

PricewaterhouseCoopers India Pvt Ltd

MoneyTree™ India Report

Q1 2012

Data provided by Venture Intelligence

The Q1 2012 MoneyTree™ India results are in! This special report provides summary results of Q1 '11, Q4 '11 and Q1 '12.



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Welcome to MoneyTree™ India

The MoneyTree™ report was launched by PwC in the United States in 1994 to track and report on venture capital/private equity (VC/PE) funding. It has since become one of the most widely read research publications among venture capital firms, entrepreneurs and others involved in innovation and company formation.

With the private equity markets coming of age in India, China and Russia, there is a strong case to expand the scope of coverage to include these important markets. Despite their challenging regulatory environments, these fast-growing markets are important destinations for private equity as the pursuit of innovation is increasingly not restricted by any national boundaries and treats the world as one global village.

PwC now brings to you its first MoneyTree™ India report. The report is a quarterly study of private equity investment activity in the country based on data provided by Venture Intelligence. The report serves as a good source of information with respect to funding provided by PE/VC investors. The information is further analysed by industry, region and stage of development.

Over the years, PE investors in India have diversified their investments across a wide range of industries. Some receive more consistent attention than others—Energy, Banking, Technology and Infrastructure have been in the Top 5 for two years. Telecom, on the other hand, has seen the single biggest drop in rankings from a highly favoured rank of 3 (by value) in 2010 to a rank of 20 in 2011.

Sectors	2011		2010	
	Value of deals (US\$ mn)	Ranking	Value of deals (US\$ mn)	Ranking
Energy	1,606	1	2,159	1
Manufacturing	1,589	2	505	6
Information Technology & Information Technology-enabled Services	1,553	3	563	5
Banking, Financial Services & Insurance	1,041	4	1,067	2
Engineering & Construction	968	5	576	4
Travel & Transport	389	6	7	19
Hotels & Resorts	299	7	156	12
Healthcare & Life Sciences	297	8	458	7
Shipping & Logistics	276	9	343	8
Food & Beverages	243	10	67	15
Education	197	11	202	10
Fast-moving Consumer Goods	175	12	21	18
Media & Entertainment	136	13	183	11
Other Services	123	14	280	9
Retail	108	15	56	16
Agri-business	78	16	110	14
Diversified	67	17	—	—
Textiles & Garments	67	18	110	13
Others	61	19	30	17
Telecom	61	20	832	3
Grand Total	9,332		7,727	

Note: Others include Mining & Minerals, Sports & Fitness, Advertising & Marketing.

Data provided by Venture Intelligence.

We hope you find MoneyTree™ India not only interesting, but also a valuable tool. In the coming months, we will introduce MoneyTree™ reports in China and Russia, so that you can compare trends in various parts of the world and get a truly global view of VC/PE investments. Beginning next quarter, we'll also provide a more detailed technology sector supplement for India.

Hari Rajagopalachari
Executive Director
Leader – Technology
PricewaterhouseCoopers India Pvt Ltd

Raman Chitkara
Partner
Global Technology Leader
PricewaterhouseCoopers LLC

1. Overview

At the crossroads again

In terms of volume, private equity (PE) investments* in India in Q1 '12 saw a drop when compared to Q4 '11 and Q1 '11. At the same time, PE investors used the relative buoyancy in the Indian capital markets to exit some of their investments. Was this just a coincidence or an indication that PE investors are looking at every opportunity to monetise and exit their 2007 and 2008 investments? Are PE investors growing cautious about making new investments?

While PE investors continue to be enthusiastic about supporting India's future growth, there is no doubt that growth has slowed. Challenges posed by an indifferent and uncertain global environment, muddled governance and a lack of definitive policymaking has hurt India's continuing efforts to be a preferred investment destination.

Enthusiasm might be further dampened by some of the recent amendments proposed to the Indian tax laws, which could scare foreign investors away, at least in the short term. The amendments proposed under the General Anti-Avoidance Rules (GAAR) empower the Indian tax authorities to deny tax benefits to companies in cases where there is evidence of tax dodging. In addition, PE investors are particularly concerned about tax authorities lifting the veil on the investments they made into India through Mauritius.

Notwithstanding the tax issues, the struggling public market, the high cost of debt, India's increasing consumption rate and the need to rejuvenate India's infrastructure and capital goods sector, make private equity an important avenue for Indian capital seekers. The question is, do PE investors have enough confidence in India to continue investing at the same or a higher pace than in the past?

