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REFORMS IN TAXATION AND LEGAL CODES, CORPORATE GOVERNANCE, AND CAPITAL MARKET TO ENHANCE THE COMPETITIVENESS OF INDIAN PRIVATE EQUITY

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ABSTRACT:

In recent years, India has made significant strides in attracting private equity investments. However, to become a preferred choice for private equity investments, India needs to address various challenges in the areas of taxation, legal framework, corporate governance, and capital market operations. This research paper aims to discuss the reforms required in these areas to enhance India's attractiveness for private equity investments.

The paper is based on the qualitative study, which incorporated a questionnaire-based interview to collate relevant input and insight. Afterward, all the responses to questions were analyzed and synthesized to develop a list of suggestions under various categories, such as taxation and legal code.

The paper begins by providing an overview of the current state of private equity investments in India and the challenges faced by investors. Firstly, it elaborates the challenges faced by stakeholder in Private Equity industry in India and its impact on the business. Subsequently, it delves into the specific areas of taxation, legal framework, corporate governance, and capital market operations and identifies the reforms required to address the challenges. At this stage, the responses collected during interview and qualitative study are utilized.Finally, the paper concludes by highlighting the potential impact of these reforms on India's attractiveness for private equity investments.

Overall, this research paper provides insights into the three critical areasthat need to be addressed to make India a preferred choice for private equity investments. The paper's findings have strategic implications for policymakers, investors, and other stakeholders interested in fostering a conducive environment for private equity investments in India.

Keywords: IPO; International Private Equity; Corporate Governance; Indian Business Ecosystem; Emerging Market

Introduction

India has emerged as a significant player in the global economy, attracting private equity investments worldwide. As per the report from IESE business school, India catapulted itself from a rank of 38 to 18 in last 20 years, thanks to its rising GDP, talent pool, high saving rate, stable economic policies and political climate, rising middle class, and a robust start-up ecosystem, backed up a buoyant stock market. However, the taxation and legal framework, corporate governance practices, and capital market operations in India have been identified as areas that need improvement to make it a more attractive destination for private equity investments. The topic of reforms in taxation and legal, corporate governance, and capital market operations to make India a preferred choice of private equity investments is of utmost importance as it has the potential to impact the country's economic growth and development significantly.

Currently, most of the research on the best practices, policies, and reforms are generic in nature and are done for the global market. Hence, they have taken a one-size-fits-all approach. Nevertheless, India has its own uniqueness and nuances and hence, it required India specific research covering the

insights from the local professionals, fund managers, investors, professional, legal and tax experts to establish the grass-root level changes. With the above-mentioned gap, this research aims to identify the specific reforms needed in taxation and legal, corporate governance, and capital market operations to make India a preferred choice of private equity investments.

This article discussed and enlisted the reforms in policies and practices that are needed in taxation and legal, corporate governance, and capital market operations to make India a preferred choice of private equity investments?

Section 2 discussed the approach of the qualitative study conducted, the method of research, and whether or not the available research on the relevant topic supports the findings of the qualitative research. Section 2 further elaborated on the scope of the literature review, the process of extracting relevant information from the articles, and the research framework based on the literature review. Section 3 explained the research methodology, data sources and detailed research plan. Section 4 dealt with the responses received via Interview as part of the Qualitative Study. The responses are synthesized and validated against others' responses, as well as the literature review, to ensure that they are calibrated for any anomalous response. Essentially, section 4 thoroughly studied the literature across time and jurisdiction to synthesize the practices followed in various Private Equity markets, what worked, and the learning outcome for the Indian Private Industry. Finally, section 5 concludes key takeaways from the study, its benefits for the industry stakeholder, its limitations and scope for future research.

Literature Review, and Research Framework

Existing Knowledge and Literature Review: Existing knowledge on this topic includes the current state of taxation and legal framework, corporate governance practices, and capital market operations in India, as well as the challenges and opportunities for private equity investments in the country.

Private Equity in India has advanced. Bain & Company reported $ 44 billion in PE investment from 2015 to 2020. Strong economic growth, a large consumer market, a favorable demographic profile, government initiatives, and an improved regulatory environment have helped private equity in India (Stubb & Kasiva, 2023). In the last 8-10 years, a stable political regime, facilitative regulatory environment, relaxation in foreign exchange regulations, increased enforceability of investment agreements, improved bankruptcy regulations, and more professional 1st/2nd generation investment approaches have made the PE market in India more attractive (Khan & Menon, 2023). Thus, between 2009 and 2014, fund managers managing two funds doubled.

India is far from becoming the investment and Private Equity hub it could be. According to McKinsey's PE manager interviews, strong alignment between PE industry stakeholders and economic objectives and policies is expected to improve the PE market in India. The regulatory framework protects minority interests and discourages offshore tax treaties to prevent tax evasion, but it has some negative effects on PE manager investment (Pandit et al., 2015). From its 1980s founding to a resilient investment ecosystem today, private equity in India has grown, especially in the last decade. More than 800 active investors have increased from 200 (Sheth et al., 2023).

India reserves 15% of capital for domestic PE investment, compared to 65% in China and 75% in India. This is partly because provident and pension funds, typically foreign investors, cannot invest in private equity in India. Domestic institutions can only invest a certain amount in alternative investments as part of their Net Asset Value. (MG, Vineetha; Vittalachar, 2019)

Private Equity managers expect delisting and court receivership to be simplified, making IPO exit easier. Due to the long and uncertain timelines in the Indian judicial process, constant regulatory changes increase uncertainty (Khan & Menon, 2023).

