# INDIA PRIVATE EQUITY REPORT 2018


BAIN & COMPANY

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# Contents

# Executive summary

## Macroeconomic overview

The global upswing in economic activity continued in 2017, with global GDP growth rising to 3.2%, led by the US and the EU. Broad-based upward revisions of economic growth parameters in Western Europe, Japan, emerging Asia and Russia more than offset downward revisions for the US and the UK. Growth in Western Europe and EU bounced back, but the recovery is not complete: While the outlook is strengthening, growth remains weak in many countries, and inflation is below target in most of the advanced economies.

Commodity exporters, especially of fuel, are hit particularly hard as they adjust to the continuing stepdown in foreign earnings. And while short-term risks are broadly balanced, medium-term risks are still tilted to the downside. For policymakers, the welcome cyclical pickup in global activity provides an opportunity to tackle challenges—namely, to boost potential output while ensuring its benefits are shared, and to build resilience against downside risks.

As an IMF report, *World Economic Outlook, October 2017, Seeking Sustainable Growth: Short-Term Recovery, Long-Term Challenges*, noted, "Notable pickups in investment, trade and industrial production, coupled with strengthening business and consumer confidence, are supporting the recovery ... this welcome cyclical upturn after disappointing growth over the past few years provides an ideal window of opportunity to undertake critical reforms, thereby staving off downside risks and raising potential output and standards of living more broadly."

India's GDP growth remained stable with a rate of 7.1%, due primarily to growth in services and manufacturing. The "remonetisation" in 2017 restored consumption to some extent, and infrastructure spending also increased. Agriculture contributed 15% to India's GDP, while the contribution of services and industry to the country's GDP was 54% and 31%, respectively. Manufacturing showed the highest growth of 11% in 2017 compared with the 7% growth achieved during the past five years (2012 to 2016). However, financial services, real estate and construction posted marginally lower growth in 2017 compared with the previous five fiscal years.

Commodity price changes varied in India, but inflation remained in the 3% to 5% range. Prices of oil, steel and rice increased in 2017 and declined for some agricultural and metal commodities. Inflation dipped midyear, but recovered by year-end. Inflation in crude oil led to an increase in the wholesale price index (WPI), while the consumer price index (CPI) rose on the back of increasing food prices.

The annual rate of inflation, based on the monthly WPI, stood at 3.93% for the month of November 2017 (over November 2016). The rupee appreciated in value vs. the US dollar, whose strength declined due to delays in healthcare and tax reform in the US and, in parallel, the growing strength of the euro.

India's central bank, the Reserve Bank of India (RBI), pared the rate at which it lends overnight money to banks from 8% three years ago to 6% during 2017. Despite consumer price inflation dipping below 4%, the RBI held off drastic rate cuts. India's foreign exchange reserves were $404.92 billion in the week prior to December 22, 2017, which had steadily increased from $359.67 billion a year ago, according to data from the RBI.

Several developments in India had positive effects on the economy in 2017. The government's fiscal deficit, which was 4.5% of the gross domestic product (GDP) in 2013 to 2014, steadily declined to 3.5% in 2016 to 2017 and is expected to further decrease to 3.2% of the GDP in 2017 to 2018, according to the RBI.

A broader tax base and improved spending efficiency helped narrow the budget deficit. The Fiscal Responsibility and Budget Management (FRBM) review committee proposed a new FRBM Act to improve fiscal accountability and transparency. The report recommends lowering the fiscal deficit to 2.5% of GDP by 2023.

India's revenue receipts are estimated to reach INR 28–30 trillion ($436–$467 billion) by 2019, owing to the government of India's measures to strengthen infrastructure and implement reforms, which include demonetisation and the Goods and Services Tax (GST). The Indian government's Union Cabinet approved the Central Goods and Services Tax (CGST) Bill, Integrated Goods and Services Tax (IGST) Bill, Union Territory Goods and Services Tax (UTGST) Bill and Goods and Services Tax (Compensation to the States) Bill 2017.

The unification of taxation under the new GST is supposed to be a uniform process with centralised registration that will make starting and expanding businesses simpler. Interstate movement of goods and services will become cheaper and less time consuming. The government also provided tax breaks for small- and medium-sized enterprises (SMEs) with revenues less than INR 50 crore.

Demonetisation has led to more digital transactions. A unique identification scheme (Aadhaar) is gradually allowing better fund tracking. A direct benefit transfer (DBT) system will improve accountability and curb the black market for subsidised goods. The government of India has saved $10 billion in subsidies through direct benefit transfers with the use of technology, Aadhaar and bank accounts, according to a statement given by Prime Minister Narendra Modi during his address at the Global Conference on Cyber Space in November 2017.

Heightened financial sector risks related to the concentration of bad loans in public sector banks was a big concern for India. According to RBI's latest Financial Stability Report, the gross nonperforming advances (GNPA) ratio of banks increased from 9.6% to 10.2% between March and September 2017. The GNPA of banks in India may increase to 10.8% by March 2018 and further to 11.1% by September 2018, per the RBI report. China, Brazil and South Africa all have GNPA ratios below 4%, a number considered a safe zone.

The government of India invested $32.4 billion to recapitalise public sector banks over the next two years. The government's bank recapitalisation plan is expected not only to uplift lending and investment in the country, but also to push credit growth in the country to 15%.

In addition to the improvement of the economic scenario, there were several investments in various sectors of the economy. The M&A activity in India increased 53.3% to $77.6 billion in 2017 while private equity (PE) deals reached $24.4 billion. Indian companies raised INR 1.6 trillion ($24.96 billion) through the primary market in 2017. India received net investments of $17.412 million from FIIs between April and October 2017.

These moves have led to higher investor confidence, reflected by India's improved rank in the World Bank's "ease of doing business" category. India moved up 30 places and is now among the top 100 countries. Moody's upgraded India's sovereign rating for the first time in 14 years—to Baa2 with a stable economic outlook.

Including add-on transactions, global buyout value grew 19%, to $440 billion, supported by a stream of large public-to-private deals. However, global deal count was essentially flat, growing just 2%, to 3,077 deals. That's off 19% from 2014, the high-water mark for deal activity in the current economic cycle.

Two record-setting deals in Asia marked a big year for private equity-backed deal activity in 2017 in the region. Investors led a surge of megadeals ($1 billion or more) including the region's largest deal ever—a $14.7 billion buyout of Toshiba Memory Corp. by a group of investors led by Bain Capital and others.[1] The third-largest deal occurred in Singapore, where multiple investors acquired Global Logistic Properties Limited for $12 billion. These two deals alone have produced the record-breaking total, accounting for more than half of all Asian buyout deal value in 2017.

Asian private equity deals continue to offer strong growth, with favourable demographics and a growing middle class that leads the demand across sectors. The Asian market gives investors an opportunity to diversify portfolios away from traditional US and European markets.

## Fund-raising

The global private equity industry raised a record $452 billion from buyout funds alone in 2017, giving it more than $1 trillion surplus to pour into companies and new business ventures according to data from industry tracker Preqin, the leading source of data and intelligence for the alternative assets industry.

In 2017, Asia-Pacific-focused fund-raising levels recovered to 2015 levels of approximately $66 billion, growing by 6.3% from 2016. India was among the leaders of that growth, with India-focused funds growing by 48% to an aggregate $5.7 billion in funds raised. In terms of returns, LPs have been cash-positive since 2013, and the Asia-Pacific private equity industry has been consistently outperforming public markets.

Moreover, at approximately $9 billion, Indian dry powder remained at levels similar to 2015 and 2016, indicating no dearth of capital for good-quality deals. Aided by government regulations and tax breaks, new asset classes like alternative investment funds (AIFs) and distressed asset management have further grown in the Indian market.

Registered AIFs in India have more than doubled over the past couple of years and number approximately 346 in 2017. AIFs have also been a significant contributor to overall fund-raising in the Indian market and have helped raise $5.1 billion in 2017, more than double their 2016 total.

This growth in AIF fund-raising grew from the strong performance of public markets (the Bombay Stock Exchange Sensitive Index, SENSEX, rose 28% in 2017) and regulation change in June 2017 that allowed Category III funds to participate in commodity trading. Opening the market to foreign institutional investors and exempting AIFs from a minimum lock-in period for pre-IPO investments for Category II funds further boosted growth.

Distressed asset funds also gained momentum in 2017 following 2016's Insolvency and Bankruptcy Code institutionalisation and relaxation by the Securities and Exchange Board of India (SEBI). Institutionalisation of the Insolvency and Bankruptcy Code has streamlined resolution of distressed assets. SEBI relaxed its takeover code for stressed asset deals. Investors can now purchase equity from distressed company's lenders without making an open offer in the market.

Several private equity players have set large targets to acquire distressed assets. CDPQ (Caisse de dépôt et placement du Québec), Edelweiss Financial Service, Blackstone, International Asset Reconstruction Company, Piramal Group, Bain Capital Credit, ILFS and The Capital Group Companies, Inc. have together set aside a fund target of more than $2.5 billion for distressed asset management.

Fund-raising is a higher priority for investors in 2018, with many expecting the environment to remain stable.

1. The total value of the transaction, which is under regulatory review, was $17.9 billion, with private equity investors contributing $14.7 billion.

## Deal making

India remained a hotbed for deal making in 2017. The total deal value in India during 2017 was $26.4 billion, the highest in the last 10 years. While the number of deals fell 30% in 2017 to 682 from 976 in 2016, in terms of value, a few large deals in 2017 increased the deal value almost 60% over the previous year.

India's median deal multiples reached a record high value and was greater than APAC's. The median EV/EBITDA multiple on Asia-Pacific M&A transactions in 2017 was 11.5 times in 2017 while the median EV/EBITDA multiple on India M&A transactions was 12.8 times in 2017 (vs. 11.9 times in 2016), indicating a very healthy pricing trend for India.

In fact, the top 15 deals in 2017 accounted for almost half of total PE deal value. In 2016, the top 15 deals were worth only 30% of the total deal value. Clearly, the PE funds value quality over quantity and are not allowing dry powder to pile up.

Consumer tech and Banking, Financial Services and Insurance (BFSI) segments were the largest sources of investment in India during 2017, aggregating to more than 50% of the entire deal value for the year. Big-ticket consumer technology deals—Flipkart ($2.5 billion), Paytm ($1.4 billion) and Ola Cabs ($1.1 billion), to name a few—reemerged in 2017, driving an average deal size of $47.1 million, compared with a mere $17 million in 2016. Deals in the manufacturing sector witnessed a big decline of 67% in volume, going from 54 deals in 2016 to 18 in 2017, while IT/ITeS also faced a downswing of 29% in volume, from 130 deals in 2016 to 92 in 2017.

Indeed, the number of active players in PE increased—particularly institutional investors. The number of active players in the Indian market increased from 474 between 2014 and 2016 to 491 during the 2015 to 2016 period, mainly due to the increase in institutional investors.

Investments from sovereign wealth funds and pension funds constituted almost 20% of deal value. Sovereign wealth funds and pension funds like Canada Pension Plan Investment Board (CPPIB), Government of Singapore Investment Corporation (GIC), CDPQ, Abu Dhabi Investment Authority (ADIA) and Ontario Teachers' Pension Plan (OTPPB), among others, increased the activity in India in the last year. CPPIB's president and CEO said in December 2017, "The good part about India is the substantial long-term economic growth. There is so much upside, so many opportunities. ... We want to do more private equity, through working with our partners here and through direct opportunities."

As in previous years, early- and growth-stage investments continue to be the most dominant stages of investment, contributing to nearly 80% of the total number of deals. Majority deals by value declined in 2017 to 2015 levels of less than 20%. However, investors in minority deals still seem to be interested in getting a "path to control" for key decisions.

With the rise in the number of participating funds, the year also saw increasing competition. More funds are participating in the India market, particularly LPs investing directly. PE funds have developed pockets of strength across sectors and regions, and the number of active players in the market has increased by 3% with an increase in institutional investors. Most investors expect to offer more coinvestment opportunities to LPs in 2018. This could potentially be one of the moves to ensure that LPs continue to invest in the funds and decrease risk. India-focused funds believe that competition from LPs investing directly with regional and local funds is a key concern.

The top priority for funds in 2018 will be making new deals. Funds expect BFSI and consumer products and retail to see maximum investment activity in 2018. Investors feel that the current valuations are high, but they expect a slowdown in 2018.

## Exits and portfolio management

Investments and exits in India had a strong 2017, surpassing their respective previous highs. Exit momentum continued to be robust, indicating healthy and strong public markets in India. Initial public offerings (IPOs) are the primary exit mode in India. More than 200 exits took place in 2017. The exit values for 2017 grew by approximately 60% over 2016 to almost $16 billion.

The number of exits increased by only 7% to 211 compared with 197 in 2016, but big-ticket deals like Bharti Airtel, Flipkart, GlobalLogic and ICICI Lombard powered that increase. The top 10 exits alone in 2017 accounted for almost 40% of the total exit value.

There was a marked increase in the number of public market sales, including IPOs, which rose from 45% in 2016 to 50% in 2017, suggesting confidence in the Indian market. Consumer tech and BFSI were key sectors for this activity, thanks to exits by Tiger Global ($1.3 billion), SAIF Partners ($0.82 billion) and Fairfax (~$1 billion); telecom saw one large exit (~$1.4 billion) by Qatar Foundation Endowment.

Qatar Foundation Endowment exited Bharti Airtel Ltd. in an open market transaction for $1.486 billion. Tiger Global exited Flipkart for $800 million in a secondary sale that also saw APAX Partners exiting GlobalLogic for $780 million. Tiger Global also exited Ola in a secondary sale for $500 million. Among the big IPO sales, Fairfax Financial Holdings Ltd. exited ICICI Lombard for $558 million. Fairfax also sold its holding in ICICI Lombard in another secondary sale for $383 million, making the total exit value close to a billion dollars.

