



INTERNATIONAL
JOURNAL FOR LEGAL
RESEARCH & ANALYSIS
(ISSN 2582 - 6433)

VOLUME 2 ISSUE 6

(April 2022)

Email –

editor@ijlra.com

Website – www.ijlra.com



IJLRA

INTERNATIONAL JOURNAL
FOR LEGAL RESEARCH & ANALYSIS

DISCLAIMER

No part of this publication may be reproduced or copied in any form by any means without prior written permission of Managing Editor of IJLRA. The views expressed in this publication are purely personal opinions of the authors and do not reflect the views of the Editorial Team of IJLRA.

Though every effort has been made to ensure that the information in Volume 2 Issue 5 is accurate and appropriately cited/referenced, neither the Editorial Board nor IJLRA shall be held liable or responsible in any manner whatsoever for any consequences for any action taken by anyone on the basis of information in the Journal.

Copyright © International Journal for Legal Research & Analysis



IJLRA
INTERNATIONAL JOURNAL
FOR LEGAL RESEARCH & ANALYSIS

EDITORIAL TEAM

EDITORS

Ms. Ezhiloviya S.P.

Nalsar Passout

Ms. Priya Singh

West Bengal National University of Juridical Science

Mr. Ritesh Kumar

Nalsar Passout

Mrs. Pooja Kothari

Practicing Advocate

Dr. Shweta Dhand

Assistant Professor

INTERNATIONAL JOURNAL
FOR LEGAL RESEARCH & ANALYSIS

ABOUT US

INTERNATIONAL JOURNAL FOR LEGAL RESEARCH & ANALYSIS
ISSN

2582-6433 is an Online Journal is Quarterly, Peer Review, Academic Journal, Published online, that seeks to provide an interactive platform for the publication of Short Articles, Long Articles, Book Review, Case Comments, Research Papers, Essay in the field of Law & Multidisciplinary issue. Our aim is to upgrade the level of interaction and discourse about contemporary issues of law. We are eager to become a highly cited academic publication, through quality contributions from students, academics, professionals from the industry, the bar and the bench. INTERNATIONAL JOURNAL FOR LEGAL RESEARCH & ANALYSIS ISSN

2582-6433 welcomes contributions from all legal branches, as long as the work is original, unpublished and is in consonance with the submission guidelines.

PRIVATE EQUITY INVESTMENT IN INDIA: AN ANTIDOTE FOR INDIAN MARKET IN THE POST COVID PERIOD

By: Ayush Tiwari

ABSTRACT

Private Equity Investment has risen in India tremendously over the past decade. They have been a major source of capital for the Indian economy. In 2021, the Private Equity Investment (hereinafter referred to as "PE") in India rose to \$63 billion registering a 57% rise over the \$39.9 billion invested in 2020. They have become a growth mechanism for many companies over the past decade and this has helped many companies especially start-ups to gain an identity in the global corporate world. With the advent of digitisation and ever-increasing urbanisation coupled with the required consumer curiosity and politico-legal framework, PE investments have been a key in absorbing the growth opportunities that India offers. Despite the challenges thrown by the pandemic, the Indian PE ecosystem has become resilient and has been able to explore unexplored avenues and venture into unventured paths. The macroeconomic outset post COVID-19 has been like a turbulent sea for the global economy, but India has certainly emerged as one of the key market avenues that can translate this challenge into an opportunity. The vibrant nature of the Indian economy coupled with crucial economic reforms have instilled confidence in the existing as well as the prospective investors who want to be a part of India's growth journey. The author makes a sincere attempt to discuss the fundamental role of PE investment in the Indian economic ecosystem and bring to the light its increased presence in the post COVID era and how it can be a tool to drive growth and enable India to be a frontrunner for investor suitability.

Keywords: Private Equity, investments, investors, buyouts, start-ups, technology

INTRODUCTION

In the year 2010, the Dollar value of PE investment in India was USD 4.9 billion. This made a remarkable acceleration to USD 63 billion in 2021. This shows how India has proved to be a darling avenue for all the investors who believe in the economic model that the country represents and the flexibility and dynamism that it offers. For any economy to prosper, it is important that the capital efficiency of the economy is increased. The PE investors enable that by pitching in new and dynamic business models, backing the greenhorn entrepreneurs, building infrastructure and helping fund financial inclusion. Now before understanding the role of PE investment in the Indian context and its pivotal role in the post COVID period, it is necessary to understand the concept of PE investment.

