

# [A private equity in india and analysis on](https://assignbuster.com/a-private-equity-in-india-and-analysis-on/)

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Ramesh sir whose constant guidance, efforts, heartfelt support, suggestions and consideration helped me in the successful completion of this project. Objective of Study: \* To understand private equity trend in India. \* To understand private equity pattern in different sectors in India. \* To understand the future of private equity in India. Scope of the Study: The study is limited to reasons why India is becoming favourite destination for investment, different sectorial analysis of private equity in India.

The study also tries to analyze trends in Private equity in India, reasons for respective trends and tries to understand how the future trends will be. Limitations of the Study: \* The study is based majorly on secondary data for the purpose of study. \* The study relies on data of only the past four to five years. \* The study only considered the data of major sectors, the data of SMEs is not considered by which we cannot generalize the trend.

Introduction: India has emerged as one of the hot destinations for large global private equity firms in the recent years. Hordes of private equity professionals, venture capitalists and investment bankers are making a beeline to identify lucrative business opportunities in India. Some of the profitable exits announced on the global private equity stage, the arrival of the Indian market as a hot destination with immense potential for private equity funds, and its readiness to embrace the global private equity with open arms. Today, some of the world’s leading private equity firms like Blackstone Group, Carlyle Group and General Atlantic Partners, and Actis Partners are firmly established in India. Some of the Indian firms like ICICI, IDFC and Kotak are also increasing their investments. And many new foreign PE funds like Lightspeed Venture Partners, Providence Equity Partners and Apex Venture Partners are planning to venture into India.

Coming to the global picture global trends show that the private equity (PE) industry was once dominated by North America but recent years have seen global emergence of the industry. US still contributes a two-thirds of the total funds raised globally and it does not seem to be changing in the near future. However, an interesting fact is that the proportion of the investment going back to US is gradually decreasing every year. Till the last few years, almost 60% funds were invested back in US with only 25% going to Europe and remaining landing in Asia Pacific.

But the current trends present a different picture with US and Europe grabbing equal shares of around 40% and the remaining part going to Asia Pacific region. In the Asia- Pacific region, Japan is a clear topper in the use of PE funds because it has utilised PE funds for rescuing banks. India makes it to top five but there is not much of a difference among the four countries following Japan. However, the trend is only upwards and the next few years should see aggressive growth and some interesting developments in the PE fund industry.

Considering the Indian scenario specifically, the PE industry is in a very nascent stage right now, but in the recent past these funds have shown keen interest and raised India-dedicated funds. The average deal size and the average number of deals both have shown a phenomenal increase over the last few years. Private equity and Venture Capital firms crossed historic figures in recent periods. This signals the optimistic attitude of PE funds about India, and what makes the picture more interesting is that many big deals are struck in some quarters which happened to occur in a whole year. Big giants in Industry globally are keen on entering the Indian market that they are ready to invest despite disproportionately high valuations. There are several factors in favour of India due to which such a remarkable growth has been witnessed in the recent years.

India’s attractiveness to private-equity investors is not merely its sizzling economy. Indian companies have the highest return on equity in Asia, which is 21%, compared with 9% for China, numbers that have spurred giants to invest in Indian businesses ranging from pharmaceuticals to tech consulting. India’s combination of 8%-plus growth and a roaring stock market is drawing throngs of US and European venture capitalists and private-equity funds. All kinds of global funds have India on their radar.

In recent times the pace of deal making was furious. Both the number and the size of the deals are growing. It was telecommunications that really ignited interest in India. In 1999, New York- based Warburg pincus made a $300 million bet on regional carrier Bharti Airtel, which has since country’s biggest cellular company.

Over the past few years, Warburg has sold the stake for a total of $1. 6 billion, but it hasn’t lost its appetite for India. Warburg has pumped $1. 4 billion, into companies from hotels and media to jewellery, and India today represents 10% of its global portfolio. In India, as in other fast-growing emerging markets, the distinctions between private equity, venture capital, and other forms of financing are often blurry. If a company resists selling majority control outright, private-equity outfits will often settle for a minority stake, usually between 10% and 30% , in exchange for an infusion of “ growth capital”.

Some investors and venture capitalists typically finance start-ups, are ploughing into more established companies. With so much money flooding in, some fear a bubble, or say it is overheated or some say that it’s crazy the way people are throwing money at deals. One reason investors continue to throw money into India is that it offers a good way to cash out with a profit, its comparatively liquid and transparent stock market. Another selling point is an abundance of family owned companies. Although Indian clans have traditionally been reluctant to give up management control, the younger generation is often prepared to trade away a chunk of the company in exchange for cash and some advice on beefing up sales.

