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PricewaterhouseCoopers India Pvt Ltd

MoneyTree™ India Report

Q1 2013

Data provided by Venture Intelligence

Technology Institute

This special report provides summary results of Q1 '12, Q4 '12, and Q1 '13.

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1. Overview

Caution prevails

The first quarter of 2013 started on a weak note for the private equity (PE) industry. For the first time since 2009, the aggregate PE investments fell below a billion dollars for the first quarter. At 929 million USD, PE deal values were 56% lower as compared to Q1 ’12, and 18% lower than Q4 ’12.

In an uncertain global environment, the declining deal volume indicates that the confidence of investors has yet to return following the regulatory and tax concerns stemming from uncertainties resulting from efforts to change tax laws retroactively. There were some large deals in the pipeline by some of the large funds during Q1’13. However, these are expected to take a long time to consummate and, hence, they did not impact the deal values for Q1 ’13.

Considering the upcoming elections, the mood for 2013 could turn more cautious. Some investors have clearly indicated their shift in focus to other South Asian economies, including Indonesia, Thailand, Taiwan and the Philippines in the near term. However, this may also be a time when tenacious investors can find some of the best deals in India.

There has been some good news on the macroeconomic side, including the softening in inflation levels and better index of industrial production (IIP) numbers. The falling crude prices and lower gold imports will hopefully ease concerns on India’s current account deficit.

We expect much greater commitment from PE investors in the next two quarters. While consumer, technology, logistics and healthcare sectors look favourable from an investing point of view, we also expect deal activity to return to the ‘core’ sectors (i.e., infrastructure and capital goods), as well as the financial services sector. The issue of banking licences will, in particular, spur some of the large business houses with financial services assets to restructure, and to pursue additional financing.

Sanjeev Krishan
Executive Director
Leader, Private Equity
PricewaterhouseCoopers India Pvt Ltd

2. Analysis of private equity investments

Total equity investments in PE-backed companies

The first quarter of 2013 saw investments of 929 million USD across 66 deals by PE firms. The quarterly PE investments dropped by 18% and 33% in terms of value and volume respectively, as compared to the previous quarter (i.e., Q4 ’12). This is the first time in the last three years that investments in the first quarter went below the billion mark.

In comparison with the same quarter last year, i.e., Q1 ’12, there has been a significant decline of 56% in terms of value and 44% in volume of deals.

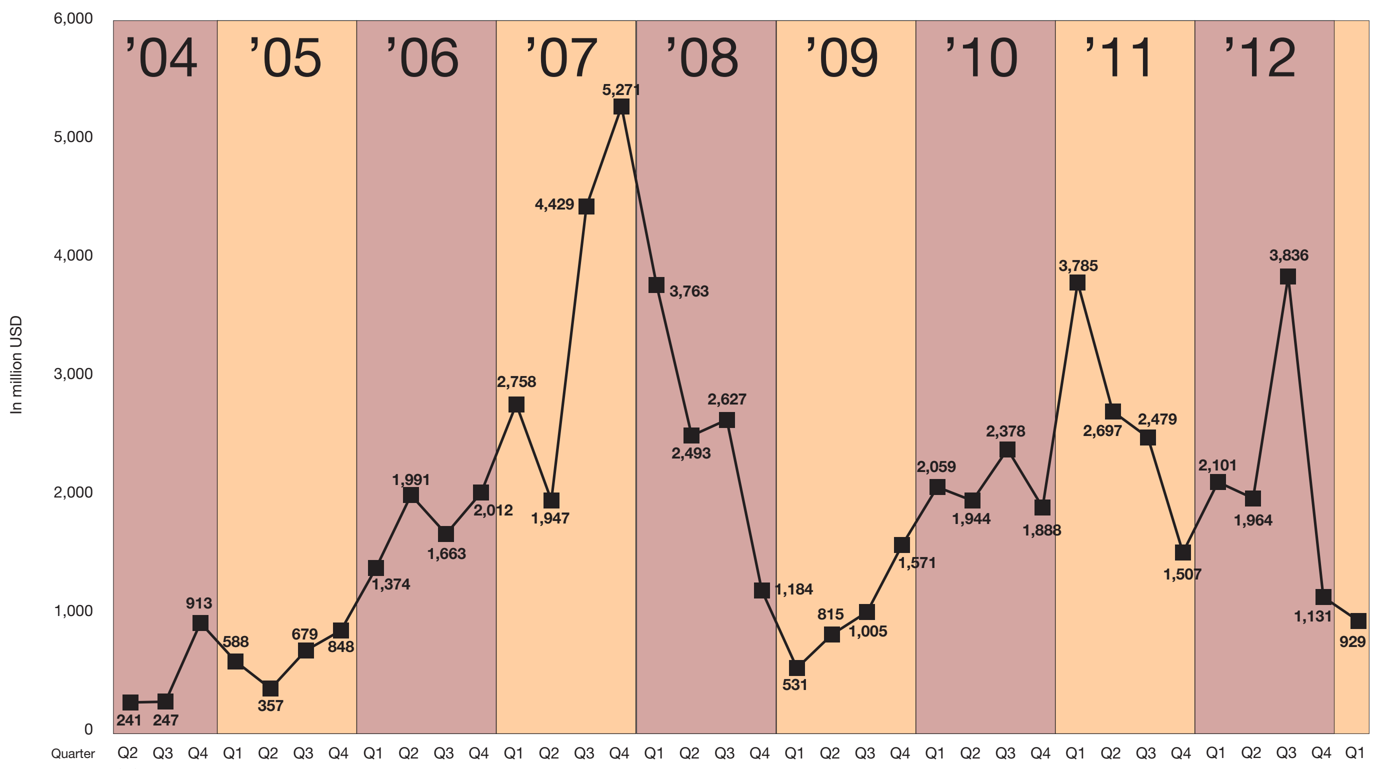
With 26 deals worth 105 million USD in Q1 ’13, the information technology (IT) and IT-enabled services (ITeS) sector is the leader in terms of volume. However, the sector witnessed a decrease of 40% in value and 28% in volume as compared to the preceding quarter.

