

PricewaterhouseCoopers India Pvt Ltd

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

## Q3 2013

Data provided by Venture Intelligence

*Technology Institute*

*This special report  
provides summary results of  
Q3 '12, Q2 '13, and Q3 '13.*





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# 1. Overview

## *Uncertainty, fear and caution*

After a surprisingly promising Q2 '13, marked by a few large deals, Q3 '13 proved to be a disappointment. Total PE investments dropped by more than 50% and 67% in value (vs. Q2 '13 and Q3 '12 respectively). Interestingly, this was the worst quarter from an investment perspective since Q4 '09, a reflection that the steam is slowly but surely waning, ahead of the elections.

Other than IT and ITeS, all sectors declined considerably (in value terms) against the previous quarter. IT and ITeS surged 24% (in value) and 36% (in volume) vs. the prior quarter, reflecting investors search for 'defensive' investments, i.e., sectors least impacted by the vagaries (or the inertia) of the government policies and regulations. Another argument for the rush for doing a deal in the IT and ITeS sector could possibly also be the belief that the sector will likely witness growth once the West, in particular the US companies, start seeing sustained growth in their domestic market.

Overall, the private capital investment thesis continues to remain challenging for India—fund raise for all, but for the exceptional ones and with a pedigree of having returned capital to LPs, is over. Even for funds with a track record, the extent of scrutiny and diligence from the LP is far more intense than ever before.

The slowdown in investments aside, the roller-coaster of the Indian rupee, was the talk of the quarter. Never before had all sections of the community—individuals, corporate, investors and the government—got their bets so seriously wrong, with the Indian rupee hitting record lows day after day against the backdrop of rumours of the US tapering. Thankfully, the US Federal Reserve, in its wisdom, chose not to commence the tapering yet, much to the surprise of the market, which resulted in the Indian rupee regaining some sanity from the depths of 69 INR to a dollar.

The positive spin to the otherwise negative quarter was the arrival of Raghuram Rajan as the central bank head, an incident that seems to have charmed the market away with bold announcements. The stock market has hit an all-time high, as the rupee has stabilised from the turmoil it suffered before the new Governor took over.

While the political environment will remain uncertain for another two to three quarters, one can at least feel encouraged about the positive will that the new RBI Governor has brought about in his approach in handling the monetary policy. As Rajan rightly pointed out in his speech, "...we have to be careful of not injecting more uncertainty than the economy can handle..."

### **Sanjeev Krishan**

Executive Director

Leader, Private Equity and Transaction Services

PricewaterhouseCoopers India Pvt Ltd

## 2. Analysis of private equity investments

### Total equity investments in PE-backed companies

After an impressive second quarter, PE investments in this quarter, i.e., Q3 '13 have dropped by more than 50% in value and 31% in volume as compared to the previous quarter. PE firms have invested 1.28 billion USD across 75 deals in this quarter.

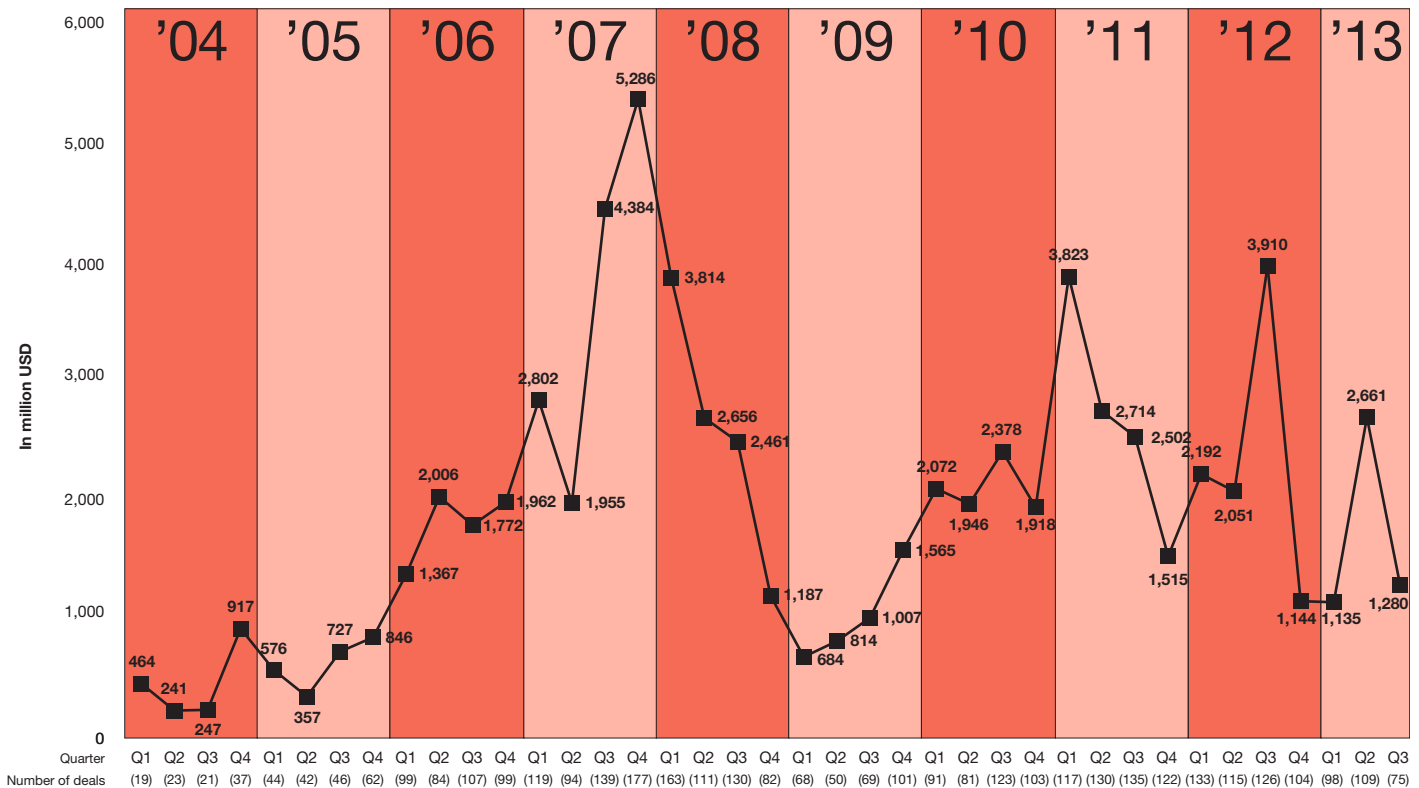
Even when compared to the same period last year, i.e., Q3 '12, there has been a decrease of 67% and 40% in value and volume, respectively. In Q3 '12, the value of investments was 3.91 billion USD from 126 deals.

With 25 deals worth 582 million USD in Q3 '13, the information technology (IT) and IT-enabled services (ITeS) sector is yet again the leader in terms of both value and volume. The sector has shown a 24% increase in value despite a 36% drop in number of deals as compared to the previous quarter.

The manufacturing sector, with investments worth 185 million USD from nine deals, ranked second in terms of investment value. However, the value fell by about 77% vis-à-vis Q2 '13, despite an additional deal in this quarter.

The healthcare and life sciences sector also witnessed a decrease of 35% in value of investments despite a 25% growth in the volume of deals.

Except for the IT and ITeS sector, all key sectors have shown a considerable drop in the value of investments in this quarter as compared to the previous quarter. And only three sectors—IT and ITeS, manufacturing and healthcare and life sciences—have reported more than 100 million USD in investments this quarter.



Data provided by Venture Intelligence

## Investments by industry

Q3 '12, Q2 '13 and Q3 '13

The IT and ITeS sector yet again has emerged as the leader in terms of value and volume of investments with a total investment of 582 million USD from 25 deals in Q3 '13. The sector witnessed a 24% growth in value despite a 36% drop in the number of deals as compared to the previous quarter. However, when compared to the same period last year, the sector has fared poorly with a significant drop of 76% and 55% in value and volume, respectively. In Q3 '12, the investments in this sector were worth 2.40 billion USD from 56 deals.

