

# **“A STUDY ON TREND AND EVOLUTION OF PRIVATE EQUITY INVESTMENT IN INDIA”**

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## **ABSTRACT**

Private equity is a way of owning and investing in private companies. Private equity funds can invest in companies that are already privately-owned, perhaps by a family or entrepreneur; they can acquire businesses that exist as divisions or subsidiaries of larger companies, or they can acquire publicly-listed companies and take them private. To study the Evolution of PE investment in India, to assess the area shrewd execution of PE organizations in India and to measure Trend the leave estimation of chose PE Investment. The private equity ownership model allows a professional team of fund managers to take large stakes in private companies, to ensure they are run in the best interests of the underlying investors. The final part of this article to expose finding and conclusion of this study.

**Keywords: PE (Private Equity)-Covid19-Investment**

## **1.1 INTRODUCTION**

The appearance of the year 2015 has seen a great deal of political and financial doubt unfurling as the Brexit vote, demonetization in India, mounting Chinese obligation and worries over exchange relations between the US and Asia. It, in any case, creates the impression that the politico-monetary vulnerability has not given any indications of hindering the private value (PE) speculation system. All the more especially, with 2016 denoting the third year straight that the Asia-Pacific PE industry has performed at noteworthy levels—a sign that PE execution in the locale is progressively reliant on the part's essentials. Private

value ventures' an incentive in the Asia-Pacific district crossed \$92 billion out of 2016; which is a pullback from the 2015 record-breaking high of \$124 billion.

The dominating goal and motivation behind the PE line of financing remain development and benefits. PE firms commonly imbue generous assets with the expectation to conceptualize thoughts for development and defeating money related handicap for organizations subsequently assuming a critical part in the sustaining the financial atmosphere of a nation. Remarkably, in contrast with a funding venture, a PE speculation is normally for an a lot higher sum, and consequently, the speculators either select a buyout or expects a significant offer in the organization with dynamic interest rights in the business. These ventures start when an element moves toward a PE firm or financial specialist looking for interest (in certain circumstances, even the PE firm may contact a forthcoming business opportunity). Upon definite conversation and assessing the circumstance, the gatherings show up at a plan organizing terms of the speculation. Critically, at this stage, the speculator will attempt due tirelessness into the issues of the organization alongside better comprehension of the budgetary circumstance of the investors of the element. Endless supply of worries in the tirelessness report, assuming any, and if the financial specialist consents to continue, the gatherings execute last arrangements, in particular, investors' understanding, share membership arrangement, and so forth after which the speculator inject assets into the organization.

In India, PE reserves expect the type of trusts that are enlisted and managed by Securities and Exchange Board of India's 2012 Regulations with respect to Alternative Investment Funds (AIF Regulations) as Alternative Investment Funds (AIF). Such AIFs can be set up just as a trust, organization or a restricted risk association (LLP). Accordingly, procedurally, a PE store might be set up as a trust under the Indian Trust Act, 1882 and enrolled as an AIF under the AIF Regulations. The trust deed and speculation/commitment understanding would oversee the provisions of the course of action between the gatherings and will specify the subtleties of the arrangement including the measure of venture, period, the object of store and way of appropriation of profits.

Also, an AIF might be set up as an organization under the arrangements of the Companies Act, and the articles of affiliation and the between se investors' understanding would administer the equivalent.

In a similar way, AIF assets can be set up as LLPs under the Limited Liability Partnership Act, 2008.

Notwithstanding, AIF is only occasionally set up as an organization since there are tough consistence methods to be trailed by organizations. Likewise, while a LLP might be an appealing decision for PE subsidizes around the world, it is as yet a generally new structure in India.

Fundamentally, enrolled AIFs in the nation have generously extended in the course of the last two (2) a long time and gauges to around 270 of every 2016. AIFs have additionally been a significant supporter of the general gathering pledges in the Indian market and add to around 41% of the absolute subsidizes brought up in India in 2016. A lion's share of the assets revealed more prominent support from LLPs through uninvolved co-speculation rights that existed in their present portfolio. PE Funds anticipate that LLPs should assume a more unique part in 2017 and is probably going to offer more co-venture openings. Further, raising money should be a higher need for assets in 2017.

