



IVCA

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RIPE



Reporting on
Indian **Private
Equity** and
Venture Capital



Inside:

➤ Global Venture Capital Summit 2019

➤ Budget Outlook

RIPE

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Dharma Media Consultants

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CAUTION IN TIMES OF EXUBERANCE IS MOTHER OF GREAT FORTUNE



<https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/private-equity-and-indias-economic-development>



BY SWETABH PAREEK
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Investors Relations and
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The Private Equity (PE) industry has exhibited nothing short of a spectacular global performance in recent years with high volumes of capital raised, invested and distributed to investors. Investors are increasing allocation to this asset class for its low volatility due to its long-term nature and its tendency to deliver returns through market downswings. The global PE grew more than 7x between 2002 and 2017 as compared to nearly

3.5x growth of public market capitalization¹. Private equity also provides illiquidity premiums by outperforming public equities across market cycles. On an average, Indian private equity outperformed Sensex by 7%.

RETURNS ON INVESTMENT

With a steadily growing economy, India's private equity industry is stronger than that of most emerging markets and expected to expand even further.

Vintage	Holding Period	PE Return ^{1,2}	Sensex Return ³
2003-05	4.6 yrs	24%	19%
2006-08	6.4	8%	9%
2009-11	5.1	16%	9%
2012-14	3.5	22%	10%
2015-17	NM ⁴	51%	13%

Investments exclude venture capital and real estate investments. Exits updated through 2017. 2 - Weighted average of gross-dollar IRR by investment year estimated for a sample of ~654 exits with private-equity investment made between 2003 and 2017 where both investment and exit values were disclosed. 3 - CAGR for the corresponding holding periods of the representative years, averaged as per the group of vintages. 4 - Not meaningful.



<https://www.thetimesbusiness.com/india-s-gdp-rise-looks-powerful-economic-growth-analysis/>

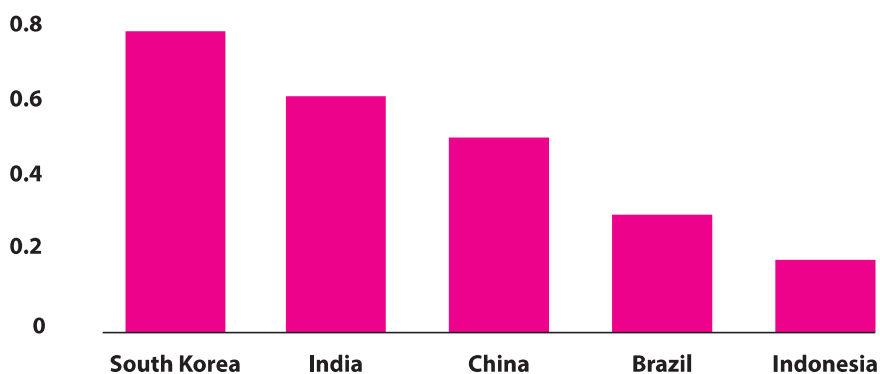
THE PRIVATE EQUITY FOCUS IN INDIA

The Indian private equity assets are composed of growth and venture capital with recorded \$12bn and \$13bn fund raise opportunities respectively. In January 2019, 125 India based PE & VC funds were reported to be in the market, aiming to raise over \$18bn. On the said 125 funds, 64% are VC funds seeking \$7.1bn, whereas the dry powder in India is estimated at \$9bn5. This indicates that the funds in the market are riding on a high, and dearth of capital for good-quality deals is unlikely.

RETURNS ON PRIVATE EQUITY

As aforementioned, private equity has given high returns. However, the returns on different investments can drastically vary depending on the strategy and deal size. For instance, buyout funds from vintage 2006-17 generated the highest returns of

PRIVATE-MARKET INVESTMENT INTENSITY (% OF GDP)¹



Investments Includes private-equity, venture capital, and real estate investments. PE - buyouts, PIPE, expansion, turnaround, mezzanine/pre-IPO, and bridge loans. VC - seed/R&D, start-up/early-stage, and small and medium enterprises. Data points - Ratio of average annual private-market investment over the past five years and the most recent year's GDP.

EXHIBIT 1: RETURNS BY STRATEGY¹

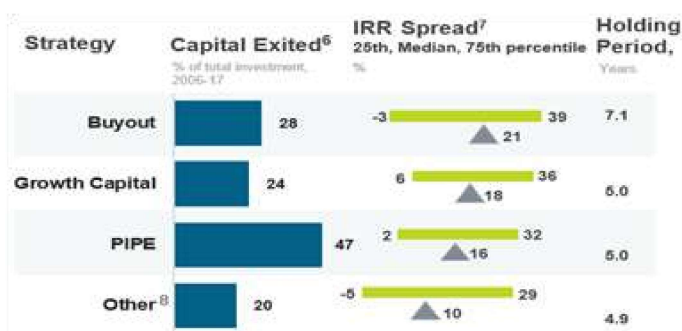


EXHIBIT 2: RETURNS BY DEAL SIZE¹



6 - Excludes venture capital and real estate investments. Exits updated through 2017. 7 - Based on a sample of ~534 exits with private-equity investment made in 2006-17 where both exit and investment values were disclosed. 8 - Includes turnaround and mezzanine/pre-IPO. 9 - Excludes infrastructure and telecom. 10 - Infrastructure and telecom.



<https://realtynxt.com/2017/04/28/domestic-private-equity-investment-rising-india/>

21% median, with 42% dispersion between the highest and lowest quartile. Whereas on the other hand, deals less than \$25mn from the same vintage earned the highest returns of 22% median, with 36% dispersion between the highest and lowest quartile. The dispersion of returns in private equity is extremely wide and outperforms the median by a high range. One needs to follow discretion in choosing the right fund manager.

Choosing the right fund manager is not

PRIVATE EQUITY HAS GIVEN HIGH RETURNS. HOWEVER, THE RETURNS ON DIFFERENT INVESTMENTS CAN DRASTICALLY VARY DEPENDING ON THE STRATEGY AND DEAL SIZE

easy but very important. With the growing Limited Partners (LPs) interest in industry, the number of fund managers is also increasing, creating a tough competition. Thus, LPs that pick the top managers usually outperform the median with a high margin, but that is not always the case.

IMPORTANCE OF FUND DILIGENCE

Fund diligence (Fund DD) is a global practice; however, it is not largely followed in India especially due to lower domestic LP commitment size. However, with hyper growth in the industry, Fund DD is

a highly recommended practice to get a thorough and objective evaluation. A fund diligence exercise enables investors in making informed decisions on investment opportunities as well as enables the Fund managers to implement best practices. A thorough Fund DD exercise follows a holistic approach and includes key areas such as investment Strategy, Investment Process, Team & Management, Alignment of Interest, Fund Terms, Market Environment, Risk & Compliance, and Legal & Administration (see box below). ■

	Investment Strategy Investment thesis, sector focus, types of transactions etc.
	Investment Process Sourcing process to identify investment opportunities
	Team & Management Capabilities across the deal life cycle
	Alignment of Interest GP's sync with LP's for Fund's best interest
	Fund Terms Compensation structure & specific provisions
	Market Environment Market dynamics, Fund competitors
	Risk & Compliance Compliance manual, Code of ethics, risk monitoring etc.
	Legal & Administration Fund Administration, Human Resource, Legal framework