In terms of value, the banking, financial services and insurance (BFSI) sector led the quarter, with investments worth 248 million USD in eight deals. This is a three-fold growth in value as compared to Q4 ’12.

The energy sector also tripled its investments this quarter—159 million USD from two deals as compared to 47 million USD from three deals in the previous quarter.

The shipping and logistics sector saw an increase of 94%, with investments worth 93 million USD from three deals as compared to the 48 million USD investment from two deals in Q4 ’12.

A few other sectors, such as healthcare and life sciences, education and textiles and garments have recorded a considerable drop in the value and volume of deals in this quarter as compared to the last quarter.



Data provided by Venture Intelligence.

Investments by industry

Q1 ’12, Q4 ’12 and Q1 ’13

The BFSI sector has seen the highest level of PE funding this quarter. It attracted investments worth 248 million USD in eight deals, constituting 27% of the total investment this quarter. The average deal size for the sector also grew from 10 million USD in Q4 ’12 and 23 million USD in Q1 ’12 to 31 million USD in the current quarter, i.e., Q1 ’13.

There has been a slightly quicker pick-up in PE investments in the BFSI sector in Q1 ’13. Contributory factors include increased policy actions, expected legislative discussions of some long-pending bills and a re-examination of the FDI (foreign direct investment) norms to make implementation simpler. The general performance of the BFSI units has been sequential and proved their innate resilience to navigate the twin challenges of the markets and changing regulations.

While it is possible that the debt markets will pick up gradually and support infrastructure requirements, PEs may have chosen a route through investments in BFSI entities. It remains to be seen how much further they are willing to stand in this sector if some expected policy decisions, such as rate cuts to boost consumer demand, are not to the expected extent.

Manoj K Kashyap,
Leader, Financial Services, PwC India

The energy sector witnessed the second highest investment in terms of value, with investments worth 159 million USD from two deals as compared to 47 million USD from three deals in the previous quarter (Q4 ’12) and 129 million USD from eight deals in Q1 ’12.

The revival of investment in the energy sector, even if it is dominated by a single deal in this quarter, suggests strengthening of an important trend. In the conventional energy space, higher power procurement costs under recent competitive tenders suggest bidders are factoring in various fuel disruption risks. The renewable energy projects thus appear more attractive in comparison, despite the uncertainties. Hence, they are attracting renewed investment interest.

It is noteworthy that this revival in renewable energy is taking place despite erosion of subsidies and operational support previously extended by the government and utilities respectively. We expect to see further investments flowing in, both from independents and from large energy users seeking a long-term hedge against sharp increase in retail tariffs seen in many states.

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

The IT and ITeS sector, once again, has received the highest number of deals (26) this quarter—close to 40% of the total. However, in terms of value, the sector has witnessed a significant decrease of 40% and 65% in investments as compared to Q4 ’12 and Q1 ’12 respectively.

Traditionally, the IT-ITeS sector usually sees the highest value and volume of investments. However, we have seen a marked drop in the investments this quarter, which can be attributed to the uncertain macro-economic and political environment. Most of the players in the online services segment, which typically attracts most investments in this sector, continue to struggle to turn cash positive. As a result, investors are critically evaluating the existing business/revenue models and are not willing to invest in ‘me-too’ ventures.