While the traditional route for private equity firms is to buy a controlling stake in struggling, mature corporations and then try to turn them around, in an emerging economy such as India these firms act more like venture capitalists. They look for promising companies in industries ranging from tech to textiles and seek to give them a boost, doing everything from injecting more capital for expansion to holding the hand of management and providing strategic guidance. Developing countries like India offer these Private equity players with opportunities that developed countries don’t. With the right capital and professional management, private equity players in India can invest early, expand companies, and make an impact on entire industry segments.

There is also great deal of money to be made, that’s why big groups recently elevated India to one of their key strategic hubs in Asia. They are hiring several consulting firms and looking at investing in various emerging markets, choosing India as the place to set up in-country office and intend to invest in local companies. India’s chief advantage over countries such as china is that it offers investors better trained managers and more corporate transparency in the private sector. Also boasts the oldest stock market in Asia –the 130 year old Bombay stock Exchange—and the largest number of listed stocks, over 7000. Most important, the courts are a fairly reliable arbiter of investors’ rights.

Investors feel that India is more sophisticated than other Asian markets because of its more developed jurisprudence and relatively sanctity of contracts. There are significant downsides that still give foreigners pause. For all of recent financial and regulatory reforms, India remains mired in bureaucratic red tape and bedevilled by poor infrastructure. Plus, there are limits to foreign ownership in industries such as defence, news media, retail, and some forms of banking. In terms of sector choices the future promises to be diverse.

Quite unlike in 2007 and 2008, when real estate and IT & ITES enjoyed most of the attention, coming years may see a broad-basing of sectors on the PE radar. Investments in sectors such as healthcare, education, consumer goods and infrastructure are expected to dominate, given their relatively strong domestic demand, even as export-oriented businesses face headwinds from recessionary trends in US and Europe. Funds may also be seen betting increasingly on agro-based companies, given the sector’s strong demand undercurrents and counter-cyclical nature. PAST & PRESENT SCENARIOFollowing are the lists of Venture capitalists based on number of investments, value of their investments and total funds raised by them. Number of Investments (in million $): Investor| 2005| 2006| 2007| 2008| 2009| Total| Sequoia Capital India| 7| 12| 13| 18| 3| 53| Ventureast| 5| 11| 4| 9| 3| 52| Intel Capital | 3| 7| 4| 8| 1| 23| Helion Venture Partners| 0| 4| 8| 8| 2| 22| DFJ India| 0| 3| 3| 9| 2| 17| Nexus India Capital| 0| 1| 4| 9| 2| 16| NEA IndoUS Ventures| 0| 0| 5| 9| 0| 14| IDG India Ventures| 0| 0| 6| 5| 0| 11| Kleiner Perkins| 1| 3| 0| 6| 0| 10| Norwest Venture Partners| 1| 3| 1| 2| 3| 10| Canaan Partners| 0| 1| 4| 4| 1| 10| Inventus Capital Partners| -| -| -| -| 3| 3| | | | | | | | | | | | | | | | | | | | | | Value of Investments(in million $) Investor| 2005| 2006| 2007| 2008| 2009| Total| Sequoia Capital India| 42| 184| 114| 138| 26| 504| Ventureast| 7| 19| 2| 17| 10| 54| Intel Capital | 19| 37| 15| 53| 7| 131| Helion Venture Partners| -| 30| 30| 30| 10| 100| DFJ India| -| 13.

75| 4| 33| 10| 61| Nexus India Capital| -| 7. 5| 16| 45| 7| 75. 5| NEA IndoUS Ventures| -| -| 24| 26| -| 50| IDG India Ventures| -| -| 14| 8| -| 22| Kleiner Perkins| 2| 8| -| 19| -| 29| Norwest Venture Partners| 13. 9| 8. 1| 24.