Considering the way India's economy is poised for growth in the coming year, with capital markets on an upswing, we expect many more exits in the next few months. However, fund houses Bain spoke with believe that the number of secondary and strategic sales will increase. But a mismatch in valuation expectations and maintaining high-level returns could hinder exits, according to funds with whom we spoke.

## Implications

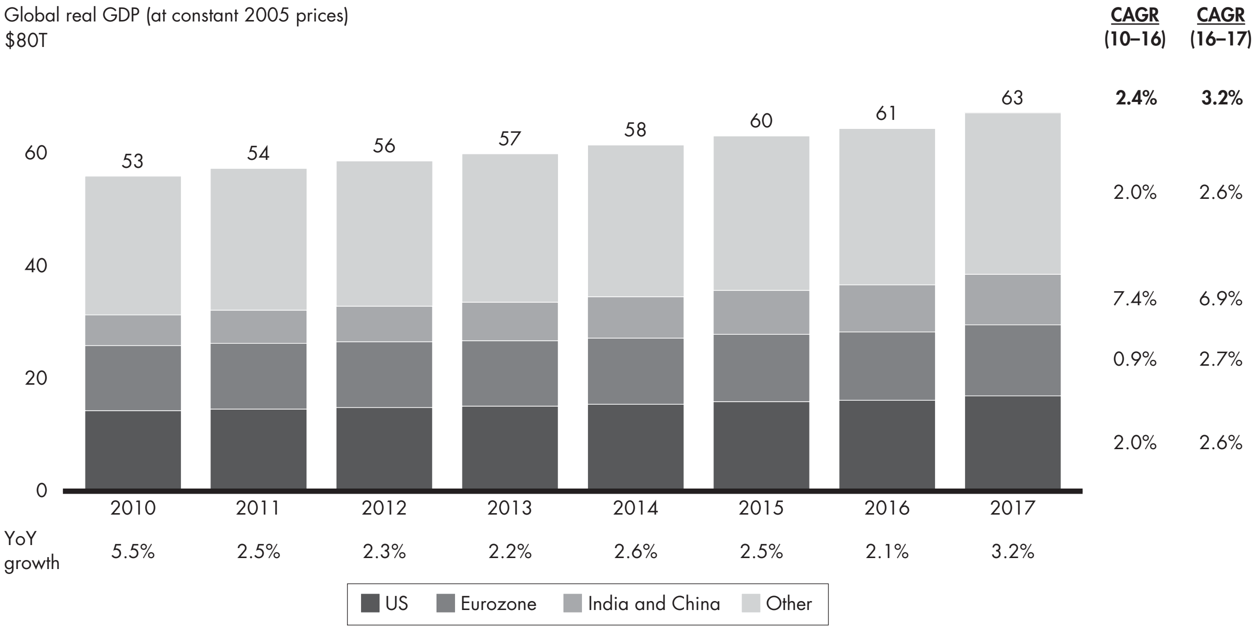
Overall, 2017 was a good year for private equity in India. The year saw $26 billion of PE/VC investments in India—the highest ever and a 60% increase from 2016. Mega deals were the bulk of the investments; the top 10 players were involved in almost two-thirds of the deals by value this year. Consumer technology and BFSI sectors were the primary interest for private equity and venture capital in 2017. Fund sources continued to diversify: Sovereign wealth funds and pension funds participated in about 20% of the total deal value. New asset classes, which include alternative investment funds, continued to scale. Competitive intensity in the market grows as the number of funds increases, including an increase in institutional investors. Exits continued on an upward trajectory, driven by consumer tech and telecom. Most funds expect a moderation in valuations and returns to decline by 2% to 4% in the coming three to five years.

# 1.

## Macroeconomic overview

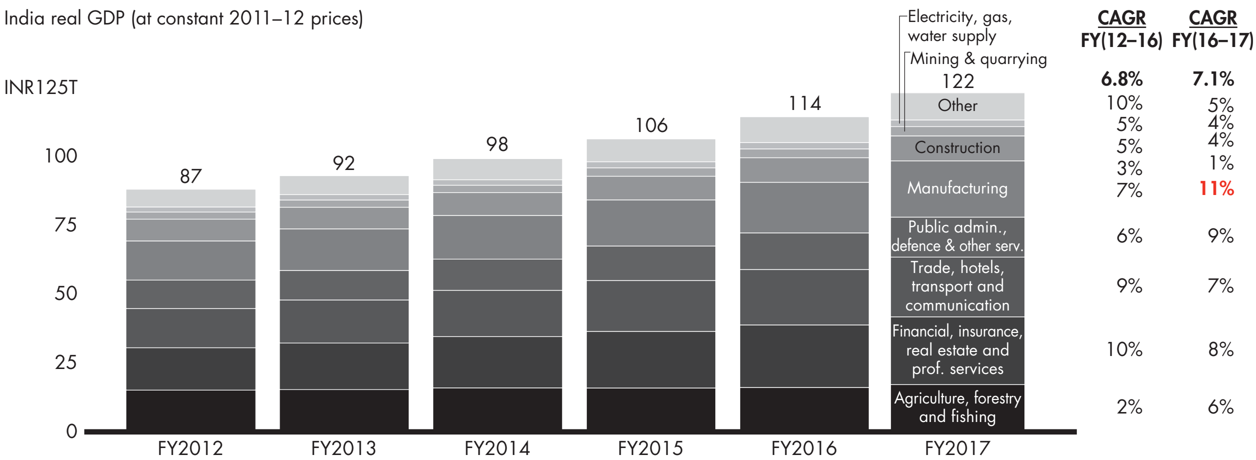
- 2017 showed signs of recovery from 2016. The growth rate of US and Eurozone economies increased due to notable pickups in investment, trade and industrial production, coupled with stronger business and consumer confidence.
- India and China continued to maintain healthy growth rates of about 7%, similar to 2016.
- India's GDP growth remained stable at a rate of 7.1%, driven by services and continued growth in manufacturing.
- Inflation remained in the 3% to 5% range. Indian currency appreciated vs. the US dollar, in line with developing currencies, and treasury bill yields rose due to expectations of higher fiscal deficits.
- Investor confidence in India grew as a result of regulatory action and government stimulus to address nonperforming assets (NPAs) and a growing formal economy coupled with unification of taxation under the new GST.

*Figure 1.1:* In 2017, global GDP growth increased to 3.2%, fueled by the US and the EU; India's growth rate remained stable




Notes: GDP adjusted for inflation and represented at constant 2005 US dollar prices; eurozone refers to member states of the EU that have adopted the euro as their currency
Source: Economic Intelligence Unit (estimates)

*Figure 1.2:* India's GDP growth remained stable at 7.1%, driven by services and continued growth in manufacturing



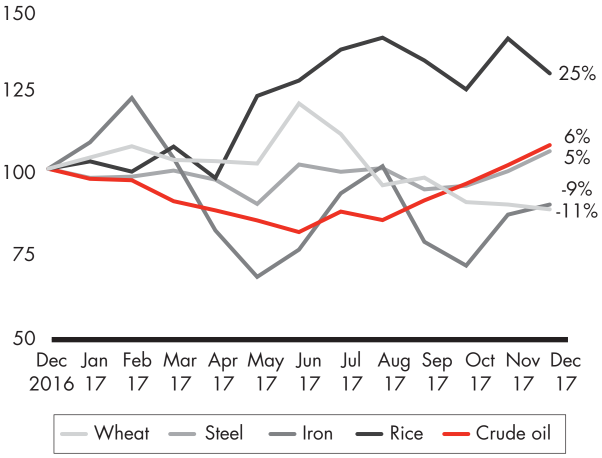

| | Contribution to GDP | | CAGR |
|---|---|---|---|
| | FY 2012 | FY 2017 | FY 2012-17 |
| Agriculture | 19% | 15% | 2.5% |
| Services* | **48%** | **54%** | **8.6%** |
| Industry** | 33% | 31% | 5.8% |

*Services include but are not restricted to trade, hotels, transport, communication, financial, insurance, real estate and professional services and public administration and defence
**Industry includes but is not restricted to manufacturing, construction, mining and quarrying, electricity, gas and water supply
Note: Other is taxes on products including import duties less subsidies on products, not used for calculating sector percentages
Sources: CEIC; Ministry of Statistics and Programme Implementation (MOSPI)

*Figure 1.3:* Commodity price changes varied, but inflation remained in the 3% to 5% range

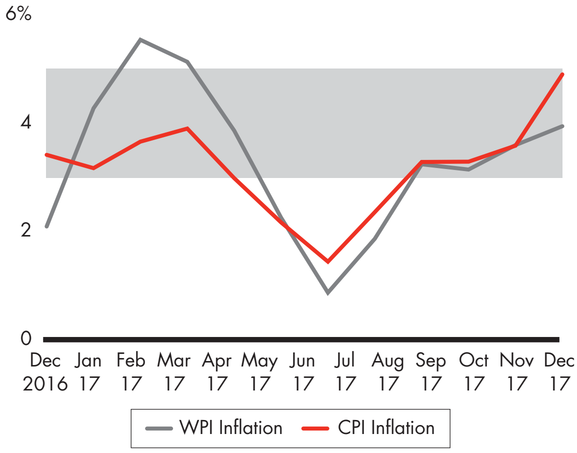
**Prices of oil, steel and rice increased in 2017 but declined for some agricultural and metal commodities**

Prices indexed to 100




**Inflation dipped mid-year but recovered; crude oil inflation fueled the WPI increase, while CPI rose due to increasing food prices**

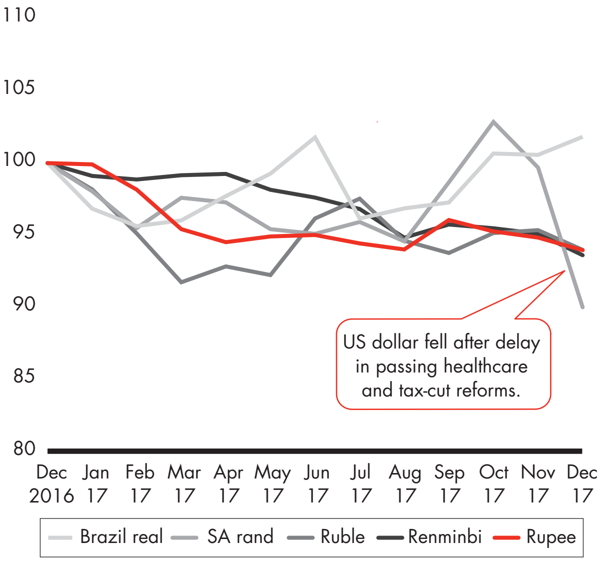
India's wholesale and consumer price indices year-over-year growth rates over same month previous year



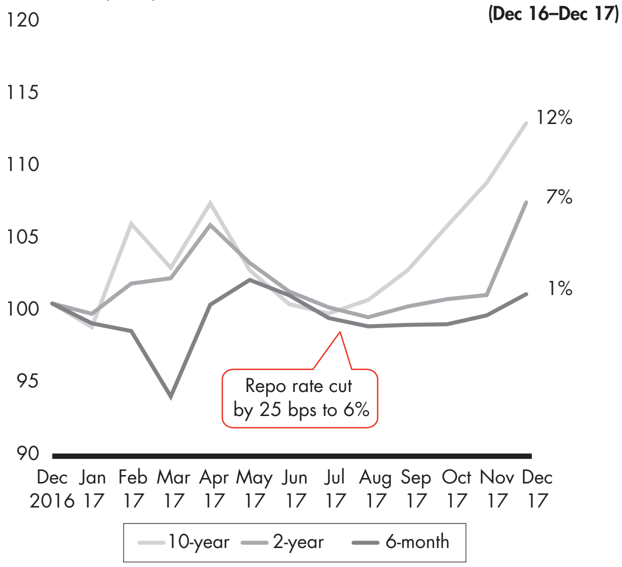

Note: Crude oil prices based on WTI Cushing crude oil price; wheat prices based on MCX wheat commodity price; rice prices based on Amritsar Punjab market price; iron prices based on pig iron price; steel prices based on HR coil price; average monthly prices for agricultural products are the average of weekly prices; average monthly prices for oil are the average of daily prices; CPI is consumer price index; WPI is wholesale price index
Sources: Bloomberg; CRISIL; CEIC

*Figure 1.4:* Indian rupee appreciated vs. US dollar, and treasury bill yields rose due to expectations of higher fiscal deficits

Currency exchange rates (equivalent to $1, indexed to 100)




India treasury bill yields (indexed to 100)




Notes: Currencies include Brazilian real, South African rand, Russian ruble, Indian rupee and Chinese Renminbi repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks in the event of any shortfall of funds; bps refers to basis points where one basis point is equal to 1/100th of 1%, or 0.01%
Source: Bloomberg

Figure 1.5: Recent reforms by the government have helped boost investor confidence in India

| | |
|---|---|
| Nonperforming asset reforms | • Regulatory action and government stimulus to address nonperforming assets<br>– Government stimulus of about $32.4 billion over next two years to uplift lending and investment<br>– Easing regulations and setting timeframes for resolution of domestic nonperforming assets |
| Taxation reform | • Unification of taxation under the new Goods and Services Tax<br>– Uniform process and centralised registration make starting and expanding businesses simpler<br>– Interstate movement to become cheaper and less time consuming<br>– Tax breaks for SMEs with revenues of <INR 50 crore to boost growth |
| Government debt reduction | • Broader tax base and improved spending efficiency to narrow budget deficit<br>• New Fiscal Responsibility and Budget Management (FRBM) Act recommended to improve fiscal accountability and transparency<br>– Target to lower fiscal deficit to 2.5% of GDP by 2022–23 |
| Growing formal economy | • Demonetisation led to an increase in digital transactions<br>• Unique identification scheme improves fund tracking<br>• Direct benefit transfer system to improve accountability and curb the black market for subsidised goods |

The World Bank's "ease of doing business" rank for India and an upgrade in Moody's rating from the lowest investment grade reflect higher investor confidence

