

Rising institutional LP interest underscores evolution of India private equity

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by [Simran Vaswani](#)

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- DFI retreat from India funds reflects availability of capital, not end of emerging market status
 - Commercial LPs increasingly sold on macro growth story, maturing private equity ecosystem
 - Local LP support, better track records, regulatory stability to help market reach next stage
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Chunky commitments to the latest vintages from Motilal Oswal Alternates (MO Alts) and Everstone Capital have – for this year at least – helped end the gradual decline in development finance institution (DFI) allocations to Indian PE and VC funds.

The International Finance Corporation (IFC) wrote cheques of USD 60m for each manager and pledged additional capital for co-investment. Both have achieved first closes in recent weeks: MO Alts raised USD 800m, beating its overall target of USD 750m; Everstone has USD 300m and is aiming for USD 800m.

This spike in activity should not blur the bigger picture. First, DFIs have repositioned, focusing more on impact strategies or direct investments. Second, certain DFIs are becoming commercially driven and allocating to more

experienced managers – MO Alts and Everstone are both on Fund V.

Third, and perhaps most significant, GPs have graduated from DFIs to commercial capital as more institutional investors allocate to the market in step with managers scaling in experience and size. India offers growth and portfolio diversification, and latterly, more predictable pathways to exit.

Sunil Mishra, a partner at Adams Street Partners, observed that he's fielded more calls from investors interested in India in the last 24 months than over the 10-plus years prior to that.

"I've spoken to so many investors over the last few years. Some are very clear about the fact that if there is one emerging market which gives them all the structural similarities of success in the US, that's India," Mishra added.

While the DFI mandate to support emerging markets may not resonate as strongly in an Indian context anymore, this should not be interpreted as the country abandoning its emerging market tag and moving on to a developed one. Rather, it is evidence of an evolving ecosystem – and the evolution doesn't stop, which means there will always be more gaps that need to be filled.

This shapes how LPs assess India, perhaps now with one eye on criteria more akin to a mature market. According to Kunal Sood, a managing director at Pantheon, the country's rapid growth, expanding workforce, and up-and-coming IPO market are moving it up the developmental curve.

"We are not approaching the Indian market from just a developmental lens; it's from the perspective of

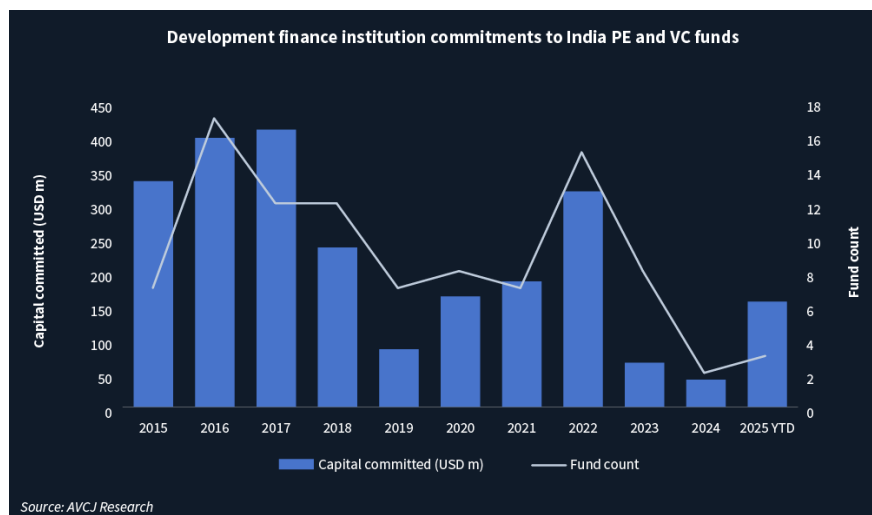
commercially oriented capital to maximise returns,” he said. “That's what our investors look at us for, to generate that alpha, and certainly we have been able to do that from a market like India's.”

Market in transition

Plenty of macro indicators point to the country as an economic work in progress. While its GDP ranks among the world's largest, GDP per capita trails that of regional peers such as China and ASEAN. This speaks to vast income disparities and significant wealth concentration.

People Research on India's Consumer Economy and India's Citizen Environment project that the middle class – those from households with USD 6,068-USD 36,406 in annual household income – will number 1.02bn by 2047, or 61% of the population. As of 2021, 432m, or 31%, were in this category. Two-thirds of India's population was classified as aspiring (below USD 6,068) or destitute (below USD 1,417).

