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PricewaterhouseCoopers India Pvt Ltd

MoneyTree™ India Report
Q4 2016

Data provided by Venture Intelligence

Technology Institute

This special report provides summary results of Q4 '15, Q3 '16, and Q4 '16.

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1. Overview

The year 2016 witnessed a slight slowdown in private equity (PE) activity, with 17 billion USD worth of investments across 682 deals as compared to 19.8 billion USD across 852 deals in 2015.

Technology and e-Commerce together accounted for 30% of the PE investments in terms of value and 57% of the deal volume in 2016, with 5.1 billion USD invested across 388 deals. Financial services attracted investments worth 3.1 billion USD across 65 deals—a majority of them in the non-banking financial company (NBFC)/microfinance institutions (MFI) space. Other sectors which contributed towards the investment activity were Energy (2 billion USD), mainly driven by an increased interest in the renewables space, Telecom (1.7 billion USD) and Manufacturing (1.2 billion USD).

In terms of stage of funding, late stage and buyouts together accounted for 57% of the investment value in 2016, with a combined value of 9.7 billion USD across 121 deals. This was partly attributable to the higher levels of activity from sovereign wealth and pension funds, in particular in the second half of the year. This trend is expected to continue in 2017, with numerous opportunities to support the deleveraging of Indian balance sheets and sector consolidation. Early stage and growth investments amounted to 1 billion USD and 4.2 billion USD, respectively, in 2016.

2016 saw exits worth 7.7 billion USD across 214 deals. In terms of sectors, Manufacturing saw the highest level of exit activity (2.3 billion USD), closely followed by Technology and e-Commerce (1.5 billion USD) and Financial services (1.1 billion USD). Over 44% of the exit value came from strategic sales, which could be a precursor to higher corporate buyer activity in 2017.

The last quarter of 2016 witnessed the highest activity of the year, with PE investments of around 5 billion USD across 169 deals. Telecom accounted for a third of the investment value this quarter on account of Reliance Communications' agreement to sell a majority stake in its tower assets housed under Reliance Infratel to Brookfield Asset Management for 1.7 billion USD. Financial services also witnessed significant activity, with 0.8 billion USD across 16 deals. PE exits saw a 34% decline in value and a 25% decline in volume as compared to the previous quarter. Q4 2016 reported 53 exits worth 1.6 billion USD, with manufacturing accounting for 45% of the exit value.

Despite decreased PE activity in 2016, investments across 2015 and 2016 broke through the 9–11 billion USD levels of the previous three to four years. Likewise, the exit levels across the two years have been significantly higher than those from previous years.

The Goods and Services Act, which is expected to come into play in 2017, will have a positive effect on India's growth trajectory. Growth in businesses is expected to stabilise by mid-2017 after the sudden impact of demonetisation, which went beyond the traditional consumer-centric businesses. Availability of debt financing is likely to be higher in 2017 as banks attempt to increase the size of their loan book, thus increasing the likelihood of challenging non-banking finance channels.

The tax and regulatory frameworks for the real estate investment trust (REIT) and infrastructure investment trust (InvIT) regimes have been enabled, and 2017 is likely to see some public offers in the infrastructure space and possibly allow some existing private investors to exit.

Global political and economic volatility is likely to impact certain industry segments—primarily technology outsourcing and pharmaceuticals. Brexit and other global political changes hinge on nationalist fervour and could have an impact on the flow of funds into India in 2017. The much-anticipated interest rate hikes in the US will perhaps be the biggest trigger for the flow of funds back to the US and potentially result in further depreciation of emerging market currencies, including the rupee.

The momentum towards the end of 2016 is expected to continue in the first few months of 2017, spurred by the tax exemption available on investments made until 31 March 2017 from Mauritius. The activity levels over the rest of the year will depend on how the Indian economy and, specifically, businesses respond to the expected volatility.

Sanjeev Krishan
Leader, Private Equity and Transaction Services
PwC India

2. Analysis of PE investments

Total equity investments in PE-backed companies

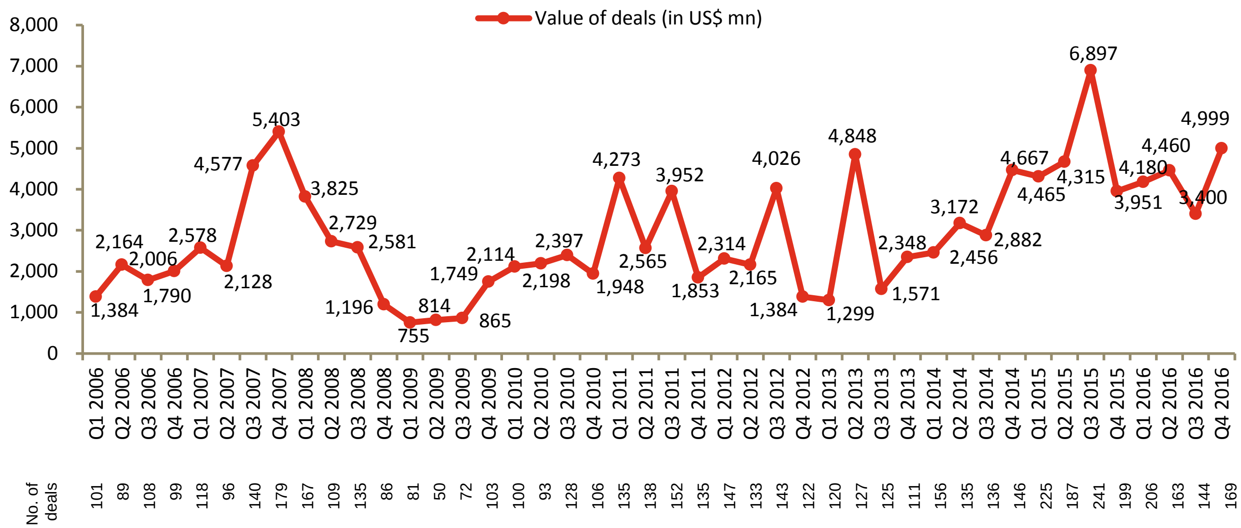
The fourth quarter of 2016 proved to be a stellar one for Indian private equity (PE). Investments touched an annual high of 5.0 billion USD in 169 deals, a 47% increase in value terms and a 17% increase in deal volume compared to Q3 ’16, which saw investments worth 3.4 billion USD in 144 deals. Further, as compared to Q4 ’15 (where investments stood at 4.0 billion USD in 199 deals), the value of deals in this quarter has grown by 27%, although volume has declined by 15%. The average deal size for Q4 ’16 was 29.6 million USD.

The Telecom sector seized the top spot this quarter with Reliance Communications’ agreement to sell the majority stake in its tower assets housed under Reliance Infratel to Brookfield Asset Management for around 1.7 billion USD. The Information technology & IT-enabled services (IT & ITeS) sector dropped to the third rank in Q4 ’16, with an investment flow of 748 million USD in 96 deals. The sector witnessed a 40% decline compared to Q3 ’16 and the year-ago period in value terms, although there was a 22% spike in terms of number of deals compared to the previous quarter. The Fast-moving consumer goods (FMCG), Manufacturing and Energy sectors have all seen significant growth in Q4 ’16.

There was a significant rise in buyouts in this quarter—with a total of eight deals worth 2.2 billion USD. Overall, PE investments performed well as compared to both the previous quarter and the year-ago period, with late-stage investments worth 1.2 billion USD in 22 deals and growth-stage investments coming in third with 778 million USD in 32 deals. Early-stage investments remained sluggish, seeing 295 million USD in 95 deals.