It is relevant to take note of that before the sanctioning of the AIF Regulations, the enrollment of all homegrown private value reserves was under the SEBI (Venture Capital Funds) Regulations, 1996. While new AIFs can enroll themselves with the AIF Regulations, PE finances enlisted under the prior Venture Capital Funds Regulations have two choices. They can either proceed under the past investment guidelines till the expiry of the span of the reserve or can be brought under the ambit of the AIF Regulations by re-enrollment in that subject to the endorsement of 66% of the store's speculators.

Second straight year, and while the average deal size declined slightly from the prior year, the total value of \$26.3 billion in 2018 was the second-highest of the last decade.

- The top 15 deals constituted about 40% of total deal value, demonstrating that most funds are valuing deal quality more than quantity. The number of deals greater than \$50 million increased from the previous year.
- The consumer tech and banking, financial services and insurance (BFSI) sectors represented about 40% of total deal value. Overall value declined for consumer tech, which has seen fewer but higher-quality deals in recent years. BFSI investments were concentrated in banks and a rising class of nonbanking financial companies.

- The number of active participating funds continued to grow, and investors expect local and global PE firms to provide the biggest competitive threats in 2019.
- Over the next few years, investors see attractive opportunities in financial services and consumer/ retail, even though valuations are perceived to be high. Interest is also strong in healthcare and technology.

## **1.2 PRIVATE EQUITY DURING COVID-19**

“The COVID-19 pandemic has caused severe dislocations across markets, and with many countries under lockdown, economic activity has contracted significantly. The Indian government has extended the ‘lockdown’ to May 3 and has indicated its inclination to permit resumption of some economic activity under strict guidelines in ‘green’ zones. However, there is still a lot of uncertainty around: 1) the future trajectory of COVID-19 in India, 2) a holistic understanding of its ramifications on the global and Indian economy; and 3) the near-term economic trajectory of the country.

While these uncertainties may continue to remain for some more time, our hypothesis is that there will be a significant reduction in Indian PE/VC investment and exit activity in 2020 as compared to the preceding year.

Over the next two quarters, we expect more clarity to emerge on the spread/control of the epidemic, removal of restrictions, revival of demand and supply chains and government response by way of fiscal and policy stimulus. As our estimates are highly sensitive to the above, we will continue to monitor the situation and if required, recalibrate our outlook periodically.”

## **1.3 PEVC Investment activity**

In 1Q2020, at US\$5.1 billion, quarterly Indian PE/VC investments fell by over 50%, both y-o-y and sequentially. On a monthly basis, after a decent January (US\$2.5 billion), investments fell significantly in Feb (US\$1.7 billion) before hitting three year monthly low of US\$818 million in March. Most of the deals that were announced in February and March were on the back of significant work done in the preceding 6-9 months.

Travel restrictions and lack of in-person meetings have significantly slowed down the deals that are in process. These deals will be revalued if not cancelled once the lockdown restrictions are lifted and more clarity emerges on future revenues, rebooting of supply

chains, etc. On the whole, in 2020, we expect investors to price in the enhanced business risk by becoming more skeptical and stringent on due diligence and valuation of deals in process.

In the near-term, we expect most GPs to remain focused on their current portfolios, helping their company managements in ensuring business continuity and be in 'wait and watch' mode on new investment activity.

As clarity emerges, in the near-term, we expect PE/VC investors to do more private investment in public equity (PIPE) deals relative to what was done in 2019.

Growth capital strategy is expected to lead the charge and regain its historical position as the largest deal type by value (in 2019, buyouts had emerged as the largest deal type by value). The coming difficult times will give PE/VC funds the opportunity to deploy much needed capital at attractive terms with quality businesses and allow them to grow fast by capturing market share.

We expect GPs to go slow on buyouts till they fully understand the ramifications and the fall out of the pandemic crisis on the future business potential of their targets. Our projection is that buyout activity may be muted till the end of 3Q2020 / beginning of 4Q2020. We expect buyout deals to primarily emanate from conglomerates (that will look to carve out/divest non-core businesses). Bolt-on acquisitions by existing portfolio companies of buyout funds is another theme that we expect to find favour in 2020.

