Sonia Dasgupta on three significant trends in the private equity market in 2023

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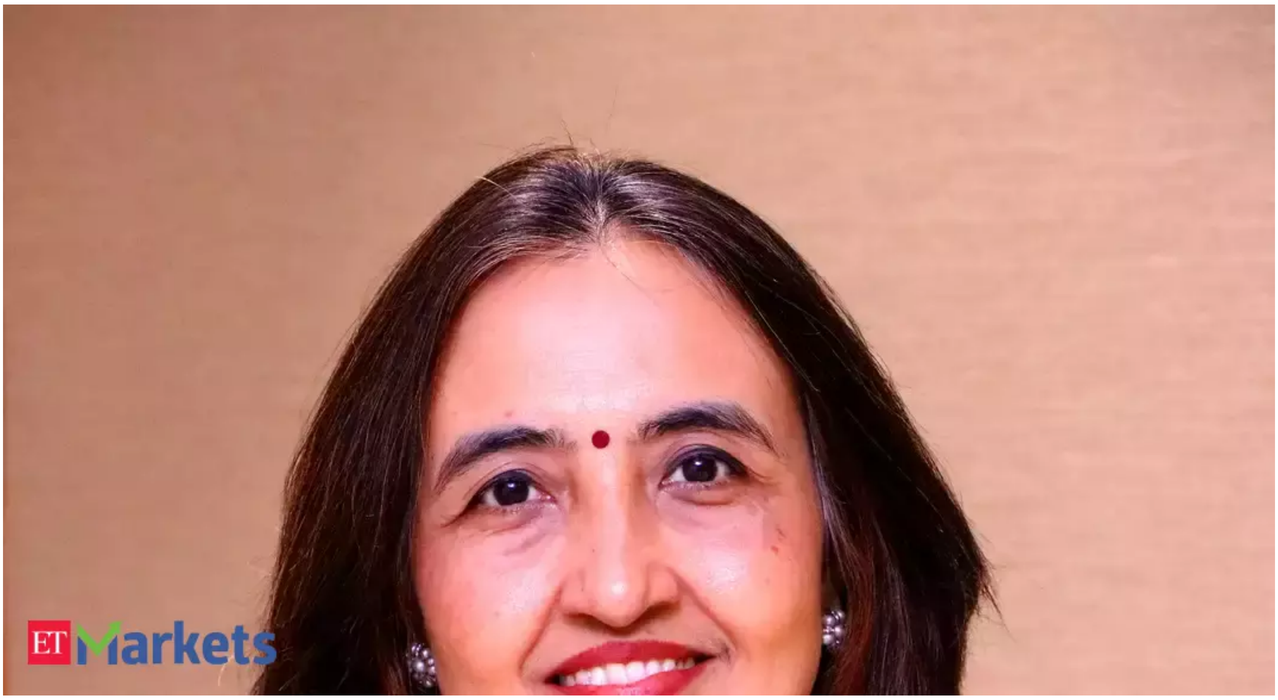

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Sonia Dasgupta, managing director & CEO of investment banking at JM Financial Limited spoke to ET about the trends in private equity markets in 2023. Excerpts of the interview:

Can you elaborate on three significant trends in the private equity market in 2023?
Increasing focus on Buyouts- Funds committed by private equity investors for control/buyout deals have doubled in 2023 (Rs 77,000 crore) as compared to 2022 (Rs 37,000 cr). There is increased comfort from private equity funds to cut larger cheques for control deals in India, given the opening up of diverse exit avenues such as secondary market sales, strategic sales, and IPO exits among others. (Select large buyouts in 2023 include Manipal Hospitals, HDFC Credila, CARE Hospitals / KIMS Health).

b) Emergence of the Healthcare sector: India has seen an increase in investments in the hospitals/healthcare sector (Rs 39,000 crore)in 2023 as compared to Rs 6,500 cr in 2022), with 2023 seeing large investments in Manipal Hospitals, CARE Hospitals, Indira IVF, Maxivision Eye Hospitals among others. Life sciences has become a key investment theme for global funds and these funds are looking to bring global scale and operating expertise to the space.

c) Maturing Secondary Markets: Public market investors' appetite for secondary market purchases from private equity funds has seen an uptick in 2023, up ~50% at Rs 80,000 cr, as compared to Rs 40,000 crore in 2021 and 2022. We have seen some large secondary market exits in 2023, with 20 plus block deals above Rs 1,000 cr (Select large blocks being BPEA EQT - Coforge, Blackstone – Sona BLW, CPPIB – Kotak among others)

d) Focus on ESG theme: ESG-aligned assets which primarily include renewable energy companies attracted Rs 45,000 cr in investments in YTD 2023 as compared to Rs 20,000 crore in 2022.

