



## Huge piles of Private Equity dry powder will lead deal-making

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'Compared to the 2008 global financial crisis, access to capital will not be a problem as the US PE and strategic investors alone are sitting on almost \$ 5 trillion of dry powder which needs to be deployed in some form'

Mumbai: For one, there is heightened due diligence seen from buyers to deal with specific issues arising out of Covid-19. There are also concerns being raised on valuation erosion, and if that will become a permanent feature. On the brighter side, experts Rajat Mukherjee and Rabindra Jhunjhunwala (partners with law firm Khaitan & Co) remain hopeful that the huge amount of dry powder (uncalled capital) that private equity investors are sitting on will reignite deal-making and unlike the other crisis of the past, access to capital will not be a problem.

**Will the pandemic also test the resilience of Indian Corporate M&As?**

**R. Mukherjee-** In the second half of 2019 we did see a slowdown in the market, especially in India due to the NBFC crisis (Non-Banking Financial Company), the M&A activity had slowed down to almost 25% as compared to the first half of 2019.

Although, we still saw almost \$40 billion of Inbound M&A activity last year, overall, the 2019 numbers in India remained fairly strong.

There has been a stark drop in global M&A activity in the first quarter of 2020, especially in India. If you take the recent Jio platform transactions out of the equation, then the numbers are even starker.

I think overall, all cycles do come to an end, but six months back, neither one of us would have expected that a human health crisis would pause all the activity to the extent that it has today.

But, compared to the 2008 global financial crisis, access to capital will not be a problem as the US PE and strategic investors alone are sitting on almost \$ 5 trillion of dry powder which needs to be deployed in some form.

**How has due diligence changed? How are dealmakers establishing trust in a virtual environment?**

**R. Jhunjhunwala**- Deal makers, and the markets have adopted well, and we are doing business remotely/ digitally.

Deal makers are all working remotely, helped companies raise funds, do block trades, initiated delisting plans, do M&A transactions, and in some cases, these deals have started and finished during the lockdown. So new benchmarks have been set. It has not been the same walking from office, but the world has adopted and we haven't let the lockdown derail us. I would go on to say there is a realization that we probably don't need to have these extensive physical meetings and travel, especially in the context of cross-border deals.

This is a new norm that has been defined. We have already seen better than expected deal activity in the last 3 months and in my view, you will see more happening in the rest of this financial year and next.

**How will 2020 M&A fare compare to 2019 and what challenges would different sectors face?**

**R. Jhunjhunwala**- The unprecedented situation has created uncertainty and we are going to see some impact of it. Having said that, there are going to be opportunities in various spaces, whether it is distressed M&A, resetting supply chains, looking at opportunistic investments to give a few examples.

**R. Mukherjee**- I do expect that the nature of new transactions or deals which were in the early stages of looking at term sheets etc, those situations will change because ultimately there will be a pause to assess the impact on valuation. Again, depending on the sector, I think you will see some sectors have already been hit hard and will face an uphill battle compared to others, especially travel, hospitality, and aviation.

All these sectors will potentially see a pause as trends, valuations, assumptions or projections which were relevant or done, or any historical data basis which you would have come to the valuation is all being questioned today. And so that reset, whether it is a permanent valuation reset or is it a temporary phenomenon. I think that will cause some delay in dealmaking globally, not just in India.

**The Vocal for Local campaign and the interconnectedness of the supply chain between nations is coming under scanner, what does that mean for transactions and M&A industry at large?**

**R. Jhunjhunwala**- COVID- 19 is unlike anything we have seen in the past, it has caused uncertainty and has created an unprecedented situation which has led market economies collapsing, wiping out valuations, recession.

On the nationalism point, I might have some controversial views, I feel nationalism and protectionism are being talked in the same breath, I would say that it is the 'Need of the hour' and India has to take steps and these will protect our economy and this will be a direct response to the military activity in the Northern parts of India.

Coming to localization and supply chains, I feel, global supply chains will see a huge overhaul due to Covid-19 which has exposed the vulnerability of countries and companies that rely heavily on trading with limited partners.

**R. Mukherjee**- In such circumstances where you need capital infusion to happen, I feel that some relaxations are needed so that it does not impede deal-making. While I accept that the scrutiny envisaged by press note 3 may be justified in the larger national interest, the government should consider a pragmatic approach for existing wholly owned subsidiaries in need of capital and other global transactions impacted by press note 3 indirectly.