

# An Analysis of The Interrelationship Between PIPE Investment and Possible Influencers: An Empirical Approach to Indian Firms

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## Abstract

There is increasing managerial inclination towards private placements of equity shares as a means to invite capital for the ease of financing. This tool offers heightened investor interest similar to accompanying investment perks such as warrants and additional rights, a consideration of the factors that drive such investment holds germane implications for both the parties to the transaction. This paper seeks to examine the various factors affecting PIPE transactions and assess their relationship with the deal value. The study accounts for both deal-specific factors such as stake acquired, age of the company, industry, investor type, geographical location(city) and round of investment, and macroeconomic conditions such as GDP and Sensex. We collected data on 815 deals that materialized within Indian contours from 2005 to 2021 and corroborate factors in guiding investment decisions. The results confirm that the amount of investment in PIPE is significantly affected by the Industry type and Investor and that the market index has an extremely small effect and economic growth has no effect on the PIPE investment.

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**JEL Code :** G11, G30, G23

**Keywords :** Private Investment; Public Equity; Private Placement; BFSI; PIPE; Industry; GDP; Sensex; India

## I. Introduction

THE PRIVATE EQUITY and Venture Capital industries in India saw a momentous decade from 2011 to 2020 as it chugged its way from a fledgling investment avenue into the mainstream. The private equity (PE) market has grown significantly, propelled by a variety of factors including rising demand for alternative assets, low interest rates, and supportive regulatory environments. Despite the growing jitters around covid-19 and lackluster investment returns, the expanding landscape of Indian economy and large stimulus programs by global central banks helped revive the dampened

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comprise of more than 67% of the total investment deals. Considering investor type, foreign funds tend to have the majority investment followed by India-dedicated funds and then co-investment funds. Moreover, the average age of the firm adopting PIPE as a method of financing is 40 years and maximum PIPE investment can be seen in Mumbai followed by Delhi.

Through the multiple regression analysis stake, industry, firm age, investor type, and city have been identified as significant factors affecting the amount of investment. Stake (%) and firm age both are found to have a positive relationship with the amount of investment while factors like Industry, and City have a negative relationship with the dependent variable. Although Sensex has a significant effect but the quantum of effect is found to be very small. On a contrary, GDP and Round are found to be statistically insignificant.

The results direct towards the conclusion that factors like Industry and Investor type can contribute as major factors affecting the amount of PIPE investment. It is determined that the market index has a negligibly little impact and economic growth has no effect. Finally, we note that this paper has two limitations. First, the sample used for the study has been extracted only from one database i.e. venture intelligence therefore the reliability of the study is conditional on the accuracy and correctness of the database. Second, the economic variables only include GDP and the Sensex, when additional variables like interest rates, inflation, and other political and institutional aspects like regulatory quality, corruption, and political stability can be evaluated to see the effect on the amount invested through PIPEs. Further research can include such variables and also an event study analysis of the PIPE announcement effect and the components that explain the announcement return would be a fascinating issue to investigate which will aid in a better understanding of the market.

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