

Deals in India: Mid-year review and outlook for 2021 – resilience and recovery

July 2021

A close-up photograph of two people in business attire shaking hands. The person on the left is wearing a dark suit, and the person on the right is wearing a light blue shirt and a dark jacket. The background is blurred, suggesting an office setting.

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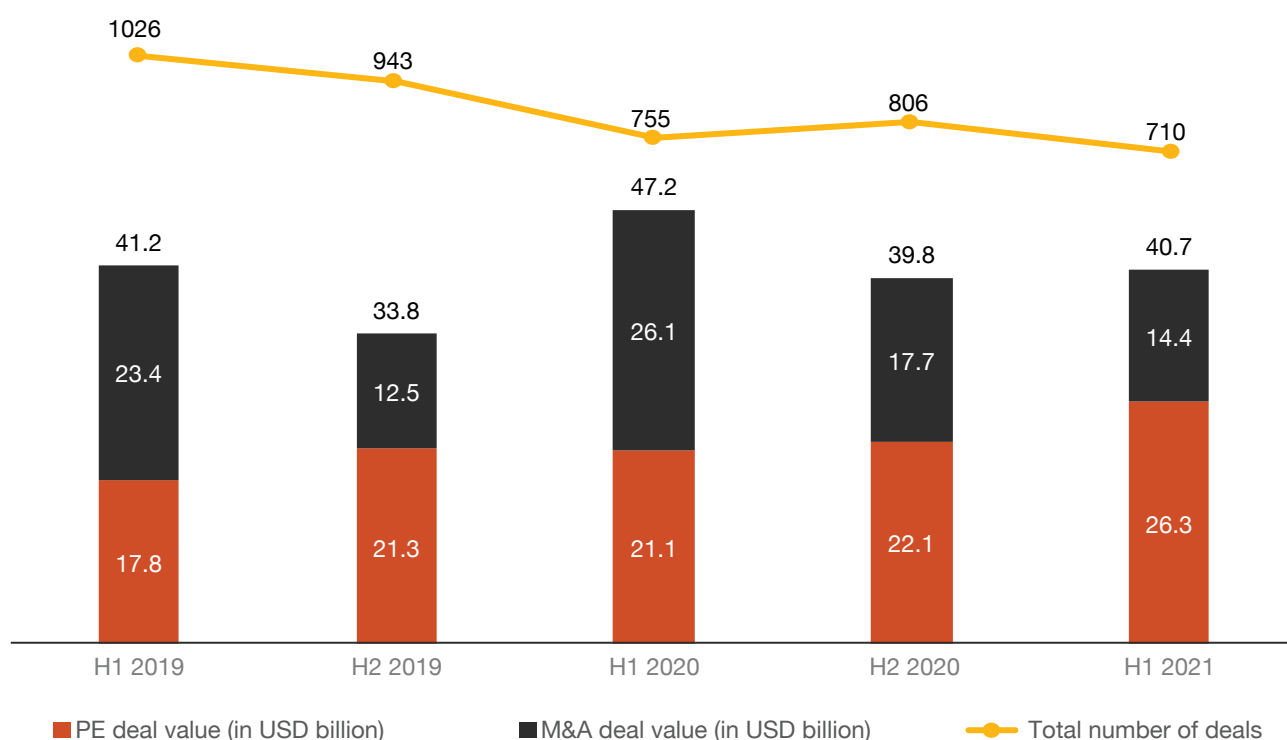
The COVID-19 pandemic caused significant uncertainty in 2020, further compounded by global trade tensions, regulatory pressures, geopolitical issues and the US presidential transition. However, deal activity in 2020 nearly retained momentum with the previous year despite these challenges.

The investor community was optimistic about recovery and stability in 2021, hoping that the worst of the pandemic was over. However, a second wave of infections resulted in lockdowns across states, thereby hampering ongoing deal activities. Despite the impact, deal activity in H1 2021 (refers to the period from 1 January 2021 to 15 June 2021) amounted to USD 40.7 billion across 710 deals, including both private equity (PE) and strategic acquisitions (M&A). Various timely policy and credit measures announced by the Government of India (GoI) to revive the economy and make it more resilient, and a stable banking system, have resulted in the growth of positive sentiments within the investor community.

Key themes emerging in 2021 due to the uncertainty are – growing divergence in asset valuations, the acceleration of deals in digital and technology, and increasing attention to environmental, social and governance (ESG) matters.



