

Adi Sridhar ETA Thesis

Midcap Manufacturing Transformation

Executive Summary

This document presents an entrepreneurial acquisition thesis focused on partnering with established Indian manufacturing businesses to drive operational transformation and value creation. The opportunity is driven by a structural mismatch in the Indian economy: a large base of profitable, long-standing family-owned manufacturing businesses facing succession constraints, limited professional management depth, and untapped efficiency potential, combined with a growing pool of long-term capital seeking operationally-grounded returns.

The strategy targets transformation partnerships with midcap manufacturing enterprises primarily in South India with enterprise values of ₹150–750 crore, where the thesis acquires a minority stake alongside the incumbent promoter who retains majority ownership. The model emphasises partnership-driven value creation through operational excellence, professional management systems, and strategic growth initiatives rather than financial engineering or control-oriented restructuring.

This approach is differentiated by combining deep operational expertise with a collaborative ownership structure that preserves family legacy while unlocking institutional-quality performance. By addressing the drivers of operational underperformance—governance gaps, management depth, digital adoption, and process inefficiency—the strategy seeks to deliver attractive risk-adjusted returns for all stakeholders while supporting India's manufacturing competitiveness.

Promoter Background

Adithya Sridhar is a Chartered Engineer with an MBA from London Business School and more than fifteen years of experience across manufacturing, operational transformation, and strategy execution in both developed and emerging markets. His professional experience spans senior engineering and performance improvement roles within global automotive manufacturing, management consulting engagements, and leadership positions in technology-driven financial and services businesses.

Across these roles, Adi has led end-to-end business transformation initiatives spanning operational, financial, commercial, and organisational domains. His experience includes turning around and managing financial operations in a CFO capacity; driving productivity and cost transformation across large manufacturing and supplier networks; leading digital transformation and system implementations; designing and executing organisational and governance transformations; establishing vendor management frameworks; advising on market expansion and performance marketing strategy; and defining entry strategies for new businesses through corporate development. Acting both as a consultant or as an internal advisor working directly with executive leadership, Adi has consistently delivered execution-led transformation, which is directly aligned to the realities of Indian

manufacturing SMEs where sustained value creation requires integrated leadership across operations, finance, growth, and governance rather than siloed interventions.

Critically, Adi has direct exposure to Indian family-owned manufacturing businesses and their promoters through personal networks and past advisory roles, providing first-hand understanding of succession challenges, owner psychology, governance gaps, and cultural dynamics. Adi's local presence, language fluency, and trusted relationships within Tamil Nadu's industrial clusters create proprietary access to partnership opportunities that are typically inaccessible to external investors.

Investment Thesis

The investment thesis is based on a persistent structural opportunity in Indian midcap manufacturing driven by operational underperformance rather than weak business fundamentals. Profitable, asset-backed, family-owned manufacturing businesses with strong market positions and long operating histories consistently operate at 40-60% below their efficiency potential due to limited professional management, informal governance, low digital adoption, and sub-optimal processes.

This underperformance persists because traditional private equity seeks control and financial engineering, strategic acquirers focus on synergies rather than standalone improvement, and management consultants lack implementation accountability. Meanwhile, promoters are reluctant to cede control to outsiders who do not understand family business dynamics or share their long-term orientation.

Indian manufacturing MSMEs form the industrial backbone of the economy, contributing approximately **30% of GDP** and employing over **280 million people** across more than **60 million registered enterprises**. Within manufacturing, an estimated **80% of businesses are family-owned**, with ownership concentrated in one or two individuals. Critically, **fewer than 21% have formal succession plans**, and **70% of family businesses fail to survive the second-generation transition**. This creates a significant pool of promoters who seek partnership—rather than sale—to professionalise their businesses while preserving family ownership and legacy.

The strategy focuses on transformation partnerships with manufacturing enterprises operating in sectors characterised by durable demand, tangible asset bases, fragmented competition, and clear operational improvement potential. Target sectors include automotive components, precision metal forming, plastics processing, specialty chemicals, technical textiles, and pharmaceutical contract manufacturing—sectors that collectively benefit from domestic consumption growth, infrastructure investment, OEM localisation, and global supply chain diversification.