JM Financial has been involved in over 35 marquee transactions involving equity markets in 2023. Do you think there is a perceptible shift in terms of the profile of companies raising money from equity markets?

There has been a remarkable surge in IPO activities in 2023 despite global economic uncertainties. The spurt in the primary market activities has been driven by investors' confidence in the inherent resilience of the economy, consistent and strong inflows into domestic MFs, and encouraging listing gains from the IPOs launched earlier this fiscal year. More than 59 companies hit the primary market to raise over Rs 53,000 crore this year. There has been a great deal of shift from the past where most issues launched were from established industry players or reputed companies seeking equity for capex. This year fundraising has become more broad-based with companies including many small and midcap companies and varied sectors across consumer, healthcare, and technology besides
the usual financials and industrial space. In addition, many IPOs have a component of secondary ie sale by existing shareholders who invested in the early stage and are now looking to get returns and exits for their investors. It's a very healthy trend as this improves the depth of markets and gives comfort to PE investors that they can support early-stage companies as they get good returns for taking that early risk. Also, domestic investors get opportunities to invest in high-growth mature companies. The IPO market outlook remains strong driven by robust domestic and FII inflows. Despite US growth rates, general elections, and crude oil prices, we remain bullish that India will outperform in 2024 due to a strong macroeconomic environment and earnings growth trajectory.

It is observed that new-age companies have increasingly tapped big and legacy investment banking players like JM Financial in 2023 for listings. Are there any specific reasons for the shift?

A successful listing needs highly experienced professionals and advisors to navigate a fairly complex journey of meeting regulatory compliances as well as organising effective marketing activities targeting various investor communities. At JM Financial, we are always focused on guiding companies during each phase of the journey of going public. There are new-age tech companies that have several complexities in their financials. They may be loss-making entities but at the same time are gaining market share and moving towards positive unit economics etc. In addition, managing issues related to early-stage investors requires deep knowledge and expertise. Marketing these issues also needs the involvement of experienced lead managers with proven track records so that the nuances of the issues are explained properly to institutional as well as retail investors. Unlike raising private equity, the process of launching an IPO requires a more stringent approach as there is no room for any errors in disclosures and compliances. That's where the expertise of legacy investment banking players like JM

Financial comes into play with their experienced team of lead managers equipped with a wealth of experience in navigating companies through the IPO launch process.

What is your outlook for Digital & Tech M&A in 2024?
In the technology sector globally, more than 60-70% of investor exits are driven by M&A, which provides monetization opportunities for investors and employees; India is still to reach that maturity stage from an M&A perspective with a less developed buy-out market; This makes IPOs more imperative from an exit perspective. Having said that, we do see some M&A activity where companies are looking to acquire complementary capability or generally build scale. As some of the larger listed internet companies turn sustainably profitable, their appetite for inorganic growth also increases, which should also add to the M&A pipeline.

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The year 2023 witnessed a significant rise in the number and quality of new-age IPOs in India. How do you see 2024 expected to be for the start-up IPOs as several prominent companies are eyeing public listings?
The IPO success stories in recent months have increased the confidence of investors in IPOs as a credible liquidity option for various stakeholders. We already have a healthy pipeline of tech companies (fintech, D2C, enterprise tech, etc) preparing to file/list in the next year. IPOs of Tata Technologies, IdeaForge, Mamaearth, Nykaa, and Zaggle are examples of significant new-age tech companies - and JM Financial played a key role in the success of these IPOs.We are also engaged in discussions with new-age tech companies where the quality of earnings is now looking far superior and sustainable making these companies more suitable for public markets which should also add to the IPO pipeline. Another positive trend is that investors now better understand some of these new-age sectors, which bodes well for longer-term prospects of the tech sector in public markets.