

# *Deals in India: Mid-year review and outlook for 2018*

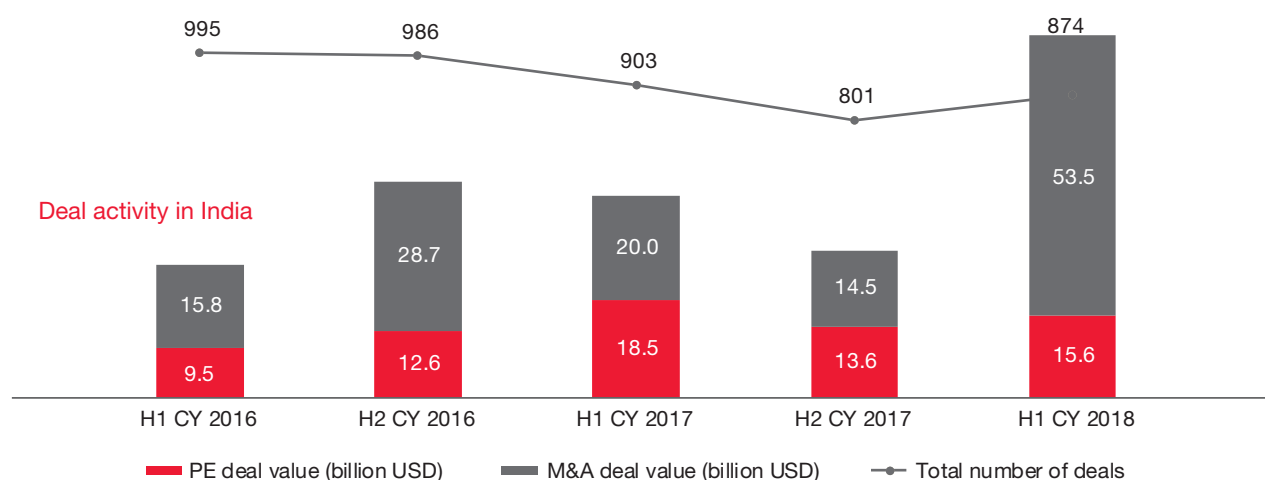
July 2018





The first half of 2018 has been marked by a significant surge in deal activity and the year appears to be well positioned to be a record-breaking one for India. The January to June period has already witnessed transactions worth over 69 billion USD across both private equity (PE) and strategic (M&A) deals. In comparison, transactions worth around 66 billion USD were recorded across all of 2017.

#### Deal activity in India



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

PE kicked off the year with a lukewarm first quarter, but regained momentum in the second quarter, recording investments worth nearly 9 billion USD across 200 deals, a 23% jump in value over the same period last year. However, the uptick in deal activity this year is largely on account of the spike in M&A transactions. The first six months of 2018 have witnessed 470 strategic deals aggregating 53.5 billion USD, a significant increase over the previous years. From a sector perspective, the technology space (including e-commerce) continues to garner

maximum attention from investors. The sector recorded deal activity worth nearly 25 billion USD across both PE and M&A. This was followed by the engineering and construction sector which witnessed increased focus on the cement and steel segments. Financial services, telecom, energy and healthcare continued to attract attention from both corporates as well as PE funds. While we are in the midst of a possibly transforming market, a few key themes are evident and could be driving investor sentiment.





While deal volumes remained practically unaltered as compared to previous years, investor confidence has been evident through a rise in big-ticket transactions. The first half of 2018 has already witnessed 10 strategic deals in the billion dollar bracket, as compared to 2017 which witnessed 4 deals.

### Sectors recording deals worth 1 billion USD+ in H1 CY2018

Technology/  
e-commerce



Steel



Infrastructure



Oil and gas



Industrial  
products



Energy



Financial  
services



Cement



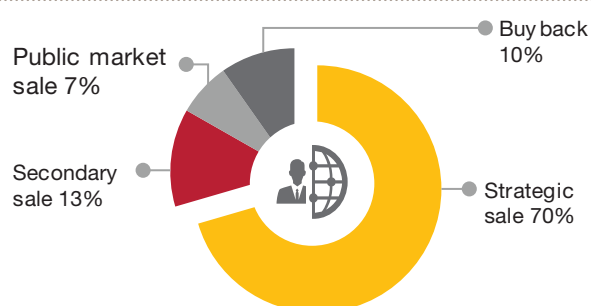
**Domestic consolidation led the activity this year**, accounting for around 60% of the M&A transaction value in H1 CY18. Apart from this, inbound M&A also witnessed a leap over previous years, accounting for a third of the transaction value in the last six months.

A number of domestic players may look at consolidation in an effort to boost operational efficiency, while **foreign players could look at large inbound transactions to establish their presence in the country.** Both aspects likely to be visible going forward.



With corporate buyers seeking growth-driven acquisitions, PE exits have hit an all-time high in 2018. H1 witnessed 129 exits aggregating 20.8 billion USD, surpassing 2017 which was the previous landmark year for exits. Strategic exits alone accounted for 70% of the exit value in the first half of 2018, a trend likely to continue with PEs looking to harvest returns.

