

PricewaterhouseCoopers India Pvt Ltd

# *MoneyTree<sup>TM</sup>* *India Report*

## Q2 2012

Data provided by Venture Intelligence

*The Q2 2012 MoneyTree<sup>TM</sup> India results are in! This special report provides summary results of Q2'11, Q1 '12, and Q2 '12.*





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# 1. Overview

## ***Dark clouds seek silver lining***

A further 17% drop in deal value over the Q1 '12 figures meant that private equity (PE) investments in Q2 '12 fell below US\$2 billion. IT, Energy and Healthcare contributed to bulk of the deal value during the quarter.

As the global economic environment continued to remain unstable, the sentiment in the Indian market was also glum. Most of the investors spent a considerable amount of time fretting over the tax changes proposed in the February budget and the falling Indian rupee. This created further challenges for funds to exit their existing investments. It came as no surprise then that both the deal values and volumes fell during the quarter. It is not as if the PE funds have stopped looking at deals—on the contrary, funds continue to search for deals, particularly in the IT, healthcare and consumer-centric businesses.

The valuation differences continue and, coupled with higher due diligence cycles and greater scrutiny by the investment committee amid slowing growth means that not many deals are getting consummated. Governance-related issues in PE investee companies have further caused the funds and their investment committees to be cautious.

Q2 '12 saw some buy-out deals, although no one reason can be attributed to this trend. However, one theme exhibited by PE investors in Q2 was their interest in well run Indian businesses and Indian affiliates of overseas corporations which are experiencing financial stress. Such transactions can be expected to continue in Q3 and Q4 of 2012. This trend may be aided by the need for replacement of capital by some businesses whose foreign currency convertible bond (FCCB) obligations are due for redemption during this period.

Another visible trend has been an increase in 'structured' deals, as opposed to traditional growth capital investments by PE funds, which again indicates the lack of confidence that investors have in making traditional PE investments in the Indian market at the moment.

Raising fresh capital has been another challenge for India-focused PE funds as only a handful have desired returns to their limited partners (LP) in the past. The exuberance exhibited by some of the funds during 2007–08 means that there are a limited number of funds chasing investment opportunities in India.

Ironically, this is also the time when the country has the highest need for capital. As we move into the second half of the year, the key question is whether the Indian government will match its recent pro-investment pronouncements with policy actions and whether those actions will excite PE investors and their LPs to invest in India once again.

Any further policy inertia or poor monsoon season would dampen PE investors' appetite for consumer-centric businesses, something which India can ill afford at the moment.

**Sanjeev Krishan**  
Executive Director  
Leader—Private Equity  
PwC India

*\* A note on terms: This report uses the term private equity rather than venture capital but reports on both activities. Please see definitions on page 20 in this edition for further clarification.*

# 2. Analysis of private equity investments

## Total equity investments in PE-backed companies

PE firms invested US\$1,616 million across 97 deals in Q2 '12. Quarterly PE investments decreased by 17% in terms of value, while deal volume fell by 4%, as compared to the previous quarter (Q1 '12).

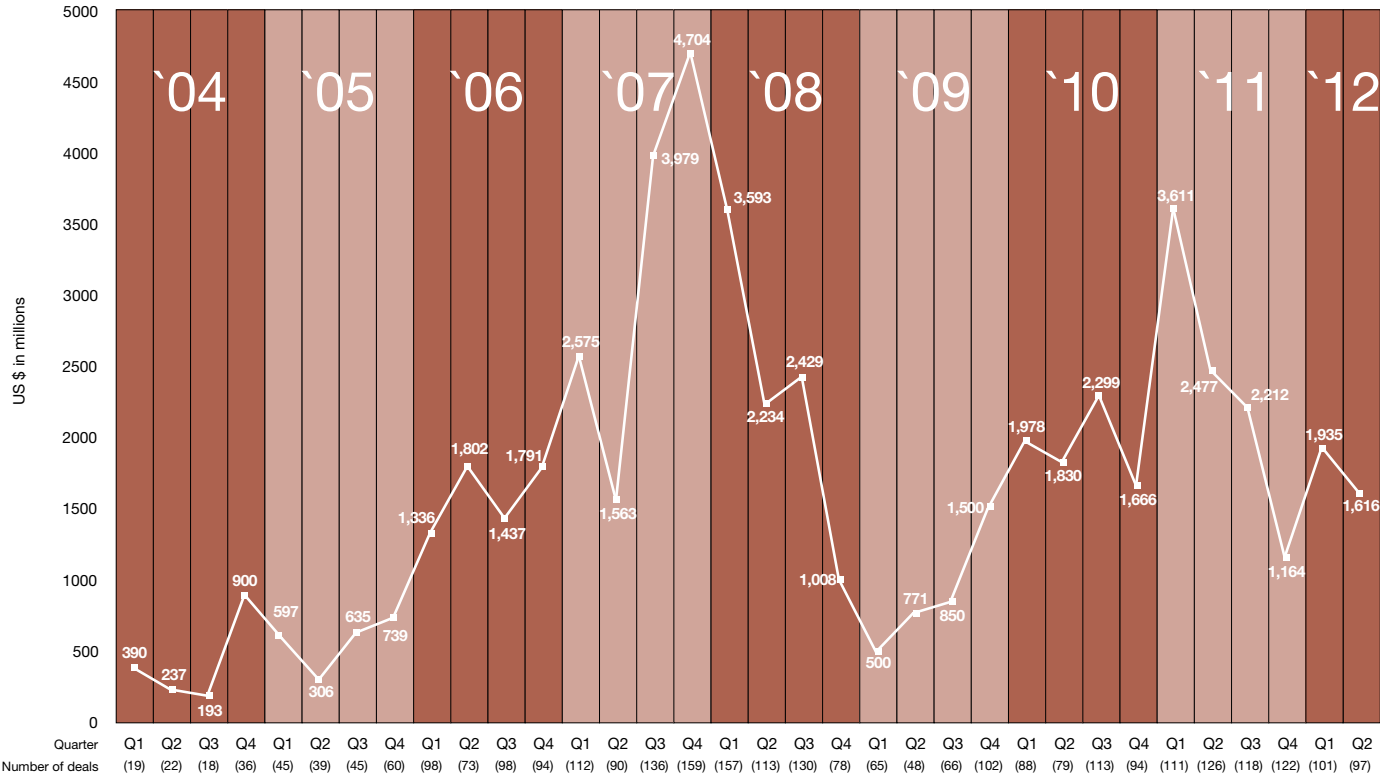
In comparison with Q2'11, there has been a drop of 35% and 23% in value and number of deals respectively.

The IT and ITeS sector emerged as the leader in both value and volume with 38 deals worth US\$321 million in Q2' 12. During this quarter, PE investments in the sector increased by 15% in terms of value while remaining constant in volume as compared to the US\$280 million investment in 38 deals in the previous quarter.

On the other hand, the Education sector recorded a five-fold growth in investments worth US\$71 million in four deals (a significant growth as compared to the US\$13 million investment from the same number of deals in the preceding quarter).

The Energy sector too witnessed a growth of 134% in the value as compared to the previous quarter, largely driven by a single deal. However, there was a fall in the number of deals.

The Healthcare and Life Sciences sector, which saw the highest level of funding in the previous quarter, fell by more than half in this quarter (from US\$506 million to US\$243 million).



