CHAPTER - 5
SUMMARY AND DISCUSSION

Private equity providers have contributed in significant manner to have an access to technological equipment, tools and machines to the under study portfolio firms in National Capital Region. Nearly three quarters of the survey’s respondents reported that their businesses introduced new products or services following the private equity investment. The new capital (PE) is also instrumental in funding the purchase of new technology or machinery. The understudy firms have improved their technology either themselves or purchasing from the foreign or domestic market after PE investment. Further the firms invited the PE finance in their capital structure not only to enhance the high financial return as primary objective but in addition to that they also want to develop new technology, methods, technique and infusion of new ideas with them to sustain and grow in the competitive and dynamic environment in the long run for catering the demands of increasing population in our country. PE firms not only provided the risk capital to the investee companies but they also put different type of specialists in their management where they lack. The maximum respondent firms were assisted in the area of management or decision making process. Further in the area of promoting and selling of their product or service a significant support is extended. Again in the area of designing and development of product and technology PE has provided a vital support to the investee firms. Private equity providers in addition to injecting the money in the portfolio firms they also assisted the entrepreneur in different areas. More and more entrepreneurs and management of MSM are recognizing the value of PE as patient and activist capital. PE firms believe that valuations, referrals and sector expertise are the most important criteria for Indian entrepreneurs when seeking PE funding. However, majority of portfolio companies after PE investment created the brand name for their business. Others could attract and retain competitive work force and acquire their technology need. Indeed some of them could achieve all the above said three competitive edge yet maximum PE portfolio companies in NCR could not get the patent or intellectual property rights. Additionally Private Equity firms are helping and assisting the investee companies in their strategic planning, policy formulation & their execution in different operational area. Maximum number of respondent firms is supported in extending their market base or exploration of new market opportunities for their product and services.
Significant number of firms is being assisted to search strategic sources of supply of inputs. And also some of the respondent supported in their efforts to get strategic alliance which helped them in improving the quantity and quality of their product and services. So it can be inferred from the above analysis PE has played a key role in these companies to achieve their desired objectives and goals. Hence PE firms are suggested to assist and support the investee firms to abreast with new technology and innovative ideas in their productive activities to achieve better performance for advancement of the nation. Hence, in the light of the above results PE firms are further suggested to earmark those firms or industries which are having future prospects but in absence of modern technology due to scarcity of finance they cannot flourish.

Maximum number of micro, small and medium enterprises in NCR are financed through private equity finance. It means private equity is a very significant source of finance for such type of companies in NCR. Hence it is further suggested to extend financial and non-financial support to micro and SMEs which are very important organs of our industrial sector for the growth of Indian economy. This result does not require support of the earlier findings of any research conducted in the concerned area because such entities practically to a large number want to entertain the facilities of outside sources without engaging in any issue of security or paper (like limited companies). This result implies that the firms (MSMEs category) seek such a source of finance where legal implications and procedural hurdles are minimum. However, to make the hundred percent friendly environments the providers should come forward to make private equity financing mechanism easier so that the more entrepreneurs may step in and the existing one expand. It will result into SMEs growth, employment and GDP. The results of the present study indicate that PE providers have a say in decision making of the investee firm is significant. There may be two reasons behind it. In some cases they also act as non-voting observer, that means they may not participate in decision making but act as a watch dog, barks when need arise on the management affairs of the firms. Hence, PE’s are suggested to interfere in healthy manner in the management affair and decision making process of Investee Company for good governance and performance. Maximum PE firms follow the discounted cash flow method for valuing the portfolio firm before investing. However, method based on opportunity cost principle and comparison of investee firms with other firms
in the same business is also practiced depending upon the need of the PE provider. But during the verbal discussion with representatives of investee firms it seems generally, DCF is more reliable method and commonly used to value the portfolio firms. PE finance in micro and small enterprises come from HNI or angel investor or in other words by single entity whereas the firms of medium size receive PE finance by two or more entity as syndicate or through lead manager. The sources of funds for private equity firms in the developing nations like India have largely been the same ones who invest in private equity funds based in the United States: pension funds, corporations, insurance companies, and high net worth individuals. Individual savings are invested informally in the privately held businesses of relatives and friends; little has been directed into institutional private equity funds. PE providers are suggested that they should expose themselves and make aware the unemployed educated youth for entrepreneurship by providing them the risk capital in form of private equity. PE firms invest in portfolio firms for longer period between six to eight years as revealed by the present survey. So that is clear that PE investment is not for short period in the portfolio companies. The typical lock-up of a private equity investment is 7-10 years, but this illiquidity is designed to be matched with an appropriate “premium” on returns. Commitments to private equity structures are often drawn down over a period of years as and when the capital is required and distributions will be made when realized. 80% of the PE investee companies do not go for listing when lock-in-period is over and PE wants to exit. So it is challenge for PE firms to sell their stake to the public to realize their investment at their market value. Maximum private equity providers exit out their investment from the investee firm by selling to another PE firms. Further exit out depends on the conditions of financial market and state of the economy as well as on the negotiated terms and conditions with portfolio firms. Perhaps the most vexing aspect of venture investing in developing nations like India has been the difficulty of exit. It is suggested that the fortunes of private equity investors in India have been largely linked to those of the market for initial public offerings (IPOs). Maximum PE finance is required by micro, small and medium firms at the stage of product development, technology development, and product marketing. However, like venture capitalists they have extended finance for idea generation also. Hence, the private equity firms are suggested to create an awareness in the society particularly for youth who have the creative minds and ability of entrepreneurship but cannot commercialize in absence of finance. PE firms strongly
take into consideration factors like managerial strength, marketing performance, strength of employees and policy of government which are having a strong bearing on the current and future performance of portfolio firms, specifically related to human resources before and during investment period in portfolio firms. These parameters make the PE firms to create one type of confidence if it is in the line of 70% or nearby. PE firms are suggested to consider more of these factors so that they can get the desired rate of return on their investment during the lock-in-period as promised to the limited partners and can create a good image in PE world and contribute more for the growth of the economy as a whole.