Silos of detailed studies on Private Equity in India exist, but there is a huge gap in integrating all the components and their relationships. Best practices to address the issues and challenges in making India one of the top ten private equity markets globally are also lacking. This study seeks to identify private equity investment factors and best practices to make India a private equity hotspot.

The sub-variables were selected on the basis of the literature review, and each sub-variable were analyzed for the relevance into the model to proceed with the interview based Qualitative study. Sample table provided in pic to show the process of extracting information from research articles.

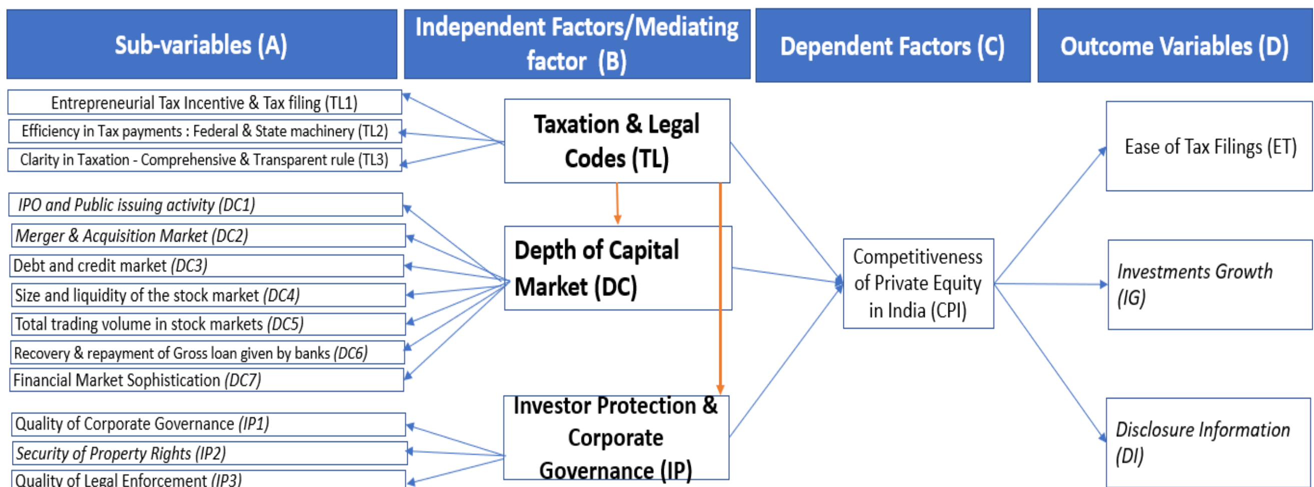
Competittiveness of Private Equity in India Nidhish Singh DBA08 Survey of Literature				
Authors (Year), Topic of the Article, Name of the Journal. Vol. No. Issue No. (Year & Citation)	**Major findings**	**Variables**	**Research Model**	**Limitations or Scope for further research**
1. Authors: Haliti, Bersan Merovci, Safet Hetemi, Alban Sherpa, Sanjib 2. The impact of the ease doing business indicators on foreign direct investment in the European transition economies 3. Journal: Ekonomika 4. Vol-98, Issue-2, year-2020	Ease of Doing business and its impact on FDI in Transition economies. The variables of Trading Across Border and Enforcing Contracts have not shown any impact on attract- ing FDIs. While from instrumental variables, such as Gross Domestic Product (GDP) at country level, GDP growth rate, Inflation and Population, only the Inflation variable has a negative impact on FDI, whereas other variables have no impact on FDIs. Starting a Business, Registering property, Getting electricity and Resolving insolvency, while variables as Dealing with construction permits, Getting credit, Paying taxes and Protect- ing minority investors have shown a negative impact in attracting FDI, while other variables had a postive impact on FDI.	Foreign Direct Investment Starting a Business Dealing with Construction Permits Getting Electricity Registering Property Getting Credit Protecting Minority Investors Paying Taxes Trading Across Borders Enforcing Contracts Resolving Insolvency Inflation Real GDP growth rate Population GDP GDP (current US$)	Pooled Ordinary Least Square (POLS), Fixed Effect (FE), and Two Step- System Generalised Method of Moments (GMM) estimation	The study is based on the limited sample of the business in 16 European countries for a period from 2009-16, hence it could be impacted by the sample bias.

The following table was used to corroborate the validity of sub-variables with reference to research articles written by previous scholars.

