



PERFORMANCE OF SELECT PRIVATE EQUITY FUNDS IN INDIA.

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ABSTRACT India has been witnessing dramatic shift in the size and composition of foreign investment blusters over the couple of years. Private equity is one such investment opportunity which is broadly defined as involved investment in equity linked to an asset that is not listed and therefore not publicly traded in the stock markets. At present private equity funds have invested even in listed companies, though the buyout negotiation with controlling interest. With increasing Deal volume and Deal values the subject has become an important aspect of Indian economy as this could lead the Indian economy in either direction. The Bull Run by foreign companies in the private equity market has begun. Besides, the performance of Private Equity is to be examining from the perspectives of its contribution to exchequer, impact on GDP and overall, the growth of the economy. The present paper is a modest attempt to dwell on the growth and impact of Private Equity on the performance of Indian economy in terms of economic growth, and GDP.

KEYWORDS : The present market scenario, the doors have been widened for foreign players to enter. How the performance of select top 5 Private Equity funds in India.

1 INTRODUCTION

Private equity (PE) is a source of funding to start-ups, firms in financial distress and public concerns seeking buyout for financing. It also finances non-public companies based on their needs, novelty in the business proposal and creative ideas of entrepreneurs. These investments typically involve high levels of risk but potential for high returns, without listing in the public exchange. In India this type of investment has started in early 90s and has strongly grown over last decade. The main source of PE funds are found as retail and institutional investors, hence, this capital is used to fund new technologies, expand working capital within owned companies, acquisition, or to strengthen a balance sheet. The principle managers of PE equity firms are the general partners (GPs) and the outside investors as limited partners (Lps). By investing through partnerships rather than directly in issuing firms, investors delegate the responsibilities of selecting, structuring, managing and eventually liquidating PE investment to general partners.

1.1. DEFINITIONS OF PRIVATE EQUITY

In finance, PE is a type of equity (finance) and one of the asset classed consisting of equity securities and debt in operating companies that are not publicly traded on a stock exchange.

1.3 LITERATURE REVIEW

1.3.1 Ludovic Phalippou and Maurizio Zollo (2005), "What Drives PE Fund Performance. Using a novel and comprehensive database on both US and EU PE funds and their underlying investment". They studied the drivers of PE fund performance. First, they studied whether their hedging properties are attractive enough to justify their low performance?

1.3.2 Sameer Rastogi (2008), the author spelled out evolution and scenario of venture capital (VC) and PE in India, working mechanism of PE and investors in VC/PE fund. It focused on the regulatory reforms and framework pertaining to VC/PE in India since 1995 till 2005. It was stated that VC (Venture Capital Fund) & FVCI (Foreign Venture Capital Investor) are governed by (1) SEBI (2) RBI (3) FIPB (Foreign Investment Promotion Board) and (4) IT Ac, 1961, besides it also spoke about the investment conditions and restrictions on VCFs and FVCIs.

1.4 RESEARCH GAP

It is found through the review of literature that the Indian PE funds are marching slowly towards excellence by investments, and become the focal source for entrepreneurs and deciding the fate. The performance of PE Funds can definitely scale-up the entrepreneurship of India. Till date no study was comprehensively done on PE funds in India, so in the present study a modest attempt is made to dwell on the performance of select top Private Equity Funds operating in India. Hence, the study analyses the return multiple, return on investment, financial performance and exit strategies of select Private Equity funds in India.

1.5 OBJECTIVES OF THE STUDY

The objectives of the study are,

1. To study the financial performance of select private equity funds in India, in terms of return on investment and Distributed value paid in ratio.

1.6 SCOPE OF THE STUDY

The study deals with the Financial Performance of select Private Equity funds.

1.7 HYPOTHESES

In order to ascertain the objective of the study following hypotheses are framed and tested.

