
[Sonoma Management To Raise \\$100M India Technology Buyout Fund \(PRIVATE EQUITY\)](http://www.vccircle.com/500/news/sonoma-management-to-raise-100m-india-technology-buyout-fund)

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Fund managers commit \$7.5 mn as SMP's second fund will look for majority stakes in mid-stage firms.



[Sonoma Management Partners Pvt Ltd](http://www.vccircle.com/500/news/sonoma-management-to-raise-100m-india-technology-buyout-fund) (SMP), a Pune based small-mid cap technology buyout firm, is targeting a corpus of \$100 million for its second fund. SMP's India Buyout Fund II - the vehicle - is currently on the road to raise commitments. SMP is an independent investment manager and is making a significant commitment of \$7.5 million to IBF II.

This is reflective of LPs asking for greater alignment interests between GPs and LPs and pushing for GPs skin in the game.

The first fund from SMP - India Buyout Fund I - had a corpus of \$10 million and has made three investments till now. According to Pravin Jain, Managing Partner of SMP, the first fund is generating an IRR in excess of 55%, with a partial realisation from one of its portfolio companies. All the deals in IBF I were sourced through SMP's proprietary network, Jain added.

Jain has over 19 years of technology experience of which 13 years comprise of entrepreneurial exposure. He sold his previous venture cMango Inc, to Wipro in 2006. Before cMango, Jain co-founded Decide.com in Silicon Valley, California, USA after working in different capacities at Aquas Inc. (Silicon Valley) and EMC Corporation (Boston Area). Apart from Jain, the team comprises of Rahul Gupta, who has served as CEO of IDES (India and USA) and KMG Infotech (India and USA).

The fund is currently a five member team based out of Pune and Delhi.

Investment Strategy

Why a technology buyout fund? Jain said that "technology adoption in India is at an inflection point similar to the US in the 1980s that resulted in significant productivity gains yielding superior returns for U.S. technology buyout funds." He stressed that the productivity gains in India will enable supply to match with consumer demand underlying the GDP growth, hence further necessitating technology adoption. At the same time, businesses are under significant cost pressures in India and greater adoption of technology is critical to enhance employee productivity, leading to higher margins.

There also exists a significant funding gap in the Indian technology buyout space especially in the \$10 million to \$20 million bracket. Jain added that deep operating experience is important to help scale a company to the next level. Many entrepreneurs in India are first time entrepreneurs or first generation promoters with limited operational experience, and lower risk taking ability owing to social factors, family issues and financial resources.

SMP focuses on adding hands-on value through co-management of the business along with the existing promoters.

The sectoral focus of the fund will span from engineering and IT-enabled services to infrastructure related technology products and service providers, to microfinance and rural education technology, to water treatment and management technology and electronics manufacturing services. Jain added that there are a lot of corporates looking to hive off their businesses and focus on core-competency thereby creating an opportunity to partner with them.

Unlike a typical buyout fund, which usually takes over the investee company, SMP will seek to co-manage the business and provide strategic value add. Jain stressed on co-working with the management team. The fund will seek to invest in mid-market companies with a CAGR over 30%, with a high growth potential within the next 3-5 years and a revenue range of about \$12 million to \$30 million.

A significant part of the first fund got invested in RT Outsourcing Services Ltd, a technology support services major, which the PE firm revamped into inTarvo Technologies, now an integrated lifecycle management firm for technology products. SMP invested in multiple tranches between October 2007 to April 2009. The fund brought in the much needed managerial expertise and operational skill sets to scale up rapidly and ride on the next wave fuelled by domestic consumer demand in India, Jain said.

He argued that SMP aligned InTARVO's business plan and senior management to realise the potential of the company in identifying key business verticals and specific business plans, deciding entry into global repair centre and e-waste business, synergistic acquisition and joint ventures, working capital management and fund raising, and establishing key performance indicators and risk management among other areas.

InTARVO claims to have reported compounded annual growth rate of 45% in the three financial years since SMP's entry in 2007. It also attracted another round of funding from other private equity funds, which include New Enterprise Associates (NEA) and IDFC Asset Management. SMP has also exited some portion of its investment in inTarvo to create room for other investors.

Other investments from SMP's first fund are - Tridiagonal Solutions Pvt. Ltd, a process solutions company based out of Pune, where it invested in 2008, and Think Ahead Advisory Services Ltd, an internet publishing and consulting company. SMP's equity infusion into Think Ahead in May 2008 helped the company pay all its loans, become debt free and secure long term contracts from existing customers.