
DETERMINANTS OF PRIVATE EQUITY INVESTMENT: A SURVEY OF PRIVATE EQUITY INVESTORS IN INDIA

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ABSTRACT

From financing of small scale enterprises in the form of seed capital to investment of growth capital in medium & large scale businesses, Private Equity has evolved as an innovative and profitable source of funding for companies operating in India. India's economic growth depends upon investments from Private Equity investors as part of Foreign Institutional Investments in the country. Study aims to identify and examine various macroeconomic as well as company fundamentals inviting Private Equity Investments in India. In addition, the paper investigates investment characteristics or preferences of Private Equity investors in India. Analysis is based upon a questionnaire administered on 24 Private Equity investors and partners seeking attractive investment positions in Indian businesses. Data was secured from Partners, Directors, Managing Directors, Vice Presidents, Principals and Associates from Private Equity funds and firms on various statements using Likert rating scale. Information gathered was analyzed using Mean Score rankings and Chi-Square test. Results reveal that level of governance and sales growth as most significant factors driving Private Equity Investments. Also, it was found that Private Equity Investment in India vary across various macroeconomic and firm-level fundamentals in terms of different investor characteristics of PEI range, style, horizon and size of investee company.

Keywords: Private Equity, Macroeconomic, Chi-Square Test, India.

INTRODUCTION

Private Equity provides financing to early stage and late stage companies arranged from third party investors which are generally institutions and high net worth individuals and families expecting high returns from risky investee companies (Leeds & Sunderland, 2003). In addition, Private Equity aims to acquire equity stakes and restructure and revive the businesses of portfolio companies. Private Equity funds are observed to be entrepreneurial in nature (Blackburn, 2006) and not quoted on public exchange. Private Equity in India generally takes the form of PIPEs, growth and sometimes early stage investments.

Investee companies in India and portfolio management involved comprehensive due diligence. Such investors prefer strategic and secondary sales of portfolio companies and few exit deals also take place through promoter buyback in India (Indian Private Equity Report, 2014).

From financing of small scale enterprises in the form of seed capital to investment of growth capital in medium and large scale businesses and various forms of buyouts, Private Equity has evolved and became an innovative and profitable source of funding for companies operating in India. Business potential of

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Emerging markets, crisis in the U.S economy and Eurozone followed by a trend of global economic growth being driven by developing nations and various other favorable macroeconomic fundamentals of developing markets has resulted in a strategic shift in Private Equity Investments in favor of most attractive emerging economic investment destinations of Brazil, India and China (Global Private Equity Report, 2011). The deepening of Private Equity industry in India is evident from significant increase in the average deal size of US\$ 469 million and average number of deals performed from 25 in fiscal year 2004 to average deal size of US\$ 2318 million and average number of deals performed 122 in the fiscal year 2012. Such rising trend is accompanied by a slight decline in average deal size to US\$ 2267 and average number of deals carried out in India to 97 in the last fiscal year of 2013 (MoneyTree India Report, Q4 2013) due to discouraging macroeconomic fundamentals of which Private Equity investors are optimistic about and expecting reversal of such conditions (India Private Equity Report, 2014).

Private Equity industry in India has evolved from a number of venture capital investments undertaken by traditional financial institutions and banks operating in India along with few regular foreign Private Equity investors to India focused Private Equity funds and India dedicated Private Equity Investment models extensively followed by emerging domestic Private Equity investors and skilled global Private Equity partners. From being sector agnostic Private Equity funds, investors have been establishing sector focused funds and making investments in wide range of sectors in India (Private Equity Investing in India, 2010).

Private Equity Investment in India has resulted not only in integration of businesses but also skills, experience and knowledge of investing and managing partners reflected in synergies accomplished in the form of enhanced decision making, reduced information asymmetries, less conflicts, better goodwill, strong networking, efficient operations,

enhanced profitability, increased competitiveness, strengthened financial based, higher sales, greater innovation as more R&D expenditure, increased corporate governance, more exports and many more (Jain & Manna, 2009; Private Equity Impact, Venture Intelligence, 2009; Katz, 2008; Bradford & Smith, 1997).