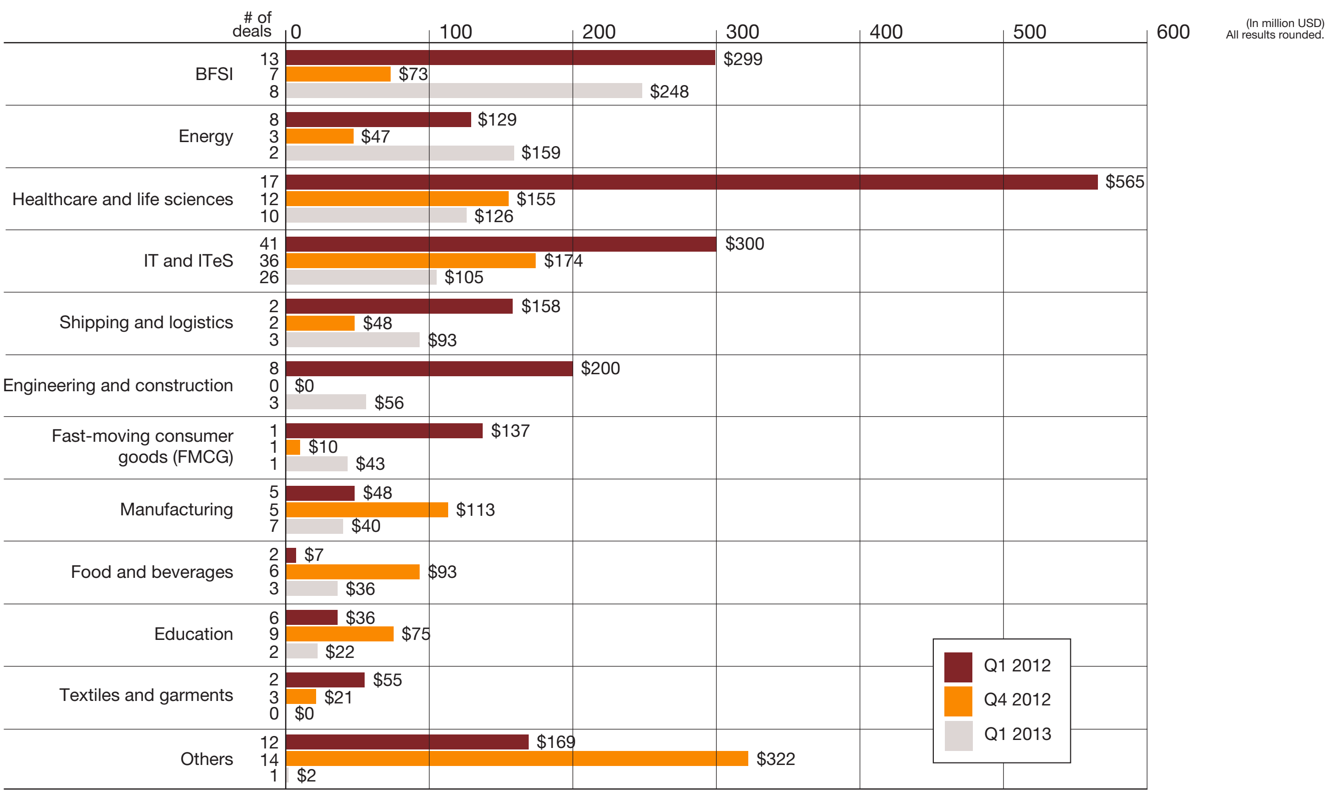
Sanjay Dhawan,
Leader, Technology, PwC India

The shipping and logistics and the fast moving consumer goods (FMCG) sectors have shown a spurt in the value of investments. Shipping and logistics recorded three deals worth 93 million USD this quarter, which is almost double the value of investment in the preceding quarter. As compared to the same period last year, the sector, however, saw a drop of over 40% in value of investments despite an additional deal this quarter.

The FMCG sector saw a four-fold growth in investments this quarter. It increased from 10 million USD in Q4 ’12 to 43 million USD from a single deal in each of the quarters. But in Q1 ’12, the sector witnessed investments worth 137 million USD from a single deal. This is more than three times the investments in Q1 ’13.

The engineering and construction sector also saw growth in both the value and volume of investment in this quarter after not recording even a single deal in the previous quarter. The investments currently stand at 56 million USD from three deals. However, when compared to the same quarter last year, there has been a significant decline of 72% and 63% in value and volume of deals, respectively.

Among the key sectors, in addition to IT and ITeS, the food and beverages, manufacturing, textiles and garments, education, and healthcare and life sciences sectors have reported considerable declines in the value of investments in this quarter as compared to the preceeding quarter.



Data provided by Venture Intelligence.

Note: ‘Others’ includes other services, media and entertainment, travel and transport, hotels and resorts, sports and fitness, advertising and marketing, telecom, agri-business, retail, diversified businesses and mining and minerals.

Investments by stage of development

Q1 '12, Q4 '12 and Q1 '13

In Q1 '13, private equity investments in late-stage deals recorded the highest value, with 271 million USD from 16 deals. However, as compared to the previous quarter, it witnessed a drop of 47% in value and 27% in volume of deals. Compared with the same period last year, the drop is even sharper, with a decline of over 60% in value and 51% in number of deals.

