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Reforms

Revenue Growth

Consolidation

# Annual Dealtracker 2020

**M&A** and **private equity** deal insights

# Contents



# Disclaimer

This document captures the list of deals announced based on the information available in the public domain. Grant Thornton India LLP does not take any responsibility for the information, any errors or any decision by the reader based on this information. This document should not be relied upon as a substitute for detailed advice and hence, we do not accept responsibility for any loss as a result of relying on the material contained herein. Further, our analysis of the deal values is based on publicly available information and appropriate assumptions (wherever necessary). Hence, if different assumptions were to be applied, the outcomes and results would be different. This document contains the deals announced and closed as of 23 December 2019.

Please note that the criteria used to define Indian start-ups include a) the company should have been incorporated for five years or less than five years as at the end of that particular year and b) the company is working towards innovation, development, deployment and commercialisation of new products, processes or services driven by technology or intellectual property. Deals have been classified by sectors and by funding stages based on certain assumptions, wherever necessary.

# Foreword

While M&A witnessed subdued activity in 2019, it was a record-breaking year for PE investments. PE investments increased 63% y-o-y compared to 2018 - the highest investment values recorded since 2004.

The year 2019 witnessed a series of worldwide economic uncertainties including the trade war escalation, prolonged Eurozone slowdown, no-deal Brexit and the risk of global recession. Amid these global tensions, India recorded just over USD 61 billion in deal values across around 1,200 transactions, which is a 44% drop in the values and more or less the same volumes as compared to 2018. The GDP also continued its downward trend for the seventh consecutive quarter, falling to 4.5% in Q3 2019 after economic growth plunged to a six-year low at 5% for Q2 2019. Growth in India has taken a hit due to several factors, dampening the overall deal activity during 2019.

While domestic factors like growth slowdown, tight liquidity, market sentiment and currency depreciation added to the prevailing uncertainty, the M&A deal activity recorded a significant decline. The year recorded less than one-third of deal values at USD 27 billion compared to 2018, which recorded USD 90 billion on the back of 16 deals valued over USD 1 billion compared to only four this year.

Domestic consolidation continued to dominate the M&A segment, contributing to over 60% of both deal values and volumes in 2019. About 30% of the growth in domestic M&A values in 2019 was led by distressed deals, enabled through the corporate insolvency resolution process under the Insolvency and Bankruptcy Code (IBC). The ArcelorMittal-Essar Steel deal valued at USD 7.2 billion was one such landmark deal. Additionally, divestment of non-core assets and businesses and strategic stake sale by large conglomerates to pare debt also aided the deal momentum.

The effect of persisting global headwinds was clearly visible on transaction activity, with the total cross-border M&A activity recording its second lowest figures in terms of both deal volumes at just over a 175 transactions and values at USD 10.2 billion - a decline of 8% and 73% respectively compared to 2018. Inbound deal values recorded a 68% fall. Despite excluding the Walmart-Flipkart deal valued at USD 16 billion in 2018, 2019 still recorded a 15% decline with a marginal 5% decline in the deal volumes compared to 2018.

| **Deal summary** | **Volume** | | | **Value (USDm)** | | |
|---|---|---|---|---|---|---|
| **Year** | **2017** | **2018** | **2019** | **2017** | **2018** | **2019** |
| Domestic | 228 | 270 | 255 | 5,834 | 34,269 | 16,419 |
| Cross-border | 162 | 191 | 176 | 8,140 | 38,556 | 10,228 |
| Internal mergers and restructuring | 23 | 13 | 12 | 26,451 | 17,469 | 1,345 |
| **Total M&A** | **413** | **474** | **443** | **40,425** | **90,294** | **27,992** |
| Private equity | 736 | 793 | 814 | 20,505 | 20,678 | 33,642 |
| **Grand total** | **1,149** | **1,267** | **1,257** | **60,930** | **110,972** | **61,634** |
| **Cross-border includes** | | | | | | |
| Inbound | 86 | 100 | 95 | 5,962 | 25,741 | 8,237 |
| Outbound | 76 | 91 | 81 | 2,178 | 12,815 | 1,991 |

Outbound deal values and volumes also witnessed all time low activity at USD 2 billion over 81 transactions. Similarly, outbound volumes also recorded the lowest figures till date. Cross-border transactions between India and the US dominated both inbound and outbound segments, together totalling 35% of cross-border transactions aggregating to USD 2.5 billion.

While PE transactions had a subdued start in Q1 2019, PE investment values surpassed the 2018 figures, where deal value grew over 63% y-o-y at USD 33.6 billion across around 800 investments. This steep increase was driven by five deals in the billion-dollar club and 67 large deals of USD 100 million and above. This also led to another record year for increased growth-stage funding in more mature Indian companies. The primary reason for this was that besides the low sentiment as far as the Indian economy is concerned, PEs looking for divergence continue to be attracted to India's moderately long-term growth potential.

The year also witnessed unprecedented interest from sovereign wealth funds (SWFs) and global pension funds, particularly from Canada, Singapore and Abu Dhabi, contributing over USD 7 billion to the PE deal value in 2019. There were also some marquee deals, with Brookfield's USD 3.7 billion investment in Reliance Jio Infratel - the single largest foreign investment in an Indian infrastructure vehicle and the biggest single PE deal till date in India. There was also GMR Airports Holding's fund raise of USD 1.2 billion, marking the biggest PE deal in India's airport sector. Further, with the government as well as the private sector looking to monetise assets, there will be many more quality yield-generating assets to exchange hands, either directly or through infrastructure investment trust (InvIT) structures.

To capitalise on synergies and improve efficiency, widen the market reach, leverage balance sheet and pare debt, core sectors like manufacturing, energy, infra, banking, telecom and pharma remained dynamic, contributing to over 58% of total deal values. On the other hand, the tech segment remained the key to attracting substantial deal activity, with growing start-up, IT and e-commerce sectors witnessing maximum transactions during 2019 and adding to 62% of total deal volumes. Further, pushed by strategy to support organic and inorganic initiatives for focus markets, divest non-core assets and enter new markets, the year also witnessed considerable volume of activity in the pharma, banking and retail sectors.

The year recorded 12 qualified institutional placement (QIP) issues amounting to USD 5.1 billion fundraising, the second highest in the last five years after USD 7 billion raised in 2017. Fundraising through this route doubled in 2019 driven by mega-deals, despite a 59% fall in the volumes of QIPs as compared to 2018. On the flip side, USD 2.5 billion was raised across 17 IPOs, the lowest since 2015. The year saw a 32% fall in the count of issues with a 49% fall in the issue size compared to 2018. The slowdown, despite market regulator Securities and Exchange Board of India (SEBI) making it easier for companies to list, is evidence of a weary market.

The government has implemented a slew of reforms in recent months to boost credit in the market: Slashing of the lending rate by the Reserve Bank of India five times this year, withdrawal of 'super-rich surcharge' imposed on foreign investors, exemption of start-ups from 'angel tax', an infusion of INR 70,000 crore in public sector banks and a significant cut in the corporate tax rate.

The government's constant push for reforms seems to have brought the sentiments back on track, as evident from the stock market rally in the latter part of 2019 and early 2020. India's improvement in the ease of doing business ranking is expected to push foreign investment into India. Nevertheless, we still seem to be weak on two core elements: enforcing contracts and registering property. Measures around these two, especially enforcing contracts, will boost not just foreign investment but also domestic M&A where funding domestic transactions is still a stress on the acquirer's balance sheet.

**Prashant Mehra**
Partner
Grant Thornton India LLP

# Key highlights

1 Facing continuous headwinds through the year, 2019 was a subdued year for deals after values declined to USD 60 billion in 2019 from USD 110 billion in 2018. The decline was much sharper in M&A deal values, which fell from USD 90 billion in 2018 to USD 28 billion in 2019. PE investments on the other hand surpassed the 2018 figures, a record-breaking year for PE investments, with values growing over 63% y-o-y to USD 33.6 billion across 814 investments, giving the deal market a respectable landing point for overall activity.

2 2019 recorded nine mega deals valued over USD 1 billion each, including some marquee deals such as ArcelorMittal's acquisition of Essar Steel (USD 7.2 billion) and Brookfield's USD 3.7 billion investment in Reliance Jio Inftratel - the single largest foreign investment in an Indian infrastructure vehicle along with single-biggest private equity deal ever in India. Additionally, the year reported 115 deals estimated and valued at and over USD 100 million each.

3 M&A activity in core sectors was pushed by the rationale to reduce debt and strengthen operational capabilities. Further, driven by IBC, the manufacturing sector led the deal values with a 29% share, largely due to the ArcelorMittal-Essar Steel deal, which accounted for 26% of the total M&A deal values.

4 Mumbai, Bengaluru, NCR region and Chennai remained busy cities in 2019, signing the maximum M&A and PE deals.

5 2019 inbound values recorded a 68% fall; however, barring the Walmart-Flipkart deal, 2019 still recorded a 15% decline with a marginal 5% decline in the deal volumes compared to 2018. Similarly, outbound deal values witnessed an all-time low outbound deal values at USD 2 billion, a 6.4 times fall compared to 2018.

6 The year witnessed unprecedented interest from SWFs and global pension funds. They were a part of over 30% (in terms of value) of the PE investments in 2019. SWFs from across the globe, particularly Canada, Singapore and Abu Dhabi, were a part of some of the largest PE transactions this year, contributing over 7 billion USD to the PE deal value in 2019.

7 While the technology space remained the key to attracting substantial deal activity with growing start-ups, IT and e-commerce sectors witnessing maximum transactions during 2019. Core sectors like manufacturing, energy, infra, banking, telecom and pharma remained dynamic with consolidation driven by strategic reasons to capitalise on synergies and improve efficiency, widen the market reach, leverage balance sheet and pare debt.

8 The start-up sector dominated investment volumes across all the top cities attracting maximum PE attention. The growth in fundraising indicates that venture investors continue to remain bullish on Indian start-ups despite concerns of a slowdown in the economy. While in 2018 eight start-ups entered the unicorn club, 2019 witnessed the journey of seven start-ups claiming the tag of a unicorn. Moreover, four out of these seven startups, which joined the unicorn club, were B2B.

9 The QIP fundraising in 2019 is the second highest in the last five years after USD 7 billion raised in 2017. Fundraising through the (QIP) route doubled in 2019 driven by mega-deals, despite a 59% fall in the volumes of QIPs compared to 2018. On the flip side, USD 2.5 billion was raised across 17 IPOs, the lowest since 2015. 2019 saw a 32% fall in the count of issues with a 49% fall in the issue size compared to 2018.

# Deal snapshot 2019

Key deals to look out for in 2020

Notable deals that fell apart

Monthly deal trend

IPO and QIP activity

## Key deals to look out for in 2020

### NCLT approval of

- JSW Steel's INR 19,700 crore bid for Bhushan Power & Steel
- Srei Group's takeover plan for Deccan Chronicle

### Letter of intent received

- By Saudi Aramco for acquiring a 20% stake in the oil-to-chemicals (o2c) division of Reliance Industries Limited
- By JSW Steel for acquiring Asian Colour Coated Ispat

### CCI approves

- Joint acquisition of Uttam Galva Metallics Limited and Uttam Value Steel Limited by Carval Funds and Nithia
- Essel MF acquisition by Sachin Bansal's BAC under 'green channel'

### Start-ups in town

- Foodtech unicorn Zomato to raise over USD 500 million more
- Fitness start-up Curefit is looking to raise funds
- Digit Insurance in talks to raise a fresh funding round of USD 80-100 million
- Villgro has announced its 2019 investees for iPitch
- Livspace is in advanced talks to raise USD 100 million

### Others

- HDFC to take full control of Credila Financial Services Private Limited (HDFC Credila)
- Jaypee Infra insolvency: NBCC and Suraksha Realty place final bids
- Yes Bank board to consider fund raising
- Sale of Coffee Day

## Notable deals that fell apart

### Due to delays in obtaining regulatory approvals and execution

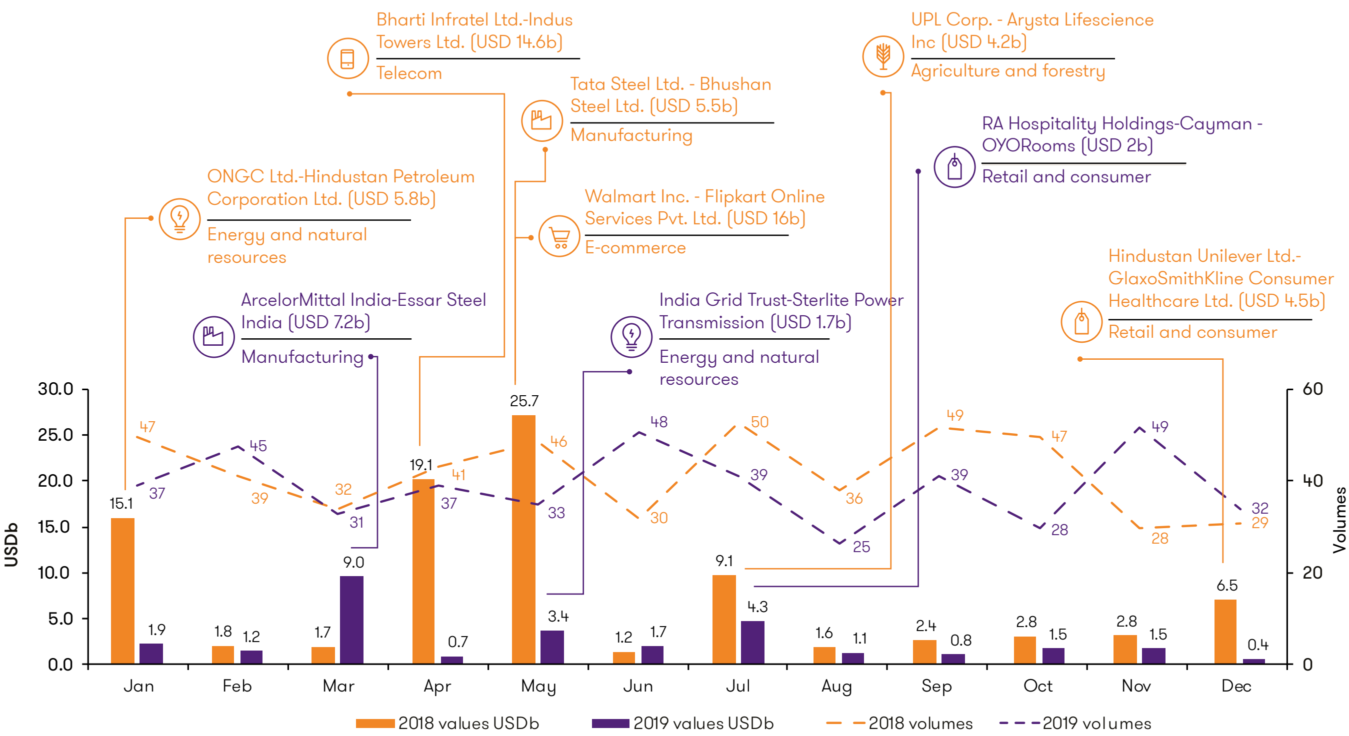
- Snapdeal-Infibeam Avenues
- GMR Airports Limited-Malaysia Airports Holding Berhad
- JSW Energy Ltd.-Jindal Steel and Power Ltd. (1,000 MW power plant in Chhattisgarh)
- HBIS Group Co. Ltd.-Tata Steel Ltd. - 100% stake in NatSteel Holdings Pte. Ltd. and 67.9% stake in Tata Steel (Thailand) Public Company Ltd.
- General Atlantic and Värde Partners-PNB Housing Finance Ltd.

### Non-consent from shareholders

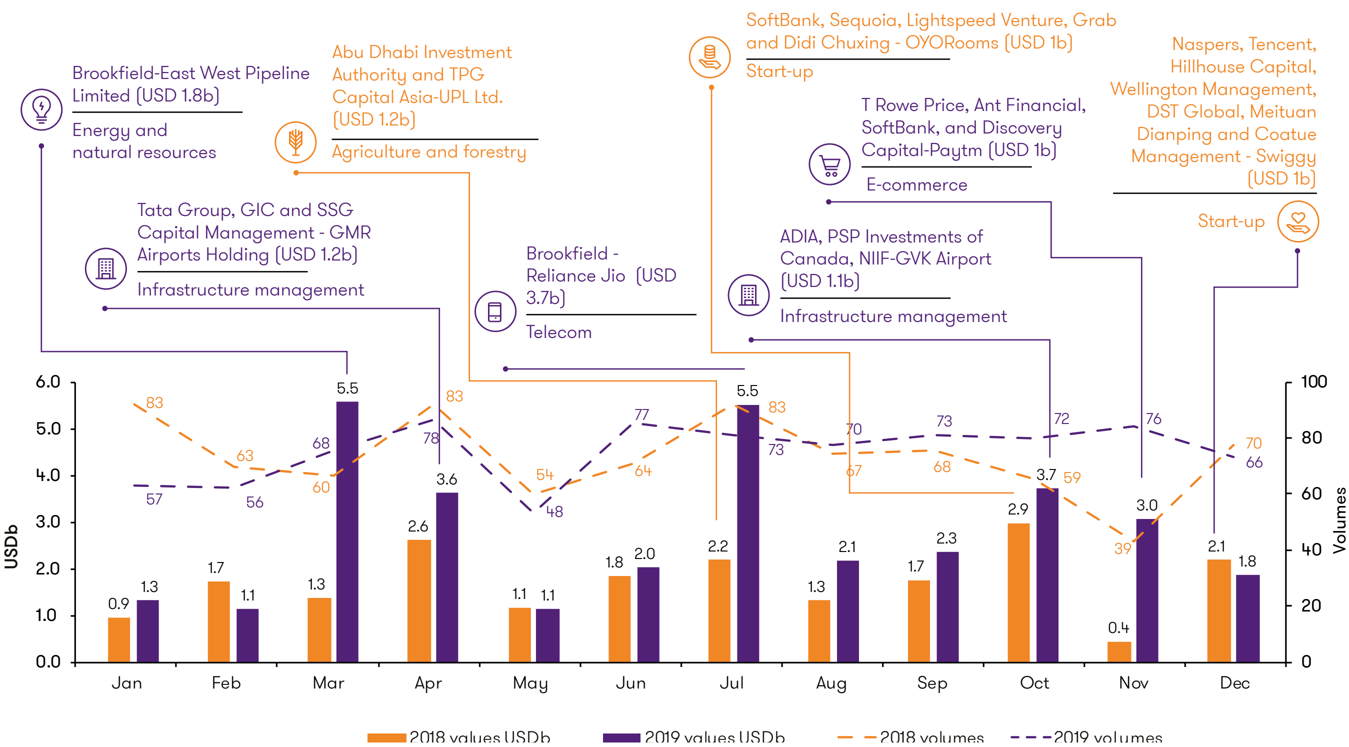
- Godrej Agrovet Ltd.-Astec Lifesciences Ltd.

# Monthly deal trend

## M&A deal trend




## PE deal trend



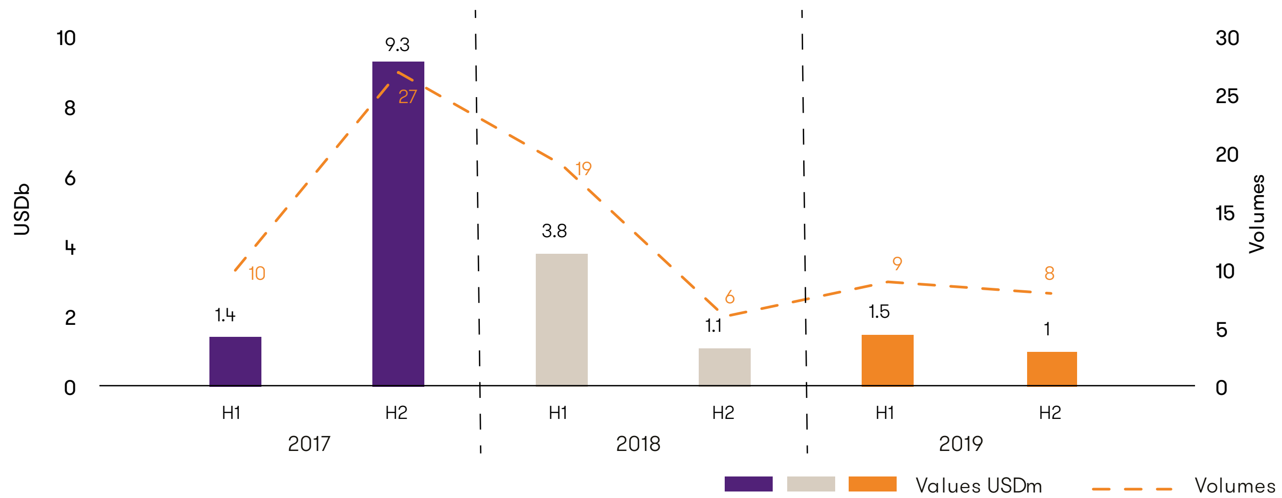
# IPO and QIP activity

## IPO snapshot

**In 2019, USD 2.5 billion was raised across 17 IPOs, the lowest since 2015 in terms of both of issue size and issue count. The year saw a 32% fall in the count of issues and a 49% fall in the aggregate value of IPOs compared to 2018.**

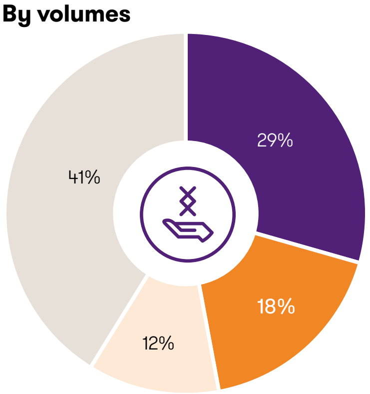
The slowdown, despite market regulator Securities and Exchange Board of India (SEBI) making it easier for companies to list, is evidence of a weary market. In June 2018, SEBI decided to reduce the number of years for which a company must declare the financial results, from five to three, before going public.

The biggest share of IPO activity in 2019 was of the manufacturing sector, with 5 IPOs worth USD 746 million, followed by the banking and e-commerce sectors.