Independent Factors	Sub-Variables	Author 1 & year	Author 2 & year	Author 3 & year
Economic Activity	Entrepreneurial Tax Incentive & Tax Filing (TL1)	Cumming & Johan, 2007;	KomalaG, 2016;	S. E. S. Kim, 2018;
	Efficiency in Tax payments : Federal & State machinery (TL2)	Djankova et al., 2008	Naciti, 2019;	V. Srivastava et al., 2019;
	Clarity in Taxation - Comprehensive & Transparent rule (TL3)	Josh Lerner et al., 2016	Chaplinsky, 2017	Payne, 2011
Depth of Capital Market	IPO and Public issuing activity (DC1)	Black et al., 1997;	Katti et al., 2015	Allen et al., 2009
	Merger & Acquisition Market (DC2	David et al., 2020;	Neerza, 2019	Ewens & Farre-Mensa, 2018
	Debt and credit market (DC3)	Döpke & Tegtmeier, 2018	Jain & Manna, 2009;	D. S. K. Mishra, 2012
	Size and liquidity of the stock market (DC4)	Stofa & Soltes, 2020	Minardi et al., 2019;	Bellavitis & Matanova, 2015
	Total trading volume in stock markets (DC5	Allen et al., 2011	Qian & Strahan, 2006;	Qian & Strahan, 2006;
	Recovery & repayment of Gross loan given by banks (DC6)	Jain & Manna, 2009;	Eesteren et al., 2023	Mahieux, 2013
	Financial Market Sophistication (DC7)	Zeisberger et al., 2017	Chaplinsky, 2017;	Hale, 2015
Investor Protection & Corporate Governance	Quality of Corporate Governance (IP1)	Döpke & Tegtmeier, 2018	Jain & Manna, 2009;	Nair, 2020;
	Security of Property Rights (IP2)	KomalaG, 2016;	V. Srivastava et al., 2019;	Stofa & Soltes, 2020
	Quality of Legal Enforcement (IP3)	Mahieux, 2013	Shahid & Abbas, 2019	Bellavitis & Matanova, 2015

The following research framework is built based on the literature review, including the sub-variable.

Independent Factors: TL, DC, and IP are the independent factors, and DC and IP also act as mediating factors. TL indirectly affects CPI through DC and IP, as per below. The indirect impact is highlighted in the amber arrow. The amber arrow reflects the indirect relationship.



Knowledge Gap: Despite the existing knowledge on this topic, there is a knowledge gap in terms of the specific reforms that are needed to make India a more attractive destination for private equity investments.

Research Methodology, Data and Research Plan

Research Framework in section 2 was developed on the basis of literature review conducted, which is outside the scope of this research article. The research framework, however, was further validated by the professionals and stakeholders of the Private Equity Industry in India to ensure that right and valid factors and sub-variables are chosen and any significant factors is not omitted. Therefore, after building the research framework, the next step was to conduct the survey, which will be elaborated in next few paragraphs.

Research Method – Qualitative Approach:

A qualitative survey consisting of 30 questions was conducted. The analytical study of over 35 responses from professionals from various backgrounds and industries was conducted to summarise the best practices to make Indian Private Equity more competitive.

Sample Population for the Qualitative Survey: Esteemed professionals of Private Equity funds, Fund Accounting professionals catering to the Private Equity, Tax and Legal experts, Business Consultants, Investment Banker, Human Resource Professionals, Economists, Financial Experts, Financial Planners, Technologists, Entrepreneurs of different businesses, experienced professors from business schools, head of businesses of renowned multinational corporations, MBA/doctoral students, bureaucrats and others. The qualifications of the respondents included Chartered Accountants, CFA, MBA, CAIA, etc, and the average work experience of all the respondents was 12 years.

Data and Analysis

Information Collection:Sources of Evidence

The value of interviewing is explained by Seidman (2006): “interviewing provides access to the context of people’s behavior and thereby provides a way for researchers to understand the meaning of the behavior”(Seidman, 2006).

Triangulation is the process of using “multiple perceptions to clarify meaning, verifying the repeatability of an observation or interpretation” (Stake, 2005)). “We assume the meaning of an observation is one thing, but additional observations give us grounds for revising our interpretation.” Many researchers suggest the use of triangulation to ensure we have the most complete information available (Merriam, 1998; Stake, 2005; Yin, 2003)(Stake; Merriam, 1998; Yin, 2003). Triangulation encompasses “using multiple investigators, multiple sources of data, or multiple methods to confirm the emerging findings” (Merriam, 1998).

Section 4 - Qualitative survey and its outcome

A through analysis, and cross-referencing of the responses collected from the interview and qualitative study provided a well-balanced view of the current business issues and potential suggestion. As part of the triangulation exercise, key outcomes of the suggestions from respondents were further corroborated and cross-checked for validity with previous research on the respective topic. Finally, the list of suggestions were made which is summarised below.

Qualitative ResearchOutcomes

A. Taxation and Legal Codes (TL)

i. Sub-Variable: *Entrepreneurial tax incentive & admin burden (TL1)*

The government should control tax entities to report actual facts and figures instead of charging high taxes. India's tax system can affect private equity investment incentives. The complex Indian tax system can present investors with high tax rates, ambiguous tax laws, and onerous compliance requirements. India's tax regime affects private equity investment incentives in several ways:

India's tax system can deter private equity investors due to high capital gains tax rates, but streamlining compliance requirements and simplifying tax laws can reduce compliance burden and encourage investment. Clear tax treatment, pass-through status, carried interest taxation, and tax incentives can make private equity more attractive to investors.Academic studies also strongly advocate for the tax incentives for attracting investment and making it more transparent and supportive for entrepreneurs (David et al., 2020; Hale, 2015; Khan & Menon, 2023; Reddy, 2016; Stofa & Soltes, 2020).

Sub-question 1: This study also received comments on the Indo-Mauritian and India-Singapore DTAA amendments. According to the protocol, Singapore would follow the Indo-Mauritian DTAA if it is amended to prohibit Mauritius from taxing capital gains from Indian company share sales. India can now tax Singaporean residents' capital gains after the India-Singapore DTAA eliminates Singapore's right to tax capital gains from selling Indian company shares. Many Singapore-domiciled PE funds have invested in India recently. The DTAA amendment may hurt Singapore's appeal to India-focused PE funds. How should India find a better solution?

