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PE firms upbeat about India story

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DESPITE a falling Sensex and a difficult macro-economic environment, private equity (PE) investors remain upbeat on the India story. A report by Grant Thornton says that the first five months of the current year saw 170 PE deals worth \$6.39 billion being struck, as against 159 deals worth \$4.97 billion being struck in 2007. These numbers may not represent a completely accurate picture, since there deals that were spillovers from the previous year. But it indicates that deal street is still buzzing.

"Though there are concerns about the fresh money that PE investors can raise, the current pipeline is strong enough to last for 9-12 months," says Grant Thornton. Consulting partner Harish HV. "Last year, we were chasing promoters and they would demand a higher valuation with every passing day. Today, the scenario has reversed," says a fund manager at a private equity firm. For now, the ball is clearly in the PE players' court. Without a doubt, the amount of due diligence before signing the dotted line has increased.

With liquidity being squeezed, interest rates moving up, fund raising through IPOs being extremely tough, promoters will may be forced to partner with PE players. Today a lot of entrepreneurs feel that private equity can actually add value to their business and take them to the next level. For their part, PE players spot a business opportunity in such entrepreneurs. "Despite short term pressure on the Indian economy, the growth appetite of Indian entrepreneurs is very strong and this should create partnership possibilities from a PE perspective," says Baring Private Equity Partners India managing partner Rahul Bhasin. Barings has a

track record of having concluded 30 transactions in India.

"From a 12-15 month perspective, the macro economic situation has gone haywire, but the long term story looks intact," says 3i director Mahesh Chhabria. In April 2008, 3i raised \$1.2 billion for its India Infrastructure fund. "Since valuations have turned more sanguine, it gives us an opportunity to choose and invest," he added.

Like anyone else, PE players look for the best possible opportunity. "For a PE player, the best time to invest is when markets are down, since they take a five-year timeframe. When markets are down, entrepreneur expectations are calibrated," thinks Crossover Advisors CEO Vinnie Vyas. Crossover is optimistic about the financial services sector and is looking at opportunities in that space. Real estate is another sector that can present opportunities.

"As we speak, there are 19 real estate funds trying to raise money. While real estate funds raised \$8-14 billion through India specific funds, only \$2-3 billion was invested. With valuations getting sanguine, these could be deployed in the future", says Saffron Asset Management founder and MD Ajoy Veer Kapoor. The Saffron group currently has around \$450 million under management. This is through its two funds, Yatra Capital Limited and Saffron India Real Estate Fund I, with the latter being the one that is currently being marketed. Mr Kapoor, however, feels that real estate is a 10-15 year play in India and valuations could correct 20% on an average from the current levels too. Since debt is not available, and an IPO ruled out for a lot of real estate companies, the option could be to look for PE investments. The stage looks set for some interesting deals going forward.

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