1| 17. 7| 92. 8| 156. 6| Canaan Partners| -| 4| 10| 12| 4| 30| Inventus Capital Partners| -| -| -| -| 6| 6| | | | | | | | | | | | | | | | | | | | | | Total funds raised (in million $): Investor| 2005| 2006| 2007| 2008| 2009| Total| Sequoia Capital India| 200| 400| 300| 725| -| 1625| Ventureast| -| -| 136| 86| -| 222| Intel Capital | | | | | | | Helion Venture Partners| -| 140| -| 210| -| 350| DFJ India| | | | | | | Nexus India Capital| -| -| 100| 220| -| 320| NEA IndoUS Ventures| -| -| 189| -| -| 189| IDG India Ventures| -| 150| -| -| -| 150| Kleiner Perkins| | | | | | | Norwest Venture Partners| | | | | | | Canaan Partners| | | | | | | Inventus Capital Partners| -| -| -| 125| -| 125| Analysis: 2005 to 2007: Private Equity in India grew significantly from 2005 to 2007 as many global PE firms established offices in India, attracted by growth opportunities spread across various sectors.

Factors such as well-established corporate legal system, rich pool of entrepreneurial talent and liquid capital markets made India an attractive investment destination for PE. The country saw record deals of USD17 billion in 2007, the highest in the Asia-Pacific region. Deal-making, fund-raising and exit opportunities, the three important indicators of any country’s PE health, saw a remarkable year-on year increase during that period2007& 2008In this year Mergers and Acquisitions fell sharply, but Private equity activity has grown. 2007 has gone down in history as the year of Mergers & Acquisitions in India.

However 2008 has not kept pace with the momentum gained last year. 007 has not been good for India overall, stock Market came down to nearly a 15 month low, investors lost thousands of crores of rupees, rupee has lost the fight handsomely against the dollar has plummeted from high of nearly 38. 5 to a low of 42. 75 against the dollar. Real estate which grew at astonishing pace in previous years has seen tremendous slowdown.

Inflation, which was hovering at less than 4% in the previous year, has nearly tripled to 11. 5%. The total number of Merger & Acquisition deals too has seen huge negative growth. During the first six months of 2008 total M& A deals stand at 265 with value at $18.

54 billion as against 335 deals amounting to $43. 97 billion. Even though the M& A scene was grim, surprisingly Private Equity(PE) funding has shown growth. Uncertainty prevailing in the Indian market did not seem to have impacted sentiment of private equity players. The number of PE deals during the first six months of 2008 was 194 worth $7. 54 billion, as against 195 deals amounting to $6.

77 billion during the corresponding period in 2007. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | Top Business deals in India in 2009: Top business deals in India have occurred in the oil and gas sector, with telecom, pharma, healthcare and biotech following the league. 1. France-based pens and lighter makers BIC acquired a 40% stake in the Indian stationery products maker Cello Pens for $160 million (Rs 800 crore) in January 2009.

2. Acquisition of 51% each in Yaaganti Seeds and pravardhan seeds by Nauziveedu Seeds private Ltd for a total consideration of Rs 25 crore in January 2009. . Mukesh Ambani led Reliance Industries Limited (RIL) and Reliance Petroleum Limited (RPL) were merged into one entity in March this year for Rs 8500 crores or $1.

6 billion, marking the 10th largest M& A deal in India till date. 4. American Tower Corporation acquired XCELL Telecom in a deal worth Rs 700 crore ($136 million) in March this year. 5.

Sodexo’s acquisition of Radhakrishna Hospitality Service Group in a deal more than Rs 400 crore in March end this year. 6. Sterlite Industries (India) Ltd’s $ 1. billion Asarco LLC buyout deal that was carried out in March 2009 was placed in the league of 10 biggest-ever merger and acquisitions deal.

7. NTT DOCOMO, Inc acquired 26% of the Tata Teleservices Limited (TTSL) shares for approximately Rs 127. 4 billion in March this eyar. 8.

Russian Government’s acquisition of 20% stake in Sisteman Shyam Telecom for approximately $680 million (Rs 3, 432 core) was the largest inbound business deal in 2009 and the deal has been approved by the Department of Telecom in November this year. Top 10 trends in 2009 for VC and PE investments: 1. LPS CALL THE SHOTS: Institutional investors are questioning the compensation of GPs (general partners, or managers of PE funds) and have proposed sweeping changes in the LP-GP relationship. 2. PES CHASE LIQUIDITY: Institutional investors were busy liquidating their interests in PE funds to rebalance their assets and reduce their unfunded liabilities. So the secondary markets became active with participation from many LPs as these (secondary) positions were available at steep discounts.

