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   STATEMENT OF THE PROBLEM

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   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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TREND AND PROSPECT OF PRIVATE EQUITY FUND IN ASIA-PACIFIC COUNTRIES: A LESSON FROM INDIA

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ABSTRACT

Private equity, as an asset class, is probably one of the less well-understood segments of today's financial markets though it is one of the most specialised asset classes. Private equity investments in companies involve considerable risk at an individual company level, and are broadly comparable with other asset classes at the portfolio level. Continuous improvement in savings, abundant liquidity propelled by petrodollars, sovereign wealth funds as well as hedge funds and an accommodative monetary policy that enabled a low interest rate environment accelerated the growth of private equity investment in the world as well as in Asia-pacific countries including India. Over the years, Venture capital and private equity (VC/PE) industry made their presence felt in the Indian economy as a conduit to finance young entrepreneurial firms which require substantial capital to drive growth and innovation. This paper is an attempt to explore the trend, progress and prospect of VC/PE industry in India in comparison with the other countries in Asia –pacific region.

KEYWORDS
Asia-pacific countries, India, private equity, specialised asset classes, venture capital.

01. INTRODUCTION

Financial globalization and hunger for increasing risk & return among global investors has given birth to a new genre of global financial intermediaries such as the private equity (PE). Growth in savings, abundant liquidity propelled by petrodollars, sovereign wealth funds as well as hedge funds and an accommodative monetary policy that enabled a low interest rate environment accelerated the growth of private equity investment in the world. Since 2000 various regulatory changes such as pension fund reforms and numerous financial innovations like securitization motivated the growth of alternative asset classes like private equity and more particularly, the leveraged buyout industry. Venture capital and private equity (VC/PE) industry has originally evolved as a conduit to finance young entrepreneurial firms which require substantial capital to drive growth and innovation. These enterprises are characterized by major intangible but limited tangible assets, expect a period of negative earnings and have uncertain prospects which makes debt financing difficult (Povaly; 2007). Similarly, private equity organizations finance firms trapped in troubled waters which typically find it difficult to pull debt finance. Private equity organizations finance in high risk situations and expect high rewards in return. They have been facilitating the productive use of existing assets and resources, usually by identifying companies with untapped potential and reorganizing their operations in ways that improve their value. While venture capital firms invest in early stage, low profitable firms and rarely use bank debt, PE sponsors usually buy mature, profitable businesses *via* leveraged/management buyout transactions finance the transactions with large portion of bank debt and assume control of board of directors but are less likely to assume operational control. They protect the value of their equity investments by conducting careful and extensive due diligence before making an investment regarding business, financial, regulatory and environmental issues relevant for the company in question.

Today, VC/PE funds have become a crucial source of finance for corporate and has earned the status of an important asset class. It is the provision of capital and management expertise to companies in order to create value and subsequently, with a clear view to an exit, generate capital gains after a medium to long holding period. Private equity investors draw capital from a defined pool; and invest predominantly in unquoted companies on the basis of a medium to long-term strategy and holding period with a focus on financial gain through exit by sale or flotation. They have dedicated professional team; negotiated contractual relationship with qualified / professional investors; and involve active ownership driving value creation. Further, they have strong self-regulation with defined reporting and valuation requirements; and involving stand-alone management of each individual company.

Over the years, VC/PE industry made their presence felt in the Asia – pacific countries and more particularly in Indian economy too. It has now become a potential source of corporate finance supplementing the traditional sources of resource mobilization such as public equity issues, private placements, euro issues and external commercial borrowings in these regions. The key driving factors behind the major flow of PE capital into India are its strong macro-economic fundamentals characterized by high growth rate, high gross domestic investment, burgeoning domestic customer market, stable democratic government & credible legal framework, a well-established public equity market and one of the best higher education systems in the emerging market and widespread knowledge of English. In fact, private equity interest grew from 2003 onwards when the domestic stock markets recorded higher returns in India. A booming secondary market and regulatory reforms in the primary market widened the exit possibilities for private equity firms and hence attracted them to India. Over the last few years, private equity has emerged as a key source of finance for the cash strapped small and medium enterprises, infrastructure sector, education and environment sensitive sectors too. In India, the terms "venture capital" and "private equity" or "risk capital" are often used interchangeably. For the purposes of this paper, private equity is used as the generic term to encompass all the sub-sets of financing stages which comprise venture capital, expansion capital, and management buy-outs and buy-ins.

02. OBJECTIVES AND RESEARCH METHODOLOGY

The present study is basically analytical in nature and aspires to make an overall evaluation on the trend, progress and prospect of private equity capital in Indian economics along with in Asia-pacific countries. This study also tries to explore reasons behind uncertainty in PE flows, with a view to envisage its future in India. To be specific, the main objectives of the study are:

- To explain the conceptual aspect of Venture Capital / Private Equity (VC/PE) capital or fund
- To describe need for VC/PE fund particularly in the developing countries.
- To explore the history of private equity capital.
- To explain VC/PE fund in global perspective and in the context for India.
- To examine the prospects and problem of VC/PE fund in Indian economics.

