# AN ALTERNATIVE SOURCE

## PE investments in SMEs fell 25% last year

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WHILE it is acknowledged that access to finance is a major constraint for SMEs, it is important for businesses to track alternative sources.

Overall private equity investment in India had followed the increasing trend in the year 2013, with PE deals in the July-September quarter grossing $2.1 billion. This took the total for the first nine months to $8.13 billion, which was 34% higher compared to the corresponding period in 2012.

However, when we look at investments in SMEs, there was a 25% fall on a year-on-year basis (till November

| Private Equity investor | Company | Investment Amt (in $m) | Sector | Region |
|---|---|---|---|---|
| Avenue Venture Partners | Vastushodh Projects | 3.50 | Real estate | Maharashtra |
| Actis | Symbiotec Pharmalab | 48.00 | Pharma | MP |
| Global Environment Fund | Rishabh Instruments | 12.50 | Industrial | Karnataka |
| ResponsAbility Investments | Punjab Renewable | NA | Energy | Maharashtra |
| Avenue Venture | Rohan Builders | 9.50 | Real estate | Maharashtra |
| Consortium | Micro Housing Finance | 5.80 | NBFC | Maharashtra |
| SIDBI | Glocal Healthcare | 4.00 | Hospitals | West Bengal |
| TPG Growth | Sutures India | 12.50 | Health care | Karnataka |
| RVCF | Chatha Foods Pvt Ltd | NA | Food | Punjab |
| Matrix Partners | Meditrina Hospitals | 6.80 | Hospitals | Kerala |
| New Silk Route | Moshe's | NA | Restaurant | Maharashtra |
| Blume Ventures | Kuliza Technology | NA | Technology | Karnataka |
| Sequoia | Vini Cosmetics | 16.50 | Health care | Gujarat |
| Intel Capital | NxtGen Datacenter | 9.00 | Technology | Karnataka |
| Hong Kong-based PE firm | Abundantia Entertainment | 25.00 | Media | Maharashtra |

2013). In 2013, investments in the SME space totalled $970 million across 132 transactions, whereas in 2012, investments for the similar period totalled $1,296 million across 176 transactions. Comparable figures for 2011 were $1,542 million across 202 transactions, and $1,258 million across 169 deals in 2010. *(Source: Venture Intelligence report)*

Investors are expecting the trend to continue for the next one-two years. The improvement in economy can be a good trigger point for new fund-raising focused on SMEs.

Now, as we look towards the deals that happened in the July-September quarter (Q3CY2013), the key highlights are:

- Pharmaceuticals, hospitals and IT & ITeS have garnered the maximum investments in Q3.
- A majority of the investments were from foreign origin private equity players.
- Investments were majorly from investors which didn't invest in Q2.
- Hospital units like eye care, oncology, orthopaedic centres, fertility clinics and daycare surgeries, cardiac and cancer clinics are also attracting investments.

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### Are SME-focussed funds attracting investors?

Most PE funds are not in a position to raise the second round of funding from the limited partners who had supported them in the 2007-13 investment cycle, as less than 20% of those funds have garnered positive returns for their investors.

But some fund houses are bullish and continue to look at the SME sector. International Finance Corporation, World Banks investment arm, may invest up to $400 million in equity deals in India in the current financial year. Further, IFC has invested another $15 million in LotusPool I, a $125-million fund that LotusPool Capital expects to launch soon, and which will invest in scalable SMEs that are at the early-expansion phase of their growth cycle. Its main focus will be southern India and emerging states with low private equity penetration.

LotusPool is focused on offering revolving short-term debt to SMEs— there is little access to such financing from banks— for the period of 3-12 months debt to profitable companies with strong cash flow.

### The way forward

Despite the current negative growth in PE investments in SMEs, it is an undeniable fact that SMEs in India have great potential and given India being an emerging economy, SMEs would be a favoured investment destination when the economy revives. PE firms are already in the process of raising money to launch new SME-focussed funds.

Factors like asymmetry of information and risk associated with returns are stopping many investors from pumping money into SMEs. Nevertheless, this could be increasingly addressed through credit rating, SME exchanges, credit bureau and the like.

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