Deal activity in India



Source: Venture Intelligence (PE), VCCEdge (M&A) and PwC analysis

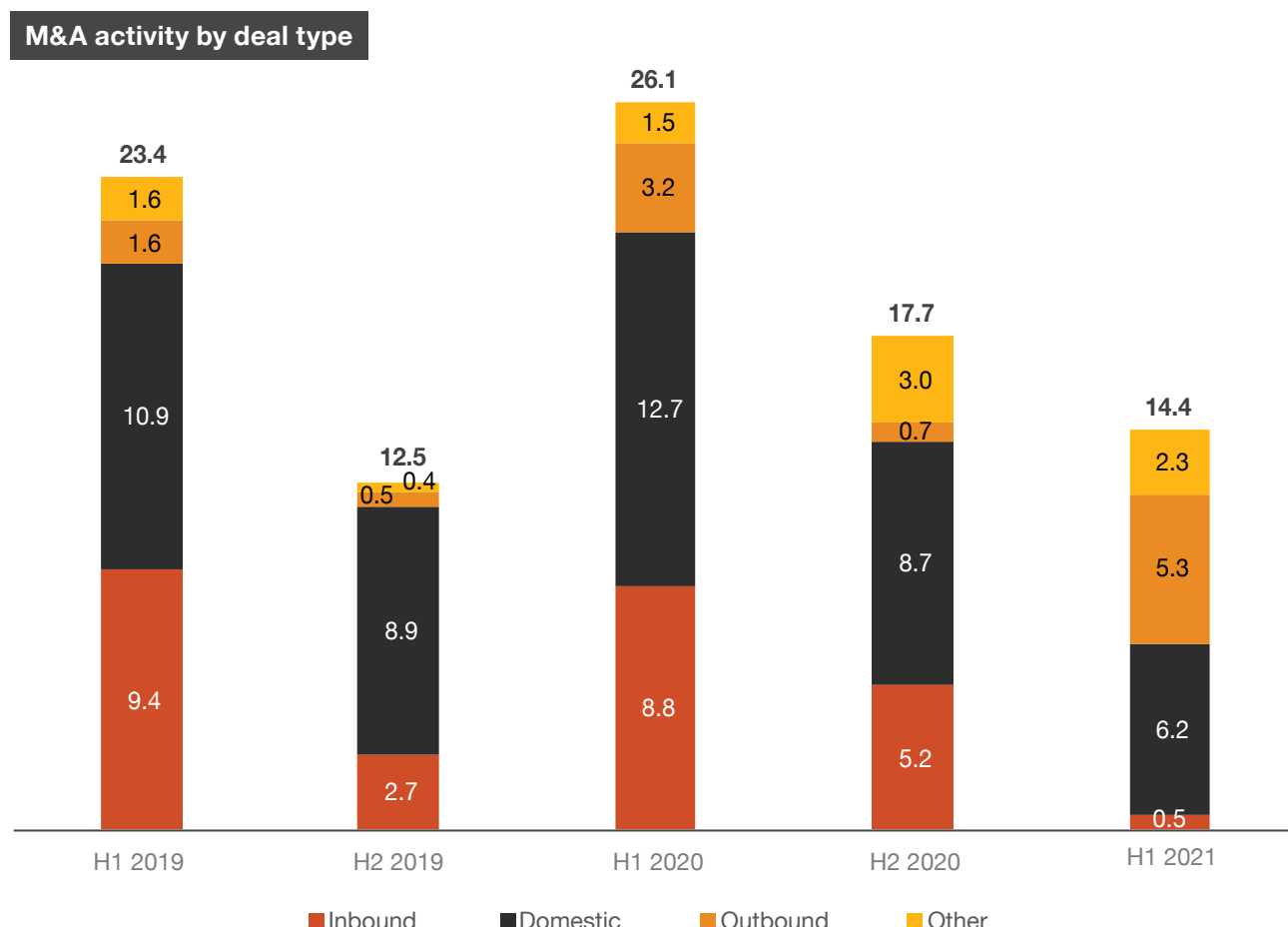
The deal value of USD 40.7 billion recorded in H1 2021 was 2% higher than H2 2020 when deals worth USD 39.8 billion were recorded despite the unstable economic environment. However, the deal value in H1 2021 was 14% lower compared to the same period last year. The volume of deals recorded in H1 2021 has declined by 12% and 6% compared to H2 2020 and H1 2020 respectively.

PE activity in H1 2021 was at an all-time high at USD 26.3 billion, 19% and 25% higher compared to H2 2020 and H1 2020 respectively. The surge in deal activity was fuelled by billion-dollar buyouts and numerous large fundraising rounds by start-ups, boosting many of them into the unicorn club. PE investors are also shifting their focus towards sectors such as technology and healthcare which show stronger potential for growth. M&A activity remained tepid yet operational largely due to the few mega outbound deals that were recorded in H1 2021.

Upward swing of outbound deals

H1 2021 was marked by the dominance of billion-dollar outbound deals. Inbound deal activity continued its downward trajectory, amounting to only USD 0.5 billion in H1 2021 (4% of total M&A activity). Inbound activity peaked primarily in 2020 because of the Reliance Group deals.

Adani Green's acquisition of SB Energy India for USD 3.5 billion was the largest deal recorded in H1 2021. The number of deals recorded in the renewable energy space increased in this period. Wipro was also one of the major contributors towards high-value outbound deals with the acquisition of UK-based Capco at USD 1.45 billion. Excluding these billion-dollar deals, outbound activity amounted to USD 385 million across 26 deals.



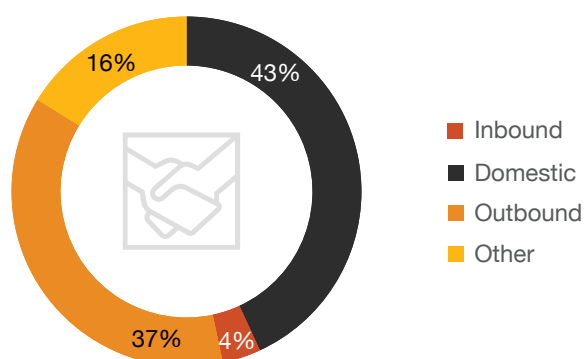
Source: VCCEdge and PwC analysis

Cash-rich Indian businesses and lower interest rates have enabled corporates to engage in overseas acquisitions, especially that of established businesses. This trend is expected to continue as companies are on the lookout for scaling operations in international markets, acquiring complementary business capabilities and filling the gaps in their existing portfolios through acquisitions at lucrative valuations.



