



Private equity investments in Tamil Nadu: Factors defining it

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Abstract

The Indian economy has been on growth trajectory in all fields as a planned economy thus becoming a safe and attractive destination for foreign investment. Ever since Indian economy underwent series of reforms from 1991, there have been progressive steps in banking, finance, industry, investment climate, incomes, employment, legal environment, etc. One of the reasons for this high growth that could be achieved in the last decade was due to availability of private financial capital for expansion and the positive influence of these private equity houses on Indian management practices. There has been phenomenal growth in the value of private equity investment in India over the past decade. With an expanding domestic market and additional opportunities brought by globalization, the impact of private equity on Indian business is likely to increase further in the coming years. Government of India also recognizes the key role of foreign capital for economic development and as an important source of technology and global best practices. In this context the role of private equity as an important component of foreign capital has been very crucial for the development of Indian economy and particularly in the field of infrastructure of the country. The present study is a research intended to analyze the factors involved in designing the investment behavior in the particular field in Tamilnadu (Chennai region).

Keywords: foreign investment, private equity, globalization and technology

Introduction

Over the past few decades, financial investors in developed countries have increasingly diversified their portfolios with a view to broadening their exposure to different sectors and regions within an ever-changing global financial structure, while still seeking higher returns on invested capital. This phenomenon was a main driver behind the formation of alternative and innovative asset classes such as private equity. The globalization of industries has become the norm across the world, and the private equity industry is no exception. The global value of transactions related to private equity funds has increased dramatically over the past few decades. Since 2004 the private equity industry fund-raising has experienced exceptional growth that has not been matched in the history of this equity sub-class.

The evolution in size and influence of the private equity industry has led to increased transparency and awareness with regard to good corporate governance practices, particularly in respect of early stage investments. Owing to the unique nature of private equity investments, private equity managers have a high degree of involvement in the companies in which they invest and therefore play a leading role in promoting good corporate governance in these companies (Sullivan and Lim, 2004). Another emerging characteristic of the global private equity landscape is the increase in private equity activity in developing nations. Lerner and Schoar (2004) attribute this to two main reasons. The first reason is the accelerated integration of emerging nations into the world economy whereas the second reason revolves around the changing views of, and conditions in, developed nations.

India has been the fastest-growing Private Equity market in Asia along with China and Japan. India's fundamentals will continue to attract eager Private Equity investors and strengthen the confidence of limited partners. The pace and strength of the industry's future growth would be accelerated if valuations in India become more attractive and exits continue to build on the momentum established in 2010. Indian promoters are gradually coming to recognize Private Equity as a patient source of active capital that can help build their businesses.

Review of literature

Troy D. Smith (2015) expressed that while private equity (PE) is expanding rapidly in developing countries, there is little academic research in India has been undertaken. In this paper he exploits two new data sources and employs two distinct empirical strategies to identify the impact of PE on Indian firms. He compared the investments made by one of India's largest PE firms to the investments that just missed (deals that made it to the final round of internal consideration). He listed various factors influencing the PE investment and he also combined four large PE databases with accounting data on 34,000 public and private firms and identify effects using differences in the timing of investments. He further stated that PE, at least in India, appears to alleviate expansion constraints and improve aggregate productivity through reducing misallocation rather than by increasing within-firm.

Dr. K. B. Singh, Dr. Sanjeev Gupta and Dr. A.K. Bajpai (2014) suggested in their study that over the last decade private equity has become one of the important sources of

funding new venture. Indian start-ups have attracted private equity from the US and other developed nations. Private equity is categorized as an alternative investment, an asset class that is often thought to offer improved risk-return trade-offs and diversification benefits relative to investments in publicly traded equity. They also suggested that Private equity returns run in cycles and are strongly influenced by factors namely market conditions, credit markets, company valuations, liquidity for exits, merger and acquisition activity, and other factors, including the amount of money looking for exposure to the asset class. They concluded that Unclear and complex regulations and tax laws: Government has a critical role to play addressing an urgent need—removing regulatory barriers to put domestic and international PE firms on a more level playing field. Greater transparency and consistency in how rules are applied are important preconditions for regulatory reform.

Statement of the problem

Foreign investment has been on a growing trend for the recent decade. One of the reasons for this high growth that could be achieved in the last decade was due to availability of private financial capital for expansion and the positive influence of these private equity houses on Indian management practices. There has been phenomenal growth in the value of private equity investment in India over the past decade. With an expanding domestic market and additional opportunities brought by globalization, the impact of private equity on Indian business is likely to increase further in the coming years the Indian government also recognizes the key role of foreign capital for economic development and as an important source of technology and global best practices. In this context the role of private equity as an important component of foreign capital has been very crucial for the development of Indian economy.