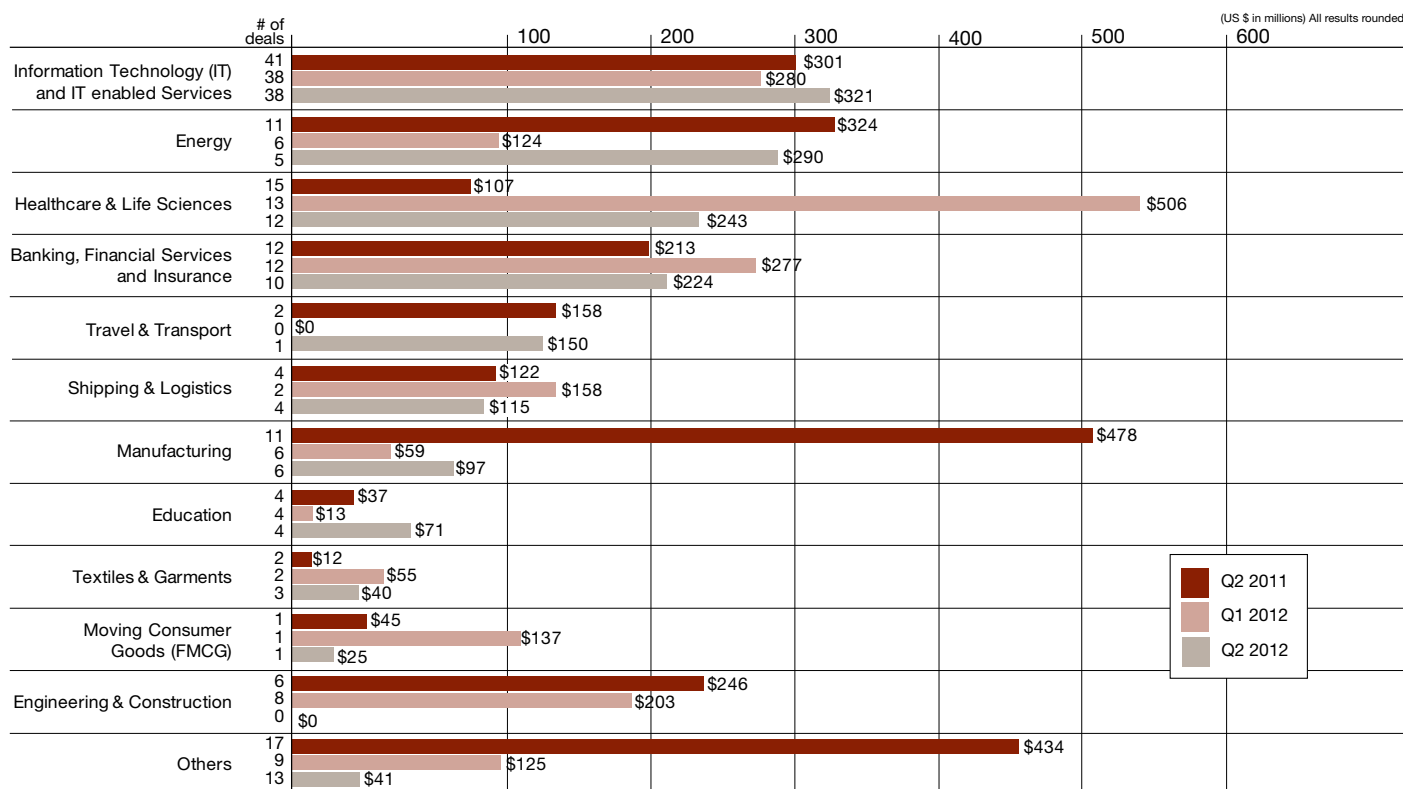
## Investments by industry

Q2 '11, Q1 '12, and Q2 '12

The IT and ITeS sector has seen the highest level of PE funding and the maximum number of deals. It grabbed the lead from the healthcare sector this quarter with investments worth US\$321 million from 38 deals, which constitutes nearly 40% of the total number of deals in this quarter. The average deal size for the sector increased to US\$8 million from US\$7 million in the previous quarter and for the same period last year.

*The IT and ITeS sector receives a significant amount of investment every quarter. In this quarter, a majority of the investments are in the growth and late stages (follow-on rounds) and predominantly in online services companies. With e-commerce in India steadily gaining momentum, online companies are tasting success and are looking to expand their operations.*

**Hari Rajagopalachari,**  
Leader-Technology  
PwC India



Note: Others include Services, Media and Entertainment, Hotels and Resorts, Telecom, Agri-businesses, Food and Beverages, Retail and Mining and Metals.

The PE investment in the Energy sector has more than doubled—to US\$290 million—but there was a marginal decline in the number of deals, from six in Q1 '12 to five in this quarter. The average deal size has increased from US\$21 million in Q1 '12 to US\$58 million in Q2 '12. On the whole, the PE deal volume in this sector trails well behind the last five years' average.

*The PE investment activity in the energy space, although improved over the previous quarter, remains a shadow of previous years. It also continues to be dominated by renewable energy. However, the policy scenario is changing in many states and we believe that the near-term future offers much larger and more diversified opportunities in conventional thermal power, mining services and in power retail supply and distribution.*

**Kameswara Rao**  
Leader-Energy Utilities, and Mining  
PwC India

Even though the Healthcare sector stands third in terms of value, with a US\$243 million investment, and second in number of deals, with 12 deals in Q2 '12, it showed a significant decline of 52% in investment value and 8% in the number of deals.

The Manufacturing sector, after reporting a decline in the previous quarter, recorded growth of 64% in Q2 '12 with an investment of US\$97 million. The Education sector too witnessed a growth in investments from US\$13 million in Q1 '12 to US\$71 million in Q2 '12.

*Lack of public funding, households' willingness to pay for quality education and the government's stance on educational reforms are driving private investment in this sector. Investors have preferred the unregulated space such as test preparation, vocational education and pre-schools. With government encouraging skill and vocational education, this trend is expected to attract more investments. The present system of formal education lags woefully in quality and more companies are expected to bridge this gap with technology, school management, teacher training and finishing schools.*

**Dhiraj Mathur**  
Leader-Education  
PwC India

The Travel and Transport sector, which did not see any investment in the previous quarter, witnessed investments worth US\$150 million this quarter.

Apart from sectors such as the IT and ITeS, Energy, Travel and Transport, Manufacturing and Education, the other sectors witnessed a drop in PE investments in this quarter.

## Investments by stage of development

Q2 '11, Q1 '12 and Q2 '12

For Q2 '12, buyout deals have recorded the highest value—US\$625 million in six deals. In the previous quarter there was not even a single investment during the buyout stage.

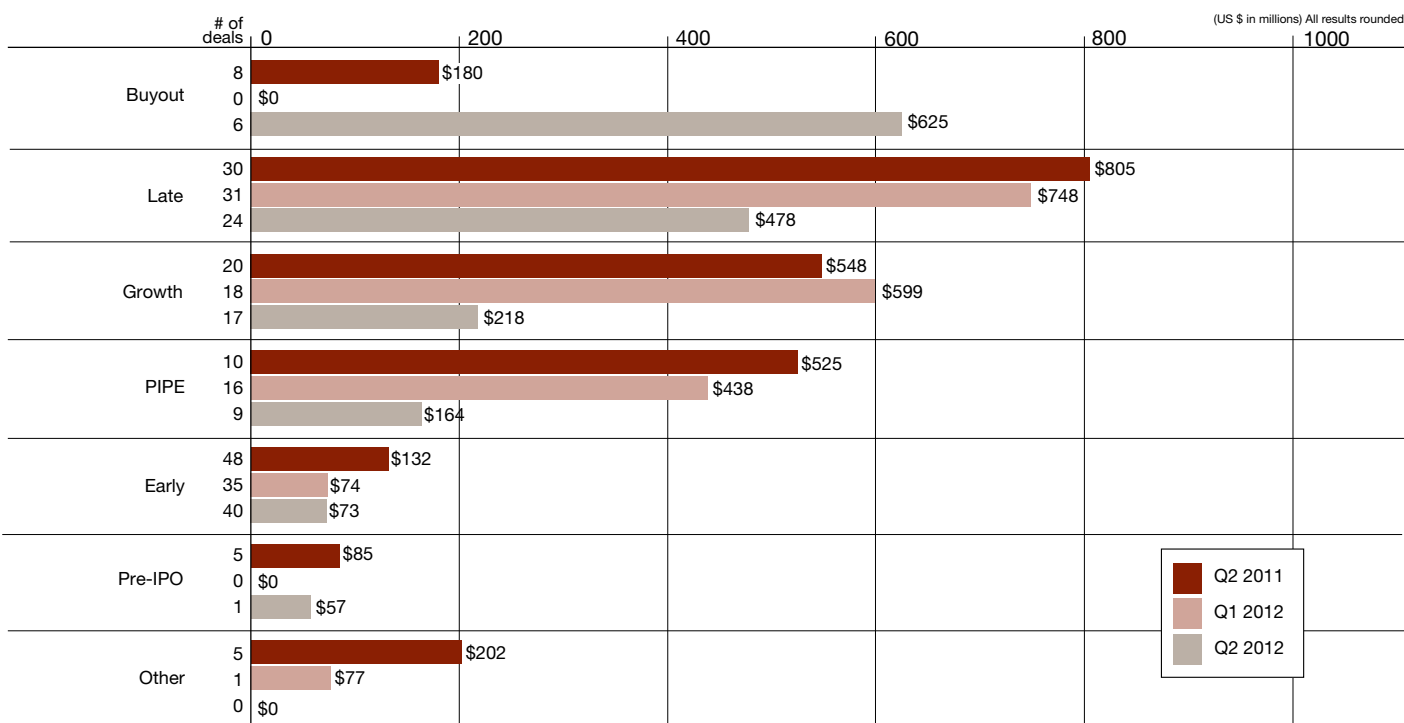
The early stage has seen an increase of 14% in volume (40 deals) this quarter vis-a-vis the previous quarter. However, the investment value has remained flat.

