PE exits via IPOs jump to a record $2.6 bn so far this year

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A wave of initial public offerings, fuelled by a sizzling stock market, is helping private equity (PE) firms cash out at a record pace.

PE and venture capital (VC) investors have sold shares worth $2.6 billion in the nine months to end-September, the highest volume of exits through the IPO route so far, according to data from an IVCA-EY report. The number of PE-backed IPOs stood at 25 this year, also a record.

The September quarter alone saw 13 PE-backed IPOs garnering a record $1.3 billion in sale proceeds, the report said.

The rush by buyout firms to sell their holdings is set to gather pace this quarter, with mega IPOs such as Paytm and Nykaa expected to hit the markets in the coming weeks.

"Consistent with tradition, PE-backed IPOs have had a higher degree of performance. Presence of foreign PE firms co-investing with India-dedicated PE firms lend a higher degree of credibility to the issue consequent to enhanced

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PE exits via IPOs jump to a record in 2021

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corporate governance and compliance," said Arka Mookerjee, partner at law firm J. Sagar Associates.

Among the biggest IPO exits by buyout and VC investors this year include Blackstone's ₹5,250 crore share sale of auto parts maker Sona BLW Precision Forging Ltd; CarTrade's ₹2,998.5 crore IPO, which was a complete secondary share sale by JP Morgan's CMDB II, Highdell Investment, Temasek and Springfield Venture International; and General Atlantic's sale of shares worth ₹1,320 crore in Krishna Institute of Medical Sciences Ltd.

The momentum in such share sales is being driven by historically low interest rates and a gush of liquidity that have driven stock markets to record highs.

The benchmark Sensex has risen more than 27% in the year so far. This liquidity has also helped overall exit activity climb to record highs this year across strategic merger and acquisitions as well as secondary sales to other investors.

"Low points of the US interest rate curve, coupled with excess liquidity, tend to lead to inflation in asset prices all over the world. Right now, we are in that kind of a situation where the confluence of low discount rates and very liquid markets have lifted all boats and, hence, we are seeing strong momentum in PE/VC backed exits. This has in part been driven by the tremendous liquidity generated by central banks of the US, EU and other major economies to counter the economic effects of the pandemic and the ensuing lockdowns," said Vivek Soni, partner and national leader private equity services, EY.

Soni added that positive macroeconomic factors and geopolitical developments have also had a significant impact on public market valuations, which could be the driving force behind the high volume of PE-backed IPOs this year.

"Currently, the geopolitical and macroeconomic stars seem to have aligned in India's favour. Global investors have become wary of the recent actions by the Chinese government, and are looking at India favourably from a capital allocation point of view. Furthermore, macroeconomic indicators such as trade balance, forex reserves, the balance of payments and FPI flows seem to indicate that India's recovery is in the right direction. These factors are playing more into public market valuations than the private markets, and thus we are seeing that many companies who were initially thinking of an interim private fundraising round or exit by way of a secondary or strategic sale are now directly heading to the public markets," he said.

Generally, public market valuations tend to be higher given that private market securities are illiquid and thus public securities enjoy a liquidity premium, said Soni, adding that the macroeconomic and liquidity tailwinds currently prevailing have perhaps widened this difference.

Cashing out

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PE EXITS THROUGH IPOs HIT A RECORD HIGH IN 2021

25	$2.6 bn	41	₹66,973 cr
No. of PE-backed IPOs in 2021	Value of shares sold by PE funds	Total IPOs in 2021	Amount raised

Source: IVCA-EY monthly PE/VC roundup – 3Q2021, Prime Database

TOP PE/VC EXITS IN 2021

Company	Seller	Amount (₹ cr)
Sona BLW Precision Forgings	Blackstone	5,250
CarTrade Tech	CMDB II, Temasek, Highdell	2,999
Krishna Institute of Medical Sciences	General Atlantic	1,320

Source: Sebi

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