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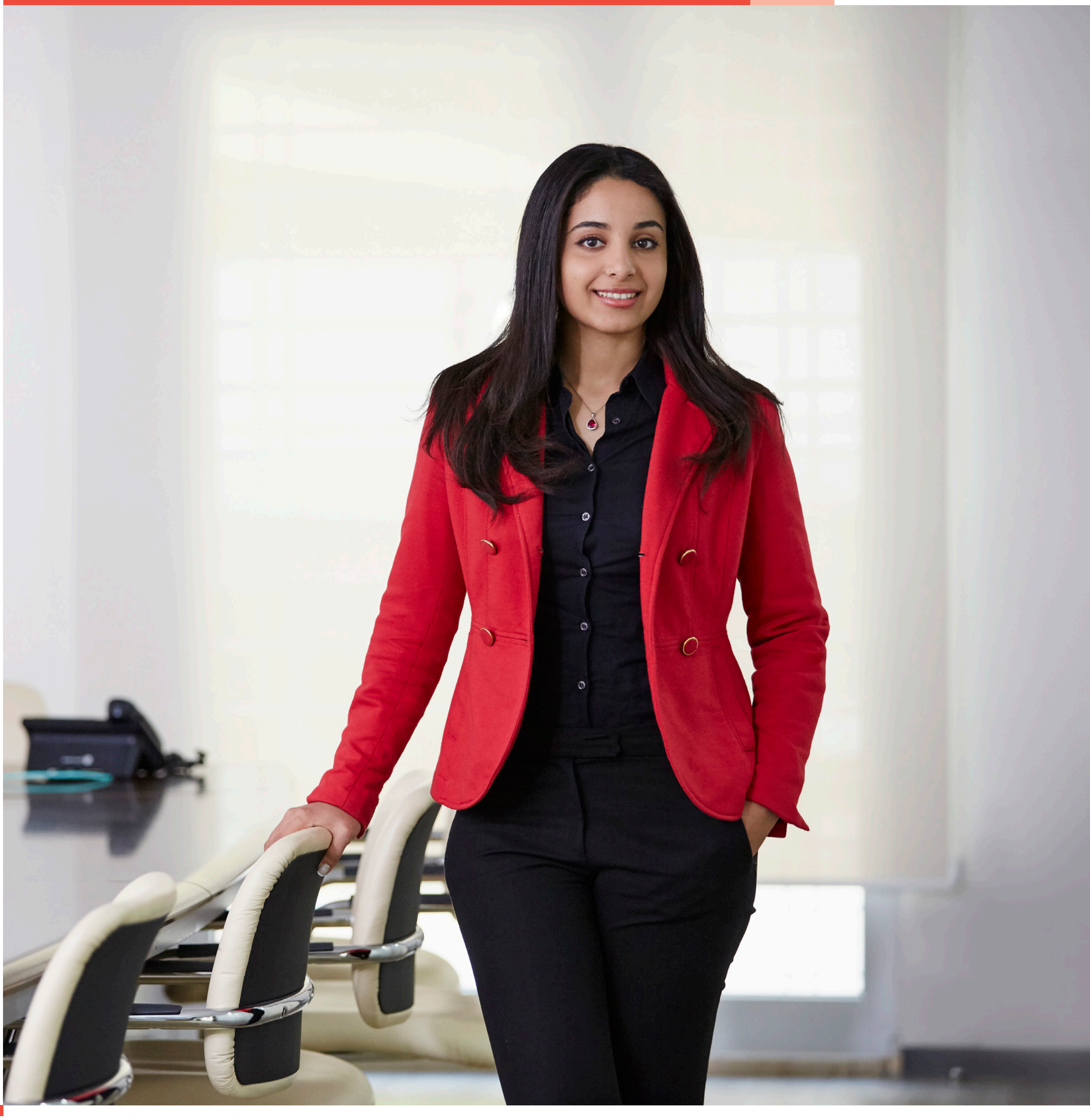
Reflections: Indian Private Equity in 2017



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2017 Overview

Private Equity (PE) activity in 2017 hit a record high having witnessed USD 24.7 billion* of investments, across 639 deals. Despite a 23% decline in volume, the year witnessed a nearly 50% increase in deal value over 2016, which saw USD 16.5 billion invested across 829 deals. Having recorded some of the largest PE investments, 2017 also surpassed 2015 which was the previous high year of investment inflows at USD 19.3 billion.