Late-stage deals stand second in terms of investment value, with US\$478 million from 24 deals in Q2 '12, but reflect a decline in terms of both value and volume by 36% and 23% respectively as compared to Q1 '12.

The growth stage deals have declined by 64% and 6% in value (US\$218 million) and number of deals (17) respectively when compared to the previous quarter and a decline of 60% and 15% when compared with the same quarter last year.

PIPE deals have shown a significant decline (62%) in the value of investments in this quarter as compared to the preceding quarter. Even the number of deals have declined by 44% (from 16 deals in Q1 '12 to nine deals in Q2 '12).

This quarter did see a deal in the pre-IPO stage worth US\$57 million in the Healthcare and Life Sciences sector.



Note: Definitions for the stage of development categories can be found in the Definitions section of this report. Growth stage in the above graph includes both growth and growth-PE stages.



## Investments by region

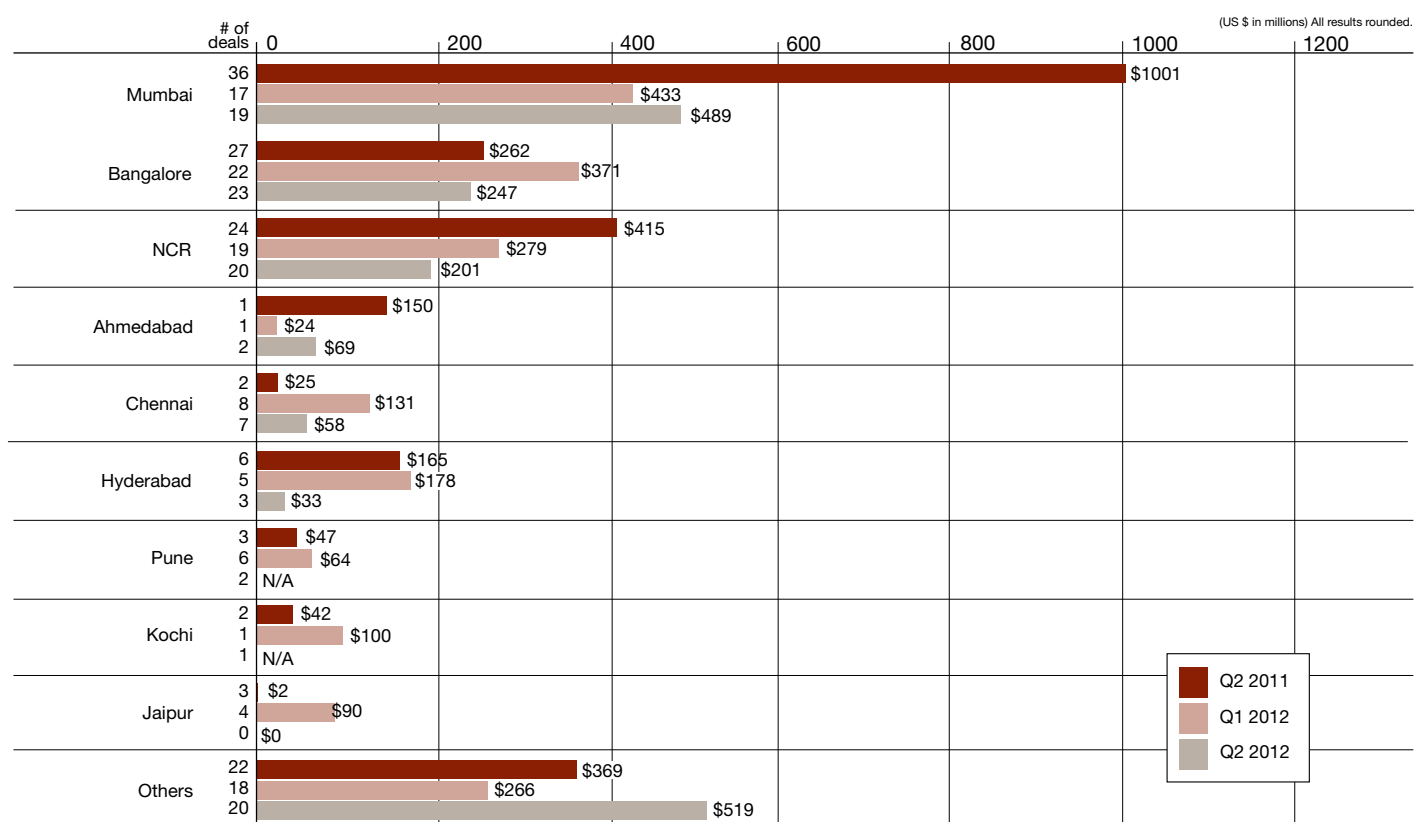
Q2 '11, Q1 '12 and Q2 '12

Mumbai retained its first position this quarter by recording the highest level of funding with US\$489 million (a 30% share of the total PE investments and a 13% increase in terms of value from the previous quarter figure of US\$433 million).

Bangalore has the second highest share with 15% in value of deals and a majority share of 24% in number of deals. It received investments worth US\$247 million from 23 deals—a 33% decline in value as compared to Q1 '12 and a 5% drop when compared to Q2 '11.

NCR received PE investments worth US\$201 million from 20 deals, a decline of 28% and increase of 5% respectively in terms of investment value and volume of deals.

Compared to the last quarter, Ahmedabad has seen the highest growth this quarter—an increase of 188% in value with US\$69 million in two deals.



N/A indicates that this information has not been publicly disclosed.

Note: National capital region (NCR) includes Delhi, Gurgaon and Noida.

## Top 20 PE deals

Q2 '12

The top 20 deals comprise 81% of total deal value in Q2 '12. There are three deals worth US\$100 million and above and eight deals with a value in the range of US\$50 to 100 million. About 56% of the deals in this quarter are below the value of US\$50 million.

