

## **The Performance of Private Equity Investments in India**

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**Abstract:-**The performance of private equity funds as reported by venture intelligence and prior research is overstated. The two reasons for the growth of private equity and venture capital in India. First, change in organizational innovation, aided by regulatory and tax framework. Second, adoption of limited partnership and general partnership. The Private Equity and Venture Capital markets have become a vital source of funds for start-up firm, private middle-market firms, firm in financial distress and public firms seeking buyout financing. This study examines and discusses in detail the PE/VC investments in India during 2014 and 2015. Depiction on publicly available data and fieldwork data, it describes the equity investments in Private Equity backed company, investments by industry, investment by stages of development, investment by regions, and top deals of PE in India. The paper concludes with market response change too quickly from one end to the other. Anticipation next quarter shows a definite direction for investors.

**Key words** : *Private Equity, Venture Capital, Technology, Investments*  
**JEL** : G24, E62, O33

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### **I. INTRODUCTION**

Private equity and Venture capital investments are financial mediators between sources of capital and industrial firms. Source of capital typically include large institutional investor, including pension funds, banks, insurance companies, and endowment. These and other sources of capital do not have the time or expertise to invest directly in entrepreneurial firms, mainly high-growth firms in high-tech industries. These funds are for all intents and purposes organizations that are recognized, capitalized, and operated under specific contractual terms and obligations agreed between the investors and the venture capital and private equity funds. In 1980's, private equity investments were undertaken mainly by wealthy families, industrial corporations, and financial institutions that invested directly in issuing firms. In 1990's, the investments has been undertaking by professional private equity managers on behalf of institutional investors. The vehicle for organize this activity is the limited partnership, with the institutional investors serving as limited partners and investment managers as general partners.

Private equity comprises buyout, buy-in, merger, acquisition, late stage, turnaround, PIPE, and several other types. The major characteristics of these types of deal is that they engage performance of companies which have left the initial growth phase and often stand for financial engineering and changes of control as opposed to an investment designed to develop an preliminary product and get it to market. Private equity funds do not as often have IPOs as their main exit strategy.

### **II. REVIEW OF LITERATURE**

**Wright Robbie (1998)** this paper reviews the existing literature on venture capital and private equity. The papers emphasize the significance of examining venture capital in the light of current developments in corporate finance and its distinctiveness from other forms of finance. **Gompers and Lerner (2000)** the study shows that inflows of capital into venture funds raise the valuation of these funds' new investments and findings are reliable with competition for a limited number of attractive investments being responsible for rising prices. **Ljungquist and Richardsson (2003)** using a distinctive dataset of private equity funds over the last two decades, this paper analyzed the cash flow, return, and risk characteristics of private equity. They also present several determining factors for schedules, including existing investment opportunities and competition amongst private equity funds. **Kaplan and Schoar (2003)** their manuscript investigates the performance of private equity partnership using a data set of individual fund returns. Collective industry returns are lower following a boom, but most of this effect is drive by the poor performance of new entrants, while the returns of established funds are much less affected by these industry cycles. **Ludovic and Oliver (2014)** say the performance of private equity funds as report by industry associations and prior research is overstated and they discuss several misleading aspects of performance reporting.

### **III. OBJECTIVE**

1. To examine the PE/VC investments in India during 2014 and 2015.

**Scope of the Study**

This study is conducted on the basis of prior data relating venture intelligence money tree India report of Q1’2014, Q4’2014, and Q1’2015.

