

GROWTH OF PRIVATE EQUITY IN INDIA MARKET

Meena Thapa

Student

Sudhakar Reddy

Assistant Professor

SRIDEVI WOMEN'S ENGINEERING COLLEGE,

HYDERABAD, TELANGANA

INDIA.

Abstract:

Private equity refers to the holding of stock in unlisted companies. With increasing number of deals the subject becomes an important aspect of Indian economy of funding new ventures. While growth and success remain the prime goals of the private equity industry, the role of the private equity industry to economic growth is undeniable. This present paper is a study on the concept of Indian private equity market and its growth over the period. The purpose of the study has been undertaken with a view to exploring theory of private equity and understanding the various concepts of private equity including private equity markets, private equity across sectors, private equity investments, growth and development of private equity. The PE market is important source of fund for start up, private middle market companies, firms which are underperforming (financial distressed companies) and public firms seeking buyout financing.

Keywords: private equity, India, growth financing

Introduction:

Private equity (PE) provides long term, committed share capital, to help unquoted companies grow and succeed. Private equity firms usually raise capital from investors who are limited partners consisting of high net worth individuals, institutional investors such as insurance companies, investment banks, pension funds and endowment funds. These firms then invest in shares of private companies or gain control of public companies with the intention of taking them private and ultimately delisting them from public stock exchanges. The goal of most private equity firms is to create value. They do this in four ways- buy low, sell high, and deleverage the business over time and increase earnings. Most of the firms have expansion or growth as one of their main objective hence this requires access to additional capital to finance the growth.

In contrast private equity firms invest in companies that already have some revenue and that can be potentially grown by restructuring or bringing new or improved products into existing or developing markets. Private equity investments can be divided into following categories:

- Venture capital: investment in start-up or Seed Company for expansion and development of a business.
- Buy-out: it refers to purchase of company or business by a combination of equity and debt and invest in mature companies that generate strong operating cash flows.
- Special situation: investments in distressed companies or company where value can be unlocked as a result of one time opportunity.(changing industry trends, government regulations etc.)

Private equity firms generally receive a return on their investments through one of the three ways an IPO, merger or acquisition of the company they control, or a recapitalization.

The general cycle followed by private equity firms in each company they invest in