Ho1: There is no significant change in the Portfolio values of Select Private Equity funds

2. RETURN ON INVESTMENT AND DISTRIBUTED VALUE PAID IN RATIO

$$ROI = \frac{\text{Investment Revenue} - \text{Investment Cost}}{\text{Investment cost}}$$

The DVPI is also known as return multiple this is used to calculate the investment performance of a PE Fund. This is a ratio which relates distributions to the limited partners (LP) to the amount of capital provided by these partners to the fund. The realized multiple or DVPI is known by the following formula.

$$DVPI = \frac{\sum_{t=1}^{t=T} CF_t^R}{\sum_{t=1}^{t=T} CF_t^P}$$

Where CF^R denotes the cash flows distributed by the fund on the past investment (it includes return of invested funds and stock distributions) CF^P is the cash flows provided to the fund such as capital invested and fee paid.

2.1 DVPI AND ROI OF SEQUOIA CAPITAL

The tables 1.1 contains the data which is analyzed by using DVPI and ROI based on the deals done by select Private Equity fund.

Table 1.1 DVPI and Return on Investment of Sequoia Capital India Advisory

S.no	Portfolio company	Date of Investment	Date of exit	Investment amount Rs. Cr	Exit Amount Rs. Cr	DVPI	ROI
1	Amalgamated Bean Coffee	Jul-2006	8/1/2012	99	212	2.1X	1.14
2	AppLabs	2004-06	Sep-11	120	816.5	6.8X	5.80

3	Celetronix International	2002	Jun-06	38.4	832.5	21.6X	20.67
4	Citrus Payment Solutions	2011	9/1/2016	46	278.72	6X	5.05
5	Citrus Payment Solutions	Mar-08	Aug-12	80	27	0.34X	-0.66
6	Dr. Lal PathLabs	2005-07	2/1/2013	45	381.32	8.5X	7.47
7	Freecharge.in	2010	4/1/2015	517.5	2400	4.6X	3.63
8	GlobalLogic	Feb-08	Oct-2013	126.85	1675	13.2X	12.20
9	Grabhouse	Nov-13	11/1/2016	15.5	65	4.2X	3.19
10	GVK Biosciences	NA	12/1/2015	100	145.4	1.4X	0.45
11	Interactive Avenues	Mar-07	3/1/2013	44.92	126.3	2.8X	1.86
12	JustDial	Oct-06	Mar-16	7.55	34.89	4.6X	3.62
13	MarketRx	Oct-03	10/1/2007	11.5	41	3.6X	2.56
14	Pangea3	Jun-07	7/2/2010	28.7	315	11X	9.97
15	Paras Pharmaceuticals	NA	12/1/2010	60.17	410.4	7X	5.82
16	Printo	Oct-07	1/1/2013	16.36	55.19	3.3X	2.37
17	Prizm Payment Services	Apr-08	Mar-14	55.97	554.44	10X	8.90
18	Sourcebits	May-11	Jul-14	46	80.4	1.7X	0.74
19	Strand Life Sciences	Nov-01	2/1/2013	9.2	14.88	1.6X	0.61
20	Travelguru	Feb-06	8/1/2009	45	57.6	1.3X	0.28
21	TutorVista	7/1/206	1/1/2011	3.82	15.91	4.16X	3.16
22	Ujjivan Financial Services	NA	1/1/2015	300	200	0.67X	-0.33
23	Vasan Eye Care	2009	3/1/2012	106.56	213.802	2X	1.00
24	Whats On India	2008	Jul-14	81.7	120	1.5X	0.46

