December 2019

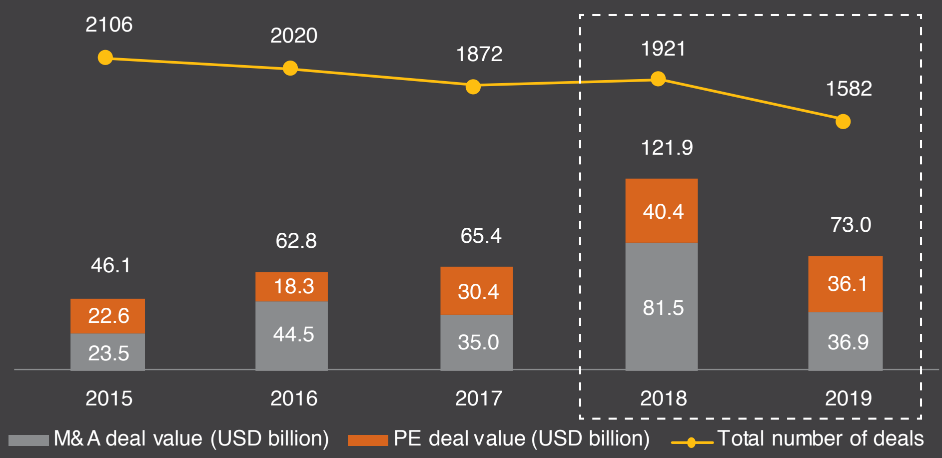
Deals in India: Annual review and outlook for 2020

pwc

2019 was bogged down by a number of challenges and saw its fair share of curveballs. Global tensions, the public market woes in India and the challenges of living up to 2018's record-breaking levels – all these factors combined to make it a tough year. Deal activity worth around USD 73 billion was recorded across over 1,500 transactions – a clear decline in comparison to last year, which recorded deals worth over USD 120 billion. Despite the challenges, 2019 emerged as the second best year for deal activity in India, surpassing years prior to 2018.

Private equity (PE) investments nearly retained their momentum, recording deals worth USD 36 billion as of 30 November 2019, an 11% decline in terms of value compared to last year, which saw investments worth USD 40 billion. However, PE funding in December could push the investment value up to similar levels as those seen in 2018. On the contrary, strategic (M&A) activity witnessed a sharp decline compared to 2018, recording 765 deals worth around USD 37 billion – less than 50% of the deal value recorded last year.

Deal activity in India



Source: VCCEdge (M&A), Venture Intelligence (PE) and PwC analysis

This slowdown in deal activity could be primarily attributed to fewer billion-dollar bets in 2019. 2018 witnessed 25 megadeals in comparison to 2019, which recorded only 11 deals, each valued at over a billion dollars. Another major hindrance to deal levels this year was the global slowdown, which is the driving force behind the cautious approach of investors. Despite these and other factors, India appears to be resilient and has demonstrated signs of a stable deals landscape.

In PwC's report, Deals in India: Annual review and outlook for 2019, we highlighted certain deal drivers which were expected to contribute significantly to deal activity this year. In this report, we take a look at how those predictions have panned out.

Drivers for deal activity in India

- Valuation concerns
- Sluggish capital market
- Slowing consumption growth
- Liquidity challenges
- Global headwinds
- Stress in the banking space
- Wholesale and retail non-performing asset
- Auto and real estate stress