Respondents suggest thatIndia needs clear DTAA policies. Policies should be changed to attract PE firms to India.

The India-Singapore DTAA amendment may hurt Singapore's appeal as a domicile for India-focused private equity funds. Foreign investment in Indian private equity may decrease, lowering industry growth.

The Indian government can address this issue in several ways. Negotiating with Singapore to amend the India-Singapore DTAA to maintain capital gains taxation could work. Foreign investors could be offered tax breaks or simplified regulatory processes to invest in India. Reforms to ease doing business, reduce regulatory burdens, and improve infrastructure could also boost domestic investment in India. This may make India a more attractive destination for foreign private equity investment, regardless of domicile tax implications. India can attract capital and grow its private equity industry by addressing tax concerns, improving the investment climate, and offering foreign investor incentives.

Fund domiciliation in other jurisdictions may help Indian private equity. Funds may consider domicile in countries with favorable tax treaties with India that allow tax-efficient structures. Private equity firms could also partner with Indian institutions to establish onshore funds in India subject to Indian tax laws for greater certainty and transparency. The Tax circular gives tax officials wide discretion to classify PE portfolio share sales profits as Capital Gain or Business Income, further complicating the treatment. PE needs clarity and transparency because capital gain is taxed less than business income. The Tax Circular also discusses business control over profit treatment. (Amitabh Khemka; Uday Ved, 2022; Beebeejaun, 2019; Donald Bruce, 2000; Grant Thornton, 2021; KomalaG, 2016)

Sub-question 2: The Tax circular gives tax officials wide discretion to classify PE portfolio share sales profits as Capital Gain or Business Income, further complicating the treatment. PE needs clarity and transparency because capital gain is taxed less than business income. The Tax Circular also discusses business control over profit treatment. Indian private equity investors worry about the taxation of profits from share sales. Lack of clarity and transparency in the tax code can lead to unpredictable tax liabilities, threatening industry stability and growth.

The Indian government could make several tax code changes to fix this. Clearer and more specific guidelines for classifying share sale income as capital gains or business income could be used. This could reduce tax officials' discretion and increase private equity investor transparency and predictability.

Another option is to eliminate the distinction between capital gains and business income and tax all investment income similarly. If investments were more consistent and straightforward, private equity investors could better understand their tax liabilities.

Removing the 'control of business' clause: The tax code should no longer allow tax officials to classify income based on business control. This will prevent tax officials from abusing their power and improve private equity investor transparency and fairness.

Tax residency clarity: The tax code should clarify tax residency for private equity investors. This will reduce double taxation and give investors more certainty.

As another tax-related topic, the General Anti-Avoidance Rule (GAAR) has been a major tax concern for PE funds in India due to its discretionary nature, which could cause uncertainty and harm PE investments. The government may clarify and specify GAAR provisions for PE funds to address this concern. If the arrangements have sufficient commercial rationale and substance, this may reduce the risk of tax authorities invalidating them for tax avoidance. The government could also consider a binding ruling system to reduce tax uncertainty and give investors more certainty. Providing a stable tax regime and predictable tax policy could also improve investment climate and investor confidence in the Indian PE industry.

Some changes can improve clarity and transparency:

Provide clear guidelines: To avoid ambiguity, the government can define adequate commercial rationale and substance in tax planning arrangements.

To avoid confusion and give the industry more certainty, the government can define "tax avoidance" clearly.

Increase tax authorities' burden of proof: Tax authorities should prove that the arrangement is for tax avoidance, not taxpayers' commercial rationale.

The government can provide advance rulings on GAAR provisions to give PE investors more certainty.

Simplify the tax code to reduce complex tax planning structures and GAAR provisions.

Bruce and Marian have also made similar suggestion in their extensive studies (Bruce, 2002; Marian, 2016)

ii. Sub-Variable: *Efficiency in Tax payments—federal and state machinery (TL2)*

India's federal and state government policies can conflict, causing problems for PE firms. A streamlined regulatory process that coordinates between central and state governments can eliminate

duplication and ambiguity. Establishing a single regulatory approval window, uniform tax regime, harmonizing regulatory frameworks, and publishing requirements, timelines, and fees can improve transparency and simplify compliance.

iii. Sub-Variable: *Clarity in taxation—Comprehensive and transparent rules (TL3)*

India's businesses spend 243 hours per year on tax-related activities, according to the World Bank's "Doing Business" report. Calculating taxes, filing returns, and resolving tax issues take time.

The government can simplify the tax system and reduce compliance by using more user-friendly technology, providing clear tax guidance, and improving tax administration. The suggestion made also reflects the outcome of the earlier research conducted with regard to issues with Indian tax mechanism and how it can be simplified. (Amitabh Khemka; Uday Ved, 2022)

Sub-question 1: What changes are expected in the Companies Act 2013 to avoid rigorous disclosure and Corporate Secretarial actions that harm Private Equity?

The Companies Act 2013 has been amended to simplify compliance requirements for companies, including those with private equity investment. This includes the removal of the requirement for an annual general meeting to approve certain transactions. The Companies (Amendment) Act 2020 also decriminalizes several non-compliance offenses.

