

'PE-VC money chases more traditional sectors than IT-ITeS industry'

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Is the information technology and IT-enabled services (IT-ITeS) sector becoming less attractive to private equity and venture capital (PE-VC) investors? The latest data from Venture Intelligence appear to indicate this.

The IT-ITeS sector, which reported subdued financial numbers over the last few quarters, accounted for \$2.2 billion of the total PE-VC investment pie in the June 2023 quarter, lower by 70 per cent from the same quarter last year (\$7.3 billion). In contrast, traditional industries such as healthcare and energy received more during the period.

Investment in IT-ITeS industry has been steadily declining quarter-on-quarter over the last 18 months, according to data from Chennai-based Venture Intelligence.

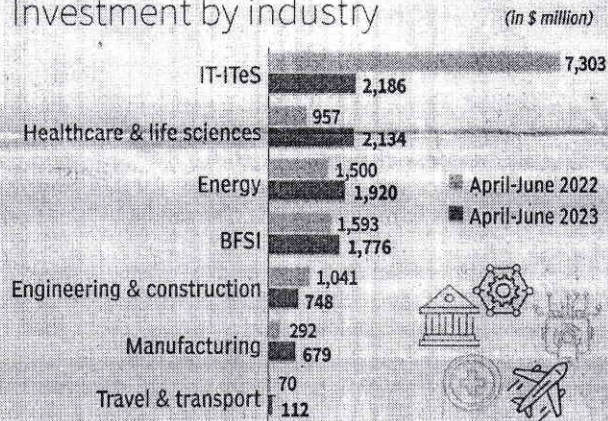
Among the investments in tech industry in the June quarter, the \$450-million investment in IBS Software by Apax Partners was the highest, followed by the \$250 million raised by mobile app building platform Builder.ai (from M12, Qatar Investment Authority, Iconiq Capital, Jungle Ventures, and Insight Venture Partners), and the \$150 million fundraise by construction materials marketplace Infra.Market from Varde Partners.

HEALTHCARE INDUSTRY

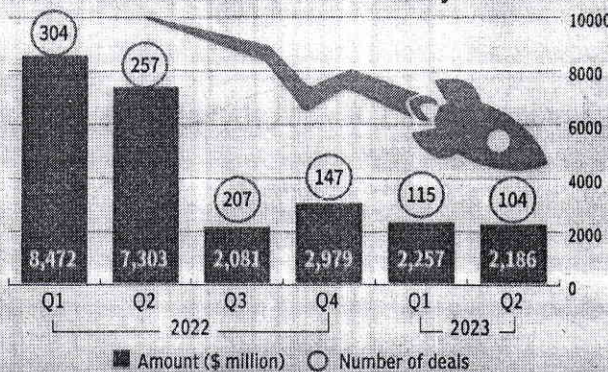
The healthcare industry attracted about \$2.1 billion in the June quarter — a 123 per cent spike from \$957 million in the June 2022 quarter. The \$2-billion investment in Manipal Hospitals topped the chart, followed by Somerset Indus Capital Partners' \$18 million investment in Emil Pharma.

The energy industry saw \$1.9 billion worth of investments in Q2 2023, up by 28 per cent from \$1.5 billion in Q2

Investment by industry



PE-VC investment in IT-ITeS industry



Source: Venture Intelligence

2022. Top deals in this segment include Brookfield's two investments in renewable energy companies: \$1 billion in Avaada Ventures and the \$360-million buyout of Clean Max Enviro Energy Solutions.

Manufacturing is staging a strong comeback after a lost decade, said C Venkat Subramanyam, Founder, Veda Corporate Advisors.

"Clearly, big-ticket private equity investors have far more confidence in investing behind basic sectors like healthcare, infrastructure, manufacturing and financial services at this point," noted Arun Natarajan, Founder, Venture Intelligence.

What is noticeable between the two periods is the sharp slowdown in mega deals — PE investments of \$100 million or more. While Q2 2022 saw 19 mega deals (12 in the internet and mobile sector), Q2 2023 saw only seven mega deals

(five in the internet and mobile sectors, including two in PhonePe). Rama Rao, Senior Managing Director and CEO, Spark Capital, a Chennai-based financial service provider, said manufacturing is evolving into an attractive opportunity.

IT SECTOR DOWN

The IT-ITeS sector is down, with valuations for software-as-a-service and digital engineering falling sharply. Mergers and acquisitions will be in play in a few months from now. PE activity will be at lower valuations once markets readjust.

"I see it as a long-term market trend. More investment in real sectors, valuations continuing to be robust in ESG-type [environmental, social, and governance investing] sectors, and services investments picking up post valuation readjustment," he added.