“India with its almost 1.5bn population, has real-world problems to be solved and almost 1.2bn people still need to benefit from the economic expansion we are seeing,” said Vivek Soni, private equity leader at EY India. “This requires continued involvement of DFIs, who can bring in the best of minds, incentivise them to work towards solving some of these problems, and deliver impact where it's most needed.”



Some DFIs have tweaked their approaches with a view to maximising that impact. British International Investment (BII) is a case in point. Over the years, it has shifted focus away from generalist funds to more direct investments aimed at climate and inclusion agendas.

This reflects the broader market transition. BII was among the first backers of India’s largest private equity firm. Now, there is an active set of fund managers that can raise steady capital on their own, without DFI support, so capital that might be allocated to them is best used elsewhere.

“These generalist funds initially might have had DFI LPs. They went out, used that capital, and proved themselves. Because they proved themselves, they have opened up the market for much larger pools of private capital to invest in them,” said Shilpa Kumar, a managing director and head of India at BII. “I would say that is indeed a sign of maturation.”

Iron Pillar, a growth-stage technology investor, secured backing from just one DFI – the US Development Finance Corporation (DFC) – for its USD 90m debut fund in 2018. It re-upped for Fund II, which closed on USD 129m in 2023, sitting alongside endowments and foundations, sovereign wealth funds, financial institutions, and family

offices.

Anand Prasanna, a managing partner and co-founder at Iron Pillar, recalls that DFIs they pitched for Fund I were not convinced the firm needed catalytic capital. He added that one DFI claimed it no longer looked at investment opportunities in India because managers can stand on their own two feet.

Fundraising dynamics

This tallies with an estimate from Ricardo Felix, a partner and head of Asia Pacific at placement agent Asante Capital, that most Indian GPs raise over 50% of their capital from commercial LPs. However, he adds a caveat: These LPs may find opportunities are limited once they peel back the layers, given India has just a handful of homegrown champions that attract the bulk of prospective commitments.

It gives context to India's patchy PE and VC fundraising numbers, which surpassed USD 12bn in 2022 but have fallen every year since then, despite generally strong investor sentiment.

In 2024, Kedaara Capital was responsible for over 25% of the USD 6.4bn raised, according to AVCJ Research. This year, ChrysCapital Partners, which posted a first close of USD 1.4bn and is on track to raise about USD 2.2bn, will likely account for more than one-third. These two managers are responsible for six of the eight largest private equity funds raised by independent GPs in India.

The USD 5bn committed to Indian funds in 2025 to date trails the 12-month total for 2024, but this compares favourably to most other Asian markets in a challenging fundraising environment. India remains more popular than its emerging markets peers, with LPs turning away

from China because of geopolitics and insufficient exits, and from Southeast Asia due to performance and governance concerns.



“If you're betting on emerging markets, the obvious bet seems to be India these days,” added Felix. “India continues to be highly promising, even if just by its sheer demographic base and infrastructure requirements, that's their differentiator.”

At the same time, industry participants warn against swapping out markets. Edward Grefenstette, president and CIO of the Dietrich Foundation, observed that some US LPs reallocate risk budget from China to India as though the markets were interchangeable. The view appears to be that India can deliver the same returns with less of a language barrier and less headline and geopolitical risk.

Investors who entered India before the global financial crisis are all too aware of the risks, having been burned during the 2007-2008 vintage. Grefenstette is one of many who chose to retreat – and when he considered reengaging around 2014, he asked Lee Tilghman, then a newly appointed analyst and now a managing director, to look at the market with a fresh set of eyes.

“I asked him what he knew about India. He said, 'Nothing.' And I said, 'You're perfect. I've had a bad taste in my mouth over the last six years, and I can't effectively underwrite the market because I'm too jaded,’” Grefenstette recalled.

“I asked not just to clean the whiteboard, but to put disinfectant on it, scrub it clean and completely start over. He spent about a year travelling and speaking with everyone we knew who was smart on India, and then he made the strong case for us going back in.”

India now accounts for about 5% of the Dietrich Foundation's USD 1.5bn in assets under management, chiefly through four core VC fund manager relationships. Getting comfortable with the market meant building conviction that it had evolved to the extent that past problems – notably around exits – wouldn't be repeated.

Risk and return

Investors still wanted to be compensated for their risk. “You don't go to India to get 2x your money or 20% returns,” said Niklas Amundsson, a managing partner at placement agent New Peak Partners. “India is very much an alpha market, and I think it's going to continue to be that going forward.”

However, there is also a recognition that the risk has changed. This goes together with improvement in manager quality: the herd thinned out in the early 2010s, and the survivors knew they had to become more disciplined across strategy, valuations, and realisations.