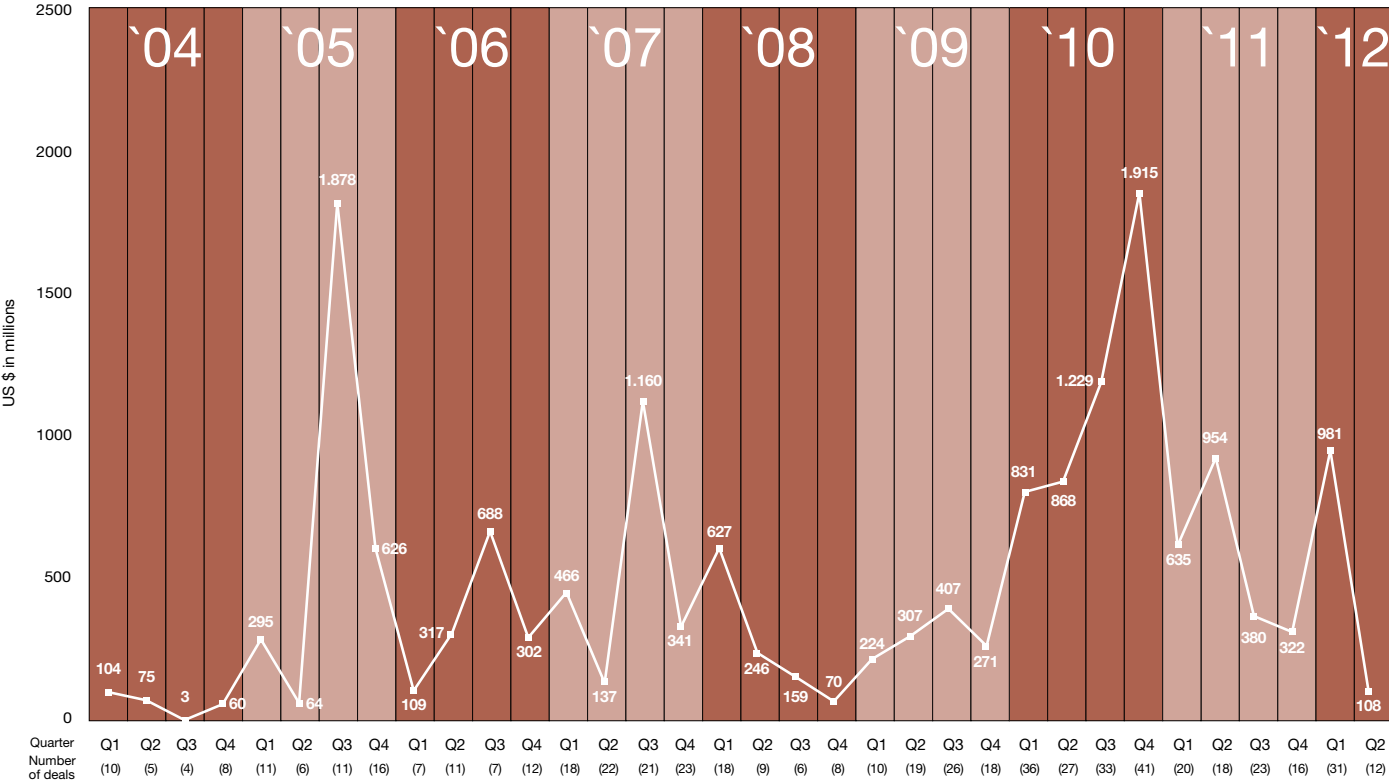
Company	Industry	Investor	Deal amount (US\$ mn)
Continuum Wind Energy	Energy	Morgan Stanley	211
Thomas Cook India	Travel and Transport	Fairbridge Capital	150
Future Capital Holdings	BFSI	Warburg Pincus	125
Omega Healthcare Services	IT and ITeS	TA Associates	93
Super Religare Laboratories	Healthcare and Life Sciences	IFC, NYLIM India	66
Alliance Tire Group	Manufacturing	IFC	65
Avesthagen	Healthcare and Life Sciences	Equity Partners Fund	60
Educomp Solutions	Education	IFC, Mount Kellett, Proparco	60
JustDial	IT and ITeS	Sequoia Capital India, SAP Ventures	60
Intas Pharmaceuticals	Healthcare and Life Sciences	ChrysCapital	57
TVS Logistics Services	Shipping and Logistics	Goldman Sachs, KKR	53
Pubmatic	IT and ITeS	Helion Ventures, Nexus Ventures, DFJ, SVB, August Capital	45
Inox Renewables	Energy	IFC	40
Adigas	Food and Beverages	New Silk Route	38
Karaikal Port	Shipping and Logistics	NYLIM India	38
Karur Vysya Bank	BFSI	Olympus Capital	38
Quikr	IT & ITeS	Warburg Pincus, Norwest, Matrix Partners India, Others	32
Monte Carlo Fashions	Textiles and Garments	Samara Capital	31
Shalivahana Green Energy	Energy	AMP Capital	29
Marico	FMCG	Baring India	25

# 3. Analysis of PE exits

## Total PE exits

The exit activity in this quarter has shown a drastic decline of 89% in terms of value and 61% in terms of volume as compared with the previous quarter. In Q2 '12, the PE exits were worth US\$108 million from 12 deals as compared to Q1 '12 when the exits were worth US\$981 million from 31 deals. When compared to the same period last year, there has been a decline of about 89% in terms of value and 33% in terms of number of deals.

In this quarter, almost 49% of the exits by value have been through public market sale.\* These investments were made between 2003 to 2005 and would have now matured for exit. Out of the 12 deal exits, five of them have been through strategic sale and four of them through secondary sale.



\* A public market sale is the sale of PE or VC investors' equity stakes in a listed company through the public market.

## Exits by industry

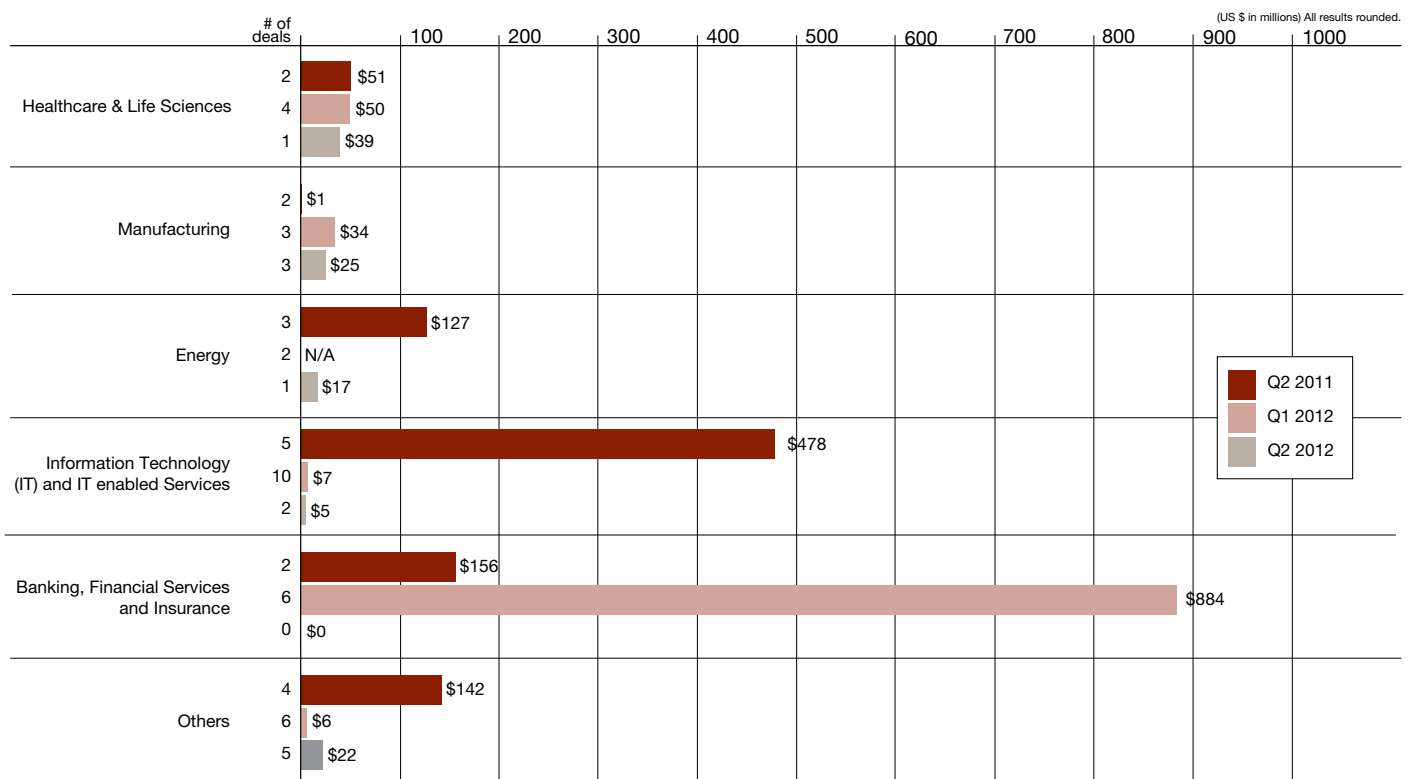
Q2 '11, Q1 '12 and Q2 '12

The Healthcare and Life Sciences sector tops the list for PE exits with a value of US\$39 million from a single deal—constituting 36% of the total deal exit value.

In terms of exit volume, the Manufacturing sector witnessed three exits, the highest across industries in this quarter. Out of the total exits in this sector, two were through strategic sale and one was through public market sale.

The BFSI sector, which topped the list for PE exits in the previous quarter with an exit value of US\$884 million from six deals, did not see a single exit in this quarter.

Among the sectors categorised under 'Others' Shipping and Logistics and the Other Services sector saw two exits each, while Education witnessed one exit worth US\$20 million.



N/A indicates that this information has not been publicly disclosed.