*The IT and ITeS sector being a less capital-intensive sector typically receives higher volume of investments (not necessarily high value) as against other sectors, especially during early stages of businesses being set up. Even in this quarter, more than 75% of the volume of deals in this sector was in the early stage. This quarter has also witnessed a couple of big deals in the online services and IT services segments. With the exponential growth and importance of e-commerce, a few of the leading online (e-commerce) companies have seen success and are now looking to leap into the next phase of growth by expanding their operations and hence attracting investments. And, with many PE firms focussing on the SME segment, we can expect more such investments in the small- and medium-sized IT services companies which offer niche services.*

**– Sandeep Ladda,**  
Leader, Technology, PwC India

The manufacturing sector ranked second in terms of value and third in volume. The sector witnessed investments worth 185 million USD from nine deals—a 77% drop in value as against the preceding quarter despite an additional deal. In Q2 '13, the sector investment was 801 million USD in eight deals. But when compared to Q3 '12, the investment value has grown by 22% with one additional deal in this quarter.

The healthcare and life sciences sector has shown a 35% drop in value quarter over quarter despite a 25% increase in the number of deals. It dropped from 242 million USD across 12 deals to 157 million USD across 15 deals. Even when compared to the same period last year, the value of deals has fallen by 21% despite a 15% growth in the volume of deals.

*The Indian healthcare sector observed an increase in the volume of PE deals while the average deal size in Q3 has dropped to 10.4 million USD from 20.1 million USD in Q2. This is representative of two things: that there is continued interest in the sector even after most of the exits are happening in the form of secondary exits, and that there are not enough deals with large absorption capacity. The sector has few home-grown players that have crossed 5 billion INR or more. While most of the other companies are much smaller in size, typical deal size falls between 10 million to 20 million USD. There was a large deal of 100 million USD by IFC in Fortis Healthcare in Q2 which increased the overall and average deal value. Most of the big PE players that have mandated to invest more than 50 million USD are watching the sector closely for an opportunity of this scale to invest.*

**– Dr. Rana Mehta,**  
Leader, Healthcare, PwC India

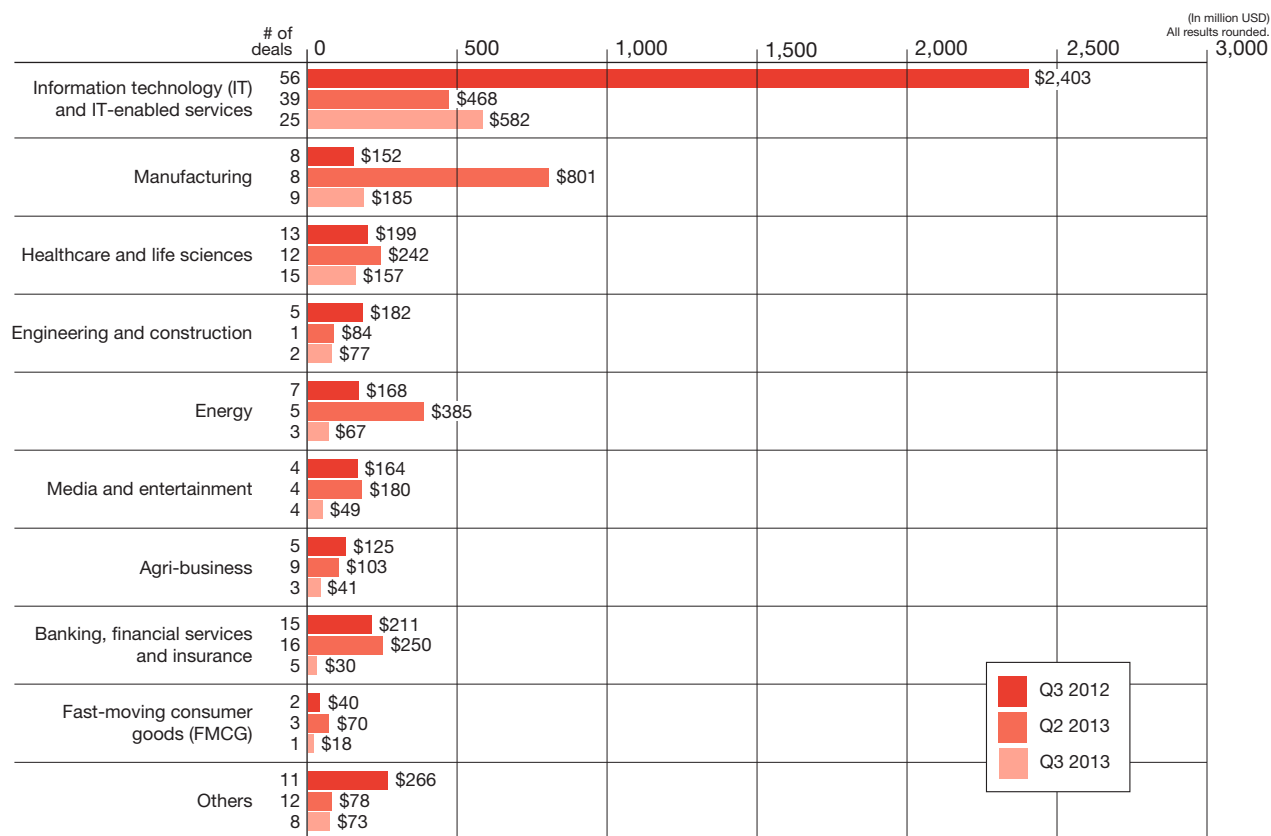
The engineering and construction sector too has shown a decline of 8% in value this quarter despite an additional deal. The sector witnessed investments worth 77 million USD (from two deals) in this quarter as compared to 84 million USD (a single deal) in the preceding quarter. Compared to Q3 '12, there has been a significant drop of 57% in value and 60% in the number of deals.

This quarter saw a significant drop in investments in all sectors except for the IT and ITeS sector. Sectors such as energy, media and entertainment, agri-business, banking, financial services and insurance (BFSI) and fast-moving consumer goods (FMCG) have all witnessed a significant drop of over 60% in the value of investments as compared to the previous quarter and also against the same quarter last year.



The banking, financial services and insurance (BFSI) sector had the biggest drop in the value of investments this quarter—from 250 million USD across 16 deals to 30 million USD across five deals—a substantial drop of 88% in value and 69% in number of deals. Even compared to Q3 '12, the sector witnessed a drop of 86% in value and 67% in volume.

The energy sector, which had seen a spurt in investments in the previous quarter, showed an investment value drop of 82% and 60% as compared to Q2 '13 and Q3 '12. The number of deals also showed a drop of 40% and 57% vis-à-vis Q2 '13 and Q3 '12.



Note: 'Others' include other services, hotels and resorts, travel and transport, shipping and logistics, education, sports and fitness, textiles and garments, advertising and marketing, telecom, food and beverages, mining and minerals, retail and diversified businesses.

Data provided by Venture Intelligence

## Investments by stage of development

Q3 '12, Q2 '13 and Q3 '13

In Q3 '13, private equity investments in the growth stage recorded the highest value, seeing 390 million USD from 13 deals. However, as compared to Q2 '13, the investments in this stage have fallen by 40% in value and 50% in volume. Even when compared against the same period last year, the investment value has dropped by 28% and the number of deals has gone down by 41%.