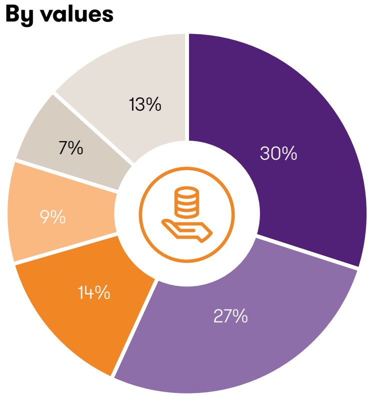



### Sector Trend

**By volumes**




**By values**



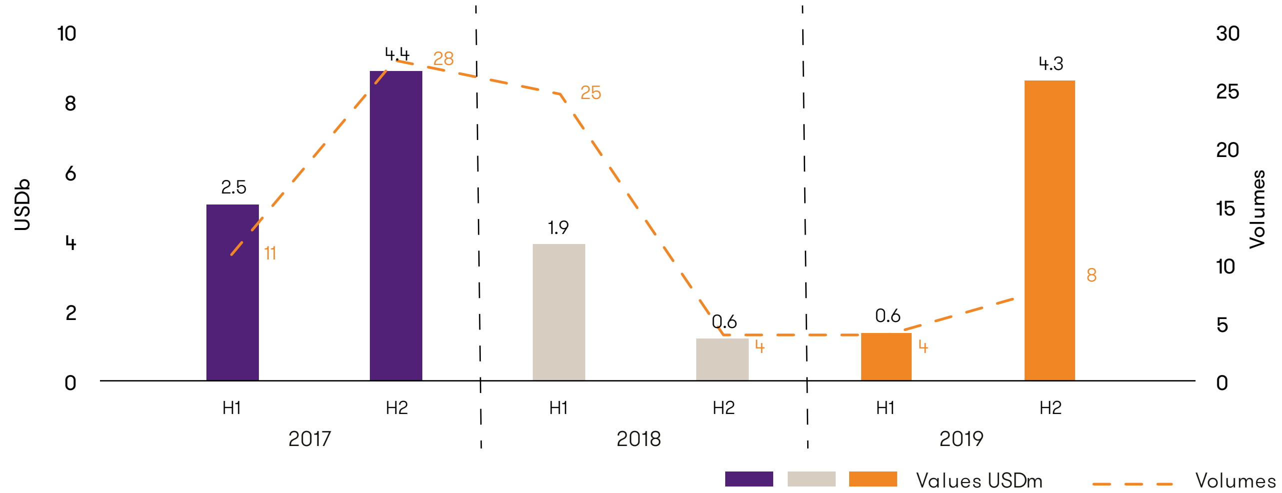

Manufacturing
Banking and financial services
E-commerce
Others
Real estate
Hospitality and leisure
Pharma, healthcare and biotech

# QIP snapshot

**The QIP fundraising in 2019 was the second highest in the last five years after USD 7 billion raised in 2017. The year saw 12 issues amounting to USD 5.1 billion.**

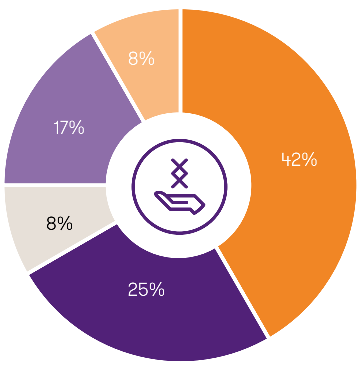
Fundraising through the QIP route doubled in 2019 driven by mega-deals despite a 59% fall in the volumes of QIPs compared to 2018. While the values amounted to USD 5 billion, in terms of deal volume, only 12 companies used the QIP route in 2019 as against 29 in 2018. This decline in volume indicates that this year, only large companies were able to tap the market, which was characterised by volatility due to various macro headwinds.

The year saw a few mega-deals such as Axis Bank's USD 1.8 billion share sale and Bajaj Finance's USD 1.2 billion fundraise. Other major deals this year included DLF raising USD 0.4 billion, Shree Cement securing USD 0.3 billion and Godrej Properties raising USD 0.3 billion.

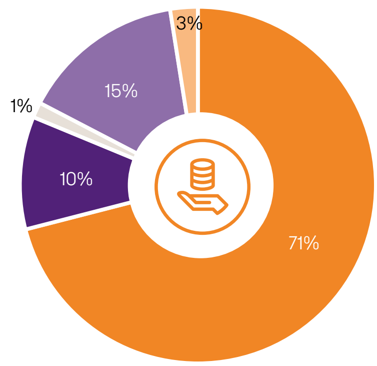



## Sector Trend

**By volumes**




**By values**




Manufacturing | Banking and financial services | Media and entertainment
Real estate | Retail and consumer | Pharma, healthcare and biotech

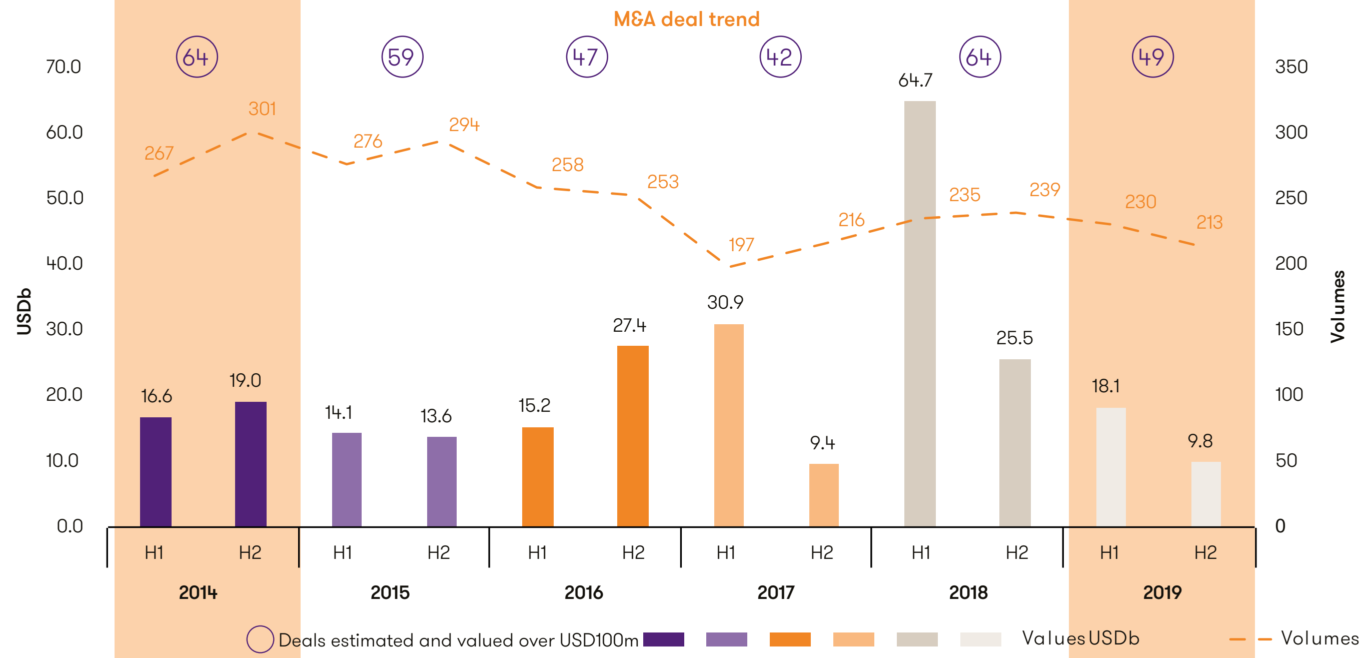
# Year-on-year performance

M&A six-year trend

PE six-year trend

# M&A trend

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Deal summary | **568 deals** **USD 35.7b** | **570 deals** **USD 27.7b** | **511 deals** **USD 42.6b** | **413 deals** **USD 40.4b** | **474 deals** **USD 90.3b** | **443 deals** **USD 28b** |
| Top deals | Sun Pharmaceutical-Ranbaxy (USD 3.2b) | Vedanta Ltd.-Cairn India Ltd. (USD 2.3b) | Rosneft PJSC, Trafigura and United Capital Partners-Essar Oil (USD 12.9b) | Idea-Vodafone (USD 23b) | Walmart-Flipkart (USD 16b) | ArcelorMittal-Essar Steel (USD 7.2b) |
| Top sector by value | Pharma, healthcare and biotech (16%) | Energy and natural resources (16%) | Energy and natural resources (41%) | Telecom (62%) | Telecom (21%) | Manufacturing (29%) |
| Top sector by volume | IT and ITeS (13%) | Start-up (24%) | Start-up (28%) | Start-up (22%) | Start-up (24%) | IT and ITeS (18%) |

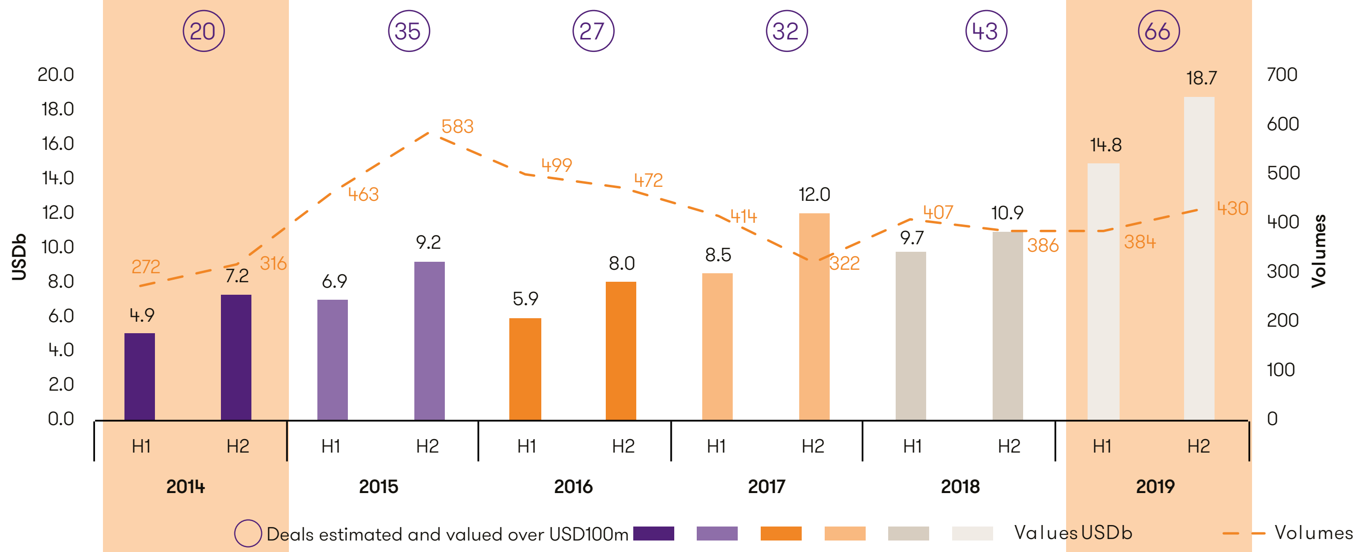



Election years

# PE trend

| | | | | | | |
|---|---|---|---|---|---|---|
| Deal summary | 588 deals<br>USD 12.3b | 1,046 deals<br>USD 16.2b | 971 deals<br>USD 13.9b | 736 deals<br>USD 20.5b | 793 deals<br>USD 20.7b | 814 deals<br>USD 33.6b |
| Top deals | Morgan Stanley, GIC, Accel Partners, DST Global, Iconiq Capital and Sofina - Flipkart (USD 1b) | Baillie Gifford, Greenoaks Capital, Steadview Capital, T Rowe Price Associates, Qatar Investment Authority, DST Global, GIC, Iconiq Capital, and Tiger Global-Flipkart (USD 0.7b) | Brookfield - Reliance Infratel Ltd. (USD 1.6b) | SoftBank Vision Fund-Flipkart (USD 2.5b) | Abu Dhabi Investment Authority and TPG Capital Asia-UPL Ltd.-UPL Corp. (USD 1.2b) | Brookfield-Reliance Jio Infratel (USD 3.7b) |

PE deal trend




| | | | | | | |
|---|---|---|---|---|---|---|
| Top sector by value | E-commerce (20%) | Start-up (30%) | Start-up (17%) | E-commerce (29%) | Start-up (27%) | Start-up (15%) |
| Top sector by volume | Start-up (37%) | Start-up (65%) | Start-up (68%) | Start-up (61%) | Start-up (60%) | Start-up (60%) |

Election years

# Mergers and acquisitions dealscape

1. M&A sector focus
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4. Inbound deal trend
5. Outbound deal trend
6. Cross-border deals: Geographic track
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# M&A sector focus

Pushed by IBC, the manufacturing sector led the deal values with a 29% share. The ArcelorMittal-Essar Steel deal valued at USD 7.2 billion alone accounted for 26% of the total M&A deal values. The year also recorded some high-value deals in the energy space with the sector recording 18 deals which had a 16% share in total M&A deal values. On the other hand, the IT sector led the deal volumes with an 18% share, followed by the start-up and pharma sectors, which together accounted for 28% of total deal volumes. The common rationale in 2019 pushing consolidation in core sectors was to reduce debt and strengthen operational capabilities. However, transactions in the start-up, IT, e-commerce, education, media and hospitality sectors were to capture market share to fight the stiff competition and expand footprints.

**IT and ITeS**

| | | |
|---|---|---|
| 70 | 66 | 81 |
| 1,018 | 5,614 | 1,663 |

**Start-up**

| | | |
|---|---|---|
| 91 | 113 | 78 |
| 701 | 788 | 2,584 |

**Pharma, healthcare and biotech**

| | | |
|---|---|---|
| 35 | 36 | 46 |
| 2,232 | 2,527 | 2,566 |

**E-commerce**

| | | |
|---|---|---|
| 21 | 24 | 20 |
| 2,112 | 16,887 | 1,150 |

**Media and entertainment**

| | | |
|---|---|---|
| 21 | 29 | 21 |
| 408 | 1,605 | 240 |

**Retail and consumer**

| | | |
|---|---|---|
| 25 | 25 | 28 |
| 651 | 5,306 | 1,389 |

**Banking and financial services**

| | | |
|---|---|---|
| 25 | 33 | 32 |
| 3,166 | 2,748 | 1,725 |

**Manufacturing**

| | | |
|---|---|---|
| 33 | 42 | 37 |
| 1,184 | 16,040 | 8,110 |

**Energy and natural resources**

| | | |
|---|---|---|
| 12 | 19 | 18 |
| 1,860 | 12,249 | 4,539 |

**Automotive**

| | | |
|---|---|---|
| 9 | 7 | 13 |
| 237 | 260 | 500 |

**Education**

| | | |
|---|---|---|
| 8 | 14 | 13 |
| 35 | 273 | 383 |

**Hospitality and leisure**

| | | |
|---|---|---|
| 8 | 10 | 12 |
| 261 | 576 | 551 |

**Professional/ business services**

| | | |
|---|---|---|
| 19 | 17 | 12 |
| 99 | 96 | 86 |

**Telecom**

| | | |
|---|---|---|
| 9 | 6 | 4 |
| 25,016 | 19,260 | 40 |

**Real estate**

| | | |
|---|---|---|
| 7 | 6 | 5 |
| 424 | 541 | 305 |

**Agriculture and forestry**

| | | |
|---|---|---|
| 6 | 13 | 5 |
| 313 | 4,353 | 324 |

**Infrastructure management**

| | | |
|---|---|---|
| 9 | 8 | 7 |
| 640 | 635 | 1,451 |

**Transport and logistics**

| | | |
|---|---|---|
| 3 | 3 | 9 |
| 45 | 133 | 381 |

**Aerospace and defence sector**

| | | |
|---|---|---|
| 2 | 3 | 2 |
| 24 | 403 | 3 |

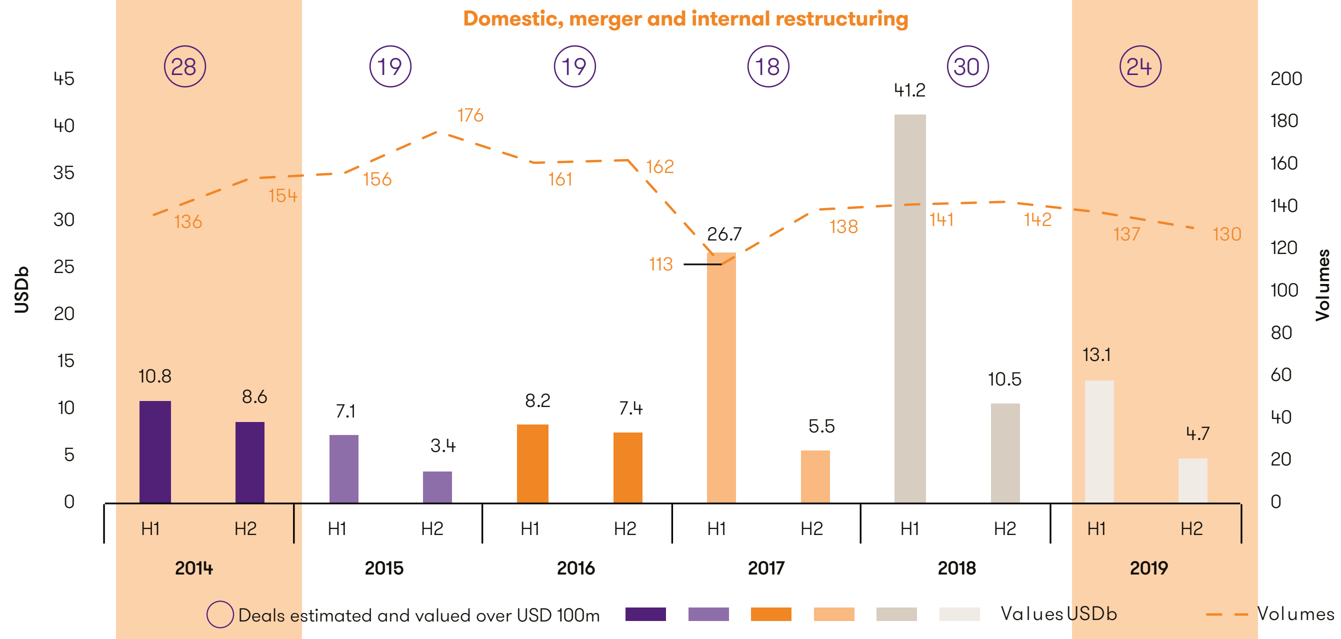
Top sectors based on deal values

| | | | |
|---|---|---|---|
| Volume | 2017 | 2018 | 2019 |
| Values USDm | 2017 | 2018 | 2019 |

# Domestic, merger and internal restructuring

While 2018 was a record year for domestic M&A driven by a surge in big-ticket consolidation with four deals individually valued over USD 5 billion, 2019 witnessed the absence of mega deals, recording a 66% fall in the deal values. The year 2019 recorded one landmark deal of ArcelorMittal-Essar Steel valued at USD 7.2 billion under the IBC proceedings. The fall in the deal activity can also be attributed to several macro economic events, the major one being the general elections and the uncertainty surrounding it.

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Deal summary | 290 deals<br>USD 19.3b | 332 deals<br>USD 10.5b | 323 deals<br>USD 15.6b | 251 deals<br>USD 32.3b | 283 deals<br>USD 51.7b | 267 deals<br>USD 17.8b |
| Top deals | Sun Pharmaceutical-Ranbaxy (USD 3.2b) | Vedanta Ltd. Cairn India Ltd. (USD 2.3b) | UltraTech Cement-Jaiprakash Associates (USD 2.4b) | Idea-Vodafone (USD 23b) | Bharti Infratel-Indus Towers (USD 14.6b) | ArcelorMittal-Essar Steel (USD 7.2b) |



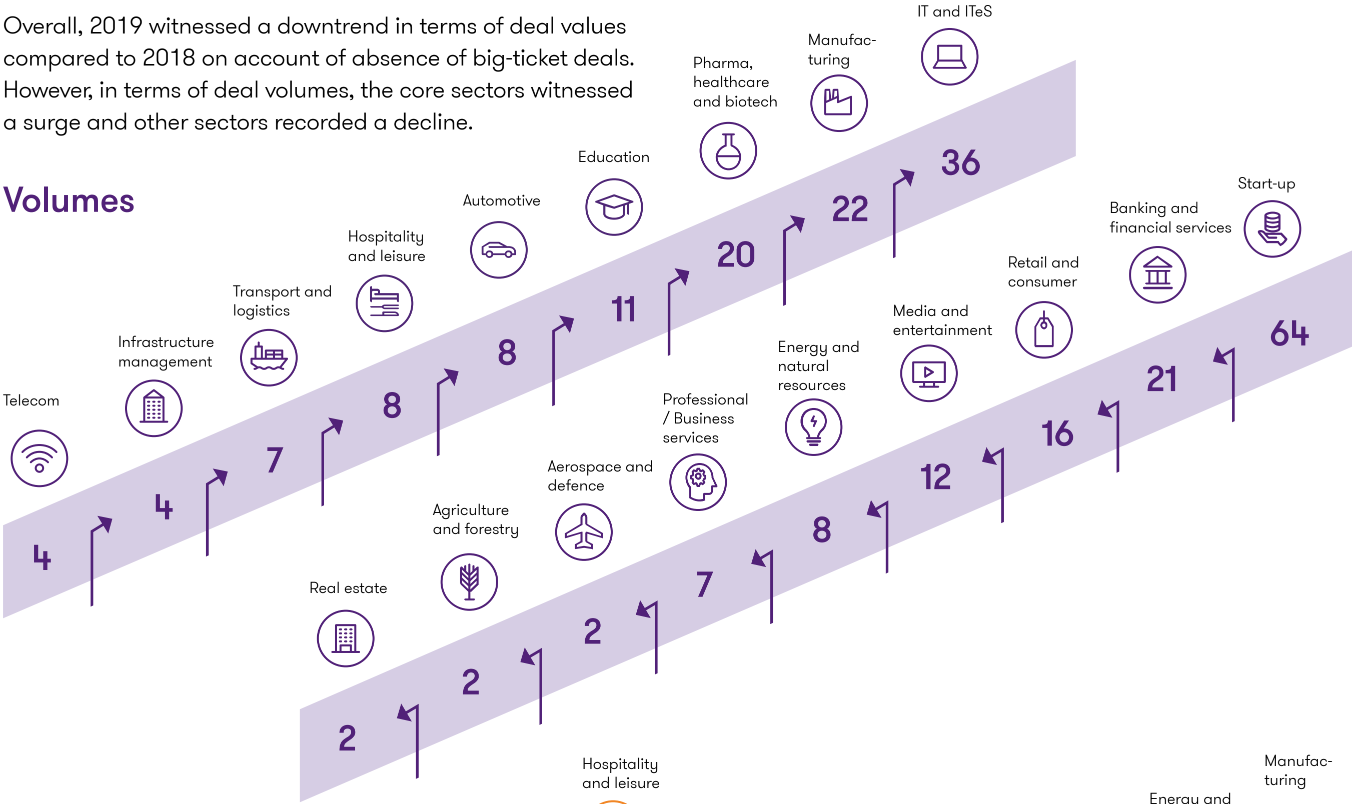

| Top sector by | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| value | Pharma, healthcare and biotech (24%) | Energy and natural resources (23%) | Manufacturing (37%) | Telecom (74%) | Telecom (36%) | Manufacturing (43%) |
| volume | Pharma, healthcare and biotech (12%) | Start-up (37%) | Start-up (40%) | Start-up (31%) | Start-up (34%) | Start-up (24%) |

Election years

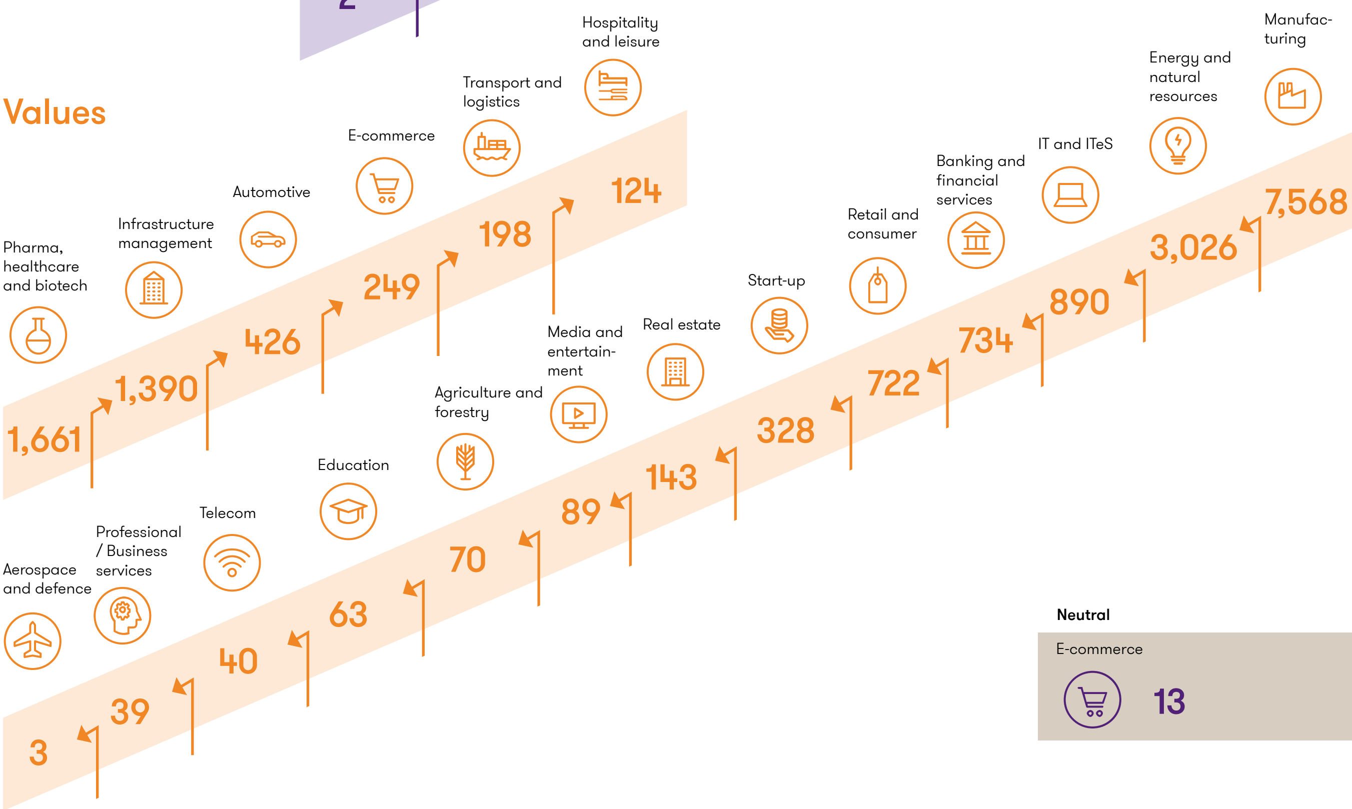
# Sector movement compared to 2018

Overall, 2019 witnessed a downtrend in terms of deal values compared to 2018 on account of absence of big-ticket deals. However, in terms of deal volumes, the core sectors witnessed a surge and other sectors recorded a decline.