¹ DVPI - distributed value paid in ratio

Source: *Venture Intelligence*

It is evident from the table 1.1 that Sequoia capital when invested in Amalgamated Bean coffee amounting to Rs. 99 Crores for 6 years earned the DVPI of 2.1, ROI of 1.1414, and when invested in AppLabs amounting to Rs. 120 Crores for 5 year earned a DVPI of 6.8, ROI of 5.8047, and when invested in Celetronix International amounting to Rs 38.4 Crores for 4 years generated the DVPI of 21.6, ROI of 20.679, when this PE has invested in Citrus Payment Solutions two time, Rs 46 Crores for 5 years earned a DVPI of 6 times of the invested value, ROI of 5.0591, and second time when invested amounting to Rs. 80 Crores for 4 years incurred loss of Rs. 53 Crores, otherwise ROI of -0.6625. In case of Dr.Lal Pathlabs invested amounting to Rs.45 Crores for 6 to 8 years generated DVPI of 8.5, ROI of 7.47378. In case of investment in Freecharge amounting to Rs.517.5 Crores for 5 years generated the DVPI of 4.6 times, ROI of 3.63761. Where as in case of investment in Global Logic amounting to Rs.126.85 Crores for 5 years generated the DVPI of 13.2, ROI of 12.2047. In case of investment in Grabhouse amounting to Rs. 15.5 Crores for the period of 3 years generated the DVPI of 4.2, ROI of 3.19358. In case of investment in GVK Biosciences amounting to Rs. 100 Crores, generated the DVPI of 1.4, ROI of 0.454. In case of investment in Interactive Avenues amounting to Rs.44.92 Crores generated the DVPI of 2.8, ROI of 1.8665. In case of Investment in JustDial amounting to Rs. 7.55 Crores for 10 years generated DVPI of 4.6X, ROI 3.6212. In case of MarketRx invested amounting to Rs.11.5 Crores for 4 years generated DVPI of 3.6X, ROI 2.5657. In case of Pangea 3 invested amounting to Rs. 28.7 Crores for 3 years generated DVPI of 11X, ROI 9.97561. In case of Paras Pharmaceuticals invested amounting Rs. 60.17 Crores, generated a DVPI of 7X, ROI of 5.82. In case of Printo invested amounting to Rs. 16.36 Crores, for the period of 6 years, generated a DVPI of 3.3X, ROI was 2.373. In case of Prizm Payment Services invested amounting to Rs 55.97 Crores for the period of 6 years generated DVPI of 10X, ROI of 8.9. In case of Sourcebits invested amounting to Rs. 46 Crores for the period of 3 years generated DVPI of 1.7X, ROI of 0.74. In case of Strand Life Sciences invested amounting Rs. 9.2 Crores for 12 years

amounting Rs. 9.2 Crores and generated DVPI of 1.6X, ROI of 0.61. In case of Travelguru invested amounting to Rs. 45 Crores for 3 years, generated DVPI of 1.3X, ROI of 0.28. In case of TutorVista invested amounting to Rs. 3.82 Crores for the period of 5 years generated DVPI of 4.16X, otherwise ROI of 3.16. In case of Ujjivan Financial Services invested amounting to Rs. 300 Crores, and generated DVPI of 0.67X, this investment was in losses and ROI was in negative value of -0.33. In case of Vasan Eye Care invested amounting to Rs. 106.56 Crores for 3 years generated DVPI of 2X, ROI 1. Lastly in case of What On India invested amounting to Rs. 81.7 Crores for the period of 6 years generated DVPI of 1.5X, ROI of 0.46.

Finally it can be concluded that they were 4 deal under which DVPI was 10X and more than 10X. With this it is understood that Private Equity investment is more profitable than any other investments. The investment with highest ROI is prioritized; Sequoia capital has done maximum deal with maximum ROI. The performance of Sequoia capital was excellent; likewise PayU acquired Citrus Payment Solutions on September 2016. The Ujjivan financial services were exited through IPO.

2.2 DVPI AND ROI OF CHRYS CAPITAL

The table 1.2 contains data which is analyzed by using DVPI and ROI based on the deals done by select Private Equity fund.

