

PEs invest \$1 b in SMEs in 2007-08

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NEW DELHI

PE firms have invested Rs 4,000 crore (\$1 billion) in small and medium enterprises (SMEs) in 2007-08, an increase of 75% from the previous year. Pharmaceutical, infrastructure, transportation and manufacturing attracted most PE funds among the SMEs in the current financial year. Sunrise sector IT, which used to be a big draw for the PE funds, has lost its predominant position, according to a data compiled by Federation of Indian Micro and Small & Medium Enterprises (FISME).

As per the estimates of FISME, the potential market for PE funding in Indian SMEs is worth Rs 20,000 crore (\$5 billion). The average size of the deals during FY'08 was pegged between \$12 million and \$15 million. Says FISME secretary general Anil Bhardwaj, "Indian SMEs are growing at a rate of 30% year-on-year."

Buyouts have not touched the SME sector. Most PE deals were for 5-25% equity stake. This is understandable as SMEs bring in external equity investors largely for expansion and growth capital. Besides venture capital and PE firms, banks are also targeting SMEs with specific structured products. Says ICICI Bank's head of SME unit, Vijay Chandok, "SMEs across sectors are being actively wooed by investors due to their high growth potential and returns." ICICI Bank is considering to launch a SME Fund and is looking to strike around 30 deals in the coming financial year.

Among the more active funds in the SME sector last year were Avigo Capital Partners and Blue River Capital. There are 13 million micro, small and medium enterprises.

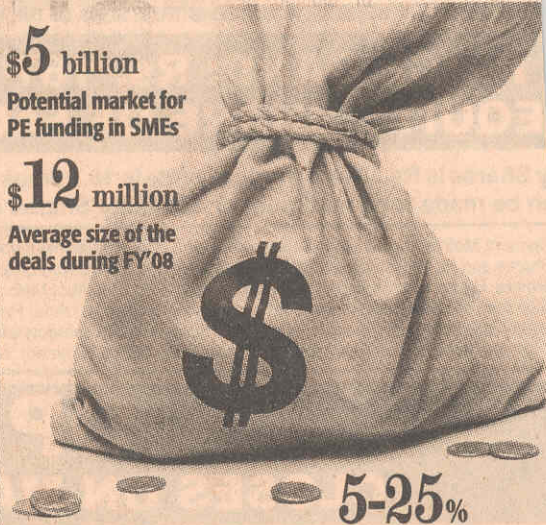
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\$5 billion

Potential market for PE funding in SMEs

\$12 million

Average size of the deals during FY'08



5-25%

Stake bought by PEs in most of the deals

Active SME sectors

Pharmaceutical, infrastructure, transportation and manufacturing have attracted most PE funds among the SMEs in the current financial year.

30

Deals that ICICI Bank is eyeing in the coming financial year

Notable SME funds

Among the more active funds last year were Avigo Capital Partners and Blue River Capital. Banks are also targeting SMEs with specific structured products.

13 million

Micro, small and medium enterprises in India