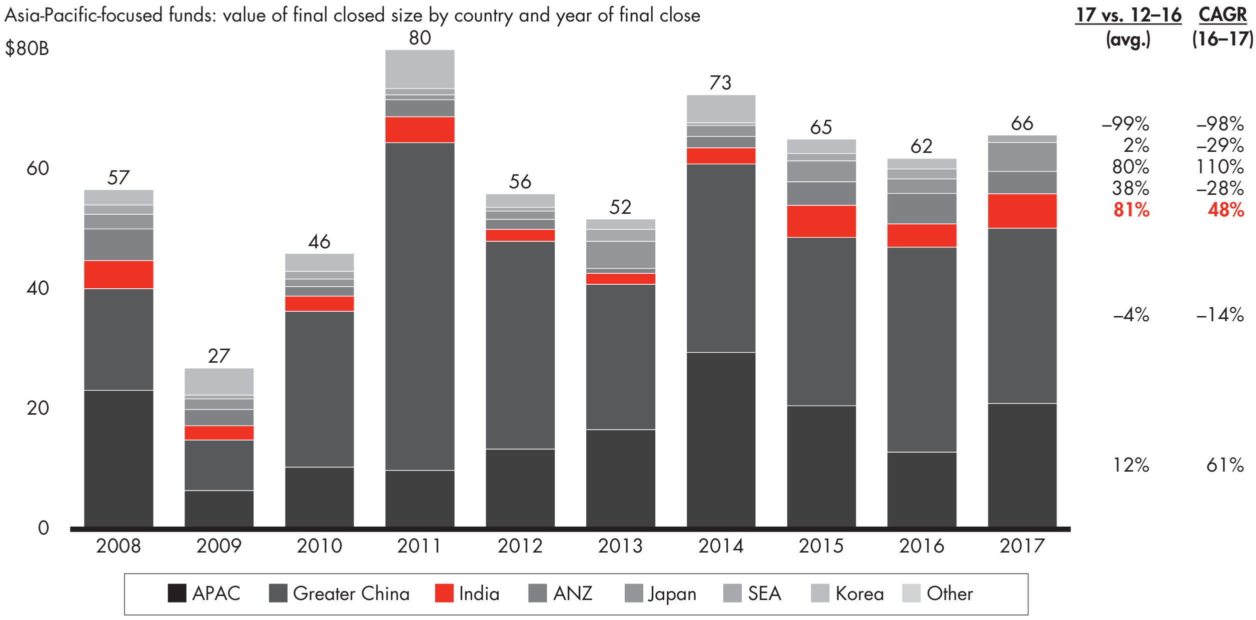
Sources: Bain analysis; Bain APAC PE Survey 2017

# 2.

## Fund-raising

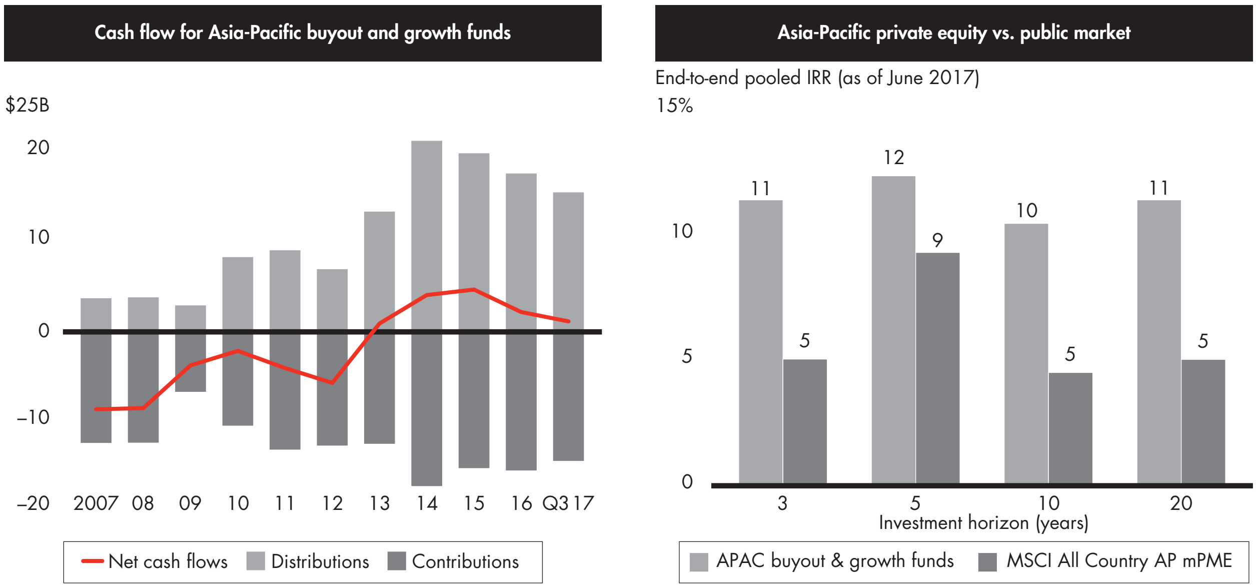
- After a decline in 2016, fund-raising in Asia-Pacific rose to match 2015 levels, growing 6% from 2016 to 2017, with India among the leaders of that growth.
- India continued to be an attractive destination for investments, as India-focused funds increased 48% in aggregate to $5.7 billion.
- India-focused funds are carrying approximately $9 billion in dry powder, similar to 2016 levels, reaffirming the potential for investments in the Indian market.
- New asset classes and fund types continue to emerge in India. AIFs showed robust growth in 2017 and have raised about $5.1 billion to date vs. $2.4 billion in 2016.
- While fund-raising is a 2018 priority for investors, they believe the fund-raising environment will be more stable, similar to 2017.
- LPs will likely play a more active role in deals in 2018, and investors are likely to offer more coinvestment opportunities to them in the coming year compared with 2017.

Figure 2.1: Fund-raising grew to match 2015 levels in Asia-Pacific, with India among the growth leaders



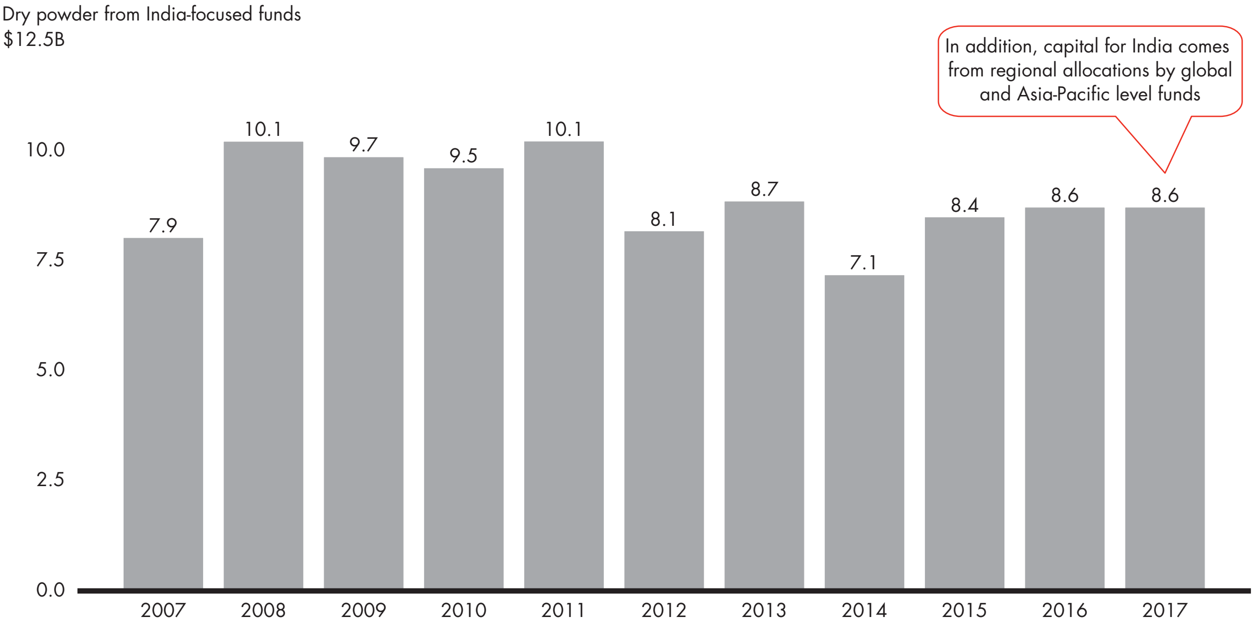

Note: Value excludes real estate and infrastructure funds
Source: Preqin

Figure 2.2: LPs have been cash positive since 2013, and the industry kept outperforming



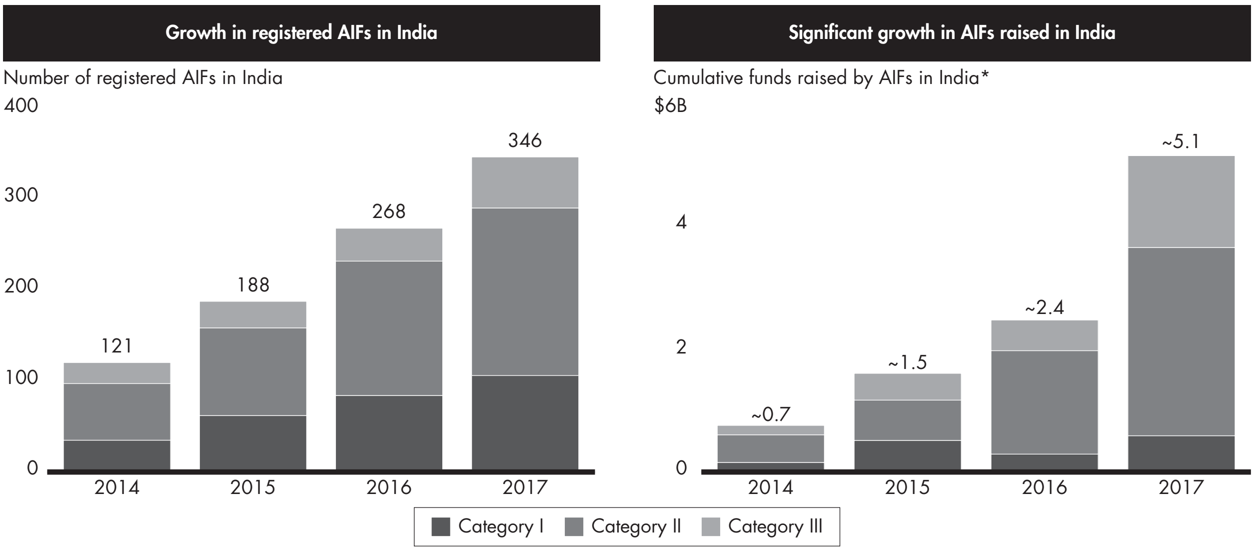

Notes: Data in USD; Cambridge Associates' mPME is a proprietary private-to-public comparison methodology that evaluates what performance would have been had the dollars invested in PE been invested in public markets instead; the public index's shares are purchased and sold according to the PE fund cash-flow schedule; MSCI is an American provider of equity, fixed income, hedge fund stock market indexes and equity portfolio analysis tools
Source: Cambridge Associates (data as of November 2017)

Figure 2.3: India-focused dry powder remained at about $9 billion




Note: Value excludes real estate and infrastructure funds
Source: Preqin

Figure 2.4: Alternative investment funds (AIFs) in India have raised about $5 billion to date vs. $2.4 billion in 2016




*Numbers for each year denote the funds raised up to September of that year
Notes: Category I: AIFs that invest in start-up or early stage ventures, social ventures, SMEs, infrastructure or other sectors or areas which the government or regulators consider socially or economically desirable and include venture capital funds, SME funds, social venture funds and infrastructure funds; Category II: AIFs that do not fall into Category I or III and do not undertake leverage or borrowing other than to meet day-to-day operational requirements; Category III: AIFs that employ diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives; conversion rate $1USD=63.75INR
Source: SEBI

*Figure 2.5:* Distressed asset funds gained momentum after Insolvency & Bankruptcy Code was enacted and SEBI norms relaxed

**Change in bankruptcy code and SEBI regulations**

- Institutionalisation of the Insolvency and Bankruptcy Code (2016) has streamlined resolution of distressed assets
  - It takes 14 days for NCLT to reject or accept an insolvency plea filed by financial or operational creditors
  - Once application is accepted, an insolvency resolution professional creates a resolution plan within 180 days (extendable by 90 days)
  - Opportunity for investors to take over and turn around operationally sound but financially distressed assets
- SEBI relaxes the takeover code for stressed asset deals
  - Investors can purchase equity from distressed company's lenders without making an open offer in the market

**Planned or new funds set up for targeting distressed assets**

| Investors | Target fund size |
|---|---|
| CDPQ; Edelweiss Financial Service | $750M |
| Piramal; Bain Capital Credit | $1,000M |
| IL&FS; Lone Star Funds | $550M |

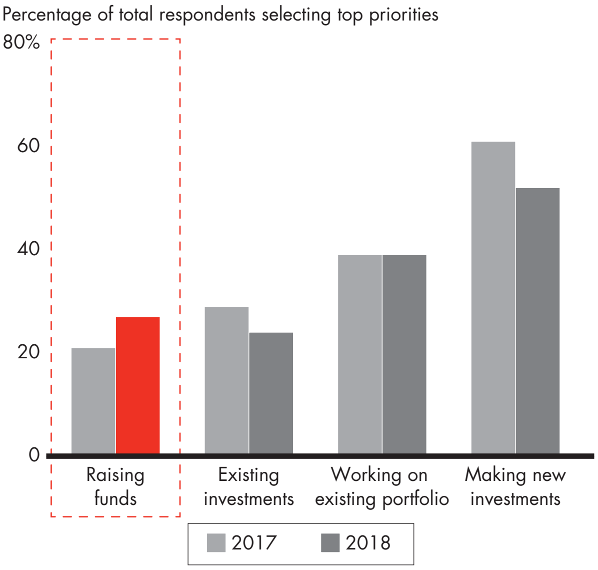
"We are in talks with various lenders on how to practically resolve NPA issues. The idea is not to buy dead assets but to bring in positive capital and expertise which will eventually resolve the issue."

