# Our Views

## Private Equity/ Buyout funds: creating a new wave of 100% public owned, independent board-controlled companies

So far, most of the companies in India were incubated by a set of controlling shareholders who continued to have a controlling stake and to control the board inspite of going public. Alternatively, whenever there was a need to create a publicly held institution for a specific purpose like a financial institution, stock exchange or a payment settlement company with an independent board, usually a set of established institutions would come together to contribute a part of the equity. Each of these institutional investors would own a small holding in the newly created entity with a professional management with an independent board oversight. Based on the growth of these entities and their future business prospects, such institutions have been taken public for a larger public participation and remain an independent board-controlled company.

Of late, we have been witnessing a new phenomenon in the Indian markets wherein a professional pool of capital picks up an existing company, brings in a professional board and management to add value to the business, takes the company public for value realisation, and finally exits 100% through the capital market to make it a fully public owned company with a completely independent board control. Earlier this week as well we saw a similar interesting transaction where a private equity investor who had earlier bought 100% stake in a company from its controlling shareholders and had taken the company public in 2021, slowly and finally exited their entire stake in the market. The public now owns 100% of the company which is fully board controlled and run by a professional management team.

There have been many situations in the last 2-3 years where private equities have part-monetized their value by public listing of the company. More recently, we have seen more 100% exit through this route by the private equity. In the last several months, buy-out funds have exited ~ 7 companies making them 100% owned by the public and run by a professional board.

This is a great progress in our capital markets. Until now, we had two kinds of companies going public - either owned by controlling promoters or owned by public/ private institutions. The third category now emerging strongly is 100% owned by private equity/ buyout funds and managed by a professional management with an independent board. Certainly, this is a very welcome evolution of our market. As per the current data, almost all the independent-board controlled companies trade well from a price perspective due to the inherent governance strength.

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Even for private equity/ buy-out firms, this is a great opportunity. They can buy a company and provide exit to a current owner by taking the risk, they can then contribute more capital, bring in a professional management, build the business by infusing focused strategy and talent, and add a strong governance layer. Over time, instead of exiting through a private sale, they can get exit through the capital markets at better valuations. Usually, capital markets provide a better price discovery and trades at higher value than the strategic. Once the investors exit, these become a board-controlled company with 100% public ownership.

This is a win-win situation for all. First, the controlling shareholder gets a good exit by selling their business to funds. Post that, the business gets further support – both financial and managerial. Third, the buyout fund gets a good exit by selling it to public shareholders. Finally, a great asset is created for the capital markets.

Overall, I see this as a new class of public companies coming to our markets to strengthen the fundamentals of the markets. This will give rise to more MnA and other capital market activities. The decision making will be more rational and inclusive. Investors will have more variety to choose from and more capital will be available for businesses. As regards sectors, we are now witnessing this trend in multiple sectors such as real estate, infrastructure, technology, financial services, consumer, healthcare, industrials, and many others.

I think this is a new and a welcome trend in the capital markets.

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