## Volumes

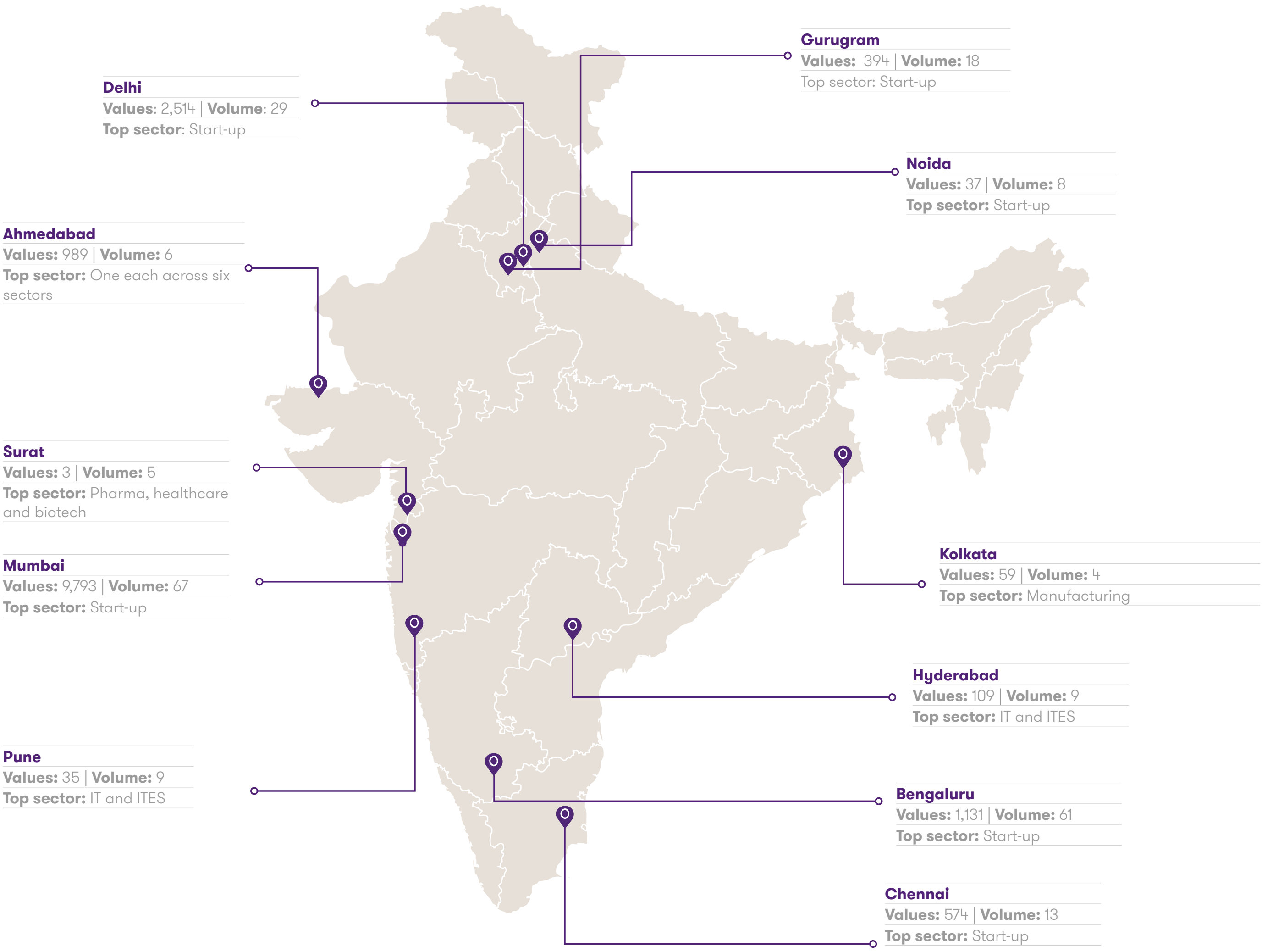



## Values



# Domestic deal activity - Cities in focus

Mumbai, Bengaluru, NCR region and Chennai remained busy cities in 2019, recording 78% of the domestic transactions in the same year. These cities commonly remained active executing transactions in the start-up sector. Tier 2 and 3 cities saw some activity in the IT, infra, pharma, manufacturing and energy sectors. Mumbai, Delhi and Bengaluru also remained the largest recipients of deal values, attracting 88% of total domestic deal values.




**Values in USDm**

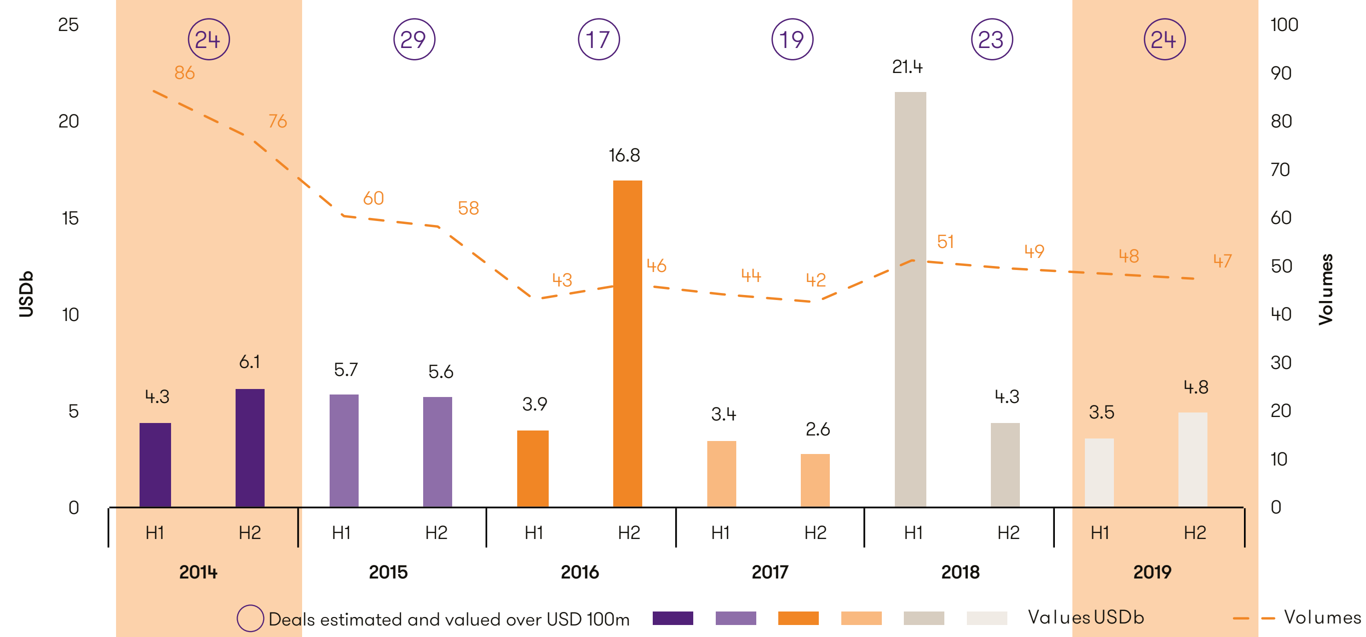
The data only pertains to domestic deals and excludes mergers and internal restructuring deals.

# Inbound deal trend

2019 recorded a significant 68% fall in the deal values aggregating to USD 8.3 billion compared to 2018 that witnessed a huge spike in the deal values recording USD 25.7 billion, driven by the landmark Walmart-Flipkart deal valued at USD 16 billion. However, barring this deal, 2019 still recorded a 15% decline in the deal values with 5% decline in deal volumes compared to 2018. The deal activity also took a hit on the back of the prevailing global trade tensions. Nevertheless, compared to the lowest deal values recorded for the period 2011-2019, at USD 6 billion in 2017, 2019 deal values saw a 38% increase in the deal values with a strong 10% increase in the deal volumes.

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| **Deal summary** | **162 deals** **USD 10.4b** | **118 deals** **USD 11.3b** | **89 deals** **USD 20.7b** | **86 deals** **USD 6.0b** | **100 deals** **USD 25.7b** | **95 deals** **USD 8.2b** |
| **Top deals** | Diageo Plc-United Spirits (USD 1.9b) | Centerbridge Partners-Suzlon Energy (USD 1.2b) | Rosneft PJSC, Trafigura and United Capital Partners-Essar Oil (USD 12.9b) | Tencent-Flipkart (USD 0.7b) | Walmart-Flipkart (USD 16b) | RA Hospitality Holdings-Cayman – OyoRooms (USD 2b) |

**Inbound deal trend**



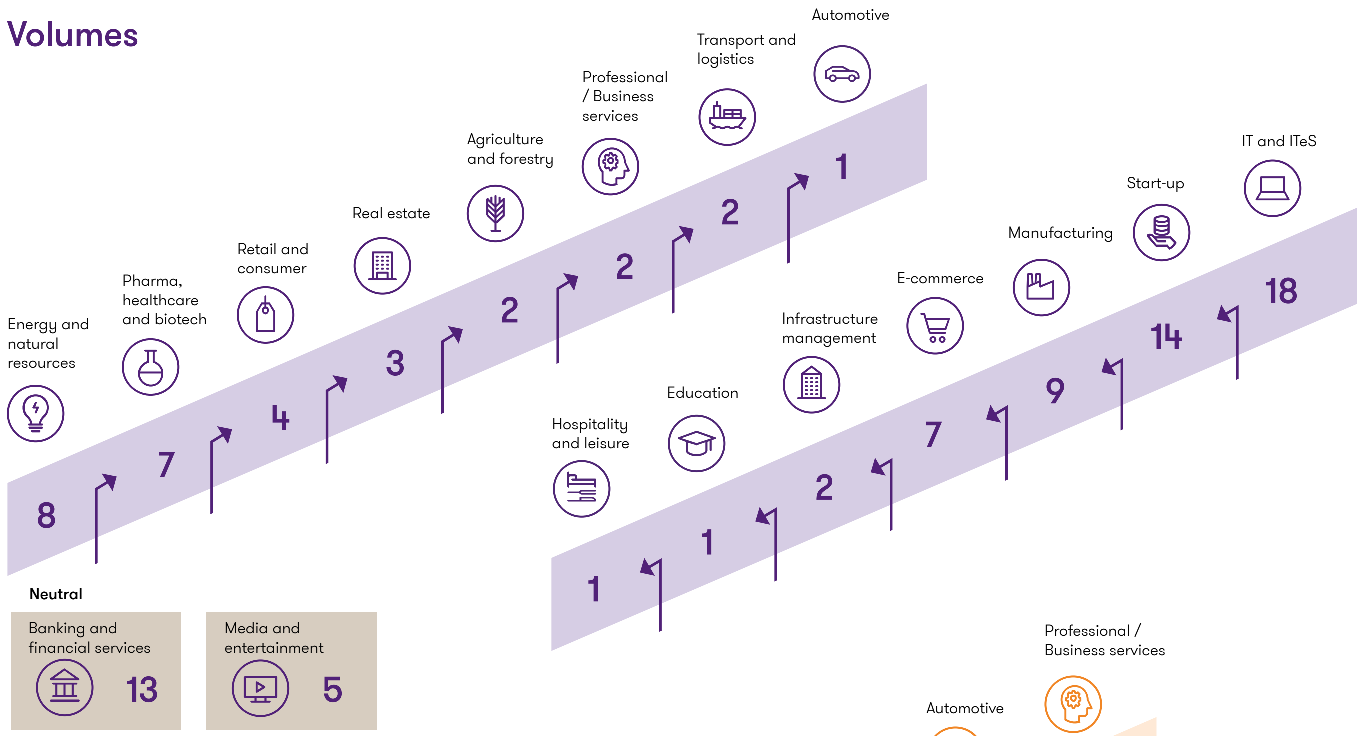

| Top sector by | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| **value** | Retail and consumer (32%) | Manufacturing (15%) | Energy and natural resources (65%) | E-commerce (29%) | E-commerce (65%) | Start-up (27%) |
| **volume** | Manufacturing (17%) | Manufacturing (19%) | Start-up (18%) | IT and ITES (17%) | IT and ITES (20%) | IT and ITES (19%) |

Election years

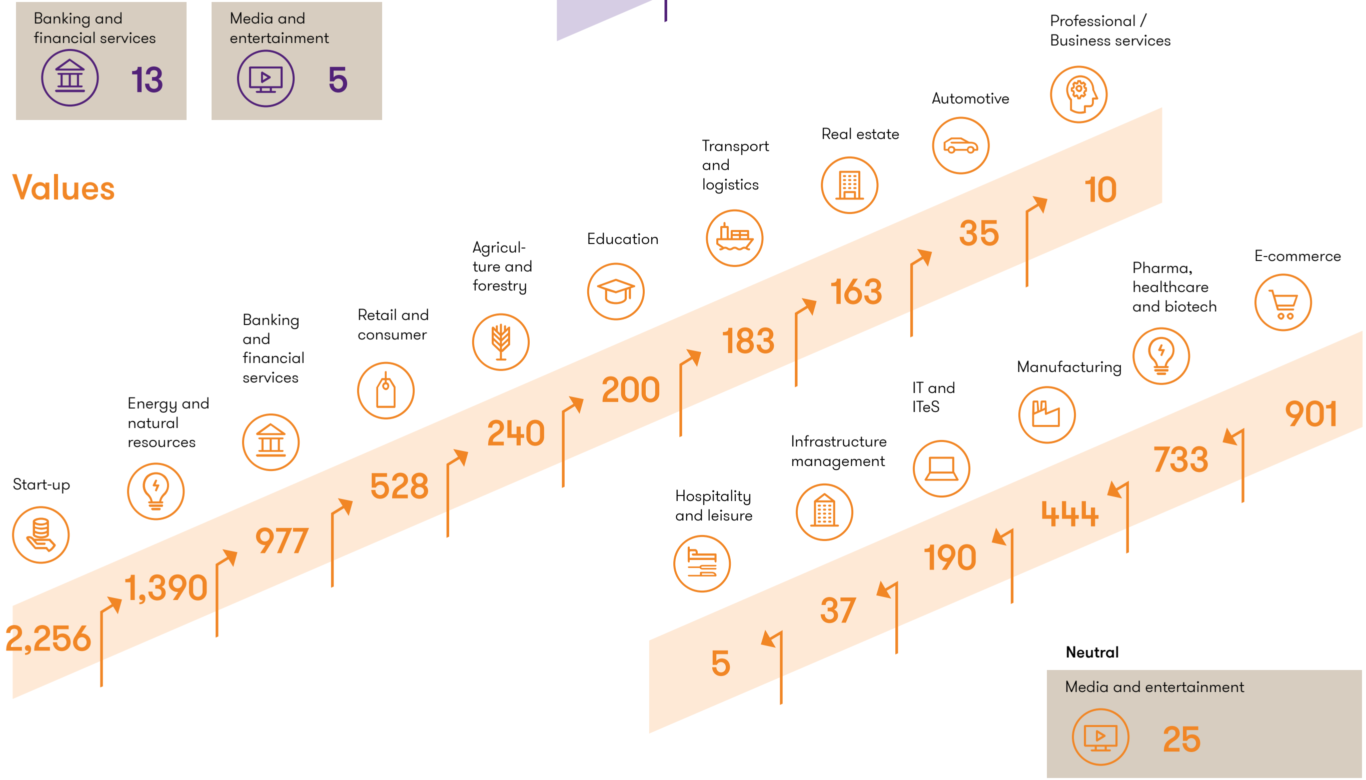
# Sector movement compared to 2018

2019 witnessed renewed interest in the Indian agriculture, automotive, transport and start-up sectors. Foreign companies further made big bets in the energy, start-up, banking, e-commerce, retail and pharma sectors with acquisitions over USD 100 million each.

## Volumes




## Values

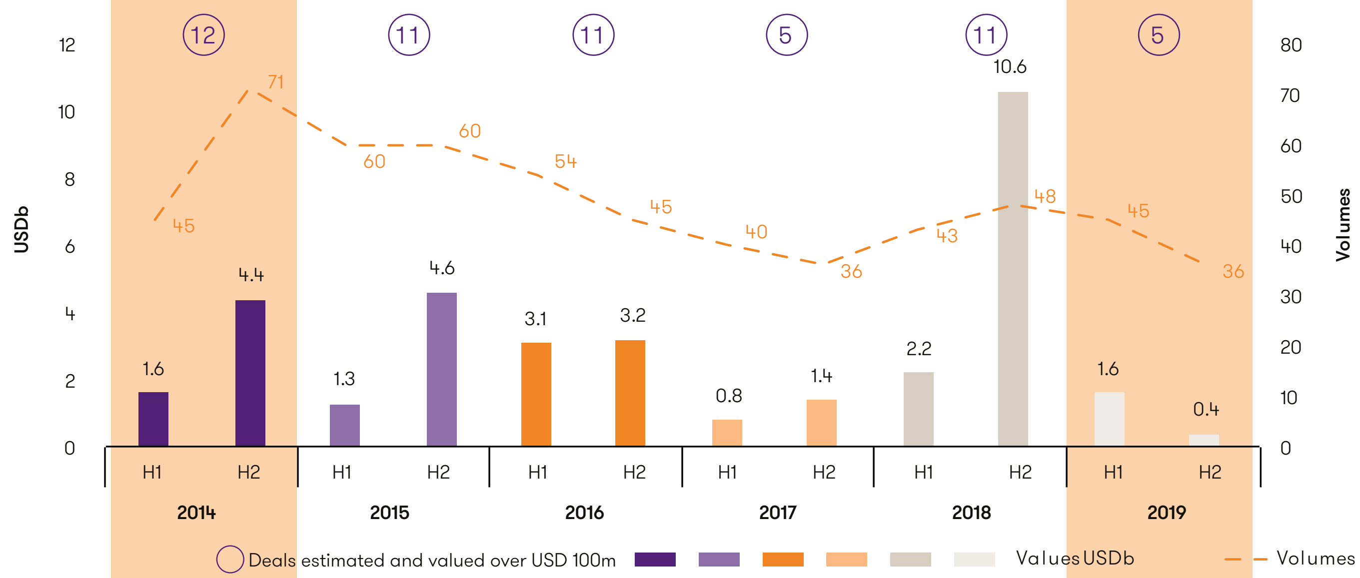


# Outbound deal trend

After recording an all-time high outbound deal value at USD 12.8 billion in 2018, the year 2019 witnessed an all-time low deal value of USD 2 billion, a 6.4 times fall compared to 2018. Similarly, volumes also recorded the lowest levels till date, with an 11% decrease compared to 2018. The IT and ITeS sector occupied the limelight with an underlying theme to capitalise on the foreign technology, expand their foothold, increase product portfolio or expand consumer base. India Inc. executed outbound transactions to tap foreign markets and enjoy the business privileges prevailing in other countries.