Regionally, Mumbai continued to lead with around 2.6 billion USD, while the National Capital Region (NCR) stayed put at number two with investments worth 932 million USD. Gaining a slight edge over Bengaluru, Chennai climbed to the third spot in this quarter.

Total private equity investments (in US$ mn)



Data provided by Venture Intelligence

Investments by industry
Q4 '15, Q3 '16 and Q4 '16

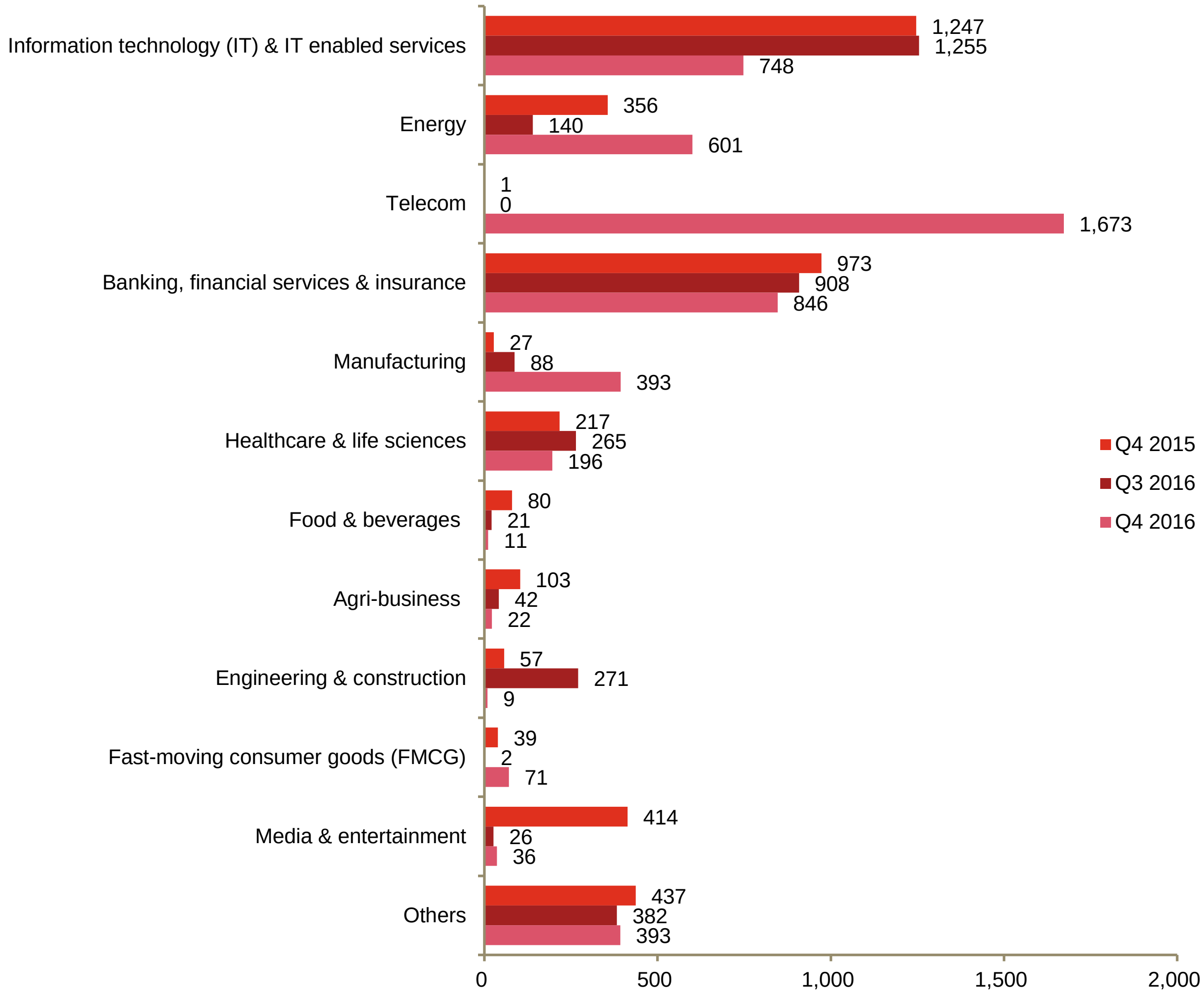
The Telecom sector emerged as a surprise winner in the last quarter of 2016, based purely on the strength of Brookfield's 1.7-billion USD commitment to invest in Reliance Infratel. This single deal helped Telecom race past the front runner for the last two quarters—the IT & ITeS sector—which slipped to the third position. Although BFSI continued to hold on to the second position in Q4 '16, attracting 846 million USD in 16 deals, this marked a 7% and 13% decline as compared to the previous quarter and year-ago period, respectively.

The IT & ITeS sector experienced a slump in this quarter, with 96 deals worth just 748 million USD. This was as against the average of around 1.2 billion USD the sector racked up across 79 and 122 deals in Q3 '16 and Q4 '15, respectively.

The FMCG sector displayed an enormous 3,430% jump over the past quarter, with investments worth 71 million USD in two deals. Energy and manufacturing also deserve a special mention, with both showing significant growth and finishing with 601 million USD in 10 deals and 393 million USD in seven deals respectively.

Note: Others include Other services, Hotels & resorts, Sports & fitness, Agribusiness and Retail.

Investments by industry (in US$ mn)



Data provided by Venture Intelligence

BFSI continues to be an area of focus, with ongoing investments every quarter. A growing economy and poor credit expansion by non-performing asset-hit banks, together with government reforms and a push on digital payments, should encourage more deals in 2017 in asset restructuring companies, real estate companies and non-banking financial companies, as well as fintechs.

Bharti Gupta Ramola
Leader, Financial Services
PwC India

IT & ITeS companies, backed by a number of e-Commerce and Internet-based start-ups, have dominated PE investments over the last several quarters, accounting for a large share of deal volumes and deal values in 2016. This quarter, however, saw a decline in the total investment in the IT & ITeS space on account of issues with the valuation of e-Commerce companies and declining margins in IT & ITeS. It is expected that 2017 may experience a boost in investment activity in India. Further, sovereign wealth funds as well as pension funds are increasingly investing in companies directly instead of investing in PE firms, which might boost the growth prospects of the industry.