Sanjeev Krishan

Executive Director

Leader – Private Equity

PricewaterhouseCoopers India Pvt Ltd

** 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 16 for further clarification.*

2. Analysis of private equity investments

Total equity investments into PE-backed companies

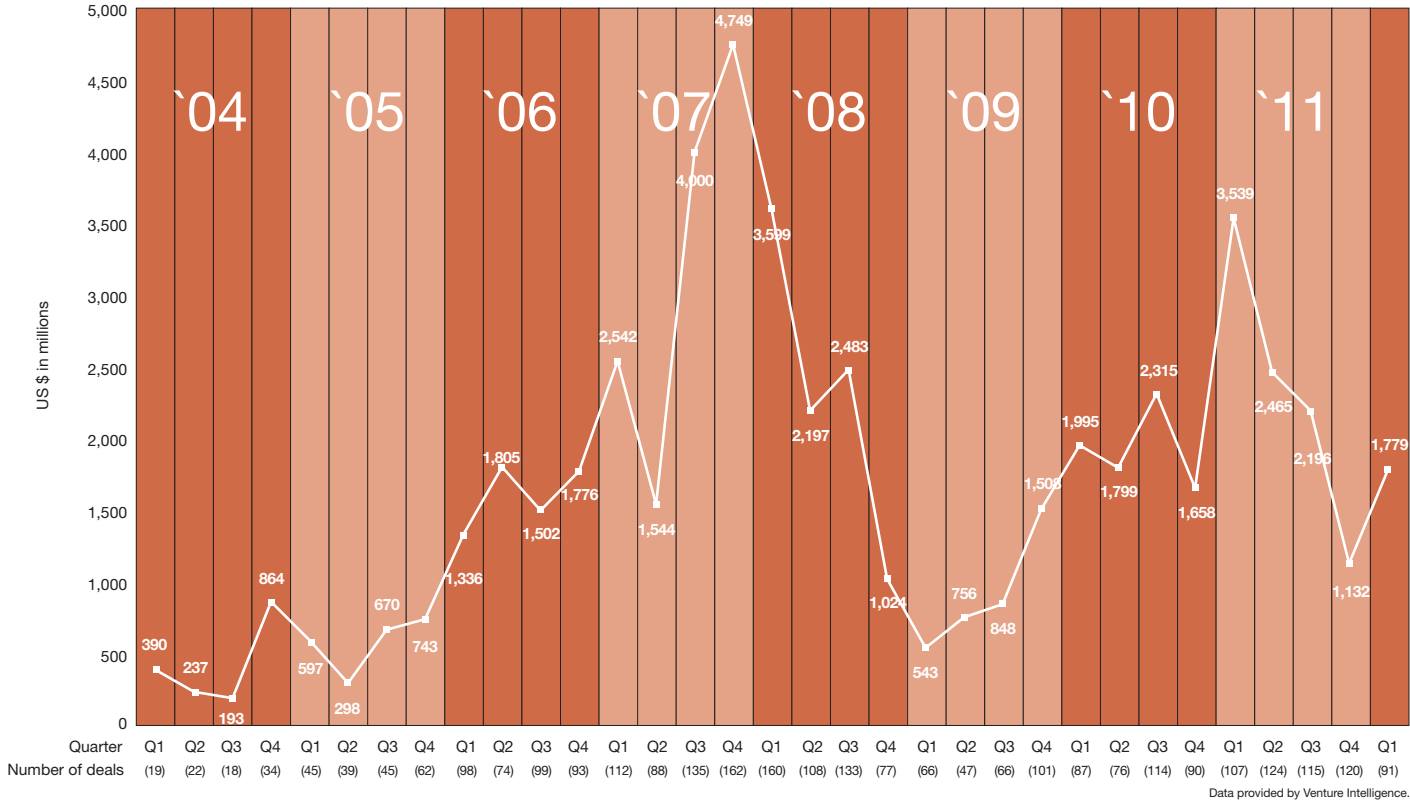
PE firms invested US\$1,779 million across 91 deals in Q1 '12. Quarterly, PE investments increased 57% in terms of value, even though the deal volume fell 24% when compared to the previous quarter (Q4 '11). The large increase in dollars invested is due primarily to five deals above US\$100 million that occurred in Q1 '12.

In comparison with Q1 '11, there has been a drop of 50% in dollars invested and 15% in number of deals.

The Healthcare & Life Sciences sector was the big winner in Q1 '12, seeing a seven-fold increase in terms of value and a 27% increase in terms of volume of deals (US\$530 million in 14 deals) compared with an investment of US\$80 million in 11 deals in the previous quarter.

The Engineering & Construction sector staged a comeback this quarter, with an investment of US\$203 million in eight deals, a significant growth compared to the investment of US\$19 million in three deals in the preceding quarter.

The Banking, Financial Services & Insurance (BFSI) sector also witnessed growth in dollar value compared to the previous quarter. However, there was a fall in the number of deals.



