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Sensex

17425.71

26.73 ▲

0.15% ▲

Nifty

5287.95

9.35 ▲

0.18% ▲

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ANALYSIS

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PE-backed companies to drive action in primary market

9 Mar, 2012, 0810 hrs IST, Vijay Gurav, ET Bureau



MUMBAI: Private equity-backed companies will potentially drive the primary market as their PE investors will look to exit with decent returns in the next few years. The trend will mostly be evident among small-and medium-sized companies which have achieved the targeted revenues and where the growth potential is high, according to investment bankers.

Mumbai-based Broking and investment banking firm Anand Rathi Financial Services has shortlisted some 78 unlisted companies in which many leading PE investors bought stakes in the past, and may now be looking for the right opportunities to exit through the public issue route.

IFC, IDFC, Temasek, Warburg Pincus, 3i Group, Baring and Actis are some of the notable investors. While success of Multi Commodity Exchange's recent offer for share as revived hopes of improvement in the primary market conditions, i-bankers, however, feel these investors will have to wait for some more time before they can go public, given the uncertainty in the secondary market conditions after UP elections and ahead of the Union Budget.

"We will see private equity players exit many SMEs in which they have been holding investments for the past 4-5 years, and where the targeted revenues have already been achieved," said Praveen Chakravarty, CEO, Investment Banking & Institutional Equities, Anand Rathi Financial Services.

Investor confidence is generally high in a PE-backed company which has already achieved some growth amid active participation of the PE investors in the management. PE investors' expectations about returns, which are calculated in terms of the internal rate of return, or IRR, are normally in upwards of 20%, according to Chakravarty. Many PE funds invested in Indian companies between 2005 and 2007 some of which may now be looking to exit due to redemption pressure, said Mehul Savla, managing director, Ripplewave Private Equity.

While some companies will take the IPO route to provide exit to PE investors, there are other options also. "Instead of taking the offer for sale route, a PE investor may sell its stake to another PE. Alternatively, both the promoters and PE investors may opt for the M&A route and completely exit the company at much better valuation than what they can get in the primary market," said Savla.

Among the PEs which have invested in the 78 companies, IFC tops the list with seven companies, including Suguna Poultry Farms, broking firm Sharekhan, Max Healthcare Institute, Angel Broking, Continental Carbon India, Ocean Sparkle and Bharat Biotech. Among these companies, IFC owns a large stake of 18% in Angel Broking, which was bought in early 2008. "IFC has invested in our company from a long-term point of view, with the time horizon of 7-8 years," said Angel Broking CMD Dinesh Thakkar.

IDFC has stakes in Konaseema Gas Power, GMR Energy, Manipal Universal Learning, Doshion, One97 Communications and Central UP Gas, while Temasek's portfolio includes holdings of Dove Finance, GMR Energy, First Flight Couriers and Medreich.

Some Cos to Watch Out For

	YEAR	REVENUE (₹ CRORE)	PAT	INVESTORS
Navayuga Engg	FY09	2,647.20	221.11	3i Group
Suguna Poultry	FY10	2,444.95	21.59	IFC
ItzCash	FY10	1,667.72	-6.31	Lightspeed Venture Partners, Intel Capital, Matrix India
Intas Pharma	FY10	1,641.37	207.57	ChrysCapital
International Tractors	FY10	1,498.60	185.25	Yanmar Company, JM Financial India Fund



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