Private Equity Investments in India play a significant role in enhancing the growth prospects of small and medium enterprises by providing investment capital to such businesses which in turn determines the advancement of Indian economy. Presently, availability of capital and investment expertise happens to be the two most essential predictors of growth of MSMEs in India on which the development of the entire nation depends. Private Equity investors and managers capture such gaps and convert them into opportunities which results in mutual gains.

In light of the growing significance of Private Equity in India as an alternative to traditional sources of funding in providing tangible and intangible benefits to the Indian businesses and the country as a whole, this study aims to investigate set of factors encouraging Private Equity professionals to invest their capital in India. The study aims to understand the investment characteristics or preferences of Private Equity investors investing in India. In addition, the purpose is to identify and examine various macroeconomic as well as company fundamentals inviting Private Equity Investments in India and businesses operating in India.

The research has been divided into various sections. Section 2 comprises of the literature available around Private Equity Investments in India considering the perspectives of different partners investing in India.

Section 3 discusses the data gathered on various parameters and methodology adopted to analyze and interpret the research findings. Section 4 presents discussion on empirical outcomes whereas summary and conclusions are presented in last section.

REVIEW OF LITERATURE

Private Equity investors and managers are inclined to provide capital to potential investees on account of number of factors making the target an attractive and competitive investment alternative. Majority of deal sourced from intermediaries, satisfactory relationship between management and fund managers, growing number of auction-based transactions, taking minority stakes, concern for investment value creation, greater corporate governance along with better reputation, Initial Public Offering as the dominants exit strategy offering benchmark and in certain cases above normal returns, and providing growth capital to medium scale privately owned businesses in India characterize the investments and preferences of Private Equity investors and managers seeking investment opportunities in India (Private Equity Investing in India, 2010). Most of the Private Equity Investments in India ranges between less than US\$ 10 million and US\$ 10 million to US\$ 50 million (Report on Private Equity in India, 2012).

Private Equity Investment in emerging economies take place on account of favorable macroeconomic conditions, optimistic view about foreign investments, potential to earn higher returns and lack of capital (Leeds & Sunderland, 2003). Public pension funds represent most important Limiter Partners in emerging markets (Cornelius, 2007). Private Equity industry in India, being in its developmental stage, present prospects of attracting investments flows due to relatively stronger protection of property rights,

continuous reform process despite of political changes, democratic government, development efforts for suitable institutional framework, and well developed corporate laws (Klonowski, 2011). Private Equity investors and partners seeking investment positions in India consider governance, company valuation, profitability, solvency and debt serviceability of target companies as significant investment drivers (Tripathi & Neerza, 2014).

Private Equity investors hold positive view about India's long term business growth potential on account of its resilient nature demonstrated by relatively stabilized currency depreciation and slight improvements in the Indian stock markets towards the fourth quarter of the last fiscal year and very much evident from the fact that Private Equity accounting for 54% of Foreign Direct Investments in India in 2013 as compared to 45% in the fiscal year 2012 (Indian Private Equity Report, 2014). Entrepreneurial nature, favorable cultural attitudes, developing infrastructure and accelerating economic grow presented attractive investment opportunities for Private Equity investors to invest in India's economy (Private Equity Investing in India, 2010).

Domestic growth on account of reforms undertaken, growing urbanization, educated and productive workforce attracts Private Equity investors to invest in emerging markets in anticipation of higher returns as compared to advanced nations (Returns from Indian Private Equity, 2011). Economic activity of the nation, depth of capital markets, taxation system, investor protection and corporate governance levels, supporting human and social environment and entrepreneurial culture and attractive deal opportunities invites Private Equity investors to invest in emerging markets of Brazil, Russia, India and China (The Global Venture Capital and Private Equity Country Attractiveness Index, 2011).

Various research surveys have been conducted considering the investment aspects of Private Equity partners investing in India. Based upon the growing significance of such investments in the development of Indian businesses and the entire economy, this research aims to explore dynamics of country and company fundamentals in the context of India along with investment characteristics and/or preferences of Private Equity Investments in India.