Accordingly, the reminder of the paper is organised as under. Section two laid down the conceptual aspect on VC/PE fund. Section three narrates benefits of the same; while section four investigates into the history of private equity capital. Section five presents a brief sketch on the trend and progress of VC/PE funds in the world. Section six explain trend and progress of VC/PE fund in India, prospect of the same and point out various problems those are need to be solved for a healthy growth of private equity market in this region. The last section is devoted for concluding observations.

The study is basically exploratory in nature and depends exclusively on secondary data. Secondary data are collected from various reports published by Bain and Co. Inc, KPMG, Price water house cooper (PWC) and EMPEA (Emerging Market Private Equity Association), IVCA (Indian Venture Capital Association, the Altasset (Private Equity Placement & Advisory) Newsletter, the Fourth Wheel (Private Equity in the Indian Corporate Landscape) Newsletter. Parameters like ratios, percentage of growth and others are considered for some meaningful comparison and to derive some concrete conclusion.

03. PRIVATE EQUITY: CONCEPTUAL ISSUES

3.1 MEANING OF PRIVATE EQUITY

A private equity is a collective investment scheme or reserve capital used for making investments in various equity (and to a lesser extent debt) securities according to one of the investment strategies associated with private equity firm. However, there is no universally agreed definition of private equity. Various academic studies and private equity associations in different countries have defined private equity in a diverse way depending on their activities in those countries. Lerner (1999) broadly defines private equity organization as partnerships specializing in venture capital, leveraged buyouts (LBOs), mezzanine investments, build-ups, distressed debt and other related investments. Fenn, Liang and Prowse (1995) have identified them as 'financial sponsors' acquiring large ownership stakes and taking an active role in monitoring and advising portfolio companies. Ljungqvist and Richardson (2003) describes private equity as an illiquid investment since there is no active secondary market for such investments, investors have little control over investment pattern and investment profile covers a long horizon. The European Venture Capital Association defines private equity as the provision of equity capital by financial investors – over the medium or long-term – to non-quoted companies with high growth potential. It is also called 'patient capital' as it seeks long term capital gains rather than short term regular reimbursements. Similarly, the International Financial Services, London discussed private equity as any type of equity investment in an asset in which the equity itself is not freely tradable on a public stock market. Private equities are generally less liquid than publicly traded stocks and are thought of as a long-term investment.

All private equity firms are organized as limited partnerships with a fixed term of 10 years (often with annual extensions) where private equity firms serve as general partners and large institutional investors and high net worth individuals providing bulk of the capital serve as limited partners (Metrick & Yasuda; 2008). There are also other types of structures which are controlled and managed by the specific private equity firm acting as the general partner (GP). A limited partnership is sometimes known as a "fund". In this case the general managers of the limited partnership are known as the "management company". Many times there will be a separate and unique company that is associated with the general partner. Equity funds get their capital commitments from investors who are qualified. This includes funds from financial institutions, pension funds, as well as money from individuals who have invested a certain amount of their funds. The investors who have provided this capital become a "passive" partner within the hierarchy of the partnership. The investor is permitted to "call" the equity capital when an investment opportunity is announced by the general partner. At this time the limited partner will fund a portion, or pro rata, of its share of the required commitment. The general partner makes all of the decisions about the private equity fund and is also in charge of managing the fund's portfolio. The portfolio contains all of the fund's investments. During the span of a fund, which can be as long as ten years, the equity fund will make anywhere from 15 - 25 different types of investments. In most cases one particular investment won't exceed more than 10% of the total commitments of the fund. A private equity fund will earn gross returns of over 20% annually. The general partner of a private equity fund will be compensated, or paid, with a management fee based on a certain percentage of the total amount of the fund's capital. Usually the management fee will be 1% to 2 % annually of the total amount of capital that has been committed. As well, the general partner will earn a "carried interest" which is essentially a performance fee that is based on the total amount of profits that have been earned by the fund and go up to 20% over and above the hurdle rate (target rate of return).

3.2 MAJOR PARTICIPANTS IN PRIVATE EQUITY MARKET

There are three major participants in private equity market (Povaly, 2007)-

i. Issuers or firms who were seeking private equity. These issuers are usually firms that do not have recourse to an alternative source of financing such as a bank loan, private placement or the public equity market (IFSL Research, 2008). These firms vary in their size and reasons for acquiring capital.
ii. Financial intermediaries which are private equity funds themselves. These are mostly organized as limited partnerships where investors who contribute to the fund's capital are limited partners, while the professional managers running the fund serve as the general partners.
iii. Investors who are contributing capital to private equity firms. These may include public and corporate pension funds, endowments, foundations, bank holding companies, investment banks, insurance companies and wealthy families and high net worth individuals (HNI).