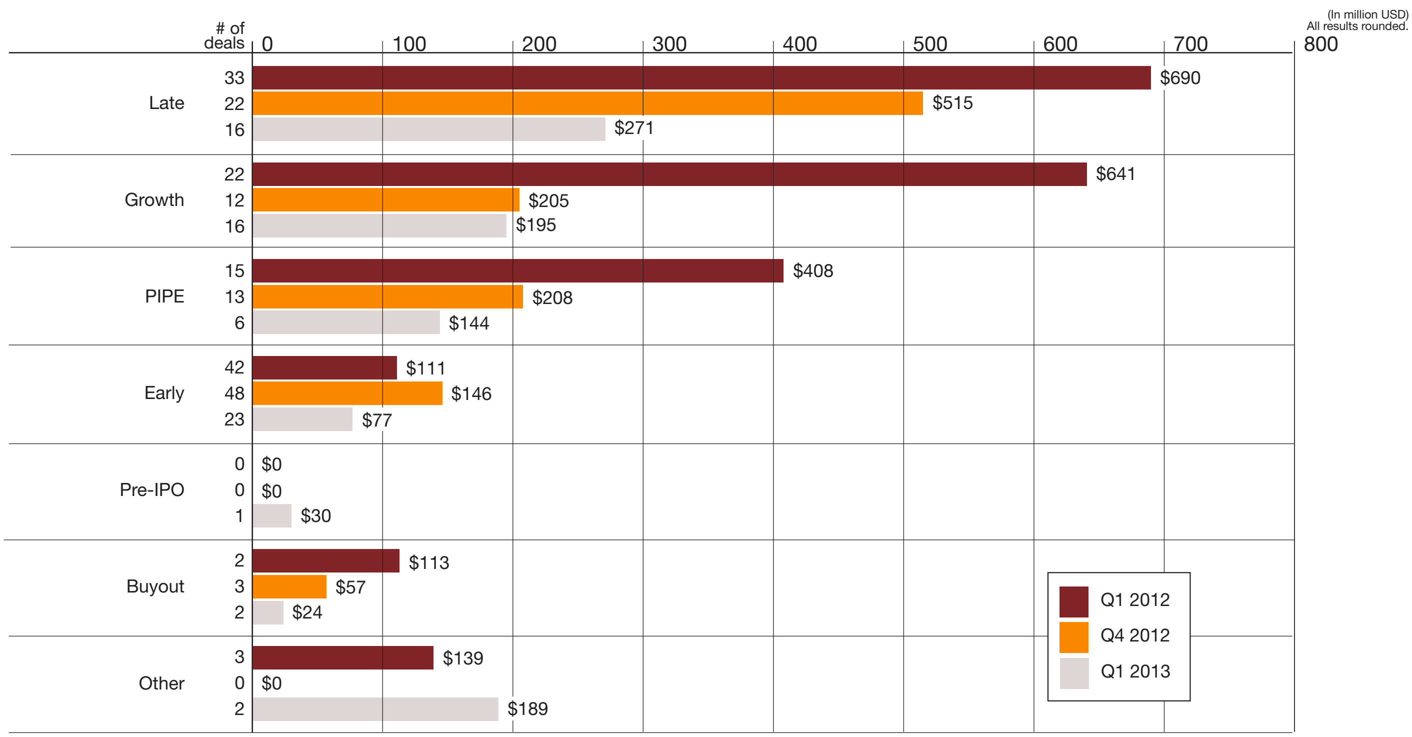
The growth stage stands second in terms of investment value, with investments worth 195 million USD from 16 deals. This is a decline of 5% in value and an increase of 33% in volume as compared to the preceding quarter.

Private investment in public equity (PIPE) deals, with an investment worth 144 million USD, has shown a drop of over 30% in value and 54% in volume this quarter. Even when compared to the same period last year, i.e., Q1 '12, they have shown a significant decrease of 65% in value and 60% in the number of deals.

The early-stage category stands fourth in terms of investment value, but has the highest number of deals in this quarter (23 deals worth 77 million USD). The volume of deals in the early stage is close to 35% of the total deal volume. However, they have shown a decline of 47% and 52% in terms of value and volume respectively since the last quarter. And compared with Q1 '12, they have shown a decline of 31% in value and 45% in volume.

There were two buyout deals worth 24 million USD in this quarter, but the category witnessed a decline of 58% in value of investments and one deal less as compared to the preceding quarter.

This quarter witnessed one deal in the pre-IPO stage worth 30 million USD. In the other two periods, i.e., Q4 '12 and Q1 '12, there was not even a single deal in the pre-IPO stage.



Data provided by Venture Intelligence.

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

Q1 ’12, Q4 ’12 and Q1 ’13

Hyderabad has emerged as the top region this quarter, surpassing regions such as Mumbai and the National Capital Region (NCR) in terms of investments. In this quarter, Hyderabad witnessed investments worth 212 million USD from six deals, more than double the value of investment received in the previous quarter, despite a 45% drop in the number of deals. Even when compared to Q1 ’12, the investment in this region has shown growth of about 5%. However, the volume of deals has gone down by 33% this quarter.

Chennai received the second highest value in funding this quarter, with 183 million USD from nine deals as compared to 81 million USD from two deals in Q4 ’12, more than two-fold growth. As compared to the investments (i.e., 141 million USD from 10 deals) in the same quarter last year, the investment in this quarter has shown a 29% increase in value, but a 10% drop in the volume of deals.

