

Exits during a slowdown? Yes, say PEs

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Mumbai: Drying up of the capital markets over the past 18 months has closed the initial public offering (IPO) exit door for private equity (PE) firms.

But, as the market value of their investments declined about 50% from their 2007-end peaks, some PE players are looking at alternative ways to make an exit.

Among these are Kotak Private Equity Group (Kotak PE) and IDFC Private Equity (IDFC PE).

"An IPO is a preferred exit option as we believe the market will price it in the most attractive manner. However, that option doesn't exist today given the state of the primary market," says Luis Miranda, president and CEO of IDFC PE.

IDFC is looking at three different options with each investment -- a 'put buy' arrangement, sale to a financial investor and swapping of investment in an unlisted entity with its listed parent or group company.

Miranda says they have tasted success with two approaches. "We have concluded two exits, of which one was done by tagging along with the promoter to sell a small part of our holding to a new financial investor," he says. Refraining from giving the names or other details of the company, he added, "It (return on investment) was more than 2x for an investment made about two years ago."

Kotak PE has witnessed significant strategic interest in many of its portfolio companies from strategic players and select PE players.

Nitin Deshmukh, CEO - private equity, Kotak Investment Advisors, says, "Sectors like clinical research, agri-seeds, logistics, high-end machinery manufacturing businesses are attracting more interest. We are in discussions with a few such strategic players and, if we get the right valuations, there are strong possibilities that we could sell."

A couple of exits have been witnessed in the current calendar year. Last month, 3i Group sold 80% of its stake in Mundra Port and Special Economic Zone Ltd (MPSEZ) in an open market deal. The UK-headquartered fund sold 1.42% stake in MPSEZ through its holding firm 3i Vehicles Mauritius Ltd for Rs 165.33 crore.

"There have been a few exits," says Shiraz Bhugwadia, director with Ozone Capital Partners, where he says the prior PE investor not only got its principal sum but also registered a decent return.

Even now, there may be exit deals in the offing.

"There are opportunities where exits can be pushed through. A strategic buyout is not going to be possible unless the prior PE investor has a controlling stake in a company. Most Indian funds have a minority stake, but what strategics are looking at is controlling stake with minimal voting rights," says Bhugwadia.

All the same, he says, "Exit's not a full-blown trend." Most of the exits have been in deals that were struck 2-3 years ago, where the new fund knows there is no IPO option for a couple of years.

Subbu Subramaniam, a partner at Baring Private Equity Partners, says "Foreign investors are showing interest in select sectors".

"Even though growth has slowed down, India is still a growth market. In today's conditions, when valuations are depressed, it is more than certain that deals will happen at premiums that could range up to 30%."

Typically offers for strategic buyouts are coming in from investors who do not have a footprint in India or who have been present but have not been able to grow, say PE players.

Mahesh Chhabria, partner, 3i India Pvt Ltd, says, "We entered the market just three years ago and most of the investments made were from our balance sheet. So we don't have any redemption pressure and are in no hurry to sell."

Meanwhile, the IPO doors too might open shortly, if the ongoing rally continues. Exceptional candidates such as Adani Power, one of the companies 3i has invested in, has already knocked on Sebi's door for a public offering.