



Private Equity in India: A Lifecycle Analysis of Fintech

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ABSTRACT:

Over the last 25 years, India's venture capital and private equity industry has grown a lot. This growth has happened because the Indian economy became more open and a new, active start-up environment started to develop. Although the Fintech sector has been a favorite for venture capital and private equity investments, there hasn't been much research on private equity activities in this area. This study aims to fill that gap by giving a detailed look at how private equity investments work in the Fintech industry in India. The research looks at private equity investments and exits in the Indian Fintech industry from 1998 up to the first quarter of 2023. Our findings show that the Fintech industry in India has received a lot of investment, often at higher valuation levels. Some parts of the industry have seen even more investment and higher valuations. Private equity investors have made good returns through exits in the Fintech sector, with mergers and acquisitions being the main way to exit during this time. However, the study also shows that the valuations at the time of exit were lower than the valuations at the time of investment. This research offers important information for investors and entrepreneurs who want to understand the Indian Fintech industry and the opportunities it offers for private equity investments.

Three-item lists of highlights

- Private equity investment in Fintech is significant, with the majority of investments occurring in the seed and early stages.
- The software and apps, personal finance, and insurance sectors generated the highest cash flows for exited deals in Fintech.
- Mergers and acquisitions were the most preferred exit routes for private equity investors in the Fintech space. Keywords: Private Equity (G24), Fintech (G23)

KEYWORDS: Private equity, Fintech, Start-up, Investors.

I. INTRODUCTION

A. Private Equity in India Over the past quarter-century, private equity activity in India has grown exponentially, with a total investment of \$380,031.93 million in 13,963 deals between 1998 and 2023, according to data from the Venture Intelligence database. This growth occurred in four distinct phases. During the first phase, from 1998 to 2004, private equity activity was relatively low. In the second phase, from 2005 to 2008, Indian private equity (PE) firms experienced significant growth.

Following the 2008 financial crisis, private equity activity in India slowed for several years but increased again from 2011 to 2017. The last phase, from 2018 to 2023, was characterized by the highest levels of deal-making activity. IT and ITES received the highest PE investments in the industry sectors, followed by BFSI, healthcare and life sciences, energy, telecom, and manufacturing. Notably, the highest investments were made in the early stage, followed by the late and growth stage, with the majority of investments falling in the \$0-5 million bracket, followed by the \$5-10 million and \$10-15 million brackets as per (Bain private equity report,2024, [1])

B. Fintech in India According to a report published by (Inc42,2023, [2]) the Indian Fintech market is expected to be \$2.1 trillion in size, with a projected compound annual growth rate (CAGR) of 18% between 2018 and 2030. The Fintech industry in India has witnessed significant investment activity, with a total funding amount of \$26 billion between 2014 and 2023, and a compound annual growth rate (CAGR) of 34% between 2016 and 2022. At present, there are 22 Fintech unicorns in India. The primary factors contributing to the high attractiveness of the Indian Fintech sector are the deepening of financial inclusion, growing Internet penetration, and a high level of smartphone adoption. These trends indicate a robust and thriving Fintech industry in India, which holds immense potential for investors and stakeholders alike.

II. THE OBJECTIVE OF THE PAPER

The literature on private equity investments in the Indian Fintech industry pertains to the evolution and role of Fintech in India, as studied by Kaur and Dogra (2019) [3], Bhasin and Gulati (2021) [4], and Singh (2020) [5],) who have examined various cases of Fintech in India. However, none of these papers provides a comprehensive analysis of the entire life cycle of private equity activity in the Fintech industry in India. To address this research gap, this paper aims to achieve three main objectives:

1. A comprehensive life cycle analysis of private equity investments in the Indian Fintech industry is provided, covering the period from 1998 to 2023.
2. Identify the sectors within the Fintech industry that have attracted the highest levels of private equity investment and the entry and exit valuation multiples for these investments.
3. Examine the preferred exit routes for private equity investments in the Indian Fintech industry and evaluate the returns generated by these exits.

III. DATA AND METHODOLOGY

This research study sourced private equity investment and exit data from the Venture Intelligence database, which was then analysed with a primary focus on the investment amount and exit multiples. Descriptive statistics such as the mean, median, and quartiles were employed to investigate the distribution of investments and exit multiples. Additionally, nonparametric tests, including the Kolmogorov-Smirnov and Shapiro-Wilk tests, were used to assess the statistical significance of the data, as normality tests indicated that the data are not normally distributed. The Kruskal-Wallis test and Fisher's exact test were also used to further explore the statistical significance of the differences. The findings of this study were based on a rigorous data analysis approach, which allowed for an accurate and thorough examination of private equity investment and exit data in the Fintech industry in India.

IV. RESULTS AND FINDINGS

A. Investment Trends Exhibit 1 summarizes the investment snapshot of Fintech. The analysis utilised investment and exit data from 1998 to March 2023. During this period, a total of 1,138 investment deals were made, amounting to a total investment of \$26,090.18 million, a substantial amount of capital. The mean investment amount was 22.93 million USD, indicating that the average investment in the Fintech sector was relatively high. The median investment amount of USD 4.23 million and the interquartile range (IQR) of (\$1.42, \$15) million USD showed that a significant proportion of investment deals were for relatively small amounts, while a smaller percentage of deals were for much larger amounts (25% of deals were greater than USD 15 million). The investment data were not normally distributed, revealing an asymmetric investment pattern. Nonparametric tests, specifically the Kolmogorov–Smirnov test and the Shapiro–Wilk test, were used to test the significance of these findings. These results are consistent with previous research on private equity activity in India, as reported by Kaplan and Schoar (2005 [6])