The momentum this year could be largely attributed to the increased attention India got from the Sovereign Wealth Funds (SWFs) and Pension Funds. They were at the frontline of the PE activity for the year, accounting for a little under a third of the aggregate investment value. This year also witnessed some of the largest PE deals India has seen in the Technology, Banking, Agriculture, Renewable Energy and Logistics sectors.

The Technology (including E-commerce) sector retained its dominant position with USD 11 billion invested across 346 deals, accounting for 45% of the investment value this year; the sector witnessed three of the largest deals this year with Softbank and Tencent being at the forefront. This was followed by the Financial Services sector with USD 5.2 billion invested across 74 deals, a 75% increase in value over 2016. This was partly due to Axis Bank's proposed capital raise of around USD 1 billion from Bain, which would be the largest PE deal in the banking sector as well as a continued interest in Non-Banking Financial Companies/ Micro Finance Institutions.

The Energy sector steered by the renewables space garnered USD 1.5 billion invested across 21 deals, recording the largest PE investment in the renewables space i.e. CPPIB's commitment to invest USD 0.4 million USD in Renew Power Ventures. The Logistics space followed closely with USD 1.4 billion invested across 17 deals, over a threefold increase from the USD 0.4 billion invested in 2016. This was mainly attributable to few Canadian investors. The Healthcare & Life Science space also witnessed significant activity this year, garnering investments worth USD 1.5 billion, driven mainly by the Hospitals / Clinics space. Interestingly the Agriculture space witnessed a spike in activity this year attracting investments worth USD 0.7 billion.

Late stage investments accounted for almost 45% of the investment value this year, more than twice the investment value in 2016. While Buyout deals witnessed a 32% decline in terms of value, Growth stage investments recorded a 7% increase. Early stage investments continued to decline, accounting for only 3% of the investment value in 2017.

2017 was also a landmark year for PE exits. This year recorded 259 exits valued at USD 12.5 billion*, which exceeded the previous best year for exits i.e. 2015 by nearly 40% in terms of value. The Technology sector witnessed the highest exit activity with 60 exits aggregating USD 5.8 billion, followed by the Financial Services sector (USD 2.3 billion) and the Healthcare and Life Science sector (USD 1.3 billion). Both public market sales and secondary sales witnessed an increase over 2016, accounting for over 40% and 31% respectively of the total exit value in 2017. This year PE-backed IPOs alone amounted to USD 1.2 billion, a distinctive surge over the previous years which is expected to continue with IPOs becoming a preferred exit route for investors.

**Figures as on December 15, 2017 and excludes Real Estate deals*

Source: Venture Intelligence

Outlook for 2018

A PwC survey among the GP's in 2014 indicated that Private Equity investments in India may cross USD 40 billion by 2025. This seems to be in sight, basis what we have seen over the last three years, and our outlook for 2018.

Investor confidence in India continues to grow. The slew of tax and business aiding reforms over the last couple of years and those in the pipeline indicate this interest would see a surge in the near future, in particular with the Ease of Doing Business in India rankings going up by 30+ points. GST is finally behind us and additional tax and labour reforms are on the anvil. The Insolvency & Bankruptcy Law (IBC) came in sooner than most expected and together with the dismantling of the Foreign Investment Promotion Board (FIPB), introduction of the national IPR policy would be expected to spur deal activity in the country.

