

Consumer, retail and e-commerce sector Dealtracker

Providing M&A and PE deal insights



Foreword



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In 2022, the deal activity in India, as well as the world, faced challenges due to the potential recession in developed countries, rising inflation rates, an increase in oil prices, and geopolitical instability resulting from war. Many industries experienced shutdowns, pay freezes and job cuts, leading investors to feel uncertain about their portfolios and future investments. The investments made in consumer, retail and e-commerce also remained muted last year as compared to 2021, owing to the challenging conditions faced by the industry. The increased cost of raw materials and inflationary pressures in the economy impacted the profitability of companies, resulting in minimal deal growth within the sector.

Deal volumes and values also remained in the slow lane in the first quarter of 2023. Nevertheless, the sector is expected to experience significant growth in the medium to long term. In the aftermath of the pandemic, there has been a significant shift in consumer behaviour, with blurring lines between online and offline channels. With advancements in e-commerce and improved internet connectivity, various revenue streams have emerged, leading to increased investor confidence. On the domestic front, the sector is expected to remain resilient, aided by the sustained focus on capital and infrastructure spending by the government as well.

The Union Budget 2023-24 announcements indicate a long-term vision of ensuring economic growth through capital investments and tech-led initiatives. The rural markets, which contribute to 40% of the Indian retail market, are also poised to experience robust growth.

Over the next decade, India's GDP is projected to increase from its

current value of USD 3.4 trillion to a vision of USD 5 trillion. However, there are some near-term risks to domestic growth, including the spillover effects of economic slowdowns in major economies, lower export growth, and the drag on the Indian rupee caused by a strengthening US dollar. The country might also face an El Niño impact this year, which will directly impact the agricultural GDP of the country. Despite these challenges, India's economy is still in a favourable position, with a robust credit cycle, an improving capex cycle driven by healthier balance sheets, and rising incomes leading to higher consumption. The country's per capita income has increased 15.8% in FY23 over the previous fiscal.

An emerging trend that could be expected is cross-border M&A. The global economic recovery, technological advancements and the geopolitical environment suggest that the trend, which has been on a decline, could reverse. Companies seeking to expand their businesses and investors looking for portfolio diversification could turn to cross-border M&A as a viable option. For the retail and consumer segment, inbound and outbound deals have the potential to increase, especially with Japan, the UK and Europe.

Meanwhile, India's macro-economic outlook remains robust, making it an appealing destination for foreign investments across various sectors. As the domestic economy is expected to remain strong, PE/venture capital funds are projected to focus on investing in the promising Indian market.

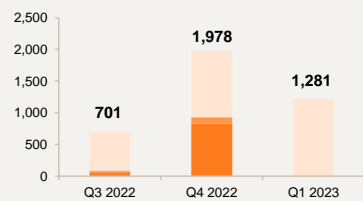
Deal snapshot: Q1 2023



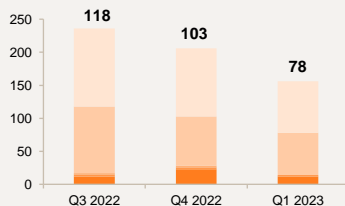
	Volume			Value (USD million)				
	2021	2022	2023	2021	2022	2023		
Domestic	13	44	12	145	808	51		
Cross-border	3	4	2	40	20	15		
Total M&A	16	48	14	↓ 71% 185	828	↓ 92% 65		
Private equity	64	124	64	↓ 48%	1,022	3,452	↓ 65%	1,216
Grand total	80	171	78	↓ 54%	1,207	4,280	↓ 70%	1,281
Cross-border includes								
Inbound	2	2	2	35	10	15		
Outbound	1	2	0	5	10	0		

Three quarterly deals trend

Trend based on deal values (USD million)