The markets have moved from premium NAVs (net asset values) to discount NAVs. This is largely the function of the downward trends of underlying valuation. Even though the environment is benign, India PE, as a whole, hasn’t made money. 3. KEEPING THE HOUSE INORDER: PE/VC fund managers spent much of 2009 empowering their portfolio firms to beat the downturn instead of signing on new deals. 4.

FOCUS ON RENEWABLE ENERGY AND MICROFINANCE: With the government offering a generation-based incentive to wind power producers, this segment may see more action and deals IDFC Private Equity, the largest investor in the renewable energy space, continued to strengthen its position by acquiring wind energy assets of BP Energy India Pvt. Ltd at an enterprise valuation of $ 95 million. Microfinance, the other fast-growing niche, recorded 16 deals worth $80 million as on 24 December, as per VCCEdge data. 5. RISE OF THE DOMESTIC LP CLASS: A dozen funds, mostly captive arms of institutions, such as ICICI Venture Funds management Co. Ltd, Reliance Private Equity Kotak Realty Fund and Tata Capital Ltd, among others are raising domestic capital.

ICICI Venture tapped the domestic market to raise $250 million and a follow-on $100 million as the first trance of its $500-million fund. Reliance Equity Advisors, the PE arm of the Reliance-Anil Dhirubhai Ambani Group, is nearing the close of Rs 1, 500 core from domestic institutions and high net worth individuals. Domestic money is emerging as a sizeable pool of capital to power the Indian PE gravy train. 6. FOREIGN FUNDS SHUT SHOP, PE STALWARTS GO SOLO: Not being able to replicate the global model in India and victimized by the slowdown, four overseas PE firms and 25-30 hedge and sovereign funds shut their India operations this year. UK- based PE fund Engle field Capital, FirstRand Bank Ltd, Candover (a UK-based PE fund, unable to raise and Asia or/and India-focused fund) and Australian investment firm Babcock and Brown were among those that wound upl.

A lot of hedge funds doing private equity shut shop in India. This has helped in making the valuation realistic. 7. REALTY QIP PARTY: Aided by the investor-friendly qualified institutional placement (QIP) norms, real estate hosted a big QIP party in 2009. A host of realty firms such as Unitech Ltd, Indiabulls, Real Estate Ltd, DLF Ltd, Parsvnath Develpeers Ltd and Puravankaraprojects Ltd raised money by selling securities to qualified institutional buyers. 8.

PE BIGGIES INACTIVE: A part from Blackstone Group LP, which invested in Gateway Rail Freight and All cargo Global Logistics Ltd, there were hardly any major investments from the bigger PE firms. Carlyle Group made one investment in Allsec Technologies Ltd and Warburg Pincus Lic invested in Synergy Media and Entertainment Ltd. 9. FUND-RAISING MORE CHALLENGING: As the markets turned, a lot of PE funds on the road to raising commitments from LPs had to defer their plans.

Around 78 funds are out to raise money. Only those that returned capital to LPs in the past were able to raise money. India Value Fund Advisors ($725 million Fund IV) and IL& FS Investment Managers ($225 million for Tara Fund III) were among the few to finish big-ticket fund-raising. 10. SERIES B TURNS VC’s SWEET SPOT: There is little action in early-stage investing with VCs putting their equity in firms with proof of concept, revenue and an initial round of funding.

Series B, which refers to the second round of fund-raising for start-ups, turned a favoured investment stage with 24 deals in 2009 deals in 2009 valued at $173 million against 15 deals in 2008 ($ 104 million) Sectorial Analysis: Infrastructure Investment Trend in Infrastructure Telecommunications: Investment Trend in Telecommunications Deal value in million USD Financial Services: Investment Trend in Financial Services Retail & Consumer sector: Investment Trend in Retail & Consumer Sector 2010: Private Equity touched $2 billion in 1st quarter of 2010. PE firms invested about US$2, 000 million in India across 56 deals during the quarter ended March 2010, which is highest in last 6 quarters. The figure for corresponding quarter last year was only $620 million. The largest investment was $425 million investment into power generation firm Asian Genco by General Atlantic, Morgan Stanley, Norwest, Goldman Sachs and Everstone.

In Sector wise PE investment IT & ITES industry registered 13 deals worth $193 million during Q1’10. BSFI sector garnered 16% of all PE investments with 9 deals worth $94 million. Energy (13%), Healthcare & Life sciences (9%) & manufacturing (9%) rounded up the top 5 sectors which saw PE investments. Venture Capital and Late Stage investments accounted for 16 and 18 deals respectively during first Quarter of 2010. The total value of M& A transactions providing exits to PE investors during Q1’10 was around $858 million. These included 13 sales via public markets, 7 strategic sales, 1 secondary sale and 5 buybacks (by either the company or its promoters).

