Deals in India: Annual review and outlook for 2021
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Uncertainty was the key area of concern for the investor community across the globe throughout 2019. Along with other challenges, the COVID-19 crisis was a major disruptor in 2020. The year highlighted the polarisation between larger players in comparison with the mid-segment and smaller corporations as the latter pushed themselves to demonstrate resilience. Agility and adaptability were vital factors for all organisations to continue operations and remain relevant during these constantly changing and trying times. Dependency on technology accelerated over the last year and liquidity became a growing pain point simultaneously.

Despite concerns around macroeconomics, corporate governance, changing regulatory norms, geopolitics and global tensions, deal values in 2020 nearly retained momentum with the previous year. At an aggregate level, deal values amounted to little over USD 80 billion across around 1,268 transactions, which is a 7% increase in terms of value as compared to 2019. However, 25% of this deal value could be attributed to sizeable inbound investments in Jio Platforms. Strategic deals (mergers and acquisitions [M&A]) accounted for over 50% of the total deal value this year, while private equity (PE) activity kept pace with last year, recording investments worth USD 38.2 billion.

Deal activity in India

Excluding the big-ticket deals in the telecom sector, the first half of 2020 witnessed a slowdown with investors putting their plans on hold and shifting focus towards cash conservation. Within the PE community, several funds adopted a more cautious approach during the initial months of the year – either to focus on their existing portfolios or with the expectation of revised valuations. Simultaneously, a number of organisations were looking to hive-off non-core assets or distressed segments in an effort to enhance or retain profitability, creating a number of M&A opportunities.

The next few years are expected to be challenging for the Indian economy. However, corporate India has previously demonstrated agility and adaptability in the face of crises. Government reforms and demographic advantage further reaffirm India’s potential as a key investment destination.

1 Data from Venture Intelligence and VCCEdge
2 Ibid.
Asset monetisation through consolidation

The lockdown in India severely impacted almost every sector. Several discretionary consumer businesses in the retail sector struggled to stay above water, creating a number of consolidation and expansion opportunities. Reliance Retail Ventures acquired the retail, wholesale, logistics and warehousing businesses of Future Group for USD 3.3 billion. The acquisition was the largest domestic deal recorded in 2020.³

A number of mergers were also recorded in the banking sector, which was already witnessing a wave of consolidation in previous years. Aimed at improving capital efficiency and financial inclusiveness, the merger of public-sector banks accounted for around a quarter of the consolidation activity in 2020.

M&A deal activity by deal type (in USD billion)

![Chart showing M&A deal activity by deal type](chart.png)

Source: VCCEdge and PwC analysis

³ Refers to the period from 1 January 2020 to 7 December 2020

Domestic consolidation continued to drive M&A activity in India, accounting for nearly 50% of the total deal value this year.⁴ Given the volatility, uncertainty and complexity of the current times, we expect this to be a continuing trend.

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⁴ Data from VCCEdge
A number of companies across sectors, including manufacturing, infrastructure, financial services and real estate, faced significant challenges in the pre-Covid era. These sectors were already trying to cope with mounting bad debts and a growing sense of reluctance within the lending and banking communities. However, the situation has been aggravated by the pandemic, which has caused labour disruptions, capital inadequacy and demand contraction, among several other issues.

The investment community expects non-performing assets (NPAs) to spike again, creating a very lucrative opportunity. In the interest of recovery, it is very likely that good-quality assets will be made available at attractive valuations, driving funds and strategic players to pursue these distressed situations. Accordingly, assets across these sectors will garner keen interest and careful observation, and there could be some competition between global and domestic investors.

Special situation funds or distressed funds have already enhanced their operations in India. A number of funds are already allocating capital towards distressed situations or are interested in doing so in the near future. There has been an infusion of approximately USD 1.5 billion into distressed assets from PE funds this year, a significant increase from last year. Investors will play a crucial role in preserving and enhancing the value of these assets and simultaneously contributing to overall economic recovery.
Inbound activity in 2020 recorded an 11% increase over 2019. However, over three quarters of the USD 13.4 billion invested was concentrated in Jio.\textsuperscript{5}

Facebook invested around USD 5.7 billion in Jio Platforms for nearly a 10% stake – possibly one of the largest deals to be completed virtually during the lockdown. This was followed by a USD 4.5 billion investment from Google for a 7.7% stake in Jio Platforms.\textsuperscript{6}