Table 1.2 DVPI and Return on Investment of Chryscapital

S.No	Portfolio company	Date of investment	Date of exit	Amt of Investment Rs. Cores	Amt of Exit Rs. Cores	DVPI	ROI
1	AU Financiers	Feb-08	Jun-16	481.6	958.1	2X	0.989
2	Global Vantage	Apr-02	Feb-07	80.4	86.1	1.07X	0.070
3	Intas Pharmaceuticals	Dec 2005	Jun-14	50	880	17.6X	16.6
4	Mankind Pharma	Apr-07	May-15	99	1300	13.13X	12.13
5	Parksons Packaging	2006	Mar-15	50	120	2.4X	1.4
6	Shriram EPC	5-Mar	Nov-07	46.9	22	0.47X	-0.59
7	Shriram EPC	5-Mar	Oct-07	46.9	0.8	0.01X	-0.98

Source: *Venture Intelligence*

From the table 1.2 it is evident that Chryscapital 7 exit deal has taken into consideration. It is found that Chryscapital has invested Rs.481.6 Crores in AU Financiers for 8 years, and generated DVPI of 2X, ROI of 0.989. In case of Global Vantage invested Rs. 80.4 Crores for 5 years and generated DVPI of 1.07X, ROI of 0.070. In case of Intas Pharmaceuticals invested Rs. 50 Crores for 9 years generated DVPI of 17.6X, ROI of 16.6. In case of Mankind Pharma invested Rs. 99 Crores for the period of 8 years, generated DVPI of 13.13X, ROI 12.13. In case of Parksons packaging invested Rs. 50 Crores for the period of 9 years generated DVPI of 2.4X, ROI 1.4. In case of Shriram EPC invested Rs. 46.9 Crores for the period of 2 years generated DVPI of 0.47X, which was in loss due to short duration and ROI was -0.59, second investment under same portfolio amounting to Rs. 46.9 Crores for the same period again huge loss, DVPI is 0.01X, and ROI was -0.98. Finally it can be concluded that from 7 deal 2 deals were exited with a negative return rest 5 were with positive return multiple. Chry Capital earned maximum return through Intas Pharmaceuticals and Mankind Pharma maximum investment of Chry Capital was under pharmaceutical sector. Overall performance of Chry Capital was satisfactory. On May 2015 the Chryscapital had sold its entire 11% stake of Mankind Pharma to capital International PE at closed to 10 times the value of its original investment.

2.3 DVPI AND ROI OF EVERSTONE

The table 1.3 contains data which is analyzed by using DVPI and ROI based on the deals done by select PE fund.

Table 1.3 DVPI and Return on Investment of Everstone

S.No	Portfolio Company	Date of Investment	Date of Exit	Amount of Investment Rs. Crores	Amount of exit Rs. Crores	DVPI	ROI
1	Capital Foods	Apr-06	Feb-10	18.6	45	2.4x	1.41
2	Global Hospitals	Dec-09	Aug-15	138.11	345.2	2.5x	1.5
3	Lilliput Kidswear	Nov-06	Apr-10	117.8	270	2.3x	1.29
4	Sula Vineyards	July-07	Apr-14	45.1	192.719	4.2x	3.27
5	Transpole Logistics	NA	Jul-14	220	260.73	1.1x	0.18

Source: *Venture Intelligence*

It is evident from the table 1.3 that Everstone has done all profitable exits. It is found that this Private Equity has done Rs. 18.6 Crores investment in Capital Foods for 4 years, and generated DVPI of 2.4X, 1.41 ROI. In case of Global Hospital invested Rs. 138.11 Crores for 6 years generated DVPI of 2.5X, ROI of 1.5. In case of Lilliput Kidswear invested Rs. 117.8 Crores for 4 years generated DVPI of 2.3X, ROI of 1.29. In case of Sula Vineyards invested Rs. 45.1 Crores for 7 years, generated DVPI of 4.2X, ROI of 3.27. In case of Transpole Logistics invested Rs. 220 Crores, generated DVPI of 1.1X, ROI of 0.18. Finally it can be concluded that Everstone exit of Lilliput was acquired by (TPG growth and Bain Company) with a DVPI of 2.3X and ROI of 1.29. Ever stone has earned maximum return from the deal of Sula Vineyards where it invested for only 21% of stake exited with a DVPI of 4.2X and ROI of ever time highest 3.27 and duration was only 7 years. Overall performance of Everstone was excellent.