PE investment refers to an ownership or interest in a corporate entity that is not listed on a stock exchange or its shares are not publicly traded. This equity generally comes from high-net worth

individuals or firms that attempt to gain substantial control of companies. The PE industry is comprised of institutional investors such as pension funds, mutual funds, insurance companies etc. and accredited investors. PE investors, unlike venture capitalists, also invest in mature companies along with start-ups that are aimed towards expanding working capital and bolstering working capital of such companies. A PE fund generally consists of Limited Partners (hereinafter referred to as “LP”) and General Partners (hereinafter referred to as “GP”). The LPs are generally the ones who are partly the owner of a company and their liability for the firm’s debts cannot exceed more than the amount they have invested in it. They are not involved in the day-to-day management of the firm and have limited voting rights. GPs, on the other hand, are the ones who may [have](#) unlimited liability for the debts of the firm and look after the day-to-day management of the firm and play a greater role in its functioning. They are also responsible for executing and operating the PE investment. The former generally owns 99% of stakes in a fund while the latter owns remaining 1%. PE funds are lucrative for companies as they get access to liquidity and are not required to resort to high interest bank loans or listing on public markets. Thus, they act as an alternative to the conventional sources of finance and enable a company to restructure itself accordingly.

PRIVATE EQUITY IN INDIA

India’s earliest interactions with PE funds occurred in the late 1990s. Amidst limited competition, the task to bring the prospective LPs as well as entrepreneurs, who were unsure about India’s potential and had never heard of asset class was really challenging. However, with the dawn of a new millennium, this potential came to be noticed by many investors. Between 2000-2005, the economic reforms of 1990s started reaping fruits and this was evident in the rising GDP, decreasing inflation and increasing investment opportunities. However, the Indian model is quite distinct from the ones present in Europe and the United States. The PE investment in India has undergone a great re-working, drifting away from the conventional approach to adapt to the Indian legal and regulatory framework. As one commentator points out, “*While the traditional PE model has been successful in developed economies, PE firms quickly realised that transplanting this model to India would prove difficult due to various legal constraints. Accordingly, PE firms in India have developed an alternate model and customised [it] for India’s complex regulatory and governance environment.*”¹ Between 2011-2020, the perception of PE funds of simply being an asset class changed drastically. It has now become a mature ecosystem and has crossed many significant milestones. The Compound Annual Growth Rate (hereafter referred to as “CAGR”) of PE investments was at 19% during this decade aggregating to a total of USD 232.4 billion. In the initial years, when the PE intelligentsia was still testing the waters of the Indian PE ocean, there were investments in companies who had cheaper valuation as there was not much fierce competition and these companies benefitted from the holistic growth within their own system. However, in the last four years, as money began to pour in the Indian PE market, and numerous avenues of investment opened up, investments in PE grew at a CAGR of 31%. The expansion of the horizon of supply chains is another factor that has led to the growth of PE investment. Global corporations have also understood the need to change their approach in times of global uncertainty

¹ Afra Afsharipour, *The Indian Private Equity Model*, NSE Working Paper WP/8/2013 2 (2013)

and the only way by which risks can be mitigated, is through diversification of supply chains. The tectonic shift in the Indian digital landscape unleashed by the pandemic, coupled with sentiment boost for the mega investors, led to new trends coming to the fore, especially increased investment in e-commerce and technology sector. The year 2021 also saw a shift in the investment tendency of PE investors in real estate and infrastructure to pure-play PE investments (investment in sectors excluding real estate and infrastructure). The Indian start-up ecosystem played a crucial role in bringing a change in this approach. The start-up segment emerged to be a top recipient of all PE investments, recording USD 28.5 billion and accounting for 37% of all PE investments. As India gained its position amongst the world's fastest growing start-up ecosystems with over 80 unicorn start-ups as of 2021, the PE investment also responded by investing increasingly in new business models revolving around fintech, consumer internet, enterprise tech and media and entertainment. In 2020, where the investor confidence was dwindled by the pandemic, 2021 reposed this confidence which led to the expansion of the sectoral investment opportunities. This came in the form of identification of new themes of economic development namely Electric Vehicles (EVs), edtech, gaming, online streaming and sports-based entertainment. With the incoming of large-scale global liquidity, benign inflation rates and return of normalcy across countries coupled with increase in the rate of vaccination in 2021, it has enabled PE investments to stabilize themselves globally. The pandemic has been a blessing for technology led businesses as PE investors have largely gravitated their investments towards these sectors.

2021: A YEAR IN REVIEW FOR PE INVESTMENTS

After the onset of pandemic in 2020, the confidence of PE investors certainly dwindled globally. As a pall of uncertainty was laid over the Indian market as well, there was an urgent need to put mechanisms in place to counter this growing uncertainty. The Government of India's announcement of injecting a stimulus of 20 Lakh crore in the economy to accentuate recovery post COVID lockdown, came as a blessing for PE investments as well. This not only helped in regaining the confidence of PE investors but also allowed for many sectors to open up their operations and enter new product lines. The roadmap of 2020 began yielding fruits in the commencement of 2021. Despite a horrific second wave of the virus, the India Inc., this time did not lose hope and were courageous enough to steer India from the horrors of the lockdown and revive the Indian economy in a holistic manner. For PE investments as well, 2021 came as a messenger of change. In 2021, the PE investments reached a significant milestone of USD 77.1 billion (62% increase y-o-y) and this year also proved to be a favourable one for PE exits as they recorded USD 43.2 billion, seven times higher than 2020.