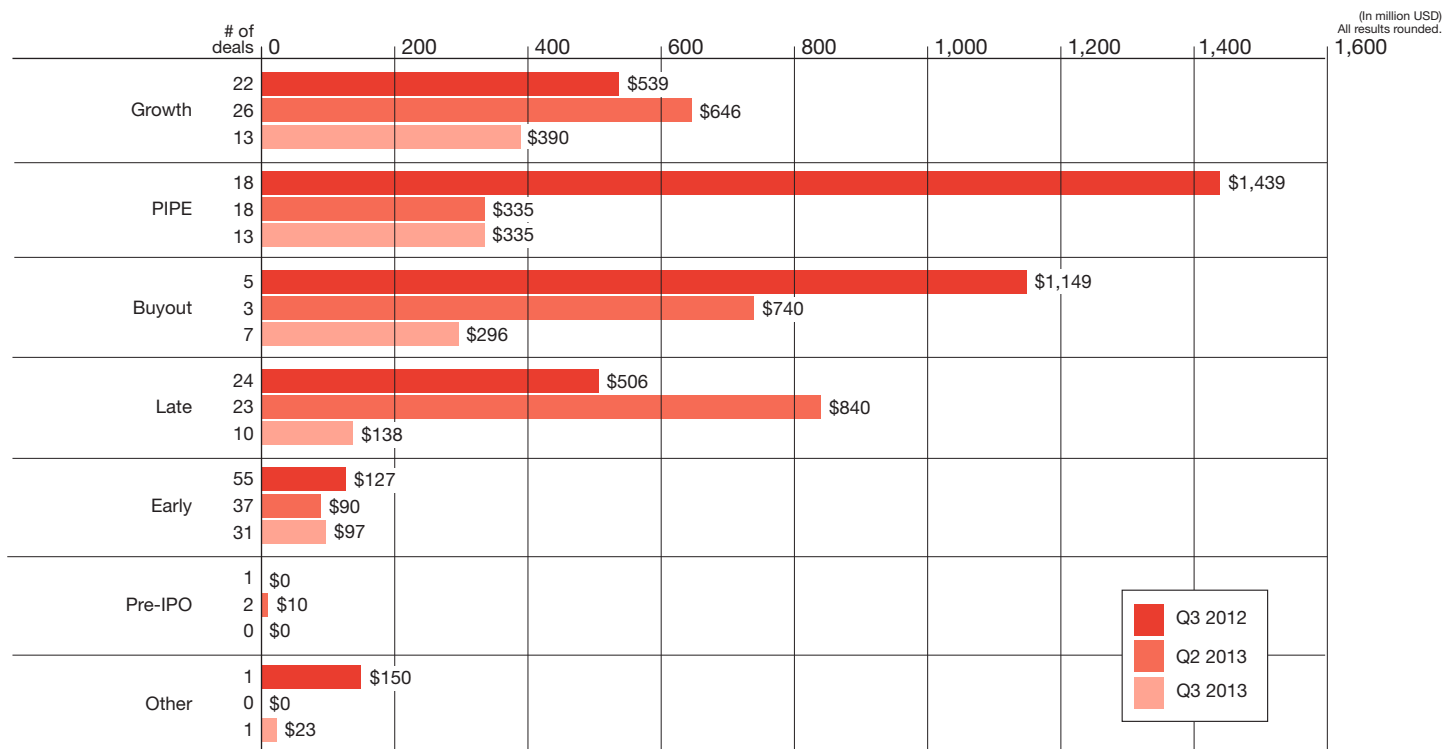
Private investment in public equity (PIPE) deals, with an investment worth 335 million USD, ranked second in terms of value. The value of investments in this stage has remained the same despite a 28% decrease in volume. However, compared to Q3 '12, investments have significantly declined by 77% (from 1.44 billion USD to 335 million USD) in value and 28% in the number of deals.

Buyout-stage deals have more than doubled their volume in this quarter (seven deals compared to three in Q2 '13), but the value of investments have shown a 60% drop, from 740 million USD to 296 million USD.

Late-stage deals have shown a huge drop in terms of both investment value and volume in this quarter as compared to the preceding quarter and also against the same period last year.

The early-stage category has the highest number of deals in this quarter (31 deals worth 97 million USD). The volume of deals in the early stage is about 41% of the total deal volume. This represents a slight increase of 9% in value despite a 16% drop in volume as compared to the previous quarter. Compared to Q3 '12, there has been a decline of 23% in value and 44% in volume.

This quarter did not witness any deal in the pre-IPO stage.



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.

Data provided by Venture Intelligence



## Investments by region

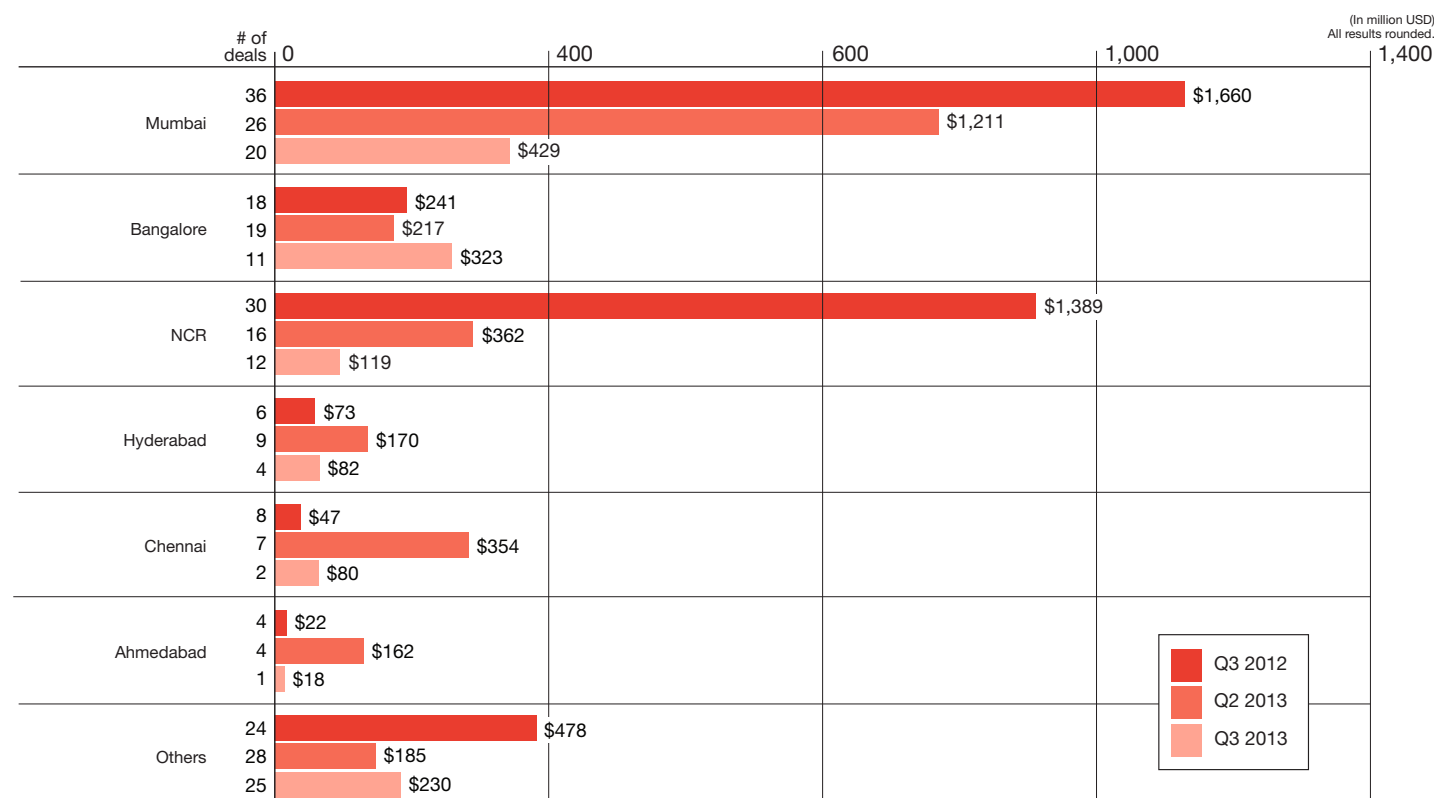
Q2 '12, Q1 '13 and Q2 '13

Mumbai has retained its position at the top, recording the highest level of funding at 429 million USD, which is about 34% of the total PE investments in this quarter. Even in terms of volume, Mumbai, with 20 deals, has the majority share at 27%. However, as compared to Q2 '13, investments have shown a significant decline of 65% and 23% in value and volume, respectively. As against the same period last year, the drop is much steeper, with 74% in value and 44% in number of deals.