–KKR, Dec 2017

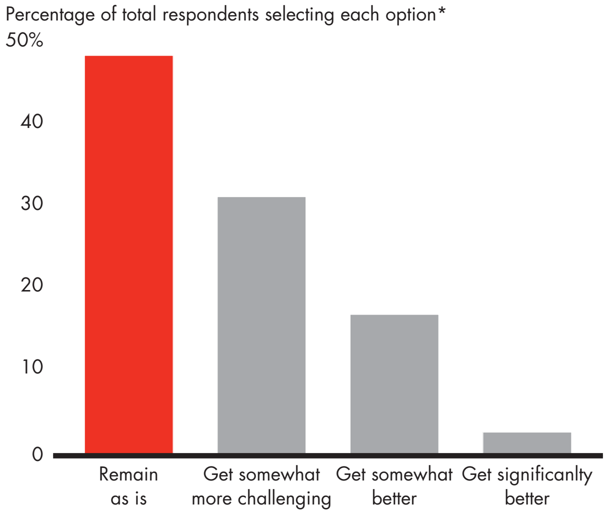
Note: Blackstone acquired IARC, which acquires or restructures distressed assets, and KKR got RBI's nod to start India's first foreign-owned ARC
Source: SEBI

*Figure 2.6:* Fund-raising is a higher priority for investors in 2018, with many expecting the environment to remain stable

**What will be the top priorities of your fund in 2018 vs. 2017?**




**How do you expect the fund-raising environment in India to change in 2018?**



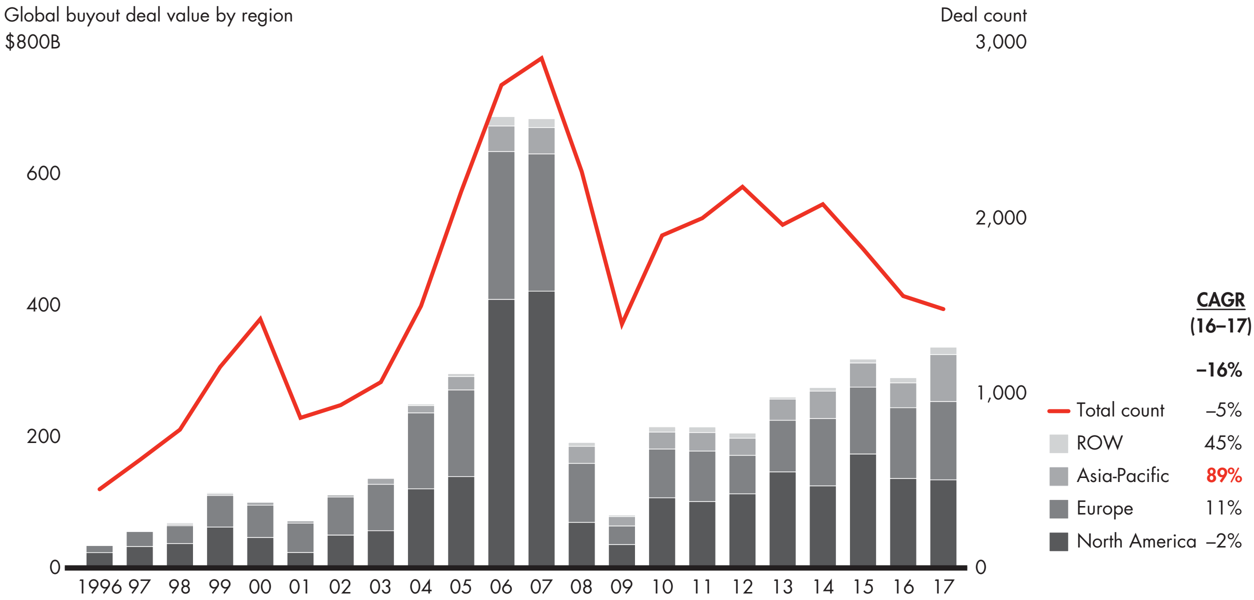

*No respondent selected the option "get significantly more challenging"
Source: Bain Private Equity Survey 2018 (n=39) and 2017 (n=25)

# 3.

## Deal making

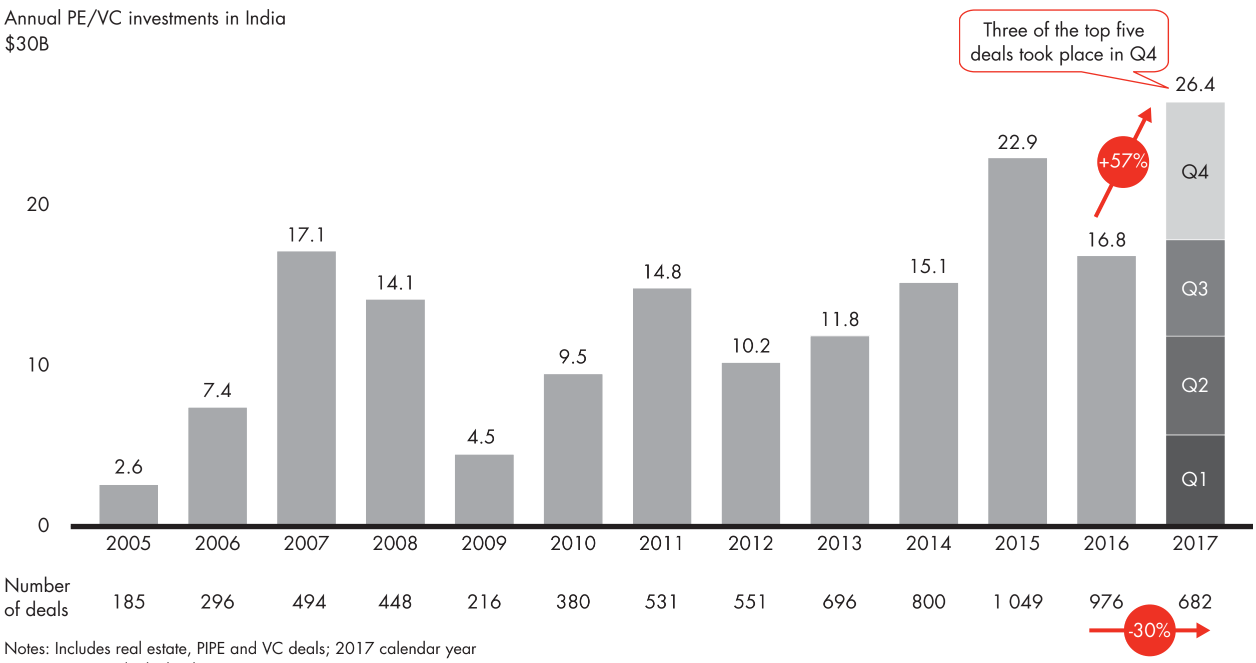
- Total PE deal value in 2017 was the highest ever in India: about $26.4 billion vs. $16.8 billion in 2016. The investment value increased 57%.
- India's median deal multiples value reached a record high—higher than Asia-Pacific's.
- Investment in consumer tech bounced back, and BFSI continued to grow.
- Consumer tech, BFSI and telecom accounted for a value increase of about 60% while manufacturing and IT/ITeS activity slowed.
- The top 15 deals contributed 50% of the total investment value vs. 30% in 2016. Foreign funds were largely the source of these investments.
- Since 2016, the average deal size increased 95% for deals greater than $10 million, driven by big-ticket deals in consumer tech and BFSI.
- Early- and growth-stage deals continue to be the most dominant stages of investment. Majority deals increased compared with 2016, indicating an inclination for more control by investors.
- Competition for deals is increasing, with growth in the number of participating funds and PE funds developing pockets of strength across sectors and regions. The number of active players and institutional investors grew.
- The top 10 players were involved in almost two-thirds of the deals by value this year. India-focused funds are concerned about LPs investing directly.
- Making new deals is the top priority for funds in 2018. Funds expect financial services, consumer products and retail to see the most investment activity in 2018.
- Investors feel the current valuations are high, but they expect a slowdown in 2018.

*Figure 3.1:* Global buyout deal value is up 16% from 2016 with deal count down 5%



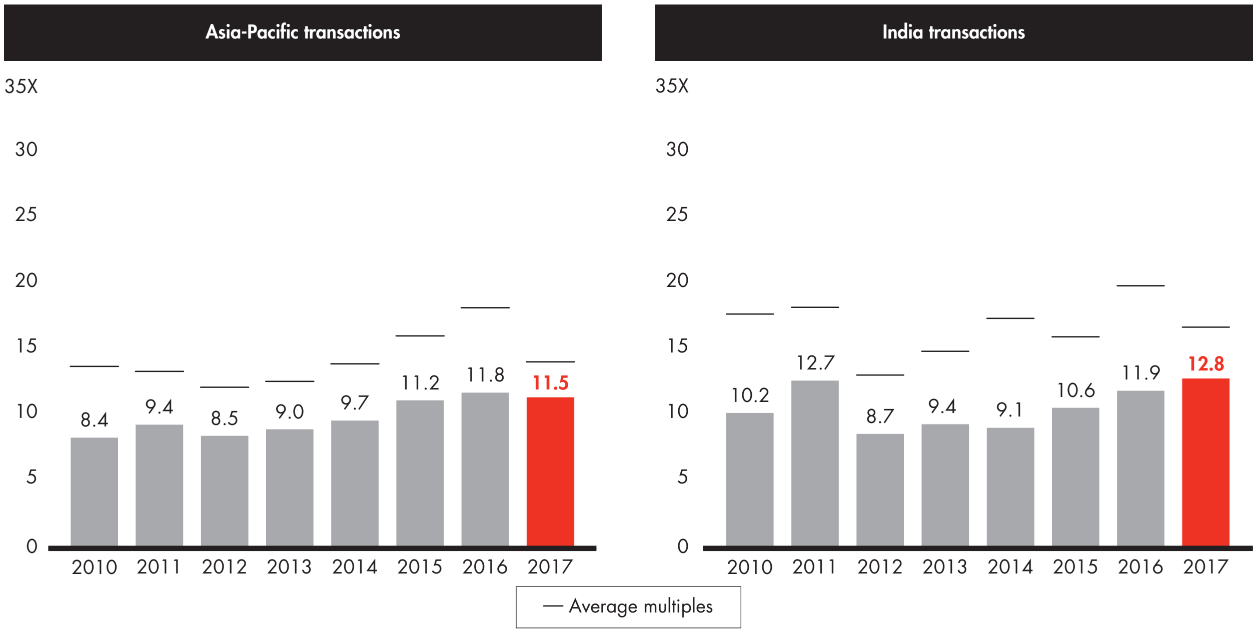

Notes: Excludes add-ons, loan-to-own transactions and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change; geography based on the location of targets
Source: Dealogic (January 2018)

*Figure 3.2:* 2017 witnessed total investment of about $26 billion, the highest ever in India




Notes: Includes real estate, PIPE and VC deals; 2017 calendar year
Source: Bain PE deals database

*Figure 3.3:* India's median deal multiples on PE-backed M&A transactions reached a record high, surpassing Asia-Pacific



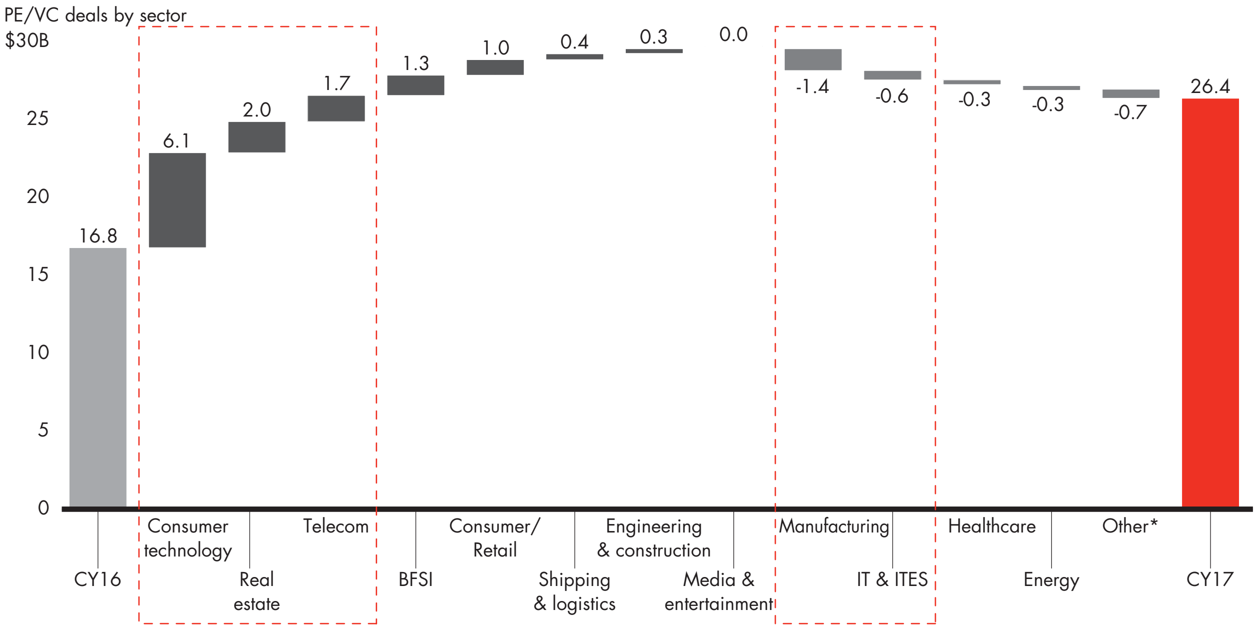

Notes: EV is enterprise value; excludes multiples less than 1 or greater than 100
Source: S&P Capital IQ for Asia-Pacific