3.3 DIFFERENCE BETWEEN PRIVATE EQUITY, VENTURE CAPITAL AND HEDGE FUND

Presently there is lot of ambiguity surrounding the concepts of private equity and alternative investment channels like venture capital and hedge funds. Venture capital is a subset of private equity which is guided as equity investments for the commencement, early development or expansion of a business. It emphasised on entrepreneurial undertakings rather than on mature businesses. The concept of private equity and venture capital were used interchangeably in most of the literature. Hedge Funds differ from private equity firms in terms of their time-to-hold, liquidity, leverage and strategic direction of investments which in turn guided the differences in their exit strategy, risk tolerance and desired rate of return of the two types of funds. Hedge funds seek a quick return of their investments with the average length of their investments being 6-18 months, whereas the time horizon of private equity investment is around 3-5 years. Hedge funds are also inclined towards volatile withdrawal of investments as opposed to private equity firms which are focussed on long term returns. However, of late, it has been observed that the arena of activities of such institutional investors is not mutually exclusive. Many private equity firms own hedge funds and make long term investments in hedge funds. Further, attracted by the significant returns in leverage buyout deals, many hedge funds have joined hands with private equity players to make large buyout deals. Given the differences in activities and risk tolerance of the two players coupled with the absence of any reliable public reporting norms of their activities, the synergy between the two players has raised regulatory concerns, of recent.

04. BENEFITS OF PRIVATE EQUITY FINANCE

In recent times, private equity finance has become very much popular in developed as well as in developing countries because it not only serve to the concerned company but also provide numerous benefits to the industry, country and the society at a large. A survey on 119 PE-sponsored firms in Asia conducted by KPMG has establish that most private equity firms conceptualise 'provision of capital' as their most important contribution towards growth of business followed by optimizing company's financing structure, general management guidance at the board level, aptitude to recruit the best managers to run the business, improve corporate governance and development of business processes. Host companies also benefit from international network of contracts like inoculation of international know-how, *etc.* Several studies have also documented that private equity/venture capitalists speed up product commercialization (Hellman and Puri; 2000), adoption of human resource development policies and strengthen commercialization strategies of the companies (Gans, Hsu, Stern; 2002; Hsu, 2006).

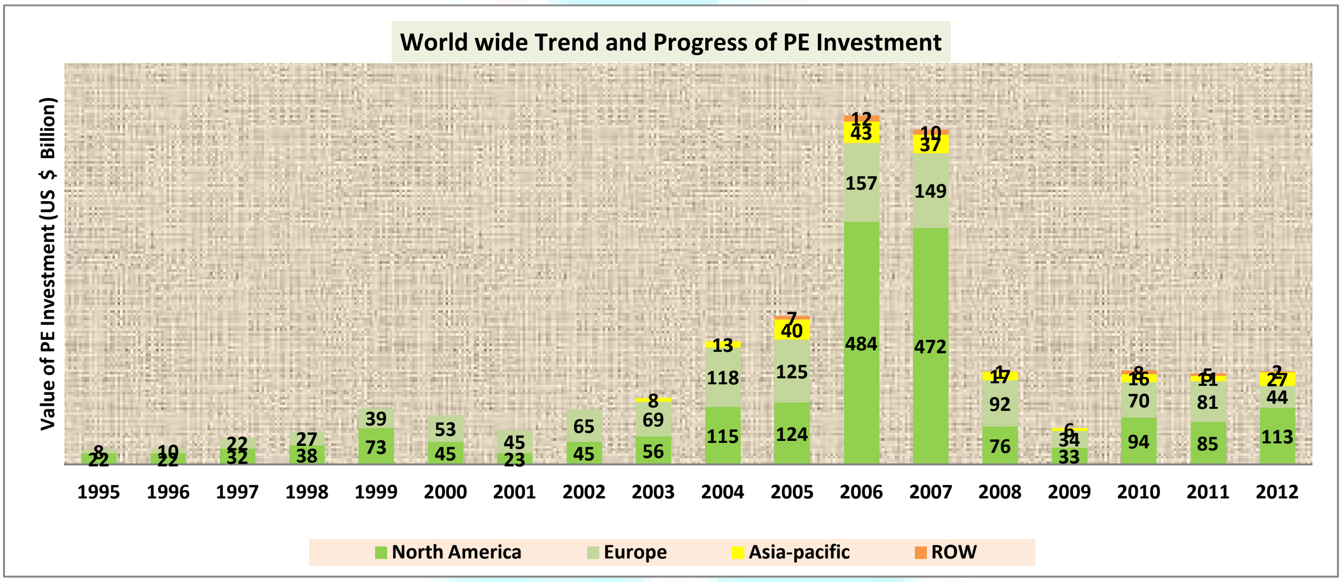
During a systemic crisis, private equity firms can balance the system through brisk trading because of their long term funding requirements (Persaud: 2008). Private equity fund also looked upon as a 'company builders' as they provide 'venture capital'. It helps a company to execute better in several ways. A survey of firms receiving private equity investments in Australia in 2006 has shown that PE investors encourage collaboration with universities in R&D. They outline portfolio companies innovative strategies by investing at the right time and making them public at the right moment (Rin and Penas; 2007) and thus freeing of capital to reinvest it in new ventures (Michelacci and Suarez; 2004). They inspire management for add-on acquisitions or for launch of new higher margin products or markets. A survey of PE-firms in Asia-Pacific by KPMG has shown that in India, the average share price of PE-sponsored companies trading for 501-616 days rose by 195 per cent, while non-PE sponsored companies' stock gained only 99 per cent. PE-firms are also extending several social benefits such as improving environment, building infrastructure, encouraging R&D and upgrading human capital. The survey of Australian PE firms has shown that investee companies help in productivity improvements and ongoing Australian R&D. IFSL Research study find that private equity backing companies in UK accounted for the employment of approximately 3 million people in 2007. This is equivalent to 16 per cent of UK's private sector employees. According to Venture Intelligence, the growth in employment in private equity firms (8 per cent) is greater than in other private sector firms (less than one per cent in FTSE 100 companies). A survey of Indian PE firms has also shown that PE-backed firms have shown higher annual wage growth of around 32 per cent as compared with 6 per cent growth in non-PE backed firms. Annual sales grew by over 22 per cent in PE-backed firms as compared with 10 per cent in non-PE backed firms. Private equity also benefits the economy at large by incentivising capital formation, optimizing allocation of resources, encouraging competition and thereby raising social welfare of the economy as a whole.