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| **Deal summary** | **116 deals**<br>**USD 6.0b** | **120 deals**<br>**USD 6.0b** | **99 deals**<br>**USD 60.3b** | **76 deals**<br>**USD 2.2b** | **91 deals**<br>**USD 12.8b** | **81 deals**<br>**USD 2.0b** |
| **Top deals** | Cognizant Technology-TriZetto Corp. (USD 2.7b) | ONGC Videsh-CSJC Vankorneft-Vankor (USD 1.3b) | Indian Oil Corp., Oil India Ltd. and a unit of Bharat Petroleum Corp. Ltd.-Tass-Yuryakh oilfield (USD 1.3b) | Fortis Healthcare-RHT Health Trust (USD 0.7b) | UPL Ltd.-Arysta Lifescience (USD 4.2b) | Cairn India - Anglo American Plc (USD 0.2b) |

**Outbound deal trend**



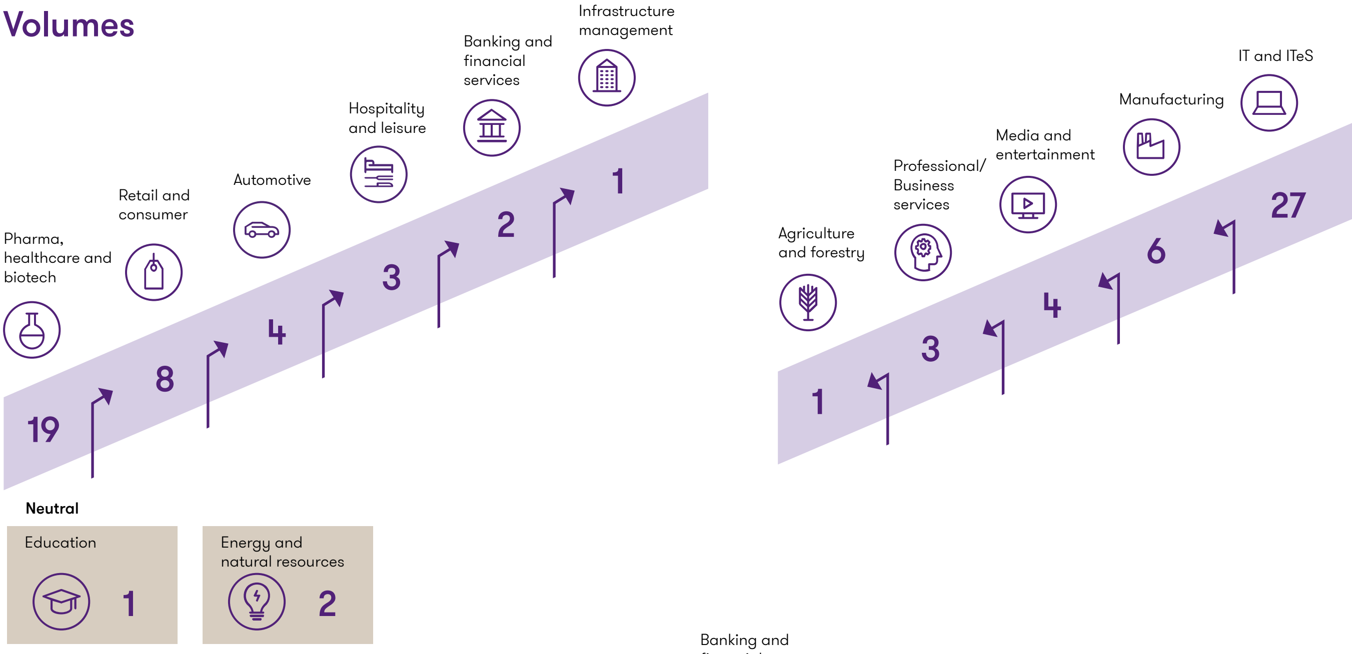

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| **Top sector by value** | IT and ITeS (61%) | Pharma, healthcare and biotech (39%) | Energy and natural resources (35%) | Pharma, healthcare and biotech (64%) | Agriculture and forestry (33%) | IT and ITeS (29%) |
| **Top sector by volume** | IT and ITeS (27%) | IT and ITeS (31%) | Pharma, healthcare and biotech (25%) | IT and ITeS (33%) | IT and ITeS (34%) | IT and ITeS (33%) |

Election years

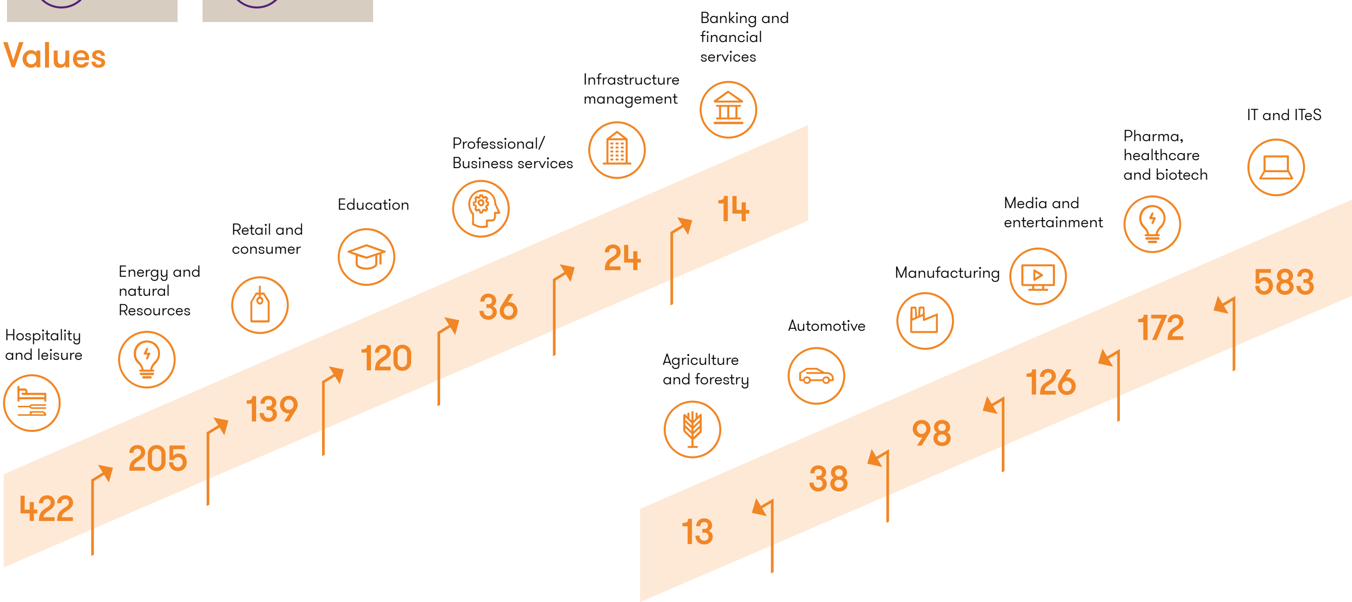
# Sector movement compared to 2018

Though the IT sector accounted for bulk of the transactions in 2019, the number was lower than that in 2018. Further, in line with the overall deal sentiment, absence of mega deals impacted the aggregate deal value significantly.  2019 also witnessed Indian corporations' interest in foreign banking, hospitality and retail spaces. The year, however, failed to witnessed mega deals witnessed in the earlier years.

## Volumes




## Values



# Cross-border deals: Geographic track

Cross-border M&A (inbound and outbound together) recorded its second lowest levels since 2005 in terms of both deal volumes at 176 transactions and values at USD 10.2 billion. There was an 8% decline in the deal volume and a significant 73% decline in the transaction values compared to 2018.

Cross-border transactions between India and the US dominated in both the inbound and outbound segments, together totalling 35% of cross-border transaction aggregating to USD 2.5 billion.

2019 witnessed heightened interest from Singapore, Japan and France, with 31 deals amounting to USD 3 billion. These countries displayed great interest in Indian manufacturing, energy and start-up companies.

Outbound transactions from India were spread over 24 geographies/countries, of which 30 transactions aggregating to USD 0.7 billion were executed in the US. In addition to the US, 20 transactions in aggregate were also executed in the UK, Germany and Switzerland by Indian companies, representing 25% of total outbound deal values of USD 1.1 billion.

**UK**

| Values | Volume |
|---|---|
| 337 | 9 |
| 2,010 | 3 |

**Belgium**

| Values | Volume |
|---|---|
| 17 | 1 |
| 210 | 2 |

**Canada**

| Values | Volume |
|---|---|
| 110 | 1 |

**Switzerland**

| Values | Volume |
|---|---|
| 30 | 5 |
| 15 | 3 |

**Ireland**

| Values | Volume |
|---|---|
| 5 | 2 |

**Spain**

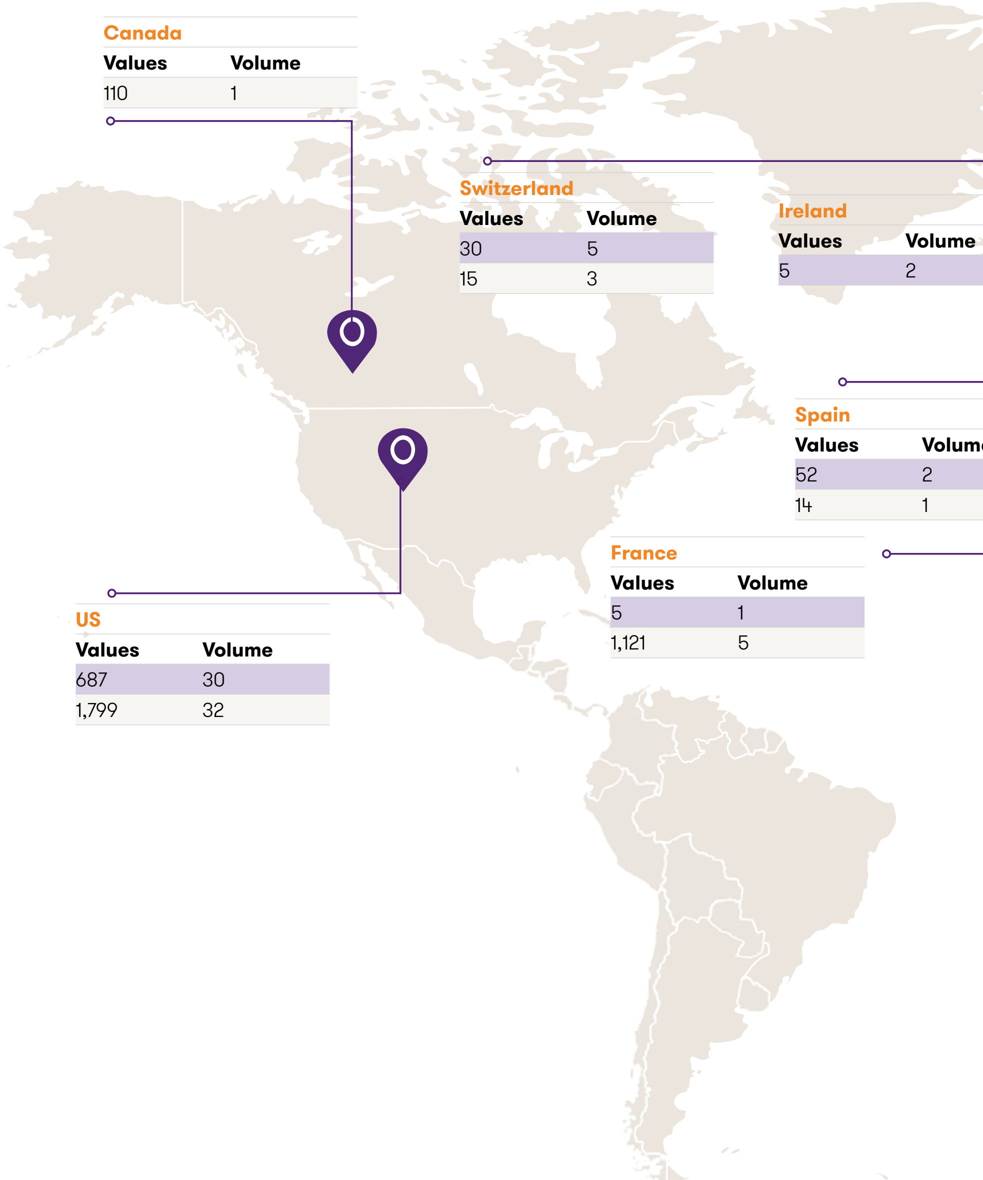
| Values | Volum |
|---|---|
| 52 | 2 |
| 14 | 1 |

**France**

| Values | Volume |
|---|---|
| 5 | 1 |
| 1,121 | 5 |

**US**

| Values | Volume |
|---|---|
| 687 | 30 |
| 1,799 | 32 |



### Netherlands

| Values | Volume |
|---|---|
| 558 | 2 |
| 15 | 3 |

### Germany

| Values | Volume |
|---|---|
| 177 | 2 |
| 5 | 1 |

### Sweden

| Values | Volume |
|---|---|
| 24 | 1 |
| 5 | 1 |

### Finland

| Values | Volume |
|---|---|
| 76 | 1 |
| 5 | 1 |

### South Korea

| Values | Volume |
|---|---|
| 300 | 1 |

### UAE

| Values | Volume |
|---|---|
| 23 | 2 |
| 160 | 3 |

### Japan

| Values | Volume |
|---|---|
| 38 | 2 |
| 1,427 | 12 |

### Sri Lanka

| Values | Volume |
|---|---|
| 11 | 1 |

### China

| Values | Volume |
|---|---|
| 13 | 1 |
| 215 | 4 |

### Israel

| Values | Volume |
|---|---|
| 20 | 4 |
| 5 | 1 |

### Singapore

| Values | Volume |
|---|---|
| 42 | 3 |
| 410 | 14 |

### South Africa

| Values | Volume |
|---|---|
| 10 | 3 |
| 106 | 1 |

### Mauritius

| Values | Volume |
|---|---|
| 21 | 2 |
| 11 | 1 |

### Australia

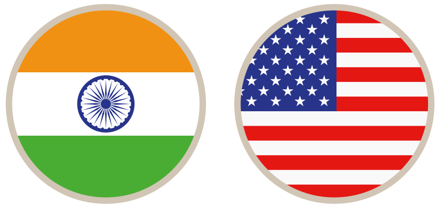
| Values | Volume |
|---|---|
| 5 | 1 |
| 285 | 2 |

### New Zealand

| Values | Volume |
|---|---|
| 5 | 2 |

**Values in USDm**

| | |
|---|---|
| Outbound | |
| Inbound | |



# Corridors

## India-US

**Inbound**

| Year | Volumes | Values USDm |
|---|---|---|
| 2015 | 46 | 7,093 |
| 2016 | 29 | 1,580 |
| 2017 | 31 | 2,696 |
| 2018 | 43 | 18,908 |
| 2019 | 33 | 1,909 |

**Outbound**

| Year | Volumes | Values USDm |
|---|---|---|
| 2015 | 41 | 2,439 |
| 2016 | 36 | 1,791 |
| 2017 | 27 | 622 |
| 2018 | 44 | 11,146 |
| 2019 | 30 | 687 |

## Top sector attraction by volume - 2019

**Inbound**

| IT and ITeS | Banking and financial services | Start-up | E-commerce | Pharma, health-care and biotech | Others |
|---|---|---|---|---|---|
| 37% | 15% | 15% | 9% | 9% | 15% |

**Outbound**

| IT and ITeS | Pharma, healthcare and biotech | Media and entertainment | Others |
|---|---|---|---|
| 50% | 30% | 10% | 10% |

## Top deals

Inbound: Acquirer, Target, Value
Outbound: Acquirer, Target, Value

| Sector | Acquirer | Target | Value |
|---|---|---|---|
| E-commerce | Ebix Inc. | Yatra Online Pvt. Ltd. | USD 338m |
| Retail and consumer | Amazon Inc. | Witzig Advisory Services Pri-vate Limited | USD 294m |
| Pharma, healthcare and biotech | Varian Medical Systems, Inc | Cancer Treatment Services International | USD 283m |
| Retail and consumer | Amazon Inc. | Future Coupons Ltd. | USD 214m |
| IT and ITeS (Outbound) | Hexaware Technologies | Mobiquity Inc. | USD 182m |

**India’s ties with the US, both economic and geopolitical, witnessed significant traction and thrust from both sides**

The overall deal scenario for the year 2019 was less buoyant for the India-US business corridor. Over 60 inbound and outbound deals contributed a total deal size of over USD 2.5 billion only. However, the US corridor continued to be the most active amongst the cross-border deals corridors in India.

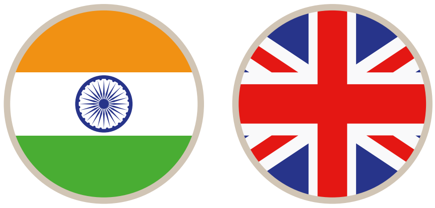
US Fed’s rate hike update leading to uneasiness over the US and global economies, US-China trade wars and spike in international crude oil prices had an impact on the deal scenario.

The technology sector continued to attract investment from US-based companies and PE funds. Amazon did a couple of interesting strategic investments in the technology and retail space.

Nevertheless, India’s ties with the US, both economic and geopolitical, witnessed significant traction and thrust from both sides and with both countries committed to multiplying trade and investment, it is expected that 2020 will witness heightened investment and deal activities.

**Siddhartha Nigam**
**National Managing Partner, Growth and Clients & Markets**
**Grant Thornton Advisory Private Limited**

# Corridors



## India-UK

**Inbound**

| Year | Volumes | Values USDm |
|---|---|---|
| 2015 | 5 | 82 |
| 2016 | 4 | 214 |
| 2017 | 6 | 423 |
| 2018 | 2 | 10 |
| 2019 | 3 | 2,010 |

**Outbound**

| Year | Volumes | Values USDm |
|---|---|---|
| 2015 | 14 | 240 |
| 2016 | 13 | 1,252 |
| 2017 | 6 | 50 |
| 2018 | 3 | 101 |
| 2019 | 9 | 337 |

## Top sector attraction by volume - 2019

**Inbound**

| | |
|---|---|
| IT and ITeS | 34% |
| Professional / Business Services | 33% |
| Start up | 33% |

**Outbound**

| | |
|---|---|
| IT and ITeS | 34% |
| Energy and natural resources | 22% |
| Automotive | 11% |
| Hospitality and leisure | 11% |
| Manufacturing | 11% |
| Retail and consumer | 11% |

## Top deals

Inbound: Acquirer / Target / Value

Outbound: Acquirer / Target / Value

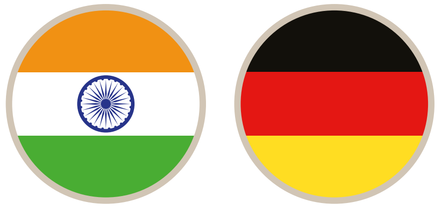
| Sector | Acquirer | Target | Value |
|---|---|---|---|
| Start-up | RA Hospitality Holdings- Cayman | Oravel Stays Pvt. Ltd.-OYORooms.com | USD 2,000m |
| Energy and natural resources | Cairn India Holdings Ltd. | Anglo American Plc | USD 200m |
| Retail and consumer | Reliance Industries Ltd. | Hamleys Global Holdings Ltd. | USD 89m |
| IT and ITeS | Sterlite Technologies Limited | Impact Data Solutions Group | USD 15m |
| Manufacturing | Motherson Sumi Systems Limited | Bombardier Transportation (Rolling Stock) UK Ltd. | USD 14m |

Acquisition of distressed assets has gone up in India since the implementation of IBC

The relationship between India and the UK continues to grow from strength to strength. After a lukewarm 2017 and 2018, we saw deal activity pick up in outbound and inbound transactions. Indian companies targeted iconic brands in the UK to build their portfolio and obtain more energy security through acquisition of companies in natural resources. The recent acquisition of Essar Steel India by a consortium of UK-based ArcelorMittal and Nippon Steel in December 2019 was one of the notable deals recorded this year.

I expect a further increase in deal activity in this corridor in the coming months on the back of keen interest in stressed assets in India. Acquisition of distressed assets has gone up in India since the implementation of IBC. Recent judicial clarity on important aspects of the Code will provide an impetus to deals in stressed assets. In general, risks of investing in distressed assets are like in any other M&A. With proper due diligence analysing the reasons for distress and a clear strategy for turnaround, investors could pick up some valuable assets at attractive valuations and grow in their business.

**Ashish Chhawchharia**
**Partner**
**GT Restructuring Services LLP**



# Corridors

## India-Europe with focus on Germany

### Inbound

| Year | Volumes | Values USDm |
|---|---|---|
| 2015 | 26 | 1,119 |
| 2016 | 16 | 419 |
| 2017 | 16 | 491 |
| 2018 | 16 | 3,612 |
| 2019 | 17 | 1,385 |

### Outbound

| Year | Volumes | Values USDm |
|---|---|---|
| 2015 | 30 | 1,235 |
| 2016 | 18 | 414 |
| 2017 | 11 | 429 |
| 2018 | 22 | 710 |
| 2019 | 20 | 775 |

## Top sector attraction by volume - 2019

**Inbound**

| | |
|---|---|
| Media and entertainment | 17% |
| Agriculture and forestry | 12% |
| Banking and financial services | 12% |
| Energy and natural resources | 12% |
| Retail and consumer | 12% |
| Others | 35% |

**Outbound**

| | |
|---|---|
| IT and ITeS | 30% |
| Manufacturing | 20% |
| Pharma, healthcare and biotech | 20% |
| Automotive | 15% |
| Others | 15% |

## Top deals

**Inbound**: Acquirer / Target / Value
**Outbound**: Acquirer / Target / Value

| Sector | Acquirer | Target | Value |
|---|---|---|---|
| Energy and natural Resources | Total S.A. | Adani Gas Ltd. | USD 867m |
| Agriculture and forestry | Groupe Lactalis- Tirumala Milk Products Pvt. Ltd. | Sunfresh Agro Industries Pvt. Ltd | USD 239m |
| E-commerce | Delivery Hero SE | Zomato Media Pvt. Ltd.-UAE business unit | USD 172m |
| IT and ITeS | Infosys Ltd. | ABN AMRO-Stater NV | USD 143m |
| Manufacturing | Sheela Foam Ltd. | Interplasp S.L. | USD 47m |

**Inbound**

| Year | Volumes | Values USDm |
|---|---|---|
| 2015 | 5 | 195 |
| 2016 | 4 | 39 |
| 2017 | 1 | 5 |
| 2018 | 5 | 89 |
| 2019 | 2 | 177 |

**Outbound**

| Year | Volumes | Values USDm |
|---|---|---|
| 2015 | 9 | 156 |
| 2016 | 2 | 29 |
| 2017 | 1 | 9 |
| 2018 | 7 | 158 |
| 2019 | 6 | 87 |

**Germany is the second most important trade destination for India, after the US, with a share of 7% of the total exports. Both countries are collaborating in the automotive industry as well, resulting in numerous Indian investments**

India is the sixth largest recipient of FDI from Germany, and the Indo-German trade has experienced healthy growth over the last few years. The deal flow in 2019 was good with each successive quarter being better than the preceding one. The joint declarations of intent exchanged and signed between the two countries in November 2019 included co-operation to partner for green urban mobility, research and development on artificial intelligence and other strategic projects.

Currently, there are more than 200 Indian companies operating in Germany. Stake acquisition of 37.4% in Adani is the biggest M&A inbound transaction for USD 866.90 million as the company also bets big on India's shift towards a gas-based economy to address climate change concerns by using cleaner and greener fuels. Further, the 15% stake of German company RIB Software SE in Winjit Technologies Private Limited showcases successive deals of the year in the Indian ITeS sector.

Moreover, Germany is the second most important trade destination for India, after the US, with a share of 7% in the total exports. Both countries are collaborating in the automotive industry as well, resulting in numerous Indian investments and a wave of new acquisitions and involvements. Bharat Forge entered into a JV with a German company for developing electrical vehicles (EVs) by investing INR 89 crore. More evidential German investments in India include partnership between Durr, a German automotive painting and sealing company, and Patvin to provide automated painting solutions for two- or three-wheelers and agricultural machinery for the Indian markets in early 2019. From the perspective of outbound deals, the 100% stake of Minda Industries Limited in Delvis GmbH in October 2019 for USD 23.06 million was an attractive one. Further, the majority stake in Linde-Wiemann GmbH by JBM Group in February 2019 was an earmarked outbound transaction between the two countries.

Therefore, in keeping with the global trend of larger funds and bigger deals, the growth in India has been and will be fuelled by an expansion in deal sizes, as general partners seek larger deals, deepening the Indo-German collaboration.

**Saket Mehra**
**Partner**
**Grant Thornton India LLP**

The data in the tables include all European countries except the UK.

# Top M&A deals - 2019

2019 recorded four billion-dollar deals and 48 deals valued and estimated at and above USD 100 million, together capturing 86% of total M&A deal values. Further, the top 10 deals alone accounted for 58% of total M&A deal values while constituting only 2% of deal volumes.

| Acquirer | Target | Sector | USDb | Deal type | % stake |
|---|---|---|---|---|---|
| ArcelorMittal India Private Limited | Essar Steel India Limited | Manufacturing | 7,246 | Acquisition | 100% |
| RA Hospitality Holdings-Cayman | Oravel Stays Pvt. Ltd. - OYORooms.com | Start-up | 2,000 | Increasing stake to 30% | 20% |
| India Grid Trust | Sterlite Power Transmission Limited - 5 electricity transmission assets | Energy and natural resources | 1,660 | Acquisition | 100% |
| Radiant Life Care Pvt. Ltd. - Healthcare Business | Max Healthcare Institute Ltd. and Max India Ltd. | Pharma, healthcare and biotech | 1,020 | Merger | N.A. |
| L&T Infrastructure Development Projects Ltd. - IndInfravit Trust | Sadbhav Infrastructure Project - Nine operational road assets | Infrastructure management | 959 | Acquisition | 100% |
| Total S.A. | Adani Gas Ltd. | Energy and natural resources | 867 | Strategic Stake | 37% |
| Nippon Life Insurance Co. Ltd. and other existing investors | Reliance Nippon Life Asset Management Limited | Banking and financial services | 860 | Strategic Stake | 43% |
| Patanjali Ayurved Ltd. | Ruchi Soya Industries Limited | Retail and consumer | 613 | Acquisition | 100% |
| Adani Power Ltd. | GMR Chhattisgarh Energy Ltd. | Energy and natural resources | 512 | Acquisition | 100% |
| Larsen & Toubro Ltd. | Mindtree Ltd. | IT and ITeS | 476 | Minority Stake | 20% |

Successfully completed IBC acquisition and the largest deal of 2019

Largest deal in the start-up space till date

This deal marks French energy major's biggest bet on India's clean energy push

Second deal pushed by IBC to appear in the top deal list in 2019

Top three deals executed in the energy sector were witnessed in the power generation and oil and gas space with the common rationale to pare debt

# Notable M&A deals - 2019

## Manufacturing

**The Ahmedabad bench of the National Company Law Tribunal approved ArcelorMittal's bid to take over insolvent Essar Steel Ltd.**

**Rationale:** ArcelorMittal, which has been seeking to acquire Essar Steel since 2017, had made an INR 50,000 crore bid for the bankrupt firm. ArcelorMittal, in a joint venture with Japan's Nippon Steel and Sumitomo Metal Corp., has offered an upfront cash settlement of INR 42,000 crore to lenders and an INR 8,000 crore capital infusion.

