

PE firms seek mega deals in education, healthcare

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Although private equity (PE) firms remain optimistic on investment opportunities in sectors such as education and healthcare, the deal scenario does not show an encouraging trend.

Data from VCCEdge, VCCircle's financial research unit, shows divergent trends in these two sectors in the first nine months of 2009.

Across nine deals in each sector this year, PE investments in education tripled to \$108 million (Rs503.2 crore) in January to September against \$35 million in 2008, but healthcare suffered a steep fall.

LOOKING FOR THE RIGHT OPPORTUNITY	
Key education- and healthcare-focused funds	
Evolve India Life Sciences Fund	\$100 mn fund. Invested in Healthcare Global, Sutures India
India Venture Advisors	\$100 mn fund focused on healthcare. Invested in Sri Kavery Medical Care
ICICI Venture's Iven Medicare	ICICI Venture plans to invest \$250 mn to set up hospitals
Spring Healthcare	Sabre Capital plans to invest \$85.84 mn in hospitals, diagnostic chains through Spring healthcare
Milestone Religare	Plans to invest around \$128.76 mn in education and healthcare
Sterling Partners	\$4 billion US-based fund focused on education in India
Kaizen Education Fund	Plans to raise \$150-200 mn education fund

Source: VCCircle

The first three quarters of calendar year 2009 saw healthcare deals worth \$37 million compared with \$269 million in the same period last year. The number of deals in the 12 months of 2008 stood at 10 and 13 in education and healthcare, respectively.

Even in education, deals have been struck mostly in the test preparation and skills development category as against the formal segment. The biggest investment was Navis Capital Partners' \$30 million for a majority stake in ITM Trust, an executive education service provider.

TutorVista Global Pvt. Ltd, **Career Point Infosystems Ltd** and **FIITJEE Ltd**, which together attracted investments worth \$15 million, are in the same genre.

On the face of it, these two sectors have everything going for them for a bigger PE investment. Their non-cyclical nature and untapped potential have, in fact, stoked the appetite of sector-focused funds.

For instance, **Milestone Religare Investment Advisors Pvt. Ltd** is raising a Rs600 crore healthcare and education fund. **Spring Healthcare**, an investment company set up by Sabre Capital with commitments of Rs250 crore, will hike its fund size to Rs400 crore.

Kaizen Management Advisors, whose education-focused fund hit the road last month, is looking at raising \$150-200 million.

Despite this, PE firms say there are few scalable opportunities. "There is very little representation of the education sector in the capital markets," says Praveen Chakravarty, chief operating officer and head of institutional equities sales at **BNP Paribas India**, a banking and financial services firm.

One of the few listed companies is **Educomp Solutions Ltd**, which provides infrastructure services to education firms. The company, which investors consider a proxy for education in India, trades at a

high value as it gets a so-called scarcity premium. The same holds true for healthcare. Though there are listed firms such as **Apollo Hospitals Enterprise Ltd** and **Fortis Healthcare Ltd**, the entry premium is high.

“If someone wants to directly invest in healthcare including domestic LPs (limited partners), it’s tough given the valuations,” says Ajay Nair, senior associate at Sabre Capital, which has opted for the roll-up model by setting up Spring Healthcare to build a portfolio of hospitals and diagnostic chains. A roll-up transaction is one in which smaller companies in a traditionally fragmented industry are consolidated to achieve scale.

PE investing is also challenging in healthcare due to structured ownership and management of doctors in India, says Aluri Srinivasa Rao, managing director of Morgan Stanley PE.

Despite the challenges, these sectors offer huge potential. The \$35 billion healthcare industry is projected to touch at least \$75 billion by 2012 and \$150 billion by 2017, says consulting firm **Technopak Advisors**. Education is an \$80 billion market in India skewed in favour of the private sector (\$50 billion).

There are some policy upsides that could spur investments. The Foreign Educational Institutions (Regulation of Entry and Operations, Maintenance of Quality and Prevention of Commercialization) Bill, expected to be tabled in the winter session of Parliament, proposes to allow 100% foreign direct investment in higher education.

Also, the classification of educational institutes and hospitals as infrastructure by insurance and banking regulators is expected to raise investor interest.

“A lot of limited partners are realizing that there are very few markets expanding and moving in the right direction as rapidly as education in India,” says Sandeep Aneja, managing director of Kaizen.

For LPs looking to gain entry at relatively cheaper valuations in these sectors, PEs prove a good bet. This is also reflected in fund-raising. “Sectoral themes are more appealing to LPs,” says Rajesh Singhal, managing partner at Milestone Religare.