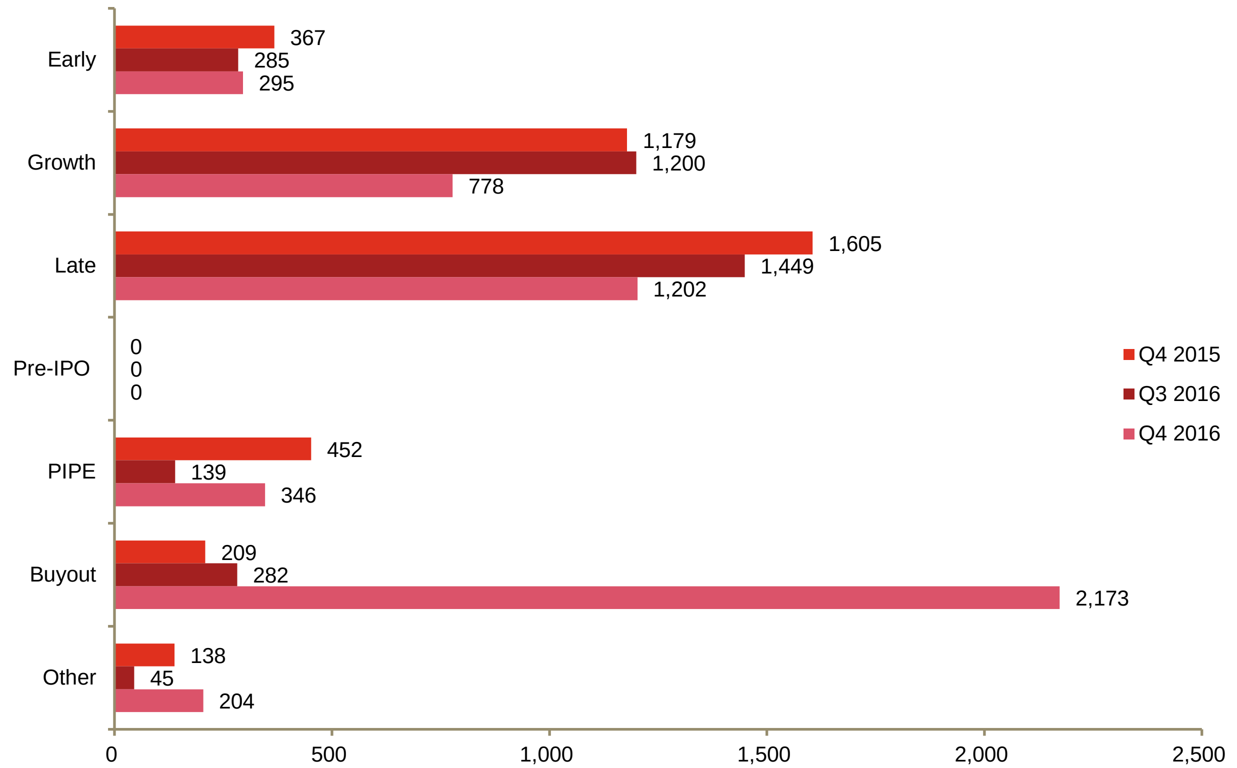
Sandeep Ladda
Leader, Technology
PwC India

Investments by stage of development

Q4 ’15, Q3 ’16 and Q4 ’16

Buyouts were the top source of PE investment inflow in the fourth quarter of the year, with around 2.2 billion USD in eight deals. Late-stage investments came in next, having brought in 1.2 billion USD in 22 deals. In the third position, growth-stage investments attracted 778 million USD in 32 deals, showing a 35% decline in terms of value over the previous quarter. With 346 million USD across 10 deals, PIPE deals bounced back in this quarter, reflecting a 148% jump in value as compared to Q3 ’16.

Investments by stage development (in US$ mn)



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Note: Definitions for the stage of development categories can be found in the ‘definitions’ section of this report.

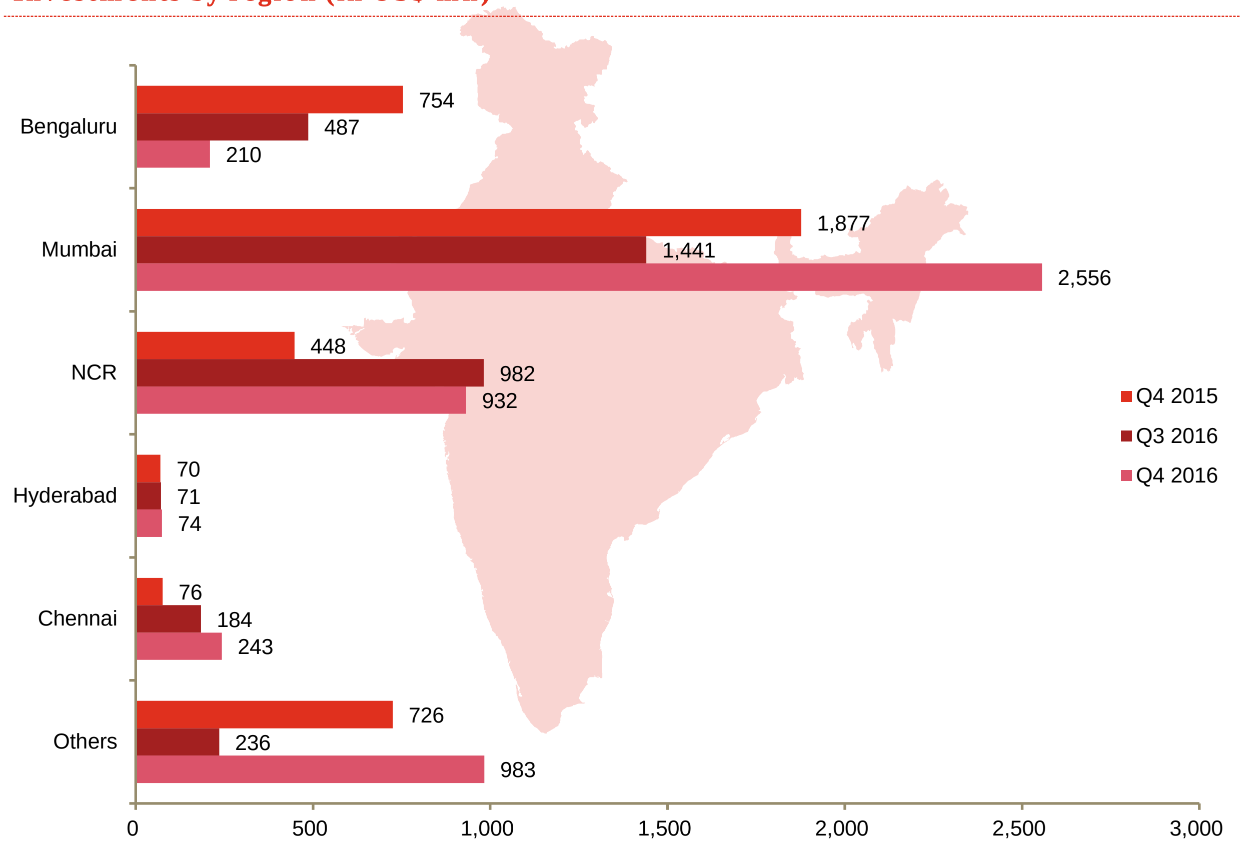
Growth stage in the above graph includes both growth and growth-PE stages.

Investments by region
Q4 '15, Q3 '16 and Q4 '16

Regionally, Mumbai continued to outstrip the other cities by a large margin. With around 2.6 billion USD in 34 deals, the city enjoyed a remarkable 77% increase in investment value over the previous quarter. Coming in second place, NCR received 932 million USD. Chennai and Bengaluru followed with 243 and 210 million USD, respectively, the latter showing a 57% decline in PE investment value as compared to Q3 '16.

Note: NCR includes Delhi, Gurgaon and Noida.

Investments by region (in US$ mn)



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Top 20 PE deals
Q4 ’16

The top 20 deals comprised 76% of the total deal value in Q4 ’16. The top five deals together accounted for nearly 51% of the total deal value. The average deal value for this quarter was 29.6 million USD.