Sub-question 2: There is another complexity under tax code which deserve a thorough debate and discussion. Under the 2013 Act, to avoid categorization as a 'deposit,' CCDs must (i) convert into equity Within five years, or (ii) be secured by a first charge or a charge ranking pari passu with the first charge on assets of the issuing company. The 2013 Act thus introduces difficulties in structuring a PE investment employing CCDs because it imposes a cap on the conversion period of CCDs or alternately requires portfolio companies to provide significant security against CCDs - something that they may be unwilling to, nor capable of, doing.

The Companies Act 2013 could be changed to allow PE firms to use CCDs as investment instruments. The conversion period could be increased, and terms could be renegotiated if the conversion period cannot be met. Alternative security options could be provided in lieu of a charge on assets. The Act could be clarified to not apply to investments made by PE firms or institutional investors. Any changes should strike the right balance between protecting investors and providing flexibility to companies.

Sub-question 3:*The Arbitration Act in India was amended in 2015 to clarify limits on Indian courts' powers to review foreign seated arbitral awards. Parties to an agreement may choose to allow Indian courts limited powers to grant interim reliefs Regarding a foreign seated arbitration.*

The concept of'seat of arbitration' has not been defined nor clarified by the amendments. Future changes are expected to make the arbitration process in India more attractive and accessible for foreign investors, including PE funds.

Sub-question 4: Under FEMA, the RBI regulates, inter alia, the price at which PE funds enter into and exit Indian companies, the extent to which foreign investors can invest in Indian companies engaged

in specific sectors, and the types of entities foreign investment can flow into. Does this regulation hamper the PE, and what changes the industry envisages to address this?

FEMA regulations in India can cause delays and limit return on investment for PE funds. The industry may seek changes in FEMA regulations to provide greater flexibility and reduce bureaucratic hurdles. Changes may include easing restrictions on foreign investment in certain sectors, increasing the price at which PE funds can enter and exit Indian companies, and expanding the types of entities. Clarity on regulations may also be sought, including clearer definitions of terms and greater transparency in regulatory processes. The government and industry may need to work together to strike a balance between protecting national interests and facilitating foreign investment. FEMA regulations also limit the extent to which foreign investors can invest in Indian companies engaged in specific sectors.

Furthermore, the industry has recommended that the RBI simplify the procedures for obtaining approvals under FEMA, which can be complex and time-consuming, to make it easier for PE funds to invest in Indian companies. (Jain & Manna, 2009)

Sub-question 5: The RBI had initially prohibited put and call options and allowed only a few exceptions. However, after receiving feedback from market participants, it relaxed the rules and allowed put options in specific circumstances. The latest regulations issued in 2020 have further liberalized the regime and provided additional flexibility for PE funds.

However, PE firms are still facing some challenges as the RBI does not permit put options with an assured return, which limits the flexibility of PE firms to structure investments. There is a need for greater clarity and flexibility in the regulations to allow put options with assured returns, which can offer much-needed protection to PE firms against downside risks. The industry is seeking further liberalization in the regulatory regime to allow PE firms to structure their investments more effectively and protect their downside scenarios.

One potential solution could be to allow put options with a range of strike prices or an adjustable strike price, which would provide private equity firms with more flexibility in managing their downside risk. Another solution could be to allow a put option with an assured return but with a cap on the return, which would prevent excessive returns and provide a reasonable degree of flexibility to private equity firms. This would require a shift in the RBI's position on put options, which may take time but could provide much-needed flexibility to private equity firms investing in India.

Sub-question 6: Partly paid-up shares and warrants are now eligible instruments for FDI in India, with conditions such as upfront pricing and 25% upfront payment. However, the condition for upfront payment is onerous and defeats the purpose of issuing warrants, making them unattractive for PE funds. The fixed condition should be considered in line with other developed PE markets globally.

To make warrants more attractive for PE funds, remove the 25% upfront payment condition and reduce the time limit for remittance. Convertible bonds could also be considered as an eligible instrument for FDI. They offer more flexibility than partly paid-up shares or warrants and provide a fixed income stream. PE funds typically invest in companies that require significant capital infusion over a period of time.

B.Depth of Capital Market (DC)

i. Sub-Variable: IPO and Public issuing activity (DC1)

IPOs allow private equity investors to sell their stake to the public. To make the process easier for startups, simplify regulations, increase retail participation, reduce approval time, and educate investors. Creating a supportive ecosystem through tax incentives, grants, and other benefits can promote entrepreneurship and innovation and boost the economy.

Above best practice are also echoed by the previous academic studies and industry report alike, whereby it is expected that countries should remove the barriers for raising funds, facilitates IPO process and create an investor friendly ecosystem by simplifying regulatory requirements. (David et al., 2020; Hirani, 2020; Jain & Manna, 2009; Mahieux, 2013)

Sub-question 1: To the question if Private Equity compete with IPO as the financing source, and how can it be the business's preferred choice?

Private equity offers a few advantages over IPO as a financing source, including more flexible terms and a longer investment horizon. Private equity investors are typically willing to invest in companies that are not yet profitable and may require a longer time horizon to achieve profitability. Private equity investors also often have more hands-on involvement in the company's operations, which can be beneficial for the company's growth.