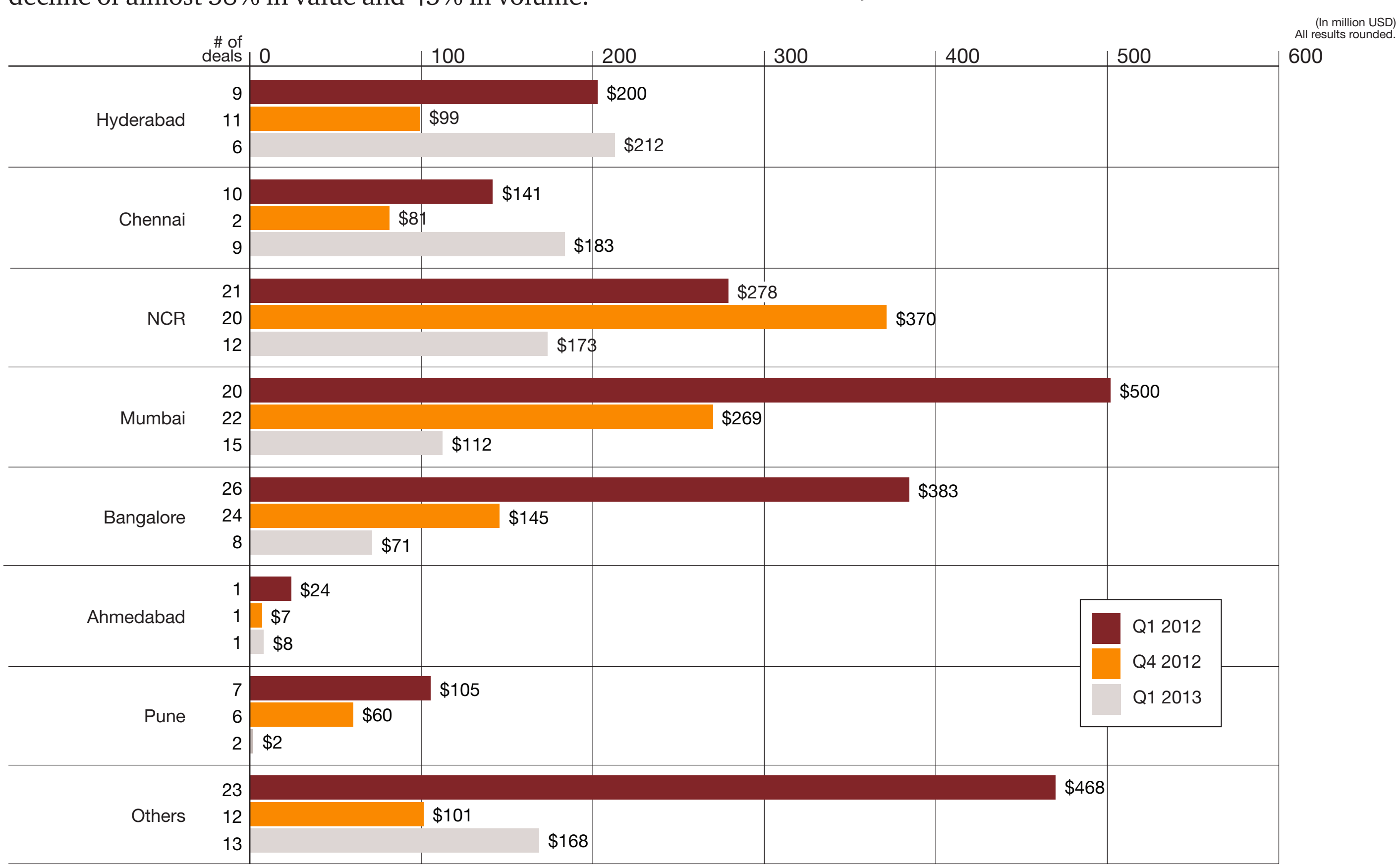
Even though the NCR has retained its place in the top three regions, with funding of 173 million USD from 12 deals, the investments have fallen by a significant 53% in value and 40% in volume of deals as compared to Q4 ’12. Even when compared to Q1 ’12, investment in the NCR showed a decline of almost 38% in value and 43% in volume.

Mumbai, too, witnessed a sharp drop of 58% from the previous quarter in terms of value and a 32% decline in terms of number of deals as compared to the previous quarter. As compared to the same period last year, the investments in Mumbai showed a decline of over 77% in value and 25% in volume.

Investments in Bangalore have dropped by half this quarter, from 145 million USD in Q4 ’12 to 71 million USD this quarter. It also witnessed a 67% drop in volume. The value of investments, when compared to Q1 ’12, also showed a steep decline of around 82% in value and 69% in the number of deals.

Pune, which had recorded an increase in value and volume of investments in the last quarter, has witnessed an investment of just 2 million USD from two deals this quarter, a drop of more than 96% in value and 67% in volume of deals.

In the ‘others’ category, the quarter held a few single deal investments in Tier 2 and Tier 3 cities such as Kolhapur (60 million USD), Jaipur (22 million USD), Indore (20 million USD), Visakhapatnam (16 million USD) and Surat (7 million USD).



Data provided by Venture Intelligence.

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

Top 20 PE deals

Q1 ’13

The top 20 deals comprised 78% of total deal value in Q1 ’13. The top three deals constituted 37% of the total top 20 deal value. About 95% of the deals in this quarter are below the value of 50 million USD.

Company	Industry	Investor(s)	Deal amount (In million USD)
Greenko Group	Energy	GIC	151
Ratnakar Bank	BFSI	IFC, Gaja Capital, Norwest, Argonaut, Aditya Birla PE, Ascent Capital, ICICI Bank, Faering Capital, IDFC Investment Advisors	60
Cholamandalam Investment and Finance Company	BFSI	New Vernon, Norwest, Multiples PE, others	55
Dr Lal PathLabs	Healthcare and life sciences	TA Associates, WestBridge	44
Dabur India	FMCG	Baring India	43
Transpole Logistics	Shipping and logistics	Everstone	41
GMR Infrastructure SPV	Engineering and construction	SBI-Macquarie	38
Hinduja Leyland Finance	BFSI	Everstone	37
United Liner Agencies of India	Shipping and logistics	IDFC Project Equity	35
Repco Home Finance	BFSI	Wolfensohn and Co, Creador Capital	30
HealthCare Global	Healthcare and life sciences	Temasek	26
Star Health and Allied Insurance Company	BFSI	Tata Capital	23
EuroKids International	Education	Gaja Capital, Others	22
AU Financiers	BFSI	ChrysCapital	22
Barbeque Nation	Food and beverages	CX Partners	20
MCX	BFSI	Blackstone	19
20Cube Logistics	Shipping and logistics	Zephyr Peacock, Credence Partners	17
Vijay Nirman	Engineering and construction	ICICI Venture	16
Healthkart	IT and ITeS	Sequoia Capital India, Intel Capital	14
Globus Spirits	Food and beverages	Templeton Strategic Emerging Markets Fund	13

Data provided by Venture Intelligence.

