

Private Equity Trends in India

By

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Abstract

Private equity (PE) in simple sense refers to the investment in private companies, which are not publicly traded on stock exchanges. PE Investment trend information can act as a significant base for investment decision making. This paper studies the PE scenario in India. It measures the PE trends in India during the last ten year period (2013-2022). It also studies the significant developments in PE Markets around the world. The paper further explores the thrust areas of PE in India and the legal as well as regulatory framework in India.

Keywords: Private Equity, Developments, India, Investment, Trends, Thrust areas, World

Introduction

According to reports by the Economist and Preqin in 2022, the global private equity (PE) fund industry has seen an annual increase of around 10% in assets under management over the past ten years, which has now surpassed \$5tn, and is projected to nearly double by 2025. In addition, recent data from 2021 shows that PE firms have raised approximately \$425bn in capital, while the volume of initial public offerings (IPOs) is less than \$150bn.

Private equity firms raise funds from institutional investors, such as pension funds and endowments, and use that money to acquire stakes in private companies. The objective of private equity funding is to improve the operations and financial performance of the acquired companies, and ultimately to sell them for a profit.

In the opinion of Heed, A. (2010) private equity refers to highly leveraged merger and acquisition activity aimed at alternative assets with the involvement of specialised management assistance.

Objectives of the Study

- To study the origin and evolution of PE
- To study the trends of during the last ten year period (2013-2022)
- To study the PE trends worldwide in general
- To study the PE trends in India in particular

Methodology

The study considers a period of a decade (2012-2022). It focuses on PE origin and evolution, studies the general trends during the last decade worldwide. It studies the specifically PE trends and factors in India during the same period. SEBI is the major source of Indian PE investment values and funding values.

Limitations

- The study is limited to PE
- The study is confined to the time period of ten years from year 2013 to year 2022
- The study uses PE investment trend data primarily from SEBI and SEBI categorises this data under Alternative Investment Funds Category II.

PE Origin & Evolution

The origins of private equity (PE) can be traced back to the mid-20th century, when a few wealthy families and institutional investors began investing in private companies, often using leverage to enhance returns. The term "private equity" was first used in the 1940s to describe investments in companies that were not publicly traded.

Private equity investments, as we recognize them today, only came into existence following World War II. This was evident through the establishment of the initial two venture capital firms, American Research and Development Corporation (ARDC), and J.H. Whitney & Company, both in 1946. (Wilson, J. W, 1985).

In the 1960s and 1970s, a number of firms, such as Kohlberg Kravis Roberts (KKR) and Bain Capital, began to specialize in leveraged buyouts (LBOs), which involved taking over a public company with borrowed funds, taking it private, and restructuring it in order to generate greater profits.

The 1980s saw a great surge in the PE industry, as a result of a favorable regulatory environment, the availability of cheap debt, and a growing appetite for high-yield investments. During this time, a number of iconic deals, such as the leveraged buyout of RJR Nabisco(1988), catapulted the PE industry into the mainstream.

In the 1990s and 2000s, the PE industry continued to grow, diversify, and globalize, with firms expanding into new geographies and sectors, such as real estate, infrastructure, and healthcare. The industry also faced increasing scrutiny and criticism, particularly over issues such as high fees, excessive leverage, and short-termism.

PE in US

Private equity (PE) is a well-established component of the financial sector in the United States. PE firms have continued to raise significant amounts of capital, with some of the largest funds. This has been driven in part by strong investor demand for higher returns in a low-yield environment, as well as the increasing popularity of private markets. PE firms are diversifying beyond their traditional focus on LBOs and investing in a wider range of sectors, including technology, healthcare, and real estate. They are also increasingly investing in emerging markets and other non-traditional geographies. Environmental, social, and governance (ESG) factors are increasingly important in the PE industry, with firms incorporating these considerations into their investment processes and due diligence.

PE in Europe

Private equity (PE) has been a significant force in the European economy for many years. Here are some key trends and characteristics of the PE industry in Europe:

In terms of size and scale the European PE industry is one of the largest in the world, with total assets under management of more than €1.5 trillion. This represents a significant increase over the past decade, driven by a combination of increased investor interest and strong performance by leading PE firms.

