PRIVATE MARKET INVESTING GAINS TRACTION AMONG FAMILY OFFICES, UHNIs IN INDIA

POWER POINT

NITIN RAO

We welcome your views and comments at
mintmoney@livemint.com

There are an estimated 8,000 ultra-high net worth individuals (UHNIs) in India, and the country is rapidly adding more to their ranks . Given this, it is not surprising to see a strong emerging trend towards allocation to private markets among family offices and UHNIs. As per a report, 40% of Indian family offices have doubled their allocation to private markets in the last five years. In large part, the interest in private markets is driven by high valuations of global equity markets, a prolonged low-interest-rate environment, low bond yields, and recognition that the bulk of valuations are now being created in private markets before the security enters the public market.

Who is it right for?

Private market investing forms part of the alternative investments asset class where expected returns can be as high as 3-times or 5-times of the listed space but with much greater risks. It is not an asset class to be dabbled in by retail investors with running liabilities. It is suitable for the accredited, UHNIs or family office investors who have the aptitude to judge and identify the right investments , have the appetite and the scale to invest and hold for the long term. Unlike in the past, UHNIs can today invest through intermediaries and platforms that specialize in private market products. It is, however, best to allocate surplus funds for taking on higher risk for this.

Private equity vs private credit

Simply put, private equity (PE) investing is about providing capital to companies, which are in an early stage and not publicly traded, in return for equity ownership. Buoyed by a thriving start-up ecosystem and strong exits, PE is an attractive investment option. Indian investors could seek out high conviction futuristic themes across fintech, consumer tech, renewable energy, and electric vehicles, and participate through either PE/VC funds or through the direct unlisted equities route. In fact, PE and VC firms' interest in technology is at a high level, and rising. As per *Bloomberg* data, PE firms' acquisition of tech firms globally had crossed $80 billion in early 2021. Investments by PE and VC firms in Indian companies touched an all-time high of $77 billion in 2021 (62% higher than in 2020), going by the *IVCA-EY* Report.

Another avenue is private credit or venture debt which refers to providing debt to new-age companies that are backed by venture equity funding. As more and more new-age companies get funded and hence have access to more liquidity, it only increases their ability to raise debt capital and also service it. Venture debt offers investors benefits of diversification with the potential to earn higher

yields without much dependency on the interest rate environment. Private debt options such as high yield debt AIFs and venture debt AIFs are gaining momentum among UHNIs. The opportunity is large given that traditional lenders do not aggressively fund these companies. Trifecta Capital, Alteria Capital, Innoven Capital, and Stride Ventures are the leading venture debt firms in the country.

What is attracting investors?

Inevitably, private investing allows investors an opportunity to invest at a significant discount to potential long-term value. Elusive access, limited liquidity, and a lower number of participants translate to better valuations. Further, these companies are likely to go public at some point in the future and thus, can provide significant upside potential. Unarguably, private markets carry a higher level of risk. Due to the differentiated risk profile compared to listed equities, they can act as portfolio diversifiers and can enhance the risk-adjusted returns of your investment portfolio. Due to the illiquid nature of investments, they tend to exhibit lower volatility compared to listed shares. While this means that prices are seldom impacted by short-term investor sentiment and demand-supply dynamics, the quantum of downside can be fairly high in case of an error in judgement. That said, the relative stability of prices can reduce intermittent financial stress. Venture debt funds generally are designed to yield 13%-15% per annum with a 3–4-year repayment period. Also, these funds have structured an equity upside in the form of warrants which is normally about 8-10% of the debt.

Private equity investing is about providing capital to companies, at an early stage

By its sheer illiquid nature and associated risks, private market investing must be done with complete due diligence. One must assess the companies with much more rigour, ensure that the investment is well-aligned with overall asset allocation strategy and work with only trusted intermediaries.

Nitin Rao, CEO, InCred Wealth.