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# **EXIT MECHANISMS IN THE PE/VC SECTOR INDIA & THE US: REGULATORY DIFFERENCES AND STRATEGIC IMPLICATIONS**

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## **Abstract**

The landscape of private equity and venture capital exits has undergone profound transformation across global jurisdictions, driven by regulatory evolution, market maturation, and shifting investor expectations. This paper undertakes a comprehensive comparative analysis of exit mechanisms in India and the United States, examining how distinct regulatory philosophies, institutional frameworks, and market dynamics shape PE/VC exit strategies. India's emerging market demonstrates progressive liberalization with safeguards, evidenced by robust IPO reforms, maturing secondary markets, and innovative continuation funds. The US exhibits mature diversification through traditional IPOs, dividend recapitalizations, SPACs, and secondary buyouts. The analysis reveals fundamental differences in regulatory approaches: India's prescriptive, centralized oversight contrasts with the US's disclosure-based, market-driven framework. Cross-jurisdictional lessons emphasize the importance of structuring investments for exit flexibility, building institutional capabilities, and maintaining strategic agility to optimize outcomes in both markets.

**Keywords:** Private Equity, Venture Capital, Exit Mechanisms, IPO, Regulatory Framework, India, United States, Secondary Markets, Strategic Sales, Continuation Funds

## **1. Introduction**

Exit mechanisms represent the culmination of the value creation journey for PE/VC investors, serving as the critical juncture where operational improvements, strategic positioning, and market timing converge to determine realized returns. The strategic importance of exit planning has intensified amid prolonged holding periods, with the average venture-backed company exit timeline extending from 4 years in 2005 to 6 years by 2024, while private equity portfolio

companies increasingly remain in sponsor ownership for five years or longer.<sup>1</sup> This paper undertakes a comprehensive comparative analysis of exit mechanisms in India and the United States, two jurisdictions representing distinct stages of market development, regulatory philosophies, and institutional maturity.

India's private equity exit landscape has evolved dramatically since 2017, characterized by progressive regulatory reforms, deepening capital markets, and growing sophistication in exit execution. The year 2024 marked a turning point, with PE/VC exits reaching USD 26.7 billion the highest level since 2021 driven primarily by robust open market exits (USD 12.9 billion across 126 transactions) and 40 PE-backed IPOs generating USD 3.3 billion in offer-for-sale proceeds.<sup>2</sup> This resurgence reflects the maturation of India's institutional framework, particularly the Securities and Exchange Board of India's (SEBI) ongoing reforms to the Issue of Capital and Disclosure Requirements (ICDR) Regulations, which have streamlined IPO processes while maintaining investor protection standards.<sup>3</sup> Simultaneously, innovative mechanisms such as continuation funds and GP-led secondaries have emerged, with ChrysCapital's landmark USD 700 million single-asset continuation fund for its stake in the National Stock Exchange establishing a precedent for alternative liquidity structures in Indian private markets.<sup>4</sup>

The United States presents a contrasting landscape of mature, diversified exit pathways underpinned by well-established regulatory frameworks and deep institutional capital markets. However, the 2024-2025 period has witnessed significant structural shifts, as prolonged holding periods, elevated interest rates, and muted IPO activity have compelled PE firms to explore alternative liquidity mechanisms. Dividend recapitalizations have surged dramatically, with volume reaching USD 22.4 billion in early 2025 a 60% increase from the comparable 2024 period as sponsors turn to debt markets to provide distributions when traditional exit

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<sup>1</sup> Giorgio Fenancio, Average Time to Exit Venture Capital Explained, Blog of Private Equity List (June 1, 2024), <https://blog.privateequitylist.com/average-time-to-exit-venture-capital/>

<sup>2</sup> EY, Private Equity and Venture Capital Trendbook 2025, <https://www.ey.com/content/dam/ey-unified-site/ey-com/en-in/insights/private-equity/documents/ey-private-equity-and-venture-capital-trendbook-2025-v1.pdf>

<sup>3</sup> Pavan Sisodia, SEBI's New IPO Reforms Reshaping India's Listing Landscape (Oct. 10 2025), <https://www.ey.com/en-in/insights/ipo/sebi-s-new-ipo-reforms-reshaping-india-s-listing-landscape>.

