How the yo-yoing Indian currency impacts different sectors

# Weak ₹ hampers PE exits

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**Mumbai:** A weak rupee against the US dollar is adding to the complexity of private equity (PE) exits in the country.

A significant number of PE firms which were looking to exit investments made five to seven years ago are forced to rethink the possibilities.

Industry experts said PE exits may slow given the current market scenario, though with the rupee now getting stronger against the dollar, things might change.

Rajeev Gupta, founder of advisory firm Arpwood Capital and former head of Carlyle India, feels if somebody looking to exit may postpone the plans and wait for the exchange scenario to improve in the near future. "It does cause people to pause and re-assess whether the price is acceptable or not. While PE firms do take this approach, it's not really a show stopper for those sitting on significant returns," he said.

A weak rupee impacts the potential returns on investments of a PE firm, which ideally expects an internal rate of return (IRR) of 20% and 25% or more. The rupee has depreciated significantly over the last few years from an average of 40.24 to a dollar in 2007-08 to an average of 58.16 in the current fiscal thus far.

Avinash Gupta, national leader and head - financial advisory services, Deloitte, said exit scenario is not deeply impacted by currency exchange rate.

"It is affected more with what is happening to the underlying businesses even before the currency has its own impact. Besides, exit opportunities also play a significant role," said Gupta.

Interestingly, while $100 billion of PE money has been invested across 5,500 deals or so, only 1,100 have returned 25% of the money. So there are 4,000 odd deals aggregating $75 billion that have not gone back, and the key reason is that the businesses have not performed well, said Gupta.

Considering that the rupee has depreciated 44.53% against the dollar during this period, PE firms wanting to exit will have to compromise on their IRR expectations in a big way. The only exception, however, would be those which invested at very lucrative levels and had carefully provisioned the forex impact.

Deepak Ladha, executive director, Ladderup Corporate Advisory, said, "Private equity exits would be affected as the returns in dollar terms would be much lower than in local currency terms owing to weak rupee. This directly impacts the returns generated by the general partners (GPs) for their limited partners (LPs)."

LPs are large global investors or entities which invest in the funds raised by general partners (GPs) or PE firms, which, in turn, invest it in companies with the objective of returning the money to LPs with significant returns.

A senior official from a leading investment advisory firm said whether to exit the investment or wait for an opportune time is certainly playing on the back of PE firms' minds. "It's a very challenging scenario and investment firms are being very careful in their approach. Profitable exits have always been a huge problem in India and a weak rupee is only making things more difficult by impacting margins," said the official.

The decision to exit, experts said, is based on many factors – most important being the life of the fund and the cushion that the fund has in terms of remaining years before the close of the fund. In case the fund life is coming to a close, the PE firm is left with very little option and is forced to go ahead with the exit.