

Strikes in the Gulf changing rules behind India's big-money bets

Synopsis

India Private Equity Investment 2026: Geopolitical risks now shape private equity deal considerations in India. Investors increasingly focus on resilience and supply-chain stability for investments. Capital deployment concentrates on manufacturing and financial services sectors. Export-oriented businesses still attract interest despite US tariff uncertainties. India remains an attractive destination due to its market scale and policy support.

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India Private Equity in 2026: PE deals are changing as ongoing war in the Middle East shifts focus to resilience (AI-generated image)

A missile strike in West Asia rarely stops a private equity (PE) deal in Mumbai. But it can reshape the questions investors ask before signing one.

From freight costs to tariff exposure, geopolitical developments that once sat at the margins of investment committees are now shaping how global and domestic funds deploy capital in India. The result is not a pullback in investment, industry executives say, but a growing emphasis on the R-factor: resilience.

India's private equity market entered 2026 with strong macroeconomic fundamentals, including moderating interest rates, resilient consumption and

continued government spending, according to IVCA-Bain India Private Equity Report 2026.

Even so, investors say geopolitical risks have become a more prominent consideration in private equity decision-making. "Geopolitics used to be one line in a deal memo. Today it has a section of its own," Ankit Kedia, Founder and Lead Investor at Capital-A told ET Online.

Selective capital, not scarce capital

According to an IVCA-Bain report, private equity and venture capital (PE-VC) investments declined approximately 17%, hitting \$36 billion in 2025. Over the year, traditional PE activity contracted around 33%, while VC and growth capital expanded roughly 18%, partially offsetting the PE decline.

The downward trend in PE investment volume is echoed in the Deloitte India supplement to the Asia Pacific Private Equity Almanac, which notes that while overall deal volumes moderated in FY25, investors concentrated capital into fewer but larger, higher-conviction transactions.

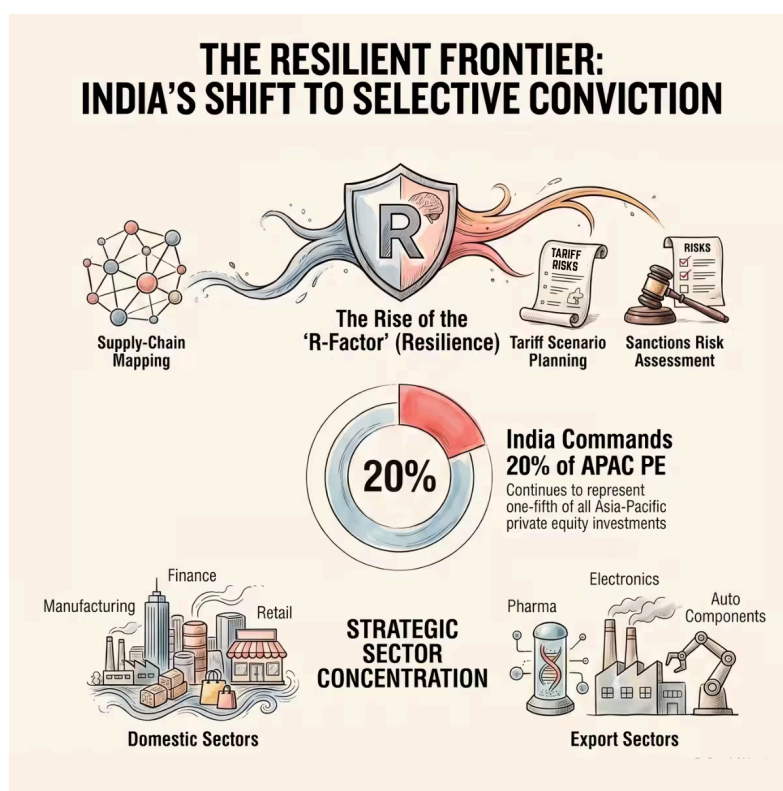
In FY25, deal volumes declined by 8%, however total transaction value increased by 23%.

"Uncertainty doesn't kill deals, it may slow them down and make everyone more selective. But funds are still deploying and good assets will always find buyers," Nidhi Killawala, Partner at Khaitan & Co. told ET Online.

However, India continued to account for around one-fifth of Asia-Pacific PE investments despite broader regional moderation, IVCA-Bain PE report said, indicating that investor interest remains intact even as dealmaking has become more measured.

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India Private Equity in 2026: A quick glimpse on sector concentration of latest PE deals and factors impacting India's big-money bets

Where capital is flowing

The report expects capital deployment in 2026 to remain concentrated in domestically aligned sectors such as manufacturing and industrials, financial services, and consumer and retail — supported by resilient domestic demand, government-led production-linked incentive (PLI) schemes and global supply-chain diversification.

As external risks have become "more front and centre" for financial sponsors, scenario planning and resilience assessments have become an integral part of investment decisions, according to Dhruv Shah, Managing Director and Partner at Boston Consulting Group (BCG).

