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A Study on Performance of Private Equity Investment 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 Global. 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 during 2020 and 2021. 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. 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*

INTRODUCTION

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.

Private equity (PE) typically refers to investment funds, generally organized as limited partnerships, that buy and restructure companies that are not publicly traded.

Private equity is a type of equity and one of the asset classes consisting of equity securities and debt in operating companies that are not publicly traded on a stock exchange.

A private-equity investment will generally be made by a private-equity firm, a venture capital firm or an angel investor. Each of these categories of investors has its own set of goals, preferences and investment strategies; however, all provide working capital to a target company to nurture expansion, new-product development, or restructuring of the company's operations, management, or ownership.

Common investment strategies in private equity include leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital. In a typical leveraged-

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buyout transaction, a private-equity firm buys majority control of an existing or mature firm. This is distinct from a venture-capital or growth-capital investment, in which the investors (typically venture-capital firms or angel investors) invest in young, growing or emerging companies, and rarely obtain majority control.

Private equity is also often grouped into a broader category called private capital, generally used to describe capital supporting any long-term, illiquid investment strategy.

SCOPE OF THE STUDY

A private-equity manager uses the money of investors to fund its acquisitions – investors are e.g. hedge funds, pension funds, university endowments or wealthy individuals.

It restructures the acquired firm (or firms) and attempts to resell at a higher value, aiming for a high return on equity. The restructuring often involves cutting costs, which produces higher profits in the short term, but can probably do long-term damage to customer relationships and workforce morale.

Private equity makes extensive use of debt financing to purchase companies in use of leverage – hence the earlier name for private-equity operations: leveraged buy-outs. (A small increase in firm value – for example, a growth of asset price by 20% – can lead to 100% return on equity, if the amount the private-equity fund put down to buy the company in the first place was only 20% down and 80% debt. However, if the private-equity firm fails to make the target grow in value, losses will be large.) Additionally, debt financing reduces corporate taxation burdens, as interest payments are tax-deductible, and is one of the principal ways in which profits for investors are enhanced.

Because innovations tend to be produced by outsiders and founders in startups, rather than existing organizations, private equity targets startups to create value by overcoming agency costs and better aligning the incentives of corporate managers with those of their shareholders. This means a greater share of firm retained earnings is taken out of the firm to distribute to shareholders than is reinvested in the firm's workforce or equipment. When private equity purchases a very small startup it can behave like venture capital and help the small firm reach a wider market. However, when private equity purchases a larger firm, the experience of being managed by private equity may lead to loss of product quality and low morale among the employees.

Private-equity investors often syndicate their transactions to other buyers to achieve benefits that include diversification of different types of target risk, the combination of complementary investor information and skillsets, and an increase in future deal flow.

INDIA AND PRIVATE EQUITY INVESTMENT

The introduction and involvement of private equity companies have been a force for injecting much-needed lifeblood into an array of sectors that previously relied on state dollars, limiting private financing and innovation. Private equity investment into businesses, such as hospitals and technology, improves the quality of services rendered and encourages better business management by decision-makers seeking further investments.

As of December 2020, India had approximately 125 private equity firms specializing in a

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range of sectors and investments. Private equity companies are located in tier-1 cities only. In India, Mumbai is a major hub. Here are the five top private equity firms in India, according to The WallStreet School, India.

Top 5 Private Equity Firms in India

1. The Carlyle Group

The Carlyle Group was founded in 1987 and is one of the world's largest private equity companies. The group has invested over $200 billion globally with a focus on the consumer, healthcare, and manufacturing sectors. The group does not invest heavily in real estate.

In May 2020, The Carlyle Group acquired close to a 75% stake in SeQuent Scientific Limited, the largest animal healthcare company in India. The Carlyle Group has a well-established history of investing in the healthcare sector. It has invested in Medanta Medicity Hospital in the National Capital Region of Delhi, and Metropolis Healthcare, which operates a chain of diagnostic centers and laboratories. Carlyle had invested more than $2.5 billion in India as of March 31, 2020. Other notable investments include SBI Life, SBI Card, HDFC, India Infoline, Delhivery, and PNB Housing Finance.

2. Warburg Pincus

Founded in 1966, Warburg Pincus is a New York-based private equity firm with over $60 billion in assets under management. The company invests in SaaS, data and information, and fintech sectors globally with investments in Ant Financial, Varo Money, FIS, Interactive Data Corporation (IDC), Avalara, iParadigms, Sagent (formerly Fiserv Lending), Reorg Research, and Trax.

In November 2019, Warburg Pincus and Bessemer Venture Partners invested in Perfios Software Solutions, a leading fintech software player, to the tune of approximately $50 million.5 In October 2020, the company, along with its affiliate Orange Clove Investments BV, invested $95 million in Home First Finance Company India Ltd, a technology-driven, affordable housing finance company that provides home loans to low- and middle-income customers who are building or buying their first homes.