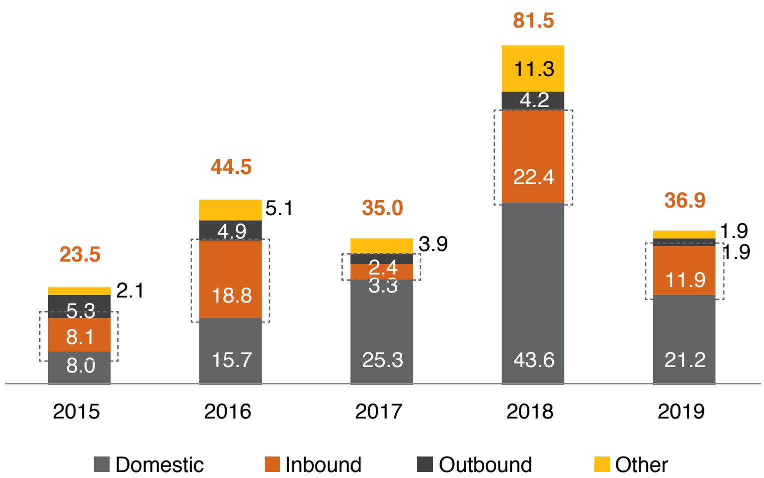
Our prediction for 2019

Continued interest from foreign investors

Status as of December 2019

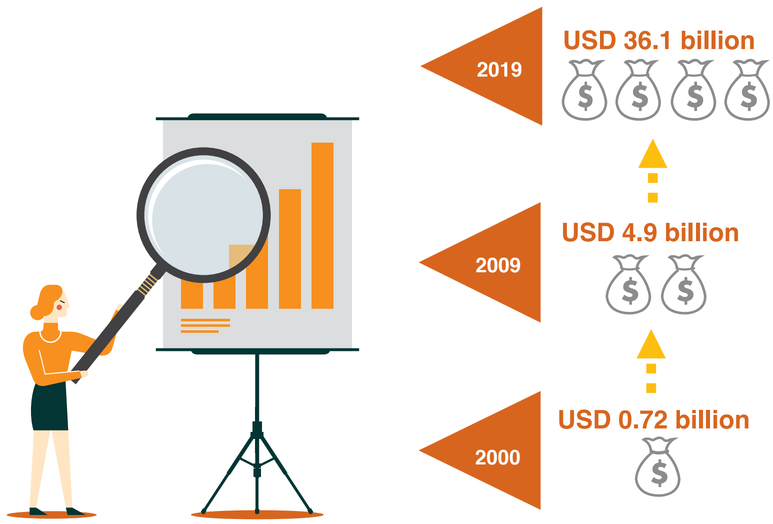
Inbound activity alone accounted for 32% of the M&A deal value this year, an uptick from 28% in 2018. India has witnessed significant interest from overseas corporates across sectors, including steel, energy, infrastructure and financial services. Inbound activity amounted to around USD 12 billion during the year in comparison to 2018, which saw deals worth USD 22.4 billion and which included a noteworthy capital infusion in the e-commerce space. In addition to corporate players, global private equity (PE) continues to gravitate towards India, with investment values surging over the last two decades.

M&A activity by deal type (USD billion)



Source: VCCEdge (M&A), Venture Intelligence (PE) and PwC analysis

PE investments in India



Despite a few challenges, foreign players are evidently still bullish about India. However, whether this enthusiasm extends into the near future will depend on both domestic and global volatility as well as government reforms.

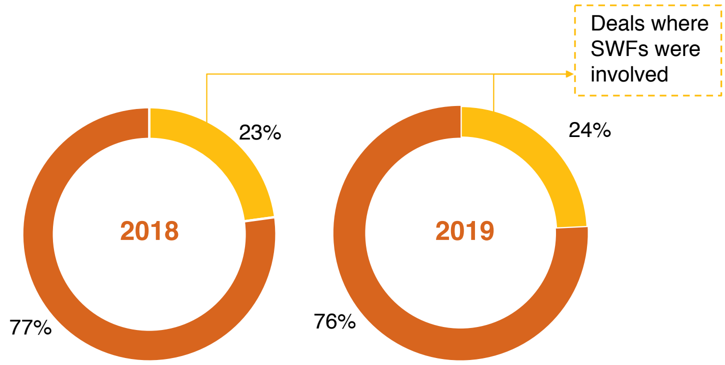
Our prediction for 2019

Growing interest from SWFs

Status as of December 2019

2018 highlighted capital infusion from sovereign wealth funds and pension funds (SWFs) in India. These funds from across the globe were at the forefront of the deal activity last year, with sizeable bets being placed across multiple sectors such as financial services, chemicals, infrastructure and energy. As expected, the interest from these funds continued on an upward trajectory in 2019 and should continue in 2020 as well. SWFs from Singapore, Abu Dhabi and Canada have been a part of some of the largest PE investments this year, playing a significant role across key segments, including infrastructure and renewables.