Top 20 PE deals in Q4 2016

Company	Industry	Investors	Amount (US$ mn)
Reliance Infratel	Telecom	Brookfield	1650
SBI Life	BFSI	KKR, Temasek	265
Sigma Electric	Manufacturing	Argand Capital Partners	250
Avantha Holdings - Promoter Holding Co	Energy	KKR	210
TVS Logistics Services	Shipping & logistics	CDPQ	155
C3 Connect	IT & ITeS	Everstone, Others	150
Hindustan Clean Energy	Energy	Farallon Capital, Merrill Lynch	130
ASK Group	BFSI	Advent International	125
Arvind Fashions	Textiles & garments	Multiples PE	110
Edelweiss Asset Reconstruction	BFSI	CDPQ	100
Azure Power	Energy	CDPQ	75
PNB Housing Finance	BFSI	General Atlantic	75
TrucksFirst	IT & ITeS	Warburg Pincus	75
ACME Cleantech Solutions	Energy	Piramal Enterprises	74
TVS Motors	Manufacturing	Cartica Capital	71
Vijaya Diagnostic Centre	Healthcare & life sciences	Kedaara Capital	63.5
Dialhealth	Retail	Everstone	63
Utkarsh Microfinance	BFSI	Faering Capital, Arpwood Capital, Others	60
Marico	FMCG	Cartica Capital	55.6
Freshdesk	IT & ITeS	Sequoia Capital India, Accel India	55

Data provided by Venture Intelligence

3. Analysis of PE exits

Total PE exits

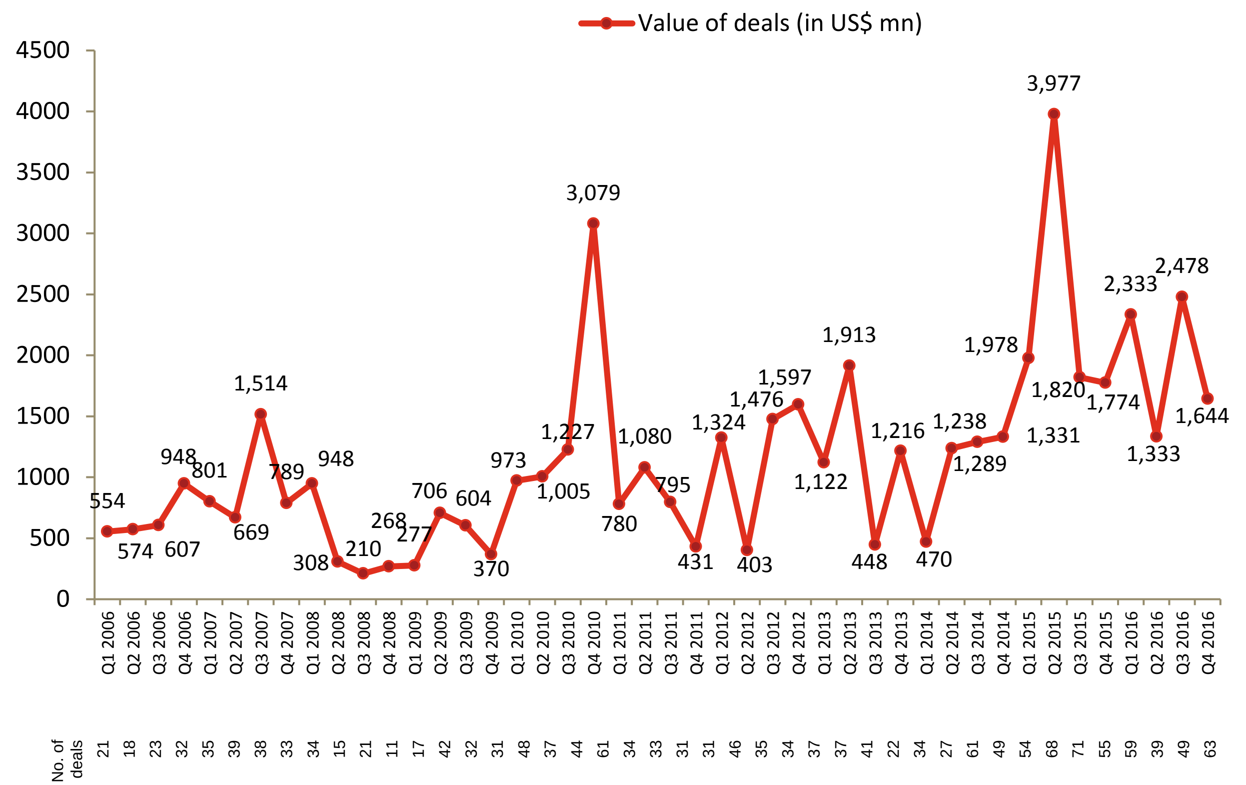
Q4 ’16

PE exits in the fourth quarter of 2016 were 34% lower in value than the previous quarter. In all, there were 53 deals worth 1.6 billion USD. In Q3 2016, the total exits were worth around 2.5 billion USD in 71 deals. Further, there was a 7% decline in value from Q4 ’15 (approximately 1.8 billion USD in 69 deals).

With 10 exit deals worth 720 million USD, the Manufacturing sector emerged at the top, followed by Healthcare & life sciences with 333 million USD in seven deals. IT & ITeS, which occupied the number one position in the last quarter, experienced a 94% decline in exit value in this quarter, with exits worth 53 million USD in 10 deals.

Public market sale was the most preferred exit route in this quarter, with a total value of 628 million USD in 31 deals. Secondary sale and strategic sale followed almost neck and neck, with total exit values of 488 million USD in eight deals and 483 million USD in 12 deals, respectively.

Total PE exits (in US$ mn)



Data provided by Venture Intelligence

Exits by industry
Q3 '15, Q2 '16 and Q3 '16

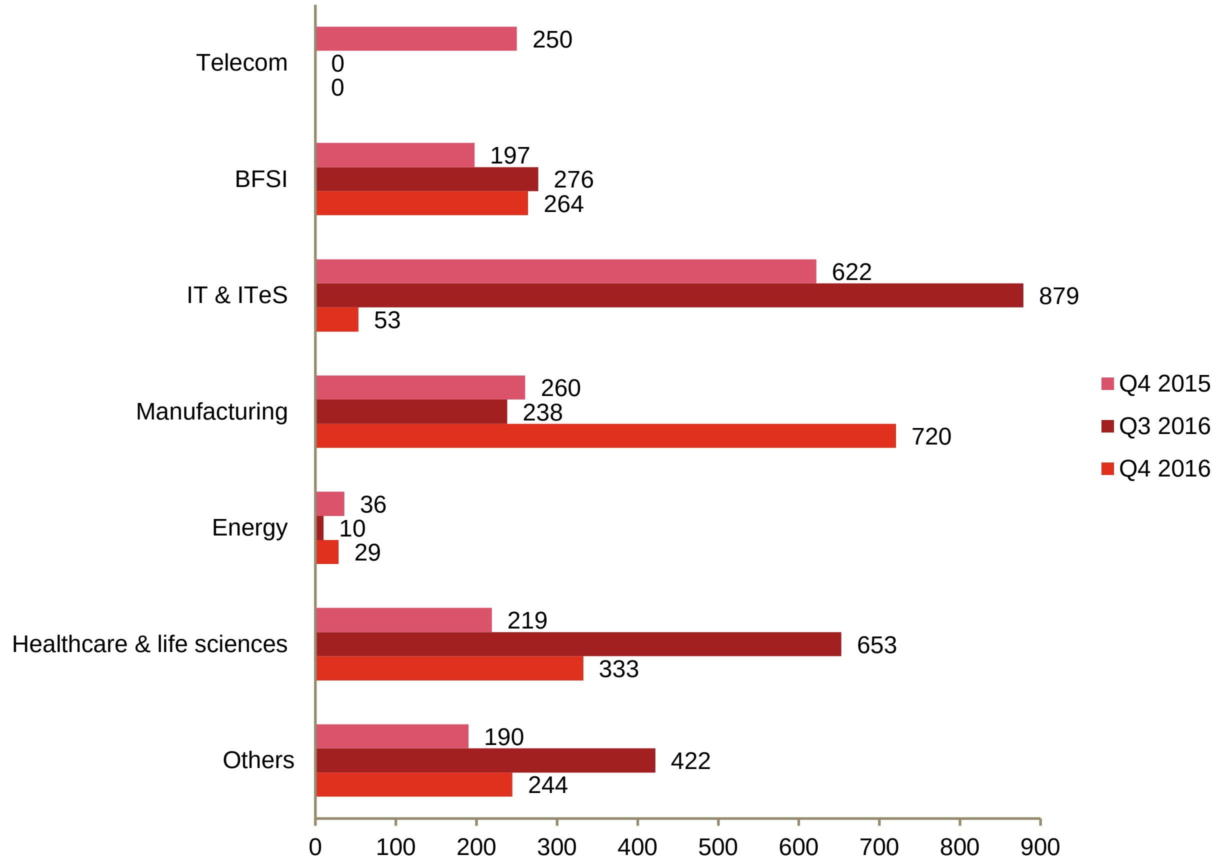
The Manufacturing sector led exits by industry, with 10 deals worth 720 million USD. This was more than three times the exit value of Q3 '16 (238 million USD in eight deals) and includes the exit of Blackstone from International Tractors and of Goldman Sachs from Sigma Electric—the top two exits in this quarter.