Consolidation continues to drive M&A

M&A activity by deal type in H1 2021



Source: VCCEdge and PwC analysis

The M&A deals space continues to be dominated by domestic deals with activity worth USD 6.2 billion being recorded in H1 2021.

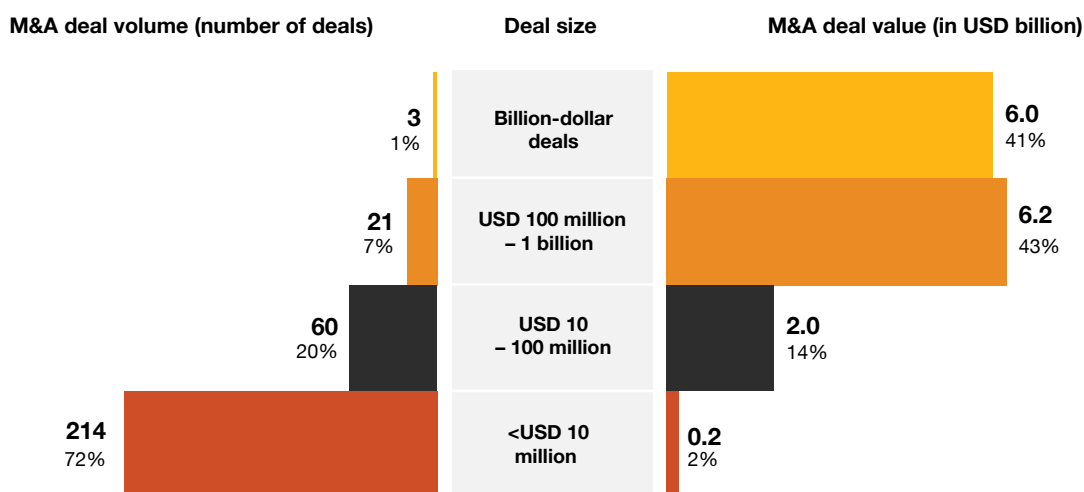
Domestic deal activity was driven by a few big-ticket deals, the largest of them being the USD 1 billion acquisition of Aakash Educational Services by Byju's.

Adani Ports was also a major contributor towards big-ticket deals, acquiring 89.6% stake in Gangavaram Port for USD 755 million to further expand their logistics network.

India Grid Trust completed the largest transmission-project deal by acquiring NER-II Transmission from Sterlite Power at USD 637 million.

As evident, consolidation continues to be a standout trend.

M&A value vs volume in H1 2021



Source: VCCEdge and PwC analysis

Although the three billion-dollar deals alone accounted for USD 6 billion in H1 2021, the majority of the M&A deal values were driven by smaller-ticket deals in the USD 100 million–1 billion bracket and totalling to USD 6.2 billion.

IPO market – recovery and rally

Indian companies raised INR 27,417 crore through IPOs in H1 2021, the highest in at least a decade compared to the first six months of previous years.¹ This was propelled by a strong bull run backed by Government incentives, liquidity, lack of alternative investment opportunities, low interest rates and the anticipation of a sharp corporate performance post recovery from the second wave. The key factors responsible for this surge include higher institutional and retail investor participation, soaring valuations and numerous high-performing stocks in select sectors such as pharmaceuticals and technology. These were further supported by large institutional players pouring unutilised funds from the previous year into the market. SEBI has also eased the norms for start-ups, minimum public offer and required public shareholdings for large issuers, leading companies to explore listing.

¹ https://www.hindustantimes.com/business/listings-raise-rs-27-417-crore-in-2021-highest-in-10-years-101625102879773-amp.html?utm_campaign=fullarticle&utm_medium=referral&utm_source=inshorts