Bangalore, the only region amongst the key regions in this quarter to see growth in the value of investments, stands second in terms of value, with an investment of 323 million USD from 11 deals, a 49% growth in value despite a 42% decrease in the volume of deals vis-à-vis the previous quarter.

Even though the National Capital Region (NCR) has retained its place in the top three regions on the basis of the value of deals (119 million USD), the value has fallen by 67% and 91% as compared to Q2 '13 and Q3 '12 respectively. In terms of volume, the NCR stands second, with 12 deals, despite a 25% drop as compared to the preceding quarter.

Hyderabad and Chennai, too, have seen significant drops in investment value this quarter—52% and 78%, respectively, as compared to Q2 '13. The volume of deals have also dropped for these regions—56% for Hyderabad and 71% for Chennai. However, as compared to the same quarter last year, both regions have shown growth in the value of investments—12% (for Hyderabad) and 68% (for Chennai), despite the drop in the number of deals.



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

Data provided by Venture Intelligence

## Top 20 PE deals

Q3 '13

The top 20 deals comprised 80% of the total deal value in Q3 '13. The top three deals constituted over 52% of the total top 20 deal value. About 93% of the deals in this quarter are below the value of 50 million USD.

Company	Industry	Investor(s)	Deal amount (In million USD)
Hexaware Technologies	IT and ITeS	Baring Asia	260
Flipkart	IT and ITeS	Tiger Global, Accel India, Iconiq Capital, others	200
Snapdeal.com	IT and ITeS	SoftBank Corp	75
Agile Electric	Manufacturing	Blackstone, others	74
Sansera Engineering	Manufacturing	Citi	56
Trichy Tollways	Engineering and construction	SBI-Macquarie	42.3
Amrit Jal Ventures SPV	Energy	GE Capital	42
Citrus Processing	Agri-business	Cargill Ventures, others	37
GMR Infrastructure SPV	Engineering and construction	IDFC Project Equity	35.1
Vikram Hospital & Heart Care	Healthcare and life sciences	Multiples PE	31.9
Halonix Technologies	Manufacturing	Actis	24
Adlabs Imagica	Media and entertainment	ICICI Venture	22.2
Hathway Cable & Datacom	Media and entertainment	Providence	18.4
Vini Cosmetics	FMCG	Sequoia Capital India	17.8
Rainbow Hospitals	Healthcare and life sciences	CDC Group, Abraaj Capital	17.5
YES Bank	BFSI	Norwest	17.2
Symbiotec Pharmed	Healthcare and life sciences	Actis	16.7
Khadim India	Retail	Reliance Equity	14.3
Fortis Healthcare	Healthcare and life sciences	StanChart PE	13.5
Global Hospitals	Healthcare and life sciences	ICICI Venture	12.2

Data provided by Venture Intelligence

### 3. Analysis of PE exits

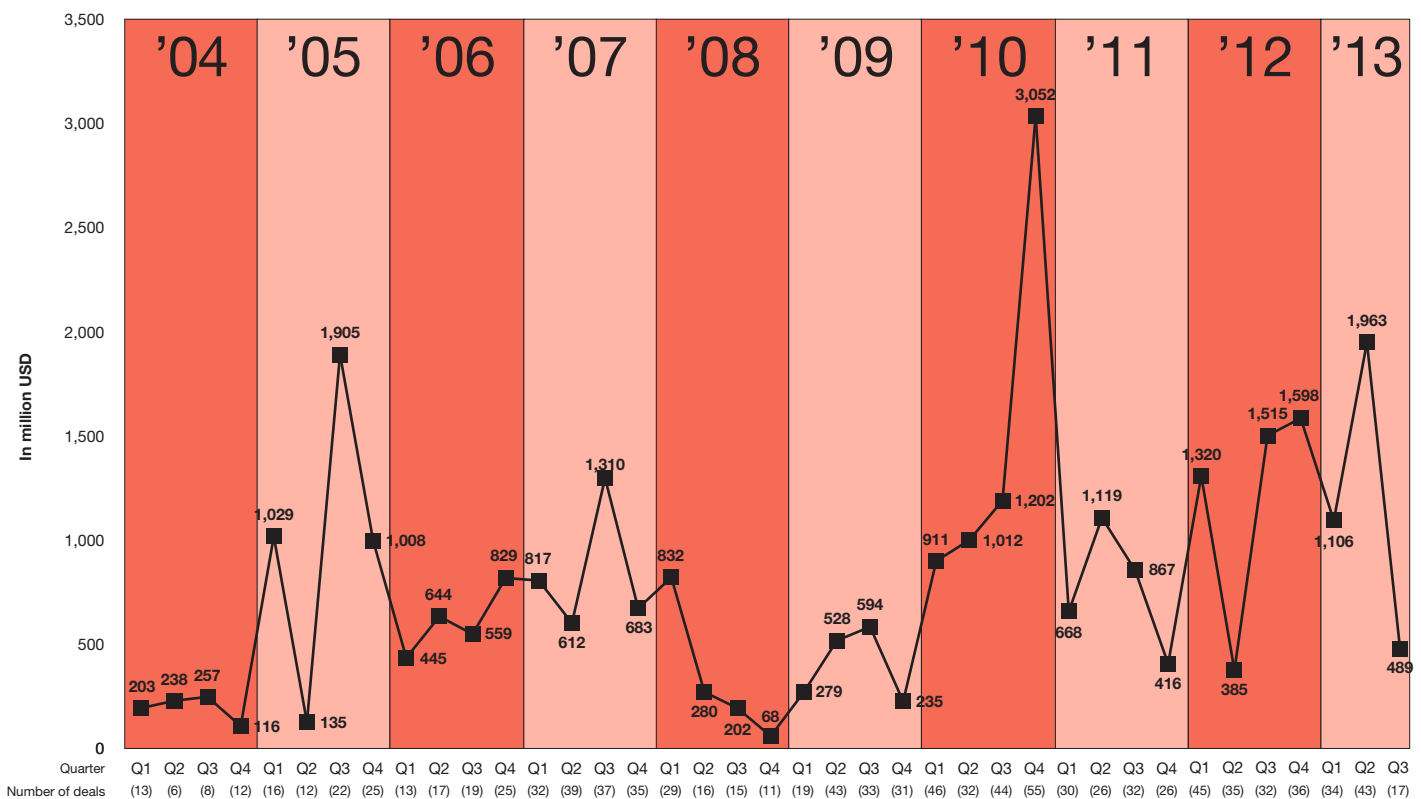
#### Total PE exits

The exit activity in this quarter has shown a significant drop in terms of value and volume when compared to the previous one. In Q2 '13, PE exits were worth 1.96 billion USD from 43 deals as compared to 489 million USD from 17 deals in this quarter, a drop of 75% in value and 60% in number of deals.

Compared to the same period last year, the exits have shown a decline of 67% and 47% in value and volume, respectively. In Q3 '12, there were 32 exits worth 1.52 billion USD.

The majority of the exits in this quarter came from the IT and ITeS and manufacturing sectors which together contributed around 65% of the total exit value and 59% of the total volume.

In this quarter, about 35% of the exits by value have been through buy-back (172 million USD from five deals). Exits through strategic sale reported the next highest share, with 27% of the exits valued at 132 million USD from two deals.