Healthcare & life sciences was the second largest sector for exits. In Q4 '16, there were seven exits worth 333 million USD, including the exit of Cipla New Ventures from Chase Pharma. This represents a nearly 50% decline in value compared to the previous quarter, which saw exits worth 653 million USD in 10 deals. In Q4 '15, there were a total of 10 exits worth 219 million USD.

BFSI came in third with 11 exits worth 264 million USD. While this was a negligible drop compared to the previous quarter (276 million USD in 13 deals), IT & ITeS witnessed a large decline in exits from 879 million USD in 18 deals in Q3 '16 to 53 million USD in 10 deals in this quarter.

Note: Others include Shipping & logistics, Other services, Retail, Food & beverages and Hotels & resorts.

Exits by industry (in US$ mn)

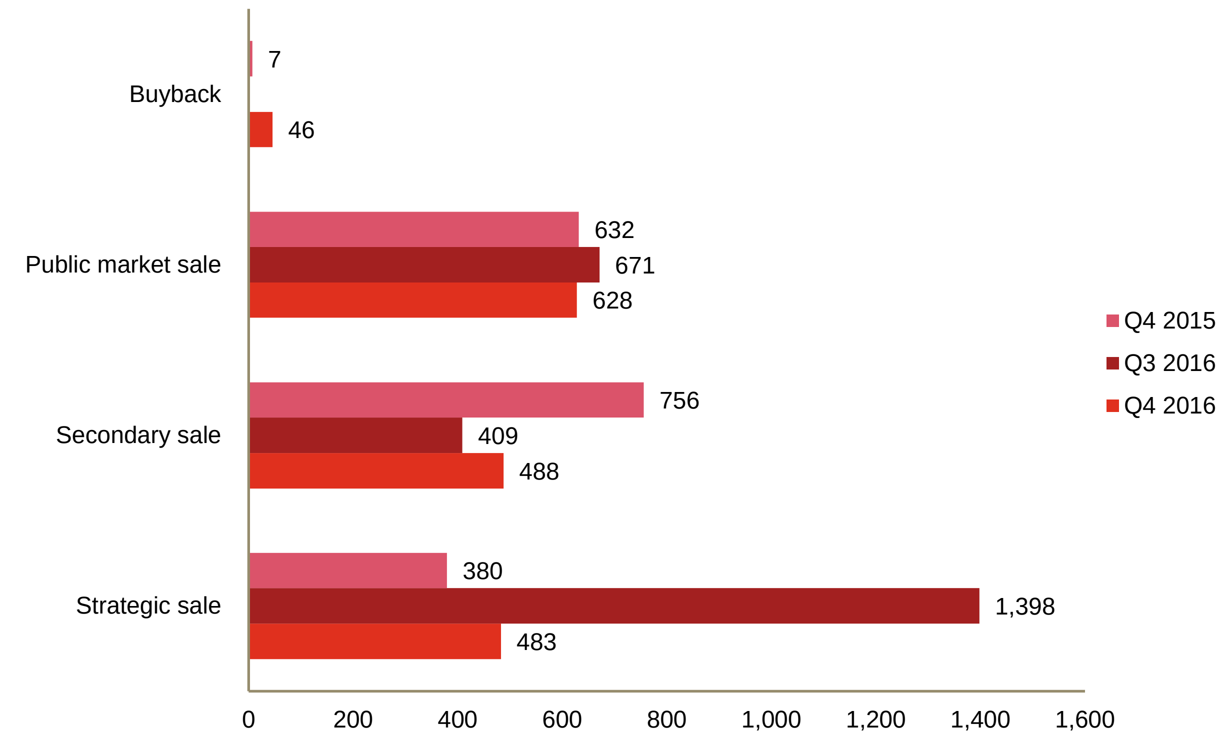


Data provided by Venture Intelligence

Exits by type
Q4 '15, Q3 '16 and Q4 '16

Public market sale was the preferred exit route for PE investors in this quarter, with a total exit value of 628 million USD in 31 deals. In Q3 '16, public market sale deals were worth 671 million USD in 37 deals, while in Q4 '15, the figures were 632 million USD in 33 deals. Secondary sales saw exits worth 488 million USD in eight deals, while strategic sales saw 12 deals worth 483 million USD. Two exits worth 46 million USD were made via the buyback route in this quarter.

Exits by type (in US$ mn)



Data provided by Venture Intelligence

Top five PE exits
Q4 ’16

The top five exits comprised 55% of the total exit value in Q4 ’16.

Top 5 PE exits in Q4 2016

Company	Industry	Investor	Deal Amount (US$ mn)
International Tractors	Manufacturing	Blackstone	250
Sigma Electric	Manufacturing	Goldman Sachs	200
Chase Pharma	Healthcare & life sciences	Cipla New Ventures	167
TVS Logistics Services	Shipping & logistics	Goldman Sachs, KKR	155
Endurance Technologies	Manufacturing	Actis	136

Data provided by Venture Intelligence

4. Active PE firms

Sequoia Capital India entered into 12 deals in this quarter; Kalaari Capital followed with six deals.

The most active PE investors in Q4 '16 are listed at right.

** Number of deals includes both single and co-investments by PE firms. Cases where two or more firms have invested in a single deal are accounted for as one deal for each firm.*

Investors	No of deals
Sequoia Capital India	12
Kalaari Capital	6
SAIF	6
Accel India	5
Quarizon	5
Aarin Capital	5
RB Investments	5
Axilor Ventures	5
India Quotient	5
IDG Ventures India	5
Omidyar Network	4

Data provided by Venture Intelligence

5. Sector focus – IT & ITeS sector

This quarter saw several major developments around the business and regulatory environment which might have a significant long-term impact on the technology and e-Commerce industry.

In this year's budget, the government has given a big push to the digital economy. Plans that aim to promote the use of the Bharat Interface for Money (BHIM) app, AadhaarPay, introduction of point-of-sale terminals and related tax exemptions will have a positive impact on the economy. Demonetisation has also brought the digital agenda to the fore like never before. Moreover, the Finance Minister pointedly highlighted the low rate of tax compliance in the country in his budget speech. Hence, the government clearly recognises that quantum leaps in the levels of compliance and overall tax revenues can be achieved through digital payment infrastructure and the Goods and Services Tax (GST). With the setting up of a Payments Regulatory Board under the Reserve Bank of India, the narrative will remain centred around the digital economy in the short to medium term. Additionally, Make in India was given a significant boost in the budget through increased allocation for electronics manufacturing under incentive schemes like the Modified Special Incentive Package Scheme (M-SIPS) and Electronic Development Fund (EDF). For start-ups in the technology industry, carry forward of losses and profit-linked deduction for start-ups for three out of seven years will provide a boost.