Having an affirmative growth in the country, the Private Equity Market in Chennai region (Tamilnadu) has shown the considerable development in the past few years competing with Mumbai, Delhi, Bangalore and Hyderabad regions. Though, the region stands back to Mumbai, Delhi and other major regions of the country, the growth of the market has been phenomenal where the number of deals involved are kept increasing year by year. Hence, with the basis of above settings the present study is made as an attempt to identify the

Analysis and Discussion

answer for the following research question;

1. What would be the reasons behind making Private Equity investment?

Objectives of the study

The following are the objectives of the study:

1. To analyze the factors determining the Private Equity Investments in Tamilnadu.

Research Design

Sources of data

The study is based on both secondary data and primary data and the required data for the study will be collected and compiled from the Venture Intelligence database and the websites. The mailed questionnaire method will be implemented in collecting primary data from the Private Equity (angel) investors. In addition, the other required data will be collected from various websites, journals and magazines.

Sampling Design

The convenience sampling method will be adopted to pick the 50 samples, who are Private Equity investors of Tamilnadu.

Framework of analysis

The collected data will be used for analysis with the help of econometric and statistical tools. The statistical tools to be applied are;

1. Simple Percentage Analysis
2. Factor Analysis

Scope of the study

The present study is an analytical research on the growth trajectory of Private Equity sector in Tamilnadu. It aims to focus the factors influencing Private Equity Investments in Tamilnadu (Chennai region).

Limitations of the study

The study has the following limitations;

1. The study has been made in consideration with the locality of Tamilnadu and the results and suggestions may not be applicable to other parts of the country.
2. The data collected will depict the attitude of respondents which may be self biased.

Table 1: Demographic classification of respondents

S. No	Particulars	No of respondents	Percentage (%)	
1	Gender	Male	47	94
		Female	03	06
		Transgender	-	-
2	Age	Less than 25 years	-	-
		Between 25 and 35 years	06	12
		Between 35 and 50 years	26	52
		More than 50 years	18	36
3	Area of Residence	Non-Urban	12	24
		Urban	38	76
4	Educational Qualification	School Level	02	04
		Under Graduate	38	76

		Post Graduate	08	16
		Professional	02	04
5	Association in Private Equity	Whole time	49	98
		Part time	01	02
6	Years of Association	Less than 01 year	01	02
		Between 01 and 03 years	09	18
		Between 03 years and 05 years	19	38
		More than 5 years	21	42
7	Source of Awareness	Mass media	06	12
		Persons dealing with	24	48
		Approach from the needy	18	36
		Others	02	04
8	Initial investment	Less than 5 lakhs	41	82
		Between 5 and 10 lakhs	08	16
		Between 10 and 15 lakhs	01	02
		More than 15 lakhs	-	-
9	Annual investment	Less than 5 lakhs	08	16
		Between 5 and 10 lakhs	25	50
		Between 10 and 15 lakhs	11	22
		More than 15 lakhs	06	12
10	Reinvestment	Less than 25 per cent of earnings	09	18
		Between 25 and 50 per cent	18	36
		Between 50 and 75 per cent	19	38
		More than 75 per cent	04	08

Source: Primary data

The above table represents the demographic classification of Private Equity Investors of Tamilnadu, who have been taken as samples for the study. The numbers of various heads and their classification along with the cumulative percentage have been presented in the table. It is clear from the above table that most respondents are male (47), most respondents are at the age of between 35 and 50 years (26), most respondents belongs to urban residence (38), most respondents are under graduate (38), most respondents are whole time investors (49), most respondents are involved in more than 5 years in the field (21), most respondents get awareness through persons dealing with (24), most respondents had started their investment with less than Rs.5 lakh (41), most respondents having their annual investment worth between 5 and 10 lakh (25) and most respondents have the habit of reinvesting between 50 and 75 per cent out of their earnings (19) respectively.

Factors determining the private equity investments in Tamil Nadu

Kaiser-meyer-olkin (kmo) measure of sampling adequacy

The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy has been used to gauge the appropriateness of factor analysis approach.

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.828
Adequacy.	Approx. Chi-Square	6582.23
Bartlett's Test of Sphericity	df	50
	Sig.	.000**

**Significant at 1 per cent level

KMO Measure of Sampling Adequacy value is 0.828 which means that all the variables are positively correlated. Bartlett's test of Sphericity significance value is less than 0.05 and hence it is concluded that Factor Analysis can be performed for these variable.

Communalities

Communalities of all variables are extracted by following the method of Principal Component Analysis. The Communalities of all variables are as follows.