The National Company Law Tribunal approved the plan of the resolution professional (RP), approved by the bankrupt firm's lenders, with a slight amendment that could throw in a bit more for the operational creditors. The court suggested that the payment of INR 42,000 crore by ArcelorMittal be distributed among financial and operational creditors in the ratio of 85:15.

ArcelorMittal has completed the acquisition of Essar Steel India Limited (ESIL), which, at INR 42,000 crore, is the largest stressed-asset deal to be closed in the country. It also announced the establishment of a joint venture, with Nippon Steel Corporation, called ArcelorMittal Nippon Steel India Limited (AM/NS India), which will own and operate Essar Steel.

On 16 December 2019, financial creditors to Essar Steel, led by State Bank of India, recovered nearly 92% of their INR 49,000-crore claims after a consortium between Luxembourg-based ArcelorMittal and Japan's Nippon Steel & Sumitomo Metal Corporation Ltd. agreed to take over the company. That brought closure to one of the largest insolvencies under India's new bankruptcy law.

## Start-up

**Oyo founder Ritesh Agarwal to triple his stake with a USD 2 billion share buyback**

**Rationale:** As part of the transaction, founder and CEO Ritesh Agarwal, through RA Hospitality Holdings (Cayman), has signed a USD 2 billion primary and secondary investment in the company. He is buying out 15% of the company from existing investors Lightspeed and Sequoia and investing USD 500 million to acquire another 5%.

According to industry sources, the transaction will result in moving up Agarwal's stake in OYO from nearly 10% to 30%. The company's valuation now stands at USD 10 billion. Further, Sequoia Capital and Lightspeed Venture Partners made stellar returns of over USD 500 million each from the partial stake sale.

# Expert speak

## 2019 was a subdued year for deals after values galloped from USD 60 billion to USD 110 billion in 2018

The effect of persisting economic slowdown was clearly visible on transaction activity in 2019, putting the deal street in reverse gear with a total of 1,257 M&A and PE transactions recorded in 2019 aggregating to USD 61.6 billion. Continuous headwinds through the year resulted in sharply declining industrial production, which was accelerated by liquidity worries in the NBFC space. As a result, 2019 was a subdued year for deals after values galloped from USD 60 billion in 2017 to USD 110 billion in 2018. The decline was much sharper in M&A deal values, which fell from USD 90 billion in 2018 to USD 28 billion in 2019.

The top deal of the year was ArcelorMittal's USD 7.2 billion acquisition of Essar Steel out of a marathon insolvency resolution process, which saw some landmark judicial judgements that should hopefully accelerate the resolution of stressed assets.

The year recorded four billion-dollar-plus deals against 16 deals in that category last year.

In terms of sectoral activity for M&A, manufacturing was the leading sector with USD 8 billion in deal values across 37 deals, largely contributed by the Arcelor-Essar Steel transaction.

Despite a fall in volumes, M&A activity in the start-up space remained buoyant with deal values rising from USD 788 million in 2018 to USD 2.6 billion in 2019, led by the founder buyback deal in Oyo Rooms.

Consolidation was the key theme across various sectors, led by energy and natural resources, with Adani Power acquiring GMR Chattisgarh Energy for USD 511 million and Essel Green Energy for USD 183 million. Total SA's acquisition of 37% stake in Adani Gas for USD 867 million was the other notable deal in this space.

The retail and consumer space saw two deals by Amazon - acquisition of the More hypermarket for USD 294 million and the USD 214 million investment in Future Coupons. Patanjali's acquisition of Ruchi Soya, through an insolvency-driven resolution, was another top deal in this space valued at USD 612 million.

Pharma, BFSI and IT/ITeS were the other sectors with sustained deal momentum for M&A as compared to 2018 with pharma and healthcare deal values at USD 2.6 billion across 46 deals. BFSI and IT/ITeS recorded higher deal volumes than 2018 despite a significant decline in deal values - 32 deals for BFSI and 81 for IT/ITeS with L&T's USD 476 million acquisition of 20% stake in Mindtree Ltd. as the top deal in this space.

The absence of mega deals in the e-commerce space led to a sharp fall in values to USD 1.15 billion despite deal volumes at similar levels of 2018.

# Regulatory and economic outlook

1. Regulatory reforms
2. Goods and Services Tax
3. Ind AS
4. Insolvency and Bankruptcy Code
5. Companies Act
6. Amendments/regulations impacting AIFs
7. RERA

# Regulatory reforms

## Economic reforms and indicators

The Indian economy has witnessed a slowdown since 2019. According to the National Statistical Office report, the GDP growth fell from 6.6% in the December 2018 quarter to 5.8% as on March 2019, which is a steep fall from 8.1% a year ago. This is the weakest growth rate since the first quarter of 2014. While the five-year average growth rate of the GDP has been at 7.7%, this weakening of growth has been a cause of concern for all stakeholders. Despite the controversies surrounding this number, India still remains one of the fastest growing economies in the world.

Key factors responsible for this decline include fall in the growth of private consumption (from 8.4% to 8.1%) and muted exports. Exports were unable to maintain the 11.8% growth in March and grew only by 0.6% in April due to declining growth in engineering goods (-7.1%), gems and jewellery (-13.4%). Imports, however, grew at an accelerated pace of 15.4% mainly because of petroleum, gold and machinery (a key indicator of investment activity). The balance of trade was thus a negative USD 15,330 million. This growing trade deficit resulted in an increase in India's current account deficit (CAD), which was 2.7% of GDP in 2018-19 as compared to 1.8% in the previous year.

## Taxation Laws (Amendment) Bill, 2019

The Taxation Laws (Amendment) Bill, 2019, which came into force on 20 September 2019, has introduced a blanket tax rate regime through sections 115BAA and 115BAB offering a lower tax rate of 25.17% and 17.16% respectively for domestic companies and domestic manufacturing companies. This has resulted in a substantial tax savings of approximately 9.77% and 17.78% respectively. Companies opting for the blanket rate are not allowed to avail certain benefits/deductions available under the Act. The Bill also provides for reduced MAT tax rate at 15%, and the persons availing the option to pay under the aforementioned sections are not subject to pay tax under MAT provisions. Further, MAT credit entitlement is not available to those exercising the option.

## FEMA

Recently, the government announced several measures to check the decline of rupee and curb the widening current account deficit (CAD), including inter alia liberalisation of the external commercial borrowing (ECB) norms whereby any resident eligible to receive FDI is now also eligible to raise ECB. Further, any person outside India who is resident in a Financial Action Task Force (FATF)/ Internal Organisation of Securities Commissions (IOSCO) compliant jurisdiction is recognised for lending to an Indian resident. Liberalisation of ECB together with cross-border mergers being permitted under the automatic route are expected to boost investment activity. Further, rules governing non-debt instruments have also been issued, repealing the regulations on transfer of issue of securities by a person resident outside India and regulations on acquisition and transfer of immovable property in India. The rules effectively align all policymaking with the Central Government with the RBI prescribing the mechanics/compliances and monitoring around these regulations.

## Indian Accounting Standards (Ind-AS)

The Companies (Indian Accounting Standards) Second Amendment Rules, 2019 has amended Ind AS 103 Business Combinations whereby a party to a joint venture or joint arrangement acquiring control over the business of the joint venture would be considered as a business combination achieved in stages. This development can impact deals relating to conversion of joint venture into a subsidiary and exit from joint ventures.

## Outlook for 2020

The tax and regulatory environment in India continues to be conducive for enhanced deal activity

The economic slowdown since 2019 can decrease deal activity. However, exits or merger of companies in adversely impacted sectors such as the manufacturing sector and agriculture and allied sectors may go up.

The tax and regulatory environment in India continues to be conducive for enhanced deal activity. In particular, the liberalised ECB framework widens the foreign source funding options for economically distressed business units.

Further, reducing the tax rates for corporates along with providing concessions for the manufacturing sectors is a welcome move. The government is also considering a reduction in the personal tax rates. The FDI limits in the insurance sector and certain other public sector industries are proposed to increase. This can be evidenced by way of sale of major public sector enterprises owned by the government in 2020. The aim of increasing the disposable income in the hands of consumers to combat the slowdown brings hope for a favourable environment for the next year.

**Sridhar R**
**Partner**
**Grant Thornton India LLP**

# Goods and Services Tax

India Inc. entered into the GST era two years back, and the ride ever since has been full of ups and downs. Markets reacted strongly to this modern-era taxation and gained over 2% in a single day. The GST model was kept in line with other major policy initiatives by the NDA Government such as Make in India and Digital India. The 'One nation one tax' policy introduced was backed by prompt policy corrections and alignment in case of any genuine difficulty faced by industry.

The challenges posed by transitioning into GST were adequately met by all the stakeholders. The initial uncertainty faced by the industry was amicably handled by the tax authorities with regular press conferences, notifications and an active Twitter handle resolving multiple queries in real time. The government must be applauded for its active use of information technology to resolve tax-related queries - certainly a first by any Indian government. To overcome the major challenges faced by the industry, several complicated and controversial provisions of the law were deferred to a later date to ensure smooth transitioning into what was considered by many as the biggest tax reform since independence. Keeping in line with the government's initiative to promote start-ups and small businesses, tax payers below a basic threshold were given exemptions from filing regular tax returns and hence providing them major relief.

GST has made the Indian economy more transparent and at par with global economies, which has had a manifold impact on global businesses looking at establishing themselves in India. Greater inflow of tax credits has led to a decrease in working capital requirements and hence promoted formalisation of the Indian economy. The assessee base under GST has grown about 85% in the past two years, leading to about 12% increment in the government's revenue collection.

However, global economic slowdown and a steep decline in the Indian manufacturing sector have impacted the government's plans regarding GST. Even after a considerable increment in revenue collection, the government is still lagging behind in its initial estimated revenue collection from GST. However, real-time policy tweaks and regular GST Council meetings are keeping a check on the situation, which is showing some signs of recovery.

National Anti-Profiteering Authority and Authority for Advance Rulings constituted under GST law have been working in full swing, reducing profiteering by big business houses and promoting the sole aim for which GST was enacted: reducing costs for end users.

Annual returns and GST audits introduced under GST have been a major cause of worry for almost all taxpayers. The due date for filing the returns for the first year, i.e., 2017-18, has been extended numerous times and returns are still pending to be filed by majority of the taxpayers. Tax authorities have been actively dealing with the issues being faced by the industries and have resolved most of the contentious points. Active participation by tax authorities and industry leaders is what is much needed for resolving the pending issues.

Tax authorities are proactively working on new tax return formats and e-invoicing which would enable real-time tracking of defaulters and seamless flow of credits. Authorities have been extensively upgrading their IT infrastructure to accomplish their objective of zero face-to-face interaction with tax officials and hence eliminating any corruption which was otherwise rampant in the pre-GST regime. This would make businesses in India much more compliant with laws and authorities transparent in dealings with taxpayers, strengthening the confidence of growing businesses seeking investments in the form of private equity, acquisitions, mergers etc.

**GST's final roll-out in 2017 led to various debates on the preparedness of the Indian economy for this new tax regime; however, all the stakeholders have proactively participated in meeting out its initial shortcomings to ensure greater long-term benefits.**

**Krishan Arora**
**Partner**
**Grant Thornton India LLP**

# Ind AS

Financial year ended 31 March 2019 concluded the first phase of implementation of Indian accounting standards, or Ind AS, for non-banking financial companies (NBFCs) whereby all companies with a net worth of over INR 500 crore experienced transition to globally recognised accounting standards. The second phase of implementation for NBFCs (covering the remaining listed companies and companies with net worth of over INR 250 crore) is on the way. The government has deferred the implementation of Ind AS for banks and insurance companies.

NBFCs faced some challenges while transitioning and shall continue to update in reference to the following matters:

1 Implementation of expected credit loss model factoring categorisation of the portfolios as prescribed by Ind AS 109, whereby loan provisioning has undergone a significant change as compared to earlier prescribed RBI norms
2 Accounting for transaction or customer acquisition cost, which is factored in effective interest rate calculation

Additionally, the following had, and shall continue to have, the most impact on the financial matrices of companies in the IT and ITeS and e-commerce space:

1 Accounting for business combination, especially treatment of common control transactions, amidst court-approved schemes
2 Implementation of new revenue standard, Ind AS 115, which focuses on the concept of 'control' instead of 'risk and rewards'

Similarly, the following had, and shall continue to have, the most impact on the financial matrices of companies in the pharma, healthcare and biotech, retail and consumer space:

1 Implementation of new revenue standard, Ind AS 115, which focuses on the concept of 'control' instead of 'risk and rewards'. Additionally, this standard also requires assessment of freight services as a separate performance obligation
2 Implementation of new lease standard, Ind AS 116, which brings assets on balance sheet for lessees
3 Impairment of trade receivables due to expected credit loss model

Despite the successes of transition to Ind AS, this globally recognised framework shall continue to be tested extensively in the coming months and years for the following situations, which are unique to India and coterminous:

1 Adoption of Ind AS 109 by banks at a time when there are concerns on their asset quality
2 Keeping up with the amendments/changes in accounting standards and clarifications issued by Ind AS Technical Facilitation Group (ITFG)

**In our view, Ind AS have the capacity and capability to address all the challenges, provided the stakeholders, inter alia, investors and boards of companies actively inculcate these standards in their regular business communications, internal or external. These standards, focusing on the substance, provide a better accounting, presentation and disclosure of business transactions, thereby helping relevant users to make informed decisions.**

**Ashish Gupta**
**Chartered Accountant**
**Gurugram**

# Insolvency and Bankruptcy code

IBC, a key reform measure introduced almost three years ago for the resolution of the corporate debtor, underwent a few significant changes during the year. The Code itself has been amended multiple times since inception in response to the feedback received and practical experience of processes under execution. The regulator Insolvency and Bankruptcy Board of India (IBBI) has issued several amendments and clarifications indicating that the government has its ear to the ground and is willing to make quick course corrections to ensure better outcomes in the process.

The efforts made by India in making the Code stronger seeks to ensure that the country becomes a viable investment destination for foreign investors who can tap opportunities presented during the process. The recent changes in regulations and practices based on legal jurisprudence reflect the government's positive intent.

Some of the key amendments and developments in the regulations made during the year such as RBI's framework for early recognition, reporting and time-bound resolution of stressed assets, mandatory completion of CIRP in 330 days and inclusion of personal guarantors and financial service providers (excluding banks) into the ambit of IBC have made the Code a much more robust and powerful tool in achieving early resolution. Some more changes in favour of resolution applicants and corporate debtors such as providing immunity against prosecution of a successful resolution applicant and preventing potential abuse of the Code by certain classes of financial creditors will only encourage more potential investors in looking as such distressed assets. Deal activity is expected to pick up on the back of these positive amendments which have been appreciated and well received by the industry.

M&A activity has certainly received a booster due to the increasing number of cases being filed under the IBC. With banks pushing for change in management of loan defaulting companies, corporate assets are available for acquisition at attractive valuations, and this is a great opportunity for strategic and special situation investors. Swift and time-bound resolution or liquidation of stressed assets will be critical for de-clogging bank balance sheets and for efficient reallocation of capital, which was the primary objective of the Code.

Stressed assets are present in multiple sectors, and so M&As are expected to happen in multiple sectors. Around 41% of the admitted cases belong to the manufacturing sector comprising metals products, chemicals, food and beverages, textiles, etc., while 30% belong to the real estate and construction sector. Triggered by the government's Make in India initiative, the manufacturing sector is attracting a lot of FDI into the country, which is accelerating the M&A activity in the distressed assets market.

Paying heed to best global practices in insolvency, the government is assessing the potential of a 'pre-packaged' bankruptcy scheme with an objective to speed up the resolution process while preventing erosion of economic value of assets. This will likely open up several opportunities for investors interested in value buys of stressed companies. With several cases under IBC ending in liquidation, such prepacks, if implemented in time, would help in achieving the larger goal behind the Code.

The resolution framework is one of the key factors contributing to a considerably improved 'Ease of Doing Business' ranking, with India climbing up 14 notches to the 63rd place in 2019 (jumping 67 places over the last three years) and for the third consecutive year India is amongst the top 10 improvers.

**Ashish Chhawchharia**
**Partner**
**GT Restructuring Services LLP**

# Companies Act

The Companies Act 2013 (the Act) was introduced in 2014 and has undergone quite a few changes since it was first enacted through rules, orders, circulars and amendments.

Following Companies Amendment (Ordinance), 2018 in November 2018, the Companies (Amendment) Act, 2019 was introduced with the twin objectives of promotion of ease of doing business and better corporate compliance; it was the third amendment of the Act. The amendments include rationalisation of fines and penalties, shifting of 16 corporate offences from special courts to in-house adjudication, which now has a transparent technology-driven mechanism, de-clogging NCLT by increasing the Central Government's powers to approve routine matters and enhancing the Regional Director's pecuniary jurisdiction, relaxing compliance requirements relating to public deposits, commencement of business declarations, filing of charges and holding of directorships beyond permissible limits.

Taking note of the progress made from the above amendments, a Company Law Committee was set up again in September 2019 to further assess the scope of decriminalising non-compliances of minor, technical or procedural nature, and to recommend other changes for ease of doing business in India and promote ease of living for corporates. The Company Law Committee submitted its report to the government in November 2019 recommending rationalisation of penalties in respect of further 46 compoundable offences. Other recommendations to promote ease of doing business, inter alia, pertain to allowing payment of remuneration to non-executive directors in case of inadequacy of profits, reducing timelines to speed up rights issue under Section 62 of the Act, providing exemption from filing of certain resolutions by NBFCs, enabling the provision to allow setting-up of higher thresholds for triggering corporate social responsibility provisions, extending the applicability of lesser penalty provisions for small companies and start-ups and covering all provisions attracting monetary penalties, etc.

Another significant development during the year was the setting-up of the NFRA, entrusted with the task of monitoring compliance with the accounting and auditing standards to be followed by the companies and their auditors.

**Overall, the government and regulatory authorities have continued on the chosen path of ensuring ease of business by reducing compliance requirements where possible, automating submission and processing of documents/ returns, removing difficulties faced by businesses while at the same time promoting self-regulation for compliance with the Act and regulations and increased governance norms. Such initiatives have attracted, and are expected to attract, foreign investors to invest in and collaborate with Indian business houses to take advantage of the immense potential that the unique Indian market offers to the world economy.**

**Madhuri Ravi**
**Chartered Accountant**
**Gurugram**

# Amendments/regulations impacting AIFs

The AIF industry has grown manifold over the last few years. Nurtured by SEBI in 2012, AIFs have now become a key pillar to provide long-term, high-risk capital to a number of ventures such as pre-revenue stage companies, early and late stage companies, and growth companies that wish to scale their operations. In addition, AIFs also help incubate innovative ideas and invest in a broad array of sectors ranging from fintech, e-commerce, healthcare, technology, education, real estate and infrastructure. Further, Category III AIFs tend to provide a better risk-adjusted return to investors, by deploying diverse and complex strategies such as arbitrage, margin trading, algorithmic trading, futures and derivatives trading, etc., to generate alpha returns for their investors.

The total number of AIFs has more than doubled over the last three years (from nearly 280 in December 2016 to over 630 in December 2019). Further, the total capital commitments received by AIFs from investors have increased from INR 65,000 crore as on September 2016 to INR 3.16 lakh crore as on September 2019. Nearly 75% of the INR 3.16 lakh crore of commitments has been received by Category II AIFs.

Considering the capital raised by AIFs over the last few years, the government has sought to address some of the following tax and regulatory issues faced by the AIFs:

1 SEBI had recently released a consultation paper on benchmarking and standardisation of private placement memorandums of AIFs
2 Roll-back of the recent higher rate of surcharge on capital gains income earned by Category III AIFs (not set up as company/LLP) on transfer of listed equity shares, units of an equity-oriented mutual fund and units of business trust
3 SEBI had recently released the operating guidelines for AIFs set-up in IFSC) in order to attract foreign investments in IFSC
4 Income tax exemption to Category III AIFs set-up in IFSC and investing in securities listed in IFSC
5 Relaxation on filing income-tax return available to non-residents investing in Category I or II AIFs set-up in IFSC
6 Pass-through of losses incurred by Category I and II AIFs
7 Income of non-resident investors in a Category I/II AIF not taxable in India to the extent of outbound investments made by the said AIF

**The AUM of AIFs in India is poised to continue to increase even in FY 2020. This would mainly be because of increasing investor preference towards AIF on account of an expectation of better risk-adjusted returns in contrast to traditional investment classes, acceptable tax regime and more stringent disclosure norms under the AIF regulations. Further, it is expected that new set of AIFs may come up in IFSC, pursuant to the recent tax soaps and outbound investment flexibility offered for those set-up in IFSC.**

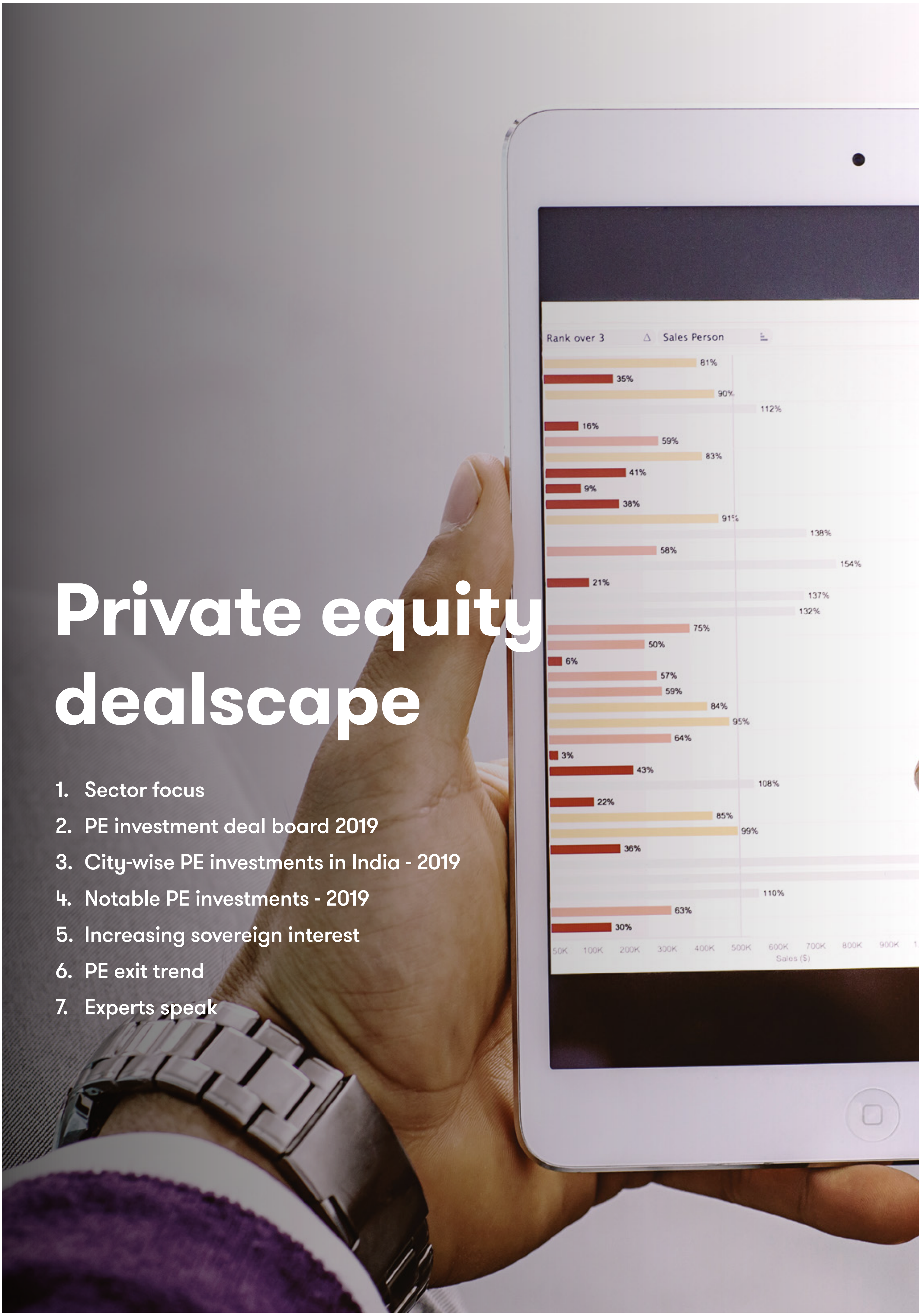
**Amit Kedia**
**Chartered Accountant**
**Mumbai**

# RERA

In 2018, the overall deal activity in the real estate sector was muted and it was expected that with RERA stabilising, it should pick up in 2019. However, a slew of not-so-pleasant events like the NBFC crisis, slowdown in the automobile sector and the trade war between China and the US had a severe impact on the overall Indian economy and consequential slowdown in the overall deal activity. The real estate sector has been facing severe liquidity crunch. Specific asset classes like co-working and co-living saw strategic interest and have been the driver of the overall deal activity during the last year.