3. Bain Capital

Bain Capital was founded in 1984 and is headquartered in Boston, Mass. It is a leading private multi-asset investment firm that invests in all sectors. In 2019, according to Mint, Amit Chandra, managing director and chairman of Bain Capital India, announced that Bain Capital would invest $1 billion in Indian companies over the following three years. Bain Capital has invested $2.5 billion in India since 2012. The company has invested in Axis Bank, Genpact, Hero MotoCorp Ltd, Emcure Pharmaceuticals Ltd, Larsen and Toubro Ltd (L&T)'s financial services arm L&T Finance Holdings Ltd, and engineering services provider QuEST Global Services.

4. TPG Growth Capital

TPG Growth Capital was founded in 1992. The firm has over $70 billion of assets under management and has invested almost $2 billion in India. TPG growth's main focus area is distressed assets.

According to Forbes, TPG's first-ever deal was buying out the then-bankrupt Continental Airlines in 1993. In May 2018, TPG and Shriram Group sold Vishal Mega Mart (formerly Vishal Retail) for an undisclosed sum, and TPG experienced one of its biggest years of investments in India in 2018. TPG in India deploys capital across categories: TPG Capital manages transactions

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and buyouts; TPG Growth manages the middle market and growth equity investment platform, TPG Rise is a social impact platform, and Asia Healthcare Holdings is TPGs

healthcare platform. TPG is focused on health care, consumer, financial services and technology, and media and telecommunications sectors for investments.

5. CVC Capital Partners

Founded in 1981, CVC Capital Partners has total assets under management of around $75 billion. CVC's first investment in India was as recent as 2018. The group acquired enterprise legal services firm UnitedLex BPO Private Limited.

In Asia overall, the firm is focused on core consumer and services sectors. As of April 2020, according to VCCircle, CVC had has raised $15 billion of commitments across its Asia Pacific funds for 65 investments in varied industries.

REVIEW OF LITERATURE

Wright Robbie (1998) this paper critiques the prevailing literature on project capital and private fairness. The papers emphasize the significance of inspecting mission capital inside the mild of current traits in company finance and its strong point from different types of finance.

Gompers and Lerner's (2000) study show that inflows of capital into venture finances enhance the valuation of those budget' new investments and findings are dependable with competition for a constrained variety of appealing investments being accountable for growing prices.

Ljungquist and Richardsonn (2003) using a distinct dataset of personal fairness price range during the last two many years, this paper analyzed the coins waft, return, and hazard characteristics of personal equity. They additionally present numerous figuring-out factors for schedules, together with present funding opportunities and competition among non-public equity budgets.

Kaplan and Schoar's (2018) manuscript investigates the performance of personal fairness partnership the use of an information set of man or woman fund returns. Collective enterprise returns are lower following a growth, however most of this effect is power by the negative performance of recent entrants, at the same time as the returns of installed finances are much much less laid low with those enterprise cycles**.**

Ludovic and Oliver (2019) say the overall performance of personal equity funds as record by way of enterprise institutions and previous studies is overstated and that they speak numerous misleading factors of performance reporting.

OBJECTIVE OF THE STUDY

1. To examine the PE investments in Global during 2020 and 2021.
2. To find out the problems the PE investment in covid-19 situation

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 investment report of Q1’2020, Q4’2020, and Q1’2021.. The information so taken is compiled

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through tabulation and shown in graphs