DATA & METHODOLOGY

This research is based on primary data collected through a structured questionnaire. The questionnaire, using convenient sampling method, has been administered on 24 Private Equity Investors and Partners seeking attractive investment positions in Indian businesses. Private Equity Investment in India has been analyzed on the basis of sample characteristics, macroeconomic conditions and company fundamentals. Data has been secured from Partners, Directors, Managing Directors, Vice Presidents, Principals and Associates from Private Equity funds and firms operating in India. Data collection period was approximately two months. The perspectives of Private Equity investors and partners about set of statements pertaining to Private Equity Investments in India have been obtained on a Likert rating scale of 5 in which 1 denotes strong disagreement and 5 indicates strong agreement with the concerned statement. Various Private Equity professionals were approached on the basis of their exposure to Private Equity and Venture Capital Investments in India. The sample include number of Private Equity Investment deals which were reported to be top 20 deals in 2013 as per PwC MoneyTree Report on Indian Private Equity. The data has been analyzed using rankings based on mean scores and Chi-Square test.

RESULTS

The data has been analyzed in terms of sample characteristics or preferences when investing in India and various macroeconomic and company fundamentals encouraging and inviting Private Equity Investments in Indian businesses.

PRIVATE EQUITY INVESTMENT IN INDIA: SAMPLE CHARACTERISTICS

Private Equity investors generally make investments of US\$ 5 million to US\$ 20 million in Indian businesses indicated by the preference of 45.45% respondents investing in this range. In addition, the findings reveal that a significant proportion i.e. 27.27% of the surveyed Private Equity professionals also have a preference for investment in the range of US\$ 20 million to US\$ 50 million in Indian corporates. Majority of Private Equity Investments in Indian companies are made for a period of 3 to 6 years indicated by 76.19% respondents supporting the trend. This is followed by 19.05% investors and partners investing for a period of 6 to 9 years in Indian companies.

TABLE I: PRIVATE EQUITY INVESTMENT IN INDIA: SAMPLE CHARACTERISTICS

	Less than US\$ 5 million	US\$ 5-20 million	US\$ 20-50 million	US\$ 50 - 100 million	More than US\$ 100 million
Investment Range	9.09%	45.45%*	27.27%	18.18%	0.00%
	Less than 3 years	3-6 years	6-9 years	9-12 years	More than 12 years
Investment Horizon	0.00%	76.19%*	19.05%	4.76%	0.00%
	Growth Capital	Venture Capital	Leveraged Buyout	Mezzanine Funding	Other
Investment Style	77.27%*	9.09%	4.45%	4.45%	4.45%
	Micro & Small	Small & Medium	Medium	Large	Other
Size of Investee Company	0.00%	42.86%	47.62%*	4.76%	4.76%

Note: *Most Significant

Research depicts that 77.27% of Private Equity professionals provide Expansion/Growth capital to companies in India whereas 47.62% of Private Equity investors and partners seek to occupy investment positions in Medium sized businesses followed by 42.86% of respondents show preference to park their funds in Small as well as Medium sized Indian businesses. Broadly, Private Equity Investments are generally made in Small and Medium sized businesses operating in India.

MEAN SCORE ANALYSIS

Private Equity Investment in India: Macroeconomic determinants

Research highlights that level of Governance with highest mean score happens to be the most significant factor inviting Private Equity Investments in India whereas value of Indian currency having lowest mean score is the least significant factor influencing the flow of such investments in India (see Table II). In addition, industry growth/output, perceived levels of Corruption, Indian stock market liquidity along with Indian stock market return are considered important macroeconomic factors for encouraging Private Equity Investment in India.