However, going public through an IPO can offer several advantages over private equity, including access to a larger pool of capital and increased visibility in the public markets. IPOs can also provide liquidity for existing shareholders and a way for employees to realize the value of their equity compensation. Research papers have also confirmed the benefit of IPO as an effective and popular exit strategy for PE investors. (Dong, 2015; Ewens & Farre-Mensa, 2018; Minardi et al., 2019)

Private equity firms should build relationships with entrepreneurs, demonstrate value beyond capital, develop industry expertise, streamline the investment process, and provide transparent terms. They should focus on providing strategic value beyond just capital, improving operational efficiency, enhancing revenue growth, and identifying new market opportunities. This will make private equity the preferred financing choice for businesses.(Minardi et al., 2019)

ii. Sub-Variable: Merger & Acquisition Market (DC2)

Indian policy changes can make M&A more friendly to private equity. These include streamlining regulations, simplifying the approval process, reducing tax liabilities, clarifying tax laws, creating a level playing field for foreign investors, and providing more exit options. Encouraging innovation and entrepreneurship, providing more support to start-ups, easing foreign investment restrictions, and promoting transparency and accountability in the market(Paumen, T., Kroon, D.P. Khapova, 2023).

Studies by Dalmia and Hale have similar list of suggestion to improve the process of the Merger and Acquisitions and make it a more popular option for exit of PE and start up founders. (Dalmia et al., 2018; Hale, 2015)

iii. Sub-Variable: Debt and credit market (DC3)

There are several steps that can enhance the level of sophistication of the financial markets in India. Some of these steps include:

Strengthening the regulatory framework: The regulatory framework for financial markets in India needs to be strengthened to improve the quality of information available to investors and reduce systemic risks. This includes the creation of new regulations and the updating of existing regulations to reflect best practices in other markets(Kumar & Firoz, 2023).

Several literature also confirms this is a best practice for improving the financial market for global investment and providing a robust financial ecosystem for domestic business. (Chaplinsky, 2017; Rader & Gelfer, 2023)

Improving transparency: Improving transparency in financial markets is critical to building investor confidence (Khan & Menon, 2023)This can be achieved through the development of comprehensive disclosure requirements, the promotion of corporate governance best practices, and the establishment of independent auditing and accounting standards. (Chaplinsky, 2017; Rader & Gelfer, 2023)

Enhancing investor education & Financial Literacy: Enhancing investor education can help increase the level of sophistication of financial markets by improving the quality of information available to investors and empowering them to make informed investment decisions. This can be achieved through the development of investor education programs and the promotion of financial literacy(Chinyamutangira, 2022; Gompers & Kaplan, 2022).

A broad and deep security market which provides the alternative sources of financing and fund raising will help Private Equity managers in completing more deals faster as per majority of the research conducted in the past on the link between security market and private equity. (Ewens & Farre-Mensa, 2018; Kaplan et al., 2016; Minardi et al., 2019)

Overall, while the increasing number of banks and competition amongst them can be a positive development, it is just one of many factors that impact the availability and terms of debt finance for the PE business in India. (Allen et al., 2011; R. Gupta, n.d.; Qian & Strahan, 2006; Sarkar et al., 2019; Wright, 2017)

Sub-question 4: Will the reduction in the risk-free rate, Statutory Liquidity Rate (SLR), and Cash Reserve Ratio provide more debt and liquidity to the market and in turn, help the Private Equity leveraged transaction?

The reduction in the risk-free rate, Statutory Liquidity Rate (SLR), and Cash Reserve Ratio (CRR) can lead to lower borrowing costs for companies and provide more liquidity to the market. This can potentially make it easier for Private Equity firms to raise debt for their leveraged transactions, as it can result in more favorable lending conditions(Rollins, 2023). However, it is worth noting that there are several factors that can affect the availability of debt for Private Equity transactions, including the overall economic conditions, the creditworthiness of the borrower, the regulatory environment, and the overall appetite of lenders for such transactions. Therefore, while the reduction in interest rates and reserve requirements can be helpful, it may not be the sole determinant of the availability of debt for

Private Equity transactions. (Minardi et al., 2019; Rader & Gelfer, 2023; RBI, 2013) While the low interest rates may help raising finance by the PE managers, high interest rates can also result into higher demand for private equity and venture capital. Nevertheless, since demand of PE support can not be fully negated by the rise in interest rate, it is always worthwhile and beneficial to reduce the interest rate by the regulators (Bellavitis & Matanova, 2015; Eesteren et al., 2023; Rollins, 2023; A. Srivastava et al., 2013).

iv. Sub-Variable: Size and liquidity of the stock market (DC4)

While the PE investors fled during the bubble bust after 2004, they started to return as the stock market also picked up & six PE-backed firms went public. RBI reported that a booming secondary market and regulatory reforms in the primary market have boosted the exit possibilities and helped PE firms grow in India. The question posed to the respondents are as to how increase in size and liquidity of stock market is critical to the growth of PE and following paragraphs summarise their views.

The increase in size and liquidity of the Indian stock market is critical to the growth of Indian PE because it provides a robust exit route for private equity investments. As the stock market grows and becomes more liquid, it becomes easier for PE firms to sell their holdings in Indian companies, allowing them to realize returns on their investments. This, in turn, attracts more capital to the Indian PE industry, which can be deployed to further grow and develop Indian businesses. This assertion is also consistent with the research conducted by Invest Europe 2018 that the larger and efficient capital market help in getting funding for the Private Equity. (Shrivastava & Garg, 2017.; Stofa & Soltes, 2020)

The Indian stock market has grown significantly since 2004, with potential for further growth. The current market capitalization of Indian listed companies is around $4 trillion. As the stock market continues to grow, there will likely be more opportunities for PE firms to invest in undervalued public companies. It also becomes a more attractive destination for global investors.Research confirms that such steps can help to boost the flow of foreign capital into developing markets such as India, to fuel economic growth and development(Chinyamutangira, 2022).

