HEB

Private Equity-The Next Gen Sourcing

CASS

Author- Dr.Ashima Agarwal & Co-Author-Dr.Ritu Wadhwa

Asst. Professor, Amity Business School, Amity University, Uttar Pradesh

Address for Correspondence: editojohp@gmail.com

ABSTRACT

The year 2018 was a strong and challenging year for private markets. The public markets rose worldwide— the major indices like the S&P index 500 increased by about 20 percent, and the investors continued to show utmost interest and confidence in the private equity markets. Private asset managers could raise a huge sum of money via the private equity route globally continuing with the expansion of the market.

This study presents research evidence that helps to identify the links between the private equity industry and growth of the Indian economy. This all-inclusive review of recent research has facilitated to enumerate the impact of private equity activity on the factors which are key to India's bright economic future. The present research finds that involvement of private equity in asset management companies helps to increase the effectiveness of innovation efforts. Companies backed by Private equity are comparatively more focused in their innovation efforts and hence are in a better position to manage the innovation processes as compared to other companies in the industry

.

keywords: Private Equity, Economic Growth, Innovation.

Access this Article Online	
http://heb-nic.in/cass-studies	Quick Response Code:
Received on 20/02/2019 Accepted on 25/02/2019 © HEB All rights reserved	

INTRODUCTION

Experiencing the current challenging macroeconomic environment and efforts underatken by the Indian Government to create sustainable growth in India, the Indian Private Equity and Venture Capital Association (IVCA) claerly aims at developing and promoting the private equity sector and actively demonstrating its impact to the government, media, and the public at large.

Taking a look at the Indian markets, the takeoff in debt indicates that private markets are increasingly seen as a good alternative to banks, where banks have been overwhelmed with nonperforming loans. Similarly, public debt markets are not deep in many parts of the world. As access to bank loans and high-yield issuance diminishes, private debt investors step in to fill the void. Funds created to lend directly (as opposed to investing in distressed or special situations, or mezzanine) raised 51 percent of all private debt capital in 2017, a sharp increase from 25 percent last year. Furthermore, many LPs see deteriorating returns in their fixed income investments, and view private debt as having a similar risk profile with higher yield potential. Some also see private debt as a less risky way to play PE—investors get a more favorable part of companies' capital structure, and do not have to settle for substantially lower returns. Another factor, diversification, is always a consideration, and private debt offers a way for some to spread their bets.

Private equity has consistently demonstrated to be robust proving the ability to traverse the storms of financial unrest, political ambiguity and social turmoil, as well as face increased public inspection and directive. This progression has evidenced itself in certain variety of ways. There has been a high magnitude of PE houses where investments are moving from a homogenous approach to investing towards a strategy of sector focused targeting which is backed by a established reputation and diligent interest. This has enabled them to not only act more rapidly and potentially compensate more because they see the worth that can be unlocked, but also to discuss on eye level with business founders and endeavor a level of trust.

METHODOLOGY

There are clear linkages between the collision of private equity activity and the factors contributing to India's economic future. As is said that innovation supports progress in productivity and this in turn improves antagonism. All of these impacts are the major fuellers of economic growth in India: modernism generates new products and processes that enable more well-organized use of resources through advanced productivity. Enhanced competitiveness permits Indian businesses to prosper in the international economy.

Areas that require additional exploration have been selected , to unambiguously discover the economic impact of private equity. This report is the commencement of a potentially considerable research schema, which supports the objective of PE and states that growth can only be sustained via this route. Private equity-backed companies relates to not more than 10% of the inherent private equity sector financing in India, even then they relate for up to 18% of all industrial novelty, whereas their spent on the Research and Development (R&D) holds for a mere78% of the total amount spent for the purpose.. This study is based on a well accepted fact that depict those arms, impacts and results connected to PE which mention the manner in which any investment pattern and implementation will lead to growth and development of the economy.

The more the deals are completed in the sector, the more pervasive the aptitude in the industry becomes. It is now being experienced that there is a cohort of private equity professionals clubbed up with executive teams who have been the key engines in this sector and are providing guidance and pulling through the turbulent times. It has taken time and efforts of development, and it has been both learning via successes and failures. Value conception is clearly the takeaway, and due to the advent of Digital and Information Technology sector being the evolving areas, the new chronicles on equity financing are hitting and about to bang the PE market soon.

