B.COM: SEM--4

Subject: ENTREPRENEURSHIP EVELOPMENT

UNIT -II

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LECTURE NO. 07

TOPIC: The concept, role and functions private equity fund.

Concept of Private Equity Fund

A private equity fund is a collective investment scheme used for making investments in various equities and debt instruments. They are usually managed by a firm or a limited liability partnership. The tenure (Investment horizon) of such funds can be anywhere between 5-10 years with an option of annual extension. One key feature of private equity funds is that the money which is pooled in for the purpose of fund investment is not traded in the stock market and is not open to every individual for subscription.

Since private equity funds are not available to everyone, the money is usually raised from institutional investors (HNIs & Investment Banks) who can afford to invest large sums of money for longer time periods. A team of investment professionals from a particular private equity firm raise and manage the funds, where they utilise this money for raising new capital, future acquisitions, funding startups or new technology, investing in other private companies or making the existing fund stronger. Private equity funds represent an excellent opportunity for a high rate of return.

In broad terms, private equity refers to equity investments in companies not listed on a public stock market. In other words, private equity investors target unquoted, privately-held companies and provide capital to their owners in exchange for a controlling equity stake in the company. As opposed to “portfolio” investors, whose strategies are “buy cheap and sell expensive,” private equity financiers seek to produce high returns within a specified period of time by implementing well-defined actions that will generate substantial growth in the value of the invested company. According to this “value-adding” strategy, private equity investors pick their targets among companies that are projected to show high growth rates and performance improvements, should they obtain the right management and financial support and assistance. Therefore, a distinctive feature of private equity investors is that they usually choose to take an active role in business development and provide both financial and various non-financial input for the development of the acquired enterprises.

Role and functions oof Private Equity Fund:

• Raising capital - A firm or a company agrees to sell some of its shares to private equity firms due to many reasons. One reason is, the firm may require a high capital inflow for long-term to run its business. Therefore, instead of waiting for a long duration to gather enough capital, it may opt to sell a part of its shares.

• Increasing regulation of public markets - Public shareholdings are controlled by a lot of regulations and hence, companies prefer to take the private equity route to finance their business operations.

• Funding the private equity boom - Private equity has been one of the most profitable trends in recent times and this segment is strengthened by the financial companies who structure the private equity deals. These financial companies leverage the expertise of underwriters like investment banks to ensure that the private equity segment remains profitable.

Advantages of Investing in Private Equity Funds

• Large amounts of funding: Private Equity Funds are an excellent source of capital as they are free of debts. An emerging business can tap large amounts for seed funding via Private Equity Fund.

• Untapped Potential: Private equity is a vastly untapped market with great potential. From unicorn startups to unlisted private companies and much more, there are a wide range of options available in the market.

• Active Involvement: As a shareholder, you can hold the professional management PE team completely accountable for protecting your shareholding interests.

• Incentives and Returns: PE Firms which hold and manage private equity funds are highly selective and spend a considerable amount of resources to assess the potential companies which they could invest in. This also involves an understanding of the risks involved and how to ease the same.

• Stringent Company Selection Process – Firms which handle private equity investments are highly selective and spend a considerable amount of resources to assess the potential companies which they could invest in. This also involves an understanding of the risks involved and how to ease the same. From scores of potential companies, managers can be highly selective and choose one company which possesses all the required characteristics.

• Clear Accountability – Management teams of private equity owned companies are accountable to an engaged professional shareholder who has the right to protect their shareholding and act accordingly.

Private Equity in India

India’s reputation as an assault on the senses is well deserved. Visit any of the country’s 29 states, nearly 8,000 cities and towns, or over 600,000 villages, and one is typically confronted by an onslaught of vibrant colors, musical sounds, rich smells, diverse languages, and, quite frequently, utter chaos. Navigating this chaos has become a way of life in India, and by extension for its business and finance community.

Private equity in India has had a bumpy ride over the past two decades as fund managers have learned the hard way how to access India’s promise amidst the turmoil. However, today’s crop of GPs have successfully endured a number of cycles and now carry a robust tool chest of lessons learned, which may help them pave the way toward a new, more favorable era for the industry ahead.

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