Sub-question 1: What fundamental changes in stock market regulation & practices can enhance its size and liquidity in the next few decades?

India must overhaul its stock market regulation and practices to grow and liquidate. These changes include reducing regulation, improving corporate governance, transparency, institutional and retail participation, technology use, and derivatives market development. This could boost investment and liquidity. Investors prefer transparent, low-risk companies with good corporate governance. Financial reporting, accounting, and disclosure transparency could boost investor confidence.

Introducing new products: The introduction of new products, such as Exchange Traded Funds (ETFs) and Real Estate Investment Trusts (REITs), can help increase investor participation and boost liquidity in the market. (CORE et al., 2006; Döpke & Tegtmeier, 2018; A. Gupta, 2012; Jain & Manna, 2009; Mishra, 2012).Increasing market transparency: Making stock market information easily accessible can

boost liquidity. Force companies to disclose relevant information to the market and improve financial reporting.(Ewens & Farre-Mensa, 2018)

V. Sub-Variable*: Total Trading volume in Stock Market (DC 5)*

How can online and digital trading be improved—more apps, platforms, digital literacy, or other strategies? Can you promote online trading in India?

Online trading has huge potential in India, where many young people are tech-savvy. Digital literacy is needed to understand trading risks and benefits. Creating more user-friendly, secure, and nationwide digital trading platforms and apps can help increase online traders.

Finally, integrating stocks, mutual funds, and derivatives on a single platform can increase trading opportunities and volumes. Recent studies by David et al has also supported the need for digitization and its benefit for the expanding economy as well as robust investment landscapes (David et al., 2020; Groh et al., 2018; Neerza, 2019)

vi. Sub-Variable: Recovery and repayment of bank loan given by banks (DC 6)

What regulatory and banking changes and stricter corporate governance can reduce NPA? Can Indian banks reduce their NPA to gross loan ratio in other ways?

Stricter loan approvals and good corporate governance can help reduce non-performing assets (NPA) in the Indian banking system. Banks should assess borrowers' creditworthiness, monitor loans, and promptly report defaults or slippages. The Insolvency and Bankruptcy Code (IBC) provides a time-bound resolution process for defaulting firms, and a clear and standardized loan classification system is needed to lower NPA to gross loan ratio.

Technological innovations: AI and machine learning can help banks identify and monitor defaulters. Fintech could also streamline loan appraisal and monitoring for banks.

Stricter corporate governance: Companies with better governance practices are less likely to have financial problems, so stricter governance regulations can help prevent NPAs, which is also confirmed by the academic studies on this topic by Rader. (Rader & Gelfer, 2023).

Asset reconstruction companies (ARCs): ARCs can buy NPAs from banks inexpensively and recover the loans in various ways. This can help banks reduce NPA to gross loan ratio and clean up balance sheets.

Better risk management: Stress testing and scenario analysis can help banks identify and prevent NPAs(Meagan et al., 2022).

The above suggestion were also similar to the studies made by earlier research and report by the banking regulator Reserve Bank of India (Allen et al., 2009)(RBI, 2023; Smolarski et al., 2011)

vii. Sub-Variable*: Financial Market Sophistication (DC7)*

Private equity firms prefer a sophisticated capital market with transparency, regulation, liquidity, and efficient payment systems for efficient capital raising and exit, helping them make money and invest

more.Research on Indian Private Equity also confirms that the exit through IPO helps the investors of Private Equity realise the gain and make profit(Katti et al., 2015).

Finally, a sophisticated capital market can improve regulatory and legal frameworks to protect investors, enforce contract terms, and resolve disputes. This can lower MSMEs' investment risks and boost investor confidence.

C. Investor Protection & Corporate Governance (IP)

i. Sub-Variable: Quality of CG (IP1)

India needs to improve corporate ethics by separating CEO and board roles, promoting transparency and accountability, enhancing legal and regulatory frameworks, promoting ethical leadership, and raising awareness and education.The above is in line with the consistent suggestions from various academic research in the past confirming the multi-stakeholder role in improving the corporate governance and its role in investment attractiveness. (Black et al., 1997; Majumdar, 2020; Peter et al., 2008; Roe, 2006)

Sub-question 1: What is the disclosure quality of Corporate Governance matters in India? What are the changes expected and required to improve this?

Private agencies and government should evaluate corporate governance and issue CG ratings to affect firm market capitalization. SEBI has improved corporate governance in India, but disclosure is lacking in smaller companies. Auditor independence, board appointment and compensation transparency, and accountability for directors and executives need improvement.

Finally, stakeholders—including investors—need more education about good corporate governance and its impact on firm performance. Companies must disclose board composition, board committees, related party transactions, remuneration, risk management, and other corporate governance details under these regulations. (Chaplinsky, 2017; Lerner et al., 2016; McCahery & Vermeulen, 2012; Payne, 2011)

Sub-question 2: How can the effectiveness of the Corporate Governance and board of directors be improved? What best practices and changes in the code of directors be adopted and enforced by regulations to help the investment communities globally?