The European PE industry is highly diversified, with a wide range of investment strategies, sectors, and geographies. While the largest PE firms tend to focus on larger, more established companies, there are also many smaller and mid-sized firms that specialize in specific niches, such as growth-stage investing or technology-focused deals.

The regulatory environment for PE in Europe is relatively strict compared to some other regions, with a range of rules and guidelines governing everything from fund management to portfolio company operations. The European Union's Alternative Investment Fund Managers Directive (AIFMD) is a particularly significant piece of regulation that has impacted the industry in recent years. Some of the key trends in the European PE industry include a growing focus on environmental, social, and governance (ESG) issues, an increased interest in technology-focused investments, and a shift towards longer-term investment horizons and more patient capital.

PE in Middle East

The PE industry in the Middle East is still relatively small compared to other regions, but it has been growing rapidly in recent years. According to a report by the Gulf Cooperation Council (GCC) Financial Markets Association, the total assets under management of private equity and venture capital firms in the Middle East and North Africa (MENA) region reached \$10.9 billion in 2019.

The Middle East PE industry is highly diversified, with a focus on a range of sectors including real estate, infrastructure, healthcare, and technology. However, the oil and gas sector has traditionally been a key driver of investment activity in the region.

PE in Africa

Africa is very different from other continents. Lack of infrastructure, currency fluctuations and limited investment opportunities coupled with regulatory and political risks in Africa makes it not so attractive for PE market growth. However, Africa has also seen significant growth in PE, with a number of local and international firms investing in the continent. According to the 2021 African Private Capital Activity Report, the private capital industry in Africa has experienced a resurgence after the COVID-19 pandemic, with fundraising reaching a record high of \$4.4bn in 2021. This represents a significant increase of 63% compared to the average annual fundraising of \$2.7bn from 2016 to 2020.

Despite these challenges, the outlook for PE in Africa remains positive, with many investors seeing significant growth potential in the region. As the continent continues to develop and attract more investment, it is likely that the PE industry will continue to expand.

Significant Developments in Indian PE Market

Private equity (PE) investments in India have been growing steadily over the past decade. Here are some developments in PE investments in India:

- In recent years, there has been a significant increase in the number of PE deals in India. According to data from Venture Intelligence, there were 885 PE and venture capital (VC) investments in India in 2021, up from 702 in 2020.
- PE investors in India are increasingly targeting tech-enabled businesses, especially in the areas of e-commerce, fintech, and edtech. The pandemic has accelerated the growth of these sectors, and PE investors are keen to capitalize on this trend.
- There has been a significant increase in the size of PE deals in India in recent years. According to data from Preqin, the average deal size in India in 2021 was \$53 million, up from \$37 million in 2020. This is partly due to the increasing number of large deals (over \$100 million) in the country.
- India has become the second largest hub for online gaming in the world and is among the rapidly growing markets for online gaming worldwide. As a sunrise sector, the online gaming industry is moving up the value chain with leading PE firms investing in the sector.
- PE investors in India are increasingly investing in early-stage companies, especially in the technology sector. This trend is driven by the growth potential of these companies, as well as the availability of a large pool of young and innovative entrepreneurs.
- The healthcare and life sciences sector has emerged as a key area of focus for PE investors in India. The pandemic has highlighted the importance of this sector, and investors are keen to invest in companies that are developing new drugs and medical technologies.

PE Investments Trends in India

The following table shows the PE investments trends in India during the last ten years from March 31, 2013 to March 31, 2022

Table.1. *PE Investments Trends in India*

S.No.	Month & Year	Investments Made (Rs. in Crores)
1	March 31, 2022	1,99,451.62
2	March 31, 2021	1,40,113.93
3	March 31, 2020	101088
4	March 31, 2019	68,085.75
5	March 31, 2018	34023.28
6	March 31, 2017	21073.05
7	March 31, 2016	11501.73
8	March 31, 2015	4867.87
9	March 31, 2014	2479.63
10	March 31, 2013	27.08

Source: *The Securities and Exchange Board of India*

It is very interesting to note that ten year ago the investment in this sector was just over Rs. 27 crores and now it surged to Rs. 1,99,451 crores. The increasing trend in the size of PE investments can be attributed to several factors, including India's robust economic growth, a favorable regulatory environment, and a growing number of attractive investment opportunities. Additionally, the emergence of unicorns, or privately held companies with a valuation of over \$1 billion, in India's startup ecosystem has also contributed to the growth of the PE industry in the country.