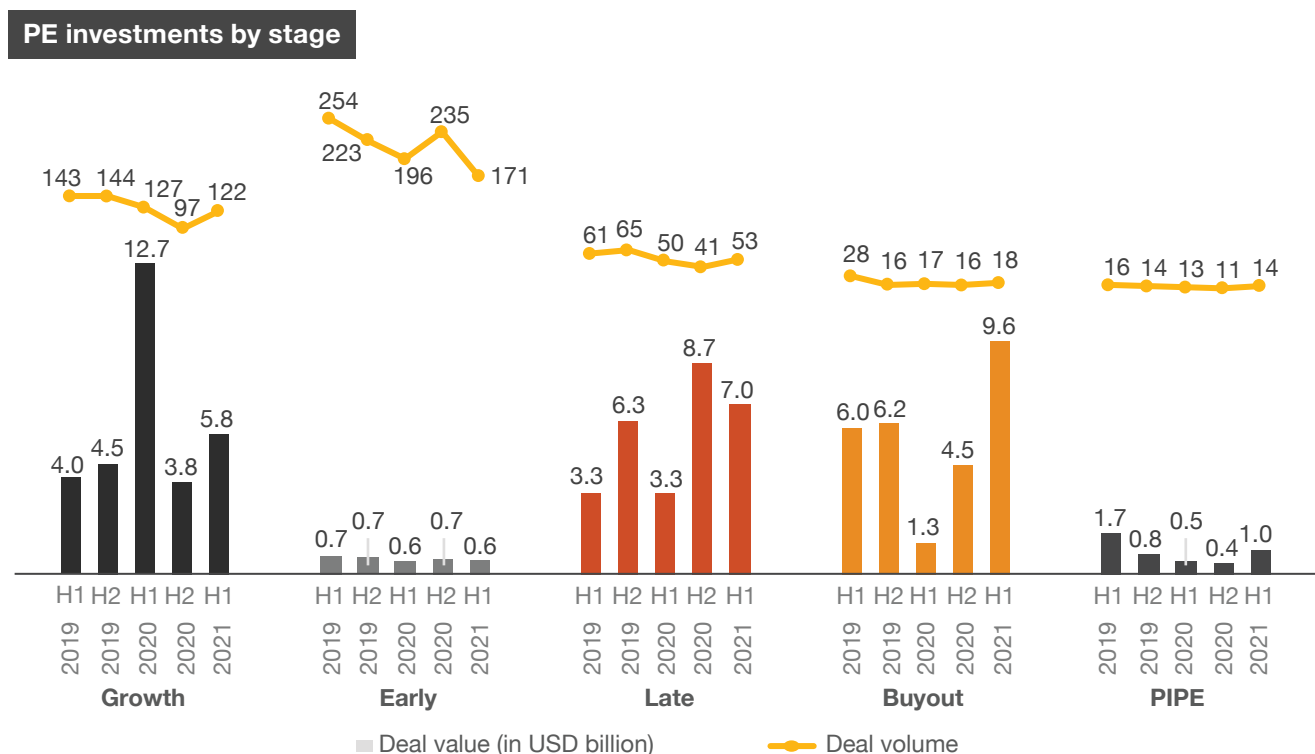


PE activity at an all-time high

PE activity kept the momentum going in H1 2021 and recorded deal value worth USD 26.3 billion, up by 19% and 25% from H2 2020 and H1 2020 respectively. The PE deal value in H1 2021 surpassed the previous comparable periods in 2020 in spite of the large deals closed by the Reliance Group last year, totalling to USD 17.3 billion.

Growth capital versus buyouts

H1 2021 was a standout period for buyouts. The two significant buyout deals recorded in H1 2021 were Piramal Group's USD 5.2 billion investment in the debt-ridden Dewan Housing Finance² and Blackstone's USD 2.8 billion investment in Mphasis, a leading IT services provider in cloud and digital solutions.



Source: Venture Intelligence and PwC analysis
Excludes real estate, pre-IPO and others

Growth-stage deals also picked up in H1 2021, outperforming comparable periods from previous years. H1 2020 was an outlier owing to the USD 9.8 billion marquee fundraising rounds by the Reliance Group (Jio Platforms). Big-ticket deals in H1 2021 saw 17 companies raise funds in the range of USD 100–500 million, contributing to 58% of the deal value and helping start-ups like Meesho, PharmEasy and ShareChat enter into the unicorn club. Smaller-ticket deals accounted for the maximum number of investments and contributed to 86% of the deal activity by volume.

Small-ticket deals drove the bulk of early-stage investments with 75% of them valued at less than USD 5 million and focusing towards India's booming technology sector start-ups. The remaining 43 deals were in the range of USD 5–20 million and were largely recorded by EdTech and FinTech start-ups.

Late-stage deals recorded in H1 2021 also performed well with large fundraising rounds by start-ups such as the EdTech firm Byju's' USD 785 million fundraise and the food delivery platform Swiggy's USD 800 million fundraise. An increased number of private investment in public equity (PIPE) deals was recorded and primarily driven by the fundraising round led by Carlyle in PNB Housing Finance. However, the Securities and Exchange Board of India (SEBI) has currently put this deal on hold.

² Piramal sold its main business (pharma) to Abbott in 2010, after which they have been actively involved only in investments in other companies. Since their activities are similar to those of a holding company or a fund, this deal is classified as under PE.

Megadeals – buyers go big

Large strategic investments or takeovers continued to dominate the deals space in 2021. Corporate and private acquirers have carried on with their pursuit of megadeals and five billion-dollar deals have already been recorded in this year.

M&A megadeals in sectors such as renewables, infrastructure and education reflect the continued interest in consolidation. PE funds have demonstrated their faith in India's growth story and made long-term investments despite the pandemic. The India-centric dry powder has helped PE funds, and established companies with greater liquidity are expected to record more big-ticket deals.