There was foreign direct investment (FDI) worth USD 30 billion in India between April–September 2020, a 15% increase over the same period last year. FDI will continue to play a crucial role in the economic development of India. Apart from supplementing domestic capital, it would also bring in improved governance, operational capabilities and international expertise.\textsuperscript{7}

\textbf{India – a priority on the global front}

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\textbf{M&A deal activity by deal type (in USD billion)}

\begin{figure}
\centering
\includegraphics[width=0.5\textwidth]{chart}
\caption{M&A deal activity by deal type (in USD billion)}
\end{figure}

\begin{itemize}
\item Strategic investments in Jio Platforms
\item Other inbound M&A
\end{itemize}

\textit{Source: VCCEdge and PwC analysis}

\textit{*Refers to the period from 1 January 2020 to 7 December 2020}

The COVID-19 crisis also accelerated trade conflicts worldwide, opening up a window of opportunity for India, particularly for micro, small and medium enterprises (MSMEs). With a supporting regulatory and business environment, India has the potential to become a global manufacturing hub, a possibility that foreign investors have already acknowledged and are expected to leverage in the future.

\textsuperscript{5} Data from Venture Intelligence and VCCEdge
\textsuperscript{6} Ibid.
\textsuperscript{7} https://dipp.gov.in/sites/default/files/FDI_Fact_sheet_Sepember_20.pdf
Optimism on the PE front

Expectations exceeded on the PE front as investments worth USD 38.2 billion were recorded in 2020, amounting to nearly the same level of activity in 2019. Reliance Group was once again a large contributor to PE deal values and helped in retaining momentum with PE investments in 2019. Following Facebook, a consortium of funds, including TPG, KKR, General Atlantic, Silver Lake and other PE players and sovereign wealth funds (SWFs) invested USD 9.8 billion in Jio Platforms. These investments accounted for 66% of the growth-stage PE investments in 2020, driving growth investments to an all-time high of USD 15 billion. Similarly, Reliance Retail Ventures saw investments worth over USD 5.1 billion, resulting in a spike in late-stage PE investments and making 2020 a record year for this type of investment as well.

PE investments by stage (in USD billion)^

On the other hand, the number of buyouts witnessed a sharp decline compared to 2019. This could be due to the risk-averse approach adopted by several funds earlier this year, as well as the need for smaller rounds of cash infusion in cash-strapped businesses. Steered by the need for value creation, preservation and enhancement, control will be a key element for most investors in future.

Despite anticipated challenges for venture capital (VC) funds, early-stage investments maintained levels with previous years. Global investors reiterated confidence in India’s start-up space as well as entrepreneurial capabilities, and were quick to address any gaps created by international conflicts.

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8 Data from Venture Intelligence
**Resurgence on the back of megadeals**

2020 recorded 17 deals in the billion-dollar bracket, nearly double the number of such deals (nine) recorded in 2019. Deal volumes have progressively been declining with increasing deal values. 2,035 deals worth USD 63 billion were recorded in 2016, compared to 1,268 deals worth USD 80.4 billion in 2020.\(^9\) This indicates that the average ticket size has doubled over the last five years from around USD 30 million in 2016 to USD 60 million in 2020.

With a number of companies struggling to stay afloat, large strategic investments or takeovers are expected in 2021 as well. Disruptions caused by the pandemic present a sizeable opportunity for PE funds that are sitting on significant volumes of dry powder and are willing to take a long-term view on their investments. We could expect to see big-ticket deals in the late-stage segment when companies are possibly more established with better liquidity.

**Top five M&A transactions (by deal value) in 2020**

<table>
<thead>
<tr>
<th>Company</th>
<th>Buyer(s)</th>
<th>Deal value (in USD billion)</th>
<th>% sought</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jio Platforms Ltd.</td>
<td>Facebook Inc.</td>
<td>5.7</td>
<td>9.9</td>
</tr>
<tr>
<td>Jio Platforms Ltd.</td>
<td>Google LLC</td>
<td>4.5</td>
<td>7.7</td>
</tr>
<tr>
<td>Future Enterprises Ltd.</td>
<td>Reliance Retail Ventures Ltd.</td>
<td>3.3</td>
<td>100</td>
</tr>
<tr>
<td>Lummus Technology</td>
<td>Haldia Petrochemicals Ltd. and Rhone Capital LLC</td>
<td>2.7</td>
<td>100</td>
</tr>
<tr>
<td>GMR Airports Ltd.</td>
<td>Groupe ADP</td>
<td>1.5</td>
<td>49</td>
</tr>
</tbody>
</table>