Data provided by Venture Intelligence

## Exits by industry

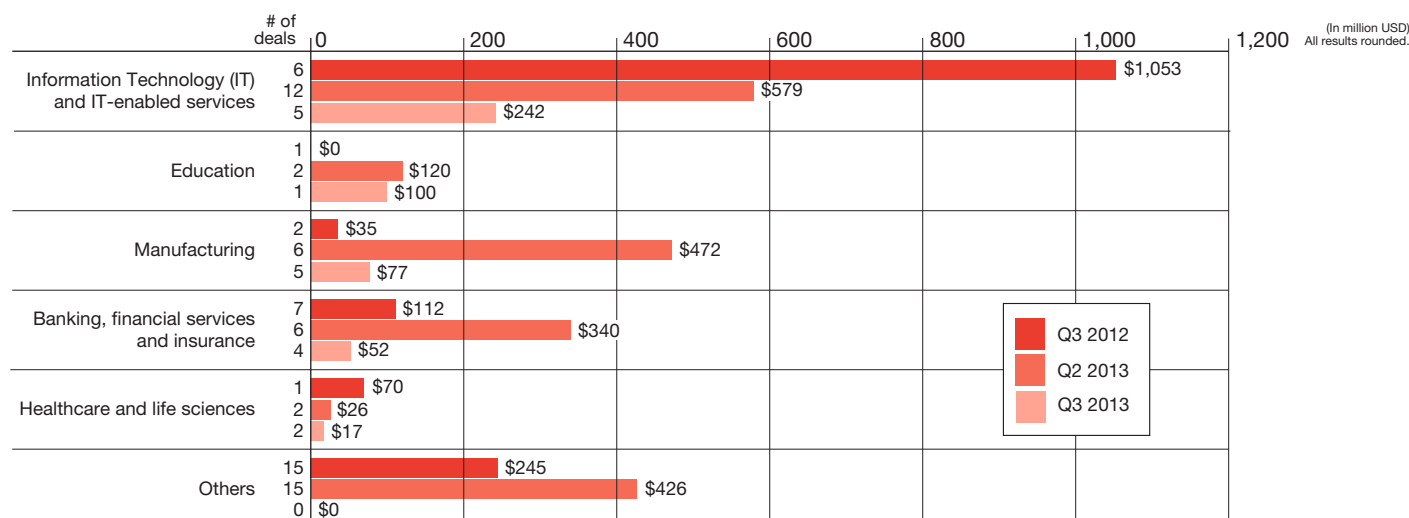
Q3 '12, Q2 '13 and Q3 '13

The IT and ITeS sector tops the list of PE exits in terms of both value and volume, with five deals worth 242 million USD. This constitutes 50% of the total deal exit value. However, when compared to the preceding quarter, the exits in this sector have more than halved, from 579 million USD from 12 deals to 242 million USD from five deals in this quarter. The story remains the same even when compared against the same period last year. In Q3 '12, the exits were worth 1.05 billion USD from six deals.

In terms of exit value, the education sector ranked second, with a single exit worth 100 million USD. However, this is a 17% drop in value as compared to the previous quarter (exits worth 120 million USD from two deals).

The manufacturing sector, along with the IT and ITeS sector, led in terms of volume in this quarter with five exits worth 77 million USD. However, in terms of exit value, the sector has shown a steep drop of 84% in this quarter as compared to Q2 '13. As against the same period last year, the exit value has more than doubled.

The BFSI sector witnessed an 85% drop in exit value along with a 33% drop in volume, from 340 million USD (six deals) in Q2 '13 to 52 million USD (four deals) in this quarter. Compared to the same period last year, the exits in this sector have shown a drop of more than 50% in value and about 43% drop in volume of deals.



Notes: 'Others' include engineering and construction, energy, telecom, FMCG, food and beverages, shipping and logistics, media and entertainment, textile and garments, agri-business, other services, retail and hotels and resorts.

Data provided by Venture Intelligence

## Exits by type

Q3 '12, Q2 '13 and Q3 '13

The preferred mode of exit this quarter has been through buyback (five exits). The other modes were public market and secondary sale (four exits each), strategic sale and exit through IPO (two deals each).

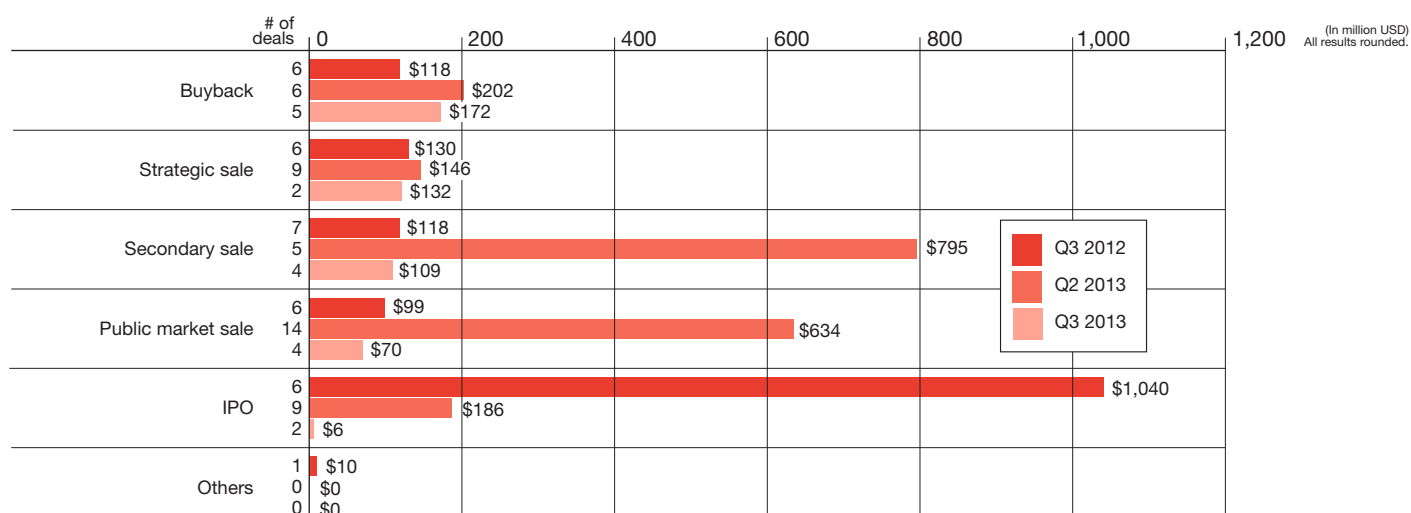
In Q3 '13, the exit through buyback fetched the highest value, worth 172 million USD (about 35% of the total exit value). However, the buyback exit type has dropped by 15% in value with one less deal as compared to Q2 '13. Compared with the same period last year, the exits through buyback have grown by 45%.

Strategic sale ranked second in terms of value, with exits worth 132 million USD from two deals. The volume of deals has dropped significantly this quarter, from nine deals in the previous quarter to two deals in this one.

Exits through secondary sale too have shown a steep decline in this quarter. In Q3 '13, secondary sale exits were worth 109 million USD (from four exits), an 86% drop in the exit value of 795 million USD (five deals) in the previous quarter.

Public market sale also witnessed a sharp fall of 89% in value and 71% in exit volume in this quarter compared with the preceding quarter. The exits through public market fell from 634 million USD (14 exits) to 70 million USD (four exits).

After a spurt of IPO exits in the previous quarters, the exits through IPO in this quarter were worth a meagre 6 million USD from a couple of deals.



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

Data provided by Venture Intelligence

## Top five PE exits

Q3 '13

The top two exits comprised 38% and the top five constituted close to 76% of the total exit value in Q3 '13.

Company	Industry	PE firm(s)	Deal amount (In million USD)
Manipal Universal Learning	Education	Premji Invest, Catamaran Ventures	100
Omnesys Technologies	IT and ITeS	Intel Capital	88
Hexaware Technologies	IT and ITeS	General Atlantic	88
Hexaware Technologies	IT and ITeS	ChrysCapital	50
Virgo Engineers	Manufacturing	Tano Capital	44

Data provided by Venture Intelligence

## 4. Active PE firms

Based on the volume of deals, Blume Ventures has emerged as the most active investors for Q3 '13.