<sup>4</sup> Houlihan Lokey, India PE and VC Exit Landscape: A Tale of Two Halves (2024), <https://www2.hl.com/pdf/2025/india-pe-vc-exit-landscape-tale-of-two-halves.pdf>

channels remain constrained.<sup>5</sup> Meanwhile, the SPAC market has experienced a measured revival following the 2021 boom and subsequent correction, with 2024 seeing 57 SPAC IPOs raising USD 9.6 billion and 73 business combinations valued at nearly USD 38 billion, signaling the emergence of "SPAC 4.0" characterized by greater discipline and institutional sophistication.<sup>6</sup>

## 2. Exit Mechanisms in India

### 2.1 Initial Public Offerings and SEBI Regulatory Reforms

Initial public offerings have emerged as a cornerstone exit mechanism for PE/VC investors in India, supported by robust domestic capital markets and progressive regulatory reforms. The year 2024 witnessed the second-highest number of PE-backed IPOs, with 40 listings generating USD 3.3 billion in offer-for-sale proceeds a remarkable 130% increase from 2023.<sup>7</sup> Over the past five years since 2020, PE/VC-backed IPO exits have realized USD 13.9 billion for investors across 158 listings, with financial services, e-commerce, technology, healthcare, and automotive sectors collectively accounting for 70% of total exit value.<sup>8</sup>

The regulatory architecture governing IPO exits has undergone substantial transformation through SEBI's comprehensive amendments to the ICDR Regulations announced in September 2025. These reforms represent a recalibration of India's capital market framework, balancing investor protection with market growth imperatives.<sup>9</sup> The 2025 amendments introduced differentiated minimum public offer thresholds based on post-issue market capitalization. For companies with market capitalization between INR 1-5 lakh crore (USD 12-60 billion), the minimum public offer has been raised to INR 6,250 crore (approximately USD 750 million) and at least 2.8% of post-issue market cap, compared with the previous requirements of INR 5,000 crore and 5%.<sup>10</sup> Companies listing with less than 15% public float now have 10 years to

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<sup>5</sup> Ahmad Raja & Lauren Soares, Dividend Recaps in 2025: High-Yield Bonds Crash the Party (June 25, 2025), <https://www.dechert.com/knowledge/onpoint/2025/6/dividend-recaps-in-2025--high-yield-bonds-crash-the-party.html>

<sup>6</sup> Yelena Dunaevsky, A New Generation of SPACs Leads the Way Into 2025 (Jan. 16, 2025), <https://www.woodrufflawyer.com/insights/new-generation-of-spacs-2025>

<sup>7</sup> EY, Private Equity and Venture Capital Trendbook 2025, supra note 2.

<sup>8</sup> EY, PE/VC Investments in India reach US\$2.8 billion across 115 deals in August 2025 (Sept. 29, 2025), <https://www.ey.com/enin/newsroom/2025/09/pe-vc-investments-in-india-reach-us-dollar-2-point-8-billion-across-115-deals-in-august-2025>.

<sup>9</sup> Sisodia, supra note 3.

<sup>10</sup> Times of India, Sebi eases norms for foreign investors, IPOs (Sept. 12, 2025), <https://timesofindia.indiatimes.com/business/india-business/sebi-eases-norms-for-foreign-investors-ipo/articleshow/123861318.cms>

meet the 25% minimum public shareholding requirement, while those starting with 15% or more receive 5 years.

SEBI has significantly broadened the anchor investor framework to enhance institutional participation and pricing stability. The overall anchor allocation quota has increased to 40% from one-third, with specific carve-outs for life insurers and pension funds in addition to the existing mutual fund allocation. This reform addresses subscription volatility and pricing uncertainty by ensuring deeper institutional demand that anchors valuations and reduces post-listing volatility.

One of the most significant reforms addresses a structural impediment to startup listings. Traditionally, founders classified as "promoters" under Indian regulations were restricted from holding employee stock options.<sup>11</sup> Under the new framework, promoters can retain granted stock options provided these were issued at least one year prior to filing the draft red herring prospectus.<sup>12</sup> For high-growth startups backed by venture capital and eyeing domestic listings, this reform represents a game-changer in retaining and motivating leadership teams through the IPO process.