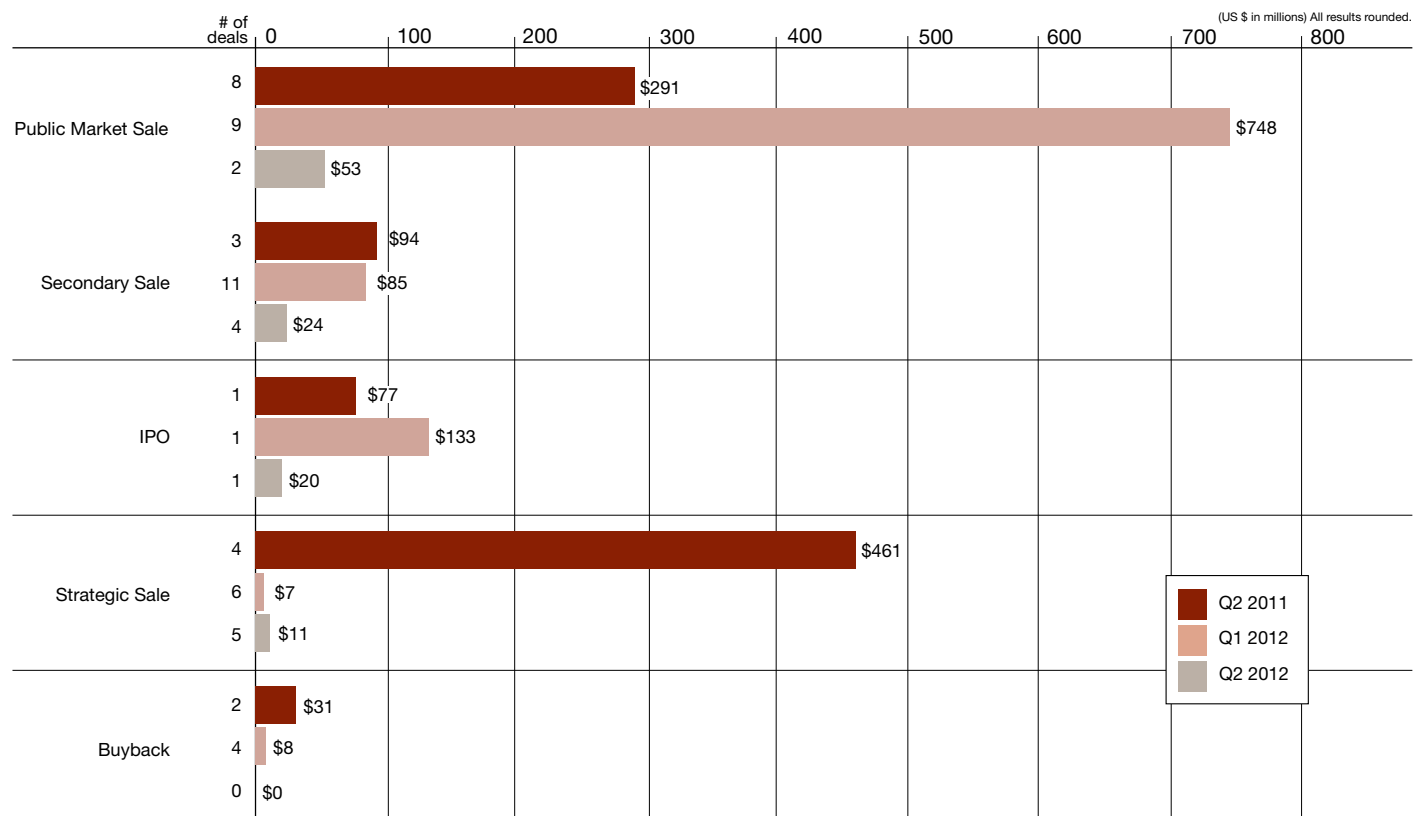
Note: Others include Engineering and Construction, Shipping and Logistics, Textiles and Garments, Agri-business, Other Services, Education, Telecom and Hotels and Resorts.

## Exits by type

Q2 '11, Q1 '12 and Q2 '12

The preferred modes of exits in this quarter have been through strategic (five exits) and secondary sale (four exits). The public market sale fetched the maximum exit value worth US\$53 million (about 49% of total exit value).

This quarter witnessed only one initial public offer (IPO) deal worth US\$20 million. There were no exits through buybacks reported in Q2 '12.



Note: Definitions of the types of exit can be found in the Definitions section of this report.

## Top five PE exits

Q2 '12

The top three exits comprise 70% of the total exit value and the top five constitute close to 94% of the total exit value in Q2 '12.

Company	Industry	PE firm(s)	Deal amount (US\$ mn)
Max India	Healthcare and Life Sciences	Warburg Pincus	39
Mahesh Tutorial	Education	Helix Investments	20
Shalivahana Green Energy	Energy	Axis PE	17
Swaraj Mazda	Manufacturing	Actis	14
Moser Baer	Manufacturing	Warburg Pincus	11

## 4. Active PE firms

Based on the volume of deals, the International Finance Corporation (IFC) emerged as the most active investor in this quarter. Accel India and Blume Ventures shared the second slot with six deals each. The 21 most active PE investors, accounting for nearly 30% of the total private equity deals in the second quarter, are as follows:

<b>Investors</b>	<b>City</b>	<b>No. of deals*</b>
IFC	Delhi	9
Accel India	City	6
Blume Ventures	Mumbai	6
India Quotient	Ahmedabad	5
Helion Ventures	Bangalore	4
Nexus Ventures	Mumbai	4
SAIF	Gurgaon	4
Inventus Capital Partners	Bangalore	3
APG	Hong Kong	2
Baring India	Gurgaon	2
Future Ventures	Mumbai	2
NYLIM India	New Delhi	2
Ojas Ventures	Bangalore	2
Pragati Fund	NA	2
Rocket Internet	NA	2
Ru-Net Holdings	NA	2
Seedfund	Mumbai	2
TA Associates	Mumbai	2
Tiger Global	New York	2
Warburg Pincus	Mumbai	2
Zodius Capital	Mumbai	2

Note: \* Number of deals include both single and co-investments by the private equity firms. In cases where two or more firms have invested in a single deal, it is accounted as one deal against each of the firms.

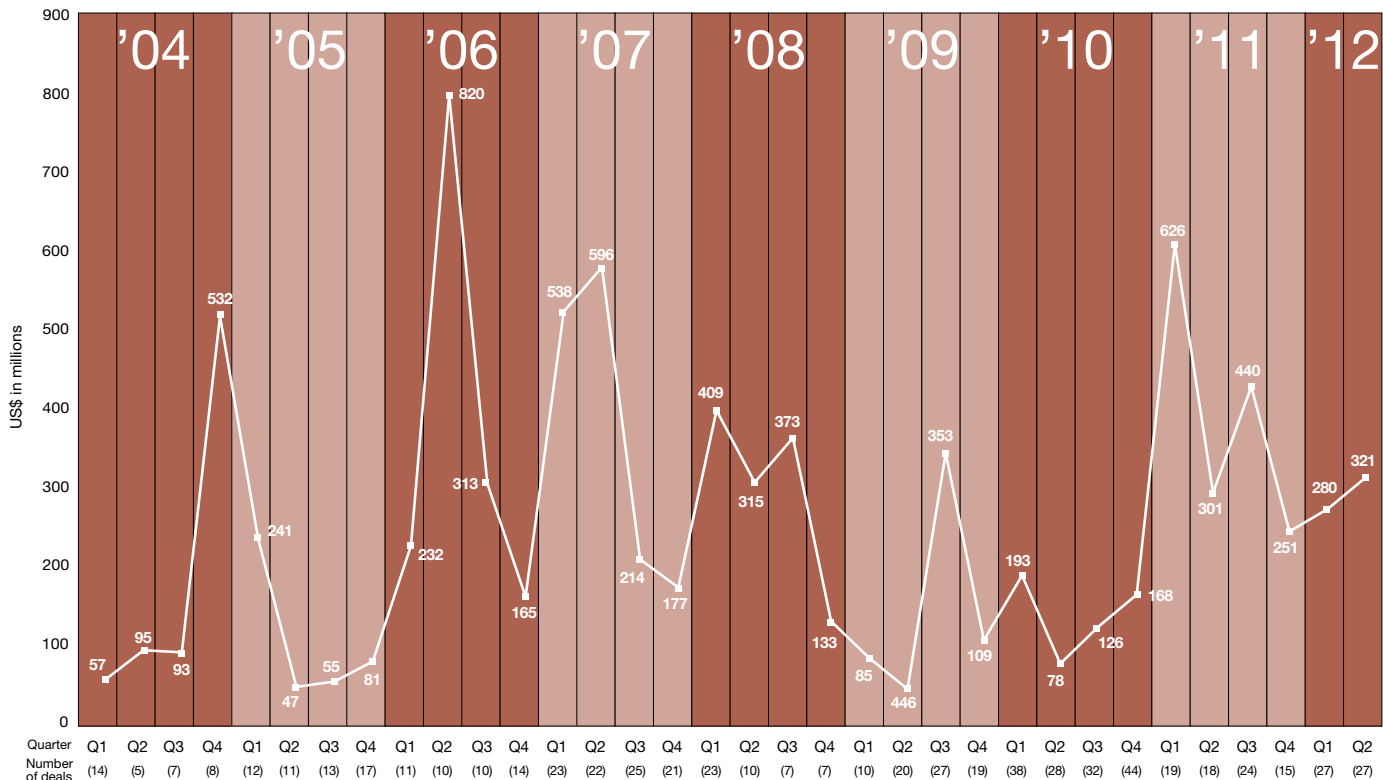
# 5. Sector focus: PE in IT and ITeS

## Total PE investments

The PE funding in the IT and ITeS sector was valued at US\$321 million in 38 deals for Q2' 12, an increase of 15% in value as compared to the last quarter. However, the volume of deals remained flat.