**Research Methodology**

**Type of Study** - Empirical

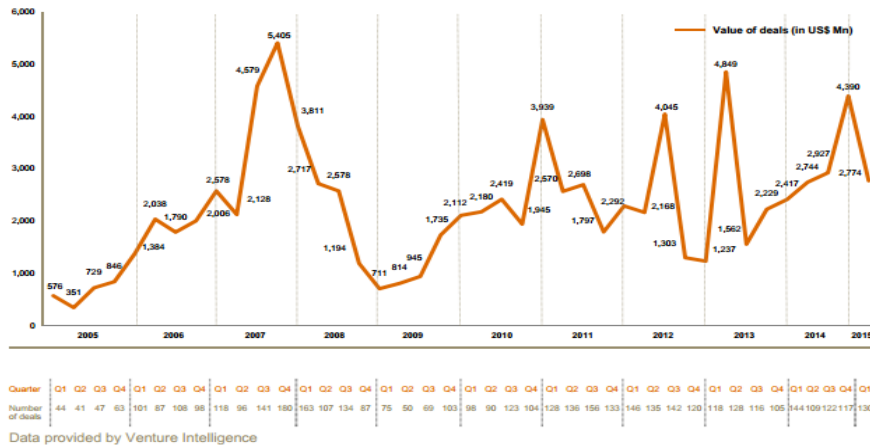
**Type of Data** - Secondary

**Sources and Tools Used for data Collection**

The study is based on the technical analysis, previous data relating to venture intelligence money tree India report of Q1’2014, Q4’2014, and Q1’2015. The information so taken is compiled through tabulation and shown in graphs

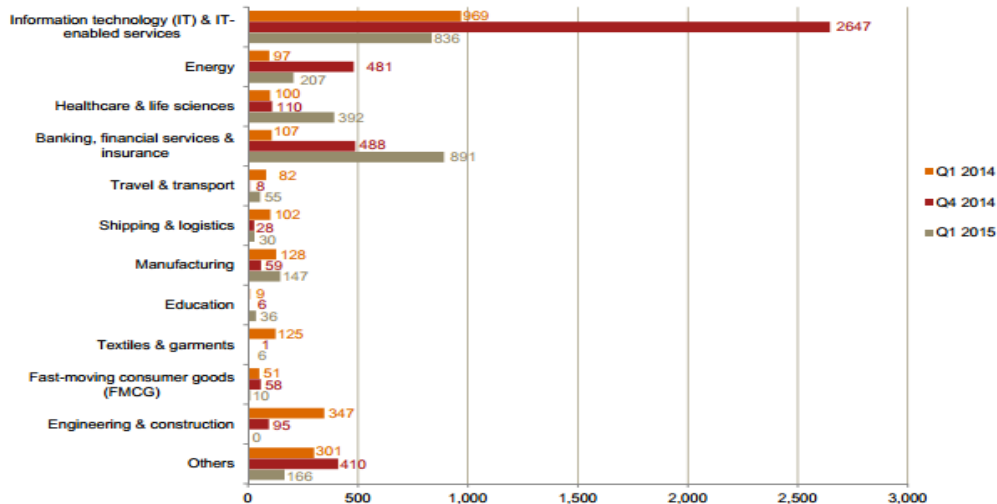
**IV. RESULTS AND DISCUSSION**

**Graph 1: Overall Equity Investments in PE-backed Companies**



From the above graph, the first quarter of 2015 saw 130 private equity deals worth 2.77 billion USD, and was the best performing first quarter since 2011. BFSI segment displaced the IT & ITES sector from its top slot, attracting 891 million USD in 14 deals. The IT&ITES segment attracted investment of 836 million USD in 71 deals this quarter. Bangalore made a return to the top slot with regard to Private equity investments-both by value and volume of deals seeing 715 million USD invested in 35 deals.

