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Financial Services Dealtracker

Providing M&A and PE deal insights

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Deal overview

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The global economy seems to be turning out better than anticipated in 2023, despite several geo-political tensions. Most central banks have indicated an end to an interest rate hike cycle with clear possibilities of rate reductions this year. Japan, on the other hand, showed a small rise in interest rate after decades, indicating some strength in the local economy.

With elections in many parts of the world this year, supply chain realignments are continuing. Given the disruptions due to war and movement to diversify from China, interest rate cycle reversals and renewed capex cycles, the financial sector is poised to see some strong tailwinds. In India, the balance sheets of most lenders are strong, with buoyant capital markets keeping fee businesses active. Though deal-making has been weak overall, capital markets and IPOs have seen a good run. With strong fund flows into mutual funds and AIFs, the sector is well poised to benefit from the opportunity the year promises.

Given the opportunities over the year and possibly the next five years, one can expect consolidation, particularly in fintechs and the alignment of fintechs with traditional businesses. Therefore, while deals, both corporate M&A and PE, in the sector in India have been tepid in line with the overall deal scenario, we expect it to be a busy year for growth and with it some interesting deals as well.

Another area that transcends business and deals is credit. With credit funds now actively competing with banks and NBFCs, there is a risk of over-leveraging, which needs to be watched out for.

Highlights

Overall deal activity | 52 deals at USD 1.7 billion
The quarter witnessed four high value deals (>$100mn) totalling USD 1.2 billion constituting 71% of total deal values.

M&A activity | 13 deals at USD 973 mn
Domestic mergers accounted for 85% of the volumes, while cross-border transactions, particularly in the inbound segment, contributed to 87% of the values.

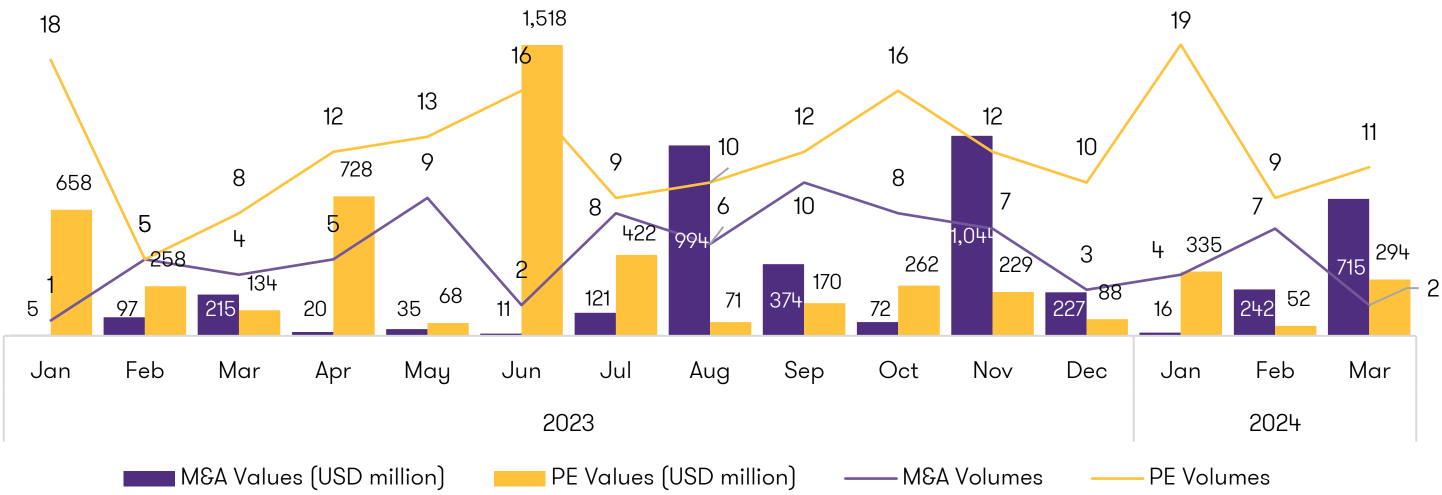
PE/VC activity | 39 deals at USD 681 mn
PE activity recorded the highest quarterly volumes and values in the last three quarters. Top two transactions accounted for 47% of the PE values.

IPO activity | 2 IPOs at USD 132 mn
Only two IPOs with issue size of USD 132 mn witnessed compared to four IPOs at USD 448 mn in the previous quarter.

2 QIPs at USD 389 mn
QIP activity declined by 71% in volumes and 87% decrease in values, recording only 2 QIPs amounting to USD 389 mn which saw only one fund raise over USD 100 mn compared to five witnessed in Q4 2023.

