

Quicker, better and faster

Investment banking: the importance of tailored financial solutions, the role of financial intermediaries and raising capital via special purpose acquisition companies (SPACs)



South Africa's first black stockbroker, Garuda Capital's CEO, Rajen Pillay, is an insightful, knowledgeable and well-informed man. The energetic leader takes us on his exciting journey—from studying chemistry at the University of Cambridge in the United Kingdom to the days when the JSE was an old boys' club, to modern ways of doing business in today's competitive global political and economic climate.

The Verulam-born Pillay, who comes from a pioneering industrialist family, started Garuda Capital after his stockbroking days when he first realised that there was a large gap in the South African investment banking market.

"The big five banks monopolised and dominated the financial scene. Yet, in Europe, the

United States and Asia, there are many boutique companies, which specialise in this field and act as intermediaries between projects and the various funders and financial investors. That is not prevalent in South Africa at all. The issue with this kind of dominance is that it generally offers a standardised product, which is not individually tailored to clients' needs. And that was the main reason for the formation of a boutique company like Garuda Capital.

"The second reason for starting this business is that we operate between various banks, the auditing companies and the legal companies, which means we are able to draw in clients from a whole spectrum of the economy and we are able to tailor-make solutions to assist them. We know where there are 'pools of liquidity'. We understand who would have the cash for investments and surplus funds, we understand their appetite and we match them with our clients—domestically and internationally. Thus, we are quite uniquely positioned. Because we are client-centric, our speed is much better. Our people could be in London, New York or Hong Kong—three financial centres, within five days—enhancing our speed to market on behalf of clients. These are major benefits of boutique operations (compared to large organisations)," says Pillay.

Today, Garuda Capital is a top financial intermediary firm and has been instrumental in developing sustainable projects by providing project development and financial services, market assessments, transaction structuring, country entry strategy, local debt financing and the structuring of local BEE shareholdings.

"We generally focus on capital raise more than R100 million. Our services also include, among others, distress funding, raising of LCs for international trade and securing performance bonds for projects. Garuda Capital has also significantly assisted clients with tax optimisation advice and products (including S12J). We offer clients SARS-approved projects, which can save them up to 45% on their tax bills," he says.

Some of the company's large mandates include work in various sectors: at hospitals, large dam projects and in large construction and mining projects. Taking a closer look at Garuda Capital and its extensive network of international investors, fund managers and investment banks, Pillay says the company's core strength is to deliver solutions for difficult and complex problems.

"A business looking for funding, for instance, would approach the banks. And the different banks will ask that business identical or similar questions. It is virtually guaranteed that if one of the banks declines the transaction, other banks will as well. This is a major problem with financing in South Africa. It is also the major reason why small businesses are not taking off—worsening job creation, reducing consumer spending and depressing economic activity.

"When industrialists are turned down by the banks, they come to us and we look at their documentation. We restructure their documentation, reposition the slant of the presentation and often present it to the same bank, which originally turned them down. And we get it approved.

The banks, generally, are being too standardised and rigid in their approach. Garuda Capital looks at clients individually. We isolate their main problems and match them to the requirements of financial institutions. When we present the revised documentation to the bank, banking officials see a complete set of information; they see the problems and risks which they initially saw, but we also provide them with solutions as to how to mitigate those risks. We are not just financial intermediaries, we are information intermediaries, which is an important but misunderstood role," Pillay explains.

No stranger to raking in international awards (among others, the GOPIO Malaysia International Excellence Award for Finance and the GOPIO US award at Times Square, New York), our humble interviewee's forte and passion flow from doing his Master's Degree in Corporate Finance at the



groups into the mainstream economy. But the government and the corporates are not realising it, essentially, because so little work has been done on it," he says.

According to Pillay, the monopoly by big banks, stringent lending conditions and inadequate security cover or assets from previously marginalised communities, are major reasons why SMMEs struggle. Considering that SMMEs should play such a major role in our economy, he says this is a serious problem, which needs to be addressed.

"We have not come up with the right solution to address this. We have not unlocked the economy for these small companies. Invariably, entrepreneurs might have great ideas but because of the monopolistic nature of our economy—the lack of access to capital—they cannot break through.

"Media reports about corruption have affected the current economic climate and international investor confidence but notwithstanding that, our business is 55-60% international based. Despite several South African scandals, there is still a very significant



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interest in the country. Yes, there is a lot of negativity but, primarily, the investment interest is really coming out of India and China. These economies have a lot of liquidity and in their race for global resources, South Africa, being the most developed economy in Africa, is the first choice," Pillay explains.

Pillay's concerns for the future of the financial industry in South Africa is that there "seems to be a split in terms of ethics and corporate governance". He says there have been large cracks and refers to some of the issues at Eskom, PRASA and a number of other state-owned entities.

"Luckily, our financial sector is really well-regulated. The JSE, for example, was rated in the top three global exchanges for about five years in terms of corporate governance and adherence to rules and regulations. Our financial sector really is very solid and very well run. People do get a lot of comfort from that. Therefore, the global rankings in the financial sector are actually very good.

"As for public and governmental sectors, one cannot say the same—and that is highly unfortunate. It all boils down to effective leadership. The difference between a good leader and a great leader is that a great leader will, after a period of time, reflect on what he/she has done, what has been promised and what has been achieved. Being able to do that kind of introspection makes for a great leader. Unfortunately, we have not seen much of that in recent times, at any level, in South Africa," Pillay concludes. ▲

More about SPACs...

SPACs have been very successful in the United States, the United Kingdom, Europe, Malaysia and Korea for quite a while, but it was only introduced onto the JSE in 2013.

Globally, it has been a very significant source of corporate finance and a very significant source of capital for projects.

The money raised through the initial public offer (IPO) of a SPAC is put into a trust, where it is held until the SPAC identifies a merger or acquisition opportunity to pursue.

The idea of the SPAC is to "back the jockey". This puts resources into the hands of competent management and management teams, rather than investing into "mature assets" with established track records (as is required for a JSE listing).

The individuals who form a SPAC are typically people who are confident that their business reputations or experiences will enable them to identify a profitable acquisition opportunity and complete a transaction that will ultimately result in the formation of a publicly traded company. Source: www.investopedia.com