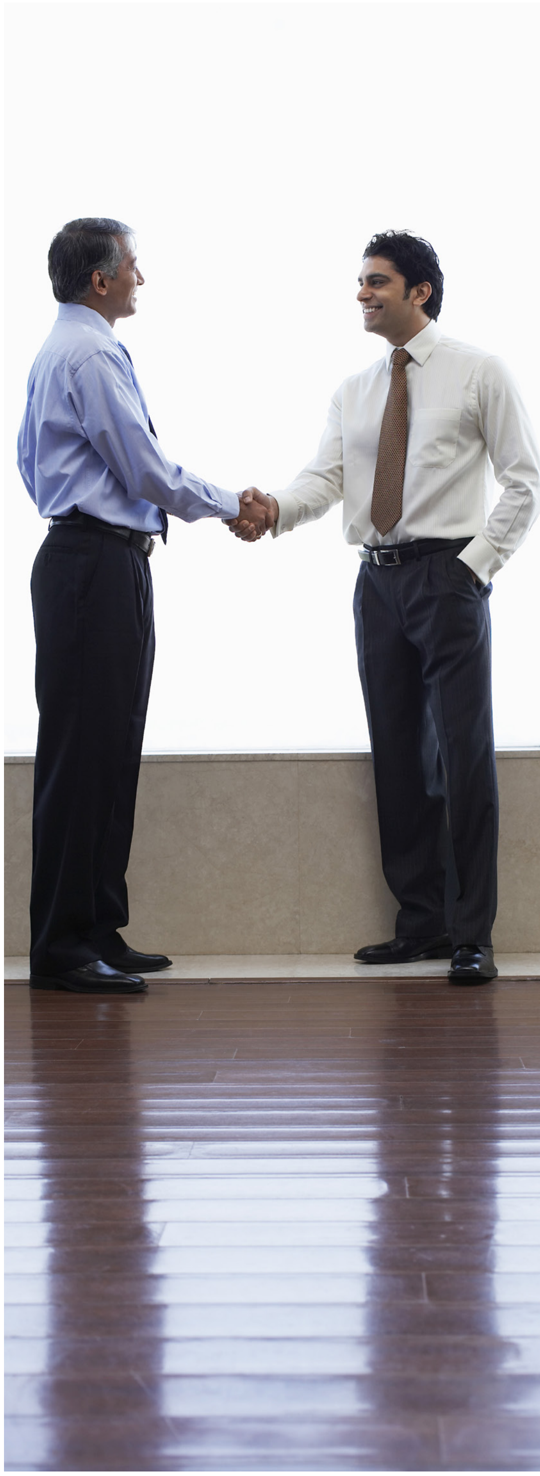
India continues to remain the fastest growing major global economy, growing at almost 2 – 3x the global average. With the consumption story persisting, and labour costs low (almost one – third of China), it is expected to generate interest from both financial and corporate investors in 2018.

A large part of the deal activity in 2017 was due to consolidation across key sectors, including consumer internet, telecom towers and infrastructure / EPC businesses. It is expected that some of consolidation play would continue in 2018, which would be an opportunity for PE investors. Likewise, there is a significant opportunity for PE players to support the potential resolution applicants under the IBC, where a number of distressed assets in the core sectors have come up for bid.

The Insurance sector is also expected to attract investments considering the Insurance Regulatory and Development Authority of India's (IRDAI) recent move to permit PE firms to invest in Insurance companies as promoters.

We also expect advancements in Artificial Intelligence, Robotics and an increasing move towards digital wallets and online retail to cause incremental opportunities for investors in the technology space. Infrastructure and allied service businesses too are expected to continue to attract high interest from private equity investors. The Government-sponsored, National Investment and Infrastructure Fund (NIIF), which has already attracted significant investor interest is also likely to lead platform deals across various infrastructure verticals.

The Indian PE landscape has developed significantly over the last 10 years, and is in a considerably mature phase now with two full investment cycles behind it. The India opportunity appears pleasant with possibilities to deploy capital across asset classes,so 2018 can perhaps better the 2017 inflows.



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