The most active PE investors in the third quarter of 2013 include the following:

Investors	Numbers of deals*
Blume Ventures	5
Unilazer Ventures	4
Baring India	4
Tiger Global	3
SAIF	3
StanChart PE	3
India Internet Group	3
Actis	2
Kalaari Capital	2
Kae Capital	2
Accel India	2
Rajasthan VC	2
ICICI Venture	2
Ascent Capital	2

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

Data provided by Venture Intelligence



# 5. Sector focus: IT and ITeS

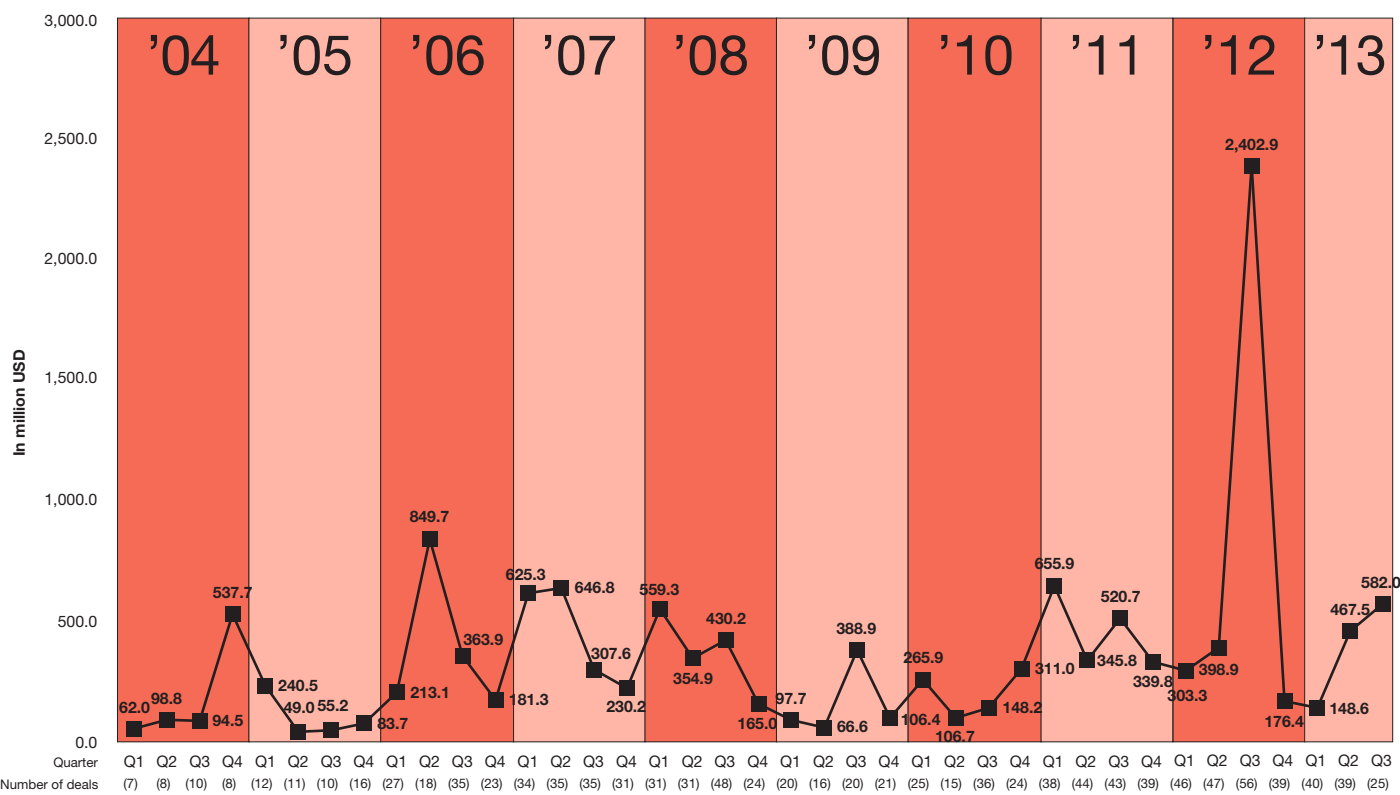
## Total PE investments

The IT and ITeS sector again has emerged as the leader in terms of both value and volume of investments, with an investment of 582 million USD from 25 deals in Q3 '13.

The sector witnessed an increase of 24% in the value of investments despite a 36% drop in the volume of deals as compared to the previous quarter. However, when compared to the same period last year, PE investments in this sector have shown a significant drop of 76% and 55% in

value and volume, respectively. In Q3 '12, the investments in this sector were 2.40 billion USD in 56 deals.

As in previous quarters, the IT and ITeS sector saw mostly early-stage deals with smaller values. This pattern continued in Q3 '13 as well. The average early-stage deal value for the last two quarters has been in the range of one to three million USD.

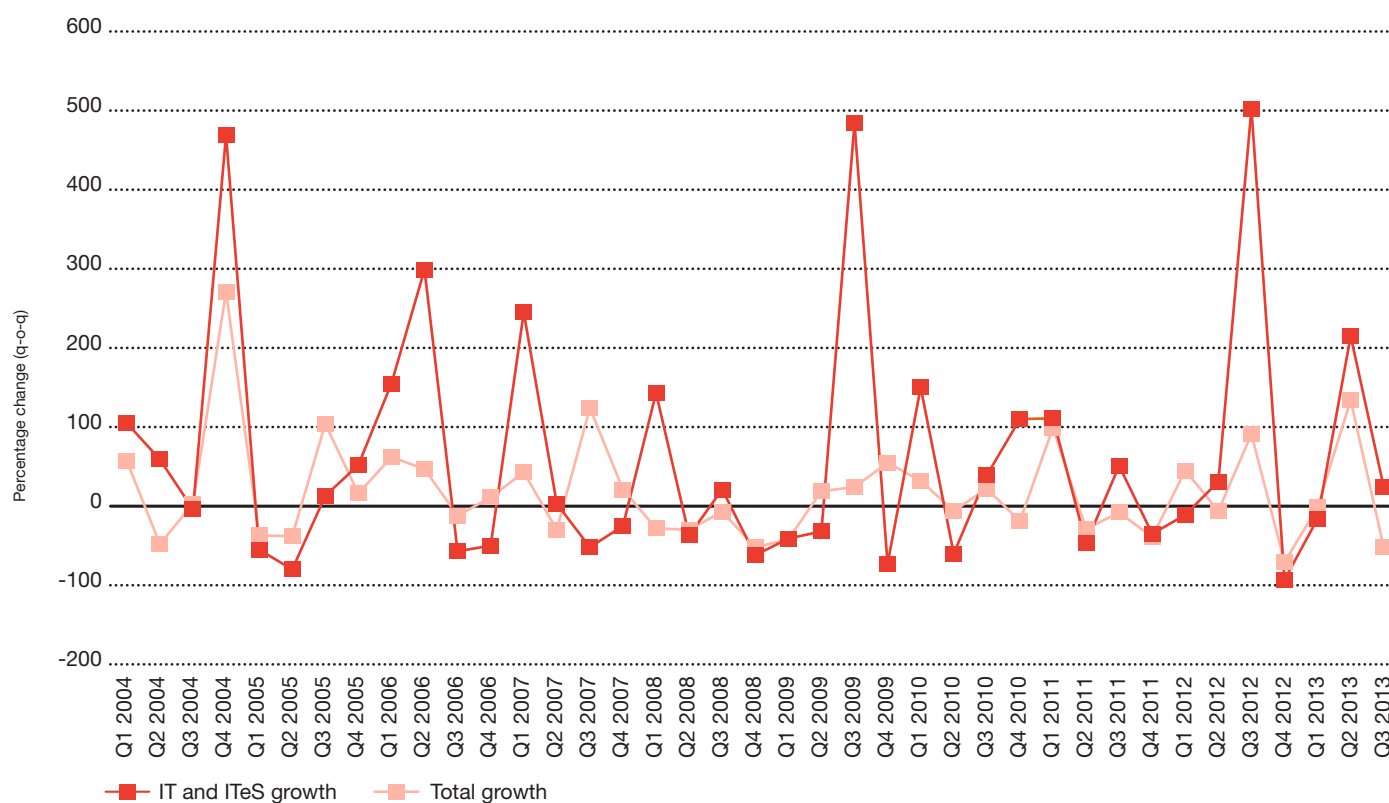


Data provided by Venture Intelligence

## Sector focus: IT and ITeS

### Growth in IT and ITeS PE funding compared with growth in total PE funding

In the last decade, a comparison between quarter-on-quarter growth rates of the IT and ITeS PE investments and the total PE investments reflects that the sector funding has outpaced the growth of total PE funding in most quarters. In the last quarter, investments at both the overall and the IT and ITeS sector levels had improved significantly, with the IT and ITeS sector witnessing a much higher growth rate. However, in this quarter, only the IT and ITeS sector has shown growth, while overall PE investments have declined as compared to the preceding quarter.