The OFS mechanism has emerged as a critical tool for PE/VC divestment during IPOs. Under amended regulations, shareholders holding more than 20% pre-IPO shareholding can sell up to 50% of their holdings, while those with less than 20% can divest up to 10% of the company's pre-IPO shareholding.<sup>13</sup> Lock-in requirements represent a critical temporal constraint affecting exit liquidity. Promoters face 18-month lock-ins, with 50% released after 6 months, while pre-IPO shareholders generally face 6-month lock-ins.<sup>14</sup> However, the 2025 reforms introduced important exemptions: shares issued under Stock Appreciation Rights (SARs) schemes are now exempt from mandatory six-month post-IPO lock-ins.<sup>15</sup> SEBI's September 2025 reforms also reduced the IPO listing timeline from T+6 days to T+3 days, enabling faster processing of allotments and refunds.

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<sup>11</sup> Sisodia, supra note 3.

<sup>12</sup> Arun Prakash, SEBI Approves Major IPO Reforms in India (Oct. 12, 2025), <https://www.linkedin.com/posts/arun-prakash-74204a2abrain-pusher-31-sebi-approves-strategic-ipo-activity-7383419895721406464-C2z6>

<sup>13</sup> Arohana Legal, Impact of ICDR Amendments on Private Equity Exits via IPOs in India (Apr. 15, 2025), <https://arohanalegal.com/icdr-amendments-pe-exits-ipos-in-india/>.

<sup>14</sup> Global Legal Insights, Initial Public Offerings Laws & Regulations 2025 | India (July 23, 2025), <https://www.globallegalinsights.com/practice-areas/initial-public-offerings-laws-and-regulations/india/>.

<sup>15</sup> Arohana Legal, supra note 14

## 2.2 Secondary Sales and the Maturing Private Markets Ecosystem

Secondary sales have emerged as a defining feature of India's private markets, particularly during periods of sluggish primary fundraising and constrained IPO windows. These transactions deliver liquidity to founders, employees, and early-stage investors without requiring fresh capital injection into companies. Multiple factors propel the growth of secondary transactions. First, prolonged primary fundraising cycles during 2022-2024 created liquidity constraints for early investors and founders. Second, cap table rebalancing without dilution has become increasingly important as companies mature. Third, fund duration concerns and limited partner (LP) liquidity constraints have intensified as PE/VC funds approach the end of their investment periods.<sup>16</sup>

India's secondary market encompasses multiple transaction types. Sponsor-to-sponsor transactions represented 30% of total exit value in 2024, reflecting maturing investments from the 2017-2020 vintage cycle. Contrary to conventional assumptions that secondary transactions command discounts to concurrent primary rounds, empirical analysis of over 600 funding rounds from January 2019 to June 2024 reveals that 85% of secondary transactions were priced similarly to concurrent primary rounds, with only 15% exhibiting discounts averaging 20%.<sup>17</sup>

Secondary transactions require navigation of multiple legal and regulatory considerations. Transfer restrictions embedded in shareholders' agreements typically grant right of first refusal (ROFR) or right of first offer (ROFO) to existing investors.<sup>18</sup> For transactions involving non-resident sellers or buyers, foreign exchange regulations under the Foreign Exchange Management Act (FEMA), 1999 impose pricing restrictions secondary transfers from residents to non-residents cannot be below fair market value, while transfers from non-residents to residents cannot exceed fair market value.<sup>19</sup>

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<sup>16</sup> Shriya Sahni, Secondary Share Sale: What Every Founder Should Know (Oct. 16, 2025), <https://www.startup-movers.com/secondary-share-sale-india>.

<sup>17</sup> EY, Rethinking Secondary Transaction Discounts in Indian Start-Ups (Oct. 9, 2024), <https://www.ey.com/enin/insights/strategy-transactions/rethinking-secondary-transaction-discounts-in-indian-start-ups>.

<sup>18</sup> Chambers & Partners, Private Equity 2025 - India - Global Practice Guides (Sept. 10, 2025), <https://practiceguides.chambers.com/practice-guides/private-equity-2025/india/trends-and-developments>.

<sup>19</sup> Khaitan & Co., Private Equity Transactions - India (Mar. 2022), [https://www.khaitanco.com/sites/default/files/2022-03/2022%20Private%20Equity%20\(Transactions\)%20-%20India.pdf](https://www.khaitanco.com/sites/default/files/2022-03/2022%20Private%20Equity%20(Transactions)%20-%20India.pdf).

