

Helix In Buyout Deal; Picks Majority In Hi-Rel Electronics

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The \$11-million deal will enable the power electronics firm to double capacity and chase M&As.

Private equity firm Helix Investments is backing a management buyout of power electronics player Hi-Rel Electronics Pvt. Ltd. The deal involves acquisition of the stake held by non-operating shareholders along with a fresh equity infusion in an \$11-million transaction. Helix will now hold a majority stake in the Ahmedabad-based firm, with the rest being held by existing management group led by Piyush Shah.



Hi-Rel will use these funds to double its current capacity and explore acquisitions. The company is involved in a niche area of design and manufacture of a range of power electronic systems, with its flagship product a customized UPS for industrial applications. The firm has also expanded into other related areas like drivers and automations, utility support equipment, embedded systems, among others.

Hi-Rel's client list includes a host of players like ONGC, CESC, Hindustan Zinc, Tata Steel, JSW Steel, Reliance Petroleum, state electricity boards, among others.

"Hi-Rel will benefit from the growth of industrial capacity in India. They are one of the top 2 players in their field in the country," said Cyrus Driver, Director, Helix Investments. Driver said that Hi-Rel would be a base of larger power electronics play, with the PE firm ready to put in more capital for acquisitions and expansion.

Hi-Rel clocked revenues of around Rs 100 crore in FY10 with more than 400 employees. The company's target market is growing at 25% per annum and Hi-Rel expects to grow at a quicker pace.

Besides providing its services for greenfield facilities, Hi-Rel also sees a major opportunity in plants going for brownfield expansion, said Piyush Shah, Chairman and Managing Director of the company. He says that many 30-40 year old plants in areas like thermal, steel, cement want to improve their productivity and capacity through debottlenecking and modernization.

And industrial automation would mean requirement of services like UPS, said Shah, an IIT-Mumbai graduate with 25 years of experience in the industry. Hi-Rel is also planning overseas expansion and already tied up with an OEM in US.

Hi-Rel would also look at acquisitions in economies like Europe and US. "The deal would be either for market access for a specific purpose or technical expertise which Hi-Rel can utilise in India," said Shah.

For private equity players looking to tap opportunity in India's power space, ancillary and related services plays could turn out to be interesting bets. While energy utilities firms have attracted \$1.2 billion worth of such PE investments (according to VCCEdge) in Jan-Aug period, these are capital intensive deals.

"We were very excited to invest in an area related to the power industry. We are not that interested in power plants but there will be a growing demand for such equipment as Indian economy grows," said David Danziger, Director at Helix. Danziger is also the co-founder of Culbro LLC, which is one of the sponsors of Helix.

"The nature of the business is not very asset or capital intensive. Their core specialty is R&D and design of customised solutions, therefore the return on capital is very impressive," said Driver. Both Driver and Danziger have joined the board of Hi-Rel.

Helix, which eyes deals between \$5-15 million, is a \$100 million fund sponsored by Culbro LLC, the private equity investment vehicle of the Cullman family of New York and by Bloomingdale Properties.

Buyout Opportunities on The Rise

The deal would be the second such management buyout for Helix Investments in as many years. Last year, the PE firm picked up a large stake in LearningMate Solutions Pvt Ltd, a provider of e-learning education solutions, for \$10 million in a secondary deal.

"Until a couple of years ago, MBOs were very rare. But we have been seeing a lot of such opportunities now," said Driver. He said that Helix has seen five such opportunities in last 12 months as compared to only two in the three years prior to this period.

"Our approach, unlike other funds, is we would never invest unless backing existing management," said Driver, who added that they are open to secondary transactions if they are comfortable with the management. But while it is eagerly eyeing more MBOs, Helix is also looking at growth capital deals, which account for most of India's PE deals.

Also, Danziger adds that Helix is comfortable with holding investment for a long period since they are backed by family offices, who are patient investors without a restricted holding period. "We would rather have a 15% rate of return for 10 years rather than have a 40% rate of return for three years," said Danziger.

The investment in Hi-Rel would be the first investment for Helix in the industrial sector. The PE firm has mainly invested in consumer services area till now but is now actively eyeing deals in real estate ancillaries, consumer goods, among others.

Besides Learningmate, Helix's portfolio includes K12 tutoring chain MT Educare; medical transcription outsourcing firm OSi and Calorie Care, which provides customized, calorie-counted meals.