PE firms take care of all important key aspects of portfolio firms both external and internal which are having a bearing on their investment like Corporate Governance, Policy of Government, PE/Venture Association Guidelines, Ownership participation before taking such a decision. These considerations of management design put the PE firms in getting the desired rate of return on their investment and increase their confidence in the investee companies. However, as per the results of this survey the PE firms are lenient to consider the above factors before investment in portfolio firms. Hence, they are suggested to consider more of these factors before extending finance in the form of risk capital so that the overall performance and better governance may enhance the confidence level of investor in our economy. PE firms should continue establishing a strong rapport with promoters and management teams to land deals at the right valuations. PE providers should carefully assess corporate governance issues and promoter integrity before making investments. Entrepreneurs should recognize PE as activist and patient capital and work with GPs to leverage the PE fund’s expertise and network in order to build a strong business with a long-term, competitive advantage. Policy makers should appreciate the role that private equity can play in India’s growth story. Simplifying regulatory and tax frameworks to attract long-term capital can contribute significantly to boost both short- and long-term growth. PE providers impose certain conditions on portfolio companies before extending finance. These conditions make the providers satisfied even if these conditions are in the tune of 70% or near to that percent. However, PE providers are suggested to make these conditions more stringent so that the overall performance and the governance thereof may escalate to better level. Total conditions fulfillment will
lead to these firms towards development of high quality of industrial environment and management in times to arrive.

Maximum numbers of MSMEs in NCR area are financed through private equity finance. Private equity is a very significant source of finance for such type of companies in NCR. India has witnessed a tremendous rise in Private Equity and Venture Capital financing. Indian companies are creating partnerships with PE and VC firms on a scale that has not been witnessed before. Is this good for the Indian economy? What kind of value does this relatively new form of financing offer to Indian entrepreneurs? In this context, the Private Equity Impact study - conducted by Venture Intelligence with advice and guidance from Prof. Amit Bubna of the Indian School of Business, Hyderabad - aims to measure the economic impact of Private Equity and Venture Capital on the Indian economy using qualitative and quantitative methods. This first-of-its-kind study provides quantitative comparison of Private Equity- and Venture Capital-backed companies against their non Private Equity-backed peers and relevant market indices, in terms of key economic parameters like Sales, Profitability, Exports, Wages and Research & Development. Findings from the quantitative study revealed that PE-backed companies grew at a significantly higher rate compared to non Private Equity-backed companies as well as market indices like the Nifty and CNX Midcap. Wages at Private Equity-backed companies grew at a significantly higher rate compared to their peers who are not PE-backed. The sales of PE backed firms have grown with an average growth rate close to 53%. The profit has boosted with an average EBITDA of 130%. Investment expenditure increased with average growth rate of 35%. R&D expenditure has been boosted with an average growth rate of 30%. The performance of PE backed companies with regard to their financial results, employment, investment and R&D expenditure was encouraging. The sales of 69%, profit of 74%, investment level of 60%, employment level of 40%, and R&D expenditure of 30% of PE backed firms was higher comparing to their peers non-PE backed firms. Hence it is concluded that PE backed firms showed robust performance in the key areas of sales, profit, investment expenditure, employment and R&D expenditure. As a researcher I also discussed the entrepreneurs of PE- and VC-backed entrepreneurs to get a qualitative feedback on the value added by PE providers to privately held companies. Findings from the discussions:
1. About 76% of top executives at Private Equity-backed companies believe that without Private Equity/Venture Capital financing, their companies would not have existed or would have developed slower.