The decline in PE investments during the fiscal year ending March 31, 2020 is directly attributed to the economic slowdown due to the Covid-19 pandemic which not only affected India PE Market but also effected entire world. However, immediately the PE market kick started to scale new heights. And it continues to break records.

Thrust Areas of PE Investment in India

Private equity (PE) investment in India has seen a significant growth in recent years, and there are several thrust areas that have emerged as attractive investment opportunities. Here are some of the key thrust areas of PE investment in India:

Technology

India is witnessing a rapid adoption of technology, which has opened up a host of investment opportunities for PE firms. With the country having a large pool of skilled engineers and software professionals, investors are keen to invest in technology-driven startups, especially in the areas of e-commerce, fintech, and edtech.

Healthcare

The healthcare sector in India is undergoing a significant transformation, driven by the increasing demand for quality healthcare services. With a large population and a growing middle class, the demand for healthcare services is expected to continue to rise, presenting significant investment opportunities for PE investors.

Infrastructure

India has a massive infrastructure funding gap, which provides a large investment opportunity for PE firms. The Indian government has introduced numerous measures, including the National Infrastructure Pipeline (NIP), which involves an investment of Rs.102 crores (US\$1.3 trillion) in infrastructure, to propel India to become a US\$ 5 trillion economy by the year 2025. This presents a significant opportunity for PE firms to invest in sectors such as roads, ports, airports, and power.

Consumer-focused businesses

With a growing middle class and increasing disposable income, there is a significant demand for consumer-focused businesses in India. This includes areas such as food and beverage, retail, and consumer products. PE investors are keen to invest in companies that are well-positioned to take advantage of this growing consumer demand.

The Indian gaming market is expected to grow from \$2.8 billion in 2022 to \$5 billion in 2025, growing at a CAGR of 28-30%. The quantity of gamers in the nation is supposed to expand from 420 million in 2022 to 450 million by 2023, and it hit 500 million by 2025.

Financial services

With the government's push towards financial inclusion and the growth of the digital economy, the financial services sector in India is expected to grow rapidly. This presents a

significant opportunity for PE investors to invest in fintech startups, as well as traditional financial services companies.

There exist quite a few thrust areas of PE investment in India, which are expected to continue to grow in the coming years. PE investors are keen to explore the opportunities in these sectors and are expected to continue to invest in these areas in the future facilitated by the favorable legal and regulatory environment in India.

Future of PE Industry in India

The private equity (PE) industry in India has been growing rapidly over the past decade, and there are several factors that are expected to shape its future. The PE industry in India is expected to continue to grow in the coming years, driven by a range of factors, including a growing economy, a large and young population, and a supportive regulatory environment.

Following are the key trends and developments that are likely to influence the future of the PE industry in India:

Increasing Competition and Consolidation

The Indian PE industry is becoming increasingly competitive, with the entry of new players and the consolidation of existing players. In the future, smaller players are likely to merge or be acquired by larger firms, leading to greater consolidation in the industry.

Focus on Startups and Emerging Sectors

The Indian startup ecosystem has been growing rapidly, and this trend is likely to continue in the future. Going with the bandwagon PE firms are expected to focus on investing in startups and emerging sectors, such as fintech, edtech, and healthtech.

Focus on Exits

The Indian PE industry has historically struggled with exits, but this trend is expected to change in the future. With the maturing of the Indian economy and the growing number of profitable companies, PE firms are likely to use more exit options, including IPOs and strategic sales.

Conclusion

PE investment landscape in India is evolving rapidly, driven by startups and emerging sectors like online gaming, health care etc. Despite the challenges posed by the pandemic, the outlook for PE investments in India remains positive, with a growing number of investors keen to explore the opportunities in the country. Increasing trend in the size of PE investments in India over the last decade suggests a growing interest among investors in the country's economic potential, and the continued growth of the industry will likely depend on the ability of PE firms to identify attractive investment opportunities and effectively manage their portfolios.

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