SWFs involvement in PE deals



Source: Venture Intelligence and PwC analysis

In addition to these traditional sectors, SWFs have also played an active role in the late-stage start-up space, providing growth funding to e-commerce players across segments such as logistics and pharmaceuticals. This not only indicates the growing interest of SWFs in India but also, more importantly, their growing risk appetite.

Our prediction for 2019

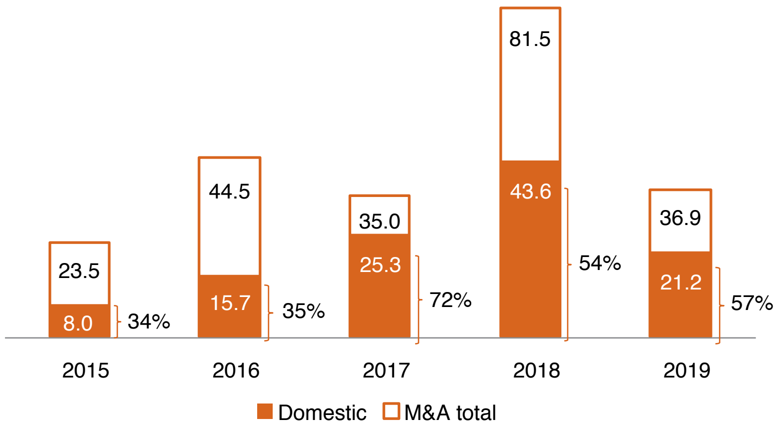
Consolidation will be a key driver

Status as of December 2019

Adapting to new-age technologies and scaling up operations are some of the factors driving consolidation in India. With the ultimate aim to boost capabilities and profits, 2019 recorded domestic deals worth over USD 21 billion, which accounted for over 57% of the M&A deal value this year – up from 54% in 2018.

This trend has not been limited to the technology space but is visible among multiples sectors, including financial services, steel, infrastructure, energy and hotels. Within the financial services space, banks' acquisitions of housing finance companies alone amounted to USD 7 billion. Likewise, the year also witnessed the acquisition of stressed steel players by larger corporations in an effort to further expand their outreach and leverage the capabilities of these debt-ridden assets. Considering India's highly competitive deal landscape, consolidation should continue to be a key driver in 2020 as well.

Domestic deals contribution to M&A activity (USD billion)



Source: VCCEdge (M&A) and PwC analysis

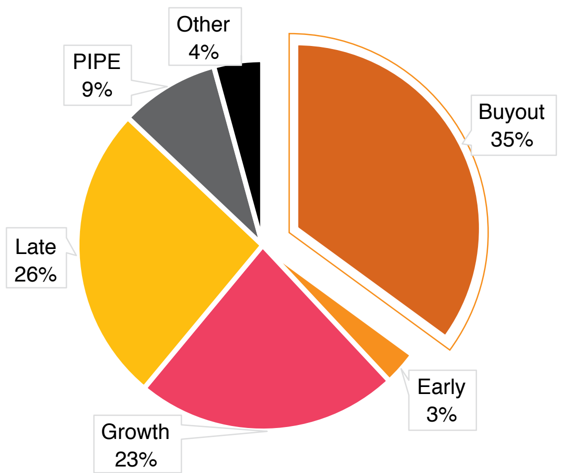
Our prediction for 2019

Uptick in buyouts

Status as of December 2019

Control has become a key element in most transactions. Investors are increasingly looking for investment opportunities where they can enhance or extract maximum value. Buyout activity in 2019 broke all previous records and surpassed 2018 by 30% in terms of value. This year witnessed 45 buyout deals worth nearly USD 12 billion. Concerns around transparency have been creating a trust deficit among investors, who are becoming more cautious about the companies they engage with.