2. More than 60% of top executives at Private Equity-backed companies said that the number of employees at their companies had increased after the PE investment.

3. The deep interactions with entrepreneurs and top executives of ten companies from different sectors ITES, Pharmaceuticals and manufacturing sector revealed that PE investment when chosen and leveraged well can help Indian companies innovate, create new businesses and accelerate growth in several ways that add significant value to the Indian Economy. Further the benefits of PE are not confined to portfolio firms; they can affect the broad Indian Economy. As India faces several social and economic challenges including exceptionally high and persistent unemployment, it is rewarding to note that the effect of this type of investment on job creation. The structure, rigor and standard put in place by PE firms translated into material growth for PE investee companies. Hence Private Equity providers are suggested to extend financial and non-financial support to micro and SMEs which are very important organs of our industrial sector for the growth of Indian economy.

Respondents to this study expressed a preference for private equity over other funding routes. The most commonly cited reason for this is the strength and equality of the partnership between portfolio companies and PE firms, underlining the importance private equity investors place on the correct alignment of interests. Meanwhile borrowing from banks and financial institutions, which would traditionally be within reach of many more businesses than the public markets, has been significantly affected by global financial markets in recent years. Consequently, not only can debt be costly, but according to anecdotal reports from some respondents in the present study, it also takes significant time and effort to rise. The next most important factor was access to capital which is easily and timely provided by PE firms with less complications and legal formalities. Finally, the willingness among private equity investors to take risks, as well as overall flexible attitude of PE firms in their approach, were also the reasons
brought up by a significant number of those surveyed allowing private equity finance. Hence it can be inferred that small and medium enterprises looks towards for their finance needs to PE firms comparing to public markets. Hence PE providers play a significant role for the growth and development of small and medium enterprises which are the backbone of our developing economy. Those Indian entrepreneurs lacking prior experience with PE and VC should look at PE as activist capital, recognising the additional capabilities and network, that private equity can offer beyond just funding. Moreover, entrepreneurs should work with their private equity partners to think about business opportunities and challenges together. It is in the interests of management teams to help private equity partners appreciate market realities and seek their support where they might have expertise. This could be through leveraging their brand in the marketplace, improving their recruiting proposition when hiring a senior executive, requesting introductions with potential customers in the PE fund portfolio or learning and adopting best practices in corporate governance, working capital management and so on. Realizing India’s growth aspirations requires a lot of capital. Private equity can play a pivotal role in bridging the gap between domestic sources of funds and the capital requirement for nation-building. Policy makers should re-evaluate the investment environment and regulatory framework around private investing in key sectors like education, healthcare and infrastructure, and explore opportunities to invite private capital to participate. The unique character of private equity as patient capital and its capacity to shoulder the risk in ventures differentiates it from conventional sources of funding. Creating a more conducive environment for private equity to attract funds and invest could make private equity an important contributor to the realization of India’s growth story. Past years presented many challenges to the private equity industry in India but the industry seems to be coming out of adolescence. While prospects for coming years seem tough, there is the potential for recovery to accelerate if all industry participants work together. We believe private equity and venture capital investors should continue to be excited about opportunity in India. PE and VC are critical to foster entrepreneurship in the country and help Indian companies professionalize and scale up rapidly, thereby unlocking the true potential of India.