Investments by industry

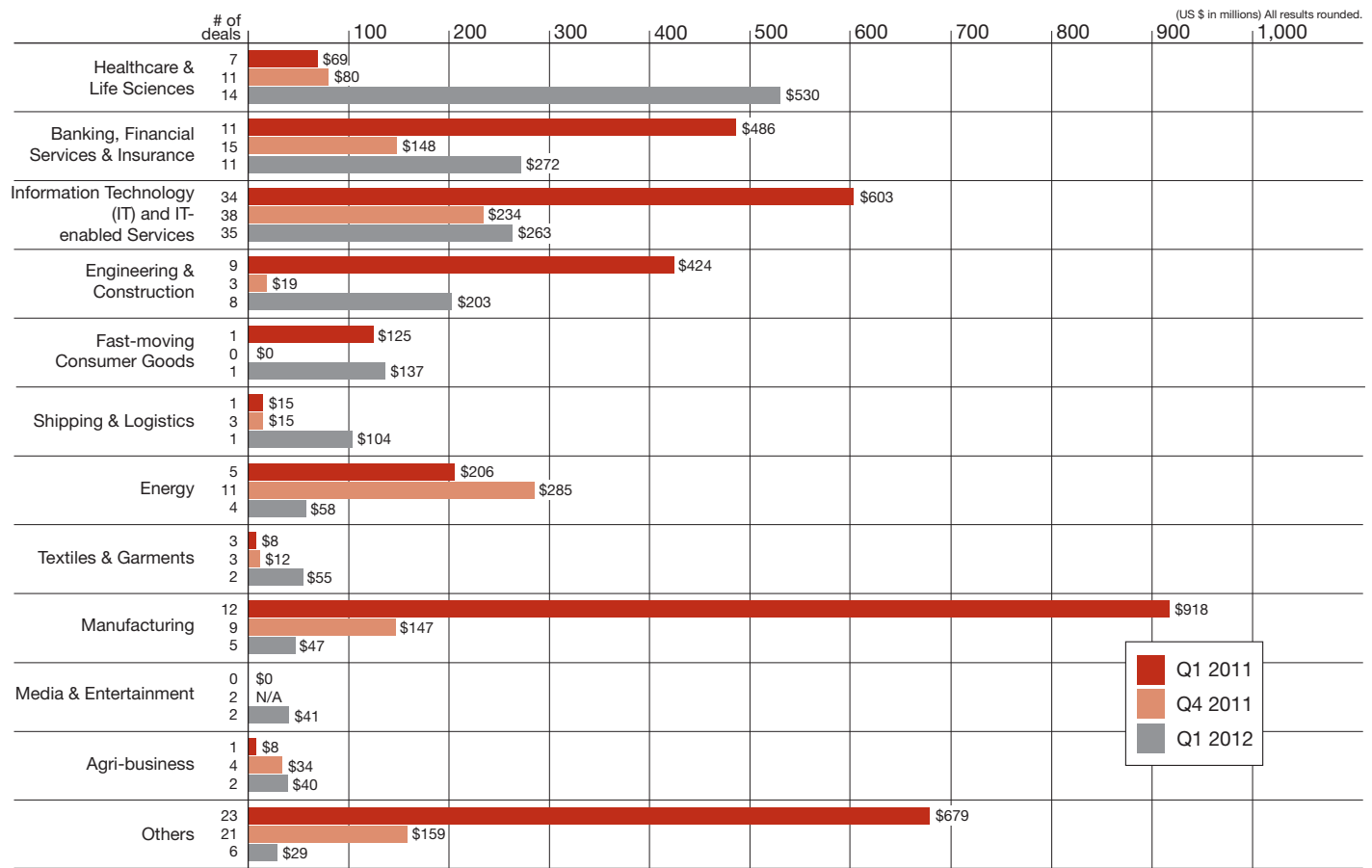
Q1 '11, Q4 '11 and Q1 '12

The Healthcare & Life Sciences sector saw the highest level of PE funding in Q1 '12. The average deal size for the sector increased to US\$38 million from US\$7 million in the previous quarter and US\$10 million for the same period last year.

The Indian healthcare delivery sector provides compelling opportunities for corporate and financial investors as the country's rising middle class with its high discretionary income demands access to high quality care. Among the BRIC nations, India has the lowest bed-to-population ratio. As a result, we now see rapid development of facilities in the hospital as well as in the ambulatory care environment.

The focus is on low capital expenditure models which drive operational efficiencies and provide faster returns. The emergence of eye care, dental, cosmetic and day surgery centres is testimony to the faith investors have in these models. Besides addressing the local needs, these innovative paradigms have the potential to be replicated in the developing world, thereby providing a model which transcends borders. We also see rapid growth in healthcare services in the Tier II and Tier III cities of India. Traditionally, patients from these cities have come to the metropolitan cities for treatment. Given these factors, the industry is probably at an inflexion point and investors can expect healthy returns in what is one of the fastest growing markets in India.

Dr Rana Mehta,
Leader, Healthcare
PricewaterhouseCoopers India Pvt Ltd



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

Data provided by Venture Intelligence.

Note: Others include Education, Other Services, Hotels & Resorts, Sports & Fitness, Advertising & Marketing, Telecom, Travel & Transport, Food & Beverages and Retail.

The Information Technology & Information Technology-enabled Services (IT & ITeS) sector had the largest number of PE deals, with an investment of US\$263 million in 35 deals during Q1 '12—a 13% growth in value but a decline of 8% in the number of deals. In recent times, the IT & ITeS sector has been the frontrunner in terms of the volume of deals. However, the average deal size has remained on the low side.

The BFSI sector saw an increase of 84% in terms of value (US\$272 million) and a decline of 27% in the number of deals (11 deals), compared to the previous quarter investment of US\$148 million in 15 deals. In this quarter, 36% of the total BFSI deals are private investments in public equity (PIPE) deals.

It's encouraging to see more money flowing into the IT & ITeS sector. Because many of these companies do not require a great deal of start-up money, we traditionally see a high number of deals. A value increase can signify that investors are going for quality over quantity.

Hari Rajagopalachari
Leader, Technology
PricewaterhouseCoopers India Pvt Ltd

The increase in investments in the BFSI sector during the current quarter, particularly with respect to non-banking financial Companies (NBFCs), could be the result of PE investors identifying opportunities in India due to higher interest rate spreads for lending institutions as compared to similar entities elsewhere in the world that are generally experiencing lower interest rate scenarios.