Top five M&A transactions (by deal value) in H1 2021

Company	Buyer(s)	Deal value (in USD billion)	% sought
SB Energy Holdings Ltd.	Adani Green Energy Ltd.	3.5	100
The Capital Markets Company N.V.	Wipro Ltd.	1.5	100
Aakash Educational Services Ltd.	Think and Learn Pvt. Ltd.	1.0	100
Gangavaram Port Ltd.	Adani Ports and Special Economic Zone Ltd.	0.8	89.60
NER II Transmission Ltd.	India Grid Trust	0.6	100

Source: VCCEdge

Top five PE transactions (by deal value) in H1 2021

Company	Buyer(s)	Deal value (in USD billion)	% sought
Dewan Housing Finance	Piramal Enterprises	5.2	-
Mphasis	Blackstone	2.8	-
Swiggy	Think Investments, Wellington Management, Prosus Ventures, Qatar Investment Authority, Falcon Edge Capital, Amansa Capital, Accel India, GIC and others	0.8	17.47
Byju's Classes	Footpath Ventures, B Capital Group and others	0.8	-
Embassy Industrial Parks	Blackstone	0.7	-

Source: Venture Intelligence

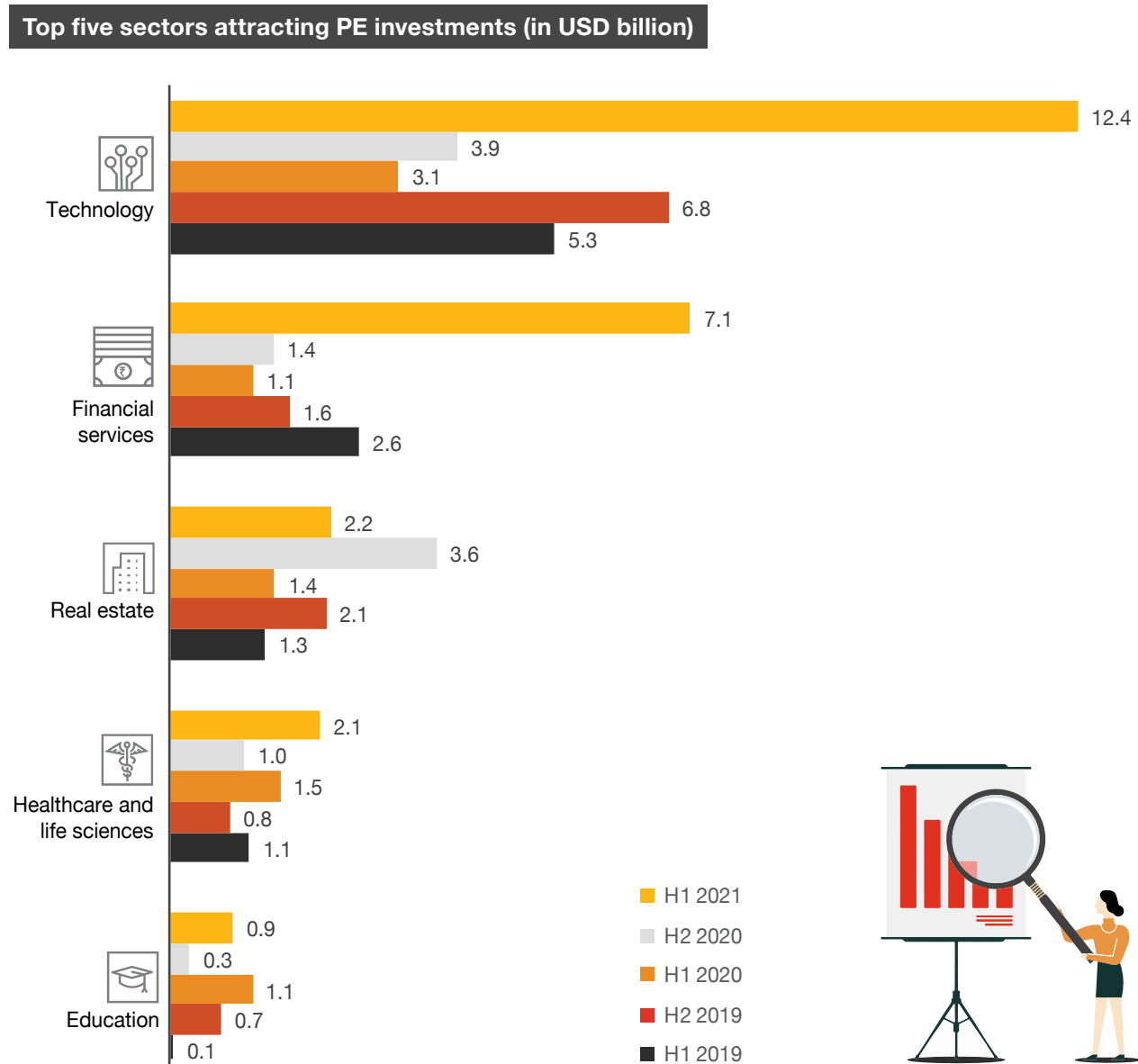
The SPAC factor

India has one of the world's largest start-up ecosystems with over 40,000 start-ups and 50 unicorns. There is a tremendous potential for striking cross-border deals and special purpose acquisition companies (SPACs) could provide a boost to entrepreneurship by enabling access to capital. The de-SPACing process is, at times, financially cumbersome for founder/promoter shareholders. However, like the real estate investment trust (REIT) and infrastructure investment trust (InvIT) regime, tax reforms can help in accelerating cross-border deals in the SPAC space. It would be interesting to see how India's regulatory bodies administer and govern SPACs – especially their listing – which is presently not permitted.³

³ <https://www.pwc.in/assets/pdfs/services/deals/rise-of-spacs-an-indian-perspective.pdf>

Technology in the lead

The technology sector dominated the PE investments space with 16 start-ups entering the unicorn club in 2021 compared to 9 in 2020.⁴ EdTech is the emergent sector as major players like Byju's and UpGrad continue to raise funds.