TABLE II: MACROECONOMIC DETERMINANTS OF PRIVATE EQUITY INVESTMENT IN INDIA

Statements	Mean Score	Ranking
1. Increasing governance levels in India results in more of Private Equity Investments in India.	4.55*	1
2. Increasing industrial output of India positively impacts the flow of Private Equity Investments in India.	4.35*	2
3. Rising perceived levels of corruption in India reduces the prospects of Private Equity Investments in India.	4.22*	3
4. Higher stock market liquidity in India leads to greater Private Equity Investments in India.	4.17*	4
5. Higher stock market returns in India attract greater Private Equity Investments in India.	4.13*	5
6. Rising Gross Domestic Product (GDP) growth rate in India invites more of Private Equity Investments.	4.09*	6
7. Greater inflow of Foreign Institutional Investments in India also encourages Private Equity Investments.	4.04	7
8. Greater the size of stock market in India more is the flow of Private Equity Investments in India.	3.96	8
9. Stringent and high corporate taxation rates in India reduces Private Equity Investments in India.	3.52	9
10. Rising inflation in India reduces the prospects of Private Equity Investments.	3.39**	10
11. Higher stock market volatility in India reduces Private Equity Investments in India.	3.00**	11
12. Growing unemployment in India makes the country less attractive for Private Equity Investments.	2.74**	12
13. Higher real interest rate increases Private Equity	2.50**	13

Note: *Most Significant; ** Least Significant

Survey findings reveal responses of various Private Equity Investment professionals investing in India. 45.83% sample respondents agree that rising Gross Domestic Product (GDP) growth rate in India makes the country an attractive destination for Private Equity investors and partners whereas 37.5% respondents strongly agree with the assumed relationship. 29.17% Private Equity respondents disagree with the statement that strengthening value of Indian rupee makes India less attractive investment destination for

Private Equity Investments followed by 25% professionals strongly disagreeing and 25% respondents were indifferent. The observed association between inflation in India and Private Equity Investment in India has been supported by 41.67% survey respondents agree with the assumption that flow of Private Equity in India decrease with increase in Inflation whereas 20.83% Private Equity professionals disagree with the argument. 50% of sample respondents support the statement that increasing industrial output of India positively impacts the flow of Private Equity Investments in India followed by 45.83% respondents strongly agreeing with the statement. The study observed that higher real interest rate results in increased flow of Private Equity in India. But majority of the respondents (34.78%) disagree with the assumed association whereas 30.43% of sample respondents remain neutral.

Indian stock market returns happens to be a significant factor for Private Equity Investment in India supported by 54.17% survey professionals. Results reveal that considerable numbers of respondents (58.33%) are indifferent towards Indian stock market volatility when investing in India. Private Equity Investment professionals are encouraged to invest in India on account of greater inflow of Foreign Institutional Investments in India (39.13% respondents agree and 34.78% respondents strongly agree), higher Indian stock market liquidity (45.83% respondents strongly agree and 33.33% professionals agree), larger size of Indian stock market (41.67% respondents agree), and rising governance levels in India (60.87% sample respondent strongly agree). Significant proportion of respondents (37.5%) were found to be indifferent towards unemployment levels in India as a factor

Resulting in increase or decrease in Private Equity Investment flows in India. But 33.33% of survey respondents disagree with the assumption that growing unemployment in India makes the country less attractive for Private Equity Investments. The study indicates that 50% of Private Equity Investment professionals agree with the observed relationship that strict and high corporate taxation rate decreases Private Equity Investments in India whereas 37.5% remain neutral.

PRIVATE EQUITY INVESTMENT IN INDIA: FIRM-LEVEL DETERMINANTS

Sales Growth with highest mean score happens to be the most significant factor attracting Private Equity Investments in Indian businesses whereas Financial Risk with lowest mean score is the least significant factor for such investments to take place in companies operating in India. Among various company specific factors, Private Equity investors and partners provide their investment capital to businesses on account of higher profitability, greater free cash flows, asset use as well as working capital management efficiency of the investee company in India.

TABLE III: FIRM-LEVEL DETERMINANTS OF PRIVATE EQUITY INVESTMENT IN INDIA

Statements	Mean Score	Ranking
1. Private Equity Investments are attracted by companies in India having higher sales growth.	4.22*	1
2. Private Equity Investments are attracted by companies in India having higher profitability.	4.09*	2
3. Private Equity Investments are attracted by companies in India having higher free cash flows.	3.83*	3
4. Higher asset turnover of a company in India increases the prospects of Private Equity Investments.	3.74*	4
5. Higher working capital turnover of a company in India increases the prospects of Private Equity Investments.	3.52*	5
6. Companies in New Economy sectors attract higher Private Equity Investments than Traditional companies.	3.43	6
7. Private Equity Investments are attracted by companies in India having higher interest coverage ratio.	3.13**	7
8. Greater promoter's stake in a company in India results in reduced Private Equity Investments.	2.35**	8
9. Private Equity Investments are more in value stocks than growth stocks.	2.26**	9.5
10. Private Equity Investments are attracted by companies in India having higher business risk.	2.26**	9.5
11. Private Equity Investments are attracted by companies in India having higher financial risk.	1.91**	11