Manoj K Kashyap
Leader, Financial Services
PricewaterhouseCoopers India Pvt Ltd

The Textiles & Garments, Shipping & Logistics, Engineering & Construction as well as the Fast-moving Consumer Goods (FMCG) sectors have seen growth in the value of investments vis-a-vis the previous quarter. However, sectors like Manufacturing and Energy have shown a decline this quarter.

Investments by stage of development

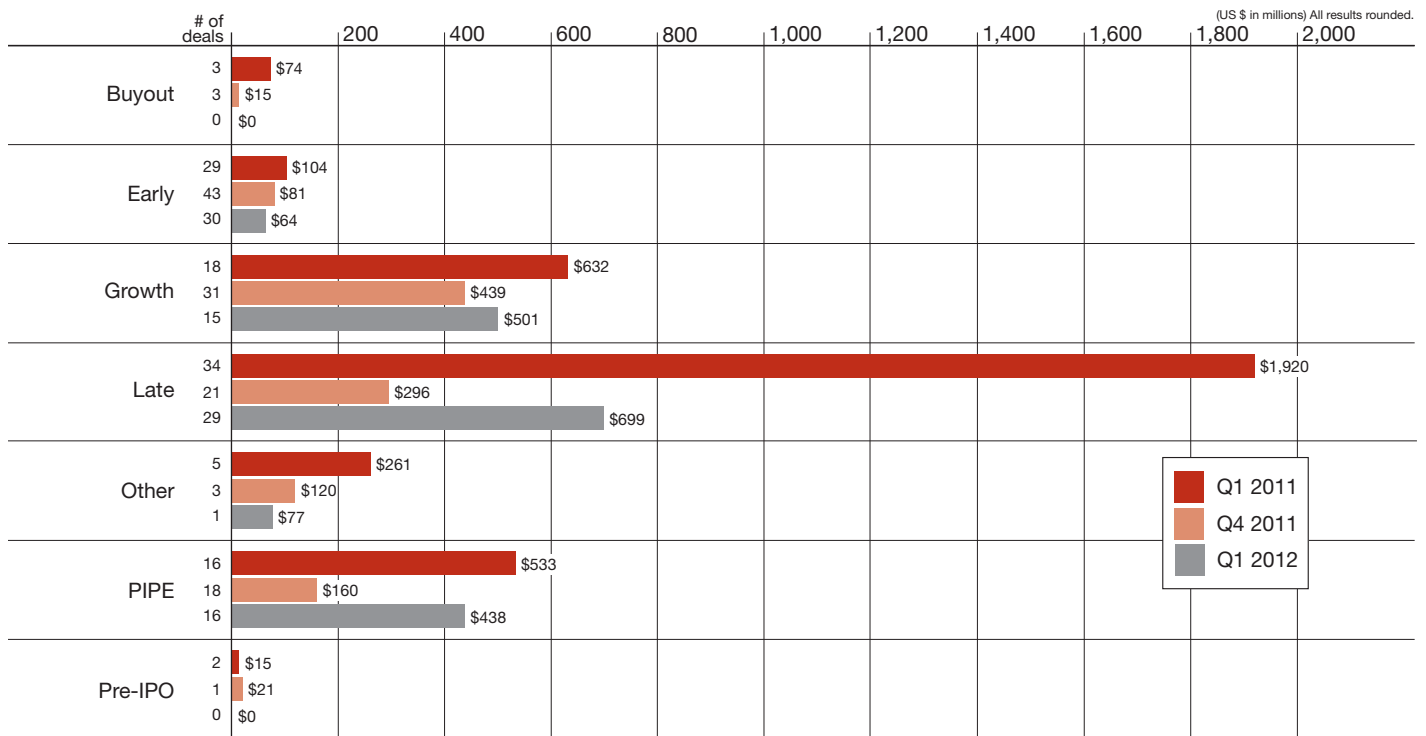
Q1 '11, Q4 '11 and Q1 '12

PIPE deals have shown a significant growth (over 2.5x) in the value of investments this quarter as compared to the preceding quarter, owing to an improved equity market taking cues of global economic recovery. However, in terms of the number of deals, there has been a decline of 11%.

This quarter saw a large number of early-and late-stage deals (30 and 29 deals respectively). In terms of investment value, late-stage deals have shown growth of more than 135% to reach US\$699 million this quarter compared to US\$296 million in the previous quarter. However, there has been a significant decline of 64% in the investment value from the same period last year.

Growth stage stands second in terms of value of deals with US\$501 million investment in 15 deals. The value of deals has shown an increase of 14% despite the number of deals falling to half as compared to the previous quarter. The average deal size has also doubled, to US\$33 million, in Q1 '12 as compared to Q4 '11.

Buyout deals are not very prevalent in India.



Data provided by Venture Intelligence.

