Print

- Posted: Wed, Feb 16 2011. 9:29 PM IST

# IPOs lose sheen for private equity firms looking to exit

## Rising inflation and interest rates have raised fears the markets may not improve in the next five-six months

Shraddha Nair & Deepti Chaudhary

Mumbai/Bangalore: Initial public offerings, or IPOs, no longer form the preferred exit route for private equity (PE) investors, following a slump in stocks.

Executives at seven investment banks said PE firms have been opting for exits through sales to other PE firms and mergers and acquisitions (M&As) as valuations of listed firms have declined.

**Also See |** After the sale (Graphic)

"PE firms that wanted to list their portfolio companies three-four months ago are now coming back and saying that they want to opt for other modes of exit," said Deepesh Garg, director, **o3 Capital Advisors Pvt. Ltd**.

The Bombay Stock Exchange's 30-stock benchmark index, the Sensex, has slipped 12.87% in the past three months. Many companies that went public last year are currently trading at half their listing prices or even below that.

Investors said rising inflation and interest rates have raised fears the markets may not improve in the next six months or so. Food inflation has been reigning at 13-17% over the past five weeks, while the Reserve Bank of India (RBI) has raised key policy rates seven times in the current fiscal.

"IPO exits will be fewer this year," said Munish Dayal, partner at Baring Private Equity Partners (India) Pvt. Ltd. "If PE firms want to list their portfolio companies, now is not the best time."

Jacob Mathew, managing director of MAPE Advisory Group Pvt. Ltd, agreed. "There is a feeling in the market that this will continue to be so for the next five-six months, which has become a cause of worry for investors," he said.

PE firms would not want to exit at a loss unless their fund life is coming to an end, or their investors are putting them under pressure. Typically, PE firms have a fund life of 10 years.

For example, in August last year, a PE fund managed by AMP Capital Investors of Australia made a loss as it sold a part of its investment in Gujarat Pipavav Port Ltd in an IPO. The fund saw its investment value erode by 27%.

"In some cases, funds, which have the flexibility because of their large size or mandate, increase their stake in the company when the price is low, so that they have a higher stake and then later exit in block deals," said Srinivas Chidambaram, managing director at PE firm Jacob Ballas Capital India Pvt. Ltd.

But that is rare. Most investors keen to exit are opting for M&As or sales to other PE firms, also called secondary sales.

Actis Advisors Pvt. Ltd and Sequoia Capital India Advisors Pvt Ltd made returns of four-five times on investment through the sale of Paras Pharmaceuticals Ltd to Reckitt Benckiser Group Plc. for $726 million (Rs3,303.3 crore) in December. Last month, the sale of Patni Computer Systems Ltd to iGate Corp. fetched a return of about 150% for the PE firm General Atlantic Llc.

In August last year, Sequoia Capital sold part of its stake in Dr Lal PathLabs Pvt. Ltd to TA Associates Advisory Pvt. Ltd for $35 million. A month earlier, ICICI Venture Funds Management Co. Ltd sold its stake in Metropolis Healthcare Ltd to Warburg Pincus India Pvt. Ltd for $85 million.

"Today, most of the exits we are working on are M&As," said Mehul Savla of RippleWave Equity Pvt. Ltd, a Mumbai-based boutique investment bank.

In 2010, PE firms made 157 exit deals worth a combined $5.4 billion, including 36 divestments worth $1.7 billion through M&As, 15 worth $502 million through IPOs and 18 worth $161 million through secondary sales, according to data from **VCCEdge**, a financial research platform.

Of the total 35 PE exit deals worth $2.2 billion in 2009, there were 16 worth $167 million through M&As, two worth $31.6 million through IPOs and eight worth $78.17 million through secondary sales.

Investment bankers said the fact that investors typically require 12-18 months to completely exit through an IPO is also driving them towards alternatives.

"We are seeing that funds, which have investments (made in) 2004-06, definitely want to liquidate partial or whole stakes," said Srikanth Narasimhan, director, Veda Corporate Advisors Pvt. Ltd.

*Graphic by Yogesh Kumar/Mint*

*shraddha.n@livemint.com*