Export-oriented sectors such as pharmaceuticals, contract development and manufacturing (CDMO), auto components and precision engineering continue to attract investor interest despite tariff-related uncertainty. Electronics manufacturing and medical devices are also drawing attention as India's self-reliance agenda gathers momentum.

At the same time, investors are increasingly backing businesses with "defensive" domestic characteristics, while companies heavily dependent on cross-border supply chains or operating on thin margins are finding capital harder to secure, Killawala said.

Yogesh Singh, Partner at Trilegal, echoed this view, noting that sectors more exposed to global technology spending, tariff uncertainty and valuation resets have witnessed slower investment activity.

How a PE deal itself has changed

PE advisers say due diligence has expanded well beyond financial performance and legal compliance to include supply-chain resilience, tariff exposure, sanctions risks, customer concentration and business continuity planning alongside traditional financial metrics.

Transaction structures are evolving as well.

According to Killawala, investors are increasingly relying on earn-outs, deferred consideration, stronger material adverse change (MAC) clauses and sanctions-related protections to distribute geopolitical risks between buyers and sellers instead of simply discounting valuations.

Founders are now expected to answer basic but critical questions early in the investment process: "Where do your parts come from, where do you sell, and what happens to you if that route shuts on a Monday morning?" Supplier mapping, alternative sourcing strategies and supply-chain contingency planning, Kedia said, have become standard components of due diligence rather than optional exercises.

The legal scrutiny has also widened. According to Trilegal's Singh, investors are now evaluating sanctions compliance, payment flows, shipping routes, raw-material availability, energy cost pass-through and regulatory approvals much earlier in transactions. Foreign investment screening, merger-control thresholds and beneficial ownership assessments are also assuming greater importance in cross-border deals.

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Why India remains attractive despite the risks

The IVCA-Bain report points to sustained investor confidence in India as a PE destination. KKR has indicated plans to deploy up to \$20 billion in India over the coming decade, while Temasek's India exposure has reached around \$50 billion with further expansion planned. Domestic fundraising has also strengthened, led by ChrysCapital's \$2.2-billion Fund X, the largest India-focused private equity fund raised to date.

At the same time, limited partners (LPs), or institutional investors who provide capital to PE funds, are placing greater emphasis on distributions, exit visibility and fund managers' execution capabilities, reflecting a more performance-oriented investment environment.

For many investors, India's growing role in global supply chains has moved beyond a temporary China+1 opportunity.

"We see it as structural rather than a moment," said Kedia, adding that India is evolving from being viewed as a hedge

against China into a genuine manufacturing alternative, supported by PLI-led capacity expansion, a maturing components ecosystem and founders increasingly building businesses for global markets.

"The move from India as a hedge to India as a real alternative is what makes us treat this as structural," he said, while cautioning that India must continue strengthening component-level manufacturing, precision engineering capabilities and skilled talent to retain that advantage.

Industry participants say export-oriented manufacturing continues to benefit from this shift. They believe India's combination of domestic demand and policy continuity continues to distinguish it from other emerging markets.

Singh said India remains an attractive destination because of its market scale, manufacturing depth, digital infrastructure, improving exit avenues and policy support. At the same time, he added that India's regulatory framework has evolved alongside geopolitical developments, with changes to foreign investment screening, merger control thresholds and beneficial ownership rules making regulatory preparedness an increasingly important part of transaction planning.

What investors are doing differently

"Geopolitical risks have shifted from being viewed as external macroeconomic events to becoming core investment considerations during private equity decision-making," said Nishesh Dalal, Partner and Private Equity Leader, South Asia, Deloitte.

The Deloitte India report argues that investors are taking a more active role in operational transformation, governance improvements and long-term value creation. Although exit volumes declined in FY25 trade sales surged, suggesting investors are prioritising valuation discipline over quicker exits.

According to Srinath Srinivasan, Chief Investment Officer, Alternative Markets at Equirus Capital, events such as the Red Sea disruptions, rising freight costs, tariff uncertainty and fluctuating energy prices have changed how investors evaluate businesses. Average private equity cheque sizes have fallen as funds increasingly favour smaller, lower-risk investments over large bets.

In an interview with ET Online, Srinivasan noted that investors are increasingly stress-testing businesses against multiple tariff scenarios rather than relying on a single assumption, while many Indian companies are diversifying towards domestic markets to reduce exposure to global trade volatility.

"The old edge was spotting the right asset; today it is just as often getting the deal past the regulators," Khaitan & Co's Killawala said.

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A more disciplined era for private capital

The defining shift in India's private equity landscape is not that capital has disappeared. Rather, capital has become more discerning.

Yet India's fundamentals continue to attract global capital.

For PE firms, the challenge in 2026 is no longer simply identifying high-growth businesses. It is identifying companies capable of delivering that growth through an increasingly unpredictable world.

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