Note: *Most Significant; ** Least Significant

Survey findings reveal that 29.16% of the Private Equity Investment professionals are indifferent to value stocks and growth stocks when investing in companies operating in India. Also, 29.16% of sample respondents strongly disagree with the assumption that Private Equity Investments are more in value stocks than growth stocks in India. The survey shows that 45.83% professionals strongly agree with the observed relationship that Private Equity Investments are generally attracted by higher sales growth demonstrated by businesses operating in India. Indian companies having higher profitability are more likely to attract Private Equity Investments indicated by 54.17% respondents supporting the statement.

Study suggests that a company having higher financial risk (62.5% respondents disagree), and higher business risk (41.67% respondents disagree) does not attract increased flow of Private Equity Investments into its business in India. Significant survey professionals (54.17%) are indifferent towards higher solvency of targets measured by interest coverage ratio. Majority of Private Equity professionals believe that Private Equity Investments are attracted by companies in India demonstrating higher free cash flows (45.83% respondents agree), higher asset turnover (54.17% respondents agree) and higher working capital turnover (50% respondents agree). Survey findings present that 41.67% professionals disagree with the statement that greater the promoter's stake lesser would be the Private Equity Investments in Indian companies whereas 29.17% remaining neutral. Majority of investment professionals prefer to investment in companies operating in India belonging to New Economy industrial sector (50% respondents).

Primary survey revealed the prospects and nature of relationship of Private Equity Investment in India with macroeconomic and company fundamentals in India. Private Equity professionals believe that Private Equity Investments are generally driven by specific strategies they follow while investing in a target. Whether such investors and partners are providing growth capital, performing buyouts or offering distressed financing or whether they are sector specific or sector agnostic, etc. would determine the flow of Private Equity in India. Private Equity investors also value the overall business potential, management attributes along with profitability, governance and transparency. Such investments are also driven by the ability of the target to generate revenues and provide profitable exit alternatives to the investors.

CHI SQUARE TEST

Macroeconomic determinants and sample characteristics

Chi Square Test has been performed to examine whether the opinion of the sample respondents is same regarding various macroeconomic factors or varies on the basis of investment range, investment horizon, investment style, and size of the investee company.

The results presented in Table IV shows that the opinion of survey respondents regarding various macroeconomic drivers does not vary across different Private Equity Investment range and investment horizon. Chi Square test statistic 30.67 being less than .05 (p value .002) indicates significantly different opinion of the respondents across different investment styles. It can be gauged from the data that Private Equity Investment in the form of Expansion/Growth capital increases with rising Gross Domestic Product (GDP) growth rate in India supported by 76.2% of the respondents. Also, Private Equity Investment in the form of Venture Capital increases with rising Gross Domestic Product (GDP) growth rate in India indicated by only 9.5% of the survey respondents.

TABLE IV: MACROECONOMIC DETERMINANTS AND SAMPLE CHARACTERISTICS (CHI SQUARE TEST)

