

OF BOOM, BUST AND A BUDDING RECOVERY

Private equity (PE) entered a golden era from 2004 to 2007. With a growing economy, inflation in check, policy stability and businesses hungry for risk capital, PE entered a golden period at the turn of the century as fund managers invested between \$500 million and \$2 billion every year. They delivered in excess of 40 per cent gross returns from deals exited in 2004–06. Emboldened, a period of exuberance followed as investors raised record levels of capital and put over \$42 billion to work in three short years. Returns fell precipitously and holding periods increased. A period of rationalisation followed as several first-time funds became inactive, with a proportionately larger number of experienced funds dominating the market. From 2012–15, the segment appears to be entering a period of resurgence, with more stable funding, investments and a more disciplined focus on exits. McKinsey provides an overview of Indian PE.

THE PIONEERS

TDICI / IICI Venture

Started as TDICI in 1988 and renamed IICI Venture in 1996, it has funded about 900 firms. In 2002, it shifted focus from venture to growth capital and did some interesting deals using leverage in a creative way



Draper International

Led by Abhay Havaldar (now with General Atlantic; pictured) and Kiran Nadkarni (ex-TDICI), Draper raised two funds for India which influenced Ashish Dhawan (ChrysCapital), K P Balaraj & Sumir Chadha (Westbridge), to move to India and raise funds

T Thomas & Pradip Shah

In the early 1990s, Hindustan Lever ex-chairman T Thomas (pictured) set up Indus Venture Funds, while Pradip Shah and Bharat Kewalramani raised Indoclean Fund, which went onto pick up 20 per cent stake in HDFC Bank



Sarath Naru

Naru was one of the early movers and thinkers, first as MD at APIDC Venture Capital (started in 1995) and then founder of VC firm Ventureast, which has invested in about 60 early-to-growth stage firms across sectors



Ashish Dhawan

Dhawan's entry marked a generational change. The first professional to raise money on his own, he is best known for making money in an sector where many others

have not made much, by constantly adapting – moving from venture capital to private equity and then to public market deals.

Warburg Pincus

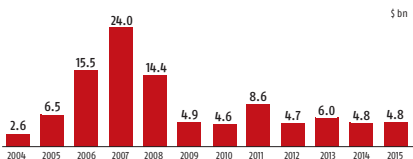
Warburg Pincus' Bharti deal caught the attention of global PE majors. Warburg's \$290-million investment in Bharti Tele-Ventures between 1991 and 2001 generated \$1.83 billion in exits between 2004 and 2005. Warburg was then headed by Dalip Pathak

"It was a huge bet. We could not justify paying such high valuation for a start-up telecom company"

HARSHA RAGHAVAN

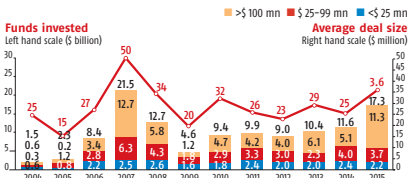
MD & CEO, Fairbridge Capital, then working with Pradip Shah at Indoclean Fund

FUNDRAISING BY INDIA-BASED PEs/VCs



Exuberance followed promising return in 2000–04—Indian PE fund managers raised record level of capital 2006–08

FUNDS INVESTED BY PEs/VCS IN INDIA



Exuberance followed promising return in 2000–04—Indian PE fund managers raised record levels of capital between 2006 and 2008

POOR RETURNS HAVE BEEN A CAUSE OF CONCERN

Returns realised at exit¹

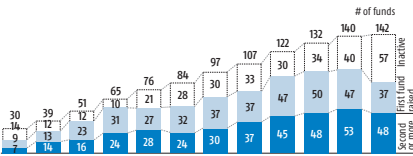


Holding period at exit



As competition increased, prices rose, impacting returns and holding periods; macro-economic factors and policy delays exacerbated challenges

FUND ACTIVITY FOR INDIA LOCATED FUNDS²



²GP classified as inactive if not invested in either the current or previous year

PE sector maturing as rationalisation led to several funds going inactive & more experienced funds dominating, now on a path to resurgence