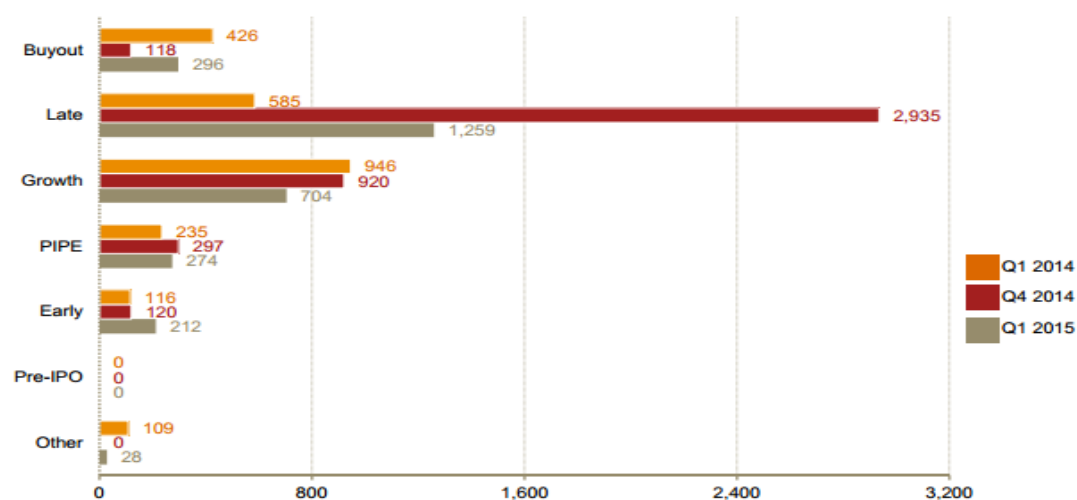
**Graph 2: PE investments by Industry Q1’2014, Q4’2014, and Q1’2015.**



From the above graph, the BFSI lead the rally of investments this quarter by bumps IT&ITES to the second period, attracting 891 million USD in 14 deals. In the preceding quarter, 488 million USD was invested in this segment from 10 deals while the same period last year saw just 107 million USD in 11 deals. Coming in a close second, the IT&ITES segment attracting 836 million USD investments in 71 deals, almost a 68% drop from previous quarter’s 2.65 billion USD. Healthcare and Life sciences was again back with 392 million USD

worth of investments in 9 deals. The energy segment has witnessed deals worth 207 million USD. The manufacturing segment improved significantly with 147 million USD worth of investments in 9 deals.

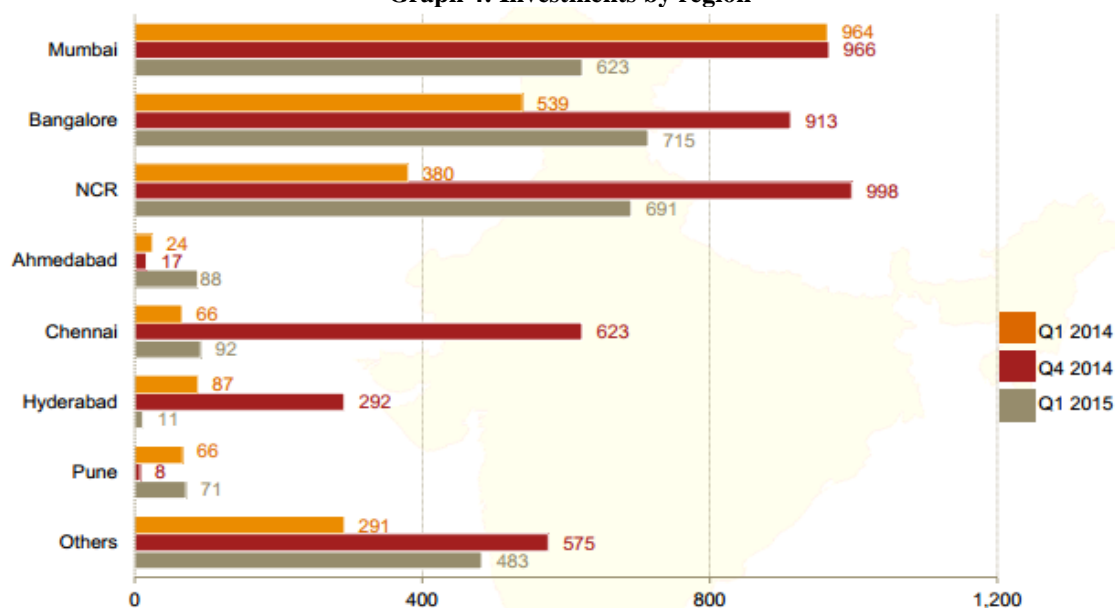
**Graph 3: Investments by stage of development**



Data provided by Venture Intelligence

Graph 3 shows in Q1'2015 late-stage investments continuous to be ideal over growth investments, with the former receiving 1.26 billion USD in 29 deals. While growth investments saw 704 million USD throughout this period of 29 deals, buyout deals attracted 296 million USD with 3 deals.