*Figure 3.4:* Despite lower volumes, consumer tech bounced back, telecom and real estate increased and BFSI continued to grow

| | Deal value ($B) | | | Deal volume | | |
|---|---|---|---|---|---|---|
| Sector | CY2016 | CY17 | CAGR | CY2016 | CY17 | CAGR |
| Consumer technology | 3.2 | 9.3 | 191% | 454 | 244 | –46% |
| BFSI | 3.6 | 4.9 | 36% | 71 | 74 | 4% |
| Telecom | 0.02 | 1.7 | 8,400% | 2 | 6 | 200% |
| Real estate | 1.1 | 3.1 | 182% | 42 | 27 | –36% |
| IT and ITES | 2.4 | 1.8 | –25% | 130 | 92 | –29% |
| Healthcare | 1.1 | 0.8 | –27% | 60 | 45 | –25% |
| Consumer and retail | 0.8 | 1.8 | 125% | 60 | 86 | 43% |
| Shipping and logistics | 0.5 | 0.9 | 80% | 17 | 23 | 35% |
| Engineering and construction | 0.1 | 0.4 | 300% | 9 | 13 | 44% |
| Energy | 1.1 | 0.8 | –27% | 12 | 13 | 8% |
| Media and entertainment | 0.2 | 0.2 | 0% | 12 | 11 | –8% |
| Manufacturing | 1.6 | 0.2 | –88% | 54 | 18 | –67% |
| Other | 1.0 | 0.3 | –70% | 53 | 30 | –43% |
| **Total** | **16.8** | **26.4** | **57%** | **976** | **682** | **–30%** |

Source: Bain PE deals database

Figure 3.5: Consumer tech, real estate and telecom contributed about 80% of the increase while manufacturing and IT/ITeS slowed



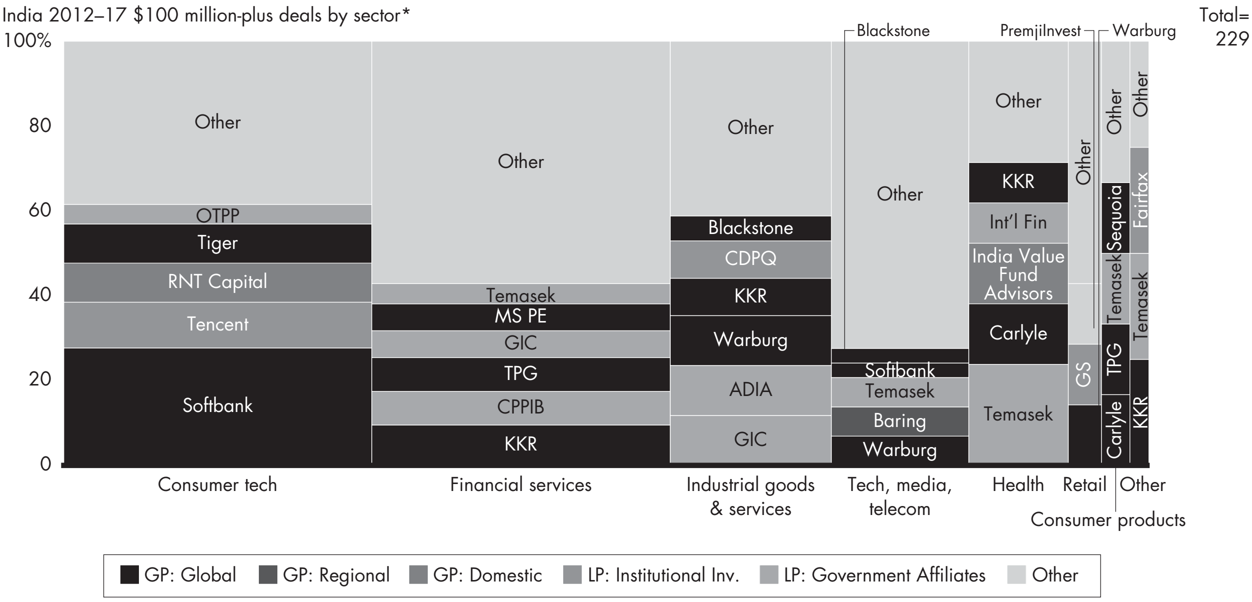

*Other includes a variety of industries such as education, sports, hospitality, talent management.
Source: Bain PE deals database

Figure 3.6: The top 15 deals constituted about 50% of the deal value in 2017 (vs. about 30% in 2016)

| Company | Industry | Fund(s) | Purchase date | Value ($M) |
|---|---|---|---|---|
| Flipkart | Consumer technology | SoftBank Group Corp. | Aug 10 | 2,500 |
| Axis Bank Ltd. | BFSI | American Funds Distributors, Inc., Bain Capital LLC, Life Insurance Corp. of India, The Capital Group Companies Inc. | Nov 10 | 1,725 |
| Paytm | Consumer technology | SoftBank Group Corp. | May 18 | 1,400 |
| DLF Cyber City Developers | Real estate | GIC Ltd. | Dec 26 | 1,300 |
| Ola Cabs | Consumer technology | RNT Capital Advisers LLP, SoftBank Group Corp., Tencent Holdings Ltd. | Oct 11 | 1,100 |
| Flipkart | Consumer technology | Tencent, others | Mar 21 | 1,000 |
| Bharti Infratel | Telecom | KKR India Advisors Pvt. Ltd., CPP Investment Board | Mar 28 | 953 |
| GlobalLogic | IT and ITES | CPPIB | Jan 12 | 720 |
| Ruchi Soya Industries | Consumer/retail | Devonshire Capital | Nov 02 | 620 |
| LOGOS India Logistics Venture | Shipping & logistics | CDPQ India, QuadReal Property Group | Oct 24 | 400 |
| ICICI Lombard | BFSI | Warburg Pincus | May 12 | 383 |
| Makemytrip | Consumer technology | Naspers Ltd., Ctrip Ltd. | May 24 | 375 |
| Bharti Telemedia | Telecom | Warburg Pincus India Pvt. Ltd. | Dec 12 | 350 |
| ReNew Wind Power | Energy | CPPIB | Nov 01 | 350 |
| Carnival's property in Chandigarh* | Real estate | Blackstone | Jul 19 | 340 |

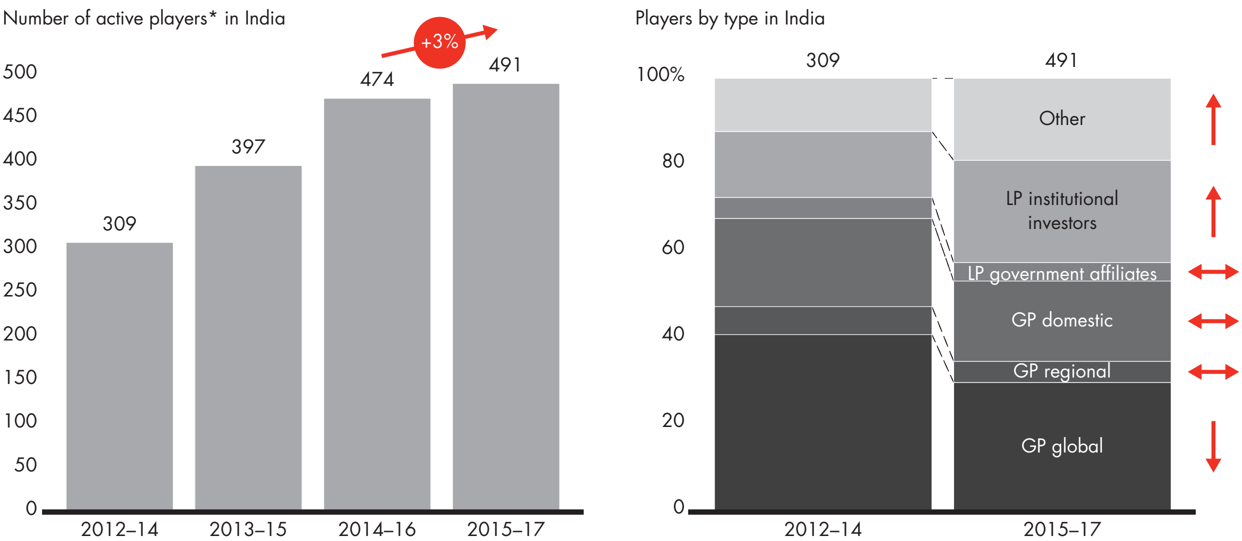
*A commercial space of 1.8M sq ft including a mall, a Hyatt hotel and some office space
Note: Does not include deals where deal value is unknown
Source: Bain PE deals database

## Figure 3.7: PE funds have developed pockets of strength across sectors and regions



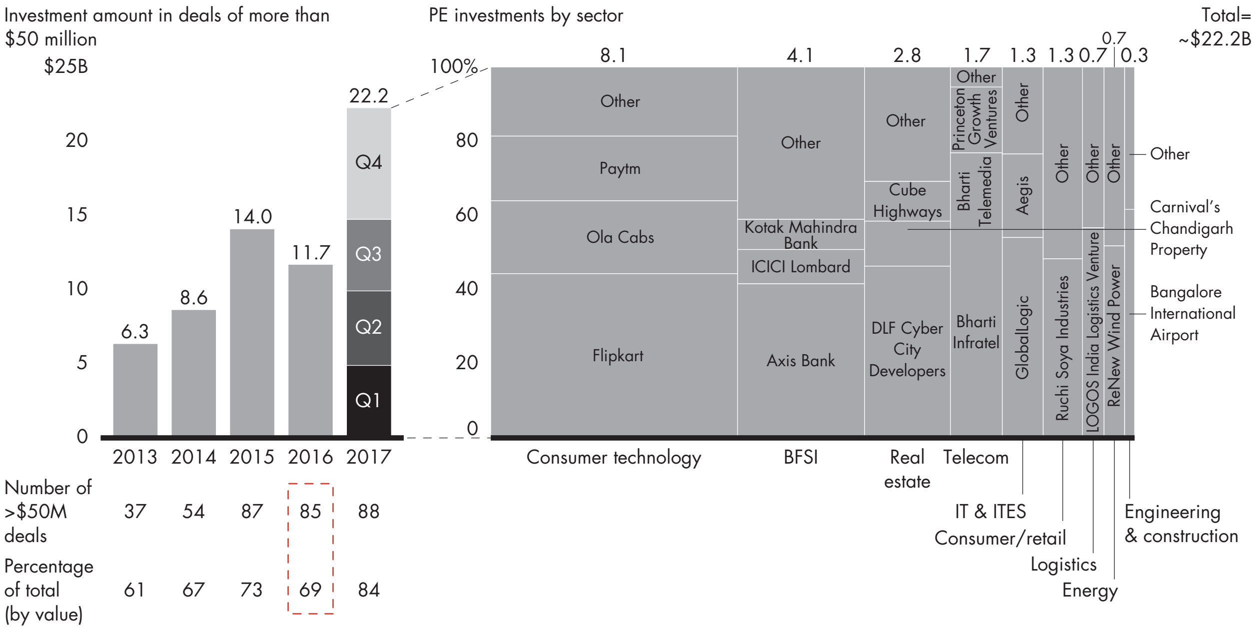

*Excluding real estate and infrastructure, including $100 million GP-driven deals only, with players involved in three or more deals
Note: In multi-investor situation, each player accounted for one deal in player breakdown
Source: AVCJ

## Figure 3.8: The number of active investors has increased, including institutional investors




*An active player is an investor that made an investment in the respective time period
Notes: In the right-side graph, arrow direction based on absolute number growth; GP global indicates any venture capital or private equity player that is active globally; GP regional indicates any private equity investor that focuses on deals between countries in Asia-Pacific; GP Domestic: GP focusing on one single country only, with very limited presence outside; LP government affiliate is an investor controlled by a government, such as SWF of public pension funds; LP institutional investors include investment banks, asset management, financial institutions, insurance, corporate pension funds, corporations; other include private investors and family offices; excludes real estate and infrastructure
Source: AVCJ

*Figure 3.9:* More deals of $50 million-plus took place in 2017 due to a resurgence of big-ticket consumer tech investments

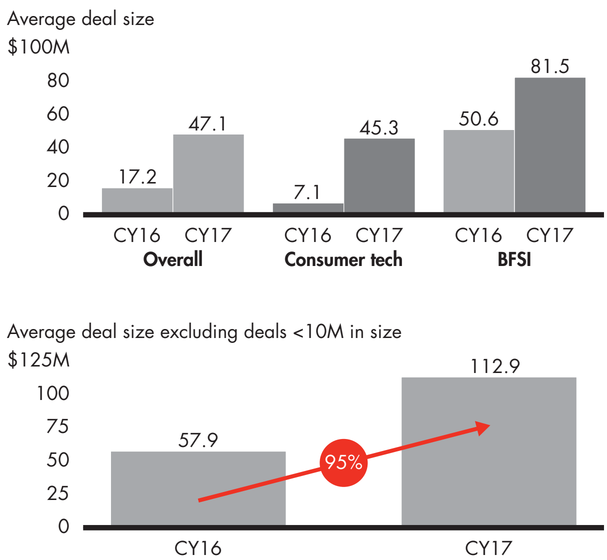



Notes: Deals of more than $50 million only; does not include healthcare, education, media & entertainment deals
Source: Bain PE deals database

*Figure 3.10:* Average deal size increased by 95% since 2016 due to big-ticket deals in consumer tech and BFSI