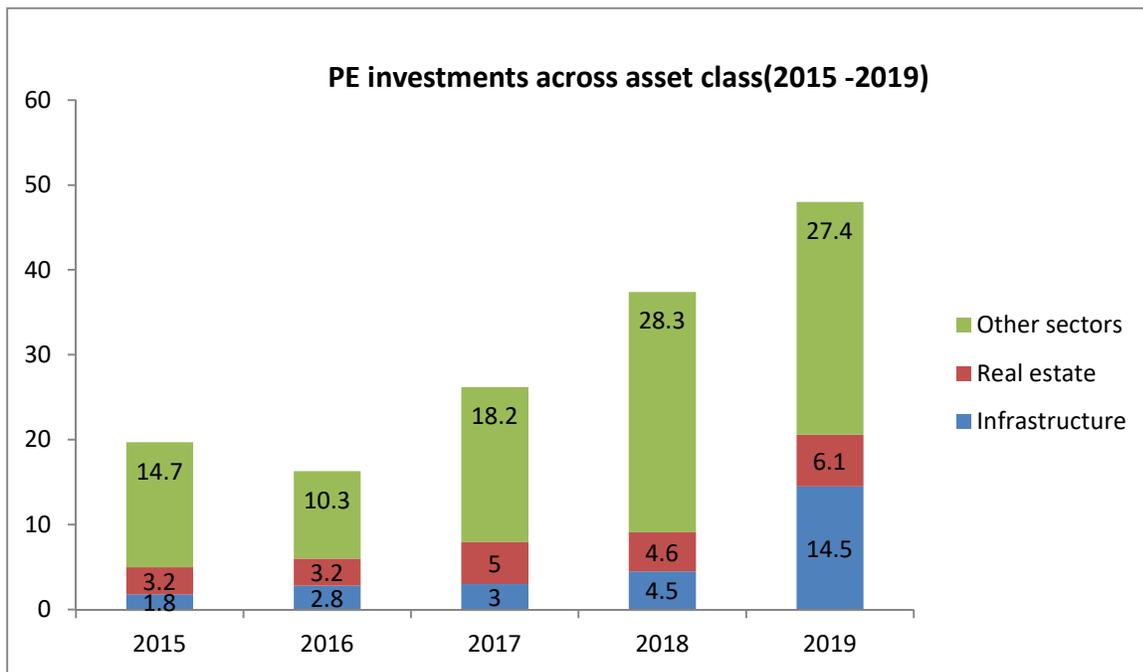
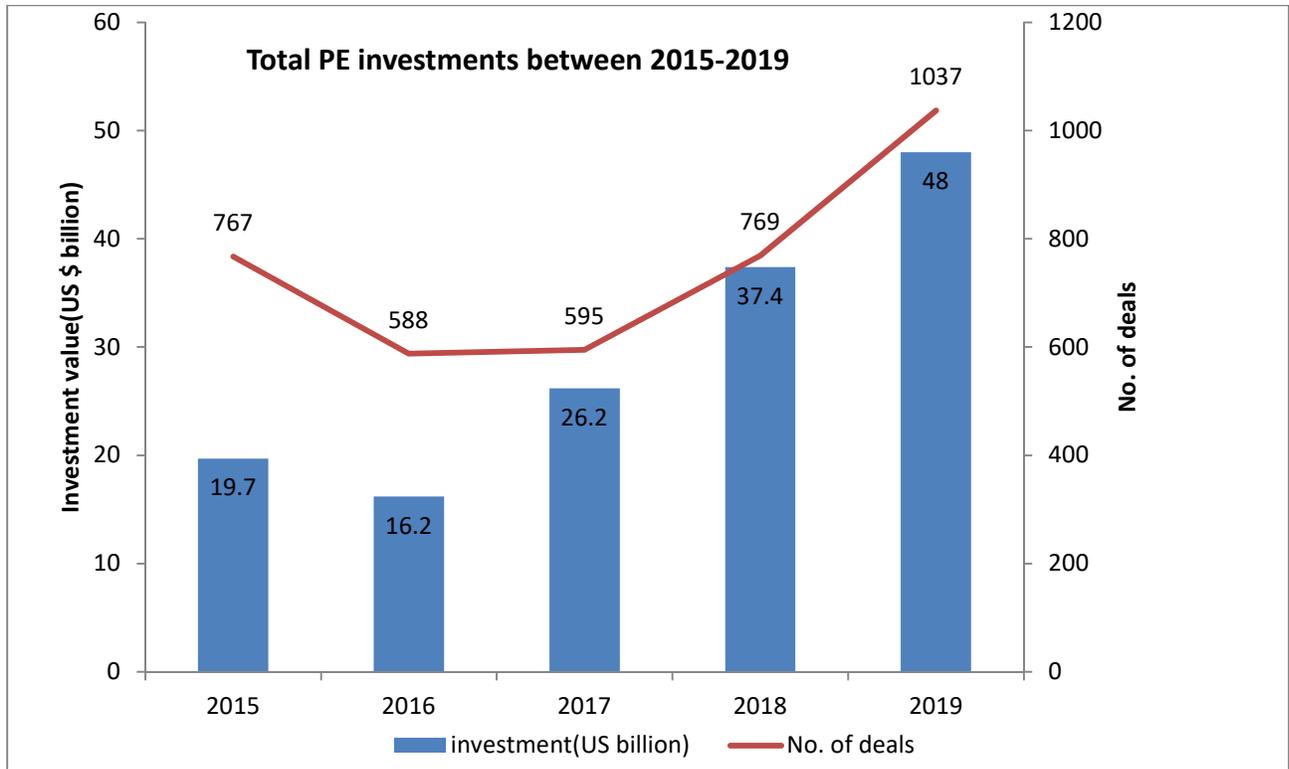
Objectives:

