



A STUDY ON PRIVATE EQUITY EXIT STRATEGIES – AN ANALYTICAL STUDY

Dr. R. Saminathan

Associate Professor & Head, PG & Research Department of Commerce,
Government Arts and Science College, (Formerly Bharathidasan University Constituent
College) Kumulur, Lalgudi, Tiruchirappalli (Dt), Tamil Nadu, India

S Darshan

Research Scholar, Assistant Professor in Commerce,
KLE Society's Degree College, Nagarabhavi, Bengaluru, India

ABSTRACT

Private equity (PE) exit strategy is important for investors as a planned and effective exit strategy improves the chance of realizing higher profit. The study structured the private equity (PE) investment series and follows the successive stages of market screening and exiting from investments. This study attempts to understand the changing trend of PE investment in India. The Indian PE industry has witnessed a dramatic increase in terms of the number of enterprises funded as well as the volume of capital committed. This study investigates the performance and capital inflows of PE partnerships. The focus of this study is PE Investment in India and exit during last five years. PE Performance is the kind of returns. The findings would give a better view to the investors in which industry to invest in.

Key words: Private Equity, Exit strategy, PE Performance.

Cite this Article: R. Saminathan and S Darshan, A Study on Private Equity Exit Strategies – An Analytical Study, *International Journal of Management (IJM)*, 11(11), 2020, pp. 3475-3482.

<https://iaeme.com/Home/issue/IJM?Volume=11&Issue=11>

1. INTRODUCTION

In finance, equity refers to the net worth of the company. It is the source of capital in which the owner's funds are divided into parts, called as shares. Money raised by the company by issuing shares to the general public which can be kept for a long period is known as Equity. It is also refers to the stocks or an ownership stake in a company. Buyers or investors who buy the equity shares become equity shareholders. In India, present equity markets are performing best in terms of transparency, low manipulation, low costs of transaction and efficiency (so, that is represents the better Indian economy) (Saminathan et al., 2020a). Equity is classified into owner's equity and private equity (PE). When the business goes bankrupt and has to liquidate,

the amount of money remaining (if any) after the business repays to its creditors. This is generally called, ownership equity but is also referred to as risk capital or liable capital. Stocks are equity because they represent ownership in a company, thus ownership of shares is publicly traded company which does not come with accompanying liabilities (Gopinath & Poornapriya, 2020). The most recent economic trends indicate that, PE firms are becoming an important part in the career prospectus. PE is a potential source of capital. PE fund is a pool of money contributed by a various institutional investors and high net worth individuals for investing in start-up business or buyout business or in an existing business (Kavitha & Gopinath, 2020). PE is composed of funds and investors that directly invest in private company. PE funds play an important role as financial intermediaries in the PE market (Jaya & Gopinath, 2020). PE funds are established and structured as limited partnerships and these funds with the help of Limited partners (LP) make investments in various companies thereby creating a diversified portfolio which managed by professional known as General partners (GP). PE funds seek investments in undervalued companies. PE funds may acquire equity in a target company independently or in combination with other PE firms (Gopinath, 2017). The combinations enable them to spread out the risk and the capital can be utilized to fund new technology, make acquisitions expand working capital and solidify a balance sheet (Bhawiya Roopaa & Gopinath, 2020). Indian PE market has been emerging as an attractive destination in terms of corporate financing as an alternative source of financing against the conventional sources. The major factors that contribute to the flow of PE investments in Indian markets are increasing risk appetite of investors, increased domestic liquidity, favourable

2. EVOLUTION OF PRIVATE EQUITY IN INDIA

Evaluation of PE in South Asian market can be linked to the emergence of venture capital firms in mid-1980. Initially the venture capital funds showed similar characteristics of PE funds (Saminathan et al., 2020b). The origins of the modern PE industry track back to 1946 with the formation of the first venture capital firms that is the American Research and Development Corporation (ARDC) and J.H. Whitney & Company. The origin of Indian PE industry dates back to the 1980's. The first generation venture capital funds were started by financial institutions like ICICI bank and IFCI bank. With the focus on technology start-ups, ICICI started a venture capital scheme. Later IFCI sponsored and helped in the development of "Risk Capital and Technology Finance Corporation of India Ltd that further supported newly start-up businesses. The universe of PE investors consists of large funds such as CVCI, KKR, Actis, and Blackstone along with large players such as Bain Capital and Morgan Stanley in Indian and domestic PE players such as ICICI Ventures, Chrys Capital, ILFS, and others. During 1995 to 2000, India witnessed increased flow of Foreign PE investments and foreign firms like Baring PE partners, CDC Capital, HSBC Private Equity, etc. led the PE industry in India (Ratanpal, 2008).