Statements	PEI Range	PEI Horizon	PEI Style	Size of Investee Company
	Chi Square	Chi Square	Chi Square	Chi Square
	(Asymp. Sig.)	(Asymp. Sig.)	(Asymp. Sig.)	(Asymp. Sig.)
1. Rising Gross Domestic Product (GDP) growth rate in India invites more of Private Equity Investments.	11.07 (.217)	9.00 (.174)	30.67* (.002)	24.78* (.003)
2. Strengthening value of Indian rupee makes India less attractive investment destination for Private Equity Investments.	10.92 (.281)	6.91 (.329)	12.86 (.379)	9.04 (.433)
3. Rising inflation in India reduces the prospects of Private Equity Investments.	11.97 (.448)	8.24 (.410)	19.49 (.244)	16.83 (.156)
4. Increasing industrial output of India positively impacts the flow of Private Equity Investments in India.	3.35 (.764)	1.83 (.766)	23.17* (.003)	4.98 (.547)
5. Higher real interest rate increases Private Equity Investments in India.	10.11 (.342)	8.08 (.232)	9.37 (.403)	8.97 (.440)
6. Higher stock market returns in India attract greater Private Equity Investments in India.	7.58 (.577)	7.37 (.117)	2.67 (.997)	22.46* (.001)
7. Higher stock market volatility in India reduces Private Equity Investments in India.	8.92 (.444)	8.92 (.178)	7.55 (.819)	7.00 (.637)
8. Greater inflow of Foreign Institutional Investments in India also encourages Private Equity Investments.	3.65 (.724)	2.42 (.658)	5.56 (.696)	3.56 (.736)
9. Higher stock market liquidity in India leads to greater Private Equity Investments in India.	12.39 (.192)	5.00 (.544)	4.46 (.974)	6.04 (.736)
10. Greater the size of stock market in India more is the flow of Private Equity Investments in India.	10.32 (.112)	4.24 (.375)	5.69 (.682)	5.25 (.512)
11. Rising perceived levels of corruption in India reduces the prospects of Private Equity Investments in India.	6.27 (.713)	3.16 (.532)	6.94 (.862)	2.98 (.812)
12. Growing unemployment in India makes the country less attractive for Private Equity Investments.	6.30 (.710)	5.29 (.507)	9.57 (.654)	8.31 (.503)
13. Increasing governance levels in India results in more of Private Equity Investments in India.	9.27 (.159)	7.18 (.127)	4.02 (.855)	22.26* (.001)
14. Stringent and high corporate taxation rates in India reduce Private Equity Investments in India.	5.17 (.819)	6.93 (.328)	15.06 (.238)	6.44 (.695)

Note: *statistically significant at 5% level of significance

Chi Square test value 23.17 being less than .05 (p value .003) highlights the presence of statistically significant relationship between increasing industrial output positively impacting the flow of Private Equity Investments in India and Private Equity Investment style. It can be concluded that Private Equity investors and partners are more likely to invest Expansion/Growth Capital in India on account of increasing industrial growth indicated by 76.2% respondents. Also, the survey shows that 9.5% of the Private Equity professionals are likely to invest Venture Capital in India on account on increasing industrial output.

In addition, the findings highlight that robust country level macroeconomic fundamentals resulting in greater Private Equity Investments in India do not vary with Private Equity Investment horizon. In other words, despite of the fact that majority investments are locked in for a period of 3 to 6 years in Indian businesses, Private Equity partners are inclined to invest in India on account of competitive macroeconomic conditions irrespective of investment horizon.

Chi Square test statistic 24.78, for 9 degrees of freedom, being less than .05 (p value .003) indicates that there exist statistically significant relationship between rising Gross Domestic Product (GDP) growth rate in India attracting increased flow of Private Equity Investments in India and Size of Investee Company in India. It can be concluded that Private Equity Investment in Small & Medium sized businesses operating in India increases with rising Gross Domestic Product (GDP) growth rate in India supported by 50% of the Private Equity professionals. Also, 40% of the respondents indicate that Private

Equity Investment in Micro & Small enterprises in India increases with increasing Gross Domestic Product (GDP) growth rate in India.

Chi Square test value 22.46, for 6 degrees of freedom, being less than .05 (p value .001) reveal statistically significant relationship between higher stock market returns in India attracting greater Private Equity Investments in India and Size of Investee Company in India. It can be observed that Private Equity investors when investing in Small & Medium sized companies are more inclined to invest on account of competitively rewarding stock markets in India supported by 50% of the Private Equity professionals. In addition, 40% of such respondents would invest, given higher stock market returns, when investing in Micro & Small enterprises in India.

Also, Chi Square test statistic 22.26, for 6 degrees of freedom, being less than .05 (p value .001) highlights statistically significant association between increasing governance levels in India resulting in more of Private Equity Investments in India and Size of Investee Company in India. It can be concluded that Private Equity Investments in Small & Medium sized businesses in India are driven by higher governance levels in India supported by 56.2% of the respondents. Also, Private Equity Investments in Micro & Small sized companies operating in India is driven by higher levels of governance prevailing in the country indicated by 36.8% of the survey respondents.