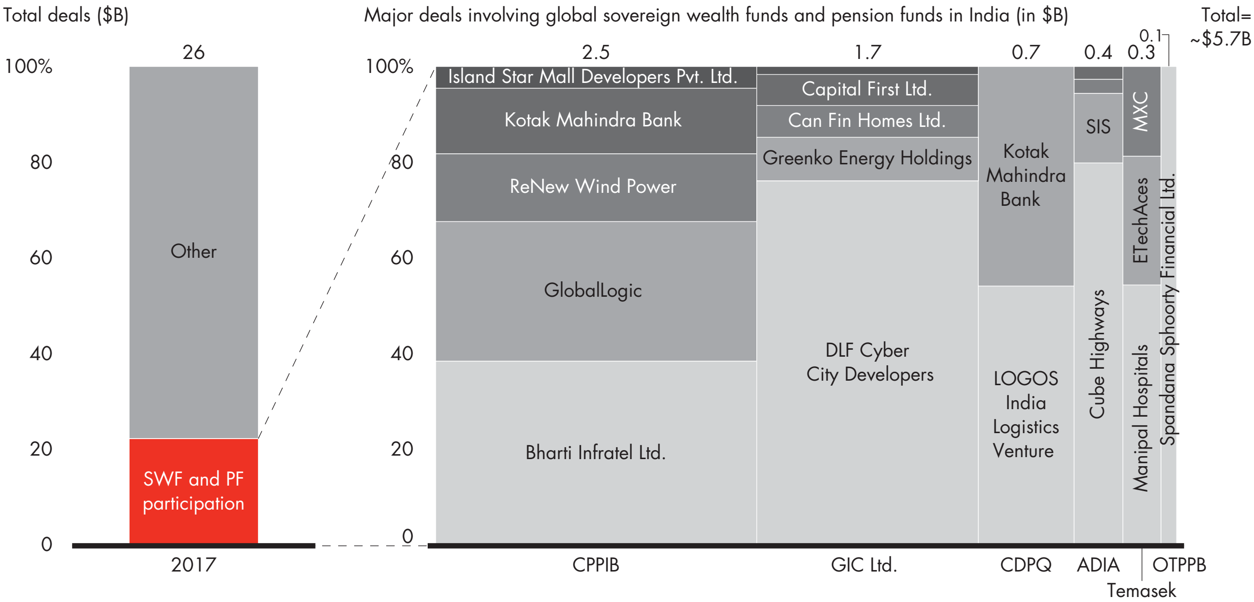
**Greater deal spread of more than $10 million in 2017**

| | Percentage of deals (volume) | | Average deal size ($M) | |
|---|---|---|---|---|
| Deal value ($M) | CY2016 | CY2017 | CY2016 | CY2017 |
| <10 | 72.4% | 60.0% | 1.8 | 3.1 |
| 10–25 | 12.9% | 15.9% | 15.1 | 14.8 |
| 25–100 | 10.6% | 14.9% | 47.5 | 47.0 |
| >100 | 4.1% | 9.2% | 218.4 | 388.1 |



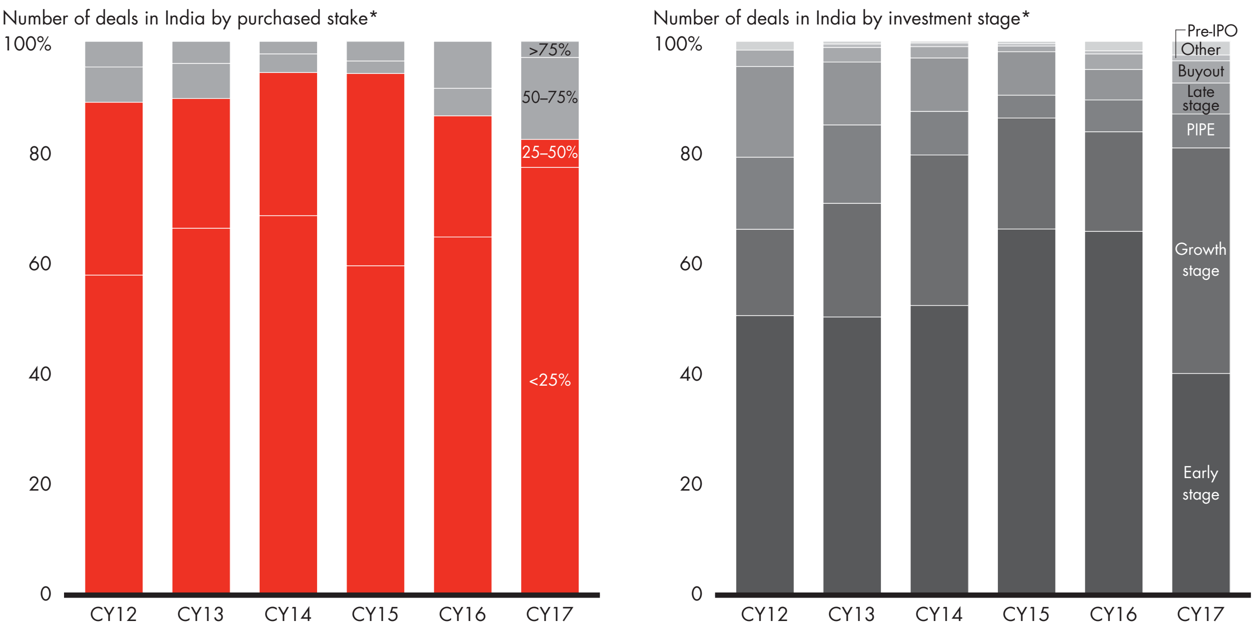

Note: Does not include deals where deal value is unknown
Source: Bain PE deals database

Figure 3.11: Like last year, sovereign wealth funds (SWFs) and pension funds participated in 20% of deal value in 2017



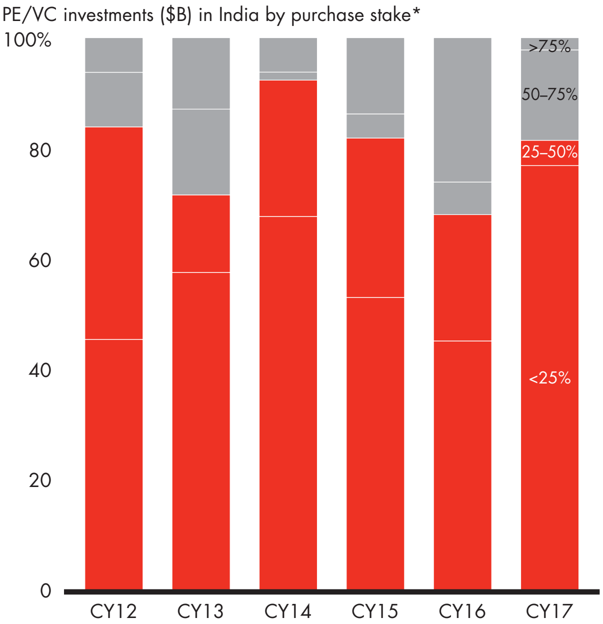

Notes: Deals shown could also include other joint investors; only total deal value shown; CPPIB: Canada Pension Plan Investment Board; GIC: Government of Singapore Investment Corporation; CDPQ: Caisse de dépôt et placement du Québec; ADIA: Abu Dhabi Investment Authority; OTPPB: Ontario Teachers' Pension Plan
Source: Bain PE deals database

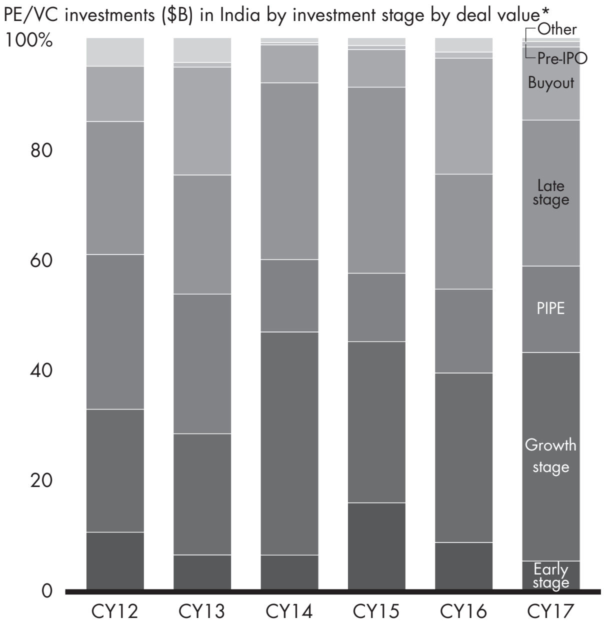
Figure 3.12: Like previous years, early- and growth-stage contributed about 80% of the total deal volume




*Includes only those deals where stake size or stage is known
Source: Bain PE deals database

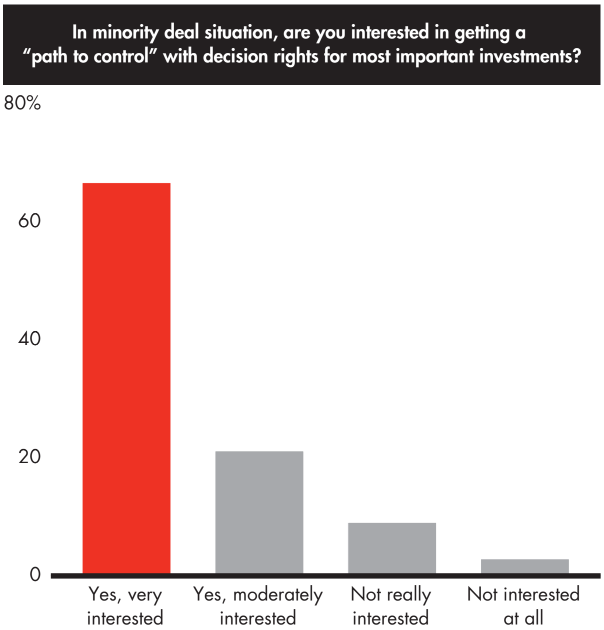
Figure 3.13: Similarly, minority deals continued to dominate, making up about 80% of PE and VC investments in India

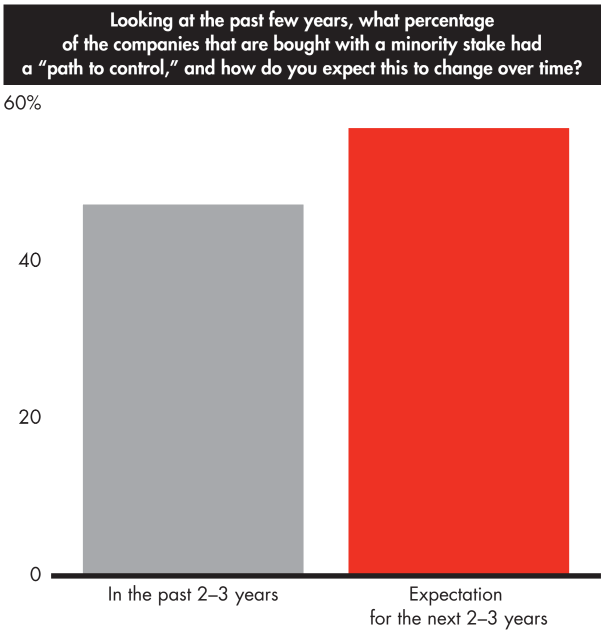



*Includes only those deals where stake size or stage is known
Source: Bain PE deals database

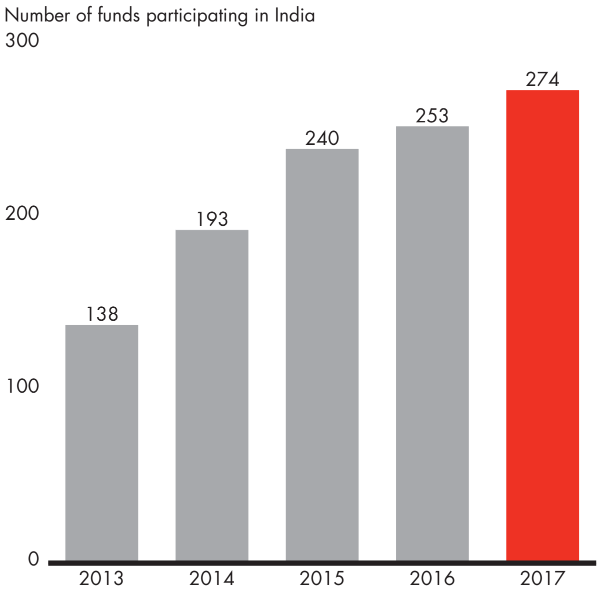
Figure 3.14: Even in minority deals, investors are interested in a "path to control" for key decisions




Source: Bain Private Equity Survey 2018 (n=39)

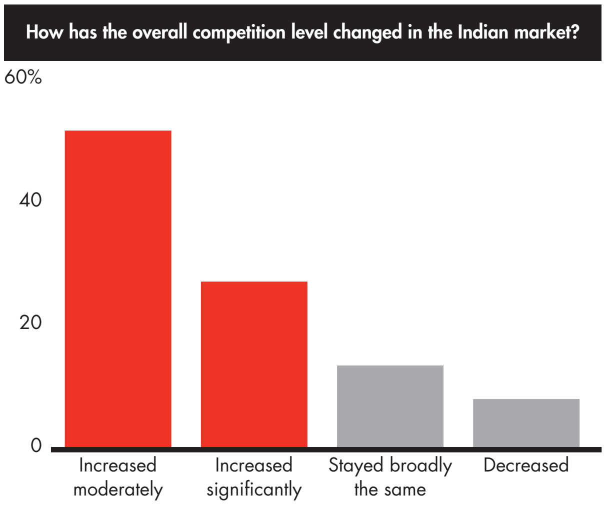
Figure 3.15: The Indian market is seeing higher competition with participation from more funds every year

