the third fund and is also working to create exit opportunities from its second fund, Darius Pandole, MD and CEO of JM Financial Private Equity, told VCCircle in an interview. Pandole also talked about the firm's exit strategy and the lessons learnt from investing in various sectors. Edited excerpts:

What is the status of the fundraising process for the third fund?

JM Financial India Growth Fund III completed its first closing and the first portfolio investment during FY22, achieving the final closing shortly after. The fund is actively evaluating PE investments in the small- and mid-cap space in India, across sectors such as consumer, financial, manufacturing, and the tech-related sector.

Who are the fund's limited partners? Do you mostly have domestic LPs or do you also have offshore investors?

Fund III has a diverse mix of investors, comprising institutions, family offices and HNIs. The sponsor and fund management team have also committed to the fund. Most of the capital comes from domestic sources.

As per JM Financial's annual report, the fund had sealed five deals as of March 2024, and you announced two deals recently. Is seven the current portfolio size? How many more can we expect from this fund?

As of September 2024, Fund III has a portfolio of seven companies across our target sectors. In addition, we expect to make investments in three to four companies from Fund III.

Did the second fund invest in 10 companies? How is the exit pipeline looking for those portfolio companies?

JM Financial India Fund II was raised in FY19 and is fully invested across 10 companies. It is actively focused on divestments and has completed some partial exits to date. A significant portion of the initial capital has been returned to investors with strong returns. We are working on a few more divestments and expect to finalize them by the end of this financial year.

Many of your deals fall in the mid-stage VC sphere. How do you manage risks associated with a more startup bent with a PE fund?

The JM Financial PE platform is sector-agnostic, with a focus on growth-driven investments in small and mid-market companies. Across the three PE funds, the platform has undertaken approximately 30 investments and 15 exits.

We look for companies that have achieved a basic level of operational maturity with a strong product-market fit, have a clear path to profitability, and are at reasonable entry valuations. This is different from earlier-stage oriented models that carry higher risks owing to unproven business models and revenue uncertainty.

Our risk management framework has several fundamental criteria, starting with conducting thorough due diligence of the underlying business and financials while looking beyond financials to assess operational efficiency, management quality, and scalability. After an investment, we partner management teams to drive operational improvements, control costs, and focus on sustainable growth.

In most cases, we structure deals with downside protections – through convertible instruments and strong shareholder protection rights – to contain downside risks without compromising on the upside potential.

What has been the learning in terms of the sectors of choice? How has that shaped the third fund's strategy?

Our sectoral focus on consumer, financial services, manufacturing and technology remains consistent and this has enabled the investment team to develop expertise and networks in these industries.

For instance, in the consumer sector, the rise of digital channels and changing preferences have created opportunities to back innovative companies with strong brands and scalable business models.

Similarly, in technology-related businesses, increasing digital transformation has provided a fertile ground for growth-stage investments. In manufacturing, the prevailing China-plus-one trend, along with an increased orientation towards globally acceptable quality standards, is resulting in the emergence of quality companies.

We have experienced profitable outcomes by identifying new market segments or newer niches in established markets. Backing quality management teams in their second innings of building a business – thereby combining experience with innovation – results in profitable investments.

What is your team strength? Are you looking to raise the headcount in the next two-three years?

Our investment team consists of over 10 professionals, with significant combined investment experience. This team is backed by a support team handling the critical areas of finance, accounts, compliance, investor relations, etc. We continuously evaluate our team structure and have plans to add members on an as-needed basis to support our growth and investment strategy.

How has the pumped-up stock market affected dealmaking on the SME side?

The strong macroeconomic fundamentals over the last few years, along with the massive increase in domestic investor flows, has resulted in robust public equity markets. As a result, the buoyant stock market and relatively attractive valuations available through IPOs have certainly created more options for SMEs, particularly in terms of capital raising. This dynamic has shifted some of the deal flow as companies are now looking at public markets.

However, PE will remain the preferred funding option for many SMEs given the operational and strategic support provided.