FIRM LEVEL DETERMINANTS AND SAMPLE CHARACTERISTICS

Chi Square test statistic 30.01 being less than .05 (p value .000) indicates that there is statistically significant relationship between Private Equity Investment in Indian companies being attracted by higher financial risk and Private Equity Investment range. It can be concluded that Private Equity Investment in the range of US\$ 5 to 20 million in Indian businesses are attracted by higher financial risk demonstrated by such companies. The finding is supported by 47.6% of the survey respondents. In addition, 23.8% of the Private Equity respondents are unlikely to provide funds to a company demonstrating higher financial risk on account of higher debt when investing in the range of US\$ 20 to 50 million.

Statements	PEI Range	PEI Horizon	PEI Style	Size of Investee Company
	Chi Square	Chi Square	Chi Square	Chi Square
	(Asymp. Sig.)	(Asymp. Sig.)	(Asymp. Sig.)	(Asymp. Sig.)
1. Private Equity Investments are more in value stocks than growth stocks.	7.87 (.547)	8.68 (.192)	17.06 (.147)	6.52 (.687)
2. Private Equity Investments are attracted by companies in India having higher sales growth.	8.45 (.207)	2.38 (.666)	6.30 (.614)	3.42 (.754)
3. Private Equity Investments are attracted by companies in India having higher profitability.	1.91 (.928)	11.89* (.018)	7.77 (.457)	4.93 (.552)
4. Private Equity Investments are attracted by companies in India having higher financial risk.	30.01* (.000)	1.58 (.954)	8.42 (.751)	8.58 (.477)
5. Private Equity Investments are attracted by companies in India having higher interest coverage ratio.	11.64 (.235)	10.93 (.091)	11.27 (.506)	21.67* (.010)
6. Private Equity Investments are attracted by companies in India having higher business risk.	14.48 (.106)	6.63 (.356)	15.58 (.211)	10.17 (.337)
7. Private Equity Investments are attracted by companies in India having higher free cash flows.	9.08 (.430)	7.02 (.319)	13.06 (.365)	13.37 (.146)
8. Higher asset turnover of a company in India increases the prospects of Private	4.54	2.92	7.92	4.67

9. Higher working capital turnover of a company in India increases the prospects of Private Equity Investments.	4.76 (.190)	1.40 (.497)	3.21 (.523)	2.73 (.436)
10. Greater promoter's stake in a company in India results in reduced Private Equity Investments.	15.40 (.081)	4.85 (.563)	8.75 (.724)	6.18 (.722)
11. Companies in New Economy sectors attract higher Private Equity Investments than Traditional companies.	16.80 (.157)	12.28 (.139)	12.91 (.680)	8.78 (.721)

Note: *statistically significant at 5% level of significance

Chi Square test value 11.89 being less than .05 (p value .018) reveal the presence of statistically significant relationship between Private Equity Investment in Indian companies attracted by higher profitability demonstrated by target businesses and Private Equity Investment horizon. It can be observed that 80% of the Private Equity investors and partners prefer to park their funds for a period of 3 to 6 years in a company in India having higher profitability. The survey highlights that 15% of Private Equity professionals seeking investment positions for 6 to 9 years also invest in Indian companies with higher profitability.

The results indicate that the opinion of the sample respondents about different company level factors determining the flow of Private Equity in Indian businesses does not vary across different Private Equity Investment styles. Chi Square test statistic 21.67 being less than .05 (p value .010) indicates that there is statistically significant relationship between Private Equity Investment in companies in India having higher interest coverage ratio and Size of Investee company. Therefore, 50% of the respondents have a tendency to investment in Small & Medium sized businesses demonstrating higher interest coverage ratio which in turn indicates the ability of the target business to meet its obligations towards its lenders. At the same time, the survey reveals that 40% of the respondents are not likely to invest in Micro & Small sized businesses indicating higher interest coverage ratio.

