

## **"BFSI presents great entry point for consumer, infra sectors": PE Investors**

*Microfinance, Infrastructure Finance and service providers to financial services firms, are among the favourite sectors of PE & VC investors within the industry, a survey by research firm Venture Intelligence reveals.*

Chennai, Tamil Nadu, April 7, 2010 /[India PRwire](#)/ -- Private Equity and Venture Capital investors are viewing investments in BFSI (Banking, Financial Services and Insurance) companies as an attractive "entry point" into the two key themes driving their investments in India: rising domestic consumer and infrastructure spending. PE/VC investors surveyed recently by Venture Intelligence, a leading research firm focused on Private Equity and M&A deal activity, selected Microfinance, Infrastructure Finance, service providers to financial services firms (like back-offices to mutual funds, etc.), Banks, Stock Exchanges and Insurance Distribution companies as their favorite sectors within the BFSI industry. The survey results are published in the in the newly released report from Venture Intelligence titled "Private Equity Pulse on Financial Services".

The report has a special focus on Microfinance. "PE investments in Microfinance continued to grow right through 2008 and 2009 even as investments in other sectors witnessed a steep decline. So much so that almost all top companies in the sector are now PE/VC-backed," said Arun Natarajan, CEO of Venture Intelligence. "With the constant need for capital among MFIs (to meet capital adequacy requirements), the synergistic relationship with PE/VC investors seems set to continue," he added.

In an interview in the report, Dhiraj Poddar of Standard Chartered Private Equity points that, apart from sectors within BFSI, providers of technology and analytics services to this industry present another attractive investment opportunity for investors. Poddar says PE investors would also look forward to investing in the capital intensive and long gestation business of Life Insurance.

In his article on PE in Financial Services, Sanjay Doshi of KPMG, points out that opportunities abound for Private Equity in virtually every facet of the Financial Services industry considering the expected growth of the Indian economy combined with rising income levels, focus on infrastructure spending, emphasis on financial inclusion, emergence of wealth managers and expected growth of the insurance industry. Among the hurdles facing PE investors, he includes regulatory restrictions on investment limits in banking and insurance sectors and uncertainty in valuations of insurance companies.

Siddharth Shah of legal advisory firm Nishith Desai Associates traces the evolution of financial inclusion in India. Highlighting how from the time of the Sahukars and Shroffs (money lenders) in pre-colonial India to the advent of institutionalized banking, the banking sector in the country has witnessed sweeping changes. The nationalization of banks in 1969 led to the expansion of branch network increasing lending to agriculture and small business and pulling in millions of people into the formal financial system. Highlighting how the new delivery channel of Micro Finance Institutions is enabling efficient delivery of credit to the neediest sections of society, he indicates that The Micro Financial Sector (Development and Regulation) Bill 2007, when cleared by Parliament, will provide the required regulatory framework for this sector.

Highlighting the potential of Microfinance to alleviate poverty by providing access to productive assets and financial resources, Anil Joshi, Prashant C and Sasha Mirchandhani of angel investor group Mumbai Angels indicate how. MFIs would need US\$3-5 billion over the next 4-5 years. The hunger for capital among MFIs stems mainly from the need to meet mandatory Capital Adequacy Requirements specified by RBI and to invest in branch network, human capital and technology. From an investor's perspective, the sector's rapid growth, high returns and relative immunity to global developments, are strong attractions.

In his article, Samir Bali of Ernst & Young points out how the rapid growth of microfinance has been aided by partnerships with PE firms and banks. The revision of mobile phone banking guidelines (to enable low value transactions), the Unique Identification Number programme (UIN) and the establishment of a 'Credit Information Bureau' to encourage safe lending practices, will provide the framework to boost further growth. He however cautions that as the Indian MFIs develop a pan Indian network and increase in size, the lack of common standards for technology, product design, the gaps in legal and regulatory framework and the ability to tackle multiple borrowings will pose challenges. Bali predicts that the sector will witness consolidation over the next few years as some of the better capitalized firms (including PE-backed ones), embark on acquisitions for expanding their reach

and size.

Indicating how a fact-finding study by the RBI observed that some of the microfinance institutions (MFIs) appeared to be competing to reach out to the same set of poor, resulting in multiple lending, Shivi Agarwal of legal advisory firm Dhir & Dhir highlights the need for a general regulatory environment for the microfinance sector that can provide oversight, independent of the organizational form of the MFIs. The article provides an update on the status of the Micro Financial Sector (Regulation and Development) Bill, 2007 (which had lapsed) and on the steps towards self regulation within the sector.

While writing on the payment business, Manek Fitter of Ernst & Young highlights the factors which will throw up huge opportunities for PE in this capital intensive and technology driven sector. The growing acceptance of electronic payment systems from the presently low penetration levels, a supportive regulatory stance, initiatives like the formation of the National Payments Corporation of India (NPCI) and the issuance of UIN, coupled with the rapid growth of telecom infrastructure and the existence of evolved and proven payment systems, will help this sector achieve healthy and sustainable long-term growth in India.

For the convenience of entrepreneurs, the report provides a listing of advisory firms who provide value-added intermediation services.

The report can be downloaded from [http://www.ventureintelligence.in/pepulse\\_fs.htm](http://www.ventureintelligence.in/pepulse_fs.htm)

#### **Notes to Editor**

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