The following table shows top 2010 deals occurred so far. Date| TargetInvestor(s)| Investor(s)| Value in US $ mn| | Sector| | | | (U| | | March 2010| Asian Genco| Consortium of Morgan Stanley| 425| | Infrastructure| | | | Infrastructure Partners, General| | | | | | | Atlantic, Goldman Sachs Investment| | | | | | | Management, Norwest Venture Partners,| | | | | | | Everstone Capital and others| | | | | | | | | | | February 2010| Tower Vision India| | Consortium of international investors| 300| | Telecommunications| | | | including Quadrangle Capital Partners| | | | | | | | | | | March 2010| Coffee Day Resorts| | KKR, Standard Chartered PE| 200| | Retail and consumer| | | | and New Silk Route| | | products| February 2010| Tikona Digital Networks| | Goldman Sachs Investment| 108| | Telecommunications| | | | Partners, Indivision India Partners| | | | | | | and Oak India Investments| | | March 2010| Nectar Lifesciences| | New Silk Route| 55| Pharmaceuticals| | | | | | | | | | | | | | | | | | January 2010| | Coastal Projects| | Barings, Sequoia Capital, Fidelity| 55| Infrastructure| | | | | and Deutsche Bank| | | | | | | | | | February 2010| | Ambit Corporate Finance| | QInvest| 54| Financial Services| February 2010| | Integreon| | Actis| 50| Technology| January 2010| | Micromax Informatics| | TA Associates| 45| Telecommunicationons| February 2010| | Manipal Universal Learning| | Premji Invest| 43| Education| | | | | | | | | PE firms have invested over $5 billion in Indian companies so far this year, more than what entire 2009 saw. However, they have also sold off shares worth about $2. 5 billion yet. As many as 220 companies saw PE investment pouring in during the first seven months of 2010, while PE firms made an exit from 73 other companies. The first seven months of 2010 have seen PE deals valued at $5.

1 billion, as compared to $4. 3 billion in entire 2009. During the month of July 2010 alone, the PE investment in India rose by nearly 190 percent on year- on –year basis to $776 million. The number of deals also rose from 16 to 25. The average deal value doubled to $26 million from $13 million in July 2009.

There have been 77 exits by PE firms so far, 32 exits worth USD 824 million in the first quarter, another 30 exits worth $1. 6 billion were seen in the quarter, and however there were only 38 exits in the first two quarters of 2009. The top five deals accounted for nearly 42% of the total value of private equity deals in the second quarter of 2010. The overall trend analysis is as follows: Trend in PE investments from 2008 to 1st quarter of 2010 Trend in Number of deals made from 2008 to 1st quarter of 2010 Why India? Advantages of Investing in India: Since the past few years’ Indian economy has been witnessing a period of sustained economic growth with real GDP growth rate of around 8% a year. The economic boom has attracted the attention of private equity players who have been flocking to participate in Indian market with an unprecedented number of investment deals. In sharp contrast to the time when the private equity funds invested in India from overseas base like Singapore or USA, many private equity firms have now established presence in the county, spurred by a bullish market and some spectacular and well documents exits.

This reflects the importance of understanding local markets and working closely with promoters (families or controlling shareholders), as well as he benefits of local decision making. India beckons private-equity investors as a land of beguiling opportunity wrapped in mind-boggling complexity. India’s growth trajectory in private equity is Asia’s steepest, increasing at a CAGR of 51% since 1998. Using the benchmark of deal value as a percentage of GDPO, India’s private equity market is different from that of Europe or the United States, as in India, small, family-owned and family-managed businesses account for a high proportion of the market and therefore give ample investment opportunities. However, the average deal size in India is significantly lower than in China of South Korea. However, opportunities are unlimited as around 8, 000 companies are listed on Indian exchanges, a huge number by any standard, and the rising performance of the stock market since 2004 has resulted in substantial wealth creation for families with majority stakes in listed companies.

