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A Pragmatic Analysis of Private Equity Investment in India

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Abstract: ***Private Equity funds invest in start-ups or technical projects. Private equity firms provide financial and managerial assistance to their portfolios. In today's era, India has become the hub of private equity investment; the value of the investment in India has increased from $120 million in 1996 to $ 77000 million in 2021, which helps to boost the Indian economy. Hence it becomes vital to study the Impact of Private Equity investment on Economic growth. GDP is used as Economic Growth Indicator. The current study is based on secondary data; the World Bank database is sourced for the collection of GDP data, and PE investment values are collected from the SEBI website for 15 years, from 2006 to 2021. Econometric techniques ARDL model is used to process the data. The result of the study revealed the positive and significant impact of PE investment on GDP. That shows PE investment may play a significant role in boosting the Indian Economy. Hence it can be concluded that government should take the initiative and liberalise the policies to promote investment.***

Keywords: Venture Capital, Private Equity, Start-ups, Econometrics

1.Introduction

Private equity refers to those funds that inject funds into start-ups and risky projects. These funds do not only provide financial assistance but also provide managerial assistance. These firms earn profits by transforming a small company into a high-net-worth company. High net-worth individuals, government institutions, and different pension fund park their investments in private equity funds for high returns. After World War 2, this concept was developed in the USA. In 1901 the first deal took place between J.P Morgan and Carnegie Steel Company; J.P Morgan acquired Carnegie Steel Company for $480 million, the first buyout made at that time. Being the developer country of private equity finance USA has the highest number of private equity finance. In India, this concept developed in 1975; IFCI constituted a Risky Capital and Technology Financial Corporation of India (Now known as IFCI venture capital Fund Limited). After that, different financial institution formulated their venture capital funds. In today's era, India has become the hot country receiving private equity funds value of an investment in India has increased from $120 Million to $ 77000 million in 2021. Different study findings revealed that the performance of the companies funded by private equity was better than that of non-private equity-funded companies. It also came to know that the growth of those sectors in which private equity has invested is higher than the average growth rate of that industry.

2.Objective

To study the role of Private Equity in the Indian Economy

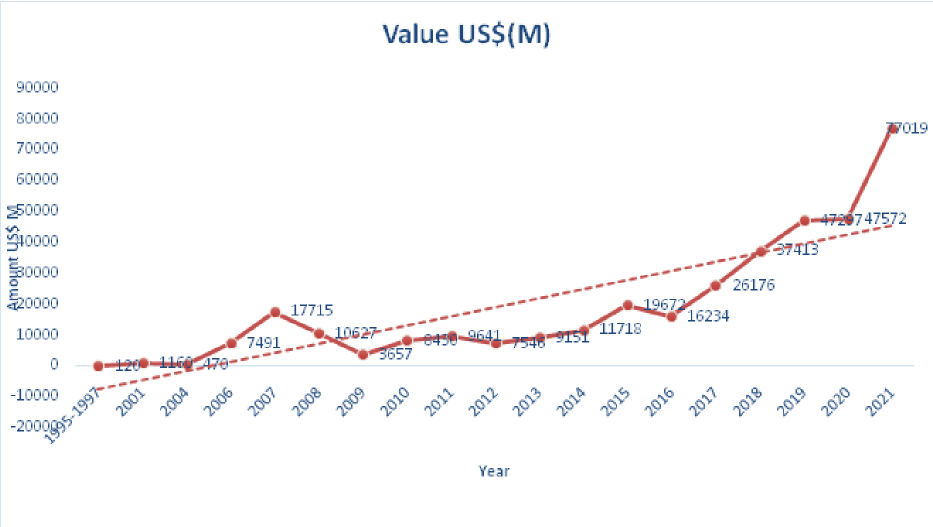

Figure 1: Investment value
Sources: Annual Investment value from 1995-2021 retrieved from IVCA Database

Private equity investment in India

As shown in figure 1, there is a tremendous increase in the value of private equity investment in India. India has become an attractive country for private equity investors due to consistency in GDP growth with high consumer demand and liberalised policies. In 1995-1997 it was only 120 US Million $ but now it has crossed 77,000 US Million $. The increasing trend in private equity investment is documented by the researcher with the help of the trend line. However, a significant fall in investment values can be noticed in 2009 at the time of the US recession and a passive increase in 2020 at the time of COVID-19 which shows the impact of the global shock on investment values.