Comparative Overview of Target Manufacturing Sectors (India)

Sector	Market Size (India)	Growth (CAGR)	Typical EBITDA Margin	Target EV Range	Entry Multiple
Auto Components	USD 80 billion	10–14%	10–14%	₹150–350 Cr	4.5–6.0x EBITDA
Metal Pressings & Forming	USD 40–50 billion	7–10%	8–12%	₹120–300 Cr	4.0–5.5x EBITDA
Plastics & Injection Moulding	USD 45 billion	6–8%	9–14%	₹100–250 Cr	4.5–6.0x EBITDA
Specialty Chemicals	USD 65 billion	9–12%	14–22%	₹150–400 Cr	5.0–7.0x EBITDA
Technical Textiles	USD 29 billion	8–10%	12–18%	₹120–350 Cr	4.5–6.5x EBITDA
Pharma CDMO	USD 16 billion	8–14%	18–34%	₹200–500 Cr	5.5–8.0x EBITDA

** EBITDA margins reflect family-owned enterprises operating below top-quartile performance, indicating 4–8 percentage point improvement potential through operational transformation. Entry multiples are conservative relative to listed comparables.*

Value creation is driven primarily through operational execution rather than financial engineering. By partnering with the incumbent promoter and directly addressing the drivers of underperformance—governance, management depth, data visibility, process efficiency, and digital adoption—the strategy seeks to transition target businesses from owner-dependent enterprises to professionally managed operating companies. This transformation typically results in 50–100% EBITDA growth, 4–6 percentage point margin expansion, improved cash conversion, and a partial valuation re-rating toward institutional benchmarks.

Partnership and Acquisition Strategy

The partnership strategy is designed to align interests between the incumbent promoter, the operational transformation team, and external investors while creating a clear path to value realisation. The structure preserves majority family ownership while introducing professional governance, operational expertise, and growth capital.

The model targets enterprises with **₹25–150 crore EBITDA** and enterprise values of **₹150–750 crore**, acquired at a blended entry valuation of approximately **4.5–6.0x EBITDA**. Geographic focus is deliberately concentrated in Tamil Nadu and broader South India, where dense manufacturing clusters, established family enterprises, and strong promoter networks enable proprietary deal flow. Tamil Nadu alone contributes **12% of India's manufacturing GDP**, leads the nation in factory count and industrial employment, and hosts over **35 lakh registered MSMEs**, with the Medium sector (our target sector) accounting for over **2,000 businesses**.

The partnership is executed through a dedicated special purpose vehicle (SPV) that raises capital from investors, and acquires a minority stake (typically 30%) in the operating company alongside the

incumbent promoter, who retains a 70% majority stake. The operational transformation partner receives a carried interest allocation that vests over the investment horizon based on performance milestones, creating strong alignment with value creation. During the transformation period, 2 Board seats will be allocated, one for Adi and another for a representative of the capital investors, who along with the promoter shall help establish the strategic direction and oversight of the business during the transformation phase.

Illustrative Equity Capitalisation – Ownership Evolution

Stakeholder	Year 0 – At Close	Year 5 – At Exit
Incumbent Promoter	70.0%	70.0%
Capital Investors (rep by Partnership)	27.9%	22.5%
Transformation Partner (Adi)	1.5%	4.5%
Partnership Team Pool	0.6%	3.0%
Total Equity	100%	100%

Capital will be sourced from institutional, HNIs and family office investors, providing diversification of capital sources while maintaining flexibility in deal sizing. Investor capital funds the minority equity stake at entry, with the incumbent promoter retaining operational control and majority ownership throughout the partnership.

Value Creation Strategy

Value creation is driven through a disciplined, execution-led framework focused on two core metrics: sustainable EBITDA improvement and free cash flow (FCF) generation. In under-professionalised manufacturing enterprises, EBITDA and FCF are typically constrained not by demand, but by weak systems, owner dependency, inefficient processes, underdeveloped commercial capability, and sub-optimal working capital management. Indian manufacturing MSMEs operate at only 18% of large-enterprise productivity—compared to 45–70% in OECD countries—indicating substantial improvement potential (*Deloitte India, The MSME Challenge Index, 2025*).

