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THE TIMES OF INDIA

India is hot number for PE firms in 2007

Dinesh Narayanan | TNN

IT'S WIN-WIN FOR ENTRY...

INVESTOR	TARGET	% STAKE	VALUE
Affiliate of Kohlberg Kravis Roberts	Flextronics Software Systems	85	900
Sequoia, Citigroup, Chryscapital and others	Idea Cellular	30	820
Temasek	Tata Teleservices	10	360
Farallon	Indiabulls Financial Services	NA	143
JP Morgan Chase, IDFC Pvt Equity	L&T Infrastructure	22	124
Olympus Capital	Quatrro BPO Solutions	NA	100
Siachen Capital	Nitesh Estates	NA	100
DE Shaw, New Vernon and others	Amtek India	29	88
ChrysCapital	UTI Bank	NA	66
3i	Gujarat Pipavav Port	NA	65
Warburg Pincus	Lemon Tree Hotels	27	46
Actis	Paras Pharmaceuticals	23	42
D E Shaw Composite Investments	Amar Ujala	18	26

($ million) (Notable Deals Jan to Nov 2006)

...AND EXIT

Seller	Target	Acquirer	Size*
Temasek Capital & Newbridge Capital	Matrix Laboratories	Mylan Laboratories	593
Baring PE (52%)	MphasiS	EDS	380
Francisco Partners	OfficeTiger	RR Donnelley	250
WestBridge, Baring PE and others	Celetronix International	Jabil Circuit	185
Citigroup	Suzlon Energy	Open Market	137
Citigroup	Progeon	Infosys Technologies	115

(*In $ million)

Mumbai: When Warburg Pincus sold its stake in Bharti Tele-Ventures, India's largest cellular phone services company, in March 2005, it was sort of a confidence-booster for private equity funds. The $560 million sale was the biggest bulk deal done on an Indian stock exchange. It took only 28 minutes to execute the sale, revealing a depth that was only talked about, but never tested. That gave large private equity (PE) investors, who always consider exit route as more important than entry opportunities, a new confidence in the Indian market that has been luring them for some time.

"With some of the older PE players in India, including Warburg Pincus, Citigroup, ChrysCapital, ICICI Venture and General Atlantic are making profitable exits from their investments made in the fledgling days, the significance of India on the global PE investment horizon has been established," says PwC in a report.

PE investments in India surged during 2006 with 246 deals totalling $5.4 billion, way surpassing the 169 deals for $2.2 billion in 2005, according to data compiled by PwC. (Some experts put the total deal size this year at almost $7 billion as some purchases are made through foreign institutional investors.) 2006 showed even at high valuations Indian companies are attractive to big players like Kohlberg Kravis Roberts, which stormed into the country with a $900 million acquisition of 85% stake in Flextronics Software Systems, or Temasek that bought 10% in Tata Teleservices for $360 million.

"The year has been very good, both for notable investments and exit opportunities," says Pradip Shah of IndAsia, which advises foreign private equity firms. "It's a win-win situation for investors and companies, which are able to attract capital. It is because of both, the country's economic performance and corporate performance," Shah said.

Indian economy has grown at an average 8% in the last three years — manufacturers and services firms need capital more than ever before. And PE firms which have been seeing returns from investments in developed markets dwindle, are betting on emerging economies like India for big returns. "PE funds are hungrier than before," says Sanjeev Krishan, ED at PwC. "We can expect the same growth in the next year too," Krishan says.

A combination of surging consumer demand, a rapidly growing services sector, clear laws, a reformist government, a robust financial system and booming stock markets have made India one of the most sought-after destinations for capital, attracting nearly a fourth of the $28 billion that ex-Japan Asia got this year.

"I changed my career path to come back to India," says Neeraj Bharadwaj, partner at the $20 billion Apax Partners, a PE fund. "We have been actively looking at India since 2004. As a global PE firm, we cannot afford to be not present in one of the largest emerging markets in the world," Bharadwaj said.

But the easy pickings or low-hanging fruit, as Bharadwaj terms quick-growth investments, may have disappeared. As hedge funds, high networth individuals, local mutual funds and retail investors vie to lend capital to new ventures and expansion of existing ones, PE firms may have to settle for lower returns. "There is definitely some amount of discomfiture regarding valuations but if PE funds continue to see India as a big story, valuations will not be an issue," says PwC's Krishan. Besides, other opportunities are opening up.