



3 Jul, 1728hrs IST

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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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Private equity funds turn to peers to exit choppy stock market

30 May, 2012, 0837 hrs IST, Vijay Gurav, ET Bureau

MUMBAI: In a choppy market with few new listings, private equity (PE) funds looking for exits are knocking on the doors of their peers. PE to PE deals are slowly catching on as old funds snoop around for buyers and new funds fish for good deals.

In recent months, some PEs sold their holdings to other funds. Sahyadri Hospitals, Sutures India and Endurance Technologies are among the companies whose shares have changed hands from one PE to another.

According to investment bankers, many PEs are battling redemption pressure as across markets rich investors subscribing to PE funds are cutting their risks.

Fund managers, on the other hand, are keen to generate returns before the next round of fund raising.

"PE to PE deals are happening selectively and they are driven by the need to exit investments and not valuation," said Mehul Savla, managing director of Ripplewave Private Equity, a Mumbai-based boutique investment bank. Many PE funds, which had entered India in a bull market, are now stuck with stakes in unlisted firms that failed to pull off an IPO.

While not many funds could raise money amid shrinking investor appetite, new funds, which are yet to fully invest their corpus and even older ones, that managed to raise capital, would be looking at investment opportunities through the secondary market route. "In these kind of deals, PEs are likely to prefer pharmaceutical, consumer goods and other comparatively less capital-intensive sectors. Usually, such companies have lower debts and interest burden. They are perceived to be less vulnerable to margin pressure," said Savla.

IDFC Project Equity, an arm of Infrastructure Development Finance Co., reportedly acquired ICICI Venture's close to 50% stake in Pune-based Sahyadri Hospitals, which operates 10 hospitals across four cities in Maharashtra. The deal valued the hospital chain at about 300 crore. Endurance Technologies is a similar transaction where Standard Chartered Private Equity sold its stake to Actis in the Rs 373-crore deal. SCPE had invested Rs 150 crore in the auto ancillary company and was looking to exit through a public issue. Endurance Technologies had planned an IPO in 2010, but later called it off. Another PE firm, CX Partners, is understood to have invested 200 crore in Sutures India, which makes medical consumables, to acquire Evolvence Life Sciences Fund's stake and also part of the promoter's stake in the company.


According to Shefali Shah, senior executive director & head of financial sponsors group, Kotak Investment Banking, "In addition to buying the existing stake, the new PE investor may also infuse fresh funds into the company. Such deals provide an exit to the current PE fund as well as help companies that are in the growth phase and in need of additional capital."

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