The role of private equity in developing economy like India may broadly be described as arranging capital for the capital starved sectors such as SMEs and infrastructure, emerging sectors like realty, telecom, IT, *etc*., restructuring of loss making companies as well as the high value agriculture sector. With better policy support, private equity can revolutionise the disinvestment process in India. This will require policy support such as relaxation of archaic labour laws and land legislations that have hitherto disabled transfer of capital and other resources into more productive pursuits.

05. PRIVATE EQUITY CAPITAL: GLOBAL PERSPECTIVE

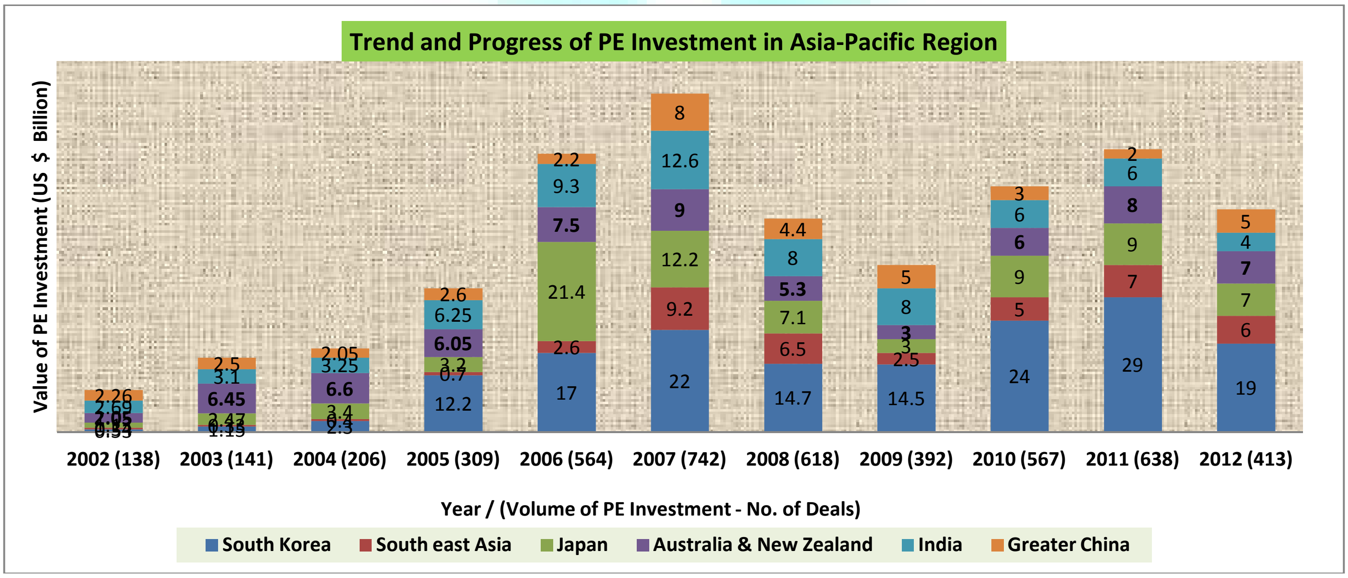
Soon after World war II the PE industry have grown up simultaneously in US and Europe . However, the degree and pace of development of the PE market varied significantly on the two continents since then (Povaly; 2007). The first formal PE firm, ARD was established after World War II in 1946 in the US. But the PE industry started a rapid growth after the 1970s due to post amendment to the so-called 'prudent man' rule governing the pension fund investments and lowering of capital gains tax rates in 1978. The import and indigenous development of private equity in Asia-pacific region like Malaysia and Singapore was aided by the PE support policies of the State as well as inflow of money from public sources. According to an OECD report, approximately 3,000 private equity funds are currently operating worldwide managing over US$ 1.5 trillion. According to the India Private Equity Report published by Bain and company. Inc, global private equity Investment (global buyout deal value) increased to a peak of US$ 696 billion in 2006 from just US$ 30 billion in 1995, recording a growth of over 230.0 per cent. The global private equity industry is dominated by north American countries, particularly US and Canada **(see Graph 1).** United States accounted for around 62.0 per cent of total global fund raisings and more than 57.0 per cent of global PE investments in 2012. But after 2007 global private equity investment showed no significant increase except North America. The Asia-Pacific market declined by approximately 20%, and South Korea was the only nation to see an increase in PE activity **(see Graph 2).** Decreasing deal values in both India and China played a large part in causing decline in PE investment in Asia-pacific region. One of the main reasons for the declining PE investment is that LPs are showing more caution when allocating funds and becoming increasingly picky about the fund managers they work with. The factors contributing to the cautious approach of LPs are – Changing macroeconomic environment, sustained pressure on exists, expectation mismatch over asset valuation and concern about return.