### 2.3 Strategic Sales, Open Market Exits, and Alternative Mechanisms

Trade sales to strategic acquirers accounted for 26% of total PE exits in India during 2024, representing a critical pathway particularly for businesses where operational synergies, market consolidation, or technology integration drive acquisition rationale.<sup>20</sup> Strategic buyers offer distinct advantages including valuation premiums reflecting synergy potential often 20-40% above standalone valuations faster transaction execution compared to IPO processes, and reduced regulatory compliance burdens.<sup>21</sup> The landmark acquisition of Bharat Serums and Vaccines by Mankind Pharma from Advent International for USD 1.6 billion represented the largest strategic exit in 2024.

Open market exits continued their dominance in India's PE exit landscape during 2024, maintaining leadership for the third consecutive year with USD 12.9 billion across 126 transactions.<sup>22</sup> These exits involve sale of shares through stock exchanges in listed companies, providing immediate liquidity and transparent price discovery. The regulatory framework for open market exits requires compliance with SEBI's Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015, which mandate disclosure when shareholding crosses specified thresholds.

Continuation funds represent one of the most innovative exit mechanisms gaining traction in India since 2023, enabling fund managers to transfer portfolio assets from existing funds nearing end-of-life to newly raised vehicles.<sup>23</sup> Chryscapital's landmark USD 700 million continuation fund in February 2024 marked Asia's largest GP-led secondary transaction, establishing a precedent for Indian PE. Subsequently, Anicut Capital (USD 36 million), Sauce.VC (USD 32 million), and reportedly Multiples Alternate Asset Management (USD 300-400 million target) have launched continuation funds.<sup>24</sup> Continuation funds offer enhanced liquidity options for investors in aging funds, improved asset management flexibility for PE

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<sup>20</sup> Aradhana Dalal, New Wave of Control Deals Redraws India's PE Exit Map (Oct. 1, 2025), <https://www.dealstreetasia.com/stories/control-deals-redraw-indias-pe-exit-map-458380>

<sup>21</sup> M&A Community, Strategic Buyer vs Financial Buyer: Pros & Cons Explained (Dec. 22, 2024), <https://mnacommunity.com/insights/strategic-buyer-vs-financial-buyer/>.

<sup>22</sup> EY, Private Equity and Venture Capital Trendbook 2025, supra note 2.

<sup>23</sup> Puneet Gupta & Siddharth Shekhar Singh, Rise of Secondaries and Continuation Funds in India (Apr. 28, 2025), <https://www.forbesindia.com/article/isbinsight/rise-of-secondaries-and-continuation-funds-in-india/95885/1>

<sup>24</sup> JM Financial Ltd., Are Indian GPs Using Continuation Funds to Keep Crown Jewels or Fill Exit Gaps? (Feb. 10, 2025), <https://www.jmfl.com/Common/getFile/4346>

firms, and resolution of fund lifecycle mismatches with high-growth companies requiring extended investment horizons.<sup>25</sup>

### 3. Exit Mechanisms in the United States

#### 3.1 Traditional IPOs and the Evolving Public Markets Landscape

Initial public offerings have historically served as a premier exit mechanism for PE firms when portfolio companies demonstrate strong fundamentals, clear growth trajectories, and capacity to attract institutional investor interest.<sup>26</sup> The IPO process involves extensive preparation with underwriters and legal counsel to meet regulatory standards imposed by the Securities and Exchange Commission (SEC).<sup>27</sup>

The period from 2024-2025 has witnessed significant structural shifts in PE-backed IPO dynamics. Venture capital-backed IPOs have substantially outperformed private equity-backed offerings, with VC-backed IPOs in 2025 averaging 450% gains from initial prices compared to approximately 18% for PE-backed IPOs.<sup>28</sup> This dramatic divergence reflects fundamental differences in portfolio company profiles: many PE-backed companies have been held for extended periods, having already undergone substantial operational improvement during private ownership, thereby limiting residual growth upside attractive to public market investors.

