

Publication : The Indian Express

Nature: Financial Newspaper

Date : June 18, 2007

Readership : 200,000

17

NEW DELHI | MONDAY | JUNE 18 | 2007

After few dull months, private equity investors bounce back in May

GEORGE MATHEW
MUMBAI, JUNE 17

PRIVATE equity investment which was facing rough weather after an explosive growth in 2006 and the first three months of 2007 is bouncing back. Inflows through the PE route which have taken a hit following the government move to restrict pass-through status to venture capital funds in the last Union budget have jumped to \$1.4 billion in May from \$310 million in April.

"There was a decreasing trend towards private equity investments as the first two months January-February saw \$2.19 billion, March \$1 billion and April \$0.31 billion. This was primarily the effect of restrictive nature of the pass-through status on taxation limited in favour of private equity investments only to select sectors — the knowledge-intensive sectors," said an analyst with Indusview Advisors.

The PE inflows have increased again as equity investors have started hunting for bargain deals in several growth sectors, said an analyst tracking the PE investments. "The investment scenario remains bullish now," said DSP Merrill Lynch chairman Hemendra Kothari.

According to a Grant Thornton study, the budget proposal will have an impact on funds registered with Sebi. Significantly, funds which are not registered with the market regulator

have been contributing to a bulk of the private equity investments. Investments by such unregistered funds (including international funds) were over 70 per cent in value and 66 per cent in volume terms for Jan-April 2007. "This proportion could be higher as, in some

dusview said.

Before the Budget 2007, any income of a VCF set up for investments in a VCU was exempt from tax. As a result, PE inflows had increased from \$2 billion in 2005 to \$7.8 billion in 2006. Still the first four months together (Jan-April 2007) saw deals

BACK IN FAVOUR

- PE investments rise from \$310 mn in April to \$1.4 bn in May
- Budget tax proposal to affect only Sebi-registered funds
- PE inflows now through funds not registered with the market regulator



cases, only a few funds and not all funds from a venture capital company may be registered with Sebi," it said.

The Budget 2007-08 had restricted the pass-through status — which means no income tax or no dividend distribution tax — to venture capital funds only in respect of investments in biotechnology, information technology relating to hardware and software development, nanotechnology, seed research and development, research and development of new chemical entities in the pharmaceutical sector, dairy industry, poultry industry and production of bio-fuels. "This has discouraged PE investors and left out the other sectors that are in need of this crucial source of funds to grow," In-

worth \$3.5 billion compared to \$2.7 billion during the same period last year.

There has been some impact on sectoral contributions. While there was no considerable variation in the sector-wise proportionate share of the deal value, the quantum of investments into sectors such as real estate, media & entertainment have shown a decline in March-April 2007 compared to Jan-Feb 2007.

For example, value of investments in real estate declined from \$440 million in Jan-Feb to \$240 million in March-April. Similarly, investment in media & entertainment showed a downward trend from \$484 million to \$156 million for the respective periods, Grant Thornton said.