Table 3: Communalities

Factors	Initial	Extraction
Monetary source	1.000	0.861
Friends' information	1.000	0.835
Economic and political situation evaluation	1.000	0.603
Current investors' opinion	1.000	0.632
Media information	1.000	0.677
Forecasting the market to find the investment avenue	1.000	0.667
Brokers' Assistances	1.000	0.606
Watching major stock market indices	1.000	0.608
Analyzing the information of the private equity market	1.000	0.644
Own risk tolerance analysis	1.000	0.813
Market's current volatility analysis	1.000	0.818
Trade volume of the desired avenue	1.000	0.685

Various avenues of growth	1.000	0.644
Sustainable cash flows	1.000	0.692
Minimum capital expenditure requirements	1.000	0.681
Positive industrial trends	1.000	0.761
Efficient management team	1.000	0.695
Multiple areas to create worth	1.000	0.665
Historical growth of the market	1.000	0.629
Anticipated growth of the market	1.000	0.645
Industry's maturity	1.000	0.556
Efficient market condition	1.000	0.658
Sustainable competitive advantages	1.000	0.772

Extraction Method: Principal

Component Analysis

It is visible from the above table that all the communalities are over and above the minimum threshold value of 0.5. Hence all

the variables are retained. Four Factors are extracted on the basis of Eigen values of more than one. The following table gives a complete picture of factor extraction.

Table 4: factor analysis for determinants of private equity investments in Tamil Nadu - rotated component matrix

Variables	Factor scores for Component					Cronbach Alpha Value	Factor Name
	1	2	3	4	5		
Economic and political situation evaluation	.838	-.008	-.027	-.064	.128	0.857	Situation Analysis
Forecasting the market to find the investment avenue	.829	-.020	-.053	-.067	.090		
Analyzing the information of the private equity market	.756	-.049	-.002	.003	-.353		
Own risk tolerance analysis	.744	-.094	.141	.010	-.073		
Market's current volatility analysis	.799	-.081	.053	-.080	-.127		
Historical growth of the market	.728	-.021	.057	.082	-.325		
Anticipated growth of the market	.725	0.258	.068	.098	.377		
Industry's maturity	.701	-.046	.140	-.024	.349		
Friends' information	-.060	.761	.024	.145	-.243	0.798	Perceptual aspect
Current investors' opinion	.107	.740	.104	-.114	-.224		
Media information	.060	.647	-.010	.111	-.116		
Various avenues of growth	-.137	.632	.092	.499	-.223		
Brokers' assistances	-.124	.578	.215	-.036	.388		
Watching major stock market indices	.254	.588	.114	-.441	.343	0.723	Monetary aspects
Trade volume of the desired avenue	.064	.045	.788	.204	.045		
Minimum capital expenditure requirements	.118	.044	.729	.049	-.378		
Positive industrial trends	.237	.101	.629	.139	.400		
Monetary source	.352	-.031	.622	.562	.191	0.710	Prospective aspects
Efficient market condition	.289	-.101	.130	.659	.182		
Sustainable competitive advantages	.400	.001	-.001	.686	.198		
Sustainable cash flows	.094	-.119	.013	.677	.228		
Multiple areas to create worth	.195	-.056	.056	.672	.268		
Efficient management team	.282	-.062	-.102	.258	.558	0.638	Managerial aspect

The factor loadings for the five factors extracted were rearranged in the order of the loadings for each of the factors. The table has indicated that the first eight variables belonged to the factor situation analysis, the next six factors converged as perceptual aspect, the next four variables converged as monetary aspect, the next four variables converged as outlook and the last variable fell under the category managerial aspect. Cronbach Alpha test was performed in order to test the internal consistency of the variables under each factor. If the value of alpha is closer to 1, higher will be the consistency and reliability. The alpha value of situation analysis has been 0.857, perceptual aspect being 0.798, monetary aspect being 0.723, outlook being 0.710 and managerial aspect being 0.638 which was quite high in explaining the internal consistency and reliability of the variables in each factors.

Suggestions

1. Private Equity firms' gives definite growth to Indian

economy so government of India must further relax rules and regulation for the firms so that they could with ease and comfort. There should be low tax and more investment friendly environment for these firms.

2. A liberal immigration policy must be adopted by Indian government to spark interest into the talented investors. Government should further formulate liberal policies for the development of this sector.
3. Government should create a center of attention more technology and brain to develop new products and it will create a center of attention development of the ancillary units which will fuel these big companies.

Conclusion

With an expanding domestic market and additional opportunities brought by globalization, the impact of private equity on Indian business is likely to increase in the coming years. It is crucial therefore, to undertake a review of the

private equity investment that took place in the last decade and assess if there is any important trend which could be observed and analyze the underlying policy framework for the same. Also, as investments in the Infrastructure sector would be crucial for claiming the country's future growth as projected, an attempt here has been made to study the private equity investments in the various sub sectors of the Infrastructure Sector. The core infrastructure sectors are likely to see continued private equity deal activity. The study so reviews the deal influencers in Tamilnadu, where policy and regulatory support would sustain the same level of or attract even higher investments in the coming decade.

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