Notable examples illustrate the challenges facing PE-backed IPOs. McAfee was taken public in 2020 at USD 20 per share by TPG, only to be acquired by Advent International and Permira in 2022 for USD 26 per share a modest 30% return over two years. These experiences underscore fundamental challenges including valuation compression, growth expectation gaps, and governance and disclosure burdens that may outweigh public market benefits for certain companies.

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<sup>25</sup> Angel One, Continuation Funds: A New Path for Liquidity in India's Private Equity Landscape (May 16, 2024), <https://community.angelone.in/t/continuation-funds-a-new-path-for-liquidity-in-indias-private-equity-landscape/10324>.

<sup>26</sup> Angel One, Continuation Funds: A New Path for Liquidity in India's Private Equity Landscape (May 16, 2024), <https://community.angelone.in/t/continuation-funds-a-new-path-for-liquidity-in-indias-private-equity-landscape/10324>.

<sup>27</sup> Baker McKenzie, United States: US Court Vacates the SEC Private Fund Adviser Rule (June 5, 2024), <https://insightplus.bakermckenzie.com/bm/private-equity/united-states-us-court-vacates-the-sec-private-fund-adviser-rule>.

<sup>28</sup> ION Analytics, IPO Market Shifts in 2025 as Venture Capital Outperforms Private Equity (July 1, 2025), <https://ionanalytics.com/insights/mergermarket/ipo-market-shifts-in-2025-as-venture-capital-outperforms-private-equity-ecm-pulse-north-america/>

The regulatory architecture governing IPOs is established through the Securities Act of 1933, Securities Exchange Act of 1934, and extensive SEC rules. Unlike India's statutory lock-in requirements, the US has no regulatory lock-in periods for IPOs. However, underwriters universally require contractual lock-up agreements typically 180 days from insiders, existing shareholders, and pre-IPO investors as a condition of underwriting.

### **3.2 Dividend Recapitalizations as Alternative Liquidity Mechanisms**

Dividend recapitalizations have emerged as one of the most significant developments in the US private equity exit landscape during 2024-2025, serving as a critical liquidity mechanism amid sluggish traditional exit channels. In a dividend recapitalization, a portfolio company incurs new debt to pay a special cash dividend to shareholders, effectively extracting value while maintaining ownership and upside participation.<sup>29</sup> From January through mid-February 2025, dividend recapitalization volume reached USD 22.4 billion, representing a sharp 60% increase from USD 14.0 billion during the same period in 2024.

The surge in dividend recapitalizations reflects multiple converging factors. Post-pandemic economic conditions including high inflation, elevated interest rates, and Federal Trade Commission caution toward mergers and acquisitions have made traditional exits increasingly challenging. Sponsors face mounting pressure to return capital to limited partners, particularly as funds approach the end of their investment periods. Dividend recapitalizations provide immediate partial returns to investors without sacrificing equity ownership, enabling continued participation in future value creation while demonstrating fund liquidity to existing and prospective LPs.<sup>30</sup>

While leveraged loans account for 91% of sponsored dividend recapitalization volume, a notable shift has occurred toward high-yield bond issuance. Bond issuance supporting sponsor-backed dividend recapitalizations reached USD 5.6 billion through late May 2025 the highest level in over a decade.<sup>31</sup> However, dividend recapitalizations present substantial risks. They increase portfolio company leverage, with average leverage for middle-market dividend

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<sup>29</sup> Corporate Finance Institute, Dividend Recapitalization -- Definition, Risks, Example (Jan. 20, 2025), <https://corporatefinanceinstitute.com/resources/management/dividend-recapitalization/>

<sup>30</sup> Sam Hillier, Private Equity Firms Turn to Dividend Recapitalizations Amid Exit Challenges (May 21, 2025), <https://www.transacted.io/private-equity-firms-turn-to-dividend-recapitalizations-amid-exit-challenges>

<sup>31</sup> Moonfare, What Is Dividend Recapitalization in Private Equity? (May 25, 2025), <https://www.moonfare.com/glossary/dividend-recapitalization>

recapitalizations reaching 4.7x-4.8x EBITDA while interest coverage ratios compressed to 2.3x. Recent research examining dividend recapitalizations finds that they increase the probability of financial distress by 2.4 times the targeted firm mean after accounting for positive selection effects.<sup>32</sup>

### 3.3 Special Purpose Acquisition Companies and Secondary Buyouts

The SPAC market experienced explosive growth during 2020-2021, with 613 SPAC IPOs raising over USD 160 billion in 2021 alone.<sup>33</sup> However, the boom proved unsustainable. Poor post-merger performance plagued the sector, with over 60% of de-SPAC companies trading below their IPO prices by mid-2022. The market has since undergone measured revival, with 2024 seeing more disciplined activity.