India’s Sensitive Index topped 21, 000 for the first time by the end of December2007, buoyed by record inflows from US, European and Middle Eastern investors that have caused the benchmark to double in less than two years. The stock market has risen about 39% since it became the third emerging market after China and Russia to surpass US$1tn in May 2007, helped by the fastest economic growth in the past 60 years and a strengthening currency. Among non-listed family companies there has been a traditional reluctance to share ownership and surrender control. However, there are signs that private equity firms are willing to play a more active advisory role in parallel with their ability to raise growth capital, a prospect that owners and promoters are starting to find attractive. Not only in providing capital and financial expertise, private equity firms are in a unique position to introduce new disciplines and much needed structural reforms. There has been phenomenal growth in the value of private equity investment in India over the past decade.

With an expanding domestic market and increasing international opportunities brought by globalisation, the impact of private equity on Indian business is likely to increase further in the coming years. India has the following factors to its advantage. \* India is one of the largest developing economies in the world. The world’s largest democracy \* Regulated financial markets with transparent trading and settlement procedures \* Globally accepted corporate governance mechanisms in place \* Very high quality of human capital \* Rapid growth of consumer class from the current 250mn to 500mn by 2012(Various estimates) \* Third largest economy after China and USA by 2032.

(Goldman Sachs) \* Only big economy too benefit from the positive demographics. Around 60% of the population is below 30 years of age. \* Appreciating currency that is expected to appreciate at an average rate of 2. % p. a for next few years(Goldman Sachs) \* Sustained growth rate at 7% p. a for the next 10 years (Asian Development Bank) \* Proven edge in service \* Growing manufacturing sector.

Growth is estimated at 9. 0% \* Domestic consumption driven economy unlike most of the SouthEast Asiancountries which are export driven. India – Economic Snapshot \* Third largest economy in terms of purchasing power parity \* Fifth largest foreign exchange reserves (more than US$285bn as of Jan 18, 2008) \* Higher GDP growth rate – 8.

% in Q2FY2007-08. GDP Growth average 8. 6% p. a. during the past four years. \* Appreciating currency \* Low inflation \* Low dependence of FDI (1%/GDP) \* Large economy with most favourable demographics \* Cheap retail credit \* Increased literacy \* Growing rural markets India is a hot bed of innovation.

Many bright ideas from a large pool of young aspiring entrepreneurs get added to its tally each year graduating from various technology and engineering institutes. These ideas to convert in to profitable business models and see the Light of day as prospective next generation billion dollar companies need that start-up capital or venture capital, which will always be an active play ground of investors. Though the prevailing economic scenario has brought an air of caution among investors. As mentioned earlier, an assessment of the investment trends and future strategies of investment in the prevailing economic scenario indicates that majority (63%) of the investors. Continue to pursue their search for profitable investment avenues this year, according to a survey. Among these active investors, 71% confirm their continued interest in the emerging market, like India.

The survey conducted across the top 50 family office investors in Europe on their investment plan were analysed on three parameters: 1. The level of investment planned in 2009 2. Investment approach 3. Areas of Investment Barriers to investment in India: Poor infrastructure in India will hold the rate of PE investment back. Poor infrastructure makes Indian companies less competitive as compared to their global counterparts while India has a currently high GDP growth rate and-is expected to grow at around 9 percent per annum, the lack of infrastructure development may hamper the ability of Indian companies to continue to grow at a furious pace and manage their costs efficiently .

This in turn, may make them less attractive for PE in the medium to long term. However the infrastructure sector could emerge as a major PE destination as the Indian Government continues to encourage private participation in this sector. The main barriers to entry of PE in India are complex regulatory issues and increasing number of PE Players looking at the same investment opportunities. Given the growth in India it is not surprising that more PE houses will want to set up a presence here. .

Research suggests that PE perceives that there are two main problems which will be encountered in the future; firstly the complex regulatory issues surrounding sector investment and taxation; and secondly at swamping of too many PE houses chasing the same deals a situation that is now common in more developed PE markets.. It is interesting that PE considers taxation as a complex regulatory issue due to ambiguities in the interpretation of the tax code as well as the regulatory costs of creating tax-efficient structures through favourable tax jurisdiction such as Mauritius, due to the complexities involved. Though it could be argued that setting up in India and exiting investments in India is easier as compared to other PE emerging economies. regulatory and fiscal environment in India is a significant barrier to investments. Regulatory and fiscal challenges have historically been the bugbear of foreign investors in India.