2.4 DVPI AND ROI OF ICICI VENTURES

The table 1.4 contains data which is analyzed by using DVPI and ROI based on the deals done by select PE fund.

Table 1.4 DVPI and Return on Investment of ICICI Ventures

S.No	Portfolio company	Date of Investment	Date of Exit	Investment amount Rs. Crores	Exit amount Rs. Crores	DVPI	ROI
1	Ace Refractories	Jul-05	Sep-07	100	430	4.3X	3.3
2	Arch Pharamalabs	Oct-03	Sep-12	372	471.28	1.2X	0.26
3	Basix	Nov-00	Jul-10	5.72	7.92	1.3X	0.38
4	Centurion Bank of Punjab	Dec-05	Feb-08	180	219.3	1.2X	0.21
5	Devyani International	May-11	Jan-14	136.34	286.314	2.1X	1.1
6	Firstsource	Mar-03	Dec-06	134	268.2	2X	0.99
7	i-mint	March-07	May-10	18	101.43	5.6X	4.63
8	Infomedia India	NA	Dec-07	178	961.2	5.4X	4.4
9	Karvy Stock Broking	NA	May-15	176	101.6	0.57X	0.4
10	MAS Financial Services	2008	Aug-12	34.4	53	1.54X	0.540
11	Metropolis Healthcare	NA	Jun-10	35	114.8	3.3X	2.28
12	Miditech	May-02	Dec-07	12	67.65	5.6X	4.63
13	Perlecan Pharma	Sep 2005	Jul-08	51	37.74	0.74X	-0.26
14	Prize Petroleum	Jun-08	Jan-12	60	60.75	1.01X	0.012
15	RFCL	Sep-05	Nov-10	500	501.6	1.03X	0.003

16	RG Stone Urological Research Institute	Nov-07	Jan-11	41	71.58	1.74X	0.745
17	Sahyadri Hospitals	Jan-08	Feb-12	53	107.45	2.02X	1.027
18	Subhiksha Trading Services	NA	Jul-07	106	843	8X	6.95
19	Transafe Services	Sep-04	Sep-09	10.8	23.71	2.2X	1.19
20	Vikram Hospital & Heart Care	Jan-08	Jul-13	72.75	90.21	1.24X	0.24