Trend based on deal volumes



■ Domestic ■ Inbound ■ Outbound ■ Private equity

E-commerce continued to drive deal activity

- In line with the increased digital adoption and growing e-commerce, heightened deal activity was expected in the sector but instead, it witnessed a 55% decline in volumes and a 70% decline in values in the first quarter of 2023 over Q1 2022, recording 78 deals valuing USD 1.3 billion. The quarter witnessed only three high-value deals of over USD 100 million each compared to 12 such deals in Q1 2022.
- The M&A activity this quarter was down by 71% and values were down by 92% over Q1 2022, recording only 14 deals worth USD 65 million. The e-commerce segment accounted for 50% of the deal volumes, valuing USD 26 million. FMCG as a segment drove the values, accounting for 44% of deal values across only four deals, driven by Mitsubishi UFJ Financial's minority stake acquisition in Bira91.
- Domestic consolidation dominated the M&A activity, with 86% of deal volumes in Q1 2023. The promising domestic market saw two inbound interests from Japan and the US to bolster the supply chain, along with strengthening product offering.
- PE activity also witnessed a declining trend in terms of both deal volumes by 48% and values by 65%. The deal activity in the quarter was backed by investments made within the e-commerce space, as the growth in the traditional businesses is opening avenues for category expansion, third-party marketplaces, consumer service ecosystems, and business-to-business services.
- While the PE activity witnessed the absence of big-ticket investments, the segment witnessed 88% deals coming from the e-commerce space and recorded only one high-value investment in Lenskart of USD 500 million (accounting for 41% of the sector's PE values) compared to nine such deals witnessed in Q1 2022 aggregating to USD 2.5 billion.

Deal volumes declined by 24% in Q1 2023 compared to Q4 2022

- Compared to Q4 2022, Q1 2023 recorded a 24% decline in deal volumes, while values dropped by 35% on the back of non-disclosure of around 75% of M&A deals.

Top deals : Q1 2023



Top deals accounted for **85%** of deal values,
constituting **13%** of volumes



Investor/Acquirer	Investee/Target	Deal type	Sub sector	USD mn	% stake
Abu Dhabi Investment Authority	Lenskart Solutions Private limited - Lenskart.com	PE	E-commerce	500	N.A.
Carlyle Group	VLCC Health Care Limited	PE	Consumer services	300	70.0%
Amazon Smbhav Venture Fund, Iron Pillar, Investcorp, Investment Corporation of Dubai, Ascent Capital, E20 Investment Ltd, Mount Judi Ventures and Dallah Albaraka	Freshtohome Foods Pvt Ltd	PE	E-commerce	104	N.A.
Motilal Oswal Alternate Investment Advisors	Pan Healthcare Private Limited	PE	Personal care	49	N.A.
Investcorp, Sequoia Capital India, Verlinvest and Susquehanna Growth Equity	Wakefit Innovations Pvt Ltd	PE	Consumer durables and home furnishing	39	N.A.
A91 Partners, White Whale Ventures, Grand Anicut Fund and 8i Ventures	Muhavra Enterprises Pvt Ltd - Blue Tokai Coffee Roasters	PE	E-commerce	30	N.A.
Naveen Jindal Group, Ravi Jaipuria Group and Nilesh Ved	Tries Solutions LLP - FuelBuddy	PE	E-commerce	20	N.A.
Asia Impact SA, Nabventures Fund and Texterity Pvt Ltd	Vilcart Solutions Pvt Ltd	PE	E-commerce	18	N.A.
Xponentia Capital Partners, Elevation Capital and RPSG Capital.	The Souled Store Private Limited	PE	E-commerce	16	N.A.
Sequoia Capital India, Matrix Partners India and Sauce.Vc	Fitshit Health Solutions Private Limited - The Whole Truth	PE	E-commerce	15	N.A.