3. Analysis of PE exits

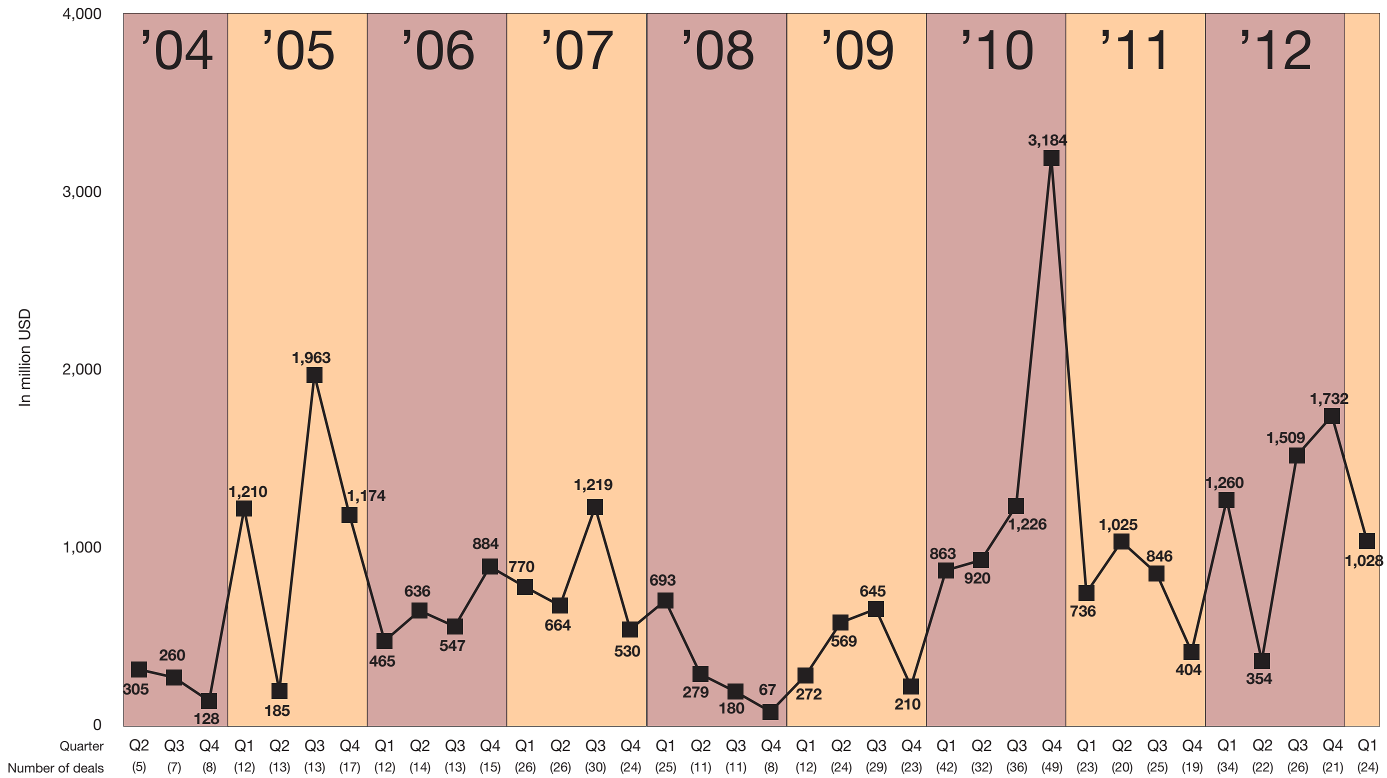
Total PE exits

The exit activity in this quarter has shown a decline in value of over 40%, despite a 14% growth in the number of exits as compared to the previous quarter. In Q1 ’13, PE exits were valued at 1.028 billion USD in 24 deals as compared to Q4 ’12 when PE exits were worth 1.732 billion USD in 21 deals.

As compared to the same period last year, the exits have shown a decrease of 18% in value and 29% in volume. In Q1 ’12, exits were worth 1.260 billion USD from 34 deals.

The majority of the exits in this quarter came from the IT and ITeS and the BFSI sectors, the two contributing around 59% of the total exit value and 38% of the total volume.

In this quarter, over 79% of the exits by value have been through a public market sale (815 million USD) from nine deals. Exits through strategic sale reported the next highest value at 106 million USD from seven deals.



Data provided by Venture Intelligence.

Exits by industry

Q1 ’12, Q4 ’12 and Q1 ’13

The BFSI sector tops the list for PE exits, with five deals worth 393 million USD. This constitutes 38% of the total deal exit value. However, when compared to the preceding quarter, the exits in this sector have fallen by 55% in value despite an additional deal in this quarter. Even when compared to the same period last year, the exits have shown a decline of 51% in value and 29% in number of deals.