Special situation funds and multi-strategy PE funds with private credit strategies are expected to find significant deal flow in 2020. Many quality businesses/owners of quality businesses are now expected to be open to raising what was historically seen as 'expensive' structured debt. Relative to 2019, we project an increase in usage of convertible instruments by PE/VC investors.

Although start-up investments have shown resilience in 1Q2020, going ahead we expect the going to be tough, especially for early stage companies with nil revenue and those with negative unit economics and significant cash burn rates.

Sectoral themes that we project to be the first to find favour with PE/VC investors include defensive sectors like technology, consumer goods (packaged essentials, personal and healthcare, food processing and retail), pharmaceuticals as well as sub-sectors like medical supply and services, biotech, agricultural products, edtech, chemicals and e-commerce.

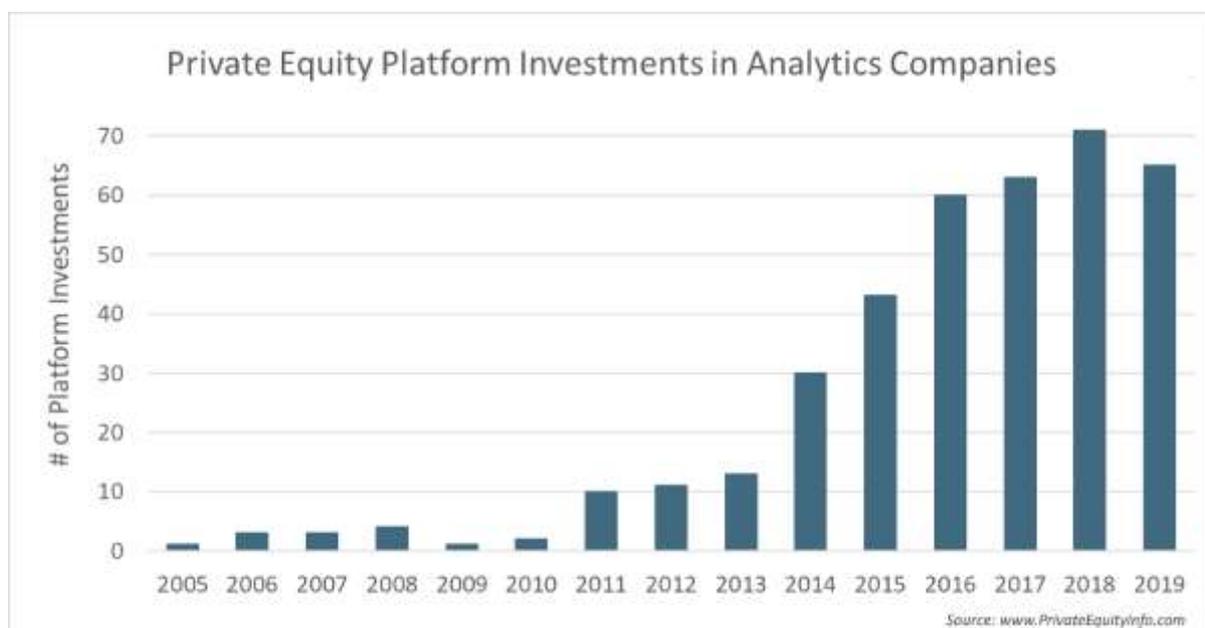
Investment activity in key sectors like financial services and fintech, infrastructure and real estate, healthcare, non-essential consumer Goods and services (durables, apparel, mobility, restaurants) that till recently attracted significant amounts of PE/VC investments are expected to slow down and may take some time to find traction.

#### 1.4 Private Equity Investing in Data Analytics Companies

Data centric companies have become one of the most favored sectors for private equity investors in recent years. This trend started gaining momentum in 2011. Although private equity began exploring data analytics companies as an investment thesis in 2007 and 2008, the recession of 2009 – 2010 halted most PE investments across all sectors during this time.

