

IIM Trichy Research Seminar Series

Central to the academic life is the spirit of enquiry, conversation and debate. The primary intention of the IIM Trichy Research Seminar Series is to nurture this spirit amongst the Fellow Program (FP) community. This initiative was conceptualized by and is administered by the FP students.



Session 05

Date: 16th October 2018, Venue: CR003, Time: 4:00 PM

The choice of exit: Influence of private equity investors and buyout entry

Author(s): Prof. Rohan Chinchwadkar and Prof. Rama Seth

Category: Research Paper

Presented by: Prof. Rohan Chinchwadkar (Faculty, Finance and Accounting Area)

Abstract

The choice of exit method is an inevitable decision faced by entrepreneurs and private equity (PE) investors. The existing literature addresses four categories of factors which influence this choice of exit method between initial public offering (IPO) and acquisition: industry-related factors, market-timing variables, deal-specific factors and demand-for-funds factors. We extend the literature by introducing a new category of factors, 'PE investor characteristics', and test if this category has a significant effect on the choice of exit method. We also test if the type of entry has an influence on the exit method. We find that PE investor characteristics play an important role in the choice of exit method. The existence of a large syndicate of PE investors in the same firm increases the probability of an IPO exit, but the presence of a foreign PE investor reduces this probability. Moreover, unlike in developed markets, the cost of debt does not affect the choice of exit method in India. We further consider specific exit methods such as strategic sale, financial sale and buyback and find consistent results. We find that in buyout transactions, the probability of an IPO exit is less than that of a strategic sale. Finally, we present a unique finding that the probability of a buyback as opposed to an IPO is higher if a firm is in the real estate sector.

Broad Theme of Discussion

- ✓ Level of analysis – Investor level or Project level
- ✓ Understanding the differences in the choice of exit process
- ✓ Liquidity benefits that depend on the buyer and the exit process
- ✓ The choice of going for high cost/ low return IPOs
- ✓ More information asymmetry and high return being associated with the exit choice

The Inquisitives



*Prof. Vinu
(OMQT)*



*Arun Kumar
(Strategy)*



*Prof. Vinu
(OMQT)*



*Vimal
(MIS)*



*Prof. Sanja
(EPP)*

✓ Exit method as an outcome and industry characteristics as determinants



*Prof. Sanja
(EPP)*

✓ Controlling for exit choices that are not mutually exclusive



*Arun kumar
(Strategy)*

✓ Relationship between project size and choice of exit



*Prof. Vinu
(OMQT)*

✓ Controlling for recession in the first period in the model



*Arun Kumar
(Strategy)*

✓ Choice of dependent variable in the model: multinomial vs. binomial



*Prof. Sanja
(EPP)*

✓ Time to exit as an important factor i.e., duration of the project



*Prof. Sanja
(EPP)*

✓ Choice of sample period



*Rupesh
(F&A)*

Bat Travels: A Case of Sensory Getaways

Author(s): Mueen Ahmed, Nidheesh Joseph and Prof. Sankalp Pratap

Category: Case study (in development)

Presented by: Mueen Ahmed (FPM, Strategy Area)

Abstract

Bat Travels is a travel and tourism company (based in Mumbai) started by Ritu Sinha and Divya Saxena in November 2017 to curate sensorial based journeys with a special focus on the visually impaired (VI) travelers. In India, there are only a handful of travel companies (Planetabled, Enable Travel) catering to the physically challenged and none catering exclusively to the VI travelers. Trying to differentiate themselves from the other itinerary oriented travel companies, Bat Travels tries to provide both the sighted and the unsighted with a rich sensorial destination-based experience. Sighted travelers are encouraged to act as travel buddies for the unsighted travelers. In the process, the sighted traveler gets to notice more details and enrich their travel experience while the VI traveler will get a personal companion and dignified treatment apart from a sensorial (auditory, touch, smell, taste) experience. As a commercial specialist travel venture, Bat Travels is yet to raise significant profits from their trips or gain traction among the VI community in India. After seven domestic trips, it is time for Bat Travels to generate profits and scale up the model to remain sustainable. The case presents an illustration of a creative and novel startup in the travel and tourism industry, ideal to teach critical elements of entrepreneurship like acquiring capabilities to achieve vision and mission, using irrational logics for venture creation, role of entrepreneurship in social inclusion and unconventional entrepreneurship. This is a real decision making case based on primary data collected through interviews, participant observation and perusal of secondary data.

Broad Theme of Discussion

- ✓ Use of interns to execute the project
- ✓ Managing highly varying expectations being important to the vision
- ✓ Orientation program for the sighted travel buddies
- ✓ Objective of teaching the case and emphasis on the entrepreneurial journey

The Inquisitives



*Rahul
(OBHR)*



*Rupesh
(F&A)*



*Kumaravel
(OMQT)*



*Rupesh
(F&A)*

✓ Explaining of the case using Ideas-Problem-Practice framework requires more instances on problem to be included in the case



*Prof. Rohan
(F&A)*

✓ Consider adding literature on idea evaluation



*Arun Kumar
(Strategy)*

✓ Identifying the market is important for the entrepreneurs as delivery of this model depends on customers



*Prof. Rohan
(F&A)*

✓ Digital capabilities supporting tourism such as Audio man etc. could help



*Prof. Rohan
(F&A)*

✓ Experience from field trip taken by the author could be included in the case



*Rahul
(OBHR)*