Deal overview

Monthly trend



Deal summary	**Volume**			**Value (USD million)**		
	Q3 2023	Q4 2023	Q1 2024	Q3 2023	Q4 2023	Q1 2024
Domestic	18	15	11	501	840	129
Inbound	6	2	2	989	499	845
Outbound	0	1	0	0	5	0
Total M&A	**24**	↓ 25% **18**	↓ 28% **13**	**1,490**	↓ 10% **1,344**	↓ 28% **973**
PE	31	↑ 23% 38	↑ 3% 39	664	↓ 13% 579	↑ 18% 681
Grand total	**55**	↑ 2% **56**	↓ 7% **52**	**2,154**	↓ 11% **1,923**	↓ 14% **1,654**

Notable sector trends

- The overall deal activity experienced a quarter-on-quarter decline in both volumes and values since Q1 2023. A significant contribution to the total deal value in Q1 2024 was made by one high-value deal, namely Sumitomo Mitsui Financial Inc.'s acquisition of 25% stake in SMFG India Credit Company at USD 700 million, constituting 42% of the total deal value.
- The mergers and acquisitions (M&A) activity experienced a 28% decrease in both volumes and values compared to Q4 2023. Despite the decline, the highest transaction value reached USD 700 million, up from USD 529 million in the previous quarter, indicating optimism. While Q1 2024 witnessed only two high value deals (>USD 100 mn) totaling USD 845 mn, Q4 2023 witnessed three such transactions totaling USD 1,242 mn.
- In Q1 2024, the PE/VC sector saw a slight uptick in investment values and volumes. However, there has been a recent slowdown, likely due to players adjusting their strategies while awaiting opportune moments in the market. Regulatory changes, such as the liberalisation of insurance regulations and relaxation of FDI norms, along with RBI regulations for NBFCs and tightening of unsecured lending rules, are expected to impact deal activity in the financial services sector. Additionally, the RBI's digital lending guidelines are anticipated to boost the fintech lending business model and stimulate inbound deal activity.
- There is a growing emphasis on environmental, social, and governance (ESG) factors in investment decisions, leading to the integration of sustainable finance principles into investment strategies. Further, financial institutions are increasingly allocating more capital towards climate-friendly projects, supporting a low-carbon economy. There is a surge in the issuance of green bonds, sustainable loans and other environmentally focused financial products.

Newsmakers

Top M&A deals of the quarter accounted for 96% of M&A values

Acquirer	Target	Sub-sector	USD million	Deal type	% stake	Domestic/ Cross-border
Sumitomo Mitsui Financial Group, Inc	SMFG India Credit Company Ltd	Banking and NBFC	700	Increasing stake to 100%	25%	Inbound
Mizuho Bank Ltd	Kisetsu Saison Finance Pvt Ltd - Credit Saison India	Banking and NBFC	145	Minority stake	15%	Inbound
Bajaj Finserv Health Ltd	Vidal Healthcare Services Pvt Ltd - Vidal Health Insurance TPA and VH Medcare Pvt Ltd	Insurance and TPAs	39	Acquisition	100%	Domestic
Vikas Lifecare Ltd	Industrial Investment Trust Ltd	Financial services and asset management	31	Strategic stake	42%	Domestic
Thirumeni Finance Pvt Ltd - Varthana Finance	Indian School Finance Company Pvt Ltd- School loan Portfolio	Banking and NBFC	15	Acquisition	100%	Domestic

Top PE deals of the quarter accounted for 74% of PE values

Investor	Investee	Sub-sector	USD million	% stake
Advent International and Multiples Private Equity	Svatantra Microfin Pvt Ltd	Banking and NBFC	233	NA
Consortium of Investors	SK Finance Ltd	Banking and NBFC	160	NA
Undisclosed Investor	Vivifi India Finance Pvt Ltd	Banking and NBFC	75	NA
Alpha Wave Global and existing investors	Mswipe Technologies Pvt Ltd	Fintech	20	NA
Angel Investors	Mufin Green Finance Ltd	Banking and NBFC	17	NA

> Investors are being more cautious about nature of investments. There is an effective search for value rather than irrational exuberance. The last quarter has witnessed a lot of investments (even though lesser than the previous quarters) in the credit oriented institutions. India continues to remain a bright spot and we expect investors to have a continued interest in India as an investment destination.