Compared with the same quarter last year, the PE investments in this sector showed an increase of 7% in value, but the number deals dropped from 41 to 38.

The technology sector, in general, sees a large number of early stage deals of smaller value.

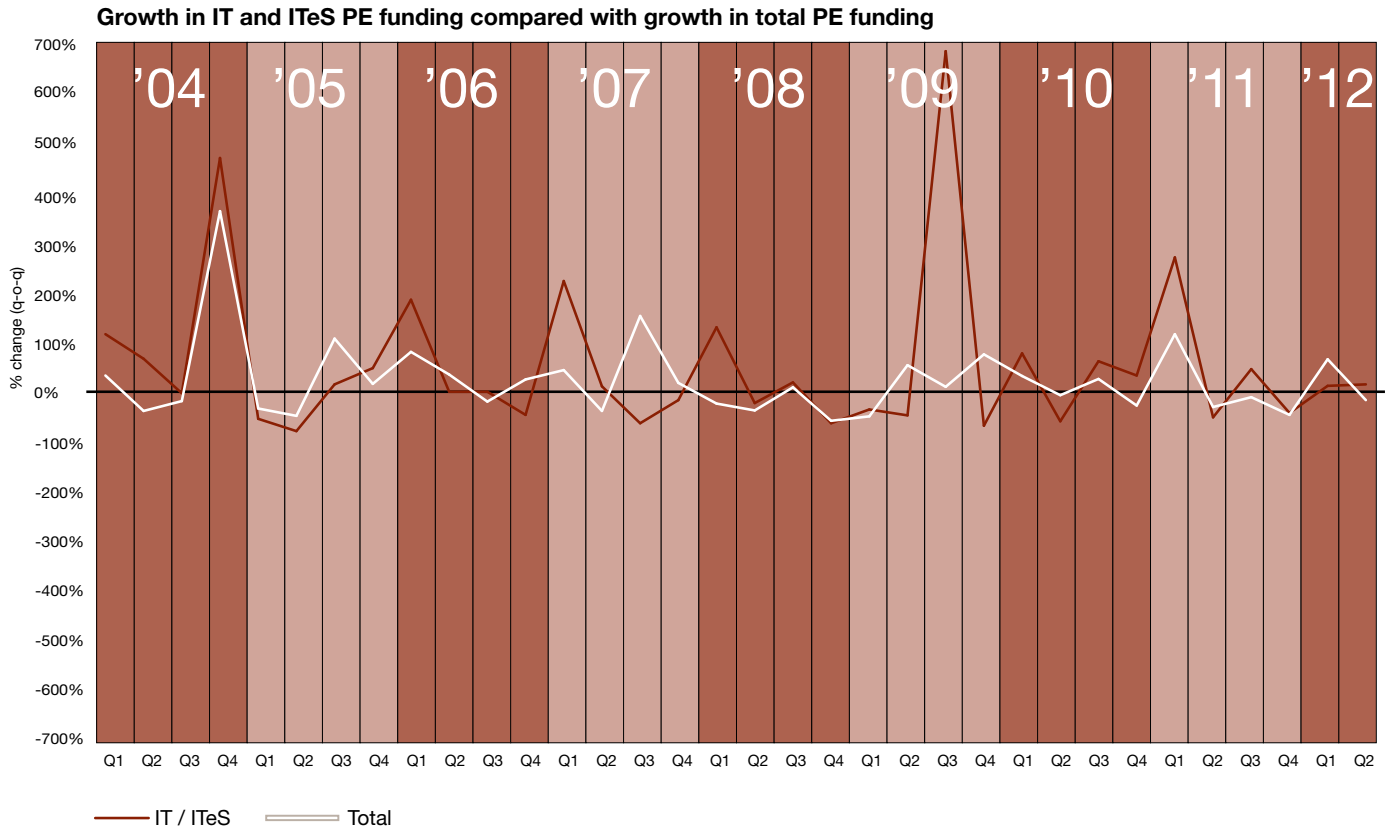


*The Indian technology sector revolutionized the capital markets in India by setting new benchmarks for growth, profitability and governance. The sector has shown an ability to use disruptions to its advantage---the Internet revolution created the global service delivery model, the Y2K wave reduced the cost of new client acquisition and set the stage for master services agreements and transformational multi-year IT deals and the quality revolution helped it maintain its edge. The sector retains its allure for PE investors. The sector's response to the emergence of next-generation technology disruptions such as cloud computing, analytics, consumerization of technology, social media, mobility and software product innovation and development will be watched with deep interest.*

**Hari Rajagopalachari,**  
*Leader-Technology*  
*PwC India*



A comparison between quarter-on-quarter growth rates of the IT and ITeS PE investments and the total PE investments reflects that the IT and ITeS sector funding has outpaced the growth in total PE funding in most quarters over the last eight years.