Source: VCCEdge

**Top five PE transactions (by deal value) in 2020**

<table>
<thead>
<tr>
<th>Company</th>
<th>Buyer(s)</th>
<th>Deal value (in USD billion)</th>
<th>% sought</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jio Platforms</td>
<td>Public investment fund, Vista Equity Partners, Mubadala Investment, ADIA, Silver Lake, L Capital Asia, TPG Capital, Qualcomm Ventures, KKR, Intel Capital and General Atlantic</td>
<td>9.9</td>
<td>NA</td>
</tr>
<tr>
<td>Reliance Retail Ventures</td>
<td>Mubadala Investment, ADIA, TPG Capital and GIC</td>
<td>2.6</td>
<td>4.25</td>
</tr>
<tr>
<td>Reliance Retail Ventures</td>
<td>Silver Lake, KKR and General Atlantic</td>
<td>2.5</td>
<td>4.25</td>
</tr>
<tr>
<td>RMZ Corporation</td>
<td>Brookfield</td>
<td>1.9</td>
<td>NA</td>
</tr>
<tr>
<td>Reliance Retail Ventures</td>
<td>Public investment fund</td>
<td>1.3</td>
<td>2.04</td>
</tr>
</tbody>
</table>

Source: Venture Intelligence

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9 Data from Venture Intelligence and VCCEdge

Deals in India: Annual review and outlook for 2021
Shift in investor priorities

Over the last few years, technology, energy, financial services, infrastructure and real estate have been among the top sectors attracting PE investment. However, there has been a slight shift in investor priorities in 2020. Telecom replaced technology in the top position by attracting investments worth USD 11.2 billion. The retail sector was another new entrant, attracting investments worth USD 6.5 billion. Both sectors recorded increased levels of investment mainly on account of large-scale investments in Reliance Group entities.10

Technology recorded investments totalling a little under USD 6 billion. Online service aggregators accounted for majority of the investments in the tech space.

Top sectors attracting PE investment (in USD billion)

Source: Venture Intelligence and PwC analysis

*Refers to the period from 1 January 2020 to 7 December 2020

Data from Venture Intelligence
Despite multiple concerns, including demand contraction and labour shortages, PE funds infused nearly USD 5 billion in the real estate (RE) sector this year. 60% of the investment was on account of Brookfield and Mitsui’s investments in the RMZ Corporation. Excluding these deals, investments in RE remained muted.

As expected, 2020 was a record year for PE investments in the healthcare and life sciences segment. Pharmaceuticals accounted for a majority of the USD 2.5 billion invested in this sector.

The continuing NPA crisis challenged investments in the financial services space which recorded a 43% decline in investment values as compared to last year.

Conversely, education entered the big-billion bracket this year, with investments worth USD 1.3 billion, mainly on account of noteworthy investments in Byju’s. EdTech has been an area of focus for investors this year, particularly with the pandemic driving the need for continuing education through online/virtual classes.

Manufacturing will be another key sector going forward, particularly in realising the Government of India’s (GoI’s) vision of making India self-reliant. MSMEs will play a critical role in achieving this vision. Additionally, investments in the infrastructure segment would provide much-needed support in transforming India into a global manufacturing hub. This would require adequate focus and diversion of a large amount of capital towards rural infrastructure, digital enablement and upskilling. A number of global corporations across sectors like automotive, electronics, healthcare, chemicals and food processing have already set up manufacturing operations in India and we could expect several others to follow suit.

12 Data from Venture Intelligence
13 Ibid.
Looking beyond numbers

Societal and consumer demand are now increasingly guided by environmental concerns, thus influencing investors’ perspectives. Organisations providing private capital may have largely focused on solvency so far, but are increasingly positioning their capital allocation plans on proposed investees’ environmental, social and governance (ESG) performance. They are looking to acquire ‘green or clean’ assets, backed by stringent and long-term ESG plans, and many have already started launching impact investment funds and green funds, and engaging in platform play, focusing on sustainability. As a concept, ESG is not limited to climate change but also includes the broader concepts of an organisation’s corporate governance and operational aspects, which in turn provides investors with a perspective on the resilience of a company. Investors would look at investing in companies capable of withstanding future shocks and equipped in tackling potential future crises.

