'Once the economy emerges out of this crisis, new investment themes would emerge'

Rajesh Kurup | Mumbai | Updated on May 18, 2020 | Published on May 18, 2020

Darius Pandole, Managing Director and Chief Executive Officer, Private Equity and Equity Alternative Investment Funds, JM Financial

The opportunities for PE investments in India will be immense: Darius Pandole of JM Financial

Private equity (PE) investments in India fell to about $30 billion in the financial year ended March 31, 2020, a decline of about 10 per cent from the previous year. The January-March quarter witnessed the most significant decline over the previous year, due to the onset the Covid-19 outbreak. However, after the lockdown ends, the economy is likely to emerge out of this crisis on the back of opportunities arising out of emerging trends such as work from home, manufacturing activities shifting to India, breakthroughs in healthcare and medical sectors and a new lease of life for consumer and financial services.

These would, in turn, lead to "significant opportunities" for PE investors, Darius Pandole, Managing Director and Chief Executive Officer, Private Equity and Equity Alternative Investment Funds at JM Financial told ***BusinessLine*** in an interview. Excerpts:

PE investments have declined to record low in the last fiscal, despite funds sitting on a record cash pile. Is there a sense of caution?

The unprecedented situation emanating from the Covid-19 crisis, in addition to the impact of a slowing economy, have instilled a sense of caution in PE investors. There is a heightened economic uncertainty that is prevailing, and as a consequence, most PE investors are exercising restraint and sitting on higher levels of available capital, whilst observing the prevailing situation. It is likely that once a sense of stability and clarity on the economic front emerges, the level of PE activity will increase significantly.

Which sectors are the new pockets of growth for the PE sector? Would there be good opportunities in sectors such as healthcare, chemicals, pharmaceuticals, technology and finance?

Once the economy emerges out of this crisis, new investment themes such as greater work from home (WFH) requirements, manufacturing activities shifting to India, higher requirements for regular health and medical testing, and renewed focus on health and wellness, among others, will emerge. All of these can potentially throw up massive business opportunities across sectors such as technology, manufacturing, healthcare, consumer and financial services, which, in turn, will lead to significant opportunities for PE investors.

The long-term capital and ability to add value to investee companies will make PE investors an important part of the eco-system for such emerging businesses in India.

Should funds now look at alternative strategies and instruments such as Compulsorily Convertible Debentures or mezzanine capital with a mix of equity than pure equity deals?

In the prevailing environment, massive investment opportunities could arise due to the changing business dynamics and from consolidations and mergers, among others, that will inevitably arise. However, the counter is that for existing portfolios of PE investors, attractive exit opportunities may remain muted, and hence, some PE investors may need to extend their holding period. Additionally experienced PE investors will certainly reconfigure and improvise on investment strategies to adjust to the new realities on the ground.

Do you see a spike in control deals by PEs going forward?

Over the last few years, there has been an appreciable increase in control deals by PE investors in India, and this trend is likely to continue.

On the outlook for the industry...

In the near to medium term, when there is greater clarity on the economic situation, it is likely that corporate India will require significant equity capital across sectors, and the opportunities for PE investments in India will be immense. Due to the rapidly evolving Covid-19 pandemic, most businesses are facing significant challenges and they need to take some immediate steps to ensure that they are prepared to deal with the impact on their businesses and ecosystems.

In this scenario, PE investors are uniquely suited to work with Indian corporates to strengthen balance sheets, improve capital allocations, adjust strategies, and assist in recruiting, all of which will drive a common growth agenda.

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