Fintech start-ups have benefitted significantly from the government's demonetisation move and with the rise in business, recruitment plans of these companies are likely to see a significant uptrend in the coming months. The e-Commerce industry in India is facing issues around valuation markdowns amid tough market conditions and slow growth, and several companies are rethinking their workforce strategies in order to control costs and improve operating fundamentals. The industry was also affected by demonetisation and with a cash scarcity in the markets, cash on delivery was impacted. Consolidation is also expected in the coming year, with many companies likely to come together either to fend off competition, enhance offerings, strengthen their market position or survive.

In terms of the international regulatory environment, with the new US government focusing on new immigration policies and visa reforms, many Indian IT companies might have to make changes to some of their business strategies and plans. The reforms might affect the mobility of tech specialists, and Indian technology companies will need to do some rethinking around hiring more local personnel and increasing wages, setting up offshore/near-shore centres, or outsourcing their work to American subcontractors, all of which could impact their capital expenditure and operating margins. A major part of the revenue of Indian IT firms comes from the US market, and at a time when the Indian IT sector is struggling with issues around declining profitability and market value erosion, the reforms could pose some core challenges.

Sandeep Ladda
Leader, Technology
PwC India

Total PE investments

PE investments in the IT & ITeS sector witnessed a 40% drop in this quarter. There were a total of 96 deals worth 748 million USD. In comparison, there were 79 deals worth around 1.3 billion USD in Q3 ’16 and 122 deals worth 1.2 billion USD in the year-ago period.

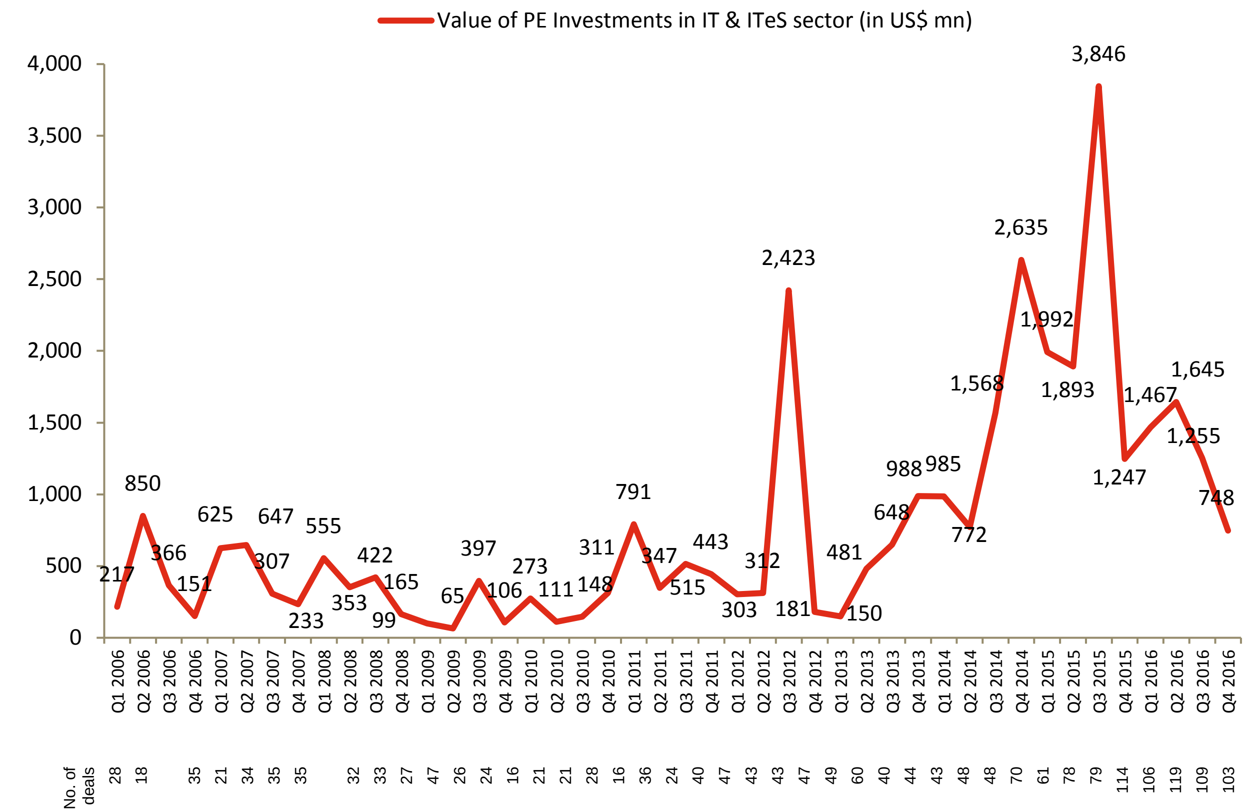
The growth stage retained the top spot in terms of stage of investing, despite a 35% decline in terms of deal value. In all, this quarter saw 17 growth-stage deals worth 315 million USD. Early-stage investments, which came next, attracted 227 million USD in 73 deals. Further, there was a notable increase in buyouts in the IT & ITeS sector, with three deals amounting to 185 million USD in Q4 ’16.

In terms of region, NCR led the race in this quarter with respect to deal value, and Chennai displayed a substantial jump compared to the previous quarter. Finally, in terms of subsector, Online services attracted the highest investment in this quarter, receiving 366 million USD across 52 deals. At the other end of the spectrum, IT services faced a dry spell.

The average deal size this quarter was around 7.8 million USD compared to about 15.9 million USD in the last quarter.

In Q4 ’16, funding growth for the IT & ITeS sector and overall PE investment moved in opposite directions. While tech investment dropped by 40% compared to the last quarter, total PE funding enjoyed a 47% increase

Value of PE Investments in IT & ITeS sector (in US$ mn)