Source: *Venture Intelligence*

It is evident from the table 1.4 that ICICI Venture has invested Rs. 100 Crores for 2 years, generated DVPI of 4.3X, ROI of 3.3. In case of Arch Pharamalabs invested Rs. 372 Crores for 9 years, generated DVPI of 1.2X, ROI of 0.26. In case of Basix invested Rs. 5.72 Crores for 10 years, generated DVPI of 1.3X, ROI of 0.38. In case of Centurion Bank of Punjab invested Rs. 180 Crores for 3 years, generated DVPI of 1.2X, ROI of 0.21. In case of Devyani International invested Rs. 136.34 Crores for 3 years, generated DVPI of 2.1X, ROI of 1.1. In case of Firstsource invested Rs. 134 Crores for 3 years, generated DVPI of 2X, ROI of 0.99. In case of i-mint invested Rs. 18 Crores for 3 years, generated DVPI of 5.6X, ROI of 4.63. In case of Infomedia India invested Rs. 178 Crores, generated DVPI of 5.4X, ROI of 4.4. In case of Karvy Stock Broking invested Rs. 176 Crores, generated DVPI of 0.57X, ROI of 0.4. In case of MAS Financial Services invested Rs. 34.4 Crores for 4 years, generated DVPI of 1.54X, ROI of 0.540. In case of Metropolis Healthcare invested Rs. 35 Crores, generated DVPI of 3.3X, ROI of 2.28. In case of Miditech invested Rs. 12 Crores for 5 years, generated DVPI of 5.6X, ROI of 4.63. In case of Perlecan Pharma invested Rs. 51 Crores for 3 years, this investment was in loss so the DVPI is 0.74X, ROI of -0.26. In case of Prize Petroleum invested Rs. 60 Crores for 4 years, generated DVPI of 1.01X, ROI of 0.012. In case of RFCL invested Rs. 500 Crores for 5 years, generated DVPI of 1.03X, ROI of 0.003. In case of RG Stone Urological Research Institute invested Rs. 41 Crores for 4 years, generated DVPI of 1.74X, ROI of 0.745. In case of Sahyadri Hospitals invested Rs. 53 Crores for 4 years, generated DVPI of 2.02X, ROI of 1.027. In case of Subhiksha Trading Services invested Rs. 106 Crores, generated DVPI of 8X, ROI of 6.95. In case of Transafe Services invested Rs. 10.8 Crores for 5 years, generated DVPI of 2.2X, ROI of 1.19. In case of Vikram Hospital & Heart Care invested Rs. 72.75 Crores for 5 years, generated DVPI of 1.24X, ROI of 0.24. Finally it can be concluded that ICICI Venture has exited 20 deals out of which 2 deal were under loss. The maximum return multiple was 8X. Most of the deal was with minimum DVPI between 1 and 2X. Overall performance of ICICI Ventures was that exit of maximum number of deals with a minimum return multiple. This Private Equity was moderate performer.

2.5 DVPI AND ROI OF WESTBRIDGE

The table 1.5 contains data which is analyzed by using DVPI and ROI based on the deals done by select PE fund.

Table 1.5 DVPI and Return on Investment of Westbridge

S.No	Portfolio company	Date of Investment	Date of Exit	Investment amount Rs. Crores	Exit amount Rs. Crores	DVPI	ROI
1.	Indecom Global Services	Oct-06	August 2016	48814800	57807000	11.8X	10.8

Source: *Venture Intelligence*

It is evident from the table 4.60 that a very few number of exit deals done by this PE out of 4 exit deals only 1 deal details was available, Westbride has exited the above deal with an excellent DVPI of 11.8 X and very good ROI of 10.8. The duration of this investment was 10 years which was very long holding period.

3. The Hypothesis is formulated in this regards

The hypothesis is calculated by considering the DVPI of select PE funds in India.

H₀₁: There is no significant change in the Portfolio values of Select Private Equity funds

TABLE 1.6 TEST OF HYPOTHESIS XI

ANOVA							
Source of Variation	Sum of Square	Degree of freedom	Mean Square	Calculated F-value	P-value	F-table value	Decision
Between Groups	493433.2	3	164477.7	1.048218	0.379122	2.7826	Accepted
Within Groups	8159413	52	156911.8				
Total	8652846	55					

It is evident from the table that there is no significant change in the portfolio values of Select Private Equity funds, hence accept Null Hypothesis.

FINDINGS

1. ICICI Venture has reported excellent ability to generate profits from its shareholders investments, good returns were shown in the initial study period. Followed by ChrysCapital that demonstrated maximum profits to its shareholder since 2007 to 2012, when compared with other select Private Equity funds.
2. Sequoia Capital shows a unique performance neither drastically decreased nor continuously increased, which is found in other select Private Equity funds. ICICI Venture was good enough in managing its Returns on Investment in the initial period, which has not continued after 2 years. Chryscapital also initially reported excellent performance that did not continued over the study period. Everstone has not reported a good performance to its shareholders in terms of Return on investment except in the year 2010. Lastly, Westbridge has reported a mixed trend over 4 years.

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