Institutional LPs that once regarded India as an adjunct to broader Asian exposure now look at it as a standalone allocation. Those that backed one flagship India fund have added up to four more, spanning growth equity,

buyout, and other strategies, according to Divya Thakur, a partner and India co-chair at Morgan Lewis. Co-investment vehicles and thematic pools have also gone mainstream.

“These changes reflect both improved regulatory clarity and the maturation of India’s fundraising ecosystem: local managers are increasingly able to satisfy institutional due diligence on par with global peers,” said Thakur.

While the first iteration of Indian private equity was characterised by homogeneity – managers targeting the same sectors, often pursuing the same auction-driven deals, with little thought to value creation – the second involves more differentiation. If GPs are not sector specialists, they have relatively clear areas of focus, which contributes to more nuanced underwriting and operational improvement.

“The hallmark of a good investor is that they are not rushing into a deal, because they understand that, after they do the deal, they have to manage and eventually exit it. I think there are a lot of GPs today who are ready to walk away when the prices are high,” said Adams Street’s Mishra.

“There's a tremendous level of investor maturity, which in my mind, is one of the most important things as I look at this market.”

Comparisons can be drawn with other emerging markets, notably China. Where the two differ, however, is in the rise of buyouts. Over the past 10 years, this transaction type has accounted for 30% of private equity deal flow – venture capital is excluded – in India. Last year, it surpassed 40%. China has averaged 18% during the same decade-long period.

Pantheon's Sood adds that Indian GPs have also distinguished themselves in embracing new exit routes, such as GP-led secondary transactions. ChrysCapital and Multiples Alternate Asset Management have raised continuation vehicles in the last 18 months, and Kedaara is poised to follow suit.

Even in conventional liquidity channels, India has surpassed China in terms of volume and – significantly – variety. Since 2021, the country's exit proceeds have been twice those of China. Strong public markets have helped, contributing more than one-third those proceeds. Last year, the share topped 50% as India became the global leader by number of IPOs, registering nearly double the US total.

However, another third of the proceeds have come from sponsor-to-sponsor sales. In the prior five years, this share was below 25%. The development is tied to global and pan-regional private equity firms looking to boost their exposure to India, perhaps at the expense of China. They facilitate exits for smaller GPs, often buying individual control positions or rolling up collections of minority interests.

“If I compare India to Southeast Asia, Latin America, and Africa, there's really no comparison. Exit avenues are open, especially public markets, funds are scaling to do more control deals. I would say India's private equity market is one of the most developed in that sense,” said Amit Dabas, a director at HQ Capital.

Next steps

Almost all industry participants interviewed for this story pointed to the growth of the local LP community as evidence of a maturing ecosystem – the lack of which has previously held India back.

The need for their presence is multifaceted. As DFIs refocus on other strategies and geographies, local LPs can fill the gap. They serve as on-the-ground validation, potentially helping global investors build conviction around a manager. Having sophisticated and consistent domestic institutional supporters of private equity is a characteristic of developed markets, and India isn't there yet.

"It is still very challenging if you're not amongst the top GPs to raise your next fund in spite of all the tailwinds," said Pantheon's Sood.

"That is where maturity will come, when there are enough sources of capital for GPs that they are not aligned on one particular channel – when there's enough for everyone and it enables the development of a much deeper, wider ecosystem than just the top few funds in the market."

Commercial capital also craves predictability. Most broadly, it applies to the economic and regulatory environment in which managers operate. And in that respect, recent moves to ban real-money online gaming in India, an area where private equity investors have significant exposure, are unhelpful. Arbitrary government intervention in sectors is seen as classic emerging markets risk.

It applies to track record as well. LPs are most likely to back managers that can demonstrate their strategy works across cycles, executed by a stable team. India has historically struggled here.

"Like any other market, it's all down to consistency, and that's been the challenge. I would say over time that it's been difficult to find GPs that have consistently performed over vintages and have been able to keep the

team together,” said New Peak’s Amundsson.

There is much talk of building institutional-quality platforms, and this is difficult if talent cannot be retained. HQ’s Dabas believes local managers could do better on remuneration, particularly distribution of carried interest within teams, and on succession planning, incentivising the next generation of leaders to stay. Ultimately, this means diluting the economics and power of one or two founders.

Mistakes will be made during this evolutionary process – the crux is how GPs respond to them. Scar tissue is important, observed Mishra of Adams Street, because you can’t ascend the development curve without it.

“In this business, you should have made some mistakes,” he said. “Given the dynamic nature and development of the market, if you’re not making any mistakes, you’re probably not learning.”

by Simran Vaswani



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