Secondary buyouts where one PE firm sells a portfolio company to another PE firm have become an increasingly prevalent exit mechanism in the US private equity landscape.[<sup>64</sup>] The secondary market has experienced substantial growth, with approximately USD 160 billion in fund stakes transacted in 2024 globally more than double the amount since 2019 and 2025 tracking toward USD 200 billion.<sup>34</sup> Trade sales to strategic buyers remained the dominant exit mode in H1 2025, with exits to corporate strategics totaling 1,191 transactions.

## 4. Comparative Regulatory Constraints and Opportunities

### 4.1 Structural Differences in Regulatory Philosophy

India and the United States exhibit fundamentally different regulatory philosophies toward private equity exits, reflecting divergent stages of market development, regulatory priorities, and institutional capacities. India's regulatory framework is characterized by prescriptive rules, multiple approval requirements, and centralized oversight through SEBI and the Reserve Bank of India (RBI), emphasizing investor protection and capital control in an emerging market context. The framework imposes ex-ante regulatory approval for various transactions,

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<sup>32</sup> Abhishek Bhardwaj, Abhinav Gupta & Sabrina T. Howell, Capital Structure & Firm Outcomes: Evidence from Dividend Recapitalizations in Private Equity, NBER Working Paper No. 33435 (Feb. 2025), <https://doi.org/10.3386/w33435>

<sup>33</sup> Boston Institute of Analytics, Decoding SPAC 2.0: What's Different in the 2025 Revival (May 2, 2025), <https://bostoninstituteofanalytics.org/blog/decoding-spac-2-0-whats-different-in-the-2025-revival/>

<sup>34</sup> Dylan Thomas & Neel Hiteshbhai Bharucha, Private Equity Exits Tilted Toward Trade Sales in H1 2025 (July 25, 2025), <https://www.spglobal.com/market-intelligence/en/news-insights/articles/2025/7/private-equity-exits-tilted-toward-trade-sales-in-h1-2025-91640219>

prescriptive pricing methodologies for foreign exchange transactions, and detailed lock-in requirements designed to ensure promoter and investor commitment post-listing.

Conversely, the US framework relies more heavily on disclosure-based regulation, market discipline, and well-developed litigation mechanisms, prioritizing market efficiency and contractual freedom in a mature market context. The US approach generally permits negotiated transaction terms subject to ex-post judicial review rather than ex-ante regulatory approval. Delaware Court of Chancery jurisprudence has developed sophisticated frameworks for evaluating director fiduciary duties, change-of-control transactions, and minority squeeze-outs.<sup>35</sup>

Both jurisdictions have implemented foreign investment review mechanisms addressing national security concerns, though with different scopes and triggers. India's Press Note 3 of 2020 requires prior government approval for all foreign direct investment from countries sharing land borders with India. The US Foreign Investment Risk Review Modernization Act (FIRRMA) of 2018 takes a more nuanced, risk-based approach, with the Committee on Foreign Investment in the United States (CFIUS) focusing on transactions involving critical technologies, critical infrastructure, and sensitive personal data.<sup>36</sup>

India imposes prescriptive pricing guidelines for share transfers involving non-residents under FEMA regulations. The US imposes no comparable pricing restrictions for private M&A transactions, relying instead on market forces and fiduciary duties of directors and controlling shareholders. This fundamental difference means India requires regulatory compliance with prescribed valuation methodologies, while the US relies on negotiated outcomes subject to ex-post judicial review.

#### **4.2 Lock-in Requirements, Disclosure Frameworks, and Antitrust Review**

India imposes mandatory statutory lock-in periods for various shareholder classes, while the US has no statutory lock-in periods, though underwriters universally require contractual lock-

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<sup>35</sup> GT Law Amsterdam L. Blog, Exit Provisions in Joint Venture & Shareholder Agreements: Lessons to Be Learned Looking Across the Ocean (June 30, 2020), <https://www.gtlaw-amsterdamlawblog.com/2019/04/exit-provisions-in-joint-venture-shareholder-agreements-lessons-to-be-learned-looking-across-the-ocean/>.