As discussed above, one of the biggest reasons for the increased investment activity by PE investors in 2021 was changing their conventional approach and engage in pure-play PE investments, drifting apart from real estate and infrastructure. This recorded a 79% increase y-o-y (US\$66.4 billion in 2021 compared to US\$37.1 billion in 2020) and accounted for 87% of total PE/VC investments by value. 2021 was the 'Year of Start-ups' as they received almost USD 28.5 billion in investments, which I have already mentioned above. Buyouts² also made a rebound last

² Buyouts are defined as acquisition of more than 50% stake in a company

year by recording USD 22 billion in investments. As many companies needed a captain to steer their ship and sail it through any incalculable adversities, PE investors took the charge and resorted to buyouts to ensure their effective functioning. The average size of the buyouts also expanded and witnessed a sharp increase of 27% over the past two years which again gives an indication that PE investors have utmost faith and confidence in injecting huge chunk of capital in control transactions. Over the decade, the concept of large buyouts has mostly been associated with PE investors. Where minority growth investments were the only considered domain expertise of PE investors, a change in outlook has certainly changed the approach with which PE investors used to decide their investment mix. Since 2011, large buyouts have become a significant part of the investment strategy of PE investors. The after effects of the pandemic has resulted in stressed balance sheets of some of the corporate entities. This gives PE investors increased opportunities in buying out some of the entities with a better goodwill/ brand value at reasonable valuations. The buyout strategies of PE investors also make them eligible to be prospective promoters of Indian companies as their strategies embraces the strategy of mature markets. Since the pandemic persuaded the corporate world, whether voluntarily or forcibly, technology adoption became the key as it was understood that the existing business policies had to be amended to keep in line with peer competition. As a result, more and more avenues for technology were being opened up, and the existing tech giants started to look for ways in which they can gain technical expertise to enhance their operations, technology centric PE funds took the centre-stage, and the effect of this was that technology buyouts were the most preferred buyouts among all sectors accounting for 57% of buyouts by value and 16% by [volumevalue](#). The emerging trend of technology buyouts has not only gained momentum in the indigenous market but the global approach is also in consonance with this trend. Thus, the hegemony of real estate and infrastructure in PE buyouts, which was commonplace in the past decade, has certainly decreased, if not finished, and new vacuums are being created to be filled and shift the balance of power. PE investments did not only tread the path of pure-play investments or increased buyouts, but they also modestly engaged in growth investments³. PE investments worth USD 19.6 billion were made across 187 deals, though this was 14% lesser as compared to USD 22.9 billion in 2020. The Reliance Group entities became favoured destinations for growth investments and PE investors posed confidence in them even during 2020 when they invested almost USD 17.3 billion.

Private Investment in Public Equity (PIPE)⁴ also witnessed a significant increase in its value by 46% from USD 3.1 billion in 2020 to USD 4.5 billion in 2021. As more and more small and medium sized public companies came into inception, they found it a bit strenuous to access traditional forms of equity financing. Around 77 odd deals relating to PIPE took place in 2021 enriching the public equity market and providing enhanced working capital requirements, expansions and acquisitions.

PE investments have always been associated with large deals and infusing gigantic financial stimulus in the companies. Even during the pandemic, PE investors did not shy away from entering

³ Growth investments are defined as minority investments other than investment in start-ups

⁴ A private investment in public equity, often called a PIPE deal, involves the selling of publicly traded common shares or some form of preferred stock or convertible security to private investors.

Formatted: Font: (Default) Times New Roman

Formatted: Font: (Default) Times New Roman

Formatted: Font: (Default) Times New Roman

Formatted: Font: (Default) Times New Roman

into large deals and engaging in diverse businesses. Out of all the PE deals made in 2021, 75% of them had a valuation of around USD 100 million.

