

PE funds eye India as valuations turn reasonable

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MUMBAI: The bearish market may have made retail investors cautious, but it has encouraged private equity funds queue up to invest in Indian companies, as it helps them leverage a reasonable valuation.

In a bullish market, companies wanting to raise funds through private equity placement commanded an exaggerated valuation. But they cannot do so now, in light of the weak sentiment. However, this has made international equity fund houses, which had adopted a 'wait & watch' policy, keen on investing in the same companies.

According to Sunil Shirole, managing director and CEO, YEN Management Consultants, around 360 foreign private equity funds (registered with SEBI) have accumulated a whopping \$60 billion with their onshore offices to invest in Indian private companies. Other international PE houses are also warming up to invest in India through the automatic FDI route.

"Last year all the overseas PE funds had to suffer a lot because of the exaggerated valuation commanded by the private companies, which compared themselves with the fundamentally strong listed companies. The realistic valuation of private companies has created a level playing ground, especially for private equity fund players who are concerned about their returns only," explained Shirole.

Calton Pereira, managing director, Tano Capital, said, "in spite of an exuberant market, coupled with high valuation of private companies, PE funds did well last year. We always look at the sectors, company fundamentals, and future plans before we invest in private equity."

"This year the momentum of private equity placement will remain undeterred as the fundamentals of Indian economy appear robust," he added.

Higher valuation of companies gives PE funds lower stake holding while a true valuation helps both the parties: the fund-raising company and the fund house which is investing.

A director of a Bangaluru-based private company seeking private placement for their mega expansion project, said, "nothing goes wrong with rationalisation of valuation prices. But now the time of specialisation has come wherefrom a private equity fund with expertise in specific sector should fund those companies in that sector only. Under such a scenario, chances of guaranteed returns for the funding organisation appear higher."

In 2007, the number private equity transactions were 405, this year a good number of PE deals, between 600 and 700, are expected.

India is now the largest market in Asia for private equity placements, having surpassed China last year. The gap between India and China is also widening on this count this year, according to the experts.

"The expected return in India is far more than what these PE funds will get on similar investments in other emerging and even developed economy," Shirole said.

However, Virendra Parekh, a senior market analyst based in Mumbai, sounded caution, saying, "in view of the credit crisis unfolding in the US, how much FDI these private equity funds will bring to mid-size Indian companies remains to be seen, especially when at the global level not much is happening."

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