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

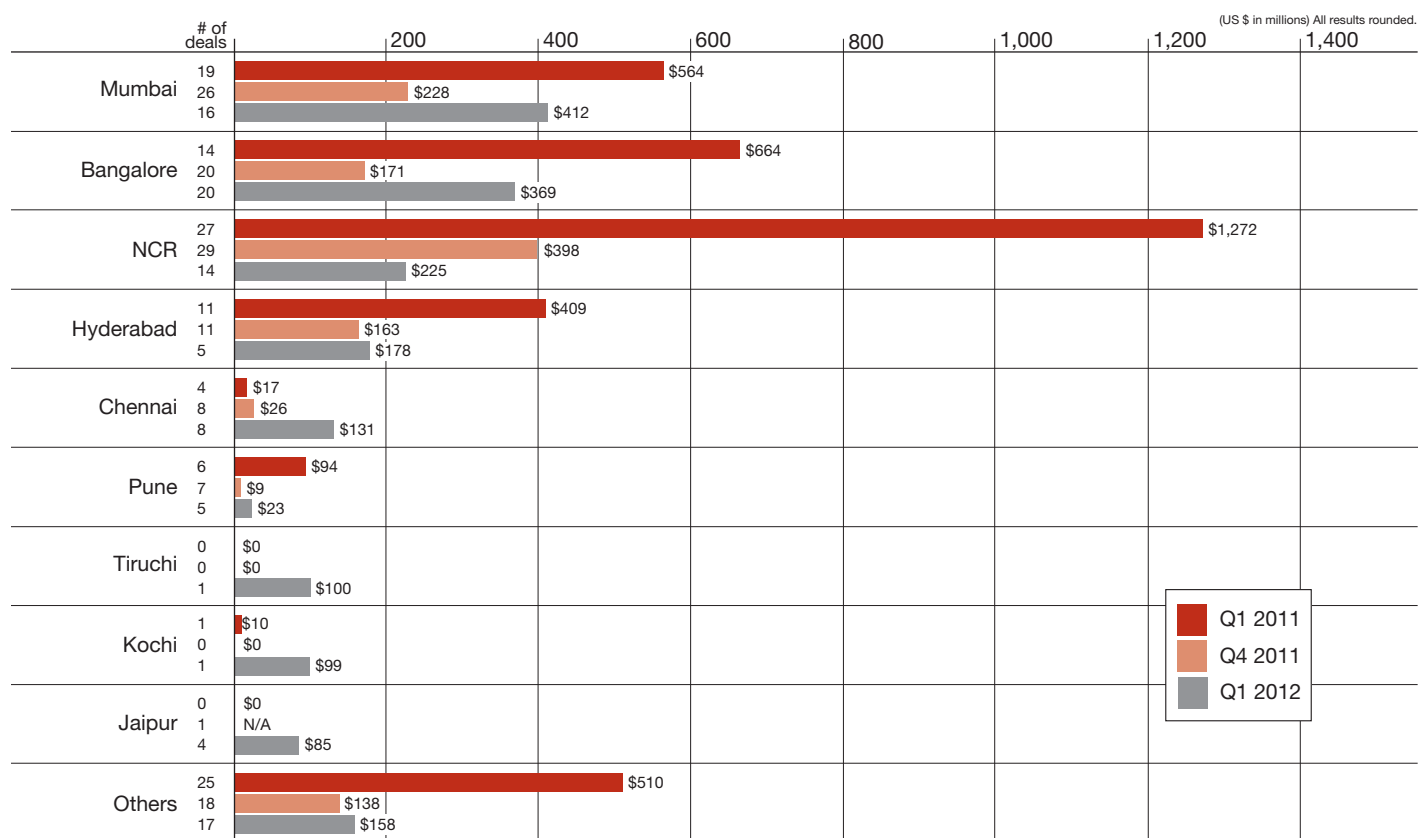
Q1 '11, Q4 '11 and Q1 '12

Mumbai received the highest level of funding with US\$412 million, a 23% share of the total PE investments this quarter. This level of investment indicates an 81% increase in terms of value of deals, compared to US\$228 million in the previous quarter.

Bangalore has the second highest share at 21%. It received an investment of US\$369 million, 116% more than the previous quarter.

Chennai's investment jumped 407% in Q1 '12, propelled by two large deals in the BFSI space.

NCR (National Capital Region) was the only region to report a decrease in funding this quarter compared to the preceding quarter.



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

Data provided by Venture Intelligence.

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

Top 20 PE deals

Q1 '12

The top 20 deals comprise 67% of total deal value in Q1 '12. There are four deals with a value of US\$100 million and above and five deals with values between US\$50 million and US\$100 million. About 67% of the deals in this quarter had values below US\$50 million.

Company	Industry	Investor	Deal amount (US\$ mn)
Godrej Consumer Products	FMCG	Temasek	137.0
Care Hospitals	Healthcare & Life Sciences	Advent International	110.0
Fourcee Infrastructure Equipments	Shipping & Logistics	General Atlantic	104.0
Vasan Eye Care	Healthcare & Life Sciences	GIC	100.0
DM Healthcare	Healthcare & Life Sciences	Olympus Capital	99.4
Specialty Hospital	Healthcare & Life Sciences	Halcyon Group	77.0
Nandi Economic Corridor Enterprises	Engineering & Construction	JP Morgan	65.0
Supreme Infrastructure India	Engineering & Construction	3i IIF	61.0
AU Financiers	BFSI	Warburg Pincus	50.0
Cholamandalam Investment and Finance Company	BFSI	Multiples PE, Creador Capital	43.0
Aptuit Laurus	Healthcare & Life Sciences	Fidelity	41.0
Hathway Cable & Datacom	Media & Entertainment	Providence	41.0
Sutures India	Healthcare & Life Sciences	CX Partners	40.0
Religare Finvest	BFSI	NYLIM India	38.5
Shriram Housing Finance	BFSI	Valiant Capital	34.0
Ushdev International	Energy	Oxley	33.0
Karur Vysya Bank	BFSI	ChrysCapital	32.0
Fabindia	Textiles & Garments	L Capital Asia	30.0
Star Agri Warehousing and Collateral Management	Agri-business	IDFC PE	30.0
Ujjivan Financial Services	BFSI	Sequoia Capital India, FMO, Unitus, Wolfensohn & Co., Lok Capital, India Financial Inclusion Fund	25.5