THE ROAD AHEAD

However, in the year 2022, the challenges for the PE investors are different. This year promises an entirely different environment for the PE investment market as because of the ongoing Russia-Ukraine conflict, the global economic order has certainly taken a toll and financial markets globally are suffering. If the *status quo* remains, it is very likely that interest rates will increase substantially, inflationary pressures will rise and potential hawkish monetary policies may also see the light of the day. Amidst all these uncertainties, India’s dedicated fundraising was modest in 2021 at US\$7.7 billion despite an all-time high fundraising recorded globally of US\$732.6 billion.⁵ If we look at the GP and LP allocations, it is unlikely that there will be a drastic shift in allocation of GP and LP as in the midst of war and uncertain global financial markets, India is the only accommodative and a bright spot for growth-oriented measures also harnessing one of the fastest growing start-up ecosystems of the country. This year, as the country looks to sail through the adversities by opening up the contours of all possible economic investments, the entry of new funds into the market is inevitable and if things go as planned, the dedicated fundraising too could pick up pace in 2022. We do understand that the ongoing global conflict has already impacted portfolio of several companies of PE funds and as a result investors are becoming circumspect and diverting their funds into safe-haven investments. The rising global crude oil prices is yet another concern for PE investors and this does not augur well with India as it depends largely on imported oil. If the conflict escalates, it will adversely affect the global recovery and in-turn investment flows into India.

However, if we look at the bigger picture, the PE industry in India could reach USD 100 billion in the next 2-3 years, potentially making it the third/fourth largest PE market globally. The current geopolitical developments may give a hazy weather forecast for the PE industry which is primarily because of inflationary pressures and stringent measures by the Central Bank, it is expected that the Indian PE industry will yet again cross significant milestones in the same way it did in 2021.

The other important aspect that certainly needs to be discussed is the exit of PE firms. It is true that exits have gotten off to a slow start, with Jan-Feb 2022 recording exits 69% and 59% lower than Jan-Feb 2021 and Nov-Dec 2021 respectively.⁶ PE exits saw an all-time high in 2021. With the injection of the growth stimulus, the liquidity in the market increased and the actual funding cost reduced which resulted in creation of huge number of buyers, especially for high growth businesses. The year also witnessed an accelerated growth of the capital markets which continued with a strong momentum and this was one of the many reasons why certain unicorns chose to test the waters of public market and enthusiastically pursued the route of IPO. This not only helped the unicorns but also many PE funds to take the exit via IPO route at a significantly higher valuation than available in the private market. There has been a dawn of a new culture wherein large corporates are acquiring start-ups to augment their technology and e-commerce capabilities, and

⁵ <https://www.privateequityinternational.com/fundraising-hit-anew-full-year-record-in-2021/>

⁶ PEVC Agenda, India Trend Book 2022, Ernst&Young India LLP

Formatted: Font: (Default) Times New Roman
Formatted: Font: (Default) Times New Roman
Formatted: Font: (Default) Times New Roman
Formatted: Font: (Default) Times New Roman
Formatted: Font: (Default) Times New Roman
Formatted: Font: (Default) Times New Roman, Complex Script Font: Not Italic

this has led to creation of new pools of capital that will be able to provide PE investment funds good exit opportunities. However, with certain PE backed IPOs the road has been topsy-turvy. Paytm, for example, was the largest PE backed IPO in India's corporate history with a valuation of USD 2.5 billion. However, the market trends and constant decline in its share price has dampened the sentiments of many PE investors. Although, in the medium and long-run, it is expected that there will be continuance in favourability of exit of many PE funds.

CONCLUSION

It has been almost 32 years, since India opened the door of its economy and ever since then it has been a promising destination for the PE investors to engage in the working of companies and invest [heavily](#) in their operations. The commitment to progressively liberalise the economy has continued and as the global world order demands, policies which are economy-centric and aid the industrial viability, are being constantly taken up and all the stakeholders are being consulted and necessary steps are being taken to ensure PE investment in India Inc. remains unhindered. India presents a unique opportunity to PE investors as it offers transformational ease coupled with regulatory fluidity. There have been concerns in the past over the speed of regulatory action and ambiguous compliance framework, but over the years, these issues are being addressed and because of this very reason, the PE investors did not lose their faith in the potential of Indian market as they knew it has the capability to rebound with handsome pace. In this new Digital India, where start-ups are becoming a driving force of the economy, the need to support them in their endeavour also becomes extremely important. In this regard, the role which is being played by PE investors is really praiseworthy as they have sensed that pure-play PE investments are going to be the key to achieve fiscal consolidation and bringing up new lines of businesses by giving them the due credit for their efforts is the need of the hour. As India aspires to be a 5 trillion-dollar economy, it is important to keep in mind that in the event of its happening, a huge role shall be played by the MSMEs and channels of investment must be opened up for their amelioration. 2022 should be the year of India which will accelerate its growth further not only in terms of enhanced financial capabilities, but also making it a [global](#) hub of innovation and employment opportunities. It is expected that the capital markets too would continue on a great patch, despite the initial scares because of global conflict and FPI withdrawals, and the newly PE funded IPOs will aid its growth. The medium and long-term outlook for India is positive and efforts should be coordinated and there should be only one goal in mind, i.e., 'DEVELOPMENT' and in this regard, PE investments will [provide](#) effective mechanisms that will help achieve this goal.