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India's private equity market is back on limited partners' radar

Enthused by India's macro scene, global institutions such as IFC return to participate in PE market in a big way

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Mumbai: After a nearly three-year slump, limited partners are warming up to the Indian private equity (PE) market again.

Mumbai-based India Value Fund Advisors (IVFA) is the latest homegrown PE firm to raise a new fund this year. It has raised $700 million for its fifth India-focused fund, Indium-V Fund, bringing a six-month fundraising campaign to a close.

"Limited partners are more positive today about India's macroeconomic environment than they were 12-18 months ago," IVFA managing partner Vishal Nevatia told *Mint* over telephone. About 25 limited partners (institutions that invest in PE funds) have invested in Indium-V Fund, and several of them are those that invested in its four earlier funds. The new fund takes the total capital raised by the firm till date to $1.9 billion. "The mix of investors includes emerging market sovereign wealth funds, global pension trusts and fund-of-funds," Nevatia added.

IVFA is the second local PE firm to successfully raise a large India-focused growth fund since January. *Mint* reported earlier this month that Mumbai-based Everstone Capital Advisors Pvt. Ltd had completed fundraising for its third fund of $700 million, christened Everstone Capital III LLP. The firm is yet to make a formal announcement on the closing of the fund. An Everstone spokesperson declined to comment on emailed queries.

Another large growth fund that is nearing closure is Multiples Alternate Asset Management Pvt. Ltd, a Mumbai-based PE firm headed by former ICICI Venture Funds Management Co. managing CEO and CEO Renuka Ramnath. The firm's second fund, Multiples Private Equity Fund III Llp, has raised $450 million so far. It has a final target corpus of $650 million, which it expects to raise by the end of the year.

"For investors, other than macro factors, the only thing that matters is track record. We have already returned 50% of the capital drawn from our first fund and that is enabling us to raise the second fund," Ramnath told *Mint* in an email.

The mix of limited partners that have come to back Indian PE funds this year include global institutions such as World Bank arm International Finance Corp. (IFC), the University of Texas endowment fund, and Canada Pension Plan Investment Board (CPPIB). The first two are investors in Everstone's latest fund. CPPIB is an investor in IVFA's and Multiples' new funds. This is CPPIB's first investment in IVFA. However, it debuted in the Indian market in 2010 with an investment in Multiples' first fund. It has committed a further $140 million to Multiples' second fund.

The $1.8-plus billion raised by IVFA, Everstone and Multiples, however, represents a fraction of the number of new funds in the market wooing limited partners. There are an estimated 95 India-focused funds looking to raise an aggregate $20.9 billion, according to data compiled by London-based alternative assets investment research firm Preqin. This includes growth funds like IVFA and Multiples, venture capital funds and real estate and infrastructure-focused funds.

Growth funds that are currently in the market to raise fresh capital include Aditya Birla Private Equity and IDFC Alternatives Ltd which are raising a total of about $1 billion. In September, Delhi-based ChrysCapital Investment Advisors, India's largest homegrown PE firm, will hit the market to raise a $600-700 million fund, its sixth till date.

"Right now, limited partners are still cautious and fresh allocations are very fund-specific. It will probably be another 12 months before we see a full recovery," said Nevatia. IVFA is currently exiting its third fund, the $400 million India Value Fund III that was raised in 2007. It has three exits pending from the fund: radio taxi operator Meru Cab Co. Pvt. Ltd, broadband services provider Atria Convergence Technologies and hospitals chain Aster DM Healthcare.

Fundraising for growth investors has been choppy since 2009, in the wake of the US mortgage crisis. A souring macroeconomic environment at home added to the problem. To make matters worse, barring exceptions, local fund managers have been unable to show profitable returns on investments made at high valuations during 2007 and 2008. As a result, fundraising hit an all-time low in 2012 at barely $700 million.

"Out of the capital that was invested 4-8 years ago, an estimated 75% remains un-exited. Consequently, fundraising is not getting easier," said Kunal Shroff, managing partner at ChrysCapital Investment Advisors, in a recent interview to *Mint*. The Delhi-based firm, which has $2.5 billion in funds under management, returned over a billion dollars to its investors last year.

Given those factors, for the past two years, PE fund managers have been working hard to deliver returns on their existing portfolios. The results are beginning to show. Since January, PE investors have already delivered exits worth $6.2 billion across 124 deals, according to data compiled by Chennai-based PE research firm Venture Intelligence. The momentum continues from last year which saw exits worth $4.3 billion across 182 deals.

“Fundraising for India-focused GPs (general partners) has been relatively easier over the last 12-15 months; GP track record is a very important factor for LPs (and exits a very key element to measure success) and it is noticeable that it is these GPs which have found the next round of funding,” said Sanjeev Krishan, leader (private equity and transaction services), PricewaterhouseCoopers Pvt. Ltd.

Still, the funds raised so far this year signal a small recovery in limited partner appetite for growth investments in the Indian PE market. This is particularly important in the context of the start-up wave that is currently underway here. Growth investors bring in the critical expansion capital that unlisted companies, funded initially by early stage venture capital, require for their businesses to achieve their full potential.

Further, while PE fundraising has lagged over the past few years, the opposite has been true for venture capital fundraising. Since 2006, venture capital investors have raised $12.2 billion of fresh capital, against $18.1 billion raised by growth investors. Last year alone saw venture capital investors raise a record $2.1 billion across 13 new funds, according to Preqin. Much of the venture capital raised over the past nine-odd years has already been deployed and several of those venture-backed companies are now ripe for growth capital.