Data provided by Venture Intelligence

## Sector focus: IT and ITeS

### Investments by stage of development

Q3 '12, Q2 '13 and Q3 '13

The IT and ITeS sector, as usual, witnessed a large volume of deals, but with relatively low value. The average deal size for this sector for the past decade has been around 13 million USD.

As many IT and ITeS companies do not require a large amount of start-up money, we witness most low-value deals occurring in the early stage. In this quarter, i.e., Q3 '13, too, there were 19 deals worth 34 million USD in the early stage, with an average deal size of around 1.8 million USD. In the previous quarter, the sector had seen an investment of 80 million USD in 30 early-stage deals.

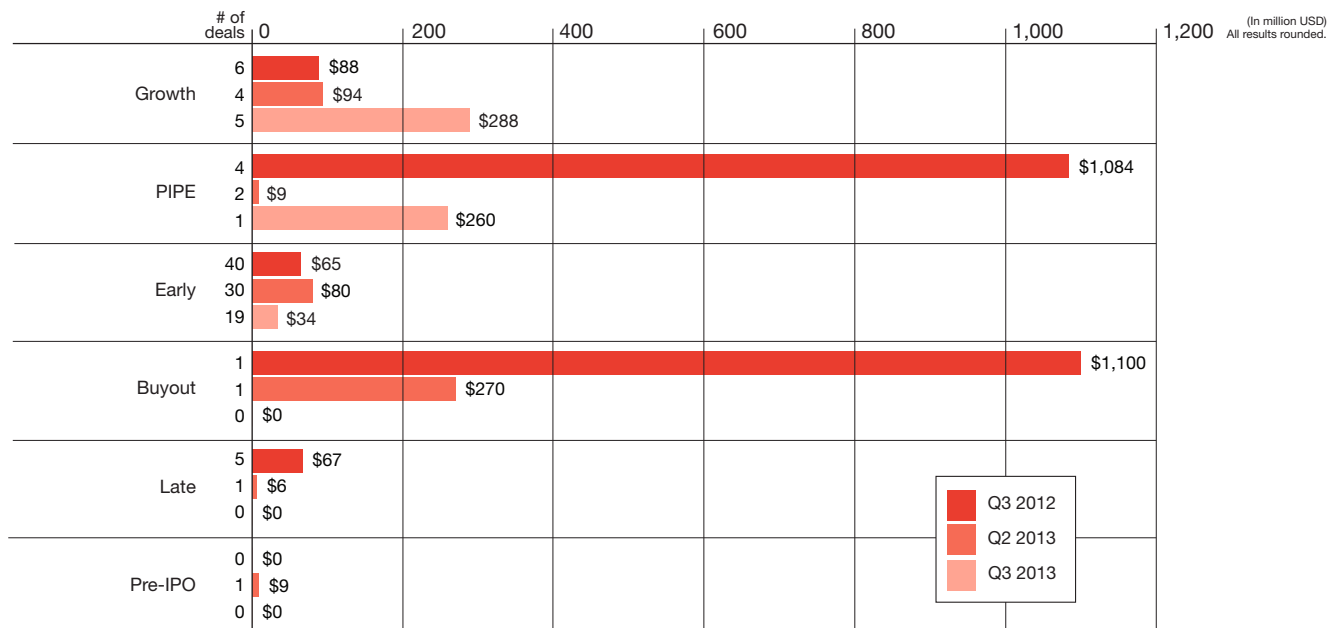
Growth-stage deals saw highest investment in terms of value, 288 million USD from five deals in this quarter.

This represents almost 50% of the total investment in the sector. As compared to the preceding quarter, value has tripled with just one additional deal in this quarter.

The sector witnessed a large PIPE deal worth 260 million USD, the second highest investment for the sector in this quarter.

The buyout stage saw a single large deal worth 270 million USD in the previous quarter. However, it did not see any investment in this quarter.

Similarly, the sector did not have any investment in the pre-IPO and late stages in this quarter.



Data provided by Venture Intelligence

## Sector focus: IT and ITeS

### Investments by region

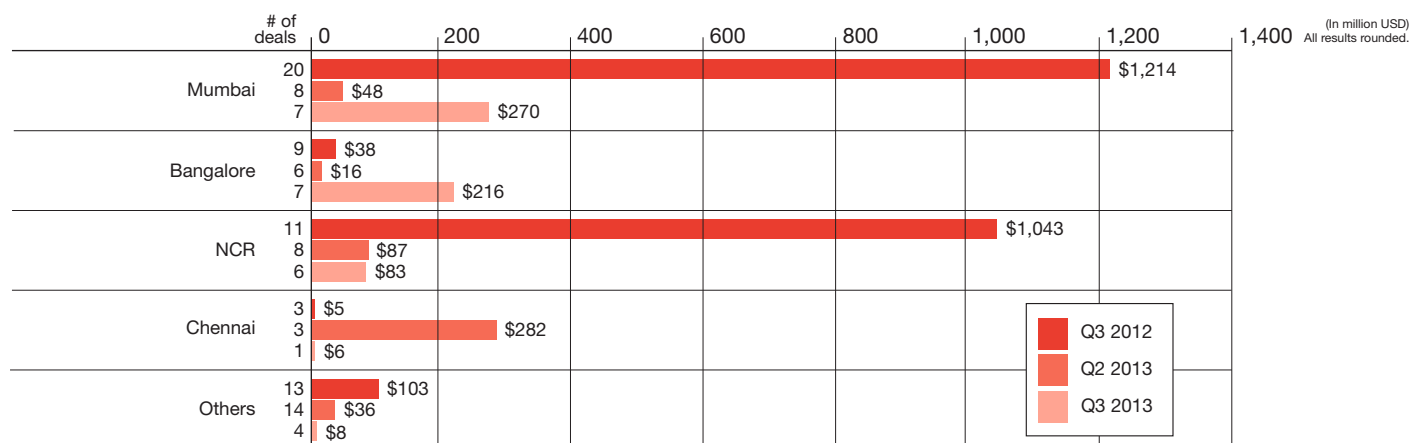
Q3 '12, Q2 '13 and Q3 '13

Mumbai captured the largest investment this quarter, a total of 270 million USD from seven deals, an almost six-fold growth in terms of value (despite one less deal) as compared to the preceding quarter. However, as against the same period last year, investments in this region have shown a significant drop of 78% in value and 65% in volume of deals.

Bangalore, after a dismal second quarter, has bounced back to second position with an investment of 216 million USD from seven deals. In Q2 '13, the investments stood at 16 million USD from six deals.

The NCR region, with an investment of 83 million USD from six deals, has shown a marginal drop of 4% in value and 25% in number of deals. When compared to Q3 '12, the drop in value increases to 92% and volume drops by 45%. In Q3 '12, investments were worth 1.04 billion USD from 11 deals.

Chennai, which had seen a spurt in investments in the previous quarter, received just a meagre 6 million USD investment from a single deal in this quarter.