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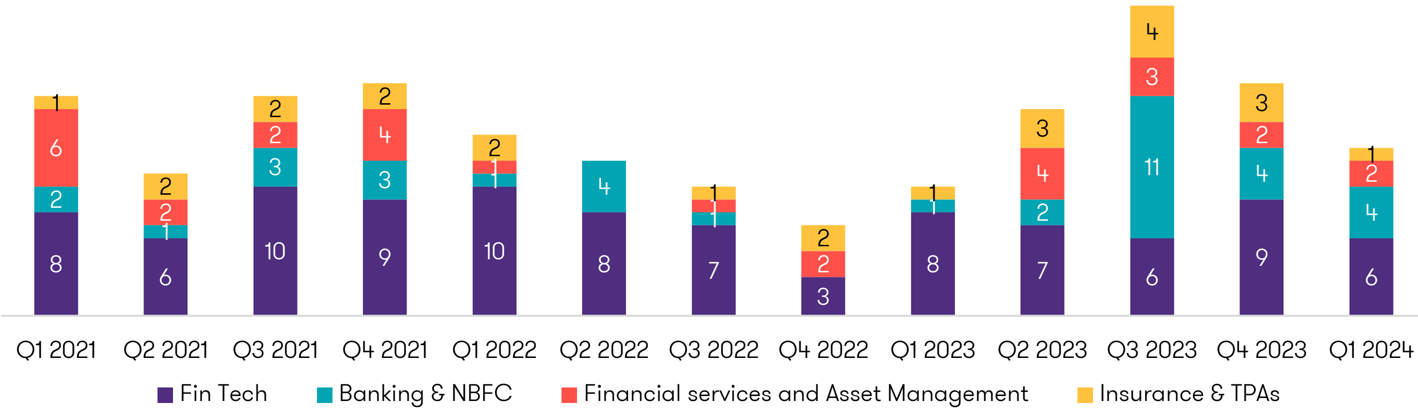
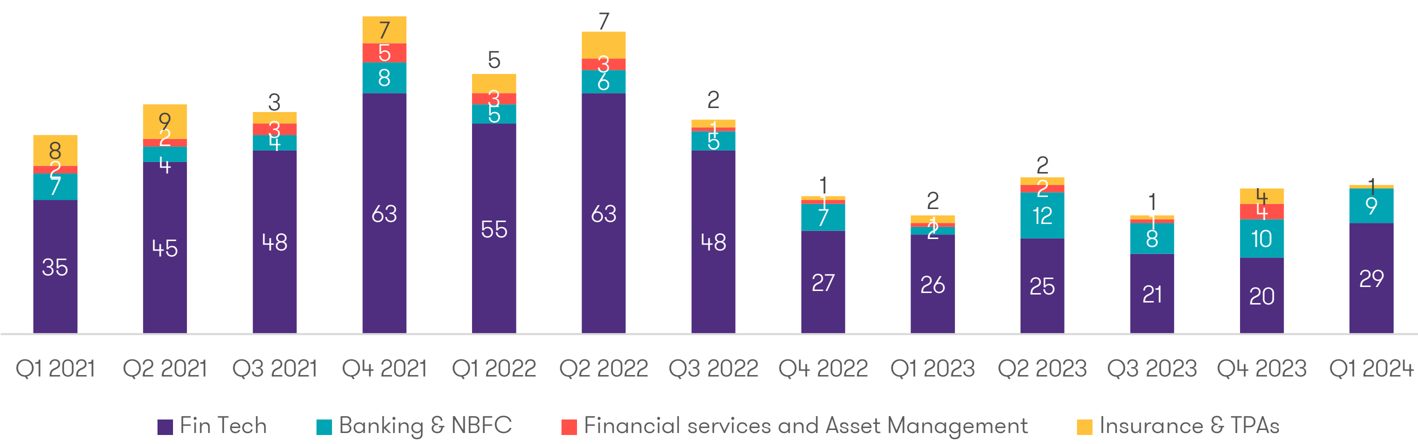
Sector trends

M&A trend by sub-sectors



- Fintech continues to be the attraction for investors, with Q1 2024 witnessing 46% in volumes in this segment due to the focus on technological advancements and digitalisation. Fintech has been dominating in terms of volumes, while banking and NBFC have been dominating in values with 90% share due to the focus on expansion of geographical reach, widening customer base, as well as with the credit growth expected to be buoyant, led by economic growth.
- Financial services and asset management witnessed steady deal volumes, while there was an 84% decrease in values since most deals were basically maintenance in nature to fund existing plans by existing shareholders rather than acquisitive growth. This in line with our expectations for the start of 2024 although we expect consolidation and acquisitions to build up later in the year.
- Insurance and TPAs witnessed a significant decrease in volumes and values by 67% and 92%, respectively, over the last quarter. The insurance and fintech segments saw a decline in overall activity, while banking and NBFC, and financial services and asset management saw stagnant volumes.

PE trend by sub-sectors



- While the fintech segment led the volumes in the PE space with a 74% share, the banking and NBFC segment contributed to 78% in the values, led by two big-ticket investments totaling USD 393 million.
- Fintech continues to be an area that the investors invest in, with 22% of private equity investment values in Q1 2024. One needs to see the impact of the recent changes in the data privacy laws and its impact on the ecosystem.
- Private equity investments remain cautious and largely exit-oriented. The fintech sector received primary funds to meet its basic growth and capital requirements. However, funds continue to express great interest in this sector.
- Insurance continues to experience growth, with substantial regulatory relaxations and benchmarking with global regulations coming into focus. While the sector is yet to see substantial investments coming in, Insurance is an area of growth that we expect to catch investors' attention at a larger scale in the next two to three years.
- Financial services and the asset management segment saw muted activity in this quarter compared to Q4 2023 where we witnessed four deals valuing USD 76 million.
- Regulatory bodies in India continue to tighten compliance requirements, which is increasing the pressure on financial institutions and investors to make declarations and adhere to the regulations.

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Vishesh C. Chandiok
Chief Executive Officer
Grant Thornton Bharat

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