Source: Venture Intelligence

The deal value recorded in the financial services sector also increased significantly due to the stressed-asset investment by the Piramal Group in Dewan Housing Finance.

The healthcare and life sciences sector also continued to garner interest and witnessed a jump in deal activity. This surge was primarily due to Manipal Hospitals engaging in two fundraising rounds totalling to USD 435 million.

The real estate sector deal activity was led by Blackstone's purchase of Embassy Industrial Parks from Warburg Pincus and Embassy Group for USD 715 million. This acquisition was one of the largest deals in India's emerging warehouse sector.

⁴ <https://www.ventureintelligence.com/Indian-Unicorn-Tracker.php>

The new unicorns

The Indian start-up ecosystem has grown consistently in recent years, especially in the technology sector. Newer-age companies are leveraging innovative technologies such as artificial intelligence (AI), internet of things (IoT), big data and deep consumer insights to disrupt targeted pockets in various industries such as FinTech, e-commerce and education. Several start-ups have managed to accelerate through their natural growth cycle, quickly crossing their inflection point and monetising their businesses.

Stricter foreign direct investment (FDI) norms have also provided an impetus to India-based start-ups and helped them to grow and leverage the market. The COVID-19 pandemic has accelerated the adoption of digital technology across sectors and Indian start-ups are establishing and strengthening their presence in the new normal.

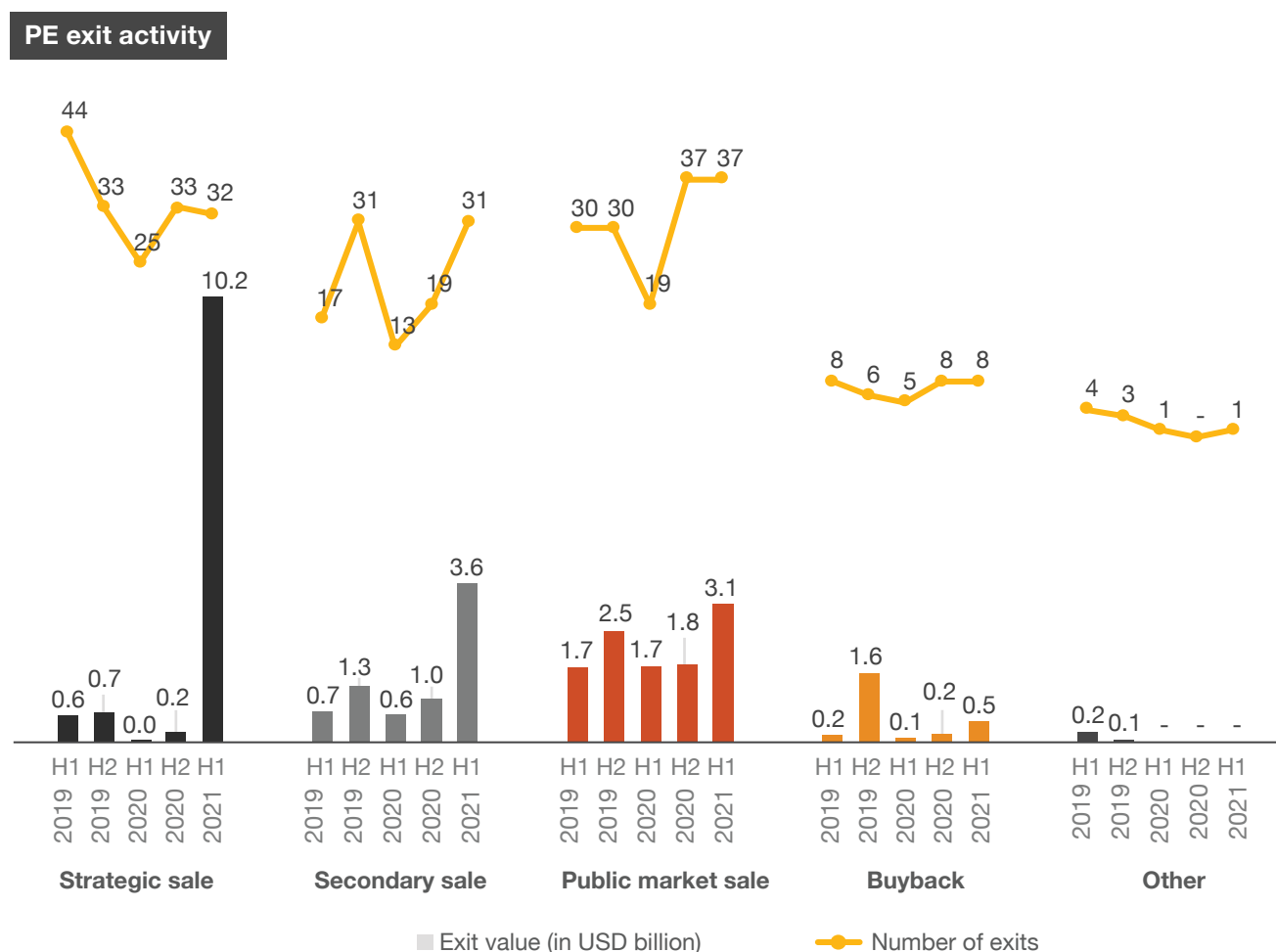
The following start-ups have entered the unicorn club in 2021:⁵