3. NEED FOR THE STUDY

PE funds help the firms to increase their cost effectiveness and contribute in the organizational growth. Private investment is risky (Kavitha & Gopinath, 2020a). With the help of PE we can invest in new business or acquisition of business or and existing business. PE fund helps the company to restructure and return to financial health. The study is focused on investment pattern in PE, final payoff on the basis of exist value, and there is a need to examine the risk and return pattern in Private Equity.

4. OBJECTIVES OF THE STUDY

The following are the objectives of the study

- To study the investment trends of PE in India
- To evaluate the sector wise performance of PE companies in India

5. REVIEW OF LITERATURE

Scholars have studied the characteristic of PE investment behavior from multiple angles and contributed to a broad body of literature. The changes in the environment of PE market were studied by Klier, Welge and Harrigan (2009). They concluded that PE market has changed significantly as many successful PE players have become active investors in the market. Their research has found that there is easy access to capital because of increased investments from institutional investors and sovereign wealth funds to leading PE firms in expectation of higher returns from the market. It has been seen that PE investment durations in company portfolios have increased from four five year to ten- twelve years on account of issues relating to credit and illiquid nature of private equity (Burdell, 2009).

In his investigation, Goy (2010) discussed the issues that affect the ability of PE investors to win merger or acquisition deals- myth of dry power, absence of cash-flow lenders and increasing portfolio issues. Metrick and Yasuda (2010) in their research examined that 238 PE funds (buyout funds and venture capital funds) rose during 1993 and 2006. Their study analyzed the expected returns to the managers and compared the performance the managers of the two funds. Ludovic and Oliver (2014) observed that the performance of PE funds as reported by industry associations and prior research is over stated and they discuss several misleading aspects of performance reporting.

In their study Arpan Sheth, Madhur Singhal and Pankaj Taneja (2015), stated that Realizing India's growth aspirations require a lot of capital. In their study PE can play a pivotal role in bridging the gap between domestic sources of funds and the capital requirement for nation-building. In their research G Sabarinathan, Aditya Muralidhar & Ahana Shetty (2017) explained popular perception about the Indian venture capital and PE industry would probably suggest that was a marginal part of the larger capital market in India. But that may not be true anymore (Kavitha & Gopinath, 2020b).

PE Investment in India

The following represents PE investment in India over a period of five years i.e., from 2015-2019.

Table 1 Trends in PE Investments in India

Years	Deal value (US \$M)	Increase / Decrease of Deal Value (US \$M)	Number of Deals	Increase / Decrease of number of Deals
2015	7600	-	508	-
2016	11300	6470	576	68
2017	17100	580	826	250
2018	15400	-170	731	-95
2019	23800	840	591	-140

PE Investment in Different Sectors

The following tables represents PE investment in various sectors over a period of five years i.e., from 2015- 2019.

Table 2 Trends in PE Investments in IT & ITES Sector

Year	Deal Value (US \$M)	Increase/ Decrease of Deal Value (US \$M)	Number of Deals	Increase/ Decrease of No. of Deals
2015	2300	-	198	-
2016	6000	3700	290	92
2017	7900	1900	490	200
2018	4750	-3150	423	-67
2019	10580	5830	322	-101

Table 3 Trends in PE Investments in Food & Beverages Sector

Year	Deal Value (US \$M)	Increase/ Decrease of Deal Value (US \$M)	Number of Deals	Increase/ Decrease of No. of Deals
2015	100	-	16	-
2016	350	250	16	0
2017	480	130	35	19
2018	115	-365	21	-14
2019	250	135	25	4