GRAPH - 1



Source: Bain IVCA VC/PE research survey 2013

GRAPH – 2



Notes: *Investments with announced deal value only done in APAC (GC, SEA, ANZ, Japan, South Korea and India). Includes only closed deals, deals in agreement in principle or definitive agreement status. Does not include bridge loans, franchise funding seed/R&D and concept deals. Excludes all non PE / VC deals (such as M&A, consolidation, acquisition). Excludes deals of value less than $10 million. Excludes real estate, hotels & lodging and infrastructure (airports, railroad, highway, other heavy infrastructure). Excludes large domestic transfers from SWF to government (such as CIC investing in Bank of Communications). Greater China includes China (PRC), Taiwan, Hong Kong and Macau; SEA (Southeast Asia) includes Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.*

Source: *Asian Venture Capital Journal (22.01. 2013)*

06. TRENDS, PROGRESS AND PROSPECTS OF PRIVATE EQUITY CAPITAL IN INDIA

6.1 TRENDS AND PROGRESS OF PRIVATE EQUITY CAPITAL IN INDIA

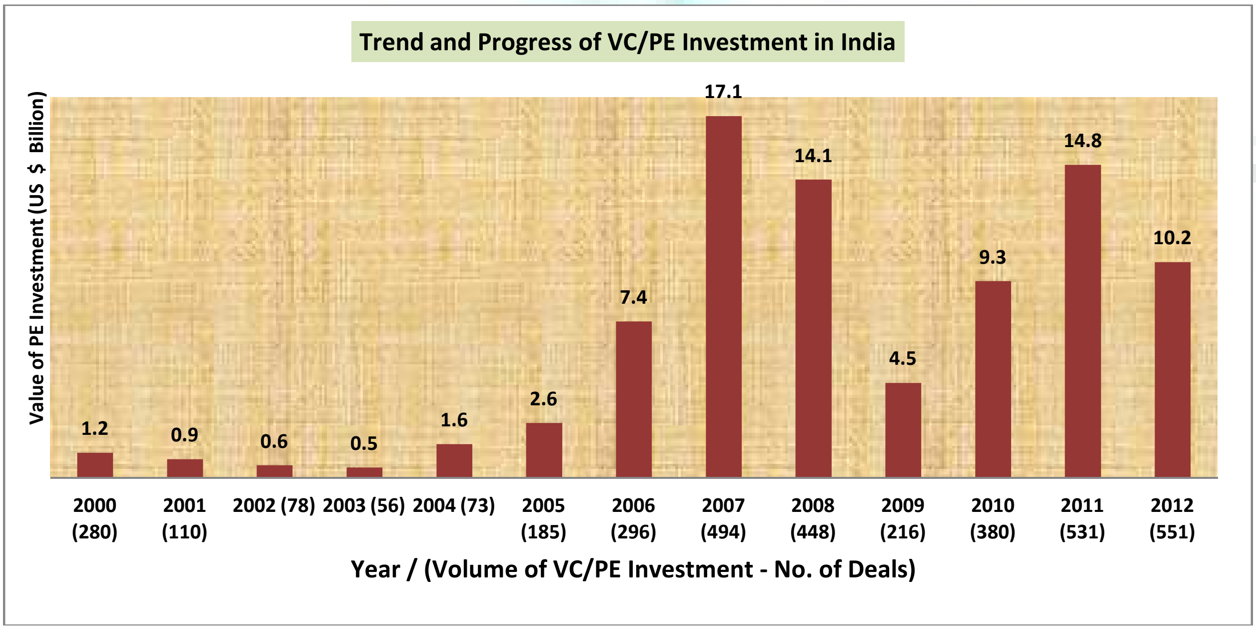
The history of private equity in most of the South Asian regions started with venture capital firms which later graduated themselves into indigenous private equity firms by widening their activities. The seed of the Indian private equity (PE) and venture capital (VC) was laid in the mid 1980's. and it scaled new heights in 2000 primarily because of the success demonstrated by India in assisting with Y2K related issues as well as the overall boom in the Information Technology (IT), Telecom and the Internet sectors, which allowed global business interactions to become much easier. In fact, the total value of such deals done in India in 2000 was $1.2 billion and the average deal size was approximately US $4.14 million. The first generation venture capital funds, which treated as a subset of private equity funds were launched by financial institutions like ICICI and IFCI. For encouraging start-up ventures in the private sector and emerging technology sectors ICICI launched its venture capital scheme in 1984. This was followed by the establishment of 'Technology Development and Information Company Ltd' and IFCI sponsored 'Risk Capital and Technology Finance Corporation of India Ltd'. Commercial banks like Canara Bank also came up with their own venture capital funds - CanBank Venture Capital Fund Limited. Subsequently, various regional venture capital funds started their activities in Andhra Pradesh, Kerala and Gujarat e.g. Andhra Pradesh Industrial Development Corporation (APIDC), Kerala Ventuer Capital Fund Private Limited, Gujrat Venture Fund Limited. In late 80's and early 90's, various private sector funds also came into being like IL&FS Investments Managers Limited, Kotak Mahindra Finance Ltd, Punjab Venture Capital Limited etc. Between 1995-2000, several foreign PE firms like Baring PE partners, CDC Capital, Draper International, HSBC Private Equity, Merlion India Fund (Standard Chartered Private Equity) and Warbug Pincus also started their function in India. During the mid 1990's, laws for venture capital funds formally started taking shape. The Securities and Exchange Board of India issued the SEBI (Venture Capital Funds), Regulations, 1996. These regulations were amended in 2000 on the recommendations of K.B. Chandrasekhar Committee. According to Euromonitor, VC/PE investment in India reached at 0.5 % of GDP in 2012 which is higher than those of China (0.26%) and Brazil (0.26%).