In terms of exit value, the IT and ITeS sector stands second, with 213 million USD from four deals in this quarter, a drop of 49% in value as compared to the last quarter, but an increase of 65% in value vis-à-vis Q1 ’12.

The healthcare and life sciences sector witnessed almost four-fold growth in exit value this quarter, from 50 million USD (two deals) in Q4 ’12 to 196 million USD (three deals) in Q1 ’13

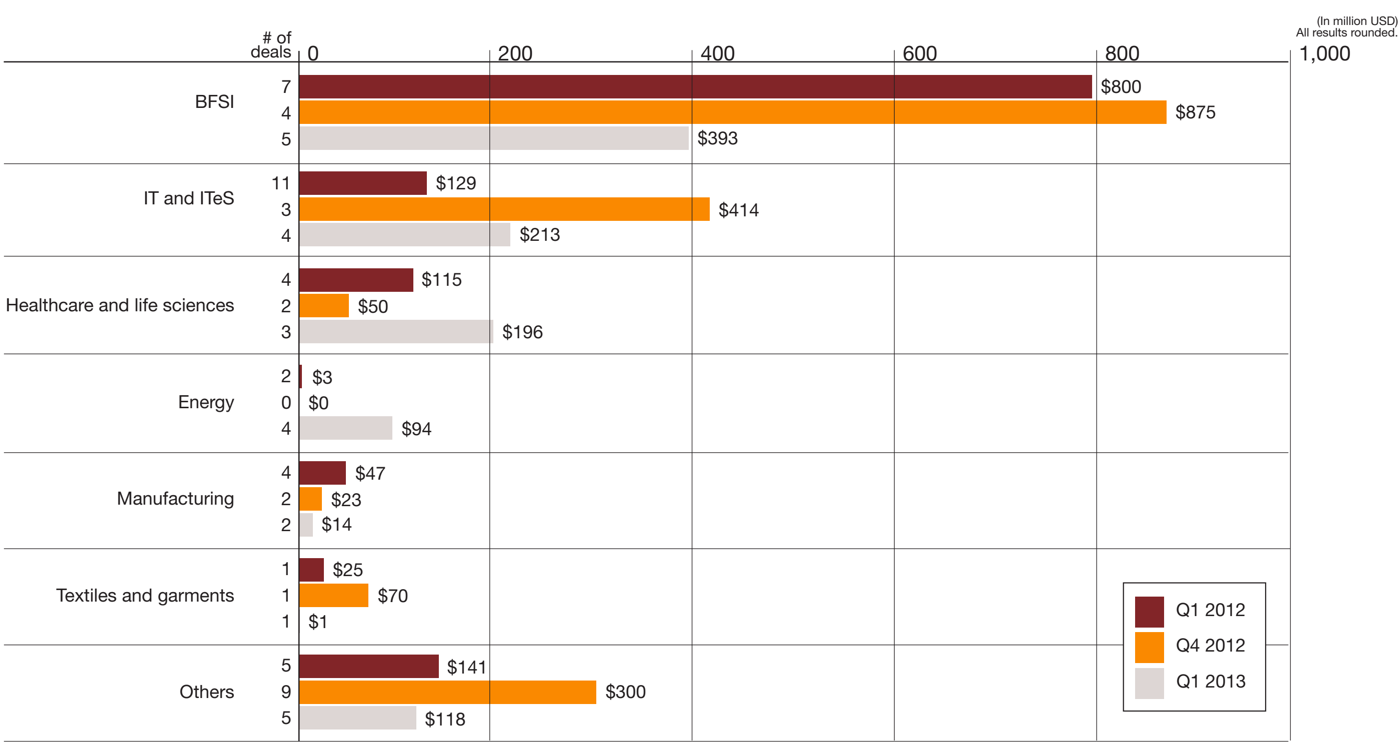
In recent years, healthcare has seen major investments from PE players to the tune of over a billion dollars. The PEs are also making healthy exits, even though the IPO market is not at its best. Most of the exits have come in the form of secondary sale to the new PE partners in the company and, in many cases, with additional investments. It is clear that the interest in the sector has increased as investors have realised that this segment is weatherproof and also provides several exit channels.

This momentum has only one challenge and that is the lack of adequate numbers of quality assets in the country. Most of the quality assets are already invested in and the investors now wait for the subsequent rounds to happen when the earlier investor exits. This situation is representative of the fact that most of the companies have been an entrepreneurial venture and they take time to structure the company to be palatable to the investor.

Dr Rana Mehta,
Leader, Healthcare, PwC India

The energy sector too saw exits worth 94 million USD from four deals after not reporting any exits in the preceding quarter.

The textiles and garments and manufacturing sectors, which recorded high growth in the previous quarter, showed a respective decline of 98% and 40% in exit values.



Data provided by Venture Intelligence.

Note: Others include engineering and construction, shipping and logistics, media and entertainment, energy, agri-business, other services, education, retail, FMCG, food and beverages and hotels and resorts.