PE investments in 2019 by stage (USD billion)*



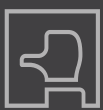
Source: Venture Intelligence (PE) and PwC Analysis (*Exclude Real Estate)

Investors are now more keen to play a role in the performance of their investments, to be able to extend their expertise and work towards the profitability of the company. Control transactions eliminate governance concerns and the need to align with other shareholders in terms of operational aspects. Very often, they prove to be more beneficial and convenient to the investor.

Additionally, consolidation, secondaries and deleveraging are also contributing towards this uptick in buyouts, a trend likely to drive PE activity in 2020.

Our prediction for 2019

Status as of December 2019

Big billion bets (PE) 

Big billion bets (M&A) 

This year, deal volume continued on a downward trend, and there were fewer billion-dollar deals compared to 2018. While PE witnessed a minor decline from seven big-ticket deals in 2018 to five in 2019, M&A accounted for a major share of the decline. 2018 saw 18 strategic deals in the billion-dollar bracket. whereas 2019 witnessed only a third of these deals.

Despite this slowdown, deal values are still on an upward trajectory with deal volumes declining, indicating an increase in the average ticket size. This year, deals valued at over USD 1 billion accounted for around 38% of the deal value across both PE and M&A combined.

Top 5 M&A transactions in 2019 by deal value

Company	Buyers	Industry	Deal value (USD billion)	% sought
Essar Steel India Ltd.	ArcelorMittal SA, Nippon Steel and Sumitomo Metal Corporation	Metals	6.0	100.0
Indiabulls Housing Finance Ltd.	Lakshmi Vilas Bank Ltd.	Financial Services	4.1	100.0
Gruh Finance Ltd.	Bandhan Bank Ltd.	Financial Services	3.0	100.0
Bhushan Power and Steel Ltd.	JSW Steel Ltd.	Metals	2.7	100.0
Adani Gas Ltd.	Total Holding SAS	Oil and Gas	1.5	62.6

Source: VCCEdge

Top 5 PE transactions in 2019 by deal value:

Company	Investors	Industry	Deal value (USD billion)	% sought
Reliance Tower Infrastructure Trust	Brookfield	Telecom	3.7	NA
Reliance Pipeline Infrastructure India	Brookfield	Energy	1.9	100
GMR Airports Holding	SSG Capital, GIC, Others	Travel and Transport	1.1	44.4
GVK Airport Holdings	NIIF, ADIA, PSP Investments	Travel & Transport	1.1	NA
PayTM	Alibaba, SoftBank Corp, Others	Technology	1.0	6.25

Source: Venture Intelligence

Our prediction for 2019

Stressed asset opportunity

Status as of December 2019

The Insolvency and Bankruptcy Code (IBC) continued to make headlines this year with the Government making much-needed amendments to improve efficiencies of this law. The recent acquisition of a stressed asset in the steel space provided a sense of encouragement to investors looking to acquire debt-laden assets.

Despite a few impediments, the IBC has ushered in a change in mindset among promoters and investors and fostered a more cohesive approach to tackling debt. Seven of the cases within the infamous dirty dozen and amounting to around USD 45 billion have already been resolved, further driving a sense of confidence in this law and, more importantly, instilling a sense of credit discipline.