### Split of exit value in H1 CY 2018 by deal type



Source: Venture Intelligence and PwC analysis



Another noteworthy trend has been the increased focus on control transactions. With growing attention to the correlation between governance and performance, a large proportion of companies are moving away from family succession in terms of operations and steering towards the PE route. Buyout

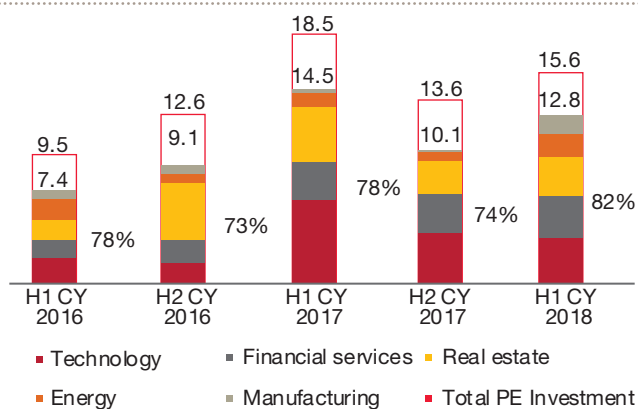
PE transactions in first half of 2018 have increased by nearly 20% as compared to the same period last year, and could be a key theme over the course of the year.

Additionally, a number of Indian conglomerates are looking to hive off non-core/debt ridden assets, presenting a number of buyout opportunities for funds as well as corporates.



Over 80% of the capital invested by PE funds in the first half of 2018 was concentrated in five key sectors, namely technology, financial services, real estate, energy and manufacturing. Over the last few years, these sectors have cumulatively attracted a majority of the interest from investors, accounting for approximately 75% of the investment value year on year. Confidence in these segments has been evident and is likely to continue to grow going forward.

Top 5 sectors attracting PE investments (billion USD)

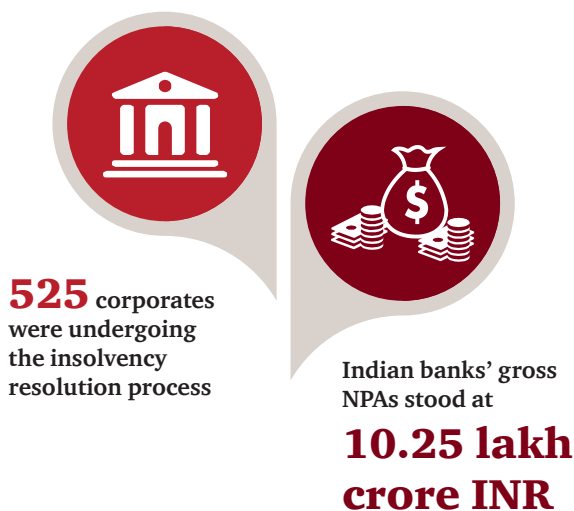


Source: Venture Intelligence and PwC analysis



The Insolvency and Bankruptcy Code (IBC) has presented a significant opportunity to support resolution applicants, where a number of distressed assets in the core sectors have come up for bid. With large players tapping into the opportunity, the ever-increasing size of the non-performing assets (NPAs) in India and a conducive deal environment for stressed assets, this could turn out to be the biggest contributor to M&A values in 2018.

As of 31 March 2018



Advancement in technological innovation, analytics and digitalisation are additional triggers to deal activity. A number of companies are now seeking 'new-age transformative' services, resulting in increased attention towards information technology services from both strategic and PE investors. The technology space (including e-commerce) in H1 CY18 recorded a combined investment value of nearly 25 billion USD across both PE and M&A.

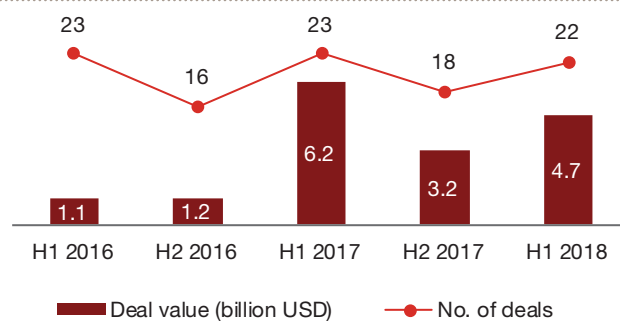




**Investors across China, Japan, Hong Kong and Singapore are increasingly expressing interest in India, specifically in the start-up space.**

Over the course of the last 18 months, Asian funds have been a part of investments worth over 15 billion USD in India. This is a clear sign of the strong investment appeal of India's entrepreneurs.

PE Investments in India where Asian funds were involved



Source: Venture Intelligence and PwC analysis



**Sovereign wealth funds were particularly active in 2017, a trend continuing in 2018 with major global sovereign wealth and pension funds at the forefront of deal activity over the last six months.**

These funds, amongst others, have also expressed interest in playing a role in India's infrastructure-led growth, and have also been focused on stressed businesses.

India has witnessed a promising first half in terms of deal activity levels, and 2018 is possibly on the road to surpassing all records set in previous years. However, with the run-up to the elections, we could expect investors and corporates to adopt a more cautious approach over the course of the rest of the year.

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