The Budget is neutral for the real estate sector, with proposals focused on agri and rural economy. The concerns of the real estate sector, where the stress is concentrated in tier 1 and 2 cities, were not significantly addressed. The proposal to extend the affordable housing benefits is a welcome move, but a credit guarantee scheme was needed as well. Even the concessional rates of personal income tax exclude claim of deduction under section 80C.

**Alok Saraf**
**Associate Partner**
**Grant Thornton Advisory Private Limited**




# Private equity dealscape

1. Sector focus
2. PE investment deal board 2019
3. City-wise PE investments in India - 2019
4. Notable PE investments - 2019
5. Increasing sovereign interest
6. PE exit trend
7. Experts speak

# Sector focus

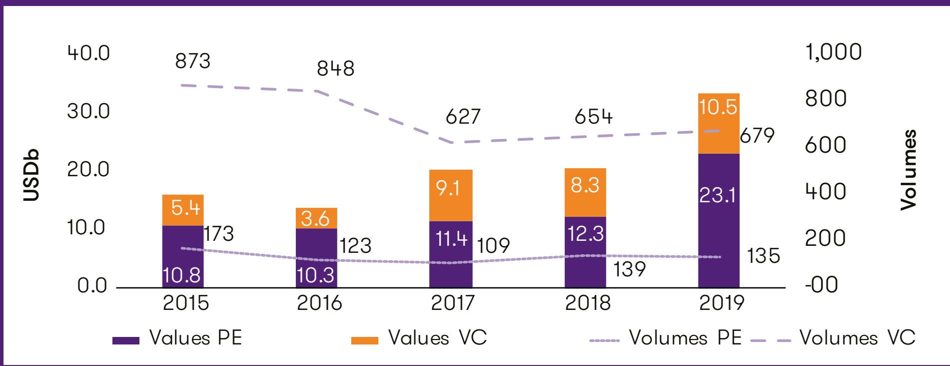
Topping the charts in terms of both investment volumes and values, with 60% of total PE deals and values amounting to USD 5 billion, the start-up sector continues to rule investors' attention. The sector also displayed great potential with enough headroom for growth amid economic downturn. Amidst stiff competition, pushed by various encouraging reforms, divestment of non-core assets and stake sell to pare debt, the telecom, energy and infra sectors attracted great interest from foreign and domestic investors, pocketing over USD 1 billion each. E-commerce and banking sectors also witnessed significant traction during the year, capturing 13% of PE deal volumes and 21% of investment values.

| Sector | Volume 2017 | Volume 2018 | Volume 2019 | Values USDm 2017 | Values USDm 2018 | Values USDm 2019 |
|---|---|---|---|---|---|---|
| Start-up | 451 | 477 | 486 | 2,171 | 5,573 | 4,958 |
| E-commerce | 33 | 46 | 64 | 6,035 | 1,126 | 3,652 |
| IT and ITeS | 54 | 34 | 48 | 810 | 596 | 1,820 |
| Media and entertainment | 15 | 17 | 19 | 523 | 270 | 836 |
| Real estate | 24 | 23 | 20 | 2,864 | 2,763 | 2,401 |
| Retail and consumer | 28 | 37 | 25 | 584 | 671 | 332 |
| Pharma, healthcare and biotech | 23 | 24 | 31 | 846 | 1,254 | 1,438 |
| Banking and financial services | 42 | 45 | 42 | 4,140 | 1,935 | 3,471 |
| Education | 15 | 23 | 17 | 99 | 568 | 620 |
| Energy and natural resources | 9 | 17 | 11 | 764 | 1,858 | 3,939 |
| Hospitality and leisure | 10 | 11 | 11 | 150 | 717 | 725 |
| Infrastructure management | 7 | 5 | 9 | 70 | 1,092 | 3,760 |
| Manufacturing | 6 | 11 | 7 | 47 | 593 | 538 |
| Telecom | 2 | 0 | 2 | 1,040 | 0 | 4,359 |
| Transport and logistics | 6 | 5 | 4 | 173 | 185 | 131 |
| Professional/ Business services | 6 | 8 | 6 | 105 | 47 | 375 |
| Automotive | 0 | 5 | 6 | 0 | 215 | 239 |
| Agriculture and forestry | 3 | 4 | 6 | 65 | 1,211 | 48 |
| Aerospace and defence | 2 | 1 | 0 | 18 | 3 | 0 |

Top sectors based on deal values

| | | | |
|---|---|---|---|
| Volume | 2017 | 2018 | 2019 |
| Values USDm | 2017 | 2018 | 2019 |

# PE investment deal board 2019




**Top deals accounted for 35% of the total PE deal values**

| Investor | Investee | Sector | % stake | Investment values USDm |
|---|---|---|---|---|
| Brookfield Asset Management Inc. | Reliance Jio Infratel Pvt. Ltd. | Telecom | 49% | 3,654 |
| Brookfield Asset Management-InvIT | Pipeline Infrastructure Private Limited-East West Pipeline Limited | Energy and natural resources | 100% | 1,831 |
| Tata Group, GIC and SSG Capital Management | GMR Airports Holding Ltd. | Infrastructure management | 44% | 1,150 |
| Abu Dhabi Investment Authority, PSP Investments of Canada, and the National Investment and Infrastructure Fund | GVK Airport Developers Ltd and GVK Airport Holdings Ltd. | Infrastructure management | 79% | 1,072 |
| T Rowe Price, Alibaba's Ant Financial, SoftBank Vision Fund, and Discovery Capital | One97 Communications Ltd.-Paytm | E-commerce | N.A. | 1,000 |
| GIC | Bharti Airtel Ltd. | Telecom | 4% | 704 |
| GIC | IRB Infrastructure Developers Ltd. | Infrastructure management | N.A. | 622 |
| Invesco Oppenheimer Developing Markets Fund | Zee Entertainment Enterprises Ltd | Media and entertainment | 11.0% | 595 |
| Tencent, Altimeter, Footpath Ventures, Hillhouse Capital, GGV Capital, Citi Ventures, Lightspeed Venture Partners and DST Global | Hiveloop Technology Pvt. Ltd.-Udaan | Start-up | N.A. | 585 |
| Brookfield Asset Management | Hotel Leelaventure Ltd.-hotels located in New Delhi, Bengaluru, Chennai and Udaipur | Hospitality and leisure | 100% | 556 |

This is the single largest foreign investment in an Indian infrastructure vehicle along with also being the biggest private equity deal ever in India.

This is the biggest PE deal in India's airport sector in both rupee and dollar terms.

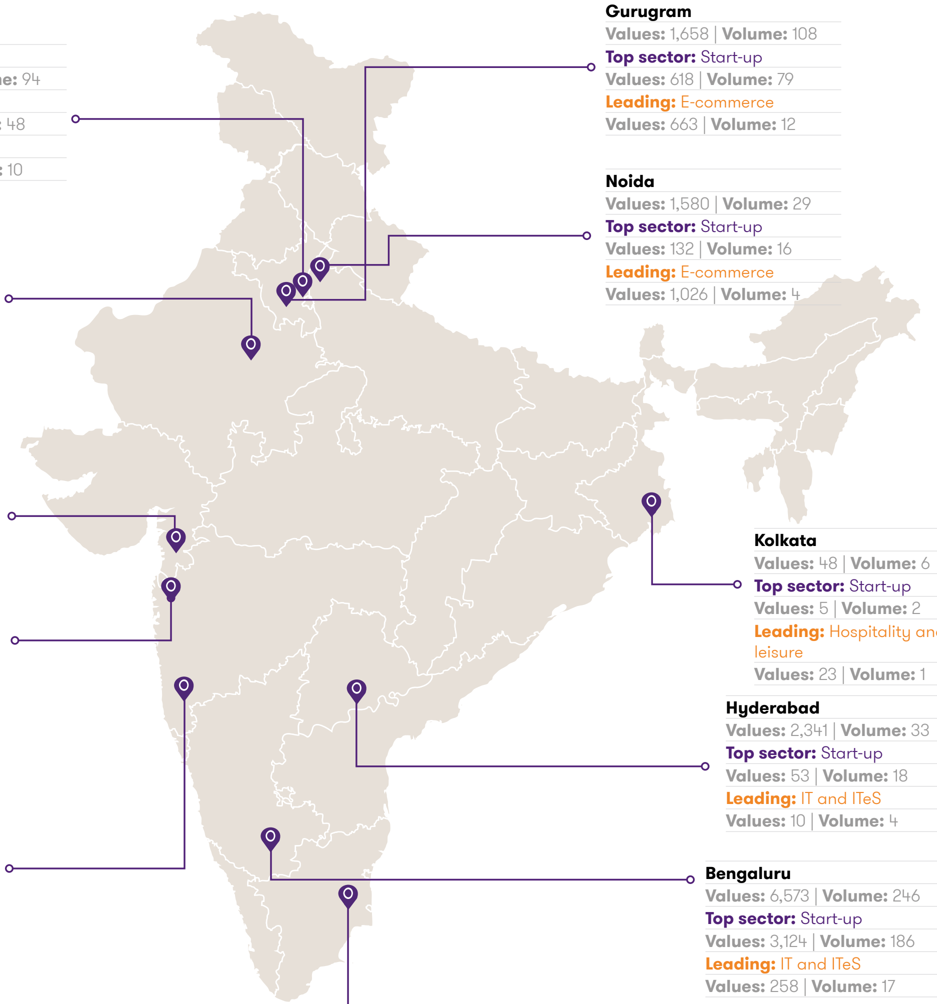
This is one of the largest deal led by SWFs.

Udaan makes it entry into the Unicorn club crossing USD 1b valuation.

Brookfield strikes a triple in this year's top PE deals.

# City-wise PE investments in India - 2019

Dominating with nearly 65% of the total investments in 2019, Bengaluru, Mumbai and Gurugram remained dynamic recording maximum investments though the year. The start-up sector dominated investment volumes across all the top cities attracting maximum PE attention. India is becoming home to start-ups focused on high growth areas like mobility, data analytics, AI, machine learning and IoT among dimensions creating new markets and driving innovation. While tier 1 cities remained the hub for majority of start-ups, tier 2 and tier 3 cities like Udaipur, Patna, Kerela, Jamshedpur, Ghaziabad, Lucknow, Mohali and Odhisa saw sectors like auto, banking, pharma, real estate and retail attracting investments.



**Delhi**
**Values:** 3,500 | **Volume:** 94
**Top sector:** Start-up
**Values:** 243 | **Volume:** 48
**Leading:** E-commerce
**Values:** 988 | **Volume:** 10

**Jaipur**
**Values:** 418 | **Volume:** 14
**Top sector:** Start-up
**Values:** 96 | **Volume:** 6
**Leading:** Banking and financial services
**Values:** 90 | **Volume:** 3

**Gujrat**
**Values:** 2,393 | **Volume:** 16
**Top sector:** Start-up
**Values:** 51 | **Volume:** 9
**Leading:** Banking and financial services
**Values:** 306 | **Volume:** 2

**Mumbai**
**Values:** 12,940 | **Volume:** 179
**Top sector:** Start-up
**Values:** 404 | **Volume:** 86
**Leading:** E-commerce
**Values:** 292 | **Volume:** 17

**Pune**
**Values:** 791 | **Volume:** 29
**Top sector:** Start-up
**Values:** 67 | **Volume:** 12
**Leading:** IT and ITeS
**Values:** 292 | **Volume:** 4

**Gurugram**
**Values:** 1,658 | **Volume:** 108
**Top sector:** Start-up
**Values:** 618 | **Volume:** 79
**Leading:** E-commerce
**Values:** 663 | **Volume:** 12

**Noida**
**Values:** 1,580 | **Volume:** 29
**Top sector:** Start-up
**Values:** 132 | **Volume:** 16
**Leading:** E-commerce
**Values:** 1,026 | **Volume:** 4

**Kolkata**
**Values:** 48 | **Volume:** 6
**Top sector:** Start-up
**Values:** 5 | **Volume:** 2
**Leading:** Hospitality and leisure
**Values:** 23 | **Volume:** 1

**Hyderabad**
**Values:** 2,341 | **Volume:** 33
**Top sector:** Start-up
**Values:** 53 | **Volume:** 18
**Leading:** IT and ITeS
**Values:** 10 | **Volume:** 4

**Bengaluru**
**Values:** 6,573 | **Volume:** 246
**Top sector:** Start-up
**Values:** 3,124 | **Volume:** 186
**Leading:** IT and ITeS
**Values:** 258 | **Volume:** 17

**Chennai**
**Values:** 1,119 | **Volume:** 33
**Top sector:** Start-up
**Values:** 48 | **Volume:** 9
**Leading:** Pharma, healthcare and biotech
**Values:** 125 | **Volume:** 5

**Values in USDm**

# Notable PE investments - 2019

## Telecom

**Brookfield inks USD 3.7 billion deal to invest in Reliance's telecom tower assets- Reliance Jio Infratel Ltd.**

**Rationale:** As part of the funding, Reliance Industrial Investments and Holdings Limited (RIIHL), a wholly owned subsidiary of Reliance Industries Limited (RIL), has entered into an agreement with BIF IV Jarvis India Pte. Ltd., an affiliate of Brookfield Asset Management Inc., for an investment by Brookfield (along with co-investors) of USD 3.7 billion in the units proposed to be issued by the Tower Infrastructure Trust. Brookfield's investment is subject to certain conditions, including receipt of requisite government and regulatory approvals.

RIIHL is the sponsor of the Trust, and the Trust currently holds 51% of the issued and paid-up equity share capital of Reliance Jio Infratel Pvt. Ltd. (RJIPL) to which the tower assets undertaking of Reliance Jio Infocomm Ltd. (RJIL) was transferred as a going concern pursuant to a scheme of arrangement sanctioned by NCLT Ahmedabad Bench.

Proceeds from the investment by Brookfield will be used to repay certain existing financial liabilities of RJIPL and acquiring the balance 49% of equity share capital of RJIPL, currently held by RIL.

## Energy and natural resources

**Brookfield Asset Management acquires RIL's East-West Pipeline for USD 1.8 billion**

**Rationale:** The investment is being executed by India Infrastructure Trust, an InvIT set up by Brookfield as a sponsor and 90% investor. As part of the transaction, the InvIT will acquire 100% equity interest in Pipeline Infrastructure Pvt. Ltd. (PIPL), which currently owns and operates the East West pipeline that runs a 1,400 km pipeline from Kakinada in Andhra Pradesh to Bharuch in Gujarat to transport natural gas discovered in a KG basin block.

East West Pipeline (EWPL), earlier known as Reliance Gas Transportation Infrastructure Ltd. was operated by Reliance Industries Limited (RIL). Under the agreement, the reserved capacity of the pipeline would be reduced to 33 MMSCMD (million metric standard cubic meter per day) from the existing 56 MMSCMD. RIL will be entitled to significant participation in the net earnings of PIPL under the mechanism specified in the pipeline usage agreement.

According to industry reports, this transaction marks the first pipeline in India to get monetised.

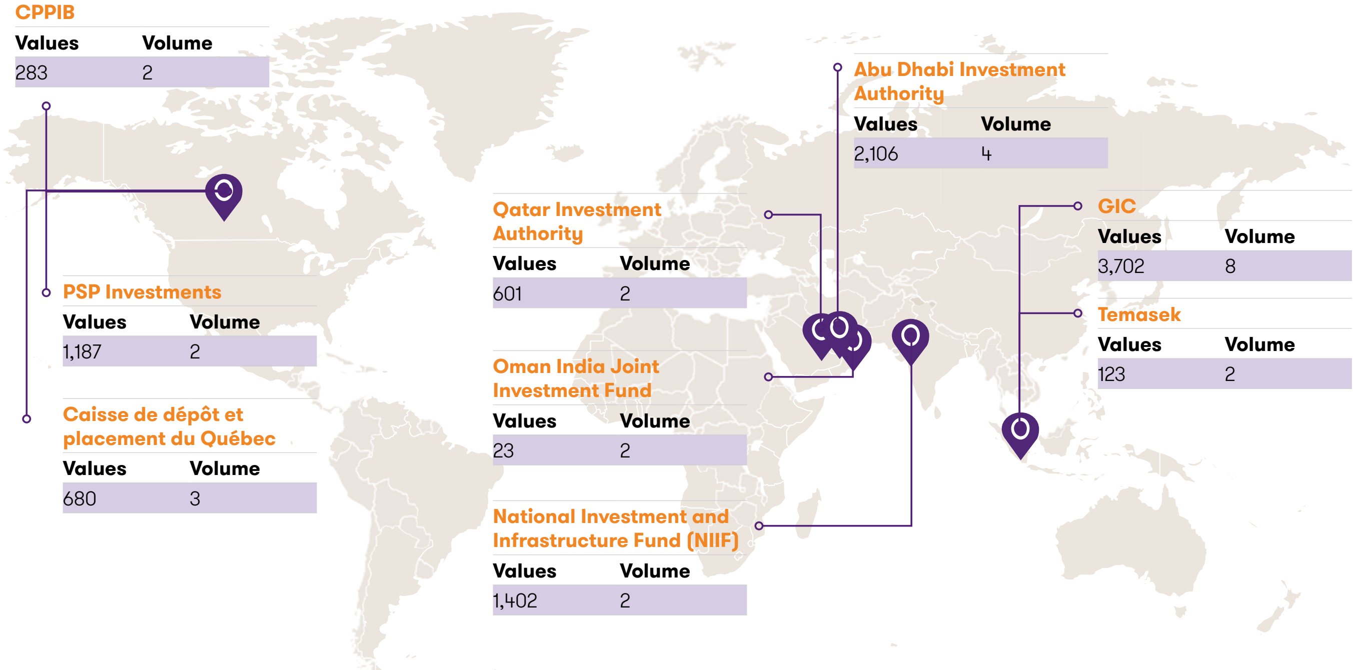
# Increasing sovereign interest

Global pension funds and SWFs have been expanding their footprint in India over the course of the last few years. Regulatory reforms are also bolstering sentiment and drawing in wealth funds. India based fund managers were from this year licensed to manage foreigners' portfolio holdings in the country, where previously such assets had to be managed outside India. Bankruptcy resolution rules introduced in 2016 helped pave the way for ADIA's USD 500 million investment earlier this year in a distressed debt fund.

SWFs have been a part of over 30% (in terms of value) of the PE investments in 2019. SWFs from across the globe, particularly Canada, Singapore and Abu Dhabi, were a part of some of the largest PE transactions this year, contributing over USD 7 billion to the PE deal value in 2019. SWFs have been relatively active in the renewables space, participating in some of the largest deals in this segment. These funds have not only demonstrated interest in energy, financial services, real estate and infrastructure but have also jumped on the tech start-up and e-commerce sectors spurring competition with the venture capital community.

GVK Airport Developers, Greenko Energy Holdings, Grofers, Paymate India, IRB Infrastructure Developers, BillDesk, Dr. Agarwal's Healthcare, Delhivery, Capital Small Finance Bank, Annapurna Finance, Adani Electricity, Piramal Enterprises and Byju were among the companies which raised funding from SWFs and global pension funds in 2019.

### Notable SWFs and global pension funds who invested in India in 2019



**CPPIB**

| Values | Volume |
|---|---|
| 283 | 2 |

**PSP Investments**

| Values | Volume |
|---|---|
| 1,187 | 2 |

**Caisse de dépôt et placement du Québec**

| Values | Volume |
|---|---|
| 680 | 3 |

**Qatar Investment Authority**

| Values | Volume |
|---|---|
| 601 | 2 |

**Oman India Joint Investment Fund**

| Values | Volume |
|---|---|
| 23 | 2 |

**National Investment and Infrastructure Fund (NIIF)**

| Values | Volume |
|---|---|
| 1,402 | 2 |

**Abu Dhabi Investment Authority**

| Values | Volume |
|---|---|
| 2,106 | 4 |

**GIC**

| Values | Volume |
|---|---|
| 3,702 | 8 |

**Temasek**

| Values | Volume |
|---|---|
| 123 | 2 |

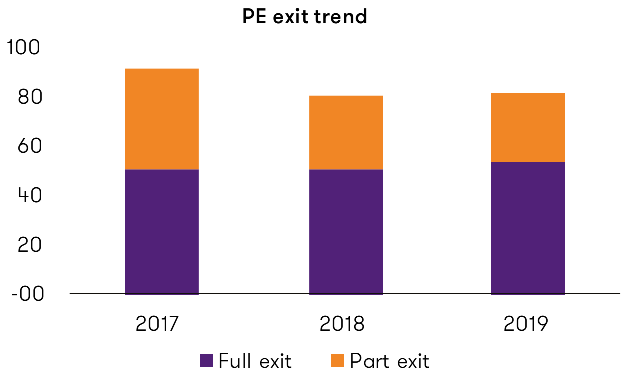
The investment amounts mentioned are either invested completely by SWFs or they have co-invested with other PE investors.

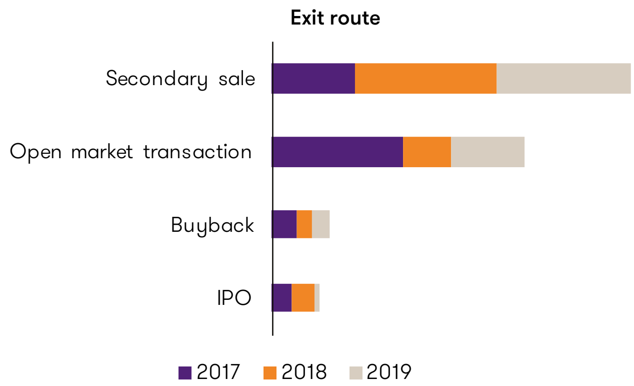
# PE exits trend

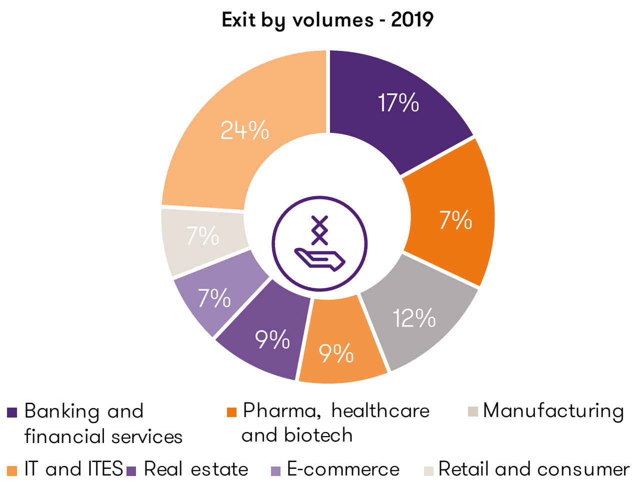
PE exits have slowed in India, with PE funds recording stake sales worth over USD 3 billion in 2019, a 4.2x decrease over 2018, buoyed by Flipkart's sale to Walmart. The muted PE activity is attributed to the slowdown in the IPO market which has not been able to keep pace with the level of activity over the last two years. While secondary sales accounted for most of the pie, open market sales as a mode also remained prominent within the PE community, recording 89% of exits via these routes.