Investing in India came crashing down when NASDAQ lost 60 percent of its value during the second quarter of 2000 (the technology boom burst) and other public markets including those in India also dropped substantially. Consequently, during 2001-2003, with a view to minimize risks, the PEs started investing less in new companies and more in matured companies. Many foreign PE investors fled India during that period. Investment activity revived in 2004 with the upward trend in domestic stock market. Six PE-backed companies went public successfully. Investment focus also turned towards non-IT investments like manufacturing, healthcare and those dependent on domestic consumption growth.

In India, private equity has been emerging as a potential source of corporate finance supplementing the traditional sources of resource mobilization such as public equity issues, private placements, euro issues and external commercial borrowings. Today, India is among the most attractive investment destinations globally, driven by a combination of strong macro-economic fundamentals, an improving regulatory and policy environment, high gross domestic investment and a booming stock market. A well regulated and attractive secondary market and regulatory reforms in the primary market widened the exit possibilities for private equity firms and hence attracted them to India. Even though the global economy as a whole experienced several corrections in its recovery from recession, India was able to continue its growth trajectory. India is generally considered a "must have" destination for foreign institutional and private equity investors, who recognize the potential of Indian companies to generate high returns leveraging on the country's economic growth. Various sectors of the economy like IT, ITES, FMCG, real estate, retail, education etc. also have grown rapidly. Recognizing the macroeconomic indicators and the investment environment in India, PE investors, have played a significant role in the development of several sectors in India over the past decade. Important among them are, technology, healthcare, telecom, retail, education etc. Over the last few years, private equity has emerged as a potential source of finance for the cash strapped small and medium enterprises, infrastructure sector and environment sensitive sectors too. The number of private equity deals in India increased from 280 in 2000 to 551 in 2012 with the total investment rising from US$ 1.2 billion in 2000 to US$ 10.2 billion in 2012 **(see Graph 3).** An important feature of the resurgence in the PE activities in India since 2000 has been diversified in nature **(see Graph 4).** The investors, in terms of value of Investment focused on almost all the sectors, e.g., IT and ITES (IT Enabled Services, commonly known as Business Process Outsourcing or BPO), Real Estate and infrastructure, Banking and financial (BFSI), pharmaceuticals and healthcare, Media and Publishing, Power and Energy, textile and Apparels, Manufacturing, Automotive, Hospitality, FMCG, Food and Beverages, Engineering, Retail, Logistics, Education, Electrical and Electronics. This was mainly because the growth in the Indian economy was no longer limited to the IT & ITES sector; it was also spreading more evenly to other sectors as well.

