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Private equity firms make hay while sun shines on Dalal Street

BY JWALIT VYAS & RANJIT SHINDE, ET BUREAU | UPDATED: OCT 12, 2017, 12.58 AM IST

It's a record year for initial public offerings (IPOs) in India — the ongoing GIC Re issue will take the amount raised to Rs 52,125 crore so far in calendar 2017 — but those celebrating the hardest are private equity (PE) firms. To the extent that, since April, just one out of every five rupees raised through 21 IPOs was reinvested in the business.

Of the Rs 40,000 crore raised through those IPOs, Rs 32,000 crore went toward giving a partial or full exit to PEs and in some cases to promoters.

Taking Bigger Pie

Top 10 IPOs since April 1, 2017	Major Sellers - PEs and FIs	Issue Size (₹ cr)	Offer for Sale (₹ cr)
GIC	GOI	11,373	9,804
SBI Life	SBI, BNP Paribas Cardif	8,400	8,400
ICICI Lombard	ICICI Bank, FAL Corp	5,701	5,701
AU Finance	Redwood, IFC, Kedaara Cap, ChrysCapital, ICICI Pru Life and SBI Life	1,913	1,913
Eris Lifesciences	Chrys Capital	1,733	1,732
Godrej Agrovet	Godrej Ind, V-sciences owned by Temasek	1,157	866
IEX	Multiples PE	1,001	1,000
SIS	CX Partners	780	417
Tejas Networks	Cascade Capital, Standstone, Intel Cap India Industrial Growth Fund	776	327
S chand	Everstone	728	403

"Naturally, the promoters and the PE players will take advantage of the current market situation," said Gopal Agarwal, chief investment officer, Tata Mutual Fund. "Investors that are pouring in money today are expecting low inflationary and interest rate environment and the growth in these companies to continue. If anything goes wrong in these assumptions then there could be trouble."

PE firms, which had been struggling to exit successfully from investors until recently, are now offloading shares at stellar valuations thanks to rising liquidity in the Indian equity markets.

While money raised through the primary market typically goes into capacity addition or debt repayment, only a handful of IPOs, such as Bharat Road Networks, Capacite Infra projects and Apex Frozen Foods, were focused on this.

There is much liquidity with the mutual funds today which is finding its way into mid-caps leading to high valuations. "Just a couple of years ago, mid-caps used to trade at earnings multiples of five and there were no takers.
Now at multiples above 25, investors still find them attractive," said Mehul Savla, partner at Ripple Wave Equity, a boutique investment bank. "There is so much liquidity with the mutual funds today which is finding its way into midcaps leading to high valuations."

For instance, the IPO of contact manufacturer Dixon Technologies was valued at 39 times earnings but still got oversubscribed, allowing Motilal Oswal Private

Equity to exit. Another example is Prataap Snacks backed by Sequoia Capital, which pumped in Rs 265 crore to acquire 63% of the company. Sequoia offloaded a 14% stake in the IPO for Rs 170 crore, a valuation of 220 times earnings.

"That is the situation in the market. If I look at the period up to March, many more such IPOs are lined up and will take away the liquidity in a similar fashion," said an investment banker.