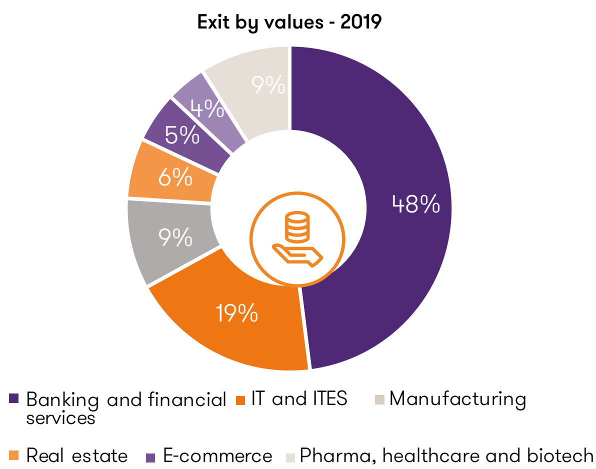
Sectors such as banking, pharma, manufacturing and real estate have seen platform plays which has released some capital for early investors, but the traditional sectors like consumer, agriculture, auto and tech have seen some slowdown in exit activity compared to 2018.

## Exit volumes




## Notable PE exits

| Investor exited | Investee company | Part/full exit | Sector |
|---|---|---|---|
| Insurance Australia Group Ltd | SBI General Insurance Company Ltd | Full exit | Banking and financial services |
| Carlyle Group- CA Emerald Investments | SBI Life Insurance Company Ltd | Part exit | Banking and financial services |
| Fairfax Financial Holdings | ICICI Lombard General Insurance | Part exit | Banking and financial services |
| Bain Capital and GIC | Genpact Ltd | Part exit | IT and ITeS |
| Nalanda Capital | Mindtree Ltd | Full exit | IT and ITeS |
| Warburg Pincus | ICICI Lombard General Insurance | Part exit | Banking and financial services |
| GIC | DLF Ltd | Part exit | Real estate |

# Expert speak

## 2019 witnessed a major leap for India's PE growth fuelled by an expansion in deal sizes, heightened interest from foreign and domestic funds, increase in the buyout bets, upsurge in SWFs, pension funds and AIFs participation, and a growing pool of funds

PE investments started on a tepid note in 2019 which can be attributed to hesitation prior to the elections, changing government policies and regulations, and uncertainty on the global front. However, it is interesting to see how the investment trend has surpassed the 2018 figures, a record-breaking year for PE investments, with values growing over 63% y-o-y at USD 33.6 billion across 814 investments. This sharp increase was driven by five deals valued over USD 1 billion and over 67 big bets of USD 100 million and above.

2019 witnessed a major leap for India's PE growth fuelled by an expansion in deal sizes, heightened interest from foreign funds, continued involvement from domestic funds and incubation of debut funds, strong increase in the buyout bets, upsurge in SWFs, pension funds and AIFs participation, number of large size bets and a growing pool of funds and growing PE-backed acquisitions among others.

Start-up was the most preferred sector in 2019 driving high investor attention topping both the volumes and values chart for the year. Late-stage funding and the inflated start-up valuations have pushed big-ticket investments in this sector. Core sector like telecom, infra, energy, banking and real estate garnered high-value investments capturing 53% of the PE deal values. Pushed by an increasing focus of global sovereign pension funds and conglomerates on Indian assets and 2019 being the year of elections, high levels of public spending resulting in increased investments in rural and infrastructure-related sectors. On the other hand, tech-enabled platform remained the key driver driving the PE deal volumes with e-commerce and IT sectors contributing to 14% of deal volumes. Pharma, retail, media and entertainment, education and hospitality sectors also remained active during the year displaying sector attractiveness.

Fundraising during the year remained robust but did not match the levels recorded in 2018, indicating that the fundraising market remains highly competitive. While venture capital funds constitute the highest number of funds in the market with varied fund sizes as well as sector and region focus, buyout funds attract the most capital.

Exits continued to maintain momentum with open market and strategic exits that have scaled rapidly and made the asset class easier to access and to exit. With this, the year witnessed 88% exits via this route. The year witnessed investors exiting portfolio companies in the banking and pharma sectors. With the PE market maturing, we are likely to witness more fruitful exits in the coming year.

The Indian market has entered a more developed stage with positive investor sentiment. Reforms like RERA, NCLT and GST, further aided by encouraging FDI norms, evolution of new investment structures like REITS and InvITs and growing AIF market have propelled PE deal growth in India and are expected to drive the deal momentum in 2020.

**Dinesh Anand**
**National Managing Partner, Risk and Global Private Equity Leader**
**Grant Thornton India LLP**

# Start-up India

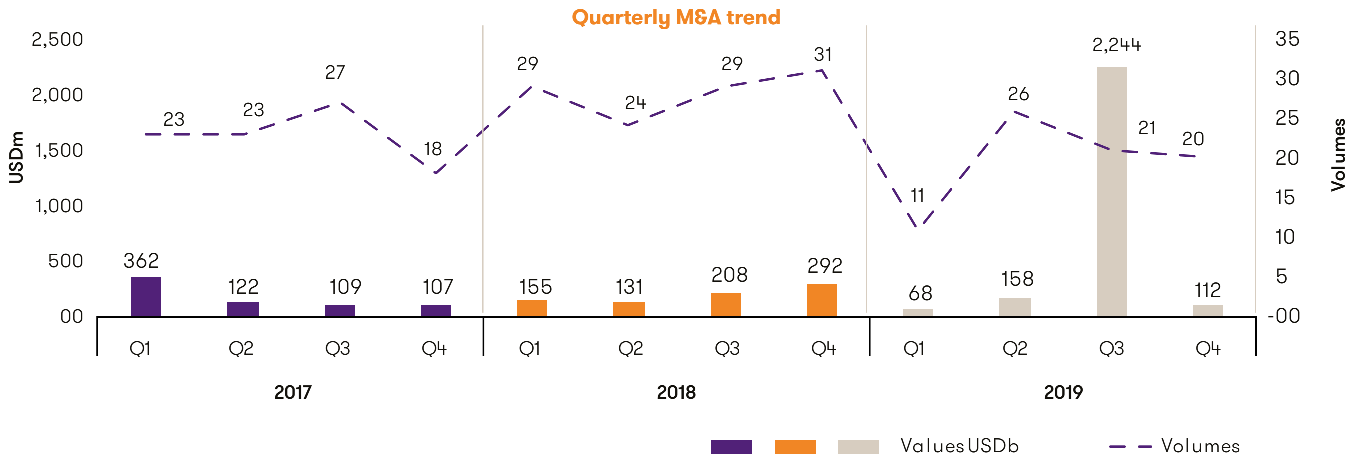
1. Quarterly trend
2. Top start-up funding chart 2017-2019
3. Geographic representation by top cities
4. Sector classification
5. Expert speak

# Quarterly deal trends

## M&A trend

India Inc. witnessed 78 acquisition deals worth USD 2.6 billion. Although many large players were part of the M&A landscape this year, the number of deals recorded a 30% decline compared to 2018. However, the deal values grew by 3.3× showing increased big-ticket deals compared to 2018 with higher average deal size. While 2019 recorded four-year low deal volumes, it was a record year for the start-up sector in value terms. Info Edge and Walmart stole the limelight with four deals each followed by Reliance Group and Nazara Technologies, which acquired three start-ups each.

| Deal summary | 2017 | 2018 | 2019 |
|---|---|---|---|
| | **91** deals | **113** deals | **78** deals |
| | **USD 701m** | **USD 788m** | **USD 2,584m** |




| Top sector by volume value | 2017 | 2018 | 2019 |
|---|---|---|---|
| | Real estate tech (36%) | Travel, transport and Logistics (34%) | Travel, transport and Logistics (78%) |
| | Discovery platforms (16%) | Fintech (19%) | Enterprise application and infrastructure (17%) |

## The M&A top deals in 2019 accounted for 88% of the total M&A start-up values

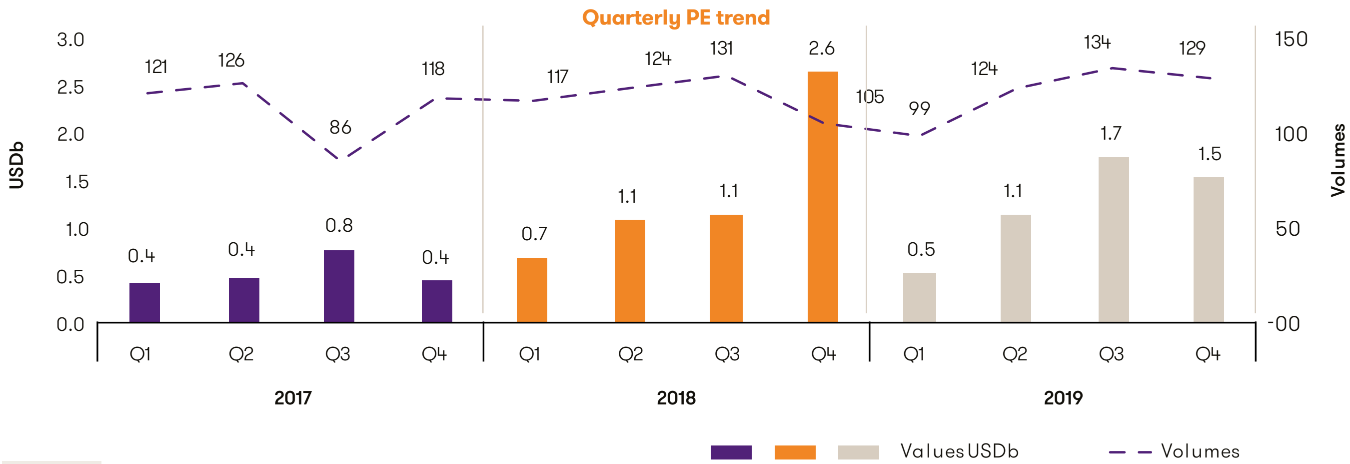
| Acquirer | Target | Sub-sector | USDm | % stake |
|---|---|---|---|---|
| RA Hospitality Holdings-Cayman | Oravel Stays Pvt. Ltd.-OYORooms.com | Travel, transport and logistics | 2,000 | 20% |
| eBay Inc. | Paytm E-commerce Private Limited-Paytm Mall | Retail | 160 | 6% |
| Oravel Stays Pvt. Ltd.-OYORooms.com | Guerrilla Infra Solutions Pvt. Ltd.-Innov8 | On-demand services | 32 | 100% |
| Quikr India Pvt. Ltd. | Zero Effort Technologies Private Limited-GoZefo | Retail | 29 | 100% |
| Facebook Inc. | Fashnear Technologies Pvt. Ltd.-Meesho | Enterprise applications and infrastructure | 25 | N.A. |
| Keppel Land Ltd | Smartworks Coworking Space Pvt. Ltd. | On-demand services | 25 | N.A. |

# PE trend

Indian start-ups raised around USD 5 billion in capital across 486 investments rounds in 2019, the highest in the last three years, as a number of new investors have increased deal-making and exits have provided liquidity to investors. While deal volumes have increased, values have fallen by 11% during the same period. The growth in fundraising indicates that venture investors continue to remain bullish on Indian startups despite concerns of a slowdown in the economy. The largest deals witnessed during the year included business-to-business marketplace Udaan, which raised USD 885 million, followed by Ola Electric, Blackbuck, Meesho, and Cred that raised over USD 100 million each. These rounds also indicate far more aggression than before in growth stage rounds from overseas investors. Another emerging theme has been the growing interest of investors to back experienced founders with large early stage cheques.

**Deal summary**

| 2017 | 2018 | 2019 |
|---|---|---|
| **451 deals** | **477 deals** | **486 deals** |
| **USD 2,171m** | **USD 5,573m** | **USD 4,958m** |




**Top sector by value volume**

| 2017 | 2018 | 2019 |
|---|---|---|
| Travel, transport and logistics (24%) | Foodtech (25%) | Retail (28%) |
| Enterprise applications and infrastructure (15%) | Fintech (18%) | Retail (16%) |

## Top five PE deals in 2019 accounted for 52% of total PE start-up values

| Acquirer | Target | Sub-sector | USDm |
|---|---|---|---|
| Tencent, Altimeter, Footpath Ventures, Hillhouse Capital, GGV Capital, Citi Ventures, Lightspeed Venture Partners and DST Global | Hiveloop Technology Pvt. Ltd.-Udaan | Retail | 585 |
| Altimeter Capital, Footpath Ventures, GGV Capital, Hillhouse Capital, DST Global and Lightspeed Venture Partners | Hiveloop Technology Pvt. Ltd.-Udaan | Retail | 300 |
| SoftBank Group Corp. | Ola Electric Mobility Pvt. Ltd | Travel, transport and logistics | 250 |
| Accel Partners, Goldman Sachs, Wellington Partners , Sequoia Capital, B Capital Group, LightStreet Capital, Sands Capital and IFC | Zinka Logistics solutions Pvt. Ltd.-Blackbuck | Travel, transport and logistics | 150 |
| Naspers, Facebook, SAIF Capital, Sequoia Capital, Shunwei Capital, RPS, Venture Highway and angel investor | Fashnear Technologies Pvt. Ltd.-Meesho | Retail | 125 |

# Top start-up funding chart (2017-2019)

## Start-ups raising highest rounds of funding in the last three years

| | | |
|---|---|---|
| 8 | USD 270 | Curefit Healthcare Pvt. Ltd. |
| 5 | USD 87 | Sorting Hat Technologies Private Limited-Unacademy |
| 5 | USD 29 | Doorstep Retail Solutions Pvt. Ltd.-Milkbasket |
| 5 | USD 25 | Vogo Automotive Pvt. Ltd. |
| 4 | USD 1,390 | Bundl Technologies Pvt. Ltd.-Swiggy.com |
| 4 | USD 1,160 | Hiveloop Technology Pvt. Ltd.-Udaan |
| 4 | USD 260 | Zinka Logistics solutions Pvt. Ltd.-Blackbuck |
| 4 | USD 190 | Fashnear Technologies Pvt. Ltd.-Meesho |
| 4 | USD 143 | Acko General Insurance Limited |
| 4 | USD 114 | Nestaway Technologies Pvt. Ltd.-Nestaway |
| 4 | USD 98 | Mogli Labs (India) Pvt. Ltd.-Moglix |
| 4 | USD 90 | Delightful Gourmet Pvt. Ltd.-Licious |
| 4 | USD 62 | Dunzo Digital Pvt. Ltd. |
| 4 | USD 32 | Billionbrains Garage Ventures Private Limited-Groww |
| 4 | USD 28 | LoanTap Financial Technologies Pvt. Ltd. |
| 4 | USD 21 | Eat Good Technologies Pvt. Ltd.-HungerBox |
| 4 | USD 17 | Rakyan Beverages Pvt. Ltd.-RAW Pressery |
| 4 | USD 15 | Vahdam Teas Private Limited |
| 4 | USD 12 | StayAbode |
| 4 | USD 10 | Fyle Technologies Pvt. Ltd. |
| 4 | USD 9 | Sky Gate Hospitality Pvt. Ltd.-Biryani By Kilo |
| 4 | USD 7 | Shopsense Retail Technologies Pvt. Ltd.-Fynd |
| 4 | USD 4 | Bigwin Infotech Private Limited-Paisadukan |

Funding round

Funds raised (m)

## Start-ups that raised over USD 100 million funding in aggregate during 2017-19

| | | |
|---|---|---|
| 4 | USD 1,390 | Bundl Technologies Pvt. Ltd.-Swiggy.com |
| 2 | USD 1,250 | Oravel Stays Pvt. Ltd. OYORooms.com |
| 4 | USD 1,160 | Hiveloop Technology Pvt. Ltd. Udaan |
| 1 | USD 400 | Paytm E-commerce Private Limited- Paytm Mall |
| 3 | USD 309 | Ola Electric Mobility Pvt. Limited |
| 8 | USD 270 | Curefit Healthcare Pvt. Ltd |
| 4 | USD 260 | Zinka Logistics solutions Pvt. Ltd. - Blackbuck |
| 4 | USD 190 | Fashnear Technologies Pvt. Ltd.-Meesho |
| 4 | USD 143 | Acko General Insurance Limited |
| 3 | USD 143 | CARS24 Services Private Ltd |
| 3 | USD 130 | Ideas Infolabs Pvt. Ltd. Ninjacart |
| 3 | USD 120 | Mohalla Tech Pvt. Ltd. Sharechat |
| 3 | USD 120 | Lendingkart Technologies Pvt. Ltd.-Lendingkart.com |
| 1 | USD 120 | Dreamplug Technologies Pvt. Ltd.-Cred |
| 4 | USD 114 | Nestaway Technologies Pvt. Ltd.-Nestaway |
| 1 | USD 100 | Just Buy Live Enterprise Pvt. Ltd |

Funding round

Funds raised (m)

# Unicorns 2019

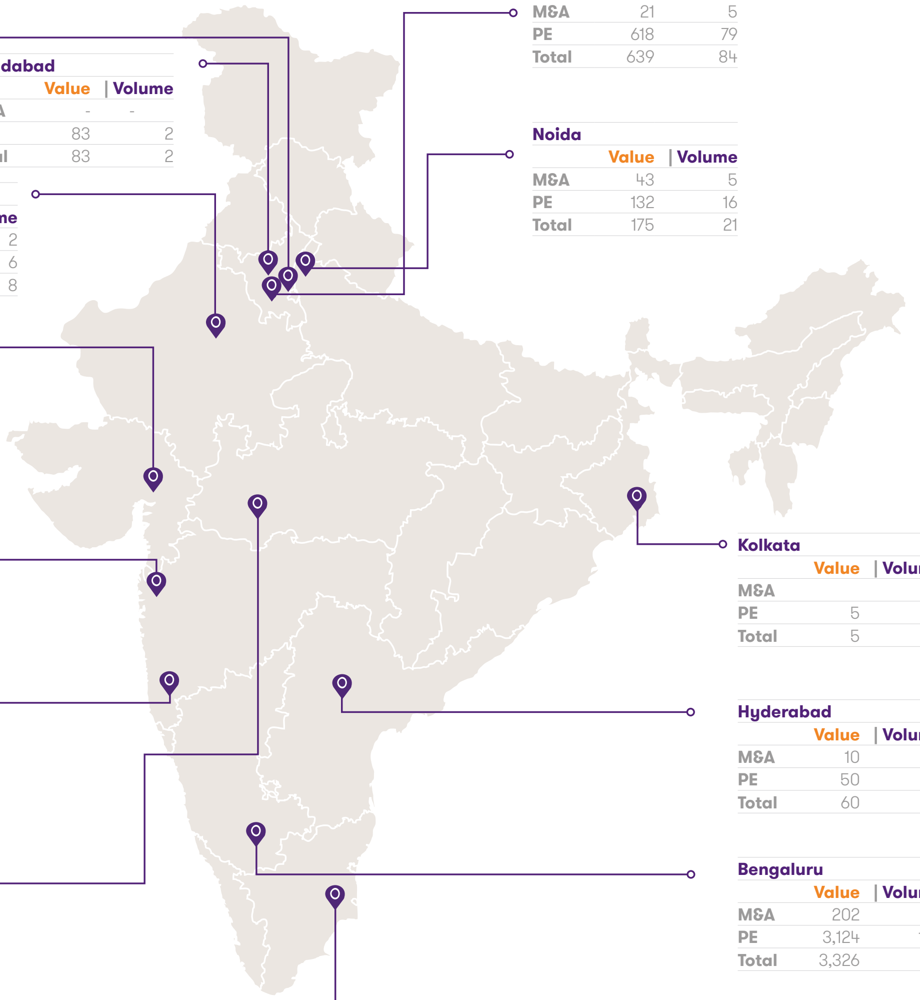
With large global corporations such as CDC Group, Neuberger Berman and Atreides Management, Tiger Global, KB Global Platform Fund, SoftBank, Alibaba, Tencent, among others, entering the Indian market with a bang and signing large cheques, Indian start-ups have regularly crossed the threshold. These big-ticket investments have helped India to become home to several unicorns. While in 2018, eight start-ups entered the coveted club, 2019 witnessed the journey of seven start-ups claiming the tag of a unicorn. Moreover, four out of these seven startups, which joined the unicorn club, were B2B.

| Unicorns 2018 | Estimated valuation |
| --- | --- |
| Delhivery | USD 1.5b |
| Dream11 | USD 1b |
| BigBasket | USD 1b |
| Ola Electric Mobility | USD 1b |
| Rivigo | USD 1.07b |
| Lenskart | USD 1.5b |
| Druva | USD 1b |

Source: Inc42, CB insights

# Geographic representation by top cities

Start-ups mushroomed in 2019, with Bengaluru, Mumbai and Gurugram being the most popular start-up destinations in India. These top three cities accounted for 71% of start-up deal activity. These cities house various technical and analytical firms, an enticement for budding and established entrepreneurs. 2019 also witnessed many emerging start-ups focusing on tier 2 cities for growth and sustenance leading to cities like Ahmedabad, Pune, Indore, Kolkata and Jaipur witnessing a surge in entrepreneurial activities. Various financial start-ups, software start-ups and analytics start-ups from these tier 2 cities have made it big in the last 3-4 years.