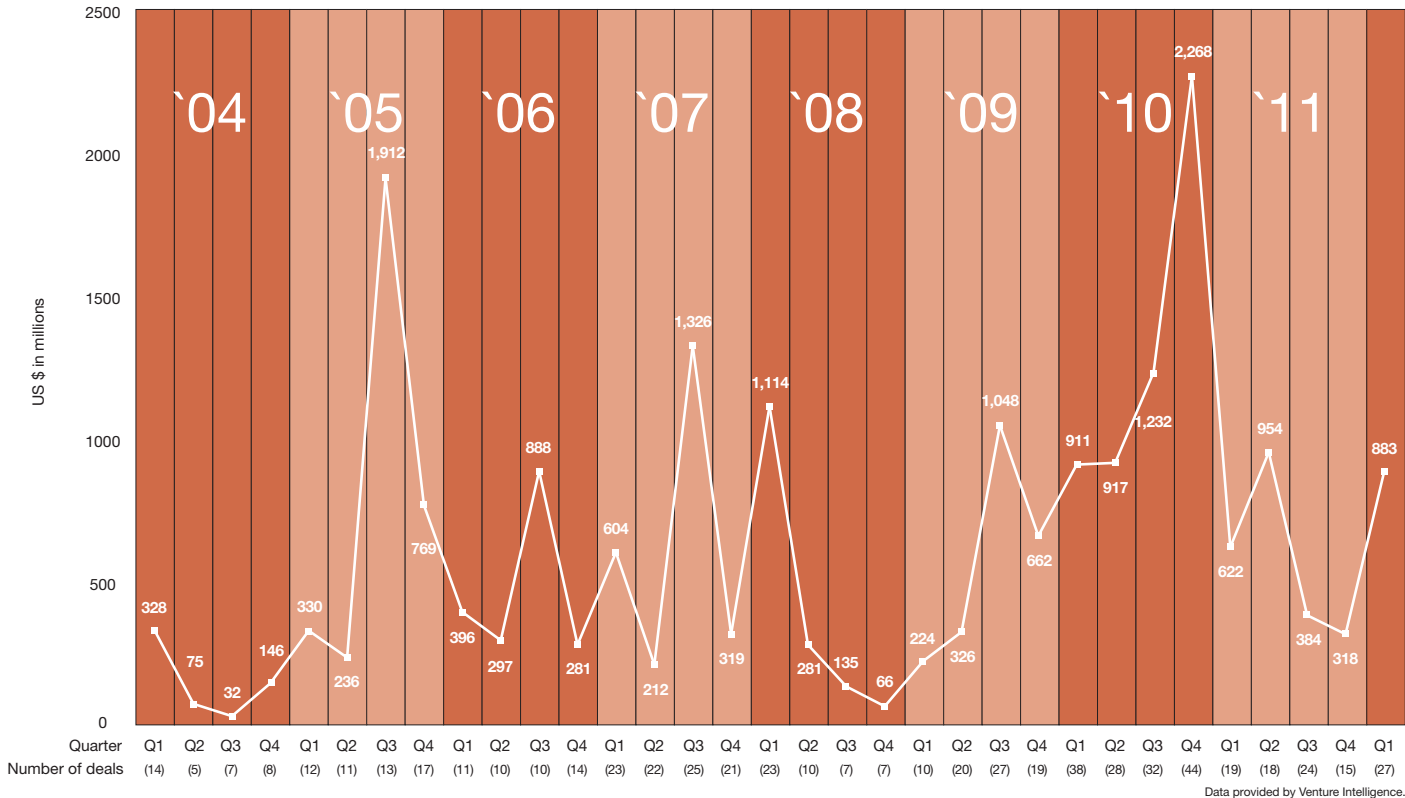
Data provided by Venture Intelligence.

3. Analysis of PE exits

Total PE exits

Q1 '12 has witnessed an exit of PE investors worth US\$883 million from 27 deals. The exit activity in this quarter represents an increase of 177% in terms of value and 80% in terms of volume of deals as compared to the previous quarter when exits were worth US\$318 million from 15 deals. When compared to the same period last year, there has been significant growth, about 42%, in terms of both value and number of deals.

