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Private Equity Investments in India and its Influence on Indian Capital Market

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Abstract

Private equity investments have been a part of India's growth story over the last two decades, which has seen a range of events that have transformed the investment landscape in India as the phase of growth and globalization unfolded, creating a lot of foreign interest in the Indian economy. For several reasons, the Indian private equity showcase is appealing. To begin with, it is because of its entrepreneurial status, as well as the related simplicity and benefits of English-speaking society and thirdly, an investment base that fully comprehends the numerous Private Equity opportunities, and finally, an emerging infrastructure with solid hidden financial growth. With the above background, the current study aims to determine the effect of private equity investments on the nation's financial market movement.

Key words: Private equity investments, globalization, entrepreneurial status, infrastructure and capital market.

Introduction

Globalization has become a standard across the world, and in recent decades, investors in developed countries have gradually diversified their portfolios to broaden their exposure to different areas and locales within a constantly evolving global monetary system, while also seeking higher returns on invested capital. It is common knowledge that the world is changing at a faster rate than it has been in recent years. Globalization, technological development, and socioeconomics are causing drastic changes in living,

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industry, communication, travel, and exchange methods. Amid this rapid change, governments around the world are attempting to react and adapt. In light of the above realities and contrast to the public equity market, a creative and elective resource class referred to as private equity investment refers to a medium to long-term capital investment stage in the critical equity of privately held companies. This sensation was a major driving force behind the creation of new and innovative capital groups, such as private equity (PE). Private equity refers to investor funds invested in the critical equity of privately held firms rather than publicly traded companies over the medium to long term. The average life expectancy of a private equity investment is ten years, and it entails various activities such as obtaining funds from investors with large assets and governments of particular countries and then using those assets in a variety of investment exchanges, thereby delivering a higher level of profitability than the investors. The general idea behind private equity is to invest in companies that are not publicly traded.

During the last two decades, the global valuation of transactions associated with Private Equity (PE) has skyrocketed. Since 2004, the private equity fund industry has experienced unparalleled growth, which has never been seen before in the history of this equity sub-class. The private equity industry's growth in size and influence has prompted a greater openness and awareness of good corporate governance practices, especially concerning early-stage investments. Owing to the innovative concept of private equity investments, private equity directors make a major contribution to the companies in which they operate and, as a result, play an important role in advancing great corporate governance in these organizations (Sullivan and Lim, 2004). The growth of private equity investment in developing countries is another growing trend in the global private equity sector. This, according to Lerner and Schoar (2004), is due to two factors. The primary reason is the faster integration of emerging economies into the global economy, while the second reason revolves around emerging countries' shifting perspectives and conditions. The global private equity scene has exploded in recent years. Deals in quantity were consistently rising before the current credit crisis, the market was highly aggressive, large rates were being charged, and many trade purchasers were constantly losing out to private equity houses.

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Literature samples

According to Sabarinathan et al. (2017)1, the Indian Venture Capital and Private Equity (VC and PE) industry has seen a significant increase in the number of ventures funded as well as the amount of capital invested. 850 assets have supported 3699 projects around the country's Northern, Southern, and Western regions. They have given 5545 subsidizing rounds, resulting in approximately 8800 exchanges. Even by global standards, these are massive volumes. The company, on the other hand, continues to be under-examined. It is discovered during the investigation that the company has evolved into a source of growth funding for creative and innovative organizations. They also discovered that the market for managing Venture Capital assets is highly specialized, with extremely high rates of store administration portion section and exit.

According to Mohammad Ahmar Uddin, Syed Ahsan Jamil, and Khaliquzzaman Khan (2016)2, the assembling region accounts for just 16 percent of India's total national production (GDP), while it accounts for about 33 percent of China's GDP. Similarly, India's assembly bid in global markets is unfavorable at 1.4 percent, while China's is now 13 percent, up from 2.9 percent in the 1990s. India is also attempting to achieve similar growth in its manufacturing sector. Because of its multiplier effect on the economy and industry, the development of the assembling segment is critical. Each operation completed in the assembly area generates two to three additional jobs in related activities. They said that private equity, as a money-related middleman, improves the assignment of assets from investors and also provides various types of administrative assistance to the industry, enabling them to be more concentrated. They emphasized the role that PE can play in the development of the Indian manufacturing sector, as well as the various types of assistance and issues that can arise in Private Equity.

When compared to other developed economies on the globe, Prashant T. Patil et al. (2016)3 believe that the Indian economy has experienced multi-layer growth in recent years. Private equity and venture capital have played a critical role in the development of innovation-driven businesses in developed countries. In terms of the growth of the start-up industry, domestic and foreign Private Equity investors and Venture Capitalists are now looking to India as the world's fastest-growing economy. Entry to risk capital such as Private Equity and Venture Capital at the start-up level has been a key factor in the

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growth of the sector. They used financial data to break down the growth of Private Equity and Venture Capital investments in the United States over the last five years. They also addressed the factors that affect an investor's investment decision, based on knowledge gathered through a meeting technique from Venture Capital and Private Equity company investment colleagues.