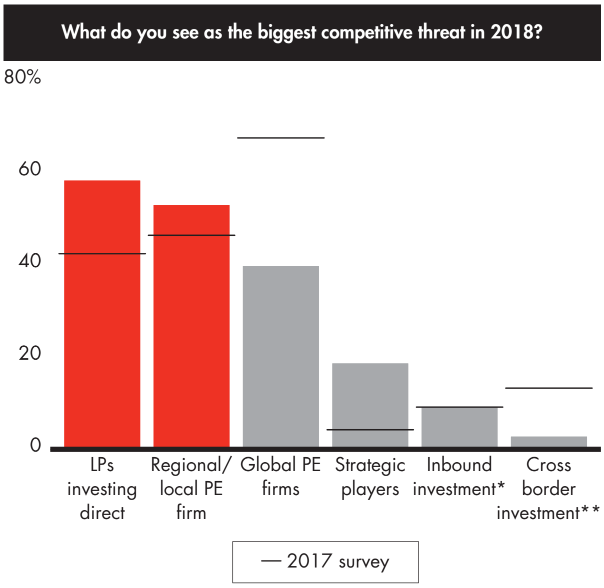



- New funds and asset types have emerged in the market: AIFs, venture debt, distressed asset funds
- Participants include four main archetypes:
  - **Global PE firms** include Apax Partners, Bain Capital, Carlyle, Goldman Sachs, KKR, TPG, Warburg Pincus
  - **SWFs** include Abu Dhabi Investment Authority, Government of Singapore Investment Corporation (GIC), Temasek
  - **Pension funds** include CDPQ, CPPIB, OTPPB
  - **Other players** that participate in venture debt, family offices, smaller local funds, hedge funds

Notes: Includes all funds that participated in one or more deals in India in that year; we considered only deals of more than $10 million in our analysis; consortium deals attributed to all the participating funds; excludes deals in the energy and real estate sectors
Source: Bain PE deals database

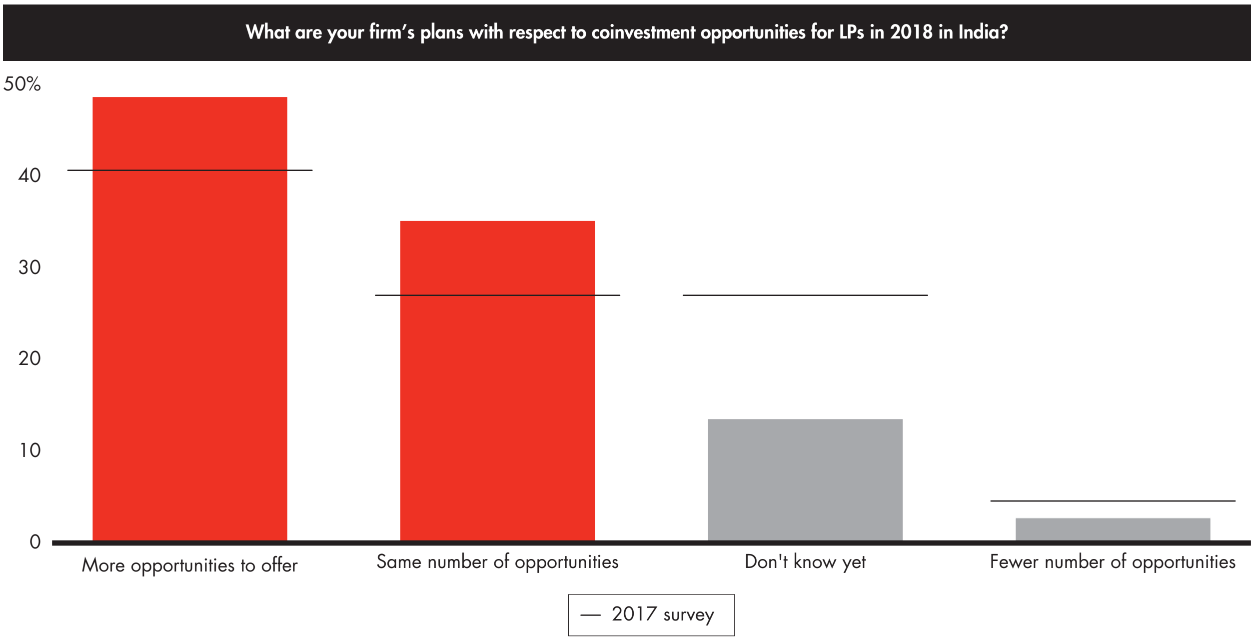
Figure 3.16: Consequently, investors believe competition has risen, with direct investing from LPs viewed as the biggest threat



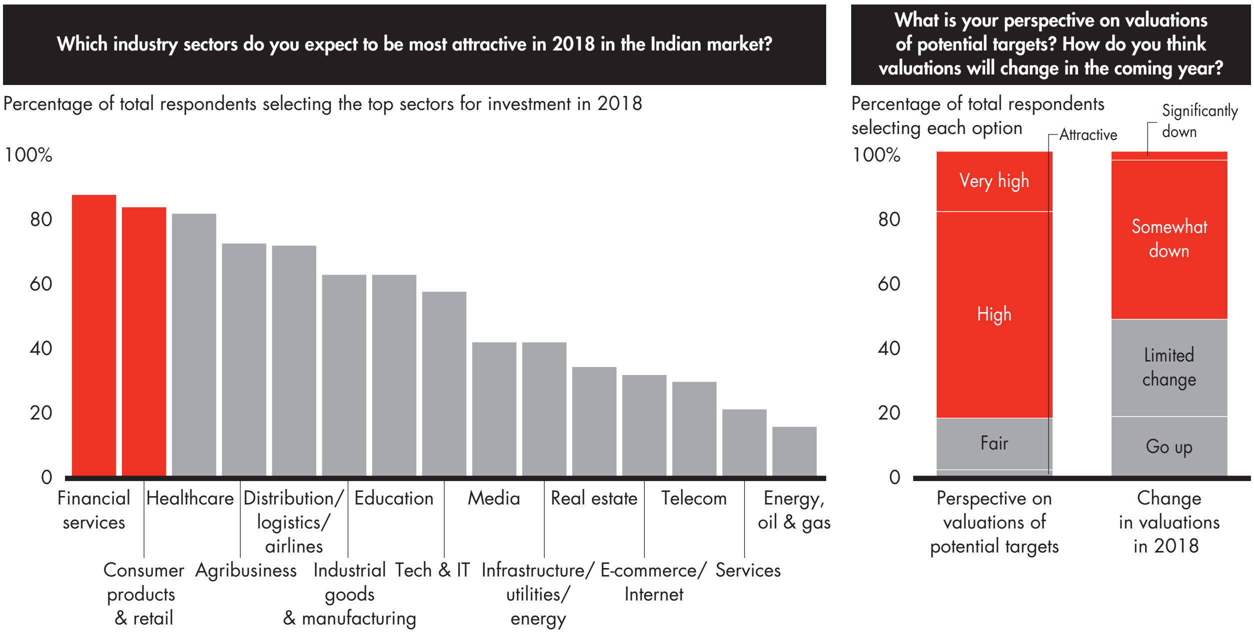

*Inbound investment is from overseas strategic and corporate players
**Cross border investment is from overseas PE firms
Note: Local PE firm invests only in its own country, regional PE headquartered in Asia-Pacific and invests in other countries of the region
Source: Bain Private Equity Survey 2018 (n=39)

Figure 3.17: Most investors expect to offer LPs more opportunities to coinvest with them in 2018




Source: Bain Private Equity Survey 2018 (n=39)

Figure 3.18: Funds expect to see highest investment activity in financial services and consumer products; valuations expected to decrease



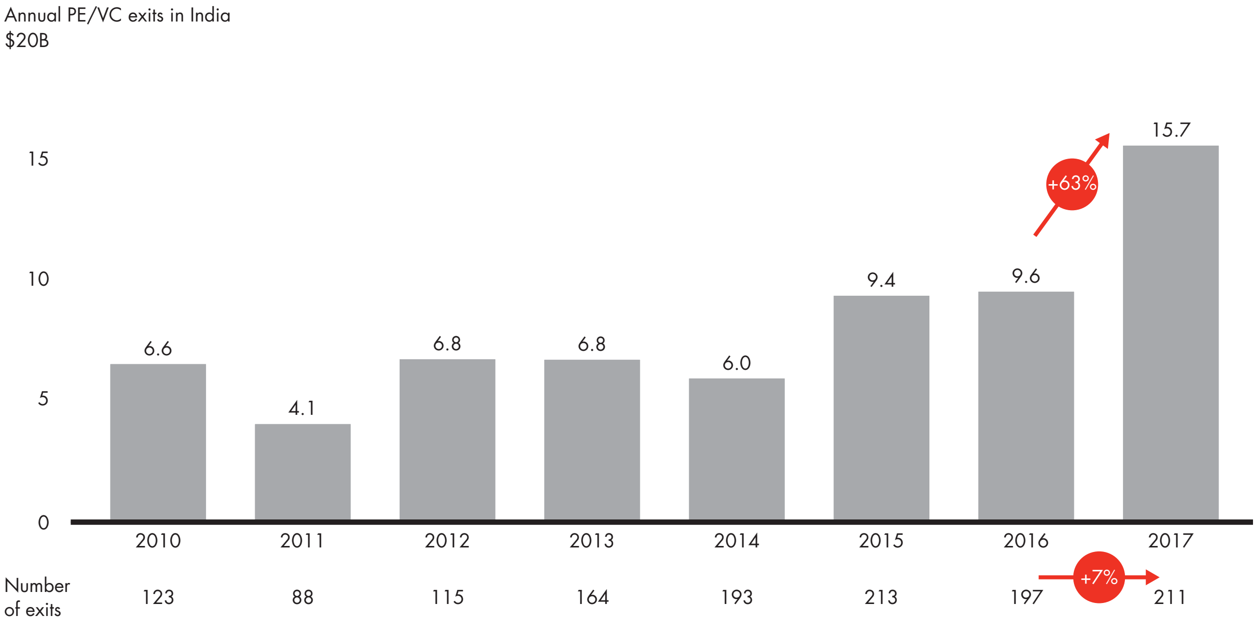

Source: Bain Private Equity Survey 2018 (n=39)

# 4.

## Exits and portfolio management

- 2017 was the best year for exits, which should signal confidence for investors. The total exit value grew by more than 60% to $15.7 billion, while the number of exits increased 7%.
- The top 10 exits together constituted 40% of total PE exit value in 2017, slightly less than 2016 (45%).
- Consumer technology, BFSI and telecom had the highest exit activity and accounted for 50% of the total exit value. Exits were driven more by transaction value than an increase in deal volume.
- Although public market sales continued to be prominent modes of exit, consumer tech and media exit primarily via strategic sales.
- Most funds expect returns to decrease by 2% to 4%; top line and cost and capital efficiency will create value in the future.
- According to India-focused fund managers, a mismatch in valuation expectations between investors and firm owners hinders deal making, while a high level of returns could hinder exits. They also believe that leadership issues at portfolio companies are common and have a major effect on value creation.

*Figure 4.1:* PE exits in India grew to their highest value ever, with about a 60% increase in value over 2016




Notes: Includes real estate and infrastructure exits; no filter on exit value has been applied to the overall figures
Source: Bain PE exits database

*Figure 4.2:* Transaction value led to more exits than an increase in deal volume, especially in consumer tech, BFSI and telecom

| | Exit value ($B) | | | Exit volume | | |
|---|---|---|---|---|---|---|
| Sector | CY2016 | CY17 | CAGR | CY2016 | CY17 | CAGR |
| Consumer technology | 0.5 | 2.9 | 487% | 33 | 24 | –27% |
| BFSI | 1.1 | 2.9 | 167% | 26 | 35 | 35% |
| Telecom | 0.9 | 2 | 118% | 2 | 5 | 150% |
| IT and ITES | 1.1 | 1.9 | 68% | 14 | 20 | 43% |
| Healthcare | 1.5 | 1.7 | 10% | 24 | 23 | –4% |
| Real estate | 0.8 | 1.2 | 45% | 16 | 25 | 56% |
| Energy | 0.0 | 0.8 | - | 1 | 8 | 700% |
| Manufacturing | 2.5 | 0.6 | –75% | 30 | 19 | –37% |
| Consumer/retail | 0.5 | 0.6 | 17% | 15 | 17 | 13% |
| Shipping and logistics | 0.3 | 0.3 | –5% | 8 | 6 | –25% |
| Media and entertainment | 0.1 | 0.2 | 153% | 2 | 5 | 150% |
| Engineering and construction | 0.1 | 0.1 | 36% | 12 | 5 | –58% |
| Other | 0.3 | 0.5 | 61% | 14 | 19 | 36% |
| **Total** | **9.6** | **15.7** | **63%** | **197** | **211** | **7%** |

*Represents exits where value was reported and available
Source: Bain PE exits database

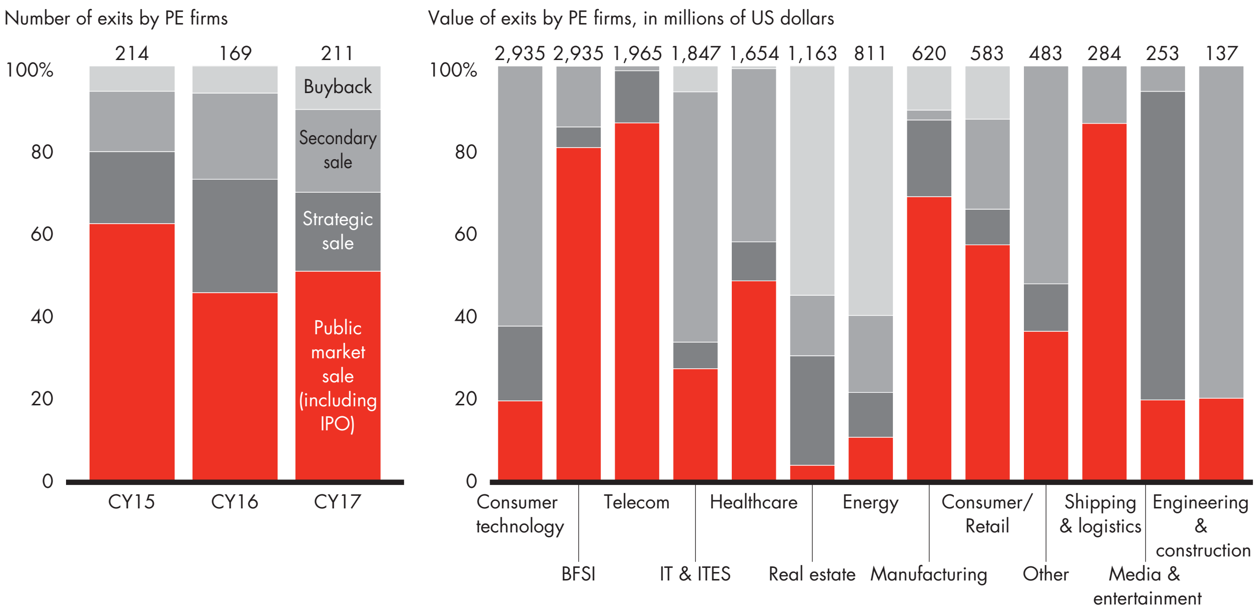
*Figure 4.3:* The top 10 exits accounted for about 40% of value