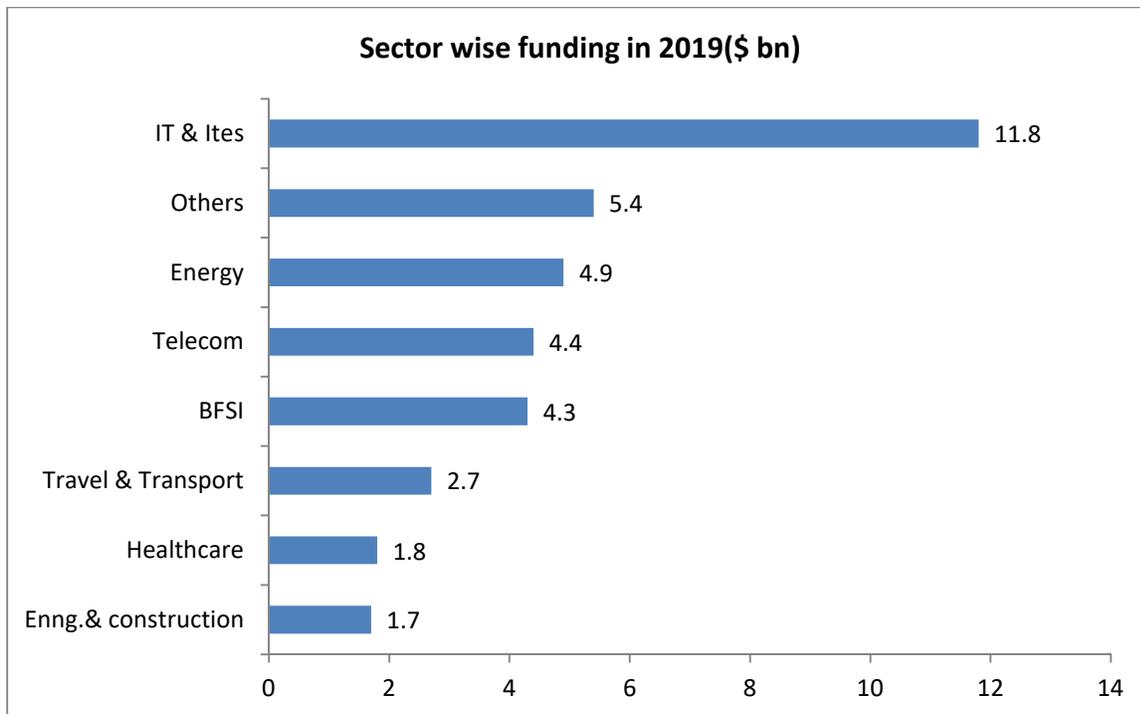
The main objectives of the study are

- To know the current scenario private equity finance in India.
- To find out the private equity investment volume in India.
- To help the growth of economy.
- Help the companies for expanding to international markets.
- Greater expansion of business creates more employment.

Private Equity Investment

Over the past years PEs have adapted itself to Indian economy drawn by excellent growth opportunities in market oriented environment in addition to increased number of entrepreneurs coming up by lack of capital to expand their businesses. In 2019 private equity investments in India recorded an all time high of 48 US\$ billion. This was the third consecutive year that private equity sector has outperformed. In terms of value private equity investments increased by 28% compared 2018 while deal volume increased by 35%. The growth was primarily driven by significant increase in investments in the infrastructure sector, which grew by three times compared to 2018. In 2018 and 2017 PE investments recorded a strong growth, growing from 37.4 US\$ billion in 2018 to 26.2 US\$ billion in 2017. This growth in PE investments was mainly due to high PE investments in India. According to a survey consumer technology and Banking, financial services and insurance (BFSI) were the key sectors of investment in 2017. Several developments in India had positive effects on the economy in 2017. Overall PE investments declined to 16.2 US\$ billion in 2016. India received a record of 22.4 billion investments in 2015, which is 31.8% more than the previous years.





Literature Review:

In general private equity refers to all equities that are not publicly listed in any stock market. According to growth economy private equity firms that specialize in acquiring middle-market companies have a different game plan in mind. Rather than buy and break, they buy and build. Instead of simply using financial engineering to reduce costs/overhead, they bring managerial skills, marketing and sales experience, and operational expertise to take a smaller company from sales and profits of X to X2. To help educate business owners and the general public about how equity firms operate in the middle market, the private equity community has created a wonderful research tool.

Gompers and Lerner in his paper entitled, the venture capital revolution has explored that private equities are not publicly listed in any stock market. Private equity is an important part of the overall financing for growing industry. A well functioning and active private equity industry is crucial for the success of the overall economy as it supports the growth and development of firms by offering financing support. In fact private equity has become important in financial markets, providing capital to firms that might otherwise be difficult for overall growth of the new growing industry.

McKinsey researched the performance of Indian backed PE companies. They found that PE backed companies grew faster both in revenue and profits and they also generated more employment than the non-PE backed companies. According to Indian private equity report 2011 India's private equity industry is far from reaching its full potential. As per report the biggest barrier holding India back is because of lack in the regulatory support.

Methodology:

The purpose of the study is to understand and explore private equity and related concepts with a view to gain knowledge about the existence and challenges of private equity investments and understanding private equity market as a whole. In order to understand the present study secondary sources of information have been utilized. The growth, performance of private equity markets in India have been examined on the basis of secondary data like journals, research articles, reports of various economy surveys and different websites containing information and data of Indian private equity.

Conclusion:

In the last few years the industry and market for the private equity has grown-up sharply and it is becoming a particularly strong market for innovations and enterprises. Profitability, growth and performance are the main objectives of the private equity firms. This will remain whether the market experiences dramatic or slower growth. Private equity have become a crucial source of finance of for corporate and has earned the status of an important asset class.

Despite various changes and influences private equity continues to hold a strong position for itself in the marketplace. It has emerged as an important factor that contributes towards the economic development and influence economic changes on a large scale.

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