Data provided by Venture Intelligence

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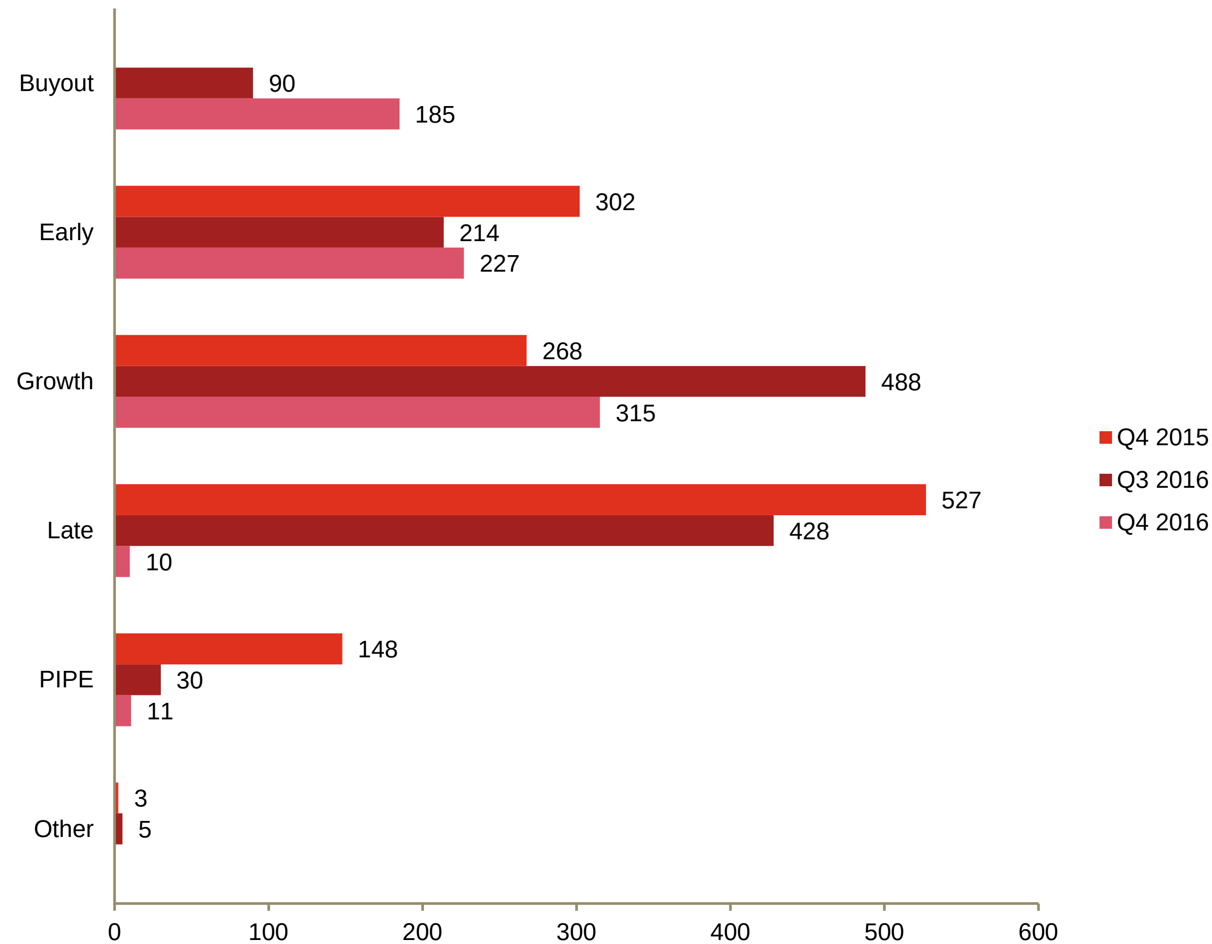
Investments by stage of development
Q4 '15, Q3 '16 and Q4 '16

Growth-stage deals were the preferred mode of entry into the IT & ITeS segment in this quarter. In total, there were 17 deals worth 315 million USD. This marked a 35% drop in value compared to Q3 '16, which saw the same number of deals bring in 488 million USD. However, growth stage witnessed an 18% increase in value compared to the year-ago period, which saw 15 deals worth 268 million USD.

Early-stage investments, which attracted 227 million USD in 73 deals, came in next. Buyouts more than doubled in value from 90 million USD in the previous quarter to 185 million USD in this one.

Lastly, both PIPE and late-stage deals showed a steep fall in this quarter—with 11 million USD in one deal (Q3 '16: 30 million USD in 1 deal) and 10 million USD in two deals (Q3 '16: 428 million USD in four deals), respectively.

Investments by stage of development (in US$ mn)

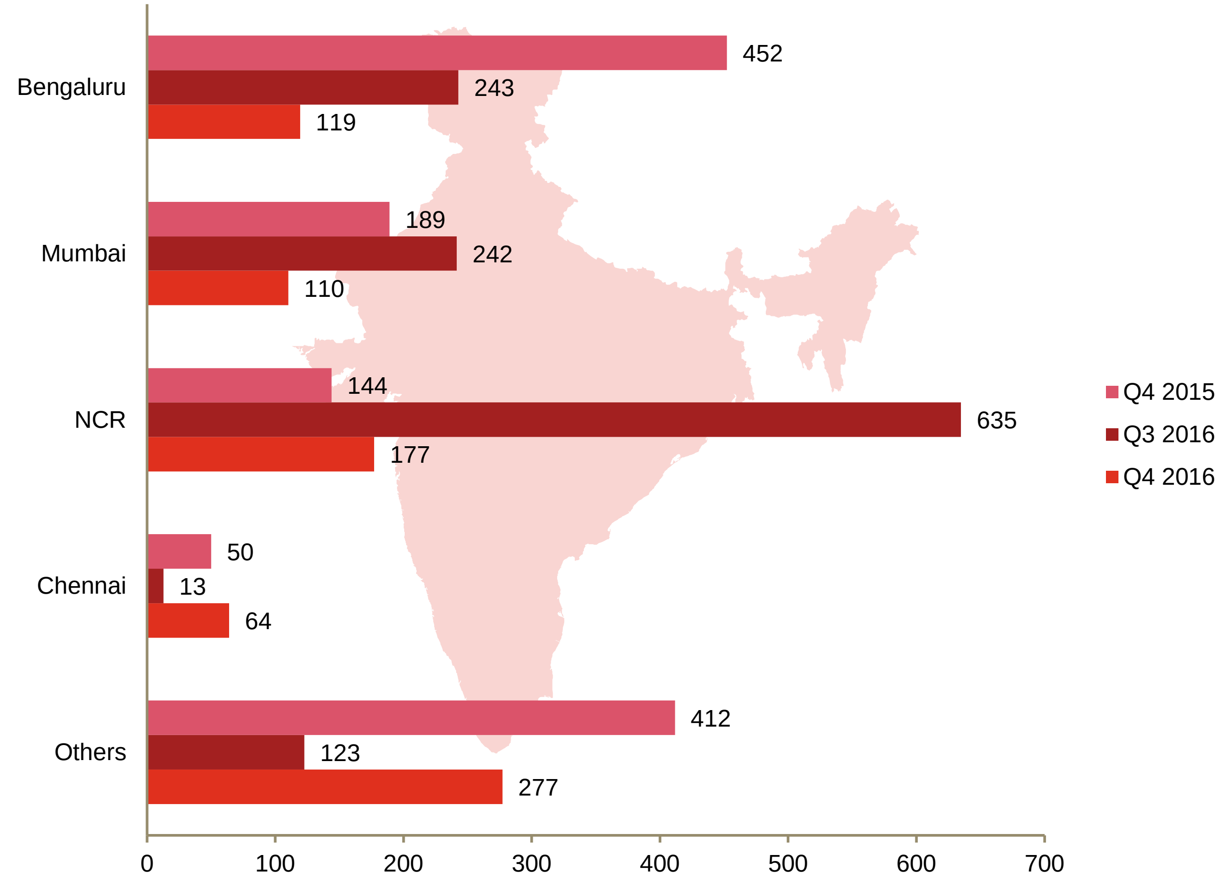


Data provided by Venture Intelligence

Investments by region
Q3 '15, Q2 '16 and Q3 '16

With 177 million USD in 25 deals, NCR remained the top region for tech investments. However, the gap between NCR and the other cities was narrower in Q4 '16. Bengaluru and Mumbai came in second and third place, with 119 million USD in 28 deals and 110 million USD in 19 deals, respectively.