**Top 10 exits in 2017***

| Target | Firm exits | Sector | Value ($M) | Route |
|---|---|---|---|---|
| Bharti Airtel Ltd. | Qatar Foundation Endowment | Telecom | 1,486.3 | Public market sale |
| Flipkart | Tiger Global | Consumer technology | 800 | Secondary sale |
| GlobalLogic | APAX Partners | IT & ITES | 780 | Secondary sale |
| ICICI Lombard General Insurance | Fairfax Financial Holdings Ltd. | BFSI | 558 | Public market sale (IPO) |
| Ola | Tiger Global | Consumer technology | 500 | Secondary sale |
| MakeMyTrip Ltd. | SAIF Partners | Consumer technology | 400 | Public market sale |
| One97 Communications | SAIF, Others | Consumer technology | 400 | Secondary sale |
| ICICI Lombard General Ins. | Fairfax Financial Holdings Ltd. | BFSI | 383 | Secondary sale |
| Genpact Ltd. | Bain Capital, GIC | IT & ITES | 292.6 | Public market sale |
| Capital First Ltd. | Warburg Pincus Asia | BFSI | 273 | Public market sale |
| **Total** | | | **$5.9B** | |

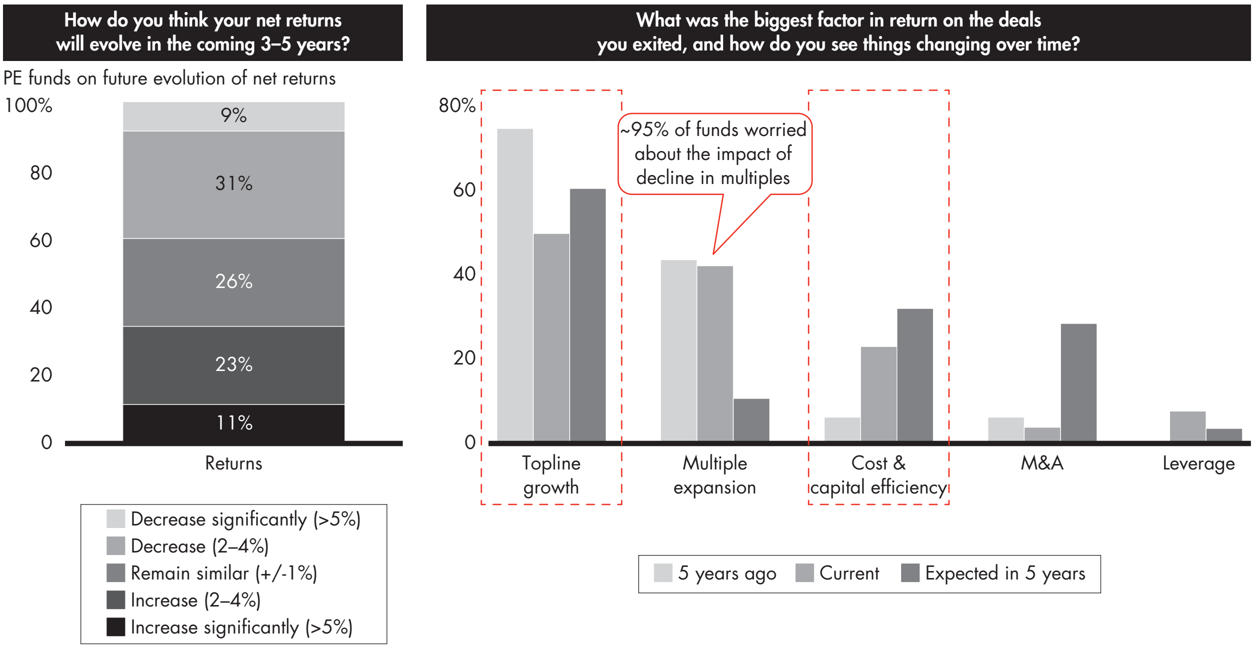
*Represents exits where value was reported and available; includes partial exits
Source: Bain PE exits database

*Figure 4.4:* Public market was the preferred exit mode, which signals confidence in the Indian markets



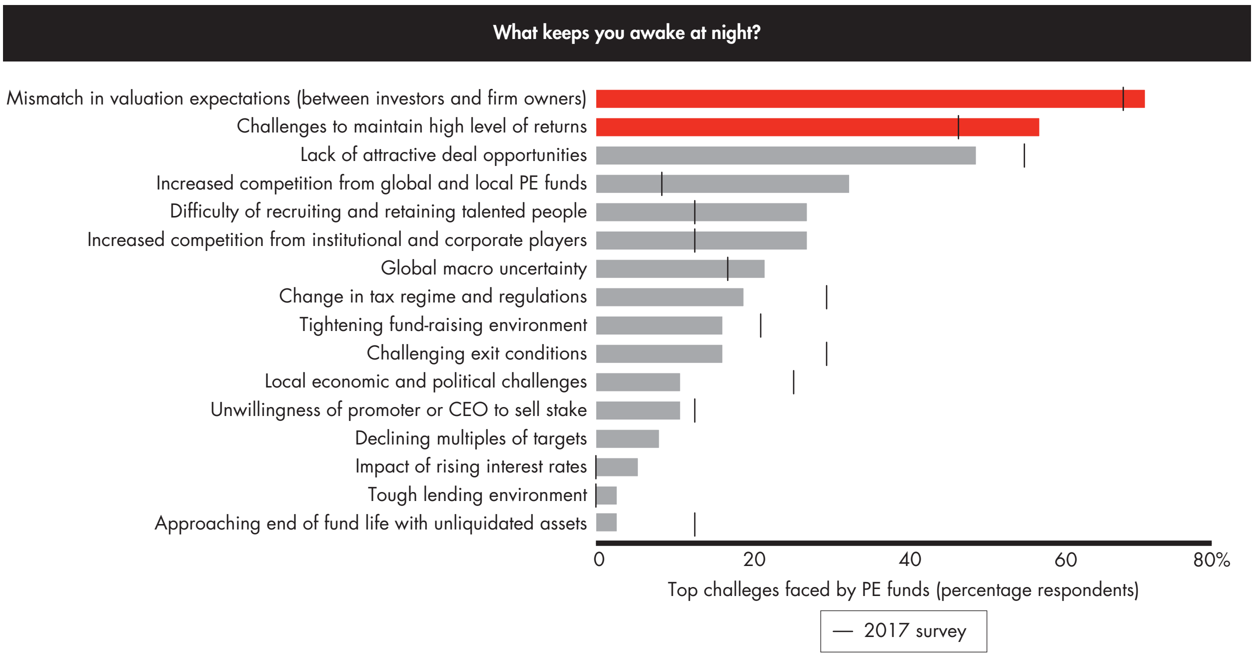

Note: Represents exits where value was reported and available
Source: Bain PE exits database

*Figure 4.5:* Topline and cost or capital efficiency are expected to be primary value creators



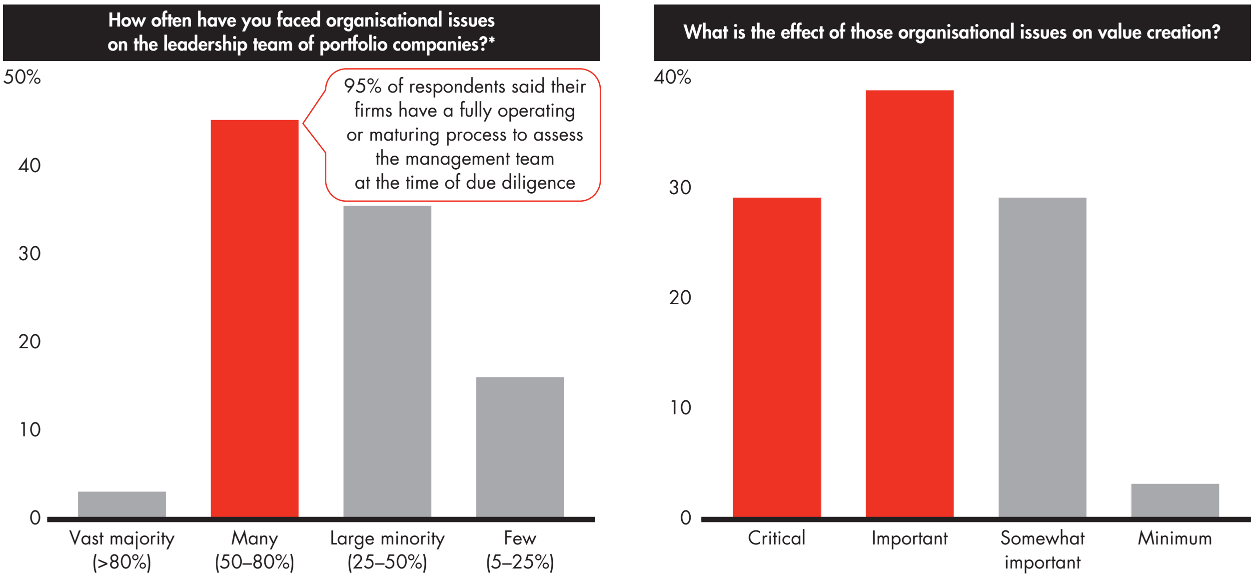

Source: Bain Private Equity Survey 2018 (n=39)

*Figure 4.6:* Investors feel challenged by mismatch in valuation expectations and the need to maintain high level of returns




Source: Bain Private Equity Survey 2018 (n=39)

*Figure 4.7:* Leadership issues at portfolio companies are common and have a major impact on value creation




*No one selected the option "Rare (0–5%)"
Source: Bain Private Equity Survey 2018 (n=39)

# About Bain's Private Equity practice

Bain & Company is the management consulting firm the world's business leaders come to when they want enduring results. Together, we find value across boundaries, develop insights to act on and energise teams to sustain success. We're passionate about always doing the right thing for our clients, our people and our communities, even if it isn't easy. Bain advises clients on strategy, operations, technology, organisation, private equity, and mergers and acquisitions. We develop practical, customised insights that clients act on and transfer skills that make change stick. Founded in 1973, Bain has 55 offices in 36 countries as well as deep expertise and a long client roster across every industry and economic sector. Our clients have outperformed the stock market 4 to 1.

Bain is also the leading consulting partner to the private equity (PE) industry and its stakeholders. Private equity consulting at Bain has grown fivefold over the past 15 years and now represents about one-quarter of the firm's global business. We maintain a global network of more than 1,000 experienced professionals serving PE clients.

In India, we have a leadership position in PE consulting and have reviewed most of the large PE deals that have come to the market. Our practice is more than triple the size of the next-largest consulting firm serving private equity firms both globally and within India.

Bain's work with PE firms spans fund types, including buyout, infrastructure, real estate and debt. We also work with hedge funds, as well as with many of the most prominent institutional investors, including sovereign wealth funds, pension funds, endowments and family investment offices. We support our clients across a broad range of objectives:

**Deal generation.** We help develop differentiated investment theses and enhance deal flow, profiling industries, screening companies and devising a plan to approach targets.

**Due diligence.** We help support better deal decisions by performing due diligence, assessing performance improvement opportunities and providing a post-acquisition agenda.

**Immediate post-acquisition.** We support the pursuit of rapid returns by developing a strategic blueprint for the acquired company, leading workshops that align management with strategic priorities and directing focused initiatives.

**Ongoing value addition.** We help increase a company's value by supporting revenue enhancement and cost reduction and by refreshing strategy.

**Exit.** We help ensure funds maximise returns by identifying the optimal exit strategy, preparing the selling documents and prequalifying buyers.

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Arpan Sheth is a partner with Bain & Company in Mumbai and leads the Private Equity practice in India. Srivatsan Rajan is a partner with Bain's New Delhi office and is a leader in the Private Equity practice in India. Lalit Reddy is a partner with Bain & Company in Bangalore and is a leader in the Private Equity practice in India. Sriwatsan Krishnan is a principal with Bain's Mumbai office and is a leader in the Private Equity practice in India. Aditya Shukla is a manager with Bain's Mumbai office and is a member of the Private Equity practice in India.

## Methodology

This work is based on secondary market research, analysis of financial information available or provided to Bain & Company and a range of interviews with industry participants. Bain & Company has not independently verified any such information provided or available to Bain and makes no representation or warranty, express or implied, that such information is accurate or complete. Projected market and financial information, analyses and conclusions contained herein are based on the information described above and on Bain & Company's judgment, and should not be construed as definitive forecasts or guarantees of future performance or results. The information and analysis herein does not constitute advice of any kind, is not intended to be used for investment purposes, and neither Bain & Company nor any of its subsidiaries or their respective officers, directors, shareholders, employees or agents accept any responsibility or liability with respect to the use of or reliance on any information or analysis contained in this document. Bain & Company does not endorse, and nothing herein should be construed as a recommendation to invest in, any fund described in this report. This work is copyright Bain & Company and may not be published, transmitted, broadcast, copied, reproduced or reprinted in whole or in part without the explicit written permission of Bain & Company.

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We believe a consulting firm should be more than an adviser. So we put ourselves in our clients' shoes, selling outcomes, not projects. We align our incentives with our clients' by linking our fees to their results and collaborate to unlock the full potential of their business. Our Results Delivery® process builds our clients' capabilities, and our True North values mean we do the right thing for our clients, people and communities—always.

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