<sup>36</sup> Nat'l Law Rev., "India v. The U.S.: International Investment Regulation Through the Lens of National Security" (Aug. 10, 2021), <https://natlawreview.com/article/international-investments-regulations-through-lens-national-security-how-us-differs>

up agreements subject to negotiation. Both jurisdictions require comprehensive disclosure, though the US framework historically provided more granular financial disclosure requirements, while India has progressively enhanced its standards toward international convergence.

India's Competition Commission reviews transactions meeting asset or turnover thresholds, with statutorily defined timelines (210 days maximum) and recent "green channel" introduction for automatic approval of non-problematic transactions.<sup>37</sup> The US Hart-Scott-Rodino (HSR) Act requires filings for transactions exceeding size thresholds, with initial 30-day waiting periods extendable via Second Requests. The Federal Trade Commission (FTC) and Department of Justice (DOJ) have adopted increasingly aggressive postures toward PE transactions, particularly "roll-up" strategies and serial acquisitions in fragmented industries.

## **5. Impact on Timing and Strategic Exit Planning**

### **5.1 Temporal Dimensions and Holding Period Trends**

Exit timing constitutes one of the most critical dimensions of PE/VC value creation, directly determining realized returns irrespective of operational improvements achieved during holding periods. Average holding periods have extended significantly across both jurisdictions. Venture-backed company exits averaged 6.3 years from first VC investment as of 2024, up from 4.6 years in 2005, while private equity holding periods have stretched even more dramatically, with approximately 9,500 portfolio companies acquired since 2015 still held by PE sponsors as of 2024, half held for more than 5.7 years.

India's framework imposes multiple temporal constraints. Lock-in periods for promoters (18 months) and pre-IPO shareholders (6 months) directly constrain liquidity post-IPO. Regulatory approval timelines vary significantly: non-sensitive sectors with automatic route approval close in 4-6 weeks, regulated sectors requiring ministry approval take 8-20 weeks, sensitive sectors requiring security clearance extend to 4-6 months.<sup>38</sup> The US framework generally provides greater temporal flexibility, with most constraints arising from contractual arrangements rather

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<sup>37</sup> Nishith Desai Associates, Disputes in Private Equity: Assessing the Enforceability of Investor Exit Rights in India (Jan. 29, 2024), <https://www.nishithdesai.com/research-and-articles/hotline/private-equity-corner/disputes-in-private-equity-assessing-the-enforceability-of-investor-exit-rights-in-india-14896>

<sup>38</sup> Cyril Amarchand Mangaldas, New Delisting Regime: Key Highlights (Mar. 12, 2025), <https://corporate.cyrilamarchandblogs.com/2024/09/new-delisting-regime-key-highlights/>.

than regulatory mandates. Dividend recapitalization execution can be completed in 6-10 weeks once lender commitments are secured, providing rapid partial liquidity.

## **5.2 Market Timing, Fund Lifecycle Pressures, and Strategic Frameworks**

India's market exhibits strong correlation between exit activity and benchmark index performance, with open market exits and IPOs surging when Nifty 50 and Sensex approach highs. The US market demonstrates lower correlation between PE exit activity and overall indices, with exits continuing during market softness through strategic sales and secondary transactions.

PE/VC fund structures typically comprise 10-year terms with optional 1-2 year extensions, and LP pressure intensifies as funds age, with distributions-to-paid-in capital (DPI) becoming critical performance metric beyond IRR, requiring timely exits to demonstrate fund viability and support successor fund fundraising.<sup>39</sup> Effective exit planning integrates multiple time horizons and contingency pathways, addressing target exit pathway identification, target holding period based on value creation thesis, key value inflection points, and regulatory approvals likely needed with typical timelines.<sup>40</sup>

## **6. Cross-Jurisdictional Lessons for PE/VC Funds**

### **6.1 Lessons from India's Regulatory Evolution**

India's regulatory trajectory since 2017 offers instructive lessons applicable to other emerging markets. Progressive liberalization with safeguards demonstrates how emerging markets can enhance foreign investment attractiveness while maintaining strategic control, evidenced by India's gradual FDI liberalization balanced with national security reviews.<sup>[^94]</sup> Continuation funds adoption illustrates rapid institutional learning from Western practices, with ChrysCapital's landmark transaction demonstrating emerging markets can quickly adopt sophisticated mechanisms when regulatory frameworks permit.<sup>[^95]</sup> However, challenges remain, including regulatory coordination complexities and tax policy instability affecting cross-border structures.<sup>41</sup>

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<sup>39</sup> Fenancio, *supra* note 1.