Table 4 Trends in PE Investments in Real Estate Sector

Year	Deal Value (US \$M)	Increase/ Decrease of Deal Value (US \$M)	Number of Deals	Increase/ Decrease of No. of Deals
2015	2100	-	60	-
2016	2100	0	54	-6
2017	3400	1300	81	27
2018	3200	-200	70	-11
2019	5000	1800	53	-17

Table 5 Trends in PE Investments in Manufacturing Sector

Year	Deal Value (US \$M)	Increase/ Decrease of Deal Value (US \$M)	Number of Deals	Increase/ Decrease of No. of Deals
2015	1100	-	33	-
2016	500	600	26	-7
2017	820	320	28	2
2018	820	0	28	0
2019	850	30	30	2

PE Exits in India

Table 6 Trends in PE Exits in India

Year	Exit Values (US \$M)	Increase / Decrease in Exit Values (US \$M)	Number of Deals	Increase / Decrease in No. of Deals
2015	3600	-	152	-
2016	3400	-200	166	14
2017	6500	3100	254	88
2018	6700	200	209	-45
2019	13000	6300	259	50

PE Exits: M & A**Table 7** Trends in PE Exits in Mergers & Acquisitions (M & A)

Year	Exit Values (US \$M)	Increase/ Decrease in Exit Values (US \$M)	Number of Deals	Increase/ Decrease in No. of Deals
2015	743	-	62	-
2016	820	77	66	4
2017	175	-645	86	20
2018	3554	3379	102	16
2019	3900	346	120	18

6. FINDINGS

- Over the years, India has become the favorite destination of most PE investments across the world. A large number of PE firms had substantial funds for investment in India. In terms of investments, the Indian PE was second only to China. The following are the findings of the analysis of PE trends in India:
- The year 2017 has set the record for PE investments in India. PE investment reached a peak of US \$23800 million across 591 deals.
- Quarter wise analysis for the year 2016-17 revealed that a decline in both the PE investments as well as the number of PE deals, over the four quarters.
- IT & ITES Companies had the highest share of 55% in the year 2014, but further declined to 31% in the year 2016.
- The study shows that there is an increase in the investments in IT & ITES, BFSI, Real Estate and Manufacturing sectors.
- In comparison with the other sectors the PE investment in Telecom sector remains lowest for all the years.
- There is an investment increment in the infrastructure industry i.e., 11% (2013) to 13% (2017).
- 23% of the investors have invested in Buyout investment in 2017.
- The biggest exit in India was recorded in the year 2017, of US \$13000 million across 259 deal exits.
- It is observed from the study that there is an increase in the exit values in Healthcare, Real Estate, Energy, Telecom sectors.

7. CONCLUSION

PE Industry in India has a lost bit of its sheen in the past few years. PE sector is finding it difficult to raise funds from foreign investors. The emerging PE market in India is one of the most interesting PE stories. The Indian PE market is attractive for many reasons (Gopinath, 2019). Firstly, because of its entrepreneurial status, secondly, an investment base that truly understands the multiple opportunities for private equity, and finally a developing infrastructure with strong underlying economic growth. Firms with an access to new sources of capital can succeed. Over the next few years, it is possible that more funds will be generated in PE market. The major challenge is in respect of illiquidity.

