

From BPO to buyouts, Indian private equity is booming

The Indian private equity market continues to attract interest from an ever-growing group of investors and now offers a diversified set of investment opportunities. The principal feature during the past year has been the increased interest in domestic market investment opportunities by both overseas and local investors. While investment interest in the IT and Business Process Outsourcing (BPO) sectors continued to be strong, a large number of deals involved companies addressing the domestic market in India, and interest in manufacturing grew.

There is a growing sense of enthusiasm for an economy that has been expanding at around 8% per year, with the promise of a China-style domestic expansion. And after all, while China has reaped enormous kudos from its entry to the World Trade Organization, India has been a member for years. Many investors believe that India is finally beginning to deliver on the promise of its entrepreneurial and skilled workforce, huge English-language base and status as the world's largest democracy.

The private equity industry has evolved both in terms of participants and types of deals. At the same time the market saw an increase in exits and improved liquidity, an issue that has long bedevilled Asian private equity.

However, a cloud on the horizon was the announcement in August 2005 that India had further scaled back its privatization program and was scrapping plans to sell strategic stakes in 13 state-owned companies, which may dampen the enthusiasm of major buyout firms.

Finance Minister P. Chidambaram said the government still favors share offerings to reduce its equity in some state-controlled companies, but the decision to abandon sales of strategic majority stakes,

will likely reinforce doubts about New Delhi's commitment to market overhaul. The previous Hindu nationalist Bharatiya Janata Party government had actively pursued privatization through the sale of strategic stakes in government companies, raising 155.47 billion rupees (\$3.58 billion) in the 2003/2004 fiscal year. But that coalition lost power in May last year to a Congress party-led coalition that includes communist parties, which oppose market changes. Without their support, the government wouldn't be able to form a parliamentary majority.

The economy

Last year saw a strong economic performance with GDP growth at 8.1% for the year. And despite a weak monsoon, and the increasing impact of rising oil prices, the economy has performed better than expected. This year Asia's third-largest economy is expected to expand by a still robust 7.1% year on year to June

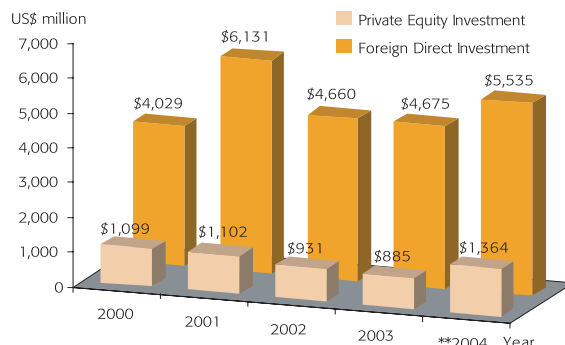
2005. A significant proportion of GDP growth was delivered by the industrial sector, which grew by almost 9%, while agriculture's share dropped slightly, seen as a positive sign in a country that is trying to reduce its reliance on primary production. The services sector, which dominates at more than half of economic activity, was supported by strong

growth in various sectors including IT, Financial Services and Construction. Indian software firms, led by Tata Consultancy Services and Infosys Technologies, are forecast to grow export revenues by nearly a third this year.

Exports, which contribute around three-quarters of software firms' revenue, are projected to hit \$50 billion by 2008, up from \$17.2 billion in the year ended March 2005. The most significant impact of this performance has been



India - *Foreign Direct Investment vs. Private Equity Investment



*FDI data refers to fiscal year (April 1-March 31) and Private Equity Investment data refers to year-ended on December 31

**The 2004 FDI figure is provisional

Source: Reserve Bank of India

The Asian Venture Capital Journal

Getting out in style – IPOs and trade sales encourage investors

The lack of exits has been the bane of Asian private equity for years. And one of India's many attractions for private equity players is the increasing liquidity of the market. The past year has seen GPs realizing gains from both IPOs and trade sales, buoyed by an economy enjoying 7% plus growth, increasing international interest in the BPO sector, and more stable local capital markets.

"It's a very vibrant public equity market, probably one of the most vibrant in Asia," says Mark Thornton, Managing Director for Southeast Asia at 3i Asia Pacific.

Adds KP Balaraj, Managing Director and co-founder of WestBridge Capital Partners: "In India, the markets are in their third or fourth year of a bull run. The companies have a number of avenues to raise money at low cost. There's a lot of liquidity in the debt system. The IPO markets and capital markets are very strong in India, and there's a lot of appetite overseas for Indian securities."

Fund managers believe that India has finally been able to revive investors' confidence in its capital markets, after a decade of trial and error. That said, only 2% of domestic savings are in the market, and regulators and securities houses are happy that foreign investment in India's capital market last year was well ahead of 2003. The foreign investment boost came from five major IPOs, led by government-owned Oil and Natural Gas Company (ONGC), with a market capitalization worth \$3.56 billion.

Private Equity backed IPOs

This year is expected to see a mix of IPOs, from growth-oriented businesses to well-established ones. Prospective issuers range from VC-financed start-up companies to well-established giants where the government is either seeking an exit or a dilution of

its stake – assuming politics allow. The issues slated to hit the markets are across sectors - oil and gas, telecom, power, chemicals, banking, technology, finance, infrastructure and even aviation.

Leading 2004's successful private equity divestment IPO list was Mumbai-based Patni Computer Systems, which was also one of the few large software companies that remained outside the public markets. APC Technology Management Company, GE Equity and General Atlantic Partners were the private equity investors in the deal, which realized \$95.3 million from the IPO.

Patni, founded in 1978 in the first phase of computerization, provides integrated IT services to organizations in the insurance, financial services, energy, utilities, retail and hospitality and manufacturing sectors. While the sentiment for the software sector is mixed, the fundamentals of the sector remain strong.

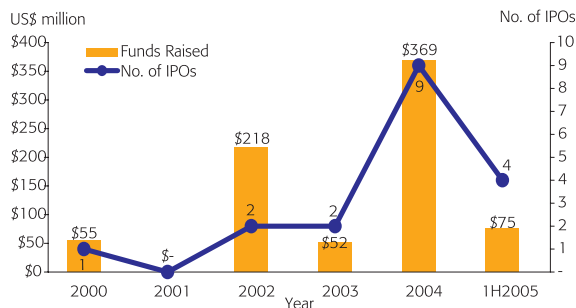
Second on last year's IPO list was Petronet LNG, which pioneered India's liquefied gas market. The March listing raised \$88.2 million, with main investor Asian Development Bank retaining a 5% stake. The four main promoters, ONGC, BPCL, GAIL and IOC jointly hold 50% and Gaz de France has a 10% stake.

An important chapter in the Indian biotech industry was written when third-ranked IPO Biocon went public in March, and was oversubscribed 32 times. AIG Investment Corporation / GW Capital received a \$72.4 million return on their investment.

The first half of 2005 saw Temasek Holdings Advisors India reaping \$34.7 million from its stake in Gateway Distriparks. The firm provides container freight stations at Jawaharlal Nehru and Chennai port and an inland container services depot at Garhi. It is in the process of setting up a CFS at Vizag port.



India - Venture-backed IPO



Source: The Asian Venture Capital Journal