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As PE tide swells, KKR readies India debut

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MUMBAI

LEGENDARY buyout fund Kohlberg Kravis Roberts (KKR) is setting up operations in India and hunting for a head honcho. The fact that KKR is setting up office here, two years after it announced its first deal by buying 85% stake in Flextronics for \$900 million, speaks volumes about India's prospects in attracting private equity (PE) investments. Since its inception in 1976, KKR has inked over 150 deals through its offices in New York, Menlo Park, London, Hong Kong and Tokyo. The list, interestingly, does not include China, India's closest rival in the PE race.

An almost dead IPO market and RBI's tough norms on raising money through external commercial borrowings and foreign currency convertible bonds are expected to push India ahead of China in the PE space this year, said IndusView director Rishi Sahai. IndusView advises MNCs on business opportunities in India.

Last year, India made a coup of sorts by



CROUCHING DRAGON

India may draw \$25b of pvt equity this year. It received \$9.9b last year while China drew \$9.5b

overtaking China in drawing PE investments. The trend continues this year. In January, India received PE investments worth \$1.2 billion, surpassing Asian giants like China (\$609 million) and Japan (\$980 million), according to a report by the *Asian Venture Capital Journal*. Mr Sahai said India drew \$1.3 billion against China's \$375 million. Industry experts expect the country to draw \$25 billion this year, and \$50 billion in 2010.

Last year, Indian firms received \$9.9 billion in PE capital, with China coming in second with \$9.5 billion.

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Better quality of entrepreneurs in India

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TAIWAN was a distant third with \$5.8 billion of PE funds, according to Asia PE Research and a Hong Kong-based research firm. However, a Grant Thornton study said the numbers were even higher. The study said India registered \$19.03 billion in 2007 through 405 deals.

The studies may differ on absolute numbers due to different methodologies. But one thing is clear: PE investments in India are rising at a scorching rate. Such investments amounted to \$1.1 billion in 2004 (60 deals), but rose to \$6 billion in 2005 (124 deals) and \$7.9 billion in 2006, said the Grant Thornton study.

Interestingly, the total value of deals in Asia shrunk to \$42.2 billion in 2007, from \$53 billion in 2006. India's feat appears even more impressive if one considers that China started getting foreign capital at least 10 years before India opened its doors in 1991.

IndusView, which also published a similar study, said the PE investments are expected to go up to \$25 billion this year. "Big companies may still sail through their IPOs. But the small and medium companies realised that the PE money is their only hope for funding expansion in the next two years. I know of a management, which lowered their expectation by 15-20% of what they were quoting a month ago. If this is any indication, PE investments are expected to overtake last year's level," said Mr Sahai.

Most of the India-specific or Asia-specific funds with special focus on India were collected two-three years ago. Normally, a fund has a maturity period of seven-eight years. Of this, a fund keeps investing till the fourth year of its inception and then starts harvesting. So, it shows India is here to experience unabated flow of money till another couple of years.

Bharat Banka, CEO of the Aditya Birla Group's private equity initiative, feels the momentum in India is on the rise while it may taper off, albeit marginally, in China after the Olympics. "International experience proves

that countries lose 1-2 percentage points in GDP growth after big events like Olympics and the world cup football. This is expected to happen in China this year," he said.

Mr Banka said the better quality of entrepreneurs in India than China will attract more PE investments. Also, the Indian system's acceptability to attract foreign and English speaking talents is better than China. For this reason, he said, the investment banking activities by global giants fail to get momentum in the dragon's land. "This will be another plus for India to get PE money," he added.

According to Mr Sahai, India's edge over China can be attributed to the transparency and easy exit opportunities. He cited the example of Warburg Pincus selling equity in Bharti Tele-Ventures two years ago for \$560 million on the Bombay Stock Exchange. The deal, so far the largest block trade ever in India, was executed in barely 28 minutes, indicating the depth and maturity of the domestic market. "China can not provide you this kind of an exit option," he added.

The India head of a global private equity fund, who did not wish to be quoted, said the biggest problem in China is that the actual negotiations start after signing a deal. So, where to go if a PE investor faces problem with the management in which it plans to inject funds, particularly when the judiciary is not so liberal, the fund head says.

Nitin Potdar, partner of J Sagar Associates, a legal law firm which advises M&A transactions, said the legal system provides another impetus to attract PE investments in India vis—vis China. The Indian legal system is based on the English laws, and therefore close to the European countries. Many Indian judgements have precedence in the European courts, which is not the case in China. Admitting that there may be a delay in resolving legal disputes in India, he said unlike China, the laws here do not discriminate between locals and foreigners.

All the experts ET spoke to are unanimous on their opinion that real estate will be the biggest recipient of PE money in the next few years. Mr Sahai said clean energy will also be another hot bed for PE investments. Last year, according to the Grant Thornton data, real estate got 37% of the total PE money while banking and financial services attracted 17% of the total investments.

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NOTION LIMITED.
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Kerala invites Sealed
having International
supply of various most
agents and also for
id for the full fledged

EAST CENTRAL RAILWAY

CORRIGENDUM NO. - 2

TENDER NOTICE NO. : 12 OF 2007-08
(Open) of Dy. CE/C/RGD, Tender No. - 18
of 2007-08(open) of Dy. CE/C/RGD

Name of work : Construction of 8 unit type
II (D/S) and 4 unit type III (S/S) drain
boundary wall and other ancillary work at
Jethian in connection with construction of
new B.G.Line in Rajgir-Tilaiya.