Investments by region (in US$ mn)

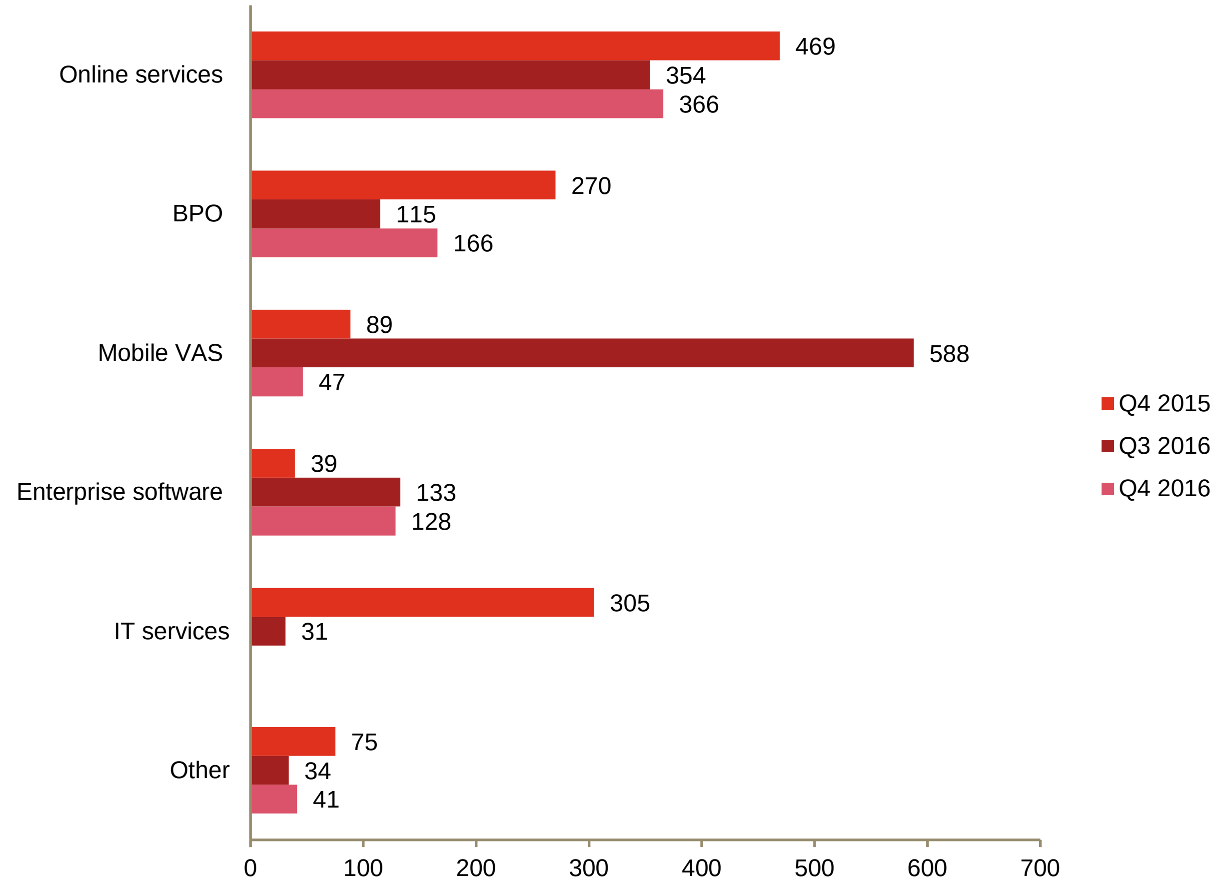


Data provided by Venture Intelligence

Investments by subsector
Q4 ’15, Q3 ’16 and Q4 ’16

Online services emerged as the clear front runner in Q4 ’16, with 366 million USD in 52 deals. Mobile VAS, which was the top subsector in the previous quarter, slipped to the fourth position in this quarter.

Investments by subsector (in US$ mn)

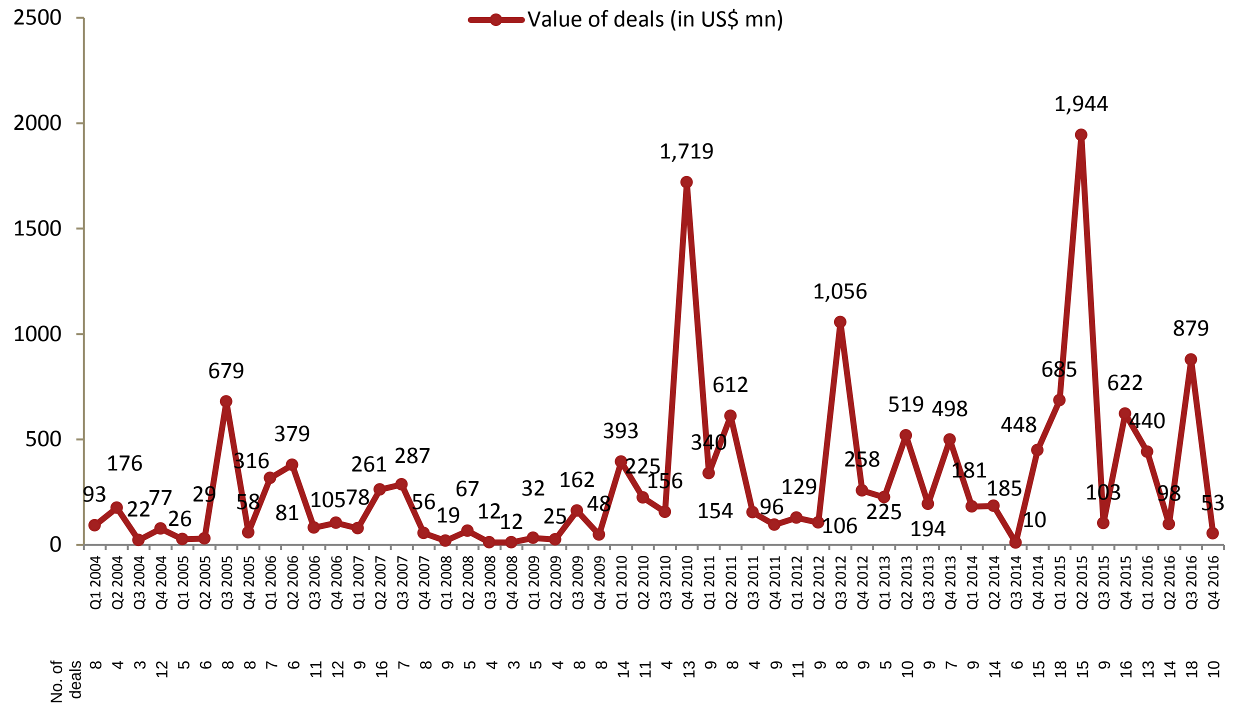


Data provided by Venture Intelligence

PE exits in the sector
Q3 ’15, Q2 ’16 and Q3 ’16

As compared to Q3 ’16, there was a sharp drop in exits in the IT & ITeS sector in Q4 ’16. The sector saw exits worth 53 million USD in 10 deals compared to 879 million USD in 18 deals in the previous quarter. Strategic sales remained the preferred exit route—with nine deals worth 33 million USD.

PE exits in the sector (in US$ mn)



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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 to be in the growth stage:

- Third or fourth round funding of institutional investments
- First or second round of institutional investments in companies that are more than 5 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 in companies that are more than 5 years old and less than 10 years old, or subsidiaries or spin-outs from larger businesses
- Fifth or sixth round of institutional investments

Late stage – This comprises the following:

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

PIPEs – The following constitute 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 the purchase of PE or VC investors' equity stakes by either the investee company or its founders or promoters.

Strategic sale – This includes the sale of 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 PE or VC investors' equity stakes by another PE or VC investors constitutes secondary sale.

Public market sale – This includes the sale of 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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