3.ARDL Model

Dependent Variable: GDP__CURRENT_US$_
Method: ARDL
Date: 11/19/22 Time: 17:25
Sample (adjusted): 2010 2021
Included observations: 12 after adjustments
Maximum dependent lags: 4 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (4 lags, automatic): PE
Fixed regressors: C
Number of models evaluated: 20
Selected Model: ARDL(2, 4)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
GDP__CURRENT_US$_(-1)	0.710644	0.393082	1.807876	0.1449
GDP__CURRENT_US$_(-2)	-0.328895	0.375333	-0.876277	0.4304
PE	0.271592	0.077392	3.509311	0.0247
PE(-1)	-0.155578	0.117615	-1.322775	0.2565
PE(-2)	0.135759	0.129221	1.050600	0.3527
PE(-3)	-0.191732	0.107939	-1.776302	0.1503
PE(-4)	-0.114615	0.111560	-1.027385	0.3623
C	1.23E+12	5.24E+11	2.346143	0.0788

R-squared	0.982065	Mean dependent var	2.30E+12
Adjusted R-squared	0.950680	S.D. dependent var	4.87E+11
S.E. of regression	1.08E+11	Akaike info criterion	53.88663
Sum squared resid	4.68E+22	Schwarz criterion	54.20990
Log likelihood	-315.3198	Hannan-Quinn criter.	53.76694
F-statistic	31.29036	Durbin-Watson stat	2.939591
Prob(F-statistic)	0.002458		

*Note: p-values and any subsequent tests do not account for model selection.

Estimation Equation:

GDP__CURRENT_US$_ = C (1) *GDP__CURRENT_US$_ (-1) + C (2) *GDP__CURRENT_US$ (-2) + C (3)*PE + C(4)*PE(-1) + C(5)*PE(-2) + C(6)*PE(-3) + C(7)*PE(-4) + C(8)

Substituted Coefficients:

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GDP__CURRENT_US$_ =
0.710643571429*GDP__CURRENT_US$ (-1) -
0.328895498381*GDP__CURRENT_US$_ (-2) +
0.271592144613*PE - 0.155577894743*PE (-1) +
0.135759442734* PE (-2) - 0.191731754664* PE (-3) -
0.114615416755* PE (-4) + 1.22825017462e+12

Co-integrating Equation:
D(GDP__CURRENT_US$_) = -
0.618251926951*(GDP__CURRENT_US$ _ (-1) - (-
0.08827062* PE (-1) + 1986649974032.67431641))

As shown in table 1 Result of the ARDL model revealed that there is a positive and significant effect of private equity on GDP i.e., if there is a change in 0.271592 unit of PE that will lead to a change in 1 unit of GDP. While the legs of private equity and GDP have an insignificant effect on GDP. It may be concluded that if there is an increase in PE investment GDP will also increase which helps to boost the economy.

4.Discussion and Conclusion

Private Equity investment is one of the vital sources of finance for start-ups and innovative projects. At the time of its incorporation, it was concentrated in developed economies but the need for a growing world spread this in emerging economies too. Now in India the investment size is rapidly growing over a long period of time. In the current study, researchers found the positive and significant impact of private equity on economic growth, if there is an increase in private equity investment that will lead to an increase in GDP. It can be concluded that for the economic growth of a country private equity investors play a significant role. Hence government should liberalise its policies to promote private equity investment.

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