Company	Sector	Valuation (in USD billion)
BrowserStack	SaaS – programming tools and testing	4
ChargeBee	SaaS – subscription billing solution	1.4
Cred	Payments – credit card rewards	2.2
Digit	Insurance – general	1.9
FirstCry	E-commerce	2.1
Five Star Business Finance	Non-banking financial company	1.4
Groww	Personal finance – mutual funds	1
Gupshup	Conversational messaging	1.4
Infra.Market	Marketplace – construction materials	1
Innovaccer	Data analytics - healthcare	1.3
Meesho	Social commerce	2.1
Moglix	Marketplace – industrial equipment	1
Pharomeasy	E-pharmacies	4
ShareChat	Social media	2.1
Urban Company	Marketplace – handyman services	2.1
Zeta	API – financial services and banking	1.4

Source: Venture Intelligence and PwC analysis

5 <https://www.ventureintelligence.com/Indian-Unicorn-Tracker.php>

Strategic sales boost exits for PE players



Source: Venture Intelligence and PwC analysis

PE exits increased exponentially in H1 2021 at 5.4 times the exit value of H2 2020. Strategic sales accounted for 58% of the exit value in H1 2021 mainly due to two billion-dollar exits where Hitachi acquired GlobalLogic from Partners Group and the Canada Pension Plan Investment Board for USD 8.1 billion, and Tata Digital acquired BigBasket from Abraaj Group and Alibaba for USD 1.2 billion.

Secondary sales accounted for 21% of H1 2021 PE exits as deal value witnessed a 3.6-times jump from H2 2020. Key exits included Warburg Pincus selling off its stake in Embassy Group to Blackstone and ChrysCapital exiting Infogain, the Silicon Valley based IT services firm.

Public market transactions contributed to 18% of H1 2021 PE exits, driven by a few transactions at the USD 500 million range with PE players such as Goldman Sachs and Carlyle exiting portfolio companies such as ReNew Power, SBI Cards and SBI Life Insurance.

The PE exit boom can be attributed to the fulfilling of pent-up demand from the previous year, increasing M&A activity in the start-up ecosystem, focusing on consolidation in the technology sector with improved liquidity and the recent rebound and remarkable performance of the Indian stock market.

ESG – driving the next wave of transformation

Findings from PwC's 24th Annual CEO survey indicate that addressing the issue of climate change is a significant priority for 30% of global CEOs. As per the survey, 28% of Indian CEOs explicitly state that they are factoring in climate change and environmental issues in their strategic risk-management activities. Compared to 39% of global CEOs, 40% of Indian CEOs believe that their organisations should be more responsible towards measuring the environmental impact and value of their business activities. Similarly, compared to 25% of global CEOs, 23% of Indian CEOs believe that they need to take further actions to measure their ESG impact on wider communities.⁶

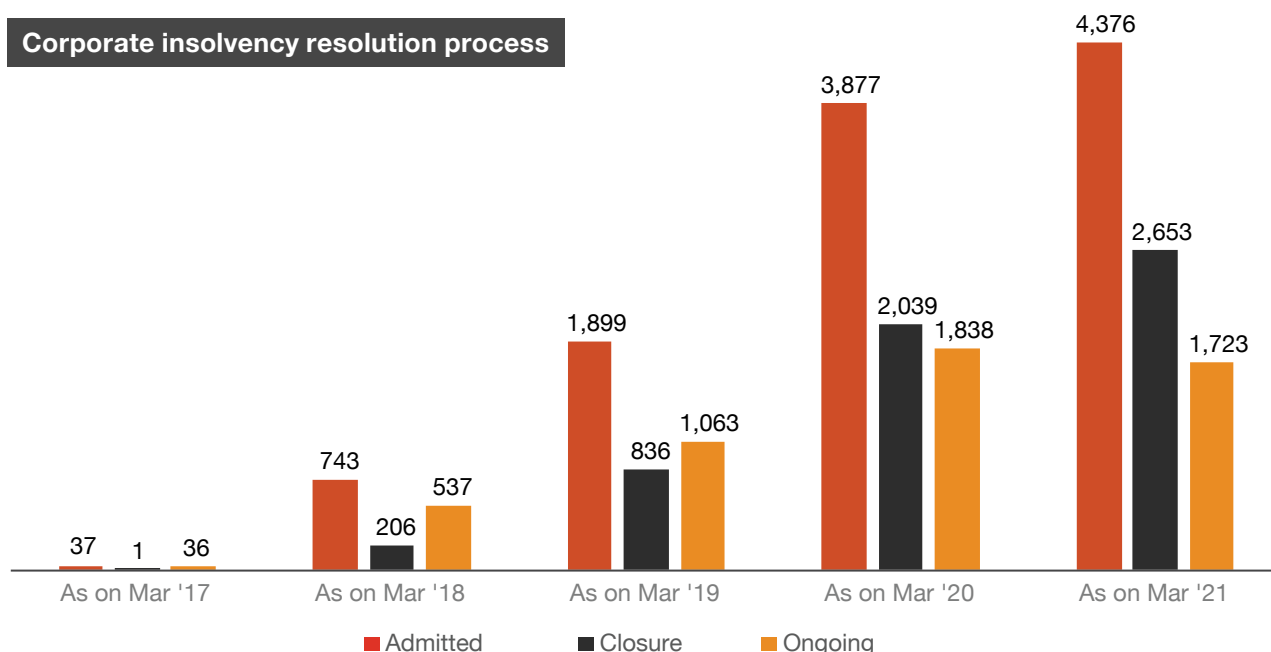
CEOs worldwide are also pushing for greater reporting on how their organisations are performing on the ESG front. They are looking to reorganise their businesses and focusing on improving their performance to utilise some of the increasing capital inflows as ESG funds since governments and investors are increasingly preferring that organisations become more environmentally conscious.