Statement of the problem

The availability of private monetary capital for growth and the positive effect of these private equity houses on Indian managerial activities may be the reasons for this increase in international investment. With an expanding domestic market and additional opportunities brought about by globalization, the influence of private equity on Indian industry is likely to improve in the coming years, to the point where the Indian government acknowledges private equity as a critical source of financial change as well as a critical source of innovation and globally recognized procedures. In this context, private equity's position as a critical segment of foreign capital has been especially important for the growth of the Indian economy. The nation's increasing international prominence, an undeniably open economy, optimistic signs of change, and a sense of significant worth living within the economy prompted investments into the country. The private equity sector which has shown to be a growing trend and a segment that aids an organization's long-term growth through investment, has the potential to have a significant effect on the country's capital market.

By 2013, the 25 largest private equity companies in India had at least one infrastructure investment in their portfolio, accounting for 43 percent of the $77 billion invested in India between 2007 and 2013. In previous segments, this irrational good faith culminated in approximately 75% of new investments being made at valuations higher than the median over the previous 15 years. As a result of the country's positive growth, the private equity market has spread across the country. In comparison to the National Capital Region (NCR), Mumbai, Delhi, Bangalore, and Hyderabad districts, the Chennai region (Tamilnadu) has shown remarkable improvement in recent years. However, the area remains isolated from the rest of the country; the market's growth has been phenomenal, with the number of arrangements included steadily increasing. As a result,

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the researcher aimed to find the answer to the following research objective using the above facts.

1. To examine the impact of private equity investment in Indian Capital Market.

Research Design

The study is analytical and is based on secondary data.The secondary data comprising of data for Private Equity Investments, SENSEX Returns and NIFTY Returns for the period between 2010-11 and 2019-20 for the study are being collected and compiled from the Venture Intelligence, BSE and NSE databases. Other required data has been collected from various websites, magazines, journals and theses.

Limitations of the study

- The study has been made in consideration with the locality of Tamilnadu and the results and suggestions may not be applicable to other parts of the country.
- The analysis has been made based on the published data, so the accuracy of the results depends on it.

Augmented Dicky Fuller (ADF) test of Private Equity Investment, SENSEX and NIFTY movements in India

H_{01}: Unit Root among the Private Equity Investment, Exits and SENSEX Movement in India does not exists.

Table 1: ADF Test

Variables	**Level**	
	ADF Test Statistic	**Prob.**
PE INVESTMENT	-2.80	0.00
SENSEX	-3.20	0.04
NIFTY	-2.58	0.02

Source: Venture Intelligence

The result of ADF Unit Root Test of Private Equity Investment, Exit, SENSEX and NIFTY Movement in India is reported in table 1. The null hypothesis of having no

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stationary for all variables is rejected at their level since the ADF Probability value lesser than the critical values. This shows that all the variables have become stationary at level.

Co-Integration Test of Private Equity Investment in India

In a model if some of the variables are integrated of *I(0)* and some of the variables are integrated of *I(1)*. In this situation Auto Regressive Distributed Lag model can be used to extract both long run and short run relationship between the variables. In this study, based on the ADF unit root test, some of the factors are integrated at level, some integrated at first difference and second difference. Hence ARDL model is employed and the results are presented in the following tables.

Co-Integration Test of Private Equity Investment and SENSEX movement in India

H_{02}: Co-integration between Private Equity Investment and SENSEX Movement does not exist.

Table 2: ARDL Test

Variable	Coefficient	Prob.
PEI	-0.36	0.00
SSM	0.03	0.00
C	18.32	0.00

Source: Venture Intelligence

Table 3: Bound Testingfor ARDL Co-Integration

Wald Test			
Null Hypothesis : PEI= SSM = 0			
F-statistic	4.56	**Probability**	0.00
Chi-square	45.36	**Probability**	0.00

Source: Venture Intelligence

Table 3 above explains the Bound test results. Probability value of F statistics is less than 0.05, so the null hypothesis is rejected. This result can be indicates from the table that the probability value of PEI is 0.00, which is less than 0.05. Therefore the null hypothesis is rejected that means there is co-integration between the Private Equity Investment and SENSEX Movements in India. In other words, Private Equity

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Investments affected SENSEX Movement in the long run. Since there is long run relationship between the Private Equity Investments and SENSEX Movements in India, so to determine the short term dynamic an Error Correction model is used and the result is displayed in table below.