The increased focus on data analytics companies is largely fueled by the adoption of predictive analytics (initially), and subsequently by machine learning and the rise in artificial intelligence. These applications require data (preferably good data) as the atomic input unit from which to learn. Input data informs machine learning much the same way our five senses input data into our brain, from which we derive patterns and develop predictive skills.

Data-as-a-product resonates with private equity investment preferences precisely because it is scalable, potentially quite profitable and not capital intensive (relative to scalability).

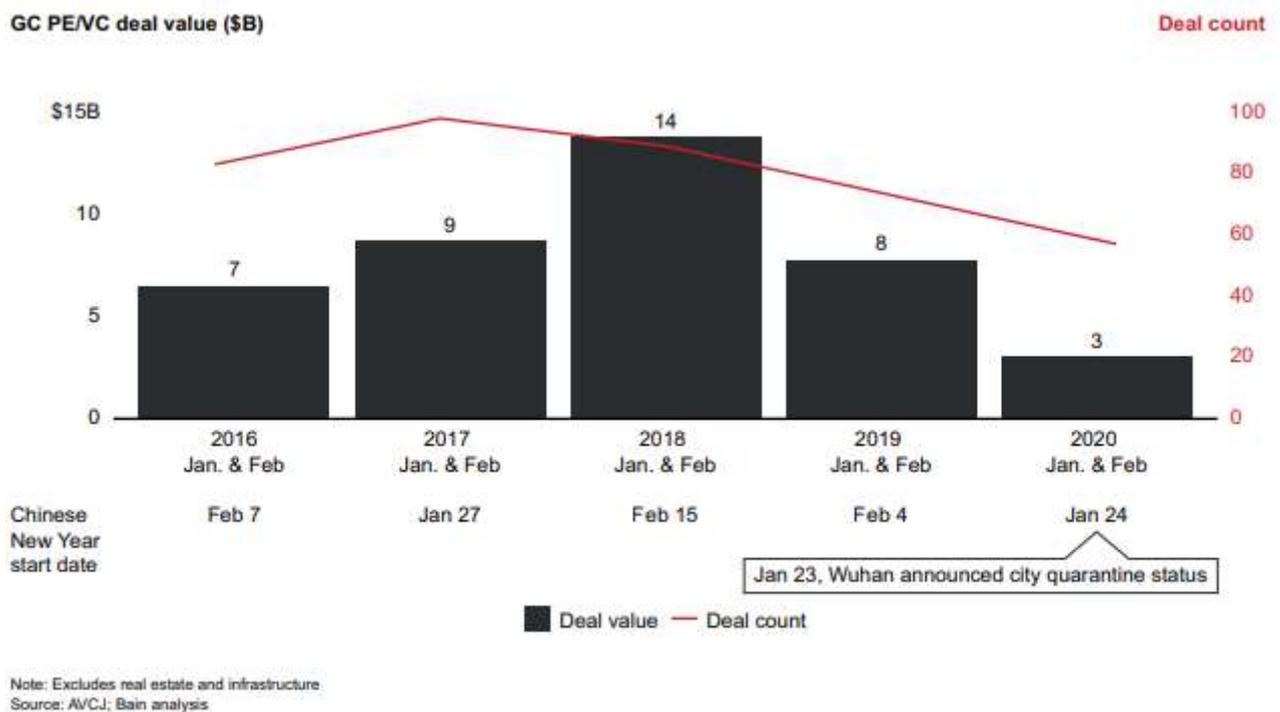


### 1.5 Evolution of PE Investments in Data Analytics

Early investments in data and analytics companies often focused on marketing analytics, to better understand consumer behavior (circa 2011+). This is where data analytics gained early traction, and consequently, significant private equity investments.