6 <https://www.pwc.in/assets/pdfs/publications/ceo-survey/pwcs-24th-annual-global-ceo-survey.pdf>



Five years of the Insolvency and Bankruptcy Code (IBC), 2016⁷

Corporate insolvency resolution process



Source: Insolvency and Bankruptcy Board of India

The IBC provisions came into force on 1 December 2016. Since then, a total of 4,376 corporate insolvency resolution processes (CIRPs) under the IBC have been initiated till March 2021 and 2,653 of them have been closed till date. Out of the closed CIRPs, 617 have been closed on appeal/review/ settlement, 411 have been withdrawn, 1,277 have ended in orders for liquidation and 348 have ended in approval of resolution plans.

The pandemic significantly impacted the resolution of stressed assets cases and led to operational challenges for parties involved in insolvency proceedings. Furthermore, the suspension of new proceedings under the IBC for almost a year slowed the resolution process.

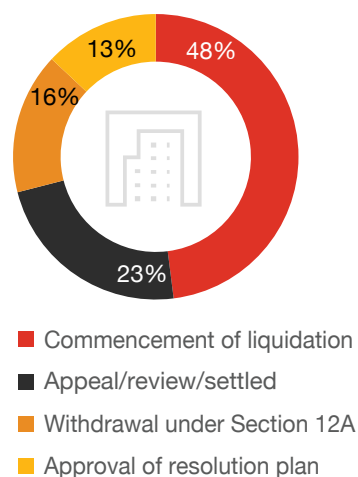
IBC activity picked up in May–June 2021

Insolvency issues involving the two large accounts of Jet Airways and Videocon Industries Limited were reportedly resolved in June 2021 by the National Company Law Tribunal (NCLT).

Dewan Housing Finance received approval from the NCLT on Piramal Group's resolution plan amidst promoter litigation. Real-estate major Suraksha Group secured consent from the lenders for buying the township developer Jaypee Infratech Limited.

Meanwhile, the two large accounts of Reliance Home Finance and Kingfisher Airlines were resolved outside of the insolvency framework.

Modes of CIRP closure



Source: Insolvency and Bankruptcy Board of India

⁷ <https://www.ibbi.gov.in/uploads/publication/2021-05-29-204331-atxcy-3363461de858b06bfa1afdbf13151b90.pdf>

Outlook for the future

The GoI has undertaken several key policy measures and reforms throughout the pandemic to reinstate investor confidence and position India as a preferred destination for investment, innovation and growth. The Production Linked Incentive (PLI) schemes across important sectors, lowering of tax rates, extending the tax holiday for start-ups, loan moratoriums and initiatives to encourage micro, small and medium enterprises (MSMEs) are some of the steps taken by the GoI in the recent past. The GoI has also announced fast-tracking investment clearance through an empowered group of secretaries, a proposed public sector enterprise policy, an electronics manufacturing clusters scheme, a new tariff policy in the power sector, private participation in the coal sector and various other reforms. Despite the uncertainties, FDI equity inflow increased by 19% in 2020–21 (USD 59.64 billion) compared to 2019–20 (USD 49.98 billion).⁸

The emphasis on Aatmanirbhar Bharat may boost investments for companies and help them in becoming self-reliant and reducing dependencies on imports. The privatisation of public sector undertakings (PSUs) is expected to attract a lot of investor interest.

Digital transformation could remain a priority for many companies and is expected to encourage healthy competition for acquiring the necessary business infrastructure and forcing premium valuations. As per a recent PwC survey, 93% of the global business leaders said that they plan to allocate more resources towards digital transformation. Organisations are expected to engage in more M&A activities in the technology/digital domain for achieving their key strategic priorities.

There could be increased transactions in supply-chain acquisitions as companies look to maintain control over the parts and inputs they require, and also lend the required flexibility.

Players from sectors that contribute towards India's infrastructure, such as EdTech, FinTech, defence, pharmaceuticals and healthcare, have been propelled to reimagine the delivery mechanisms of their products and services. It is expected that these players would look to become more resilient in the future to create innovative solutions and a competitive M&A environment.

India's growth story is expected to continue given the country's demographic dividend, favourable policies, reforms announced by the Government and new entrepreneurial talents and initiatives coming to the fore, especially in the start-up space. Deal activity is expected to garner pace and record higher numbers in H2 2021.

⁸ <https://theprint.in/economy/indias-fdi-inflow-grew-by-19-to-59-64-billion-in-2020-2021-says-commerce-ministry/664512/>

Note: All deal values and related data presented in this report, unless otherwise indicated, are based on PwC analysis of data sourced from VCCEdge (for M&A deals) and Venture Intelligence (for PE deals).



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