ANALYSIS

The economy worldwide has experienced an increase in the growth of GDP of around 3.4% where the main players being in the US and UK. Raising of finance has been the most lucrative finance phenomenon by novel investors including some investments which have been increased by LPs although there was a surge in the Exit activities by some private equity players due to the reallocation of new finance. The reports related to investors survey indicates the fact that 90% and above of the people under survey reiterated that their investments were being done in such a manner that it is focused on earning high returns. Also the main focus of the investment was to earn profits and multiply the investment base.

Also a great concern in the global economy is that the rate of inflation is less in the advanced nations which has a negative impact on the growth of countries. The exports have become dearer leading to a reduction in the forex which also is an indicator of the low growth being addressed by nations.

The growth rate of GDP in India was stabilized for long at around 7.1% due to the growth registered in the tertiary- service sector primarily, though the manufacturing sector too experienced a rise in the growth. Sectors such as infrastructure registered a rise in investment giving a boost to the economy and hence contributing to the country's GDP. Though the manufacturing sector registered the highest growth as compared to the growth which has been attained during past ten years but this time a growth in the service sector was also seen on a boom.

Price changes in the commodity sector fluctuated a lot in India, but the rate of inflation was located less than 5%. The prices of metals like steel and grains like rice increased before 2018 but ultimately saw a downfall as the Inflation reduced. The wholesale price index (WPI) saw a surge due to increase in the prices of crude oil whereas the consumer price index (CPI) increased because of the increase in the prices of food commodities.

RBI, our Central Bank tried to reduce the Repo rate in order to increase the public spending and this also led to an increase in the foreign reserves which in turn gives a lot of boost to the Indian economy. Fiscal deficit also reduced a lot during the past decade and as per the forecast given by RBI, it is set to decrease further in the years to come.

The NDA Govt. has also hinted that the tax base of our country has increased which has further led to reduction in the fiscal deficit which in turn leads to more transparency and reduced accountability.

GST as a new regime has brought about a sea change in commencing and expansion of the businesses which makes it easy to control and manage the businesses by various committees. Lot of tax havens have been provided for various small sized companies and SMEs also which eases the transfer of goods from one state to another.

The report given by RBI on Financial Stability mentions that the rise in NPAs especially in the public sector banks has also led to a high risk in financial sector which should in turn lead to credit growth in the economy.

There were some interesting trends also registered in the corporate world especially the restructuring. The merger activities were on an increase due to the inherent entry of Private Equity. India's sovereign rating was upgraded making it easy for the business world to create a high level of trust and confidence in the Indian corporate world.

CONCLUSION

The technological impact has been changing the face of the companies and they are now moving in an arena of digital, analytics, IOT, AI and cloud computing which is enforcing them to revisit their business models and take a note of the changing strategic initiatives. The existing players are in a mood to capture the existing firms with a technological advantage to create synergies that will help them create new horizons and in turn ensure growth for them. The markets are also experiencing triggers for technological absorption and acquisitions already in the foray. This trend of takeovers, mergers and shake hands is already the buzzword in the economy in our country as well as worldwide which can be experienced in almost all sectors be it media, telecommunication, IT, healthcare, etc. which makes it imperative to have a peep in the concept of Private Equity as this is seen to be the most effective route towards the same. The major blockade in such deals is a surge in the contest inspection which the market terms as Competition. The companies will have to make a serious effort in order to be able to get the conviction of the regulating agencies to ensure that the benefits out of such strategic alliances will only be beneficial to the industry, customers, Govt. and the general public at large.

REFERENCES

- Cumming, D., &Walz, U. (2010). Private equity returns and disclosure around the world. Journal of International Business Studies, 41(4), 727-754.
- Phalippou, L., &Gottschalg, O. (2009). The performance of private equity funds. Review of Financial Studies, 22(4), 1747-1776.
- Ryan, F. (2007). HIMA acquires NOVA Infusion in leveraged buyout. Caribbean Business, 35(33),EBSCO Online Database
- Advani, A. (2006, November 10). Start-up financing trends for 2007. Entrepreneur.com. http://www.entrepreneur.com/money
- Kaplan, S. N., &Schoar, A. (2005). Private equity performance: Returns, persistence, and capital flows. The Journal of Finance, 60(4), 1791-1823
- Goel, R. K., & Hasan, I. (2004). Funding new ventures: Some strategies for raising early finance. Applied Financial Economics, 14(11), 773-778.