Sr. No.	Company name	Resolution applicant	Debt (USD billion)	Case status
1	Bhushan Steel	Tata Steel	8	Successful
2	Electrosteel steels Ltd.	Vedanta	2	Successful
3	Monnet Ispat And Energy	Consortium of JSW and AION	1	Successful
4	Jyoti Structures	Group of HNIs headed by Sharad Singhi	1	Successful
5	Alok Industries	RIL and JM Financial ARC	4	Successful (but not yet implemented)
6	Bhushan Power & Steel	JSW	7	Successful (resolution plan challenged; before courts)
7	Essar Steel	Arcelor Mittal	7	Successful
8	Jaypee Infratech	NA	1	Ongoing
9	Era Infra Engineering	NA	1	Ongoing
10	Amtek Auto	NA	2	Liberty House failed to make payment; process restarted
11	Lanco Infratech	NA	7	Liquidation
12	ABG Shipyard	NA	3	Liquidation

Source: CEA monthly report, March 2019

The Government's recent proposition to create an informative platform to share basic information on stressed assets could further boost interest in the stressed space. This system would create some sense of transparency and support investors in making informed decisions. This move would not only draw more attention to the opportunities presented at the insolvency stage but also create awareness of the potential of the pre-insolvency phase.

Our prediction for 2019

Increase in platform play

Status as of December 2019

With buyouts at an all-time high, platform deals are also gaining traction. A number of investors are moving towards a more concise or focused investment approach and accordingly adopting a buy and build approach. We are seeing platform deals across multiple sectors, including infrastructure, renewables, technology and debt situations. This trend has been evident among the SWF community, while also extending to the wide PE group, and is very likely to be visible across 2020.

Platform play within the infrastructure segment was at the forefront of deal activity this year, recording sizeable investments, particularly in the roads space.

2019 also witnessed the emergence of a new asset class with Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs). India’s first REIT, was launched earlier this year and could pave the way for other investment vehicles of a similar nature.

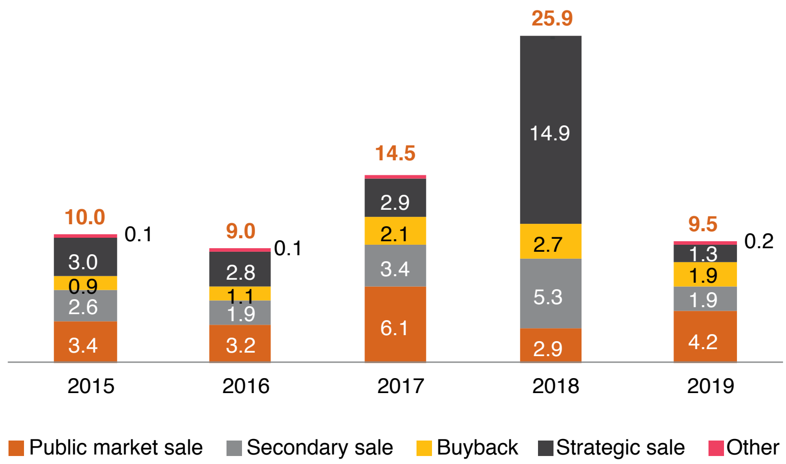
Our prediction for 2019

Secondary sales as a preferred exit mode

Status as of December 2019

2019 has witnessed a sharp decline in PE exits in terms of value and volume, recording 185 exits worth a little over USD 9.5 billion. This was a 63% decline in terms of value compared to 2018, which saw the highest exit activity with 262 deals worth USD 25.9 billion. Excluding the strategic sale of a big e-commerce player, which accounted for the largest share of the exit value last year, 2019 was still a slow year for exit activity in India.

PE exit activity in India (USD billion)



Source: Venture Intelligence and PwC analysis

Public market sales accounted for the largest share of the exit value this year, up 45% compared to 2018. Open market transactions accounted for the highest share of the exit value within public market sales, while initial public offerings (IPOs) witnessed a 67% drop in comparison to last year. Secondary sales and buybacks amounted to nearly USD 2 billion each.

Notwithstanding this downturn, this year recorded the largest buyback deal in the online hospitality space. India's start-up ecosystem has clearly entered a new phase, evident from sizeable returns recorded on this transaction. This could not only highlight the potential of India entrepreneurs but also help relax concerns around profitable exits within the start-up space.