Data provided by Venture Intelligence

## Sector focus: IT and ITeS

### Investments by subsegments

Q3 '12, Q2 '13 and Q3 '13

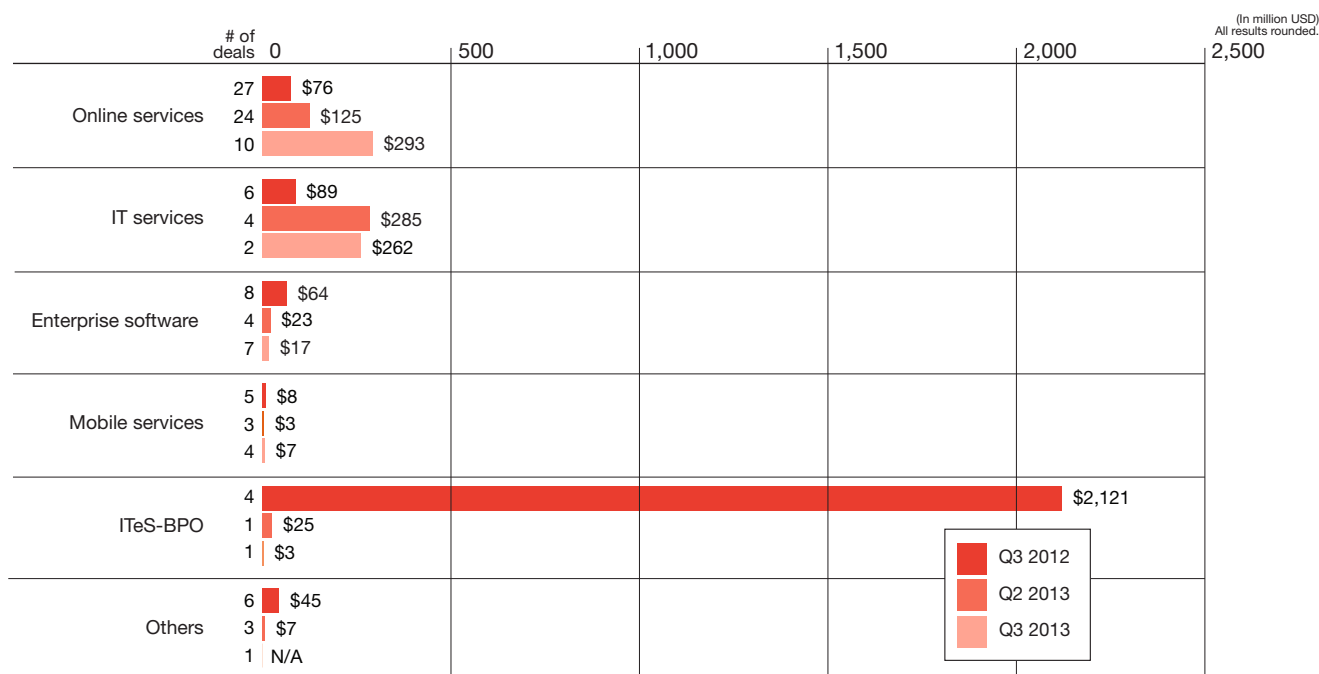
The online services segment received the highest level of investment worth 293 million USD from 10 deals, the highest in terms of volume as well. The value of deals has more than doubled despite a 58% drop in the volume of deals as compared with the preceding quarter.

In this quarter, IT services recorded the second highest investment amongst the subsegments, with a total of 262 million USD invested in two deals. However, this represents a drop of 8% in value and 50% in the volume of deals. In the preceding quarter, the IT services subsegment had received an investment of 285 million USD from four deals.

The enterprise software subsegment received investments worth 17 million USD from seven deals, a 27% drop in value despite a 75% increase in the volume of deals. Even when compared against the same period last year, there has been a 74% drop in value with one deal less in this quarter.

The ITeS-BPO subsegment received a meagre investment of 3 million USD (from a single deal), an 88% drop in the value of investments as against Q2 '13.

Investments in the mobile services subsegment were worth 7 million USD from four deals.



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

Data provided by Venture Intelligence

# Sector focus: IT and ITeS

## PE exits in the sector

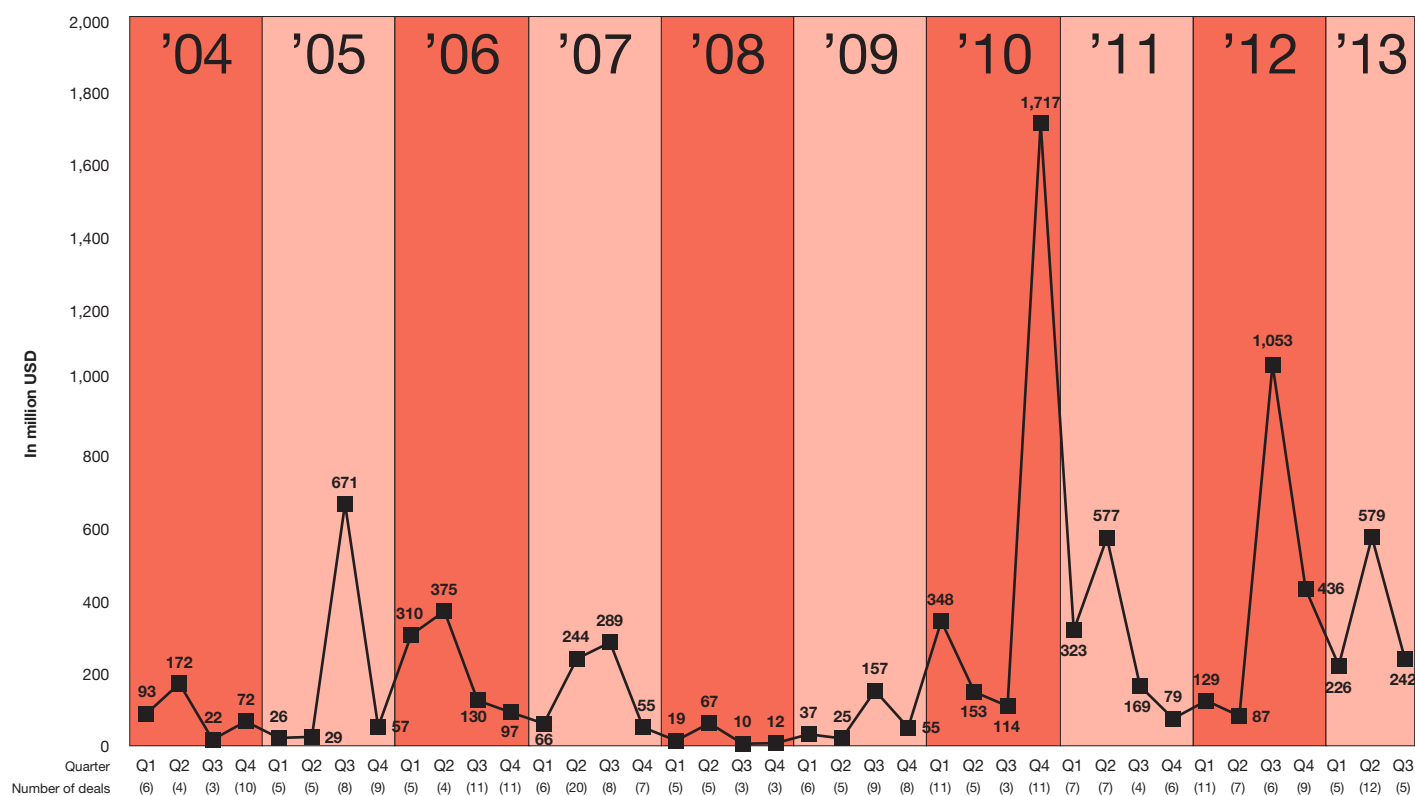
Q3 '12, Q2 '13 and Q3 '13

The IT and ITeS sector saw five exits worth 242 million USD in this quarter. The value of exits fell significantly from the total of 579 million USD across 12 deals in the prior quarter. For the same period last year, i.e., Q2 '13, the sector had six exits worth 1.05 billion USD.

The majority of exits in this sector and in this quarter were through public market sale. Three out of the five exits were through public market sale and were valued at 67 million

USD. In terms of highest exit value, exits through strategic and secondary sale were worth 88 million USD each in this quarter.

The IT services subsegment witnessed three exits worth 151 million USD in this quarter, followed by the enterprise software subsegment with an exit value of 88 million USD from a single deal.



Data provided by Venture Intelligence

## 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:** This 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 publicly listed companies via preferential allotments or private placements
- Acquisition of shares by PE firms via the secondary market

**Buyout:**

- This 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:**

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

**Initial public offering (IPO):**

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



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