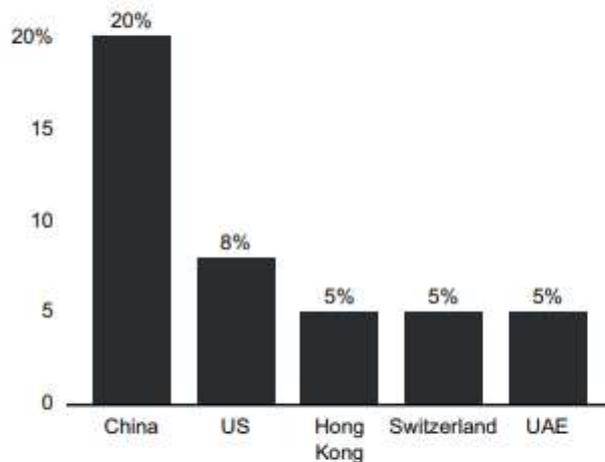
Offering data driven decision making to what was traditionally considered a black box appealed to a broad audience of corporate customers. The idea that companies could better quantify the effectiveness of their marketing budget and better tailor their messaging to specific customer segments was an attractive proposition.

#### China experienced a dip in investment activity in early 2020 as a result of the Covid-19

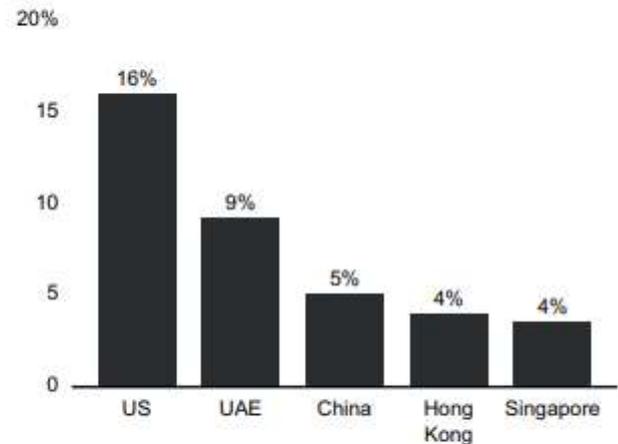


#### Covid-19 is starting to affect India as well as its major import and export destinations

Imports: In 2019, China accounted for 20% of non-oil imports by India



Exports: In 2019, US accounted for 16% exports from India



Government of India announced a nationwide lockdown, starting 25<sup>th</sup> March, restricting the movement of goods and people in an attempt to prevent the spread of Covid-19

Source: Ministry of Commerce and Industry, India

## 2. REVIEW OF LITERATURE:

Researchers have contemplated the attribute of PE elevation conduct from various edges and added to an expansive collection of writing. The adjustments in the climate of PE market were concentrated by Klier, Welge and Harrigan (2009). They reasoned that PE market has changed essentially the same number of fruitful PE players have become dynamic speculators in the market. Their examination has discovered that there is simple admittance to capital in view of expanded speculations from institutional speculators and sovereign riches assets to driving PE firms in desire for more significant yields from the market. It has been seen that PE venture spans in organization portfolios have expanded from long term to ten-twelve years because of issues identifying with credit and illiquid nature of private value (Burdel, 2009).

## 3. REQUIREMENT FOR THE STUDY:

PE finances help the organizations to expand their cost adequacy and contribute in the hierarchical development. Private equity investment is unsafe. With the assistance of PE we can put resources into new business or procurement of business or and existing business. PE subsidize encourages the organization to rebuild and re-visitation of monetary wellbeing. The investigation is centered around venture design in PE, last result based on exist worth, and there is a need to look at the danger and return design in Private Equity.

#### **4. OBJECTIVES OF THE STUDY:**

Coming up next are the destinations of the investigation

1. To study the Evolution of PE Investment in India
2. To assess the area shrewd execution of PE organizations in India
3. To measure trend the leave estimation of chose PE Investment

#### **5. RESEARCH METHODOLOGY:**

The information depends on the optional sources. The information was gathered from various sources like papers, sites, articles and diaries. Five years (first April 2013 to 31st March 2017) of value minutes were estimated. Leave estimations of PE organizations were likewise looked at. The examination quantifies the action levels and execution of PE interests in the PE business is the all out number of arrangements, bargain estimations of speculations and ways out.