REFERENCES

- [1] Amor, S. Ben, & Kooli, M. (2019). Do M&A exits have the same effect on venture capital reputation than IPO exits? *Journal of Banking and Finance*, 111, 105704. <https://doi.org/10.1016/j.jbankfin.2019.105704>
- [2] Andrieu, G., & Peter Groh, A. (2019). Strategic exits in secondary venture capital markets. *Journal of Business Venturing*, 36(2), 105999. <https://doi.org/10.1016/j.jbusvent.2019.105999>
- [3] Angeloni, I., Faia, E., & Winkler, R. (2014). Exit strategies. *European Economic Review*, 70, 231–257. <https://doi.org/10.1016/j.eurocorev.2014.04.006>
- [4] Arcot, S. (2014). Participating convertible preferred stock in venture capital exits. *Journal of Business Venturing*, 29(1), 72–87. <https://doi.org/10.1016/j.jbusvent.2013.06.001>
- [5] Barg, J. A., Drobetz, W., & Momtaz, P. P. (2019). Valuing start-up firms: A reverse-engineering approach for fair-value multiples from venture capital transactions. *Finance Research Letters*, 43(December 2019), 102008. <https://doi.org/10.1016/j.frl.2019.102008>.
- [6] Bhawiya Roopaa, S., & Gopinath, R. (2020). The Role of CSR Commitment on Rural Development with reference to Banking Sector. *International Journal of Advanced Research in Engineering and Technology*, 11(11), 2405-2418.
- [7] Bock, C., & Schmidt, M. (2015). Should I stay, or should I go? - How fund dynamics influence venture capital exit decisions. *Review of Financial Economics*, 27, 68–82. <https://doi.org/10.1016/j.rfe.2015.09.002>
- [8] Chen, Z., Chen, C., Lin, T., & Chen, X. (2019). The dynamic investment and exit decisions of venture capitals. *North American Journal of Economics and Finance*, 55(October 2019), 101300. <https://doi.org/10.1016/j.najef.2019.101300>
- [9] Conti, A., Dass, N., Di Lorenzo, F., & Graham, S. J. H. (2019). Venture capital investment strategies under financing constraints: Evidence from the 2008 financial crisis. *Research Policy*, 48(3), 799–812. <https://doi.org/10.1016/j.respol.2018.11.009>
- [10] Cumming, D., & Johan, S. A. binti. (2008). Preplanned exit strategies in venture capital. *European Economic Review*, 52(7), 1209–1241. <https://doi.org/10.1016/j.eurocorev.2008.01.001>
- [11] Cumming, D., Fleming, G., & Schwiendbacher, A. (2006). Legality and venture capital exits. *Journal of Corporate Finance*, 12(2), 214–245. <https://doi.org/10.1016/j.jcorpfin.2004.12.004>
- [12] Dong, Q., Slovin, M. B., & Sushka, M. E. (2019). Private equity exits after IPOs. *Journal of Corporate Finance*, 64, 101696. <https://doi.org/10.1016/j.jcorpfin.2019.101696>
- [13] Ferreira, R. M., & Pereira, P. J. (2019). A dynamic model for venture capitalists' entry–exit investment decisions. *European Journal of Operational Research*, 290(2), 779–789. <https://doi.org/10.1016/j.ejor.2019.08.014>
- [14] Garvey, R., & Murphy, A. (2005). Entry, exit and trading profits: A look at the trading strategies of a proprietary trading team. *Journal of Empirical Finance*, 12(5), 629–649. <https://doi.org/10.1016/j.jempfin.2004.10.002>