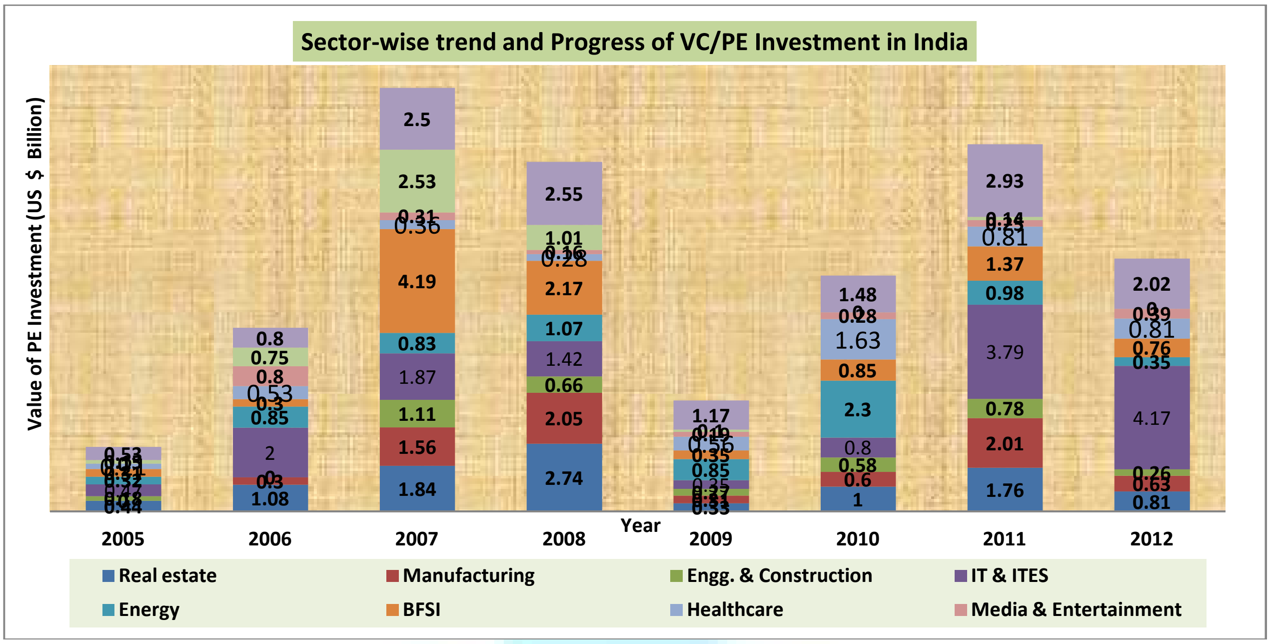
In India, private equity is not a regulated activity (Gopinath; 2009). However, indigenous and foreign venture capital funds are controlled and regulated by SEBI (Venture Capital Funds) Regulations, 1996 and Foreign Venture Capital Funds Regulations, 2000. Further, private equity/venture capital funds investments from abroad have to stick to the restrictions on foreign capital inflows. In other words, although there may not be any open regulations for private equity fundraising and investment in India like in US and UK, private equity funds are regulated within the ambit of existing regulations. This legislation enumerated the norms for registration of venture capital funds, investment conditions and restrictions, general obligations and responsibilities and investigation and inspection. Again, foreign venture and private equity funds came to invest in India through the FDI route. Foreign investments, either through FII route or FDI route, are subject to sectoral caps. Government of India has imposed investment limits for FIIs of 10 per cent and the maximum FII investment in each publicly listed company may at times be lower than the sectoral cap for foreign investment in that company. Under the FDI route, FIPB approval is required for foreign investments where the proposed shareholding is above the prescribed sector cap or for investments in sectors where FDI is not permitted or where it is mandatory that proposals be routed through the FIPB.