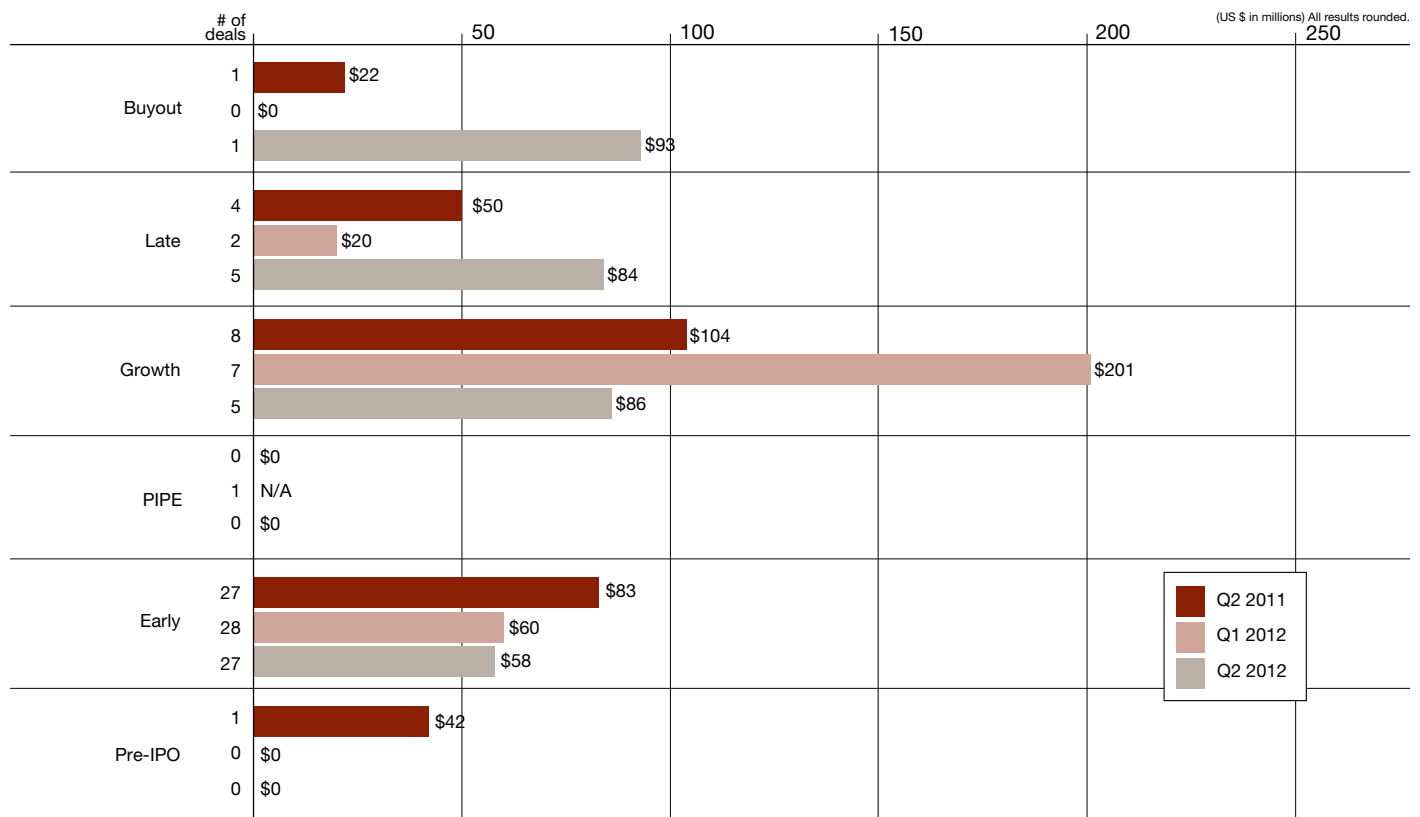


## Investments by stage of development

Q2 '11, Q1 '12 and Q2 '12

As reported in the previous edition of the report, the IT and ITeS sector typically witnesses large volumes of deals but with low value. Since many of the IT and ITeS companies do not require significant amounts of start-up money, we see a large number of low-value deals in the early stage. In this quarter, there were 27 deals worth US\$58 million in the early stage, with an average deal size of a little over US\$2 million.

The late and growth stage deals saw an investment of US\$84 million and US\$86 million respectively in five deals each, taking the average deal size to approximately US\$17 million. PIPE and pre-IPO deals are a rarity in this sector.



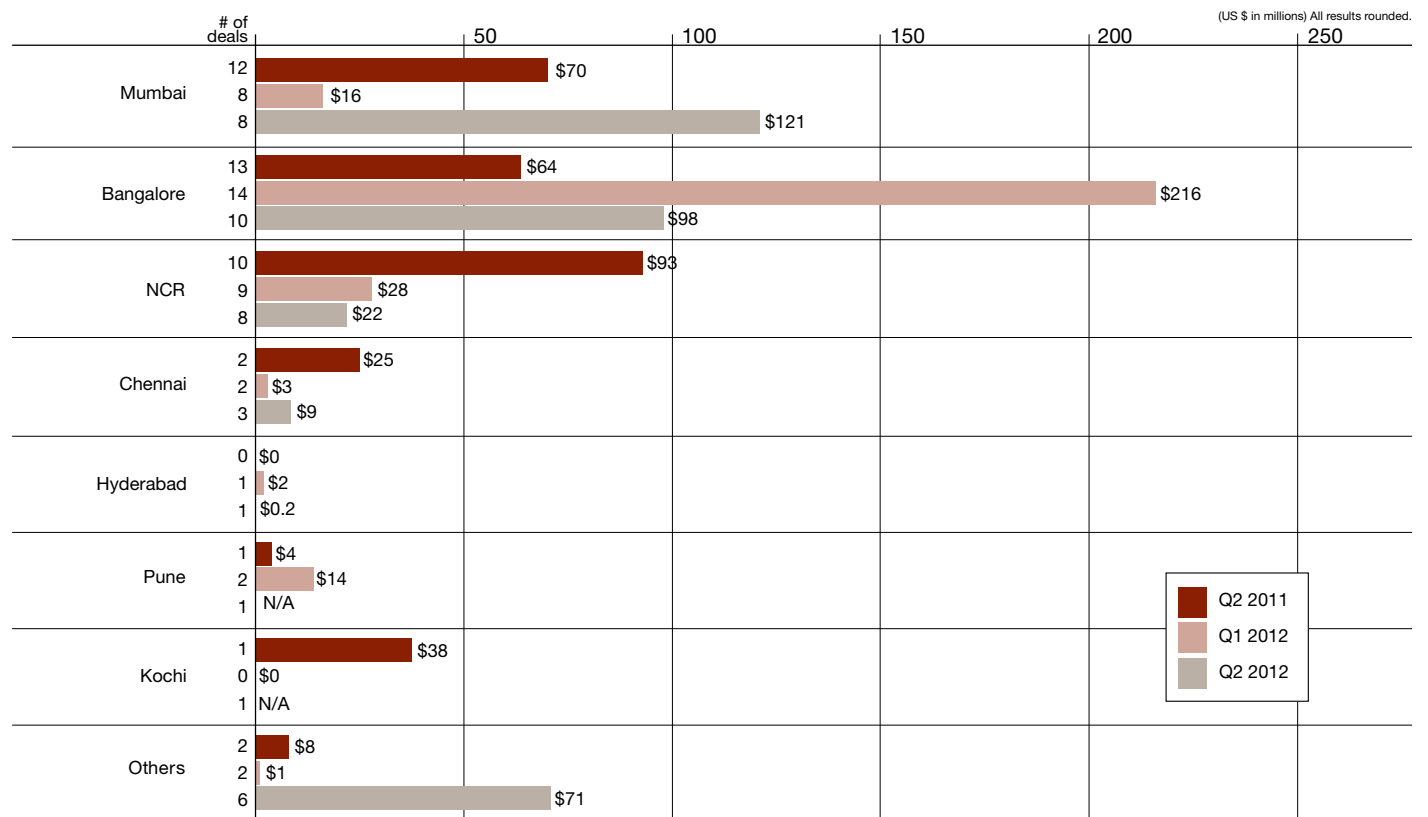
N/A indicates that this information has not been publicly disclosed.

Note: Definitions of the stage of development categories can be found in the Definitions section of this report. Growth stage in the above graph includes both growth and growth-PE stages.

## Investments by region

Q2 '11, Q1 '12 and Q2 '12

Mumbai received the highest value of investment in Q2 '12—US\$121 million in eight deals. Bangalore stands second with investments worth US\$98 million in 10 deals, which is the highest in terms of volume of deals. The other major regions—NCR and Chennai—saw investments worth US\$22 million and US\$9 million in eight and three deals respectively.



N/A indicates that this information has not been publicly disclosed.

Note: National Capital Region (NCR) includes Delhi, Gurgaon and Noida.