Exhibit 1: Overview of Fintech Investments in India from 1998 to 2023	
Fintech Investments	Particulars
Total number of deals	1138.00
Total investments (USD Million)	26,090.18
Mean investment (USD Million)	22.93
Median investment (USD Million)	4.23
Quartiles (Q1, Q3) (USD Million)	(1.42,15)
Kolmogorov–Smirnov p value	0.00
Shapiro–Wilk p value	0.00

B. Stage of investment

Exhibit 2 provides a comprehensive overview of the investment stage in the Fintech industry. The findings revealed that a majority of the deals occurred during the initial phase, with the number of deals decreasing as the rounds progressed. The most common rounds of investment were Seed and Series A, representing 56.83% of the deals. These rounds were dominated by private equity-backed investments, which may indicate investors' preference for early-stage ventures. Interestingly, the study also revealed that bridge rounds were significant in attracting investments, indicating the flexible investment approach of private equity funds. The decline in the number of deals as the rounds progressed may be due to the higher valuation demanded by entrepreneurs, coupled with the high risk and low possibility of significant value creation at later stages.

To test the difference in each round, a Kruskal–Wallis test was conducted, which revealed a statistically significant difference in the investment stage for FinTech companies.

Exhibit 2: Analysis by Investment Rounds in the Indian Fintech Industry: Number of Deals and Percentage Distribution		
Round	Number of Deals	Percentage
Seed	317	27.86%
1	329	28.91%
2	169	14.85%
3	142	12.48%
4	64	5.62%
5 or later	53	4.66%
Bridge	60	5.27%
Preferential allotment	4	0.35%
Total	1138	100%

Type of Sector Exhibit

Table 3 provides a detailed, sector-wise analysis of investments in the FinTech industry. The study classified all the deals into nine broader categories to offer a comprehensive overview. The findings suggest that lending, payments, and personal finance were the most popular sectors for investment, owing to the significant opportunities in these areas in India and the scope of product innovation in personal finance. These findings are consistent with those of (Sahoo et al. 2019.[7]) The second most preferred sectors for investments were business and personal utility applications, software, and apps. Interestingly, the study revealed low interest in blockchain and the crypto, insurance, and healthcare sectors. This could be due to regulatory uncertainties and associated risks in these areas. A KruskalWallis test was conducted to assess the difference in investments across industries, and the results indicated a statistically significant difference in investments made in various sectors. These findings offer valuable insights for investors to make informed decisions and devise effective investment strategies in the Fintech industry.

Sector	No of Deals	Percentage(%)
Blockchain and crypto	23	2.02%
Healthcare	12	1.05%
Insurance	48	4.22%
Lending	409	35.94%
Payments	238	20.91%
Personal finance	143	12.57%
Software and apps	92	8.08%
Trading	41	3.60%
Business and personal utility	132	11.60%
Total	1138	100%

C. Valuation Multiples –

Entry Exhibit 4 provides a detailed analysis of investment valuation multiples in the FinTech industry. Valuation multiples represent the premium used to determine the target company's valuation. The study revealed that all the multiples were above 30X, indicating a significantly greater valuation commanded by the FinTech industry. (Xu, L., Wang, Y., & Fang, Y. 2019, [8]) The average post-money multiples were greater than the pre-money multiples for all three types of multiples.

Investment (Entry) Multiples				
Type of Multiple	Average		Median	
	Pre Money	Post Money	Pre Money	Post Money
Revenue	1033.39	1103.08	32.45	34.16
EBIDTA	124.01	160.81	36.08	39.05
Pat	170.72	291.92	102.54	85.19

Value Creation

Exhibit 5 provides a comprehensive overview of the value creation details in private equity, defined as the difference between exit and entry multiples. The findings reveal that exit multiples, on average, were lower than entry multiples. Notably, the valuation during investment was significantly greater than that during exit, with the highest multiple occurring during the PAT, followed by the EBIDTA multiple and revenue multiple. Moreover, all entry multiples were significantly greater than the exit multiples, indicating a possible

overestimation of valuation by private equity investors during investments. (Achleitner, A. K., Figge, C., & Tappeiner, F,2010, [10])

Multiples	Revenue	EBIDTA	PAT
Exit Multiples (Median)	12.32	22.28	47.09
Entry Multiples (Median)	32.42	36.08	102.54

V. CONCLUSION

This study looks at how private equity is investing in the Fintech industry. It shows that a lot of private equity money has gone into Fintech. Most of this money was invested in early-stage start-ups, especially those that had up to three rounds of funding. The areas that got the most investment were lending, payments, and personal finance.

The study also looked at how much startups were valued. It found that Fintech startups usually had much higher valuations compared to companies in other industries. The sectors with the highest valuations were lending, software and apps, and payments. Even though most Fintech deals didn't end in an exit, the ones that did bring in a lot of money. The study showed that on average, the number of times startups were sold for a high value was much lower than the number of times they were bought at a lower price. The areas that made the most money when they were sold were software and apps, personal finance, and insurance.

The study also looked at the ways private equity investors usually take their money out of Fintech deals. Mergers and acquisitions were the most common way, followed by going public through an IPO. The sectors that had the most exits were business and personal utility, and payments, and both of them mostly used M&A as their exit method.

Overall, this study gives a clear picture of how private equity is investing in Fintech. It shows which areas got the most money, which had the highest valuations, which exit routes were most popular, and which sectors gave the biggest returns when they were sold.

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