RESULTS AND DISCUSSION

THE COVID CRISIS DEPRESSED BUYOUT DEAL COUNT IN 2020, A JUMP IN AVERAGE DEAL SIZE BOOSTED GLOBAL INVESTMENT VALUE

Fig.1.1

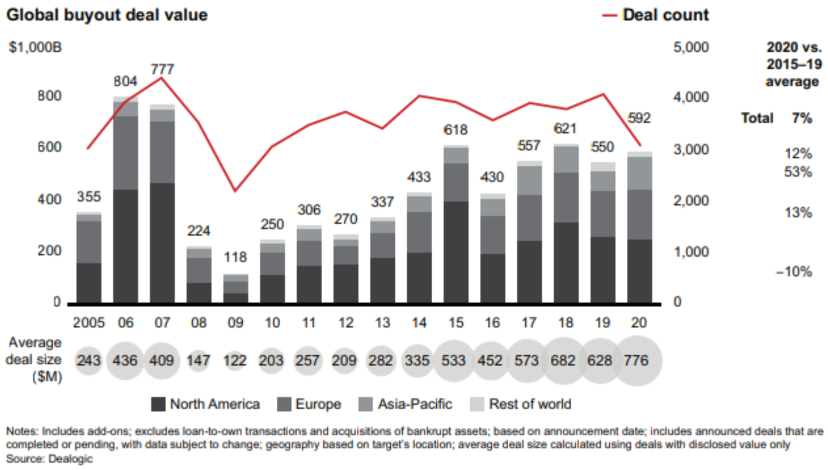
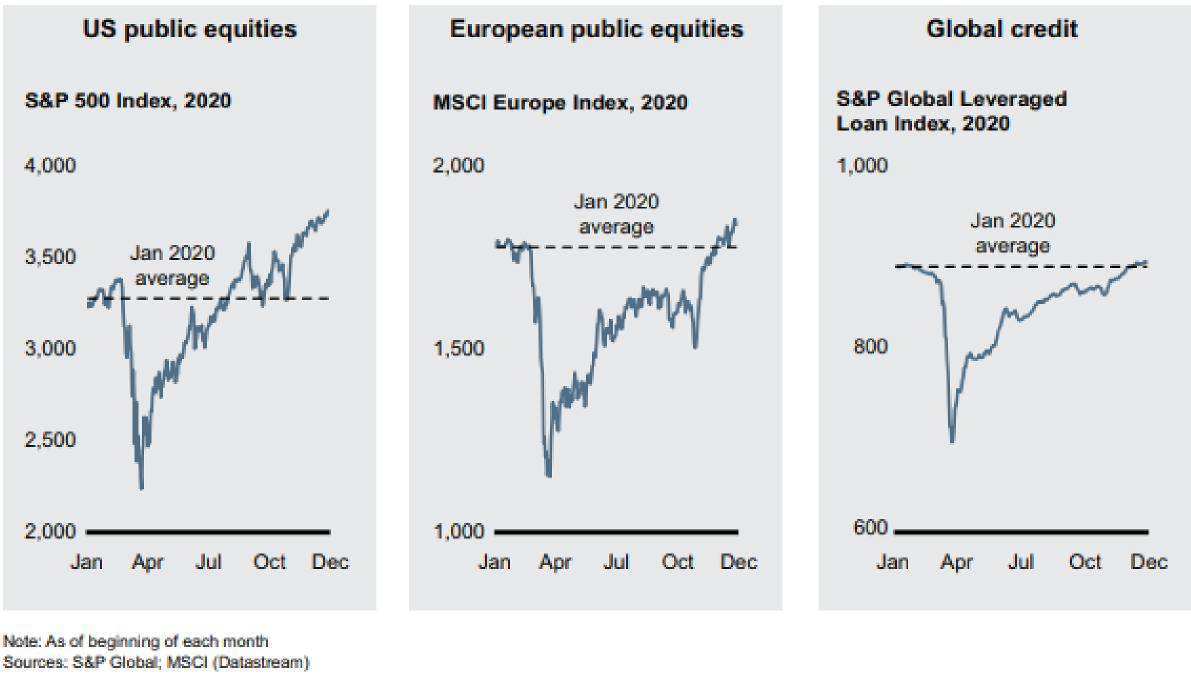


Fig.1.2



Few were willing to make buy/sell decisions during the period of disorientation immediately following Covid-19's global spread. But the mood flipped when central banks

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in the US and Europe aggressively pumped trillions into the financial economy, easing liquidity concerns for firms and their portfolio companies (see Figures 4 and 5). That shifted attention from portfolio triage back to making deals. The rapid stimulus boosted confidence that the malaise in the real economy would be temporary. It also made the flood of cheap debt available to fund transactions even cheaper. Rising asset prices and fears of a capital gains tax hike in the US, meanwhile, encouraged sellers to put assets on the market— particularly PE sellers transacting sponsor-to-sponsor deals. The net effect was a second-half surge in large deals that more than made up for the second-quarter drop in value. The challenge moving into 2021, of course, is that the crisis is still very much with us and its economic impact remains extremely difficult to forecast. Although vaccines are on the way, Bain’s Macro Trends Group projects that challenges to global economies are likely to persist through 2022, and the global regulatory response to this period of crisis could be significant.

Table 1

Sample selection and representativeness.

This table compares the composition of the population of 15,600 investors in Pitchbook with our sample of 749 participants that took part in our experiment. The initial population was first filtered from Pitchbook by investor type (i.e., funds). Investors needed to be classified as a venture capital fund, corporate venture capital fund, family office, buyout fund, or growth equity fund. As a second requirement, we considered only investors that had done at least one equity deal in the last ten years (as of 2016) that was classified as series A, B, C, D (or later), or expansion. Third, we identified every individual investor (= person) listed in Pitchbook working for these investors and removed those individuals who had missing values with regard to e-mail and/or location. This approach led to the identification of 15,600 individual investors which we invited via email to participate in our research. We sent a total of three reminders letters over five months. In total, we collected 749 responses (response rate = 6.24%). We asked participants about the type of investor they work for (self-se- lection) as Pitchbook's classifications can contain multiple classifications per investor. For example, an investor could be classified as a VC.

Table 1.1

Panel A: Our sample of participants

(%)	N	Investor type
(52.2%)	8149	Venture capital fund
(20.6%)	3214	Private equity companies
(3.2%)	503	Family office
(23.9%)	3734	Multiple investor types

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(100%)	*15,600*	*Total*

Panel B: Our sample of participants

(%)	N	Investor type
52.9	396	Venture capital fund
25.2	189	Growth equity fund
11.3	85	Leveraged buyout fund
7.9	59	Family office
2.7	20	Business angel
(100%)	*749*	*Total*

CONCLUSION

PE investors place a heavy emphasis on their ability to select promising companies. In spite of the large interest in the decision- making of PE investors, this study is among the first to assess the investment criteria of these investors. While there is an established literature on the characteristics and behavior of specific types of investors, a broader perspective is underdeveloped. We compare the investment criteria of different types of investors using a large-scale conjoint analysis of 19,474 screening decisions by 749 private equity investors.

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