Exits by type

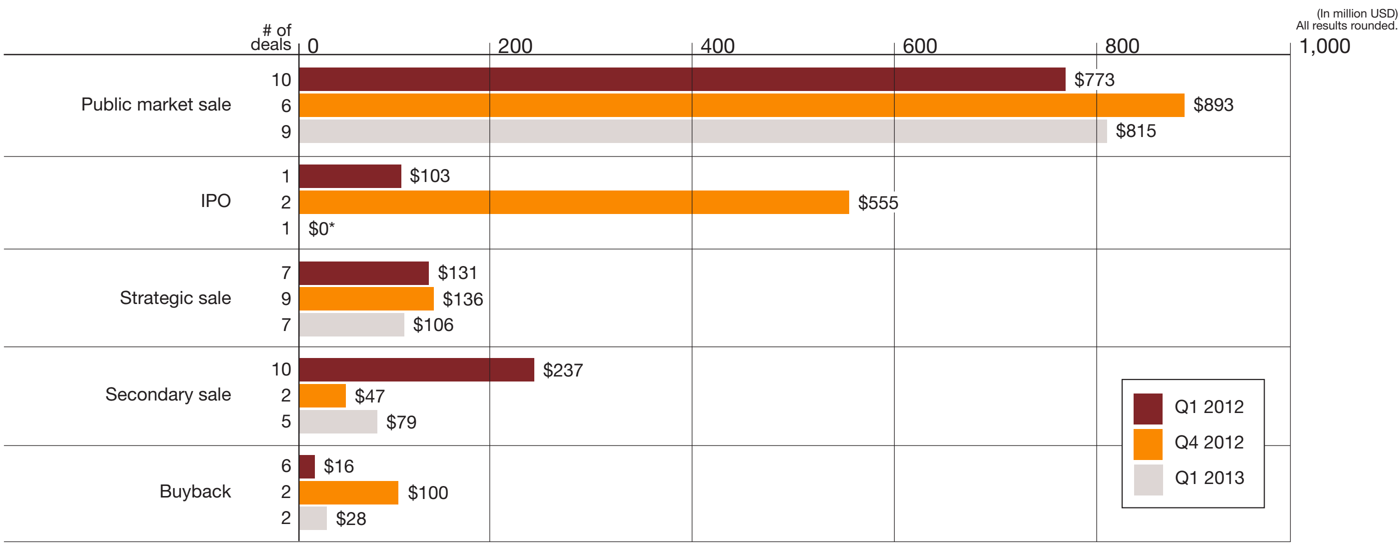
Q1 ’12, Q4 ’12 and Q1 ’13

The preferred modes of exits in this quarter have been through public market sale (nine exits) and strategic sale (seven exits), constituting 67% of the total exit volume. The other modes of exits were secondary sale (five exits), buyback (two exits) and one exit through IPO.

In Q1 ’13, the public market sale fetched the highest exit value, worth 815 million USD (about 79% of the total exit value). However, as compared to Q4 ’12, the exit value has fallen by 9% despite a 50% increase in the volume of deals.

The exits through strategic sale and buyback, in this quarter, have shown a considerable drop of 22% and 73% respectively in terms of exit value as compared to Q4 ’12.

In this quarter, exits through secondary sales (79 million USD from five deals) have shown significant growth of over 68% in terms of value with three additional deals as compared to the previous quarter (47 million USD from two deals). However, when compared to the same quarter last year, the volume of deals has halved and the value has fallen by over 66%.



** In Q1 2013, one of the companies got listed, thereby providing an exit opportunity for the investor, but the investor did not sell any shares as part of the IPO. Hence, there is no exit value for that deal.*

Data provided by Venture Intelligence.

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

Top five PE exits

Q1 '13

The top two exits comprised 49% and the top five constituted close to 79% of the total exit value in Q1 '13.

Company	Industry	PE firm(s)	Deal amount (In million USD)
Shriram Transport Finance	BFSI	TPG Capital	307
WNS Global Services	IT and ITeS	Warburg Pincus	192
Apollo Hospitals	Healthcare and life sciences	Apax Partners	180
Havells India	Energy	Warburg Pincus	84
Ikya Human Capital Solutions	Other services	India Equity Partners	37-47

Data provided by Venture Intelligence.

4. Active PE firms

Based on the volume of deals, Blume Ventures has emerged as the most active investor in this quarter.

Some of the most active PE investors in the first quarter of 2013 are as follows:

Investors	No. of deals*
Blume Ventures	5
Nexus Ventures	4
Norwest	4
Sequoia Capital India	3
Helion Ventures	3
Everstone	2
SAIF	2
Gaja Capital	2
Ventureast	2
Accel India	2
Motilal Oswal	2
Tiger Global	2
IDG Ventures India	2
Zephyr Peacock	2
India Quotient	2
IFC	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 accounted as one deal against each of the firms.*

Definitions

Stages of development

Early stage: This refers to the first or second round of institutional investments in companies that adhere to the following:

- Less than five years old
- Not part of a larger business group
- Investment is less than 20 million USD

Growth stage: It refers to investments of less than 20 million USD. Also, investments meeting the following criteria are considered in the growth stage:

- Third or fourth round funding of institutional investments
- 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

Growth stage—PE: This includes the following:

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

Late stage: This comprises the following:

- Investment in companies that are a decade old
- Seventh or later rounds of institutional investments

PIPEs: The following constitute as PIPEs:

- PE investments in public listed companies via preferential allotments or private placements
- 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 100 million USD or more 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 (IPO):

- This includes sale of PE or VC investors' equity stake in an unlisted company through its first public offering of stock.

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