##### **5.1 LIMITATION FOR THE STUDY:**

Coming up next are the restrictions of the examination:

- The study is restricted to India as it were
- The study limited to the presentation of PE organizations as it were
- The study is limited to the time of 5 years as it were
- Dividends statement and installment affects the estimation of the offers, anyway this examination doesn't think about the impact of assertion and installment of profit

##### **5.2 RESEARCH GAP:**

A lion's share of writing uncovered that a large portion of the investigations on PE have mulled over the PE incomes, Capital and PE exchange. Anyway every one of these investigations were transcendently done in the western setting and there is a shortage of writing in the Indian setting. Hence this investigation investigates the different ideas of Private Equity, speculation patterns of Private Equity, monetary execution and leave systems of chose PE organizations in India

### 5.3 PE INVESTMENT AND EXIT VALUE ANALYSIS:

The PE bargain Investor information which is gathered from sites has been investigated. Action levels in the business are utilized to gauge how much capital is raised, what amount contributed, and what amount dispersed to speculators. A generally utilized proportion of action levels in the PE business are absolute number or estimation of evaluation. Execution of PE reserves is a sort of return

#### PE Investment in India:

The following represents PE investment in India over a period of five years i.e., from 2013-2017. And Trend in PE/VC investments by deal size Year 2019 to March 2020.

**Table 1: Trend in PE/VC investments by deal size**

Deal size	Value (US\$ million)			Volume					
	1Q2019	4Q2019	1Q2020	1Q2019	4Q2019	1Q2020	Jan'20	Feb'20	Mar'20
>US\$100 million	9,139	7,586	2,175	26	26	11	5	5	1
US\$50 million - US\$100million	907	1,115	1,211	12	15	17	8	6	3
US\$20 million - US\$50million	1,011	1,299	964	30	36	28	9	11	8
US\$10 million - US\$20 million	248	525	341	17	38	22	10	8	4
<\$10 million	441	392	365	102	113	113	36	34	43
NA	-	-	-	48	40	36	15	10	11
<b>Total</b>	<b>11,746</b>	<b>10,918</b>	<b>5,057</b>	<b>235</b>	<b>268</b>	<b>227</b>	<b>83</b>	<b>74</b>	<b>70</b>

Source: EY analysis of VCCEdge data

These large US\$100 million plus deals account for ~72% of the total PE/VC investments made in India during the period 2017 to 1Q2020, of which over 90% has been deployed by global GPs (from their Asian or global funds) and large international LPs (pension funds, sovereign wealth funds (SWFs)) making direct investments. Data (see chart below) and our conversations with industry players suggest that some of these global GPs/LPs were the first to get into 'go-slow' mode in January end/February as their Global Investment Committees and overseas teams probably urged them to wait and watch, learning from their experience in East Asia and to some extent from markets like Italy in Europe. As a result, the percentage share of investments by Indian funds grew from 19% in January to over 46% in March 2020.

**Table 2: Trends in PE Investments in India**

Year	Deal value (US \$M)	Increase / Decrease of Deal Value (US \$M)	Number of Deals	Increase / Decrease of number of Deals
2013	7600	-	508	-
2014	11300	6470	576	68
2015	17100	580	826	250
2016	15400	-170	731	-95
2017	23800	840	591	-140

**Source: Secondary data**

A positively increasing trend has been observed in the PE investment value as well as the number of deals made in India from the year 2013 – 2017. PE investment reached its peak of US \$23,800 million in the year 2017, though the number of deals decreased by 140 from the year 2016 – 2017. This is indicative of more high value investments in the year 2017. The PE investments value and the number of deals made in 2013 were marginally lesser when compared to the other years, but was followed by tremendous increase in the following year. The deal values have dropped by US \$170 million and number of deals by 95 in the year 2016.

#### **PE Investment in Different Sectors:**

The following tables represents PE investment in various sectors over a period of five years i.e., from 2013- 2017.

