

THE OPPORTUNITY

PRIVATE EQUITY, VENTURE CAPITAL

INTERNATIONAL private equity (PE) funds and venture capital (VC) funds are pumping in significant amounts into India, confident that the country would maintain its 8.5 per cent-plus economic growth pace for the next few years.

PE funds invested almost \$20 billion in India in 2007, while VC funds brought in nearly a billion dollars. This year, about \$25 billion is expected to be injected into the country by PE funds. All the leading international PE funds have been active in India in recent months; they include the Blackstone group, Goldman Sachs, Warburg Pincus, the Carlyle group, Kohlberg Kravis Roberts & Co (KKR), Citigroup and Actis Capital, besides two leading funds from Singapore, GIC and Temasek Holdings.

Last year, nearly 400 PE deals were struck by these international funds, aggressively buying into companies showing promise in sectors like information technology, biotechnology, healthcare, telecommunications, media and entertainment and real estate and retailing.

Goldman Sachs, the US finance major, is now beefing up its presence in India and looking at various options, including setting up an asset management company, a brokerage unit, wealth management division and a commodities outfit. It is also keen on setting up a non-banking finance company.

Besides American and Europe PE majors, other smaller private investors are also striking smaller deals, especially in the real estate and hospitality sectors. Pragnya, a Mauritius-based PE fund, recently invested \$40 million in real estate projects in India. The fund, which hopes to invest a total of \$100 million-plus in the realty sector in India, is planning to raise an additional \$150 million for investments in the hospitality sector.

INDIA'S largest commercial bank, State Bank of India, is also entering the PE segment. The bank is likely to pick up a nearly 20 per cent stake in Sage Capital Funds Management, an asset management company floated by Sage Capital. The company has launched a \$200 million value fund that will invest in Indian companies.

But many private Indian business groups are also setting up private equity funds and venture capital funds. They include the Anil Ambani Dhirubhai group, the Aditya Birla group and the Future group.

According to her, this is just the beginning for the VC market in India. "In 2007, 79 per cent of all deals in India were for seed and first rounds and a lot of these companies will continue raising venture capital as they progress toward profitability and liquidity." And because the majority of investment is going to early-stage companies, "we aren't seeing ballooning deal sizes like those in the US and Europe where investors are focused more on later-stage companies," notes Canning.

The median size of a VC round for companies in India was \$9 million in 2007, up from \$8.7 million in 2006, but lower than \$18.8 million median in

2005. Almost 75 per cent of the companies that got VC funding were generating revenues or were profitable.

The Insurance Regulatory and Development Authority of India now plans to allow even insurance companies to invest up to five per cent of their investible corpus in VC funds that invest in infrastructure projects. For the PE and VC funds sectors in India, the good times – and the big backs – are rolling in.

The private equity industry in India is at a key inflection point. Investors the world over are increasing their allocations on India. The robust economy, supportive government, and recent industrial reforms could see several hundred billion dollars channeled to the newly opened infrastructure sector alone. As India's private equity industry joins the big league, so too must its players gear up for the next level of competition.