**Graph 4: Investments by region**



Data provided by Venture Intelligence

Graph 4 shows Bangalore was once again the busiest investment destination with 715 million USD values of investments in 35 deals. Whereas the National Capital Region (NCR) received 691 million USD in 33 deals, Mumbai has been pushed to third place with 623 million USD investments in 26 deals.

**Table 1: Top 20 Private Equity deals**

Company	Industry	Investors	Deal amount (in USD Mn)
Bandhan Financial Services	BFSI	IFC, GIC	260
Manipal Health Enterprises	Healthcare & Life sciences	TPG Capital	150
Medanta Medicity	Healthcare & lifesciences	Temasek	113.5
ShopClues.com	IT & ITeS	Tiger Global, Helion Ventures, Nexus Ventures	100
Ujjivan Financial Services	BFSI	IFC, CDC Group, CX Partners, Newquest, Others	100
Diligent Power	Energy	IDFC PE	81.3
Freecharge.in	IT & ITeS	Sequoia Capital India, Valiant Capital, Ru-Net Holdings, Tybourne Capital, Others	80
Magma Fincorp	BFSI	India Value Fund, KKR, LeapFrog	80
Manthan Systems	IT & ITeS	Temasek, Norwest	60
Antuit	IT & ITeS	Goldman Sachs, Zodius Capital	56
CarDekho	IT & ITeS	Sequoia Capital India, Hillhouse Capital, Tybourne Capital	50
Bill Forge	Manufacturing	Kedaara Capital	50
Meru Call Taxi	Travel & Transport	India Value Fund	50
PolicyBazaar	IT & ITeS	Tiger Global, PremjiInvest, Steadview, Ribbit Capital	50
Narayana Hrudayalaya	Healthcare & Life sciences	CDC Group	48
SVB India Finance	BFSI	Temasek	46.4
M&M Financial	BFSI	Temasek	42.42
Sundaram BNP Paribas Home Finance	BFSI	IFC	40
Verse Innovation	IT & ITeS	Sequoia Capital India, Matrix Partners India, Omidyar Network, Falcon Edge Capital	40
PTC India Financial Services	BFSI	IFC	

Data provided by Venture Intelligence

On top of table shows the apex 20 deals comprise just 55% of the total deal value in Q1'2015. This quarter has witness a series of mid-sized deals. The average deal value of this quarter was 21.34 million USD.

Table 2: Top 5 Private Equity Exits

Company	Industry	Investors	Deal amount (in USD Mn)
Destimoney	BFSI	New Silk Route	200
Green Infra	Energy	IDFC PE	171
ING Vysya Bank	BFSI	ChrysCapital	137
Agile Electric	Manufacturing	Blackstone	106
JustDial	IT & ITeS	Tiger Global	50

Data provided by Venture Intelligence

From the above table top five exits comprised 60% of the total exit value in Q1'2015.

## V. CONCLUSION

The first quarter of 2015 in progress on a steady note, attract 2.8 billion USD across 130 deals. Even though lower than Q4'2014 levels with 4.4 billion USD, it was still 15% higher than the previous period Q1'2014. Banking, financial services & insurance (BFSI) was the most active sector, attracting 891 million USD in investments, which integrated two large deals, a 260 million USD investments in microfinance players Bandhan Finance and 100 million USD investment in Ujjivan Finance. The IT&ITES sector was relatively calm down at 836 million USD with no significant e-commerce investment. Market response changes too quickly from one end to the other. Anticipation next quarter shows a definite direction for investors.

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