**Table 3: Trends in PE Investments in IT & ITES Sector**

Year	Deal Value (US \$M)	Increase/ Decrease of Deal Value (US \$M)	Number of Deals	Increase/ Decrease of No. of Deals
2013	2300	-	198	-
2014	6000	3700	290	92
2015	7900	1900	490	200
2016	4750	-3150	423	-67
2017	10580	5830	322	-101

**Source: Secondary data**

As per the above table, PE investment reached its peak of US \$10,580 million in the year 2017, though the number of deals decreased by 101 from the year 2016 – 17. This is indicative of more high value investments in the year 2017. The PE investments value and the number of deals made in the year 2013 were marginally lesser when compared

to the other years, but was followed by a tremendous increase in the following years. The deal values have dropped by US \$3150 million and the number of deals by 67 from the year 2015-16

**Note:** IT & ITES stands for Information Technology & Information Technology Enabled Service

**Table 4: Trends in PE Investments BFSI Sector**

Year	Deal Value (US \$M)	Increase/ Decrease of Deal Value (US \$M)	Number of Deals	Increase/Decrease of No. of Deals
2013	780	-	68	-
2014	880	100	45	-23
2015	2530	1650	50	5
2016	2800	270	63	13
2017	4400	1600	60	-3

**Source: Secondary data**

The table indicates that there is continuous increase in deal value over the years. The highest deal value \$4400 Million across 60 deals in the year 2017. The number of deals declined by 23 in the year 2014 and 3 in the year 2017.

**Note:** BFSI stands for Banking, Financial services and Insurance

**Table 5: Trends in PE Investments in Food & Beverages Sector**

Year	Deal Value (US \$M)	Increase/ Decrease of Deal Value (US \$M)	Number of Deals	Increase/ Decrease of No. of Deals
2013	100	-	16	-
2014	350	250	16	0
2015	480	130	35	19
2016	115	-365	21	-14
2017	250	135	25	4

**Source: Secondary data**

It can be observed from the table that the highest deal value US \$480 Million with 35 deals in the year 2015. And the lowest deal value is \$100 Million with 16 deals in the year 2013. The deal values have dropped by US \$365 million and the number of deals by 14 from the year 2015-16. In spite of declining this sector has further growth which is supported by Agriculture sector.

**Table 6: Trends in PE Investments in Energy Sector**

Year	Deal Value (US \$M)	Increase/ Decrease of Deal Value (US \$M)	Number of Deals	Increase/ Decrease of No. of Deals
2013	690	-	21	-
2014	735	45	29	8
2015	1390	655	34	5
2016	1605	215	24	-10
2017	1465	-140	21	-3

**Source: Secondary data**

There was a heavy deal value of US \$1605 across 24 deals in the year 2016, there was decrease in the deal value US \$140 million and number of deals by 3 in the year 2017. The PE investment in energy sector, the value and number of deals made in the year 2013 were hardly lesser when compared to other years, but was followed by a massive increase in the following years from 2013-16. The cost of solar energy equipment is all time low. The declining cost is perhaps the leading reason for growth.

## 6. FINDINGS:

- Over the years, India has become the favorite destination of most PE investments across the world. A large number of PE firms had substantial funds for investment in India. In terms of investments, the Indian PE was second only to China. The following are the findings of the analysis of PE trends in India:
- The year 2017 has set the record for PE investments in India. PE investment reached a peak of US \$23800 million across 591 deals.
- Quarter wise analysis for the year 2016-17 revealed that a decline in both the PE investments as well as the number of PE deals, over the four quarters.

## 7. CONCLUSION

PE Industry in India has a lost bit of its sheen in the past few years. PE sector is finding it difficult to raise funds from foreign investors. The emerging PE market in India is one of the most interesting PE stories. The Indian PE market is attractive for many reasons. Firstly, because of its entrepreneurial status, secondly, an investment base that truly understands the multiple opportunities for private equity, and finally a developing infrastructure with strong underlying economic growth. Firms with an access to new sources of capital can succeed. Over the next few years, it is possible that more funds will be generated in PE market. The major challenge is in respect of illiquidity. Weak medium-term outlook for key sectors: Infrastructure, real estate, financial services, and e-commerce that accounted for over 70% of PE/VC investments and most of the large deals (value greater than US\$100 million) in the past are expected to witness a drag in PE/VC investments in the short-to-medium term. The sectors that we expect to find favour with PE/ VC investors in 2020 are not that large, and that will, in turn, reduce the incidence of large deals and bring down average deal size (relative to 2019).

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