- [15] Gerasymenko, V., & Arthurs, J. D. (2014). New insights into venture capitalists' activity: IPO and time-to-exit forecast as antecedents of their post-investment involvement. *Journal of Business Venturing*, 29(3), 405–420. <https://doi.org/10.1016/j.jbusvent.2013.06.003>
- [16] Gopinath, R. (2017). Personnel Management Practices in TNSTC with special reference in Pudukkottai District. *Emperor International Journal of Finance and Management Research*, 3(11), 221–226
- [17] Gopinath, R. (2019). Quality of Work Life (QWL) among the Employees of LIC, *International Journal of Scientific Research and Review*, 8(5), 373-377.
- [18] Gopinath, R., & Poornapriya, T.S. (2020). Financial Effect on the left behind elderly Parents due to Migration, *International Journal of Management*, 11(11), 3129-3140.
- [19] Honjo, Y., & Nagaoka, S. (2018). Initial public offering and financing of biotechnology start-ups: Evidence from Japan. *Research Policy*, 47(1), 180–193. <https://doi.org/10.1016/j.respol.2017.10.009>
- [20] Isaksson, A. (2007). Exit strategy and the intensity of exit-directed activities among venture capital-backed entrepreneurs in Sweden. *Venture Capital in Europe*, 143–156. <https://doi.org/10.1016/B978-075068259-6.50014-2>
- [21] Jeya, J., & Gopinath, R. (2020). Customer Service Techniques and National Insurance Company Efficiency, *International Journal of Management*, 11(12), 3776-3784.
- [22] Kavitha, H., & Gopinath, R. (2020a). Role of Commercial Banks Financing and Explaining towards the Small-Scale Firms in Tamil Nadu: An Empirical Investigation of Entrepreneur's Perspectives, *International Journal of Management*, 11(10), 2172-2182.
- [23] Kavitha, H., & Gopinath, R. (2020b). Effect of Service Quality on Satisfaction and Word-Of-Mouth: Small Scale Industries and their Commercial Banks in Tamil Nadu, *International Journal of Management*, 11(11), 3034-3043.
- [24] Kavitha, J., & Gopinath, R. (2020). A Study on Perception of Internet Banking users Service Quality-A Structural Equation Modeling Perspective, *International Journal of Management*, 11(8), 2204–2217.
- [25] Rahaman, M. M. (2014). Do managerial behaviors trigger firm exits? The case of hyperactive bidders. *Quarterly Review of Economics and Finance*, 54(1), 92–110. <https://doi.org/10.1016/j.qref.2013.09.001>
- [26] Rossi, S. P. S., Bonanno, G., Giansoldati, M., & Gregori, T. (2019). Export starters and exiters: Do innovation and finance matter? *Structural Change and Economic Dynamics*, 56, 280–297. <https://doi.org/10.1016/j.strueco.2019.11.004>
- [27] Saminathan, R., Hemalatha, P., & Gopinath, R. (2020a). A Study on Performance Management in BMTC with special reference to Divisions, *International Journal of Advanced Research in Engineering and Technology*, 11(10), 1966-1973.
- [28] Saminathan, R., Hemalatha, P., & Gopinath, R. (2020b). An Analysis of Income and Expenditure with special reference to BMTC, Bangalore, *International Journal of Management*, 11(7), 1760-1768.
- [29] Sołoma, A. (2015). IPO in Private Equity Finance: Evidence from Poland. *Procedia - Social and Behavioral Sciences*, 213, 358–363. <https://doi.org/10.1016/j.sbspro.2015.11.551>

- [30] Song, K. R., Kim, I., & Chang, Y. K. (2014). A reverse takeover as an exit strategy of venture capital: Korean evidence. *Pacific Basin Finance Journal*, 29, 182–198. <https://doi.org/10.1016/j.pacfin.2014.04.003>
- [31] Strese, S., Gebhard, P., Feierabend, D., & Brettel, M. (2018). Entrepreneurs' perceived exit performance: Conceptualization and scale development. *Journal of Business Venturing*, 33(3), 351–370. <https://doi.org/10.1016/j.jbusvent.2018.01.005>
- [32] Sun, J., Wang, S. L., & Luo, Y. (2018). Strategic entry or strategic exit? International presence by emerging economy enterprises. *International Business Review*, 27(2), 418–430. <https://doi.org/10.1016/j.ibusrev.2017.09.009>
- [33] Vijay Kumar, S. (2019). Private Equity Investment and Exit Trends in India. *International Journal of Management Studies*, VI(5), 38. <https://doi.org/10.18843/ijms/v6si5/07>
- [34] Vinturella, J., & Erickson, S. (2013). Alternatives in Venture Financing: Early-Stage Equity Capital. In *Raising Entrepreneurial Capital* (First Edit, Issue Vc). Elsevier Inc. <https://doi.org/10.1016/B978-0-12-401666-8.00003-0>
- [35] Wang, Q. (Sophie), Lai, S., & Anderson, H. D. (2019). VC fund preferences and exits of individual investors. *Pacific Basin Finance Journal*, 67(September 2019), 101537. <https://doi.org/10.1016/j.pacfin.2019.101537>
- [36] Wennberg, K., Wiklund, J., DeTienne, D. R., & Cardon, M. S. (2010). Reconceptualizing entrepreneurial exit: Divergent exit routes and their drivers. *Journal of Business Venturing*, 25(4), 361–375. <https://doi.org/10.1016/j.jbusvent.2009.01.001>