In this quarter, almost 85% of the exits by value and about one-third by number of deals have been through the public market sale.* Most of these investments were made long before 2008 and, with the stock market showing signs of improvement this quarter, many of the deals have been exited through the public market. Out of the 27 deal exits, 10 of them have been 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

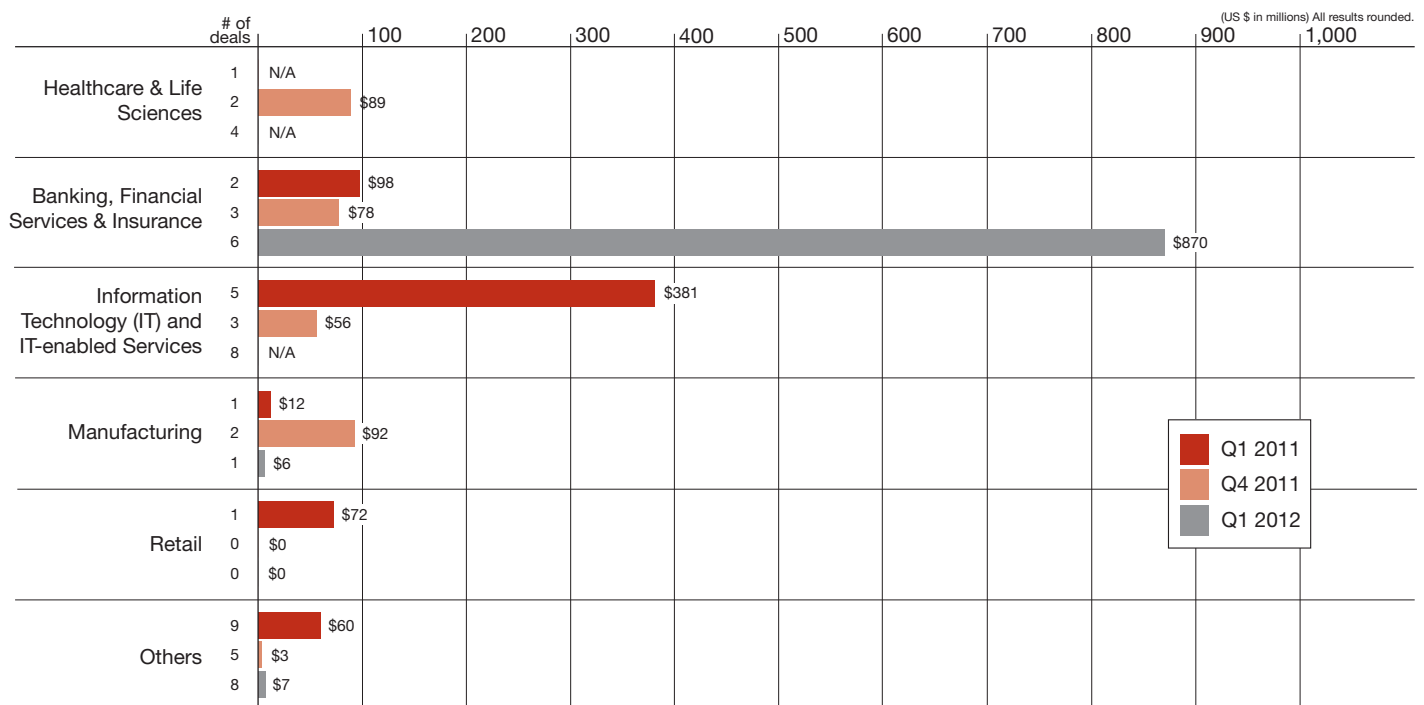
Q1 '11, Q4 '11 and Q1 '12

The BFSI sector tops the list for PE exits this quarter, with an exit value of US\$870 million from six deals. Out of the six BFSI deals, four were through public market sale.

In terms of the exit volume, the IT & ITeS sector saw eight exits, the highest across industries in this quarter. Out of the total eight exits in this sector, three were through strategic sale.

Over the last few quarters, the IT & ITeS sector has witnessed the highest number of exits across industries. Most of these exits have been from the Tier II and Tier III companies and through strategic sales. This clearly indicates that the sector is going through a phase of consolidation where financiers and analysts believe that small players will merge or collaborate to attain a critical mass to be able to compete for large deals. In the current scenario, the size and scale of a company plays a critical role when competing for large deals.

