Are Indian GPs using continuation funds to keep crown jewels or fill exit gaps?

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Continuation funds have become the flavour of India's investment ecosystem. And not without reason.

These vehicles have become useful tools for fund managers to hold onto their golden geese (read: the crown jewels in their portfolio with strong growth potential) while also dishing out a feast for investors (aka liquidity through exits).

Multiples Alternate Asset Management, led by former ICICI Venture veteran Renuka Ramnath, is reportedly **targeting a corpus of $300-400 million** for its continuation vehicle. According to a report, the fund will include assets such as Vastu Housing Finance, APAC Financial Services Private Limited, and Quantiphi.

Among mid-market PE investors, **Carpediem Capital** is also understood to be in the process of reaching out to LPs to raise a continuation fund.

According to research firm Venture Intelligence, as many as three firms floated continuation funds last year—**ChrysCapital**, and **Anicut Capital** in the PE space, and early-stage consumer firm **Sauce.VC**.

While ChrysCapital raked in $700 million from limited partners (LPs) for its maiden continuation vehicle, Anicut and Sauce VC raised $36 million and $32 million, respectively.

"GP-led secondaries and continuation funds are a relatively new phenomenon," Gaurav Ahuja, partner at ChrysCapital, told DealStreetAsia.

While these structures may have existed in the West for many years, they started gaining traction in Asia only from 2017 onwards. They are relatively newer in India even compared to the rest of Asia.

Continuation vehicles are created to transfer one or more portfolio assets from an existing fund. The LPs of the existing fund can opt for liquidity or double down on the assets. At the same time, the fund manager (or general partner) can extend the holding period of the assets with capital injection from existing LPs or secondary investors.

ChrysCapital floated its maiden continuation fund to hold onto its stake in the National Stock Exchange (NSE), which it acquired in 2016.

"ChrysCapital's continuation fund was a landmark transaction that created more visibility for such structures," said Ahuja, adding that the NSE investment had generated more than 6x its value in dollar terms for its LPs, thereby delivering them 2.5x DPI (distributions to paid-in capital).

Ahuja explained that given that the fund's life was coming to an end, investors needed a liquidity option. At the same time, given that the NSE is a high-quality asset that still has strong value creation potential, ChrysCapital wanted to continue to hold on to it.

PE players typically look to sell their investments in about 8-10 years.

"However, given that 2-3 years were completely washed out due to the COVID crisis, this vintage has a greater need for continuation funds," said Abhishek Sharman, founder & managing director at Carpediem Capital.

"Ours is more like a continuation cum opportunities fund. The idea is to provide liquidity to LPs and also growth capital to our existing portfolio," said Sharman.

Other investors that are in queue to tap this area include names such as **India Quotient**, and Lightbox.

The flurry of activity in this space in India reflects the evolving maturity of the PE ecosystem.

"As GPs look to optimise returns while maintaining flexibility, continuation funds provide a solution to addressing portfolio needs," said Darius Pandole, MD and CEO, private equity and equity AIFs, at **JM Financial**.

Pandole said continuation funds are "particularly effective for assets in high-growth sectors where the next stage of value creation requires more time and strategic capital, such as tech-driven businesses where digital transformation, SaaS, fintech, and healthtech continue to present multi-year growth opportunities".

These are companies that tend to have steady, long-term growth trajectories that may not align with traditional PE fund timelines.

"With continuation funds, GPs can focus on enabling companies to scale further, explore international markets, or consolidate their leadership position through M&As, without the pressure of a fund lifecycle," explained Pandole.

Do continuation funds also help plug exit gaps?

There are a few factors here. First, not every company is an NSE-like gem that GPs would want to hold onto.

Second, there are so many funds that are stuck with investments with no liquidity in sight, explained Girish Vanvari, founder at **Transaction Square**, a tax, regulatory, and business advisory firm in India.

"Further, not all new-age company IPOs have been stable... with so many [exits] in the pipeline, it will be interesting to see how the trend of continuation funds mushrooming pans out," said Vanvari.

Besides, continuation funds also come with their own sets of challenges.

"One major issue is the inherent conflict of interest in these funds. Fund managers, who act as both the seller (original fund) and the buyer (new continuation fund), can complicate valuation transparency and fairness," Navin Honagudi, Founder & Managing Partner of **Elev8 Venture Partners**, had earlier told DealStreetAsia.

Continuation funds may not offer the same level of investor safeguards found in traditional funds. Essential mechanisms such as GP removal rights or key person clauses may be less robust or absent. Additionally, renegotiating terms around fees and carried interest can create dissatisfaction among investors if not handled with transparency and fairness.

"Generally, GPs would use continuation fund structures to hold on to investments... Oftentimes companies may not have achieved their peak potential within a fund's holding period. In such cases, continuation funds allow a longer runway for GPs," said ChrysCapital's Ahuja.

Edited by: **Pramod Mathew**

Anicut Capital | Carpediem Capital | ChrysCapital | elev8 venture partners | India Quotient | JM Finance Ltd | Lightbox | Multiples Alternate Asset Management. | Sauce.vc