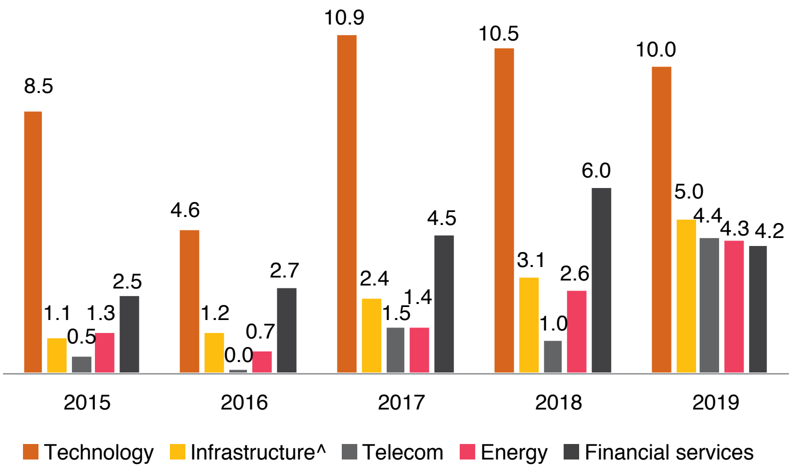
Our prediction for 2019

Technology in the lead

Status as of December 2019

From a sector perspective, despite a marginal decline in deal values, the technology sector retained its position as the most attractive segment for PE investors. Technology witnessed investments worth nearly USD 10 billion in 2019, accounting for 28% of the investment value this year. A significant portion of this amount was focused on growth funding for late-stage start-ups.

Top 5 sectors attracting PE investment (USD billion)



Source: Venture Intelligence and PwC analysis

^Includes Engineering and Construction, Shipping and Logistics and Travel and Transport

Technology was followed by infrastructure space, which continued to garner attention from SWFs, PEs and alternative investment platforms. Simultaneously, telecom recorded two sizeable deals this year.

Renewables continued to dominate investments in the energy segment, with SWFs accounting for the largest share of the investment value. Although financial services witnessed a 30% decline in terms of investment value compared to 2018, the segment witnessed sizeable investments mainly across insurance and non-banking financial companies (NBFCs). PE funds have not hesitated to seize the opportunity presented by the NBFC crisis, more so considering the attractive valuations. This segment has seen investments worth around USD 2 billion this year, with a number of investors expressing interest in tapping into this space.

These five sectors accounted for 77% of the investment value this year and should retain their position at the forefront of deal activity next year as well.

What about the future?

While PE activity remained robust, M&A deals were off to a good start during the first six months of the year and experienced a notable slowdown in the latter half. The liquidity crisis and governance concerns coupled with global challenges could have contributed to this slowdown. Macroeconomic indicators have led to a lack of buoyancy in the capital markets, which in turn has posed challenges to future growth and set up a steep climb in 2020.

The liquidity crunch plagued the real estate segment in India but simultaneously presented a host of opportunities for investors to pump capital into cash-strapped businesses across a number of core sectors. Similarly, the non-performing asset (NPA) crisis within the Indian banking sector also emerged as a significant area for growth-stage funding, an opportunity which will be relevant not only to pure-play PE funds but also to other structured asset classes.

Investor perspective on India is more long-term and the current market slowdown may not result in a sense of urgency or concern for most. However, a more conducive deal environment backed by effective reforms and better governance would further boost sentiment and attract investments.

With the risk of a recession on the horizon and continuing trade concerns, growth levels could be tepid for a while. Despite measures such as cuts in the repo rate and corporate tax, fiscal policies aimed at reviving the capital cycle and economy in general could be an additional trigger in 2020.

Data as on 30 November 2019

Sources: Venture Intelligence (PE) and VCCEdge (M&A)

Notes

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