GRAPH: 3



Source: Bain IVCA VC/PE research survey 2013

GRAPH: 4



Notes: *"Others" includes consumer products, hotels and resorts, retail, shipping and logistics, textiles, education and other services; ITES is information technology enabled services; BFSI is banking, financial services and insurance*

Source: *Bain IVCA VC/PE research survey 2013*

6.2 PROSPECTS OF PRIVATE EQUITY CAPITAL IN INDIA

According to UK research firm Preqin, globally around 675 private equity funds raised approximately $320 billion in 2012, but a total of 55 funds have a mandate to invest in India and the total fund value allocated to India was only $3.5 billion, down from $6.8 billion in 2011 —a substantial drop and an indicator of the change in global attitudes towards India. Actual VC/PE investment fall from $14.8 billion in 2011 to $10.2 billion in 2012; however, the number of deals increased from 531 to 551 over this period. At 4%, this increase is very low, in line with the overall mood of caution in the market last year. This restraint, coupled with a decline in the total funds invested, saw deal size significantly impacted, with average deal size falling from $28 million in 2011 to $18.4 million in 2012. Early-stage growth and venture capital (VC) have played a critical role in deal making in 2012, with the number of early-stage deals under $10 million almost doubling to 244. Also, the top 25 deals made up only $4.3 billion, as opposed to $5.9 billion in 2011, and the average deal size at the top 25 dropped by almost a quarter to $175 million per deal last year. Investment is rising in consumer sectors, particularly in healthcare. Investments in healthcare nearly tripled over the past few years, improved from $0.46 billion to nearly $1.3 billion in 2012. The number of deals also rose by 50%, with 44 deals made in the sector in 2012. About 140 healthcare companies have received investment over the past five years, with 15% to 20% raising more than one round of capital.

As India's PE sector matures, there is no doubt that LPs are becoming more selective with their investments and are showing increasing caution when allocating funds. However, global private equity investment showed no significant increase in 2012, continuing 2011's trend towards flat growth. North America was the strongest-performing market, while activity in Asia fell around 20% over 2011. Although these issues create some cause for concern, we have reason to believe that the fundamentals of the Indian PE market are sound. The LPs and GPs were unanimously believe in the long-term potential of private equity in India and in India's growth story. While the economy may have slowed down, GDP continues on its upward trajectory, bringing continual increases in trade flows, industrial production and consumer spending. India's middle class grows by the day, pushing more and more households above the baseline for additional spending and creating a thriving upper middle class, with large disposable incomes. The VC/PE market in India is showing signs of maturity with all key stakeholders becoming more comfortable with the idea of private equity (PE) funding. The GOI becoming more proactive and bring forward some key pieces of legislation along with SEBI to create greater transparency in the regulatory environment. In 2012, 80% of funding came from overseas investors, a theme that has been observed since the early days of private equity investment in India. The private equity investors from around the world are increasing their bets on Indian corporate or making new ones. Some of the prominent players in all include big name US firms like Blackstone Group, Carlyle Group and General Atlantic Partners, and Britain's Actis Partners. Local firms such as ICICI Venture Funds Management Ltd. and Kotak are also stepping up VC/PE investments.

6.3. MAJOR PROBLEMS NEED TO BE SOLVED FOR A HEALTHY PRIVATE EQUITY MARKET IN INDIA

Bain IVCA VC/PE research survey - 2013 identifies the following factors as challenges and barriers to VC/PE industry in India:

(i) Challenges to exist; (ii) Bad corporate governance; (iii) mismatch in valuation expectation; (iv) Non supportive regulatory environment; (v) Difficulty in generating value from portfolio companies; (vi) Tough competitive environment; (vii) volatile macroeconomic factors; (viii) Unwillingness of the promoters or CEO to sell any stake; (ix) Non-supportive regulatory framework, and (x) limited availability of investment professional.

07. CONCLUSION

The beginning of VC/PE industry has reshaped the entrepreneurial climate in India. They help in the productive use of existing assets and resources, usually by identifying companies with untapped potential and reorganizing their operations in ways that will increase their value. In fact, the concept of 'financial inclusion agents' may be extended beyond the purview of banks to include enterprises like 'private equity firms' which can supply much needed and timely financial assistance to sectors like small and medium industries, infrastructure sector with long gestation periods and excess capacities in the short run, high value agriculture investments *etc.* For achieving a 9.0 per cent growth and a lot more scope remaining for infrastructure development, private equity investment will have a decisive role to play in the coming years. However, the rapid growth and globalization of the PE industry has raised demands for increased regulation and disclosure within the sector due to concerns regarding anti-competitive behaviour, excessive tax benefits and stock manipulation. There is a need to clearly define in our regulations as to what is a private equity firm and the kind of activities they are allowed to pamper in India. At present there is no provision in our existing regulations to report the sources of funds and investments of private equity firms on a regular basis. Hence it is necessary that private equity firms originating in India be asked to file an annual report explaining fund raising and investments activity in a year. At the same time, it is important to create a conducive environment for the development of a lively private equity market by relaxing both entry and exit barriers for the industry. To support this, there is a need to relax caps on FDI sectors especially infrastructure and technology intensive sectors, easing of norms on repatriation of profits, reform of labour laws and urban land ceiling legislation, rationalisation of tax laws to bring transparency and stability in tax policies and expediting capital market reforms such as developing corporate debt market and shortening of the IPO process to enable smooth flow of capital to more productive sectors.

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