Hari Rajagopalachari
 Leader, Technology
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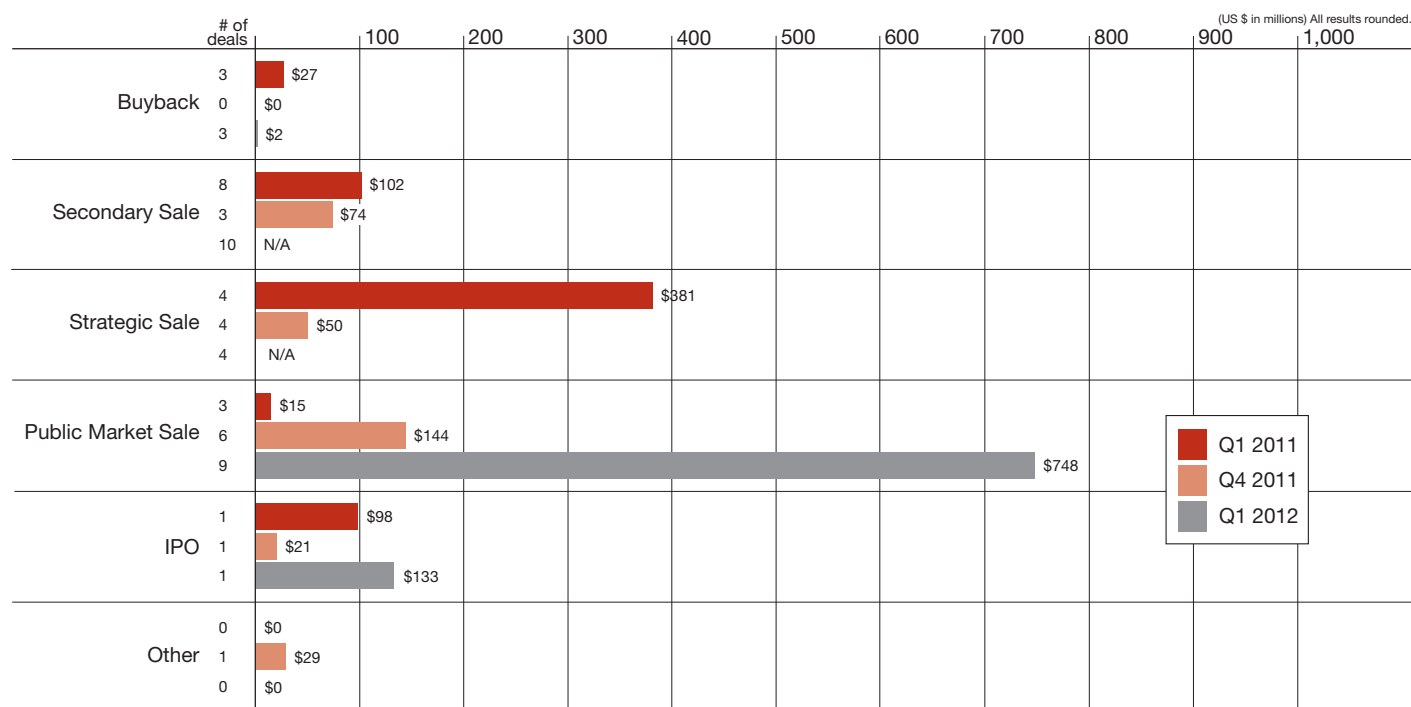
Note: Others include Engineering & Construction, Shipping & Logistics, Energy, Textiles & Garments, Media & Entertainment, Agri-business, Other Services, Education, Telecom and Gems & Jewelry.

Exits by type

Q1 '11, Q4 '11 and Q1 '12

Secondary sale and public market sale are seen as the preferred routes for PE exits this quarter (10 and nine exits respectively). Public market sale has fetched the highest exit value, worth US\$748 million (about 85% of total exit value).

This quarter saw only one initial public offer (IPO) deal worth US\$133 million, a value of more than six times that of Q4 '11.



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

Data provided by Venture Intelligence.

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

Top 10 PE exits

Q1 '12

The top four exits comprised the majority of total exit value in Q1 '12.

Company	Industry	Investor	Deal amount (US\$ mn)
Kotak Mahindra Bank	BFSI	Warburg Pincus	285.0
HDFC	BFSI	Carlyle	276.0
Kotak Mahindra Bank	BFSI	Warburg Pincus	175.0
MCX	BFSI	New Vernon, Kotak PE, Fidelity, ICICI Venture, Intel Capital, GLG Partners, Passport Capital, Merrill Lynch, Ashmore Alchemy	133.0
Sanghi Industries	Manufacturing	Spinnaker Capital	6.0
Gati	Shipping & Logistics	AMP Capital	3.8
Sattva CFS & Logistics	Shipping & Logistics	Eredene Capital	1.7
Dhanlaxmi Bank	BFSI	Bessemer	1.2
KS Oils	Agri-business	Citi	0.6
GSS America	IT & ITeS	Clearwater Capital	0.2

Data provided by Venture Intelligence.

4. Active PE firms

Sequoia Capital India is the most active investor for the quarter based on the volume of deals. Accel India and IFC share the second slot with four deals each. The 20 most active PE investors listed below account for 44% of the total private equity deals in the first quarter.

Investors	City	No. of deals*
Sequoia Capital India	Bangalore	8
Accel India	Bangalore	4
IFC	Delhi	4
IndoUS Ventures	Bangalore	3
Aarin Capital	Bangalore	2
Aureos India	Mumbai	2
BanyanTree Growth Capital	Mumbai	2
Beacon India	Mumbai	2
Blume Ventures	Mumbai	2
IDFC PE	Mumbai	2
IDG Ventures India	Bangalore	2
India Venture Partners	Maryland	2
IndiaVenture	Mumbai	2
NYLIM India	New Delhi	2
Ojas Ventures	Bangalore	2
Seedfund	Mumbai	2
Tano Capital	Mumbai	2
Tiger Global	New York	2
Ventureast	Chennai	2
Wolfensohn & Co.	Delhi	2

Data provided by Venture Intelligence.

* Number of deals includes 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 counted as one deal for each of the firms.

Definitions

Stages of development

Early stage: First or second round of institutional investments into companies that are:

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

Growth Stage:

- Third or fourth round 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 mn

Growth stage – PE:

- First or second round investments of more than US\$20 mn, 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 publicly-listed companies via preferential allotments or private placements, OR
- Acquisition of shares by PE firms via the secondary market

Buyout:

- Acquisition of controlling stake via purchase of stakes of existing shareholders

Buyout – Large:

- Buyout deals of US\$100 mn plus in value

Other:

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

Types of PE exits

Buyback:

- Purchase of the PE or VC investors' equity stakes by either the investee company or its founders/promoters

Strategic sale:

- 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:

- Purchase of the PE or VC investors' equity stakes by another PE or VC investors

Public market sale:

- 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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