PE funds hope for cheap deals

Rajesh Bhayani / Mumbai August 11, 2007

The volatility in the stock market on account of the US subprime mortgage losses could be a blessing in disguise for private equity (PE) deals that are in the pipeline.

For, the turmoil should bring valuations of Indian companies to reasonable levels that would result in the conclusion of many more PE deals.

"PE investors, who have been bullish on India, would remain cautious, scrutinising the deals a little more, till they see some stability in the market," said Dhanraj Bhagat, Partner, Grant Thornton, a leading international accountancy firm.

He believed that in the short-term valuations may be affected. In the medium-to long-term, PE investors were bullish and once the markets stabilised the volumes would come to original levels of the recent past.

During the first seven months this year, there were 230 PE deals with a total value of $9.71 billion, according to a dealtracker compiled by Grant Thornton. The rush had increased the expectations of Indian entrepreneurs for higher valuations.

IT and IT enabled services(ITeS), banking and financial services, pharma, auto and textiles, have remained favourite sectors for private equity investors in India, despite the fact that these investors had become sector agnostic.

"There were cases where deals were getting deadlocked on valuation issues. Valuations were not attractive as share prices were very high and the rupee appreciation also made them costlier," said Vaibhav Parikh, Nishith Desai & Associates.

According to data compiled by Grant Thornton' dealtracker, a total 30 private equity deals valued at $2.89 bn were announced in July 2007, up from the $1.81 bn for 36 deals in June 2007.