Regulations can improve corporate governance by mandating diverse boards, director independence, board accountability, shareholder rights, and transparency. Examples include regular board evaluations, disclosure and reporting, and disclosure of board composition, executive compensation, and potential conflicts of interest.

Consistent with the above suggestion, studies since last few decades have suggested that diverse board, transparent governance model, empowering shareholders rights, quality disclosures,director's independence and defining directors' accountability are essential for strong corporate governance. (Allen et al., 2002; Almaqtari et al., 2020; Crifo & Forget, 2013; Djankova et al., 2008; Naciti, 2019; Shahid & Abbas, 2019; V. Srivastava et al., 2019; Wan et al., 2019)

ii. Sub-Variable: Security of Property Rights (IP2)

The government needs to reform its legal system, invest in technology, and provide a more predictable and transparent environment. Specialized courts, alternative dispute resolution, and technology can help streamline regulatory processes and improve dispute resolution.

The regulatory framework should be more accountable and transparent in implementing business laws to reassure investors and businesses. The government can also educate businesses and investors about legal and regulatory issues to improve compliance and reduce legal disputes.(Cumming & Johan, 2007; Ferran, 2011; Heed, 2010; Khan & Menon, 2023; Kim, 2018; KomalaG, 2016; Reddy, 2016)

iii. Sub-Variable: Quality of Legal Enforcement (IP3)

India has liberalized its foreign investment policies, but PE investors may still face barriers. India could simplify the regulatory and legal environment, reduce bureaucracy, and clarify and standardize law enforcement to attract more PE investment. However, complex legal and regulatory procedures, slow and bureaucratic processes, and inconsistent law enforcement may still deter foreign investors.

Legal literature confirms that legal bottlenecks and bureaucratic challenges create barriers to attracting global investors. (Haliti et al., 2020; Nageri, 2020; Nahata et al., 2014; Schoar & Lerner, 2005)

Conclusion

ased on the details interview response and its analysis through an inductive process, this research article suggests that,to make India a preferred choice of private equity investments, there are several reforms to be made in taxation and legal codes, corporate governance, and capital market operations. India’s ranking in the Private Equity Competitiveness Index has improved from 38 in 2010 to 18 in 2023, as per a report by IESE Business School ((Groh et al., 2023; Groh & Liechtenstein, 2009). While significant changes have been made in the various aspects of the regulatory and business environment, they have not been sufficient to leverage the true potential of Indian Private Equity.

Summary of the recommended reforms include the following:

1. Simplifying the taxation system: Businesses find the Indian tax system complicated. Private equity investors can enter and operate in India more easily by simplifying the system and reducing business compliance.
2. Improving the legal framework: Investors in India face contract enforcement and dispute resolution issues due to the complex legal system. Legal reform can reduce these issues and boost investor confidence.
3. Improving corporate governance: Private equity investments require good corporate governance. India can improve corporate governance by increasing company transparency, accountability, and disclosure.
4. Capital market development: India's capital market is underdeveloped. Developing the capital market can help businesses get capital and private equity investors exit.
5. Creating an investor-friendly environment: Finally, this can attract private equity investments. Streamlining approvals and clearances, reducing bureaucracy, and improving India's business environment can achieve this.

By implementing these reforms, India can become a more attractive destination for private equity investments, which can help to drive economic growth and development in the country.

The diverse suggestions for the reforms, changes in best practices, and regulatory environment, identified and explained in this research article, can serve as a ready reckoner for various stakeholders, including but not limited to bankers, investors, and fund managers of Private Equity, policymakers, and government officials.

This study also builds a foundation for a more detailed analysis of what has worked in other successful private equity markets and how those practices and policies can be calibrated for implementation in India.

Research implications for stakeholders: This article presents research-backed suggestions from respondents on how Indian Private Equity stakeholders can improve policies and practices to improve the industry.

Politicians, regulators, bureaucrats: A close look at India's policies reveals a paradox. In the country's national economic agenda, PE's role in boosting economic growth is recognized. However, multiple policy bottlenecks hinder private equity investments in India. This paper discusses and proposes solutions to complex regulations, tax structures, and bureaucratic red tape that hurt investment.

Bankers: India can become a thriving financial ecosystem that efficiently attracts and allocates private equity via banks. This transformation requires bankers, financial institutions, and policymakers to work hard. This article lists industry and academic solutions to improve private equity practices in India, which is a necessity given its ambitious economic agenda.

Private equity professionals: Many improvements can be made to the private equity framework. Quality due diligence, transparency, and risk management are among these improvements. This may boost investments and the market. We can boost Indian private equity globally by following international standards and using cutting-edge methods. Based on expert survey responses, this research article lists some best practices.

The imitation of the research: The suggestions provided by the industry leaders and professionals need to be further assessed for suitability with a wider audience. In addition, there could be more factors that are necessary to be considered and could have been excluded from the scope of this research. These are the areas where further research will be required in the future.

Future scope of the research: The Indian Private Equity industry can improve by adhering to global best practices. This includes regulatory reforms, fund structuring and management, investment strategies, tax implications, and exploring new sectors. Successful global PE markets have invested in operations, portfolio management, compensation models, and governance structures. Learning from these can transform the Indian landscape and refine its position in the international economic sphere. Comprehensive research may be the key to unlocking the Indian industry's immense potential.

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