On the regulatory front India has witnessed significant relaxation in its foreign investment regime. Foreign PE funds are treated at par with any other foreign investor, strategic or otherwise. It is now possible for foreign investors in practically every industry to invest or establish operations without any prior approvals under a self regulation regime. That said certain sectors like real estate, retail telecom etc.

continue to be regulated or restricted. Another regulatory hurdle is the policy restriction on accessing leverage for stock acquisitions. This constraint is likely to stay due to the tight monetary policy of the Reserve Bank of India. Increasing the constraints on convertible instruments like preference shares and debentures by making hem compulsorily convertible was felt to have significantly decreased the flexibility in deal structures. In balance however, in many respects due to the quality of laws, consistency of the courts and availability of decades of jurisprudence many investors were far more confident about doing business in India as opposed to certain other comparable economies.

On the fiscal and taxation front however the confidence was less emphatic. Aggressive tax assessments, absence of consistency amongst tax officers in different jurisdictions and long periods of litigation before final resolution of tax basis were cited as areas of improvement. The removal of pass through status for venture capital fund for most industries without grand fathering existing investments was also not appreciated. Some were also nervous about the recent controversy relating to a large telecom transaction which raised issues relating to the jurisdiction of Indian tax authorities on overseas transactions.

The recurring press reports on probable renegotiations of tax treaties with Mauritius Cyprus etc; were also cited as areas of concern. In summary whereas on the regulatory front the consensus was that there is a secular trend in the direction of policy reform on the fiscal and taxation front the view was that changes were welcome. On the point of too many PE houses chasing few good deals capital is not in short supply and there are today several other fund raising options available to owner managed businesses that are looking for growth capital investment. Further a large number of corporate and large conglomerate Indian business groups are still sceptical of the role that PE can play. This latter situation needs to change as it is likely that those corporate who have a global business strategy will need to link up with PE in order to execute their global expansion aspirations.

Risks factors….. The following are some of the risk factors associated with investing in India. The Indian Rupee has appreciated by more than 12% with respect to the US Dollar since the past one year. With respect to British Pounds, Euros and the yen, it has appreciated by around 9%, 8% and 11%, respectively.

The sharp appreciation of Indian rupee has benefited the economy by make imports cheaper while it has also helped in controlling inflation. India imports 70% of its crude requirements. On the other hand the sharp appreciation of rupee has hurt Indian exporters very hard. Further sharp appreciation of Indian currency might force low-margin exporters to shut shop as they have to compete with Chinese goods. It is interesting to note that the Chinese Yuan has only appreciated by around 3. % with respect to US Dollar since the past one year.

\* Appreciation of Indian rupee has severely affected the top line as well as bottom line of IT and IT Enabled Services companies. IT and ITES has been the favourite sector for private equity funds since the past few years. Further sharp appreciation in Indian currency might lead to margin pressure on IT companies, which could force IT companies to go slow on their future expansion plans. This scenario might lead to poor demand for real estate as IT companies are the major growth drivers for the real estate sector in India.

With the sharp rise in economic growth, demand for skilled manpower is growing rapidly. In some sectors demand is beginning to exceed supply especially for skilled workers. These severe shortages are causing wages to balloon, thereby causing inflation and attrition. \* Realty sector in India is booming since the past 4-5 years. Prices of commercial property in some cities have increased five-fold during the last four years and prices for residential property in a few other cities have quadrupled.

Since wages have not risen by even half that much, the possible real estate bubble in these cities can burst, thereby, leaving some investors with substantial losses and debt. \* The Indian stock market was up by nearly 47% in 2007. Despite the current fall, the market is trading at a trailing Price/Earnings ratio of around22. 71x(as of Jan 28, 2008)for the Sensex which is significantly higher than the corresponding ration of around 12-16x for similar indices in other emerging countries.

Much of the rally in 2007 was fuelled mainly by Foreign Institutional investors (Flls), especially foreign mutual funds. Since even in the past the Indian stock market has exhibited wild fluctuations, it could easily repeat this behaviour again 2008. Due to slowdown in USA and other countries fund flow from Flls are expected to remain moderate. The Future: Key sectors for investment in the future are Infrastructure and Retail and consumer related . while investments have been broad based across a wide range of industries the Infrastructure sector was named as the highest priority sector which included Energy, Real Estate and Logistics.

This corresponds well to the fact that the current poor infrastructure is cited by as a concern. Retail and consumer goods was the second priority sector not surprising given the growth in disposable income and increasing spending power followed by Media and Entertainment and Financial services. Industrial goods, especially those serving infrastructure sectors like power and ports and BPO/IT continue to remain a high priority. The year 2009 clearly saw the rise of private equity funds.

