By Narinder Kapur, Ankit Doshi and Bruhadeeswaran R | October 30, 2020

How former Fairfax exec Harsha Raghavan is shaping Convergent Finance

Many successful investors often talk about time in the markets, instead of timing the markets, to earn high returns on their bets over a long period of time. Harsha Raghavan couldn't agree more.

Raghavan built and led Canadian investment giant Fairfax group's India portfolio for eight years before going solo in 2018. Now, he wants to build his own investment firm in a way that's very different from a typical private equity firm, at least in terms of time.

Raghavan's Convergent Finance LLP follows a sector-agnostic strategy to investment by providing extremely long-term capital spanning not just a few years but a couple of decades and more. In return, it looks to grow the businesses it invests in and generate extremely healthy returns. This is different from traditional PE firms which double or triple their bets but have a predetermined investment horizon.

"When I looked at the funds business as I grew in my early days, the ones with ten-year funds, I always felt there was an irony there, because when you find a really good company, you want to… nurture it," he told VCCircle during an interaction. "You don't want to sell out… There's a perverse adverse selection that happens."

Raghavan said that, after learning how the 10-year funds business works with this buy and sell orientation, working at Fairfax—which takes a long-term view—was refreshing. "And that's how we're building Convergent as well."

He said that Convergent wants to make healthy returns "over 20, 30, 40 years", rather than doubling or tripling its money in three to five years. "In order to do that… we may actually choose to invest further into that good company, support that management further to grow… rather than just looking for a quick exit. That's the philosophy."

This long-term view feeds into Convergent's strategy not only in terms of the amount of time it aims to stay invested in a company but also affects the way it chooses its companies as well as its limited partners, or investors.

Raghavan had floated his maiden fund to raise $500 million (Rs 3,515 crore then) in late 2018, VCCircle first reported in December that year. He didn't disclose the amount of money he has raised or his investors. "We have investors who are aligned with that [long-term] philosophy," he said, adding that a long-standing Fairfax shareholder is Convergent's anchor investor.

How does Convergent select the companies it wants to bet on? One of the key points Raghavan brings up regarding an investment thesis sounds much like a mantra – "Good industry, good company, and good management."

"If you have an experienced and competent team running a good company in an industry with promising long-term prospects, then you are likely to be able to help and nurture that team, and invest further when needed," he says.

So far, this combination of sector agnosticism and the investment mantra has led to quite a few bets for Convergent Finance as it seeks to diversify its portfolio.

Convergent's investments include CSB Bank Ltd, which itself is majority owned by Fairfax India Holdings Corp.

It has also picked up minority stakes in life sciences firm SeQuent Scientific Ltd, Camlin Fine Sciences Ltd, Jyoti International Foods Pvt. Ltd, and Hindustan Foods Ltd, a contract manufacturer for PepsiCo's Kurkure brand of snacks.

As per VCCEdge, the data research arm of Mosaic Digital, all these companies have demonstrated strong financials from a top line and earnings perspective in the past few years, with only the occasional deviation from this norm.

The road to Convergent

Raghavan, having previously worked with the private equity divisions of JP Morgan Chase and Goldman Sachs, wanted to raise $200 million in capital about 12-18 months after the 2008 financial crisis resulting from the collapse of US investment bank Lehman Brothers.

The aim was to invest in high-quality companies and businesses with beaten-down valuations, which is one of the many tenets of value investing. Raghavan credits his success to his mentor, HDFC Ltd chairman Deepak Parekh, who in 2010 introduced him to Prem Watsa, the India-born Canadian billionaire and founder of Fairfax.

At that time, Raghavan was based in the US. Both individuals met in Toronto, Canada, recounts Raghavan, where he presented his fundraising pitch to Watsa during a three-hour-long meeting.

After hearing him out Watsa offered to double the amount he was looking to raise. There was a catch, however. Since Fairfax did not invest directly into other funds, Watsa asked Raghavan to join his organisation, which at the time was looking to grow its India footprint.

The move proved to be a win-win for all. Fairfax went on to initially invest $400 million and then ramped this up to $2 billion that not only generated good returns but also helped Raghavan gain experience and investment track record by spearheading the Canadian giant's India investments.

The decade-long wait turned out better than Raghavan had imagined, he recounts. "It was a super journey," he said.

By the (fundamental) numbers

Despite his technical background, Raghavan and his team of a dozen professionals at Convergent follow a simple selection and investment philosophy that doesn't involve quantitative tools or data analytics or algorithms.

Raghavan said that Convergent looks to focus on cash flows and cash-rich businesses instead of investing in cutting-edge technology startups, something that venture capital firms typically do.

So, what are some of the themes that Raghavan sees as underpinning the investments that Convergent has made – and will make? One is the phenomenon of India moving from a "mom-and-pop economy" to an efficient one where companies across sectors can easily scale themselves.

A second theme is the increasing strength of the country's exports, with sectors such as chemicals and pharmaceuticals picking up pace. "The third theme is strong, well-capitalised and well-managed companies in the sectors they operate," he said.

This, of course, comes back to the mantra. "Good industry, good company, and good management." What about a preference for public or privately held companies? Convergent is indifferent to this, Raghavan said, because the firm – at the end of the day – is a shareholder in the companies it backs.

"In all cases, we are going to maintain the topmost corporate governance standards, work with the management teams to help them build and grow the company." While all its current investments are minority stakes, Raghavan said Convergent is open to striking control deals in the future. "For sure. We'll be delighted to buy a hundred percent of a company if the circumstances are right."