SUMMARY & CONCLUSION

The purpose of the study is to explore and understand various preferences and characteristics of Private Equity Investments in India. In addition, the research aims to identify and examine various macroeconomic and company fundamentals attracting Private Equity Investments in India and businesses operating in India.

Data collected from 24 Private Equity Investors and Partners through a structured questionnaire was analyzed using mean scores, rankings and Chi-Square Test. Results regarding sample characteristics reveal that Private Equity Investors and Partners, while seeking attractive investment positions in India and various businesses operating in India, indicate preference for Small & Medium sized businesses. Such professionals make investment generally in the form of Growth/Expansion Capital in target companies. In addition, such investors provide capital for a period of 3 years to 6 years to investee companies usually in the range of US\$ 5 million to US\$ 20 million. The findings give direction with respect to the investment characteristics and preferences of Private Equity investors and fund managers investing in India.

Research findings highlight that Private Equity Investments in India increases on account of increased levels of governance, growing industrial output, higher stock market returns in India, greater stock market liquidity in India and declining corruption perception levels indicated by their mean scores. Also, the study reveals that Private Equity Investments in Indian businesses take place on account of higher sales growth, increased profit earning ability, greater availability of free cash flows and higher asset utilization and working capital management efficiency demonstrated by target companies.

Chi-Square analysis indicates a number of significant relationships between Private Equity Investments in India and observed macroeconomic and company variables. In case of macroeconomic analysis, Chi-Square analysis reveal that Private Equity Investment in the form of Expansion/Growth Capital increases with rising Gross Domestic Product (GDP) growth rate and increasing industrial output in India. Also, Private Equity Investment in Small & Medium sized businesses in India increases with rising Gross Domestic Product, significantly rewarding stock markets and higher levels of governance in India.

The analysis reveals the existence of statistically significant relationship between Private Equity Investments in India attracted by companies having higher financial risk and Private Equity Investment range of US\$ 5 to 20 million. The study indicates that Private Equity investors investing for a period of 3 to 6 years are more likely to invest in a company demonstrating higher profitability. Also, Private Equity investors and partners while seeking investment position in Small & Medium sized companies in India are inclined to invest in businesses having higher interest coverage ratio. Therefore, Private Equity fund managers and investor partners investing in the range of US\$ 5 to 20 million for a period of 3 to 6 years in Small & Medium enterprises would be attracted to invest on account of greater financial risk on account of large proportion of debt in the capital structure in comparison to equity, higher profit potential and higher interest coverage ratio indicating better debt-serviceability of the investee company.

RESEARCH IMPLICATIONS

Research aimed at understanding Private Equity investor characteristics and various factors encouraging Private Equity Investments in Indian businesses. The findings would contribute towards limited research available around Private Equity Investments in India along with providing a view on the investment characteristics of Private Equity

investors and partners seeking investment positions in Indian firms. The study would help different Private Equity partners in evaluating target businesses in India on significant parameters of governance, industrial growth, perceived levels of corruption, stock market returns and liquidity, along with sales growth, profitability, free cash flows, asset use and working capital management efficiency.

Existing as well as prospective investee companies can enhance their financial and operating efficiencies in order to attract increased flow of Private Equity. Efforts can be made to create favorable macroeconomic fundamentals which would increase the flow of Private Equity in India like enhance the governance levels, increasing industrial growth, strengthening the stock markets, etc. Scholars and academicians can understand the investment behavior of different Private Equity investors across various investment characteristics.

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ANNEXURE: LIST OF ORGANIZATIONS IN THE SAMPLE

Accenture	Everstone Capital	Kaspar Capital Advisory Services Pvt. Ltd.
Akasam Consulting Pvt. Ltd.	Finjovian Advisor's	Multistrato Capital Advisors
Americorp/India Land	Godrej Real Estate Fund	Peachtree Capital Partners
Ascent capital	Headland Capital	Quadria Capital
Baring Private Equity Asia	ICICI Investment Management	Safire capital
Blue Sun Advisors Pvt. Ltd.	IDFC Private Equity	Standard Chartered
Cognizant Technology Solutions	InvAscent Advisory Services India Pvt. Ltd.	TA associates
Ernst & Young LLP	JM Financial Investment Managers Ltd.	