Around US13 bn was invested in Indian markets. During, PE investors focused their attention squarely on companies that benefit from domestic consumer spending and infrastructure investment. Hence, there was a shift in focus among investors form outsources based investment to domestic consumption-led investment. As a result, 2009 saw large-scale investment in infrastructure, financial services and to a limited extent internet based companies focusing on India markets. This is the reason why sectors like InfoTech, auto components and textiles which were the centre stage for PE investments in previous years, witnessed negligible deals in 2009. The problems for these export-oriented sectors started with the rising Rupee which his their profit margins.

Going forward, private equity investors are likely to invest in lot of emerging companies which has the potential to scale up their operations. The sectors such as real estate, infrastructure, and logistics are expected to do well. A major beneficiary of fund flow has been the infrastructure sector and it is expected to receive huge funding in future as well. The growing necessity for the country of quality power, roads, ports, etc. will witness huge funds flow into the sector. Promoters need to be innovative… To attract investments, Promoters innovated a great deal in recent year.

Mobile companies hived off their tower business to raise funds, pharma companies spun off their research division and attracted investors, automobile dealers separated sales and service to get funds. Retail sector, which is amongst the hottest sectors in the country, too saw, innovation where the front and back-end were separated with funds getting raised at the back-end alone, as current laws forbid foreign investments in multi-brand retail totally. Going forward, Indian corporates are likely to find new avenues to raise private equity. In addition, many small and medium enterprises are likely to go for private equity before going public. Momentum to continue… The current momentum of PE investment is likely to continue in future.

The industry players forecast 2011 to see US418-20bn worth of investment. The entrepreneurs in Tier II and III cities would jump onto the PE bandwagon when the open up their businesses for external investors. New sectors like commodity, mining and corporate farming could be on the radar of private equity investors. With valuation in sectors like textile, auto components and IT at near bottom, a strong case for bottom fishing in these sectors in not ruled out. Also, the incidence of buy-out by funds is likely to get accelerated.

Conclusion: Although an emerging economy, India has key institutional similarities to Western countries, notably its developed capital markets and lack of state industrial activism consequences of decades of democracy and independent entrepreneurship. As a result , India differs significantly from the other developing private equity giant, China, in being well-placed to replicated the Western private equity model and it is not surprising that the private equity industry should have expanded so rapidly in India as in the three years, prior to the credit crunch. Today, the private equity landscape is different: rapid expansion and high returns on exit have given was to declining deal volumes, lower average deal sizes, lower returns, reduce allocations by limited partners and, in some cases a rescheduling of existing commitments. Given the prospects of high growth and the huge scale of the Indian economy, it is not surprising the key message of this report is the India offers immense opportunities of private equity.

Simultaneously, the global financial crisis has given investors the opportunity to reflect on the challenges still to be overcome in creating a success full and sustainable. “ Indian model” for private equity investment. Not least of these is the challenge to general partners of managing a portfolio successfully through a slowdown in the business environment. The Indian market for PE remains very positive with infrastructure, retail and Consumer related Media and Financial Service being sectors of focus going forward. However most PE fund managers’ believe that the returns on investment earned in the past will not be possible going forward. PE houses expect increasing competition and therefore establish a local presence in India and identifying the right country head would be important for future success in this market.

Whilst valuations are perceived to be high and future returns are expecte4d to reduce deal flow is in abundance and India is beginning to challenge China as an equally favoured PE destination. For those PE funds who are not currently investing in the Indian market, the issue is not if but when. There is a growing acceptance of PE as an alternative source of capital by owners of businesses although large business houses and groups have yet to embrace this source of capital. Portfolio companies expectation of PE have increased and they expect PE to help facilitate growth and improve corporate governance.

PE houses would need to consider setting up operations teams, in addition to deal teams to add a more value to their portfolio companies. Portfolio companies currently perceive the PE Houses need to add more value post-investment. Competition amongst PE is increasing and there are an increasing number of auction based deals. PE houses would need to differentiate themselves and be more sector focussed as against sector agnostic in order to sustain and improve returns. Regulations appear to be a key concern for PE, is restrictions in investments in certain sectors like retail insurance, banking and finance and others. Although tax is seeing as a key regulatory concern, Indian’s current tax regime for PE Investment is actually more favourable than several other emerging economies.

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