<sup>40</sup> EY, *Private Equity and Venture Capital Trendbook 2025*, *supra* note 2.

<sup>41</sup> Khaitan & Co., *supra* note 19.

## 6.2 Lessons from US Market Maturity

The US PE/VC exit landscape provides valuable lessons regarding market evolution and institutional development. Multiple exit pathway redundancy demonstrates that mature markets benefit from diversified options reducing dependence on any single mechanism. Dividend recapitalization prevalence illustrates how developed credit markets enable partial liquidity mechanisms unavailable in markets with less sophisticated institutional lending. Regulatory restraint through judicial review shows that checks on regulatory overreach can emerge from judicial branches.

## 6.3 Structuring Investments for Exit Flexibility

Funds operating across jurisdictions must structure initial investments with exit flexibility in mind. Optimal holding structure considerations include whether to use Mauritius/Singapore holding companies for India investments balancing treaty benefits against GAAR risks and substance requirements, whether to employ parallel US and offshore funds enabling different exit timing by investor base, and whether to utilize convertible instruments providing optionality regarding equity versus debt characterization. Sophisticated PE/VC funds develop institutional capabilities for managing multi-jurisdictional regulatory approvals through parallel processing strategies, pre-filing engagement, and regulatory approval insurance and reverse break fees allocating denial risk between buyers and sellers.<sup>42</sup>

## 7. Conclusion

This comprehensive examination of exit mechanisms in India and the United States reveals fundamental differences in regulatory philosophies, institutional frameworks, and market dynamics that profoundly shape private equity and venture capital exit strategies. India's evolving regulatory landscape, characterized by progressive liberalization balanced with strategic control, offers growing sophistication in exit pathways including robust IPO markets underpinned by SEBI's landmark ICDR amendments, emerging continuation funds and GP-led secondaries gaining institutional acceptance, deepening secondary markets providing interim liquidity, and gradual FDI liberalization potentially expanding the buyer universe. The surge in PE-backed IPO activity during 2024, with 40 listings generating USD 3.3 billion in offer-for-sale proceeds, demonstrates the effectiveness of regulatory reforms in facilitating exit execution while maintaining investor protection standards.

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<sup>42</sup> EY, Private Equity and Venture Capital Trendbook 2025, supra note 2.

The United States, with its mature institutional framework, provides multiple established exit routes including traditional IPOs, dividend recapitalizations offering partial liquidity without full exits (surging to USD 22.4 billion in early 2025), sophisticated credit markets enabling creative financing solutions, SPACs experiencing measured revival as "SPAC 4.0" with greater discipline, and mature secondary markets with deep institutional buyer pools. The dramatic growth in dividend recapitalizations reflects both the constraints of traditional exit pathways and the flexibility of US capital markets in providing alternative liquidity mechanisms, albeit with attendant risks of increased leverage and potential financial distress.

The comparative analysis underscores that successful cross-jurisdictional PE/VC operations require sophisticated understanding of regulatory timing constraints, strategic structuring of initial investments anticipating exit pathways, institutional capabilities spanning legal expertise and market relationships, and strategic agility adapting to evolving market conditions. As both jurisdictions continue their distinct but increasingly interconnected evolutionary paths, several emerging trends warrant attention: continuation funds and GP-led secondaries are gaining acceptance in both markets, regulatory convergence pressures through international standard-setting bodies are creating more predictable frameworks, and technology-enabled execution is accelerating preparation phases and reducing transaction timelines.

PE/VC funds that master the intricacies of each market while leveraging cross-jurisdictional lessons will be best positioned to optimize exit outcomes and deliver superior returns to limited partners. The ongoing regulatory reforms in both jurisdictions will continue to reshape the exit landscape, requiring continuous monitoring and strategic adaptation by sophisticated market participants.