While we are still seeing some reluctance from sellers on acknowledging the importance of these non-financial parameters, it is expected that buyers will drive the change. Stakeholder capitalism is evidently on the rise and we could expect a more holistic and sustainable investment approach that looks beyond financial metrics and addresses larger expectations of all stakeholders.
PE exits continue on a downward trend

PE exits in 2020 reached an all-time low in the last five years and continue to remain a challenge amidst market volatility. 2020 recorded 136 exits valued at USD 4.2 billion, a 56% decline in terms of value as compared to last year. Valuation concerns along with an expectation mismatch between buyers and sellers have resulted in a number of exit plans being shelved.

**Top five PE exits (by value) in 2020**

<table>
<thead>
<tr>
<th>Portfolio company</th>
<th>Exiting investors</th>
<th>Exit status</th>
<th>Deal type</th>
<th>Exit value (in USD billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBI Cards and Payment Services</td>
<td>Carlyle</td>
<td>Partial</td>
<td>Public market sale</td>
<td>1.0</td>
</tr>
<tr>
<td>Embassy Office Parks REIT</td>
<td>Blackstone</td>
<td>Partial</td>
<td>Secondary sale</td>
<td>0.3</td>
</tr>
<tr>
<td>Essel Propack</td>
<td>Blackstone</td>
<td>Partial</td>
<td>Public market sale</td>
<td>0.3</td>
</tr>
<tr>
<td>Crompton Greaves Consumer Electricals</td>
<td>Temasek and Advent International</td>
<td>Partial</td>
<td>Public market sale</td>
<td>0.2</td>
</tr>
<tr>
<td>WhiteHat Jr</td>
<td>Nexus Venture Partners, Omidyar Network and Owl Ventures</td>
<td>Complete</td>
<td>Strategic sale</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: Venture Intelligence

*Refers to the period from 1 January 2020 to 7 December 2020

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15 Data from Venture Intelligence
Outlook for 2021

2020 ushered in a wave of accelerated change in terms of perspective and operational aspects for India Inc. Businesses were driven to quickly repair, rethink and reconfigure their corporate strategies to ensure financial stability and operationality. The COVID-19 crisis also required organisations to develop robust infrastructure, invest in digital enablement and become financially inclusive. Considering the current situation, the GoI introduced several reforms focused on labour, sectoral drivers and policy amendments to bring much-needed liquidity into the market, and drive the revival of core sectors.

MSMEs will be an integral part of India’s future. India has been given a momentous opportunity to establish itself as a global manufacturing hub, which in turn will drive the expansion of manufacturing capabilities and garner investor interest. Healthcare, pharmaceuticals and education have emerged as key focus sectors in 2020 and will continue to see an influx of investments. Technology has been a driving force behind operational continuity of several organisations during the pandemic and a number of strategic investments in this space are expected. Real estate, being an integral contributor to India’s gross domestic product (GDP), will also play a crucial role in revival of both employment opportunities as well as the economy at large.

COVID-19 also highlighted the importance of building sustainable and resilient organisations backed by good governance, digital capabilities and robust business models, and we could expect these aspects to drive collaborations and partnerships in the future. Consolidation was a major driver for deal activity this year and will form an integral part of M&A in 2021, possibly driving the emergence of new and larger Indian corporations in years to come. While PE witnessed a subdued first half in 2020, activity has picked up and PE funds are anticipating a bumper year in 2021.

Earlier this year, we carried out a survey to assess the CXO community’s views on the current crisis and the way forward. The results echoed confidence in India’s recovery, with 82% of the respondents expecting to return to pre-Covid revenue run rates by June 2021.16 Equipped with a demographic advantage, strategic location for exports, expanding consumer market and focus on digitalisation, India is well positioned to become an economic powerhouse of the future. With corporate India focused on recapturing demand and building organisational resilience, supportive Government reforms and policies will create a more conducive business environment for the investor community, thereby contributing significantly towards India becoming #FitForFuture.

Note: All deal values and related data presented in this report, unless otherwise indicated, are based on PwC analysis of data sourced from VCCEdge (for M&A deals) and Venture Intelligence (for PE deals).

16 https://www.pwc.in/services/deals/value-conservation-to-value-creation.html
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