## Investments by sub-segments

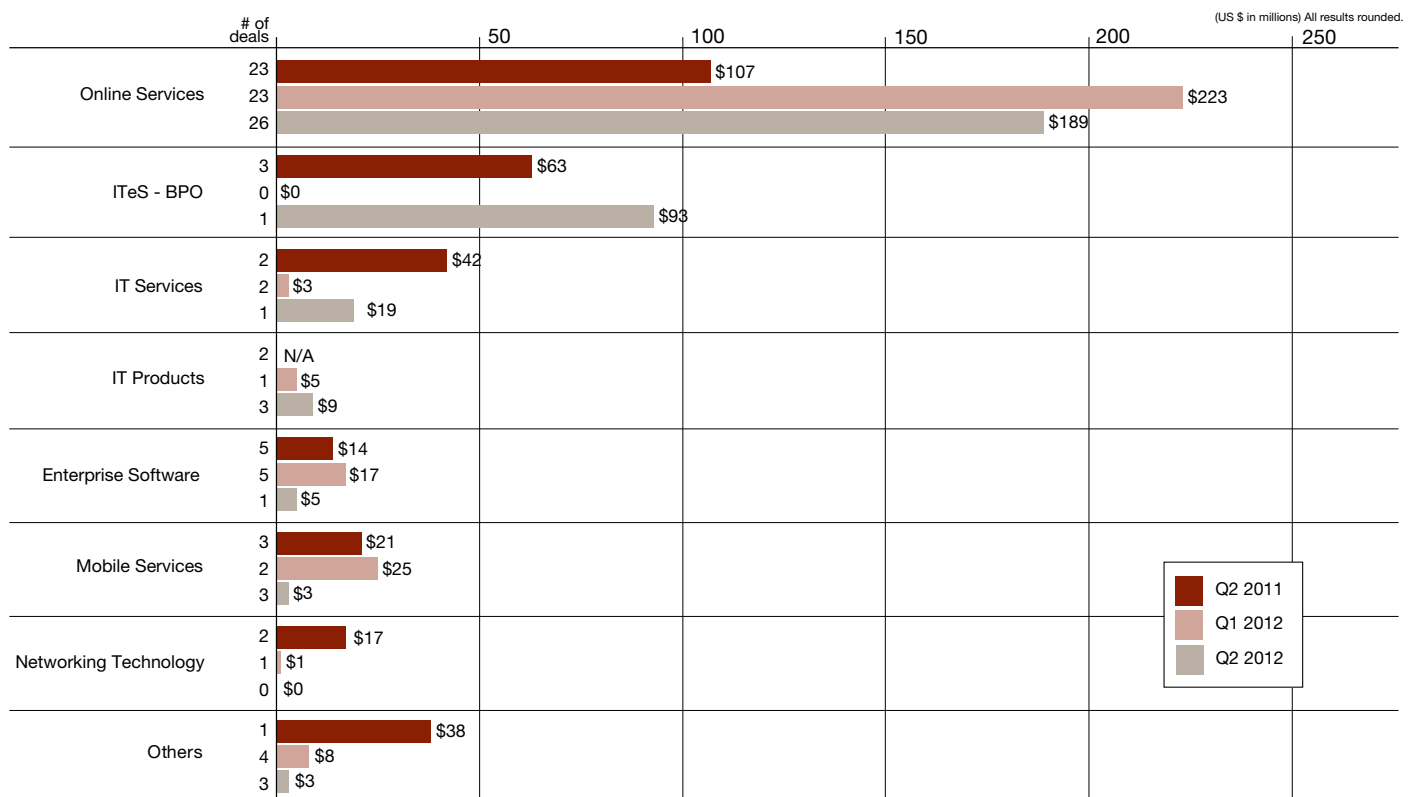
Q2 '11, Q1 '12 and Q2 '12

The Online Service segment emerged as the clear winner both in terms of value and number of deals over the past few quarters. The segment, on most occasions, witnessed the highest level of PE funding within the IT and ITeS sector. In this quarter, the Online Services segment saw investments of US\$189 million in 26 deals—a 15% drop in terms of value as compared to Q1 '12.

*Following the dotcom crash, many PE firms refrained from investing in online service companies. Instead, they started to invest in other segments of the technology sector such as IT services and ITeS-BPO. However, with many companies in these segments now past the high-growth stage, investors are again looking at online services companies—which are currently in their growth stage and looking to expand their operations.*

**Hari Rajagopalachari**  
Leader-Technology  
PwC India

The ITeS-BPO and the IT Services segments follow with investments of US\$93 million and US\$19 million.



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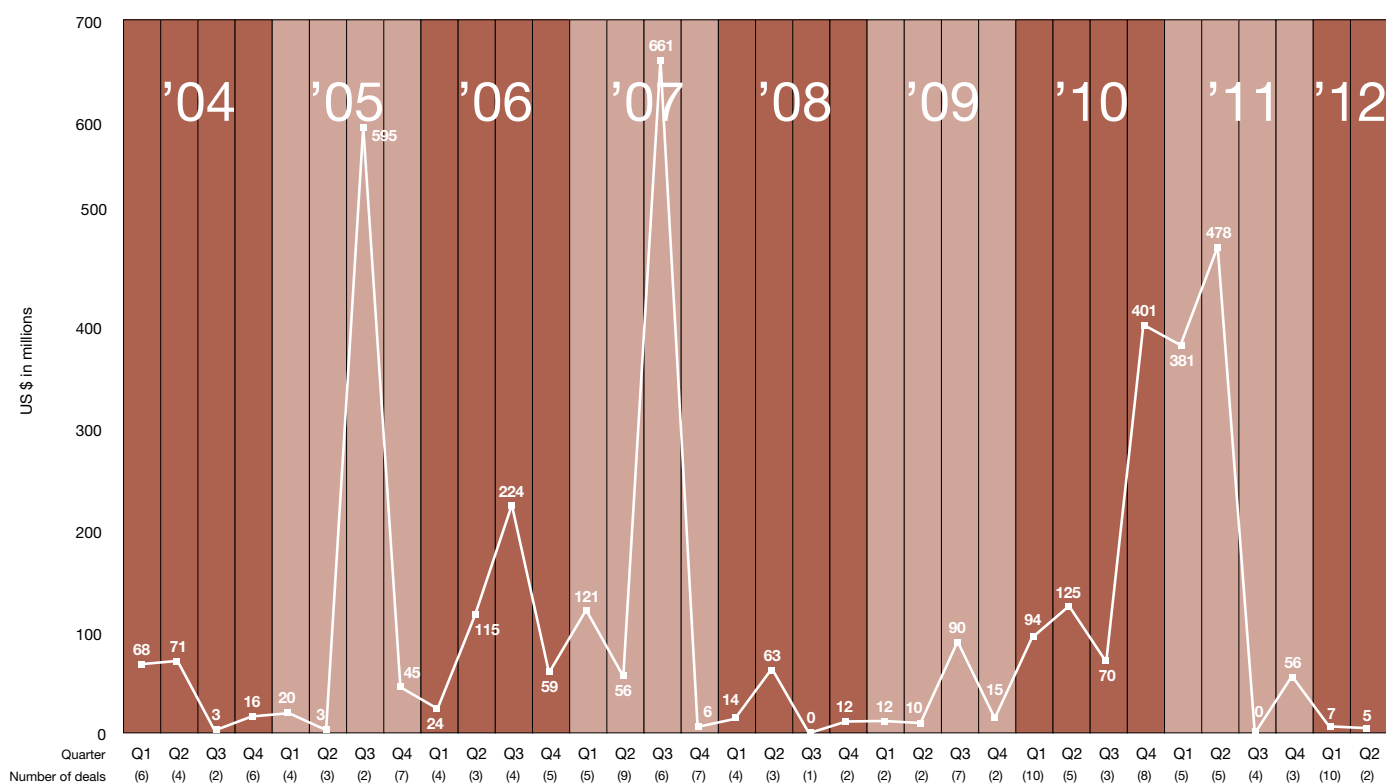
## PE exits in the sector

Q2 '11, Q1 '12 and Q2 '12

The IT and ITeS sector saw only two exits worth US\$5 million in Q2 '12—a decrease of 80% in terms of volume and 26% in value as compared to the preceeding quarter. For the same period last year, i.e., Q2 '11, the sector had five exits worth US\$478 million.

In general, the majority of exits in this sector is through strategic sale. Of the two exits in this quarter, one of them was through strategic sale and the other was through secondary sale.

Both the exits in this quarter were in the IT Services segment. In the previous quarter, five out of the 10 exits were in the Online Services segment, two each in the IT Services and the ITeS-BPO segments and one in the Enterprise Software segment.



# Definitions

## Stages of development

### Early stage: First or second round of institutional investments in companies that are as follows:

- Less than five years old, AND
- Not part of a larger business group, AND
- Investment amount is less than US\$20 million

### Growth Stage:

- Third or fourth round funding of institutional investments OR
- First or second round of institutional investments for companies that are more than five years old and less than 10 years old OR spin-outs from larger businesses, AND
- Investment amount is less than US\$20 million

### Growth stage—PE:

- First or second round investments of more than US\$20 million, OR
- Third or fourth round funding for companies that are more than five years old and less than 10 years old OR subsidiaries/spin-outs of larger businesses, OR
- Fifth or sixth rounds of institutional investments

### Late stage:

- Investment into companies that are over 10 years old, OR
- Seventh or later rounds of institutional investments

### PIPEs:

- PE investments in public-listed companies via preferential allotments or private placements, OR
- Acquisition of shares by PE firms via the secondary market

### Buyout:

- It is an acquisition of controlling stake via purchase of stakes of existing shareholders.

### Buyout—large:

- This includes buyout deals of US\$100 million or plus in value.

### Other:

- This includes PE investments in special purpose vehicle (SPV) or project-level investments.

## Types of PE exits

### Buyback:

- This includes purchase of the PE or VC investors' equity stakes by either the investee company or its founders or promoters.

### Strategic sale:

- It includes sale of the PE or VC investors' equity stakes (or the entire investee company itself) to a third party company (which is typically a larger company in the same sector)

### Secondary sale:

- Any purchase of the PE or VC investors' equity stakes by another PE or VC investors constitutes secondary sale

### Public market sale:

- This includes sale of the PE or VC investors' equity stakes **in a listed company** through the public market.

### Initial public offering:

- Sale of PE or VC investors' equity stake **in an unlisted company** through its first public offering of stock

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