Table 4: Error Correction Model Results

Variable	Coefficient	Prob.
DLPEI	-1.42	0.04
DLSSM	0.92	0.00
DLPEI(-1)	0.02	0.94
DLSSM(-1)	2.83	0.33
ECT(-1)	0.15	0.00
C	0.02	0.85

Source: Venture Intelligence

Table 4 shows the Error correction results of region wise Private Equity Investments and SENSEX Movements in India. The coefficient of the error correction term in the model is statistically significant. The estimated coefficient value of 0.15 of the error correction mechanism implies that the system corrects its previous period's disequilibrium from the long run estimates by 15 percent. The high significance of the coefficient of Error Correction Model term supports the existence of a long-run equilibrium relationship between the variables. From the table it can also be report that there had a short term relationship between variables too.

Table 5: Granger Causality Test

Null Hypothesis	F- Statistic	p-value
PEI does not Granger cause SSM	1.25	0.02
SSM does not Granger cause PEI	6.31	0.04

Source: Venture Intelligence

Table 5 reveals the results of granger causality test between the private equity investments made and the SENSEX movements in India. It can be concluded that the null hypotheses are rejected since there is bidirectional impact between the variables.

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Co-Integration Test of Private Equity Investment AND NIFTY Movement in India

H_{02}: Co-integration between Private Equity Investment and NIFTY Movement does not exist.

Table 6: ARDL Test

Variable	Coefficient	Prob.
PEI	0.25	0.00
NFM	0.02	0.00
C	17.32	0.00

Source: Venture Intelligence

Table 7: Bound Testing For ARDL Co-Integration

Wald Test			
Null Hypothesis : PEI= NFM= 0			
F-statistic	6.32	**Probability**	0.00
Chi-square	54.52	**Probability**	0.00

Source: Venture Intelligence

The table7 explains the Bound test results. Probability value of F statistics is less than 0.05, so the null hypothesis is rejected. This result can be indicates from the table that the probability value of PEI is 0.00, which is less than 0.05. Therefore the null hypothesis is rejected that means there is co-integration between the Private Equity Investment and NIFTY Movements in India. In other words, Private Equity Investments and exits affected NIFTY Movement in the long run. Since there is long run relationship between the Private Equity Investments and NIFTY Movements in India, so to determine the short term dynamic an Error Correction model is used and the result is displayed in table below.

Table 8: Error Correction Model Results

Variable	Coefficient	Prob.
DLPEI	3.25	0.03
DLNFM	0.14	0.00
DLPEI(-1)	0.01	0.74
DLNFM(-1)	4.41	0.45

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ECT(-1)	0.19	0.00
C	0.05	0.41

Source: Venture Intelligence

The table 8 shows the Error correction results of region wise Private Equity Investments, Private Equity Exits and NIFTY Movements in India. The coefficient of the error correction term in the model is statistically significant. The estimated coefficient value of 0.19 of the error correction mechanism implies that the system corrects its previous period's disequilibrium from the long run estimates by 19 percent. The high significance of the coefficient of Error Correction Model term supports the existence of a long-run equilibrium relationship between the variables. From the table it can also be report that there had a short term relationship between variables too.

Table 9: Granger Causality Test

Null Hypothesis	**F- Statistic**	**p-value**
PEI does not Granger cause NFM	3.33	0.02
NFM does not Granger cause PEI	8.12	0.05

Source: Venture Intelligence

Table 9 reveals the results of granger causality test between the private equity investments made and the NIFTY movements in India. It can be concluded that the null hypotheses are rejected since there is bidirectional impact between the variables.

Conclusion and Suggestions

The government will play a critical role in eliminating regulatory obstacles to bring domestic and foreign private equity companies on a more level playing field by clarifying and simplifying regulations. Private equity firms are realizing the importance of building their brand with promoters and gaining their confidence as a prerequisite to a successful partnership. Firms must develop a market-leading role in their other businesses based on their specific product offerings and relationships with entrepreneurs.

Despite some short-term anxiety in the capital markets as 2011 started, the prospects for private equity in India to continue raising and advancing look promising. Inflationary pressures are forming due to supply and demand imbalances, resulting in higher interest rates and increased pressure on corporate earnings. Investment prospects, on the other hand, seem to be promising both now and in the future. The government is committed to closing the country's infrastructure gap, pursuing growth, and implementing reforms in key sectors such as financial services, manufacturing, and energy, among others. Furthermore, the growing depth of the private equity sector and changing attitudes of Indian industrialists toward diluting power will enable funds to more precisely define their tactical position. If the private equity industry is to truly grow, it will need supportive regulatory changes, starting with a clarification of private equity's status as a distinct class of wealth separate from promoters.

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