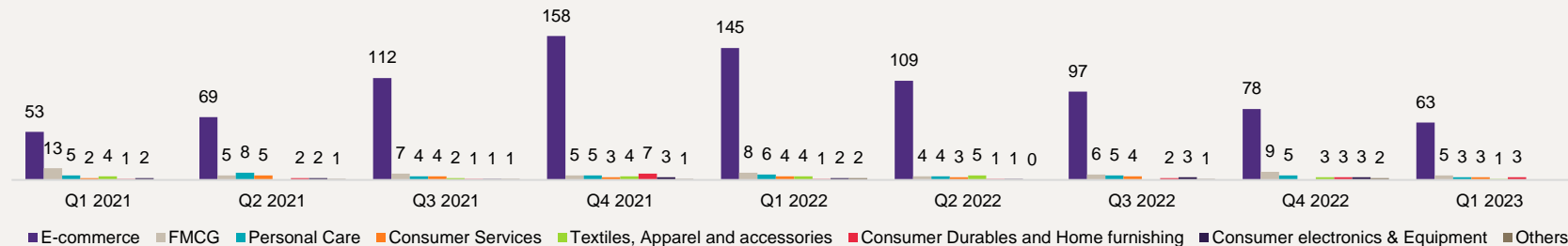
Top trends



E-commerce shines among others

- Despite an overall downward growth trend among sub-segments, deal activity continues to take place in e-commerce across both M&A and PE deal activity. The e-commerce segment accounted for 81% of the volumes and 65% of the values in Q1 2023 for both M&A and PE activity combined.
- There has been a greater emphasis on leveraging Tier 2 and 3 cities to boost the growth of internet businesses. Furthermore, quick commerce is strengthening in the domestic market, with major players focusing on micro markets and local collaborations. Since a loyal and trustworthy customer base is expected to be built in such markets, the expansion of the Indian e-commerce and consumer internet industries will accelerate.
- One of the key factors contributing to the above trends is the availability of entry-level products designed specifically for the modern consumer base. Further, with the growth expected, there is a greater potential for new products and new businesses.
- Amid changing industry dynamics, M&A has a critical role to play as retailers shift their business mix towards beyond-trading revenue. This will help them rediscover scale deals to build local and global leadership positions and generate the cost synergies.
- While deal activity in textiles, apparel and accessories remained active on the M&A front, the personal care, consumer durables and home furnishing segments attracted PE interest in Q1 2023.
- The activity has been slow in other segments, such as FMCG, textile and apparel. However, these segments are expected to see more action in the mid to long term. With a focus on adopting omnichannel business models, we expect more investments and partnerships.

Sub-sector trend by volumes



Budget 2023-24 highlights



Promoting Aatmanirbhar Bharat

In the latest Budget announcement, the government rationalised the customs duty structure on the import of parts of mobile phones and TVs, and announced new basic customs duty (BCD) rates, along with a slew of measures to promote the manufacturing of lab-grown diamonds. This will boost *Aatmanirbhar Bharat* and the 'Make in India' vision.



Ensuring disposable income

There has been a marginal increase in the consumers' disposable income due to the rationalisation of personal income tax. The move will bolster the consumer sentiments and increase the demand for FMCG products and consumer durables.



Building an ecosystem for efficient movement

This year, the government re-emphasised that the push to develop critical infrastructure for transportation (100 projects) is crucial for the overall economy. The thrust on the development of the logistics sector will help in improving the profitability of FMCG companies, as well as e-commerce.



Uplifting rural Bharat – Sabka Saath Sabka Vikas

The Budget provides a massive push to rural Bharat by providing an INR 20 lakh crore agricultural credit system for animal husbandry, dairies and fisheries. This will boost the rural economy and provide more job opportunities.

Budget 2023-24 highlights



Pushing tourism – Swadesh Darshan

The Finance Minister announced a package of INR 2,400 crore to develop the tourism sector on a mission mode. Furthermore, 50 cities will be developed to aid domestic and international tourism. In addition, the development of 50 additional airports, helipads and water drones will improve regional connectivity, thus providing more development opportunities.

Acknowledgements



**For more details,
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