The framework is built around five interdependent levers—Systems, People, Processes, Revenue, and Financials—developed through years of hands-on performance improvement in manufacturing environments:

- **Systems:** Establish integrated digital infrastructure including ERP, CRM, and automated workflows to create a single source of truth across sales, operations, and finance, enabling tighter cost control, faster invoicing, improved inventory management, and better pricing decisions. Only 5% of Indian SMEs have fully utilised digitisation technologies.

- **People:** Build a professional management layer with key hires (COO, CFO, Head of Sales), implement formal governance structures, and develop succession planning to reduce key-person risk and improve execution consistency.
- **Processes:** Drive operational efficiency through Lean manufacturing principles, layout optimisation, waste reduction, and improved capacity utilisation. Case studies demonstrate 6–8 percentage point EBITDA margin improvement through systematic process transformation.
- **Revenue:** Improve revenue quality through customer diversification, structured pricing reviews, professional sales management, and selective adjacent market expansion that leverages existing capabilities.
- **Financials:** Strengthen cash generation by improving the cash conversion cycle, optimising working capital, rationalising fixed costs, and enhancing debt coverage through selective growth capex with high returns.

The interaction of these five levers ensures that EBITDA growth consistently converts into free cash flow. Systems improve visibility, people and processes enforce discipline, revenue initiatives enhance pricing power, and financial optimisation accelerates cash release. Together, these changes transform owner-dependent operations into professionally governed businesses capable of funding growth and returning capital to stakeholders.

Financial Projections

The table below showcases the forecasted improvements based on a simulated ₹200 crore enterprise value transaction with 30% minority stake acquisition:

Illustrative Improvements Forecast

Metric	Year 0	Year 1	Year 3	Year 5 (Exit)	Change
Revenue (₹ Cr)	333	353	397	446	+34%
EBITDA (₹ Cr)	40	49	64	80	+100%
EBITDA Margin	12.0%	13.9%	16.1%	18.0%	+6.0pp
EBITDA Multiple	5.0x	5.5x	6.0x	7.0x	+40%
Enterprise Value (₹ Cr)	200	269.5	384	561	+180%

Over the medium term, by repositioning the business from 'owner-run' to 'professionally governed', we enable scale, improved resilience, and outsized returns. The long-term vision is to establish a replicable MSME transformation blueprint that builds on established private equity value-creation models, while re-engineering them to drive sustained value creation and institutionalisation across India's mid-cap market.

Financial Returns Summary

The investor returns strategy is designed to deliver predictable value creation with downside-protected capital appreciation. Returns are generated through operational improvements that drive EBITDA growth and margin expansion, with exit via promoter buyback funded through a dividend recapitalisation structure.

At Year 5 exit, the incumbent promoter executes a buyback of investor equity funded by debt raised against the improved cash flow profile of the business. This structure allows investors to realise returns without requiring a third-party sale, preserving family ownership and legacy while providing liquidity to the Partnership and its investors.

Illustrative Exit Returns Summary

Exit Multiple	5.0x	6.0x	7.0x	8.0x	9.0x
Exit Valuation (₹ Cr)	401	481	561	642	722
Exit return (30% of Exit Valuation plus cash)	161	185	209	233	258
Investor Return (75% of exit return)	121	139	157	175	193
MOIC	2.0x	2.3x	2.6x	2.9x	3.2x
Gross IRR	15.0%	18.3%	21.2%	23.9%	26.3%
Adi Return (15% of exit return + salary)	29.2	32.8	36.4	40.0	43.7

Overall, the returns strategy is designed to deliver predictable value creation with meaningful downside protection. By combining operational transformation, disciplined partnership structuring, and pre-agreed exit pathways via promoter buyback, the model provides a differentiated risk-return profile relative to traditional private equity, with lower volatility, reduced reliance on market-timed exits, and attractive absolute returns versus public market and fixed-income benchmarks.

Confidential and proprietary. This document is provided for discussion purposes only and does not constitute an offer, solicitation, or recommendation. Financial projections are illustrative and subject to execution risk, market conditions, and regulatory considerations.