**Delhi**

| | Value | Volume |
|---|---|---|
| M&A | 2,208 | 9 |
| PE | 243 | 48 |
| Total | 2,451 | 57 |

**Faridabad**

| | Value | Volume |
|---|---|---|
| M&A | - | - |
| PE | 83 | 2 |
| Total | 83 | 2 |

**Jaipur**

| | Value | Volume |
|---|---|---|
| M&A | 5 | 2 |
| PE | 96 | 6 |
| Total | 101 | 8 |

**Ahmedabad**

| | Value | Volume |
|---|---|---|
| M&A | 5 | 1 |
| PE | 45 | 7 |
| Total | 50 | 8 |

**Mumbai**

| | Value | Volume |
|---|---|---|
| M&A | 61 | 14 |
| PE | 404 | 86 |
| Total | 465 | 100 |

**Pune**

| | Value | Volume |
|---|---|---|
| M&A | 10 | 2 |
| PE | 67 | 12 |
| Total | 77 | 14 |

**Indore**

| | Value | Volume |
|---|---|---|
| M&A | 2 | 1 |
| PE | 14 | 2 |
| Total | 16 | 3 |

**Gurugram**

| | Value | Volume |
|---|---|---|
| M&A | 21 | 5 |
| PE | 618 | 79 |
| Total | 639 | 84 |

**Noida**

| | Value | Volume |
|---|---|---|
| M&A | 43 | 5 |
| PE | 132 | 16 |
| Total | 175 | 21 |

**Kolkata**

| | Value | Volume |
|---|---|---|
| M&A | | |
| PE | 5 | 2 |
| Total | 5 | 2 |

**Hyderabad**

| | Value | Volume |
|---|---|---|
| M&A | 10 | 2 |
| PE | 50 | 17 |
| Total | 60 | 19 |

**Bengaluru**

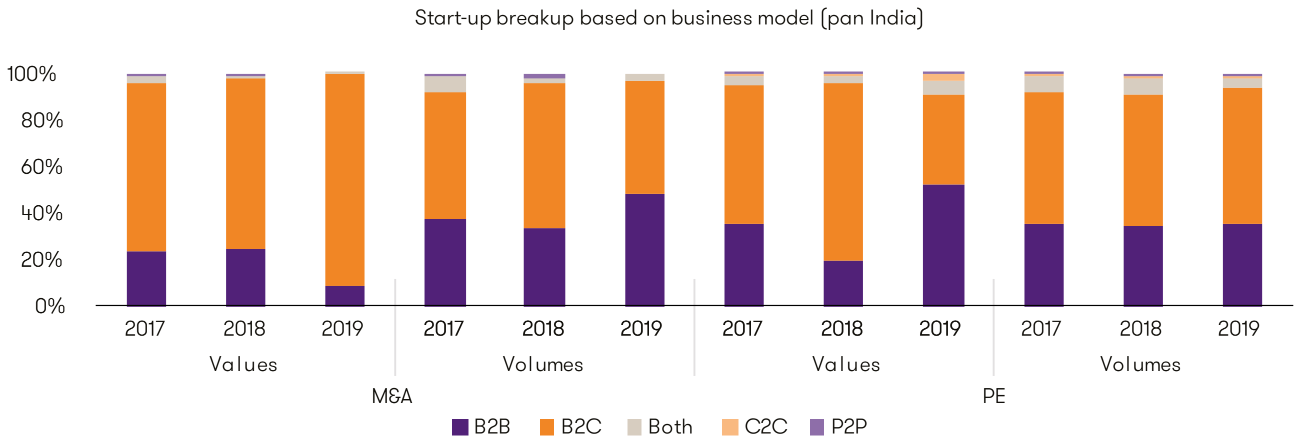
| | Value | Volume |
|---|---|---|
| M&A | 202 | 31 |
| PE | 3,124 | 186 |
| Total | 3,326 | 217 |

**Chennai**

| | Value | Volume |
|---|---|---|
| M&A | 10 | 2 |
| PE | 48 | 9 |
| Total | 58 | 11 |

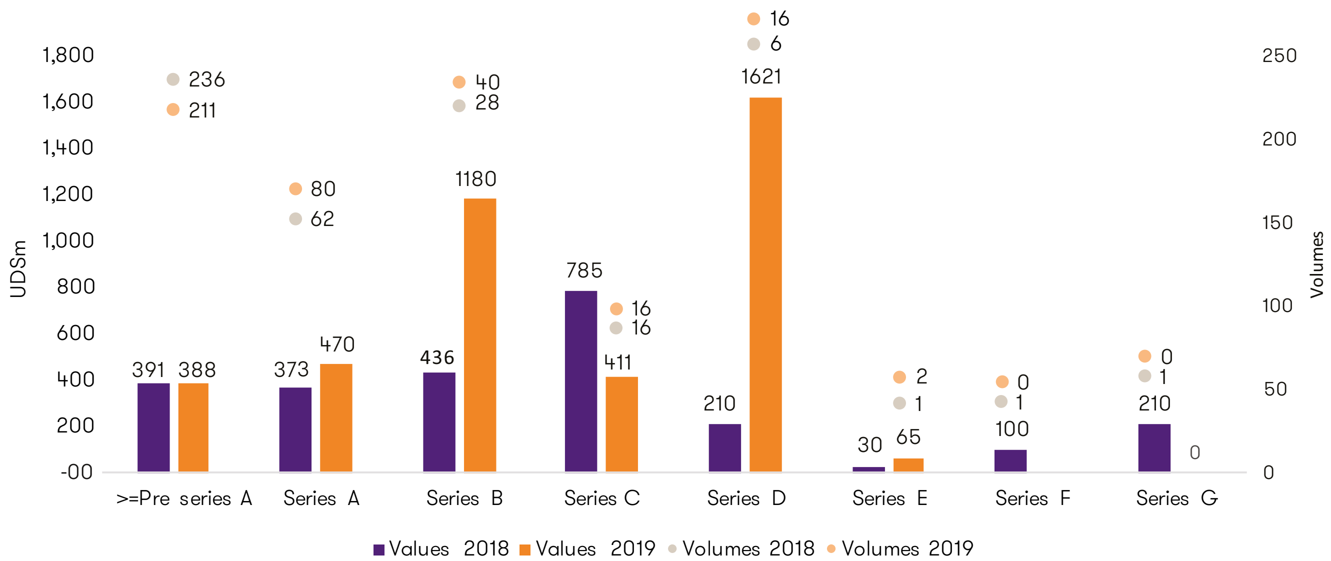
## Start-up classification based on business model breakdown: M&A and PE

While the initial years of India's start-up ecosystem were largely dominated by consumer-facing companies like like Ola, Swiggy, Cred, Paytm both in terms of buzz and business, B2B ventures are finally finding their feet now. The growth in the B2B focus has been driven by increased corporate involvement, with several large companies starting their own tech accelerators. Growing number of B2B-focused VC funds and rise of advanced technologies, especially AI, IoT and RPA have also aided the B2B growth in India.




## Funding series summary

With year 2018 being an aggressive year for investments, 2019 witnessed another record year with increased growth stage funding. This year has been good for the follow-on rounds, helping start-ups to expand their business and also enter the unicorn club and few have reached the IPO stage. The number of seed funding witnessed in 2019 was marginally lower than the levels recorded in 2018. The average deal size across early-stage start-ups in India increased to USD 1.8 million from USD 0.6 million in 2018.




Data based on disclosed funding series

# Sector classification

## PE

From angel investors to venture capital funds, investors across the board have invested in the growth of the start-up ecosystem over the past few years The year also witnessed increased start-up focused funds from domestic and foreign conglomerates that are meant to back the innovation happening in the Indian market.

The retail segment stood out in terms of both volumes and values in 2019 with 77 deals for an aggregate of USD 1.4 billion dominated by funding in Udaan and Meesho that raised over USD 100 million each. This was followed by investments in the fintech segment, travel and logistics, enterprise application and infrastructure and health tech segments. These segments together recorded 41% of investment volumes and half of start-up deal values.

Agritech, autotech, real estate tech and networking platform among others also witnessed traction during 2019.

| Retail | | |
|---|---|---|
| 53 | 60 | 77 |
| 159 | 906 | 1,386 |

| Fintech | | |
|---|---|---|
| 60 | 87 | 74 |
| 300 | 591 | 903 |

| Enterprise applications and infrastructure | | |
|---|---|---|
| 65 | 45 | 39 |
| 317 | 150 | 158 |

| Travel, transport and logistics | | |
|---|---|---|
| 46 | 47 | 50 |
| 516 | 1,381 | 1,120 |

| Healthtech | | |
|---|---|---|
| 38 | 48 | 36 |
| 173 | 329 | 311 |

| Data analytics and AI | | |
|---|---|---|
| 27 | 28 | 30 |
| 63 | 50 | 110 |

| Edtech | | |
|---|---|---|
| 10 | 14 | 25 |
| 37 | 81 | 102 |

| Discovery platforms | | |
|---|---|---|
| 40 | 33 | 24 |
| 154 | 241 | 88 |

| On-demand services | | |
|---|---|---|
| 31 | 28 | 17 |
| 105 | 154 | 108 |

| Foodtech | | |
|---|---|---|
| 13 | 15 | 16 |
| 121 | 1,384 | 114 |

| Mediatech | | |
|---|---|---|
| 10 | 8 | 13 |
| 23 | 19 | 17 |

| Gaming | | |
|---|---|---|
| 5 | 5 | 11 |
| 15 | 14 | 68 |

| HRtech | | |
|---|---|---|
| 5 | 5 | 10 |
| 9 | 10 | 28 |

| Others | | |
|---|---|---|
| 48 | 54 | 64 |
| 178 | 264 | 445 |

Top sectors based on deal volume

| | | | |
|---|---|---|---|
| Volume | 2017 | 2018 | 2019 |
| Values USDm | 2017 | 2018 | 2019 |

# M&A

Contrary to 2018, which was dominated by acquisitions in fintech and travel, transport and logistics segment, 2019 witnessed heightened interest from strategic investors in the enterprise applications and infrastructure and data analytics, big data and AI space. This trend was driven by the need to strengthen the change triggered by AI, machine learning, data analytics and data sciences with the ever-evolving tech space and equip largre conglomerates with the latest technology to improve the efficiency of business operations.

Agritech, gaming and mediatech have been upcoming segments that witnessed a consolidation drive with 12% of deal volumes. On the flip side, on-demand services, edtech and foodtech witnessed reduced activity compared to 2018.

| Enterprise applications and infrastructure | | |
|---|---|---|
| 11 | 9 | 13 |
| 48 | 40 | 77 |

| Data analytics and AI | | |
|---|---|---|
| 6 | 8 | 9 |
| 30 | 31 | 45 |

| Retail | | |
|---|---|---|
| 6 | 12 | 8 |
| 36 | 87 | 213 |

| Healthtech | | |
|---|---|---|
| 4 | 3 | 7 |
| 16 | 15 | 31 |

| Travel, transport and logistics | | |
|---|---|---|
| 9 | 18 | 7 |
| 38 | 269 | 2,026 |

| Fintech | | |
|---|---|---|
| 9 | 21 | 6 |
| 40 | 97 | 30 |

| Discovery platforms | | |
|---|---|---|
| 13 | 9 | 4 |
| 88 | 45 | 15 |

| Agritech | | |
|---|---|---|
| 0 | 1 | 3 |
| 0 | 1 | 7 |

| Gaming | | |
|---|---|---|
| 0 | 1 | 3 |
| 0 | 1 | 7 |

| Mediatech | | |
|---|---|---|
| 4 | 0 | 3 |
| 23 | 0 | 11 |

| On-demand services | | |
|---|---|---|
| 10 | 8 | 3 |
| 51 | 31 | 62 |

| Autotech | | |
|---|---|---|
| 1 | 2 | 2 |
| 1 | 66 | 10 |

| Edtech | | |
|---|---|---|
| 4 | 4 | 2 |
| 20 | 15 | 10 |

Top sectors based on deal volume

| Volume | 2017 | 2018 | 2019 |
|---|---|---|---|
| Values USDm | 2017 | 2018 | 2019 |

# Expert speak

## The deal volumes seem to have stagnated over the past couple of years, but the quality of transactions has certainly put Indian start-ups on the global podium.

The start-up sector has witnessed significant activity this past year with several integral shifts that mark an epoch in the Indian start-up story. With over 500 deals concluding across various funding stages this past year, the motivation and aspiration behind these transactions are an indication of burgeoning investor maturity and sustainability aimed at growth of the ecosystem. Although the deal volumes seem to have stagnated over the past couple of years, the quality of transactions has certainly put Indian start-ups on the global podium.

While the frontrunners, both in volume and value, are investments made in more mature stages (beyond series c), it is the early-stage investments in sectors such as agritech, healthtech and edutech that are turning the heads of global investors towards the world's third largest start-up hub. The common driver for these sectors exhibiting unprecedented deal volumes in the recent times is their innate connection with key socio-economic indicators of the country, which are clearly at a strategic inflection point poised for growth. With 17% of the world's population residing within these borders, one can only expect more such start-ups, both Indian and India focused, to ride the wave of evolution and lead the deal flow in the coming times.

On the other hand, housing over 17,000 registered and 60,000 unregistered start-ups, India does not boast of the best success rates, with a major number of start-ups failing to take off beyond the seed stage. And this lackluster performance is attributed to several reasons, some critical ones being severe deficiency of credit, erosion of value at early stages of a company and poor support provided by venture/seed funds at early stages. However, with the government providing support to the start-up ecosystem through progressive tax policies and incentives, relief from angel tax and ensuring efficient frameworks for kick-starting domestic and foreign investments, the start-up sector is expected to prosper and play a key role in India's target to become a USD 3 trillion economy by 2020.

**Aniruddh GV**
**Associate Director**
**Grant Thornton India LLP**

# Sector spotlight

- Sector trends
- IT and ITeS
- E-commerce
- Pharma, healthcare and biotech
- Banking and financial services
- Retail and consumer

# Sector trends

## Top sectors based on deal values

| Sector | 2017 | 2018 | 2019 |
|---|---|---|---|
| Manufacturing | 1,232 | 16,633 | 8,649 |
| Energy and natural resources | 2,624 | 14,107 | 8,478 |
| Start-up | 2,873 | 6,361 | 7,541 |
| Infrastructure management | 711 | 1,728 | 5,211 |
| Banking and financial services | 7,306 | 4,683 | 5,196 |
| E commerce | 8,146 | 18,013 | 4,802 |
| Telecom | 26,056 | 19,260 | 4,399 |
| Pharma, healthcare and biotech | 3,078 | 3,780 | 4,004 |
| IT and ITeS | 1,827 | 6,211 | 3,484 |
| Real estate | 3,288 | 3,304 | 2,706 |
| Retail and consumer | 1,235 | 5,978 | 1,721 |
| Hospitality and leisure | 410 | 1,293 | 1,276 |
| Media and entertainment | 931 | 1,876 | 1,076 |
| Education | 134 | 841 | 1,003 |

Core sectors like manufacturing, energy, infra, banking, telecom and pharma remained dynamic with consolidation driven by strategic reasons to capitalise on synergies and improve efficiency, widen the market reach, leverage balance sheet and pare debt. These sectors also attracted big cheques from financial investors with the common rationale of business expansion, upgrading technology and hiring talent.

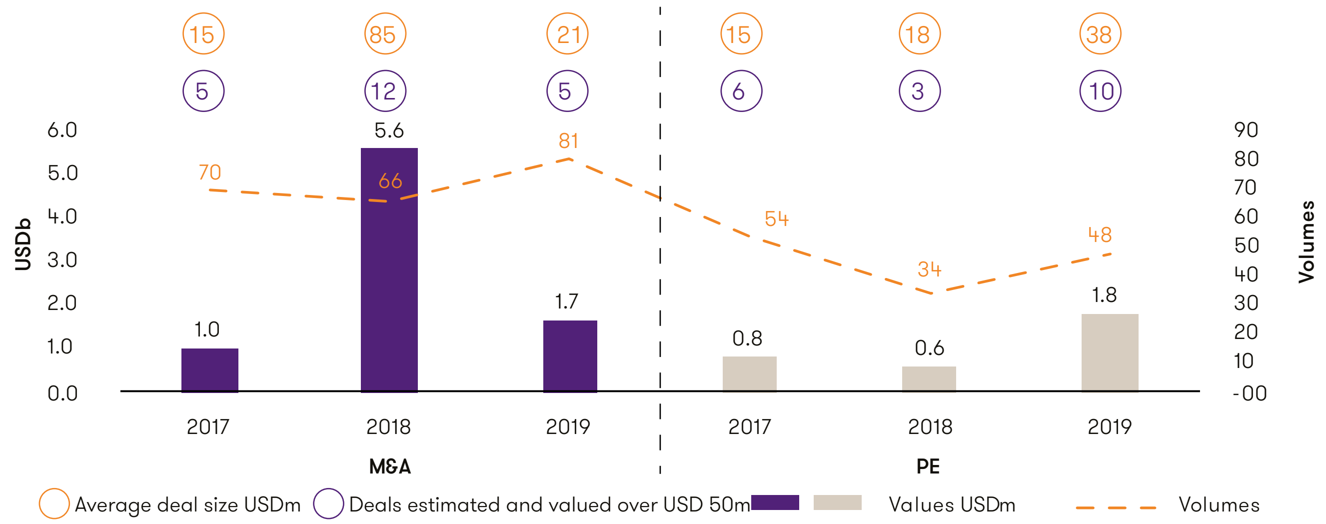
## Top sectors based on deal volumes

| Sector | 2017 | 2018 | 2019 |
|---|---|---|---|
| Start-up | 542 | 590 | 564 |
| IT and ITeS | 124 | 100 | 129 |
| E commerce | 54 | 70 | 84 |
| Pharma, healthcare and biotech | 58 | 60 | 77 |
| Banking and financial services | 67 | 78 | 74 |
| Retail and consumer | 53 | 62 | 53 |
| Manufacturing | 39 | 53 | 44 |
| Media and entertainment | 36 | 46 | 40 |
| Education | 23 | 37 | 30 |
| Energy and natural resources | 21 | 36 | 29 |
| Real estate | 31 | 29 | 25 |

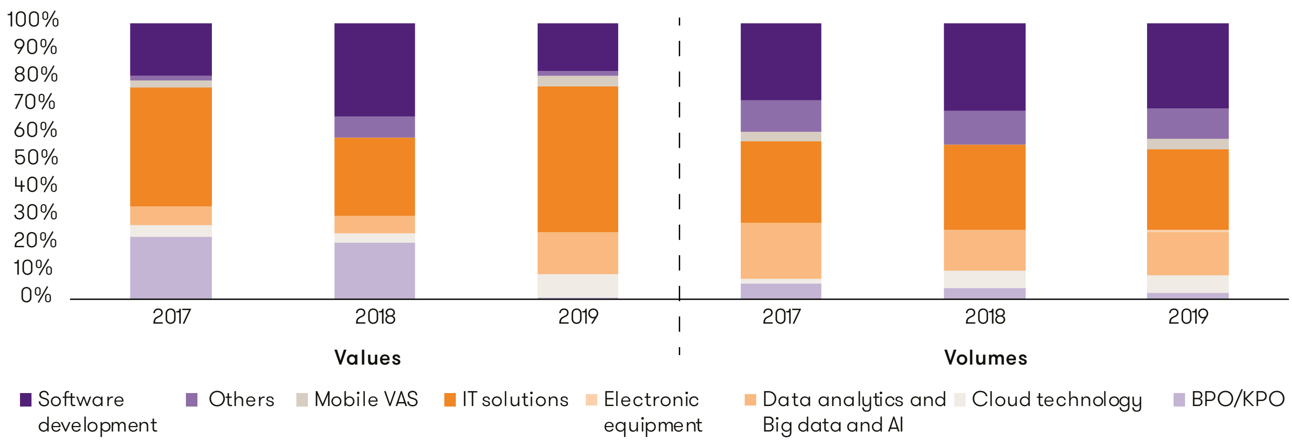
The technology sector remained the key to attracting substantial deal activity with growing start-ups, IT and e-commerce sectors witnessing maximum transactions during 2019. These sectors attracted significant investor attention with their promising and unmatched scope for development with constant technological evolution. Pushed by the strategy to support organic and inorganic initiatives for its focus markets, divestment of non-core assets, cleaning stressed asset space and expand in order to reach the masses, the year also witnessed considerable volume of activity in the pharma, banking and retail sectors.

# IT and ITES

## Year-on-year trend




## Sub-sector classification




## Top M&A deals

**The top deals accounted for 60% of the total sector deal values**

| Acquirer | Target | Sub sector | USD m | % stake |
|---|---|---|---|---|
| Larsen & Toubro Ltd. | Mindtree Ltd. | IT solutions | 476 | 20% |
| Hexaware Technologies | Mobiquity Inc. | IT solutions | 182 | 100% |
| Infosys Ltd. | ABN AMRO-Stater NV | IT solutions | 143 | 75% |
| Alight Solutions LLC | Wipro Ltd. Workday and Cornerstone OnDemand businesses | Cloud technology | 100 | 100% |
| Reliance Jio Digital Services Ltd. | Haptik Infotech Private Limited | Data analytics and big data and AI | 100 | 87% |

## Top PE deals

**The top deals accounted for 51% of the total sector values**

| Investor | Investee | Sub sector | % stake | USDm |
|---|---|---|---|---|
| Baring Private Equity | NIIT Technologies Ltd. | IT solutions | 30% | 381 |
| Apax Partners | Fractal Analytics Ltd. | Data analytics and AI | N.A. | 200 |
| Viking Global Investors, Neuberger Berman, Atreides Management, Riverwood Capital, Tenaya Capital and Nexus Venture Partners | Druva Software Pvt. Ltd. | Cloud technology | N.A. | 130 |
| PremjiInvest, Greycroft Partners, B Capital Group, Cross Creek Advisors, Eight Roads, Ignition Partners, Meritech Capital Partners and PSP Growth | Icertis Inc. | Software development | N.A. | 115 |
| Twitter, TrustBridge Partners, Shunwei Capital, Lightspeed Venture Partners, SAIF Capital, India Quotient and Morningside Venture Capital. | Mohalla Tech Pvt. Ltd. Sharechat | Mobile VAS | N.A. | 100 |

## Expert speak

The M&A activity in 2019 was higher than 2018, but the deal value was lower as there was only one large deal of USD 476 million, whereas 2018 witnessed seven large deals worth USD 4,763 million. This can be attributed to general elections in April/May and ongoing global economic uncertainty and risk of recession.

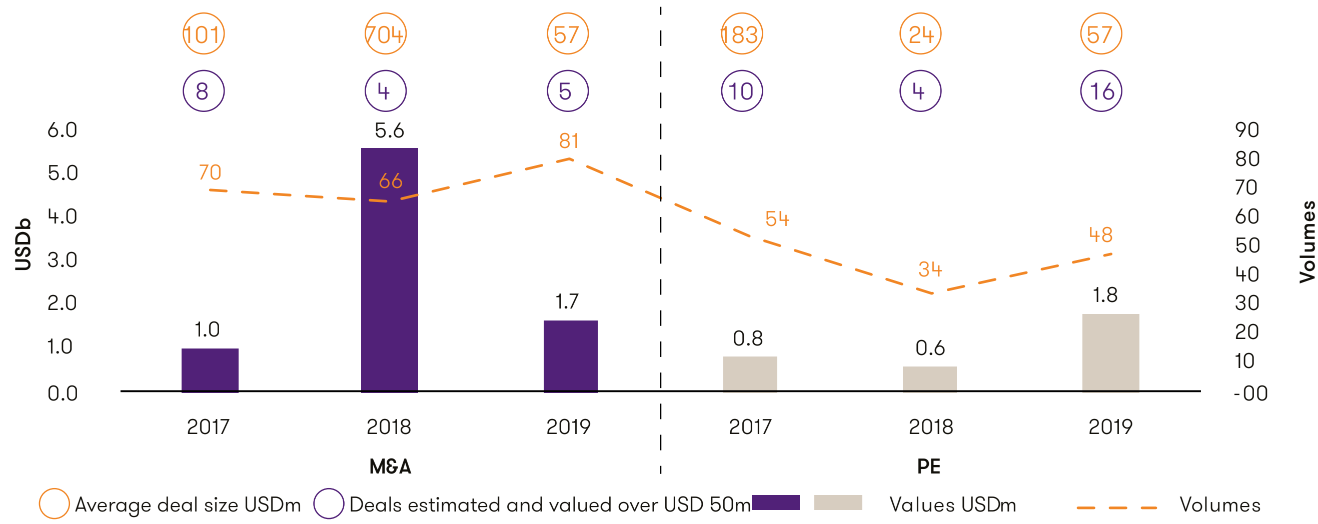
2019 also saw heightened PE deal activity compared to 2018 both in terms of volumes and values due to six large deals (deal value at and over USD 100 million) worth USD 1,156 million compared to two deals worth USD 225 million in 2018. IT solutions/software development segments continued to attract investments; however, there has been a shift to digital transformation, data analytics/AI, cloud technology and software products from the earlier concentration on ERP/CRM solutions and Retail POS, indicating the confidence in India Inc.'s capability in emerging technologies and qualified talent pool.

Globally, emerging technologies continue to dominate the headlines as IT companies have been embracing them in operations to better orchestrate business objectives. So, M&A is expected to remain stable, whereas private investment's revival will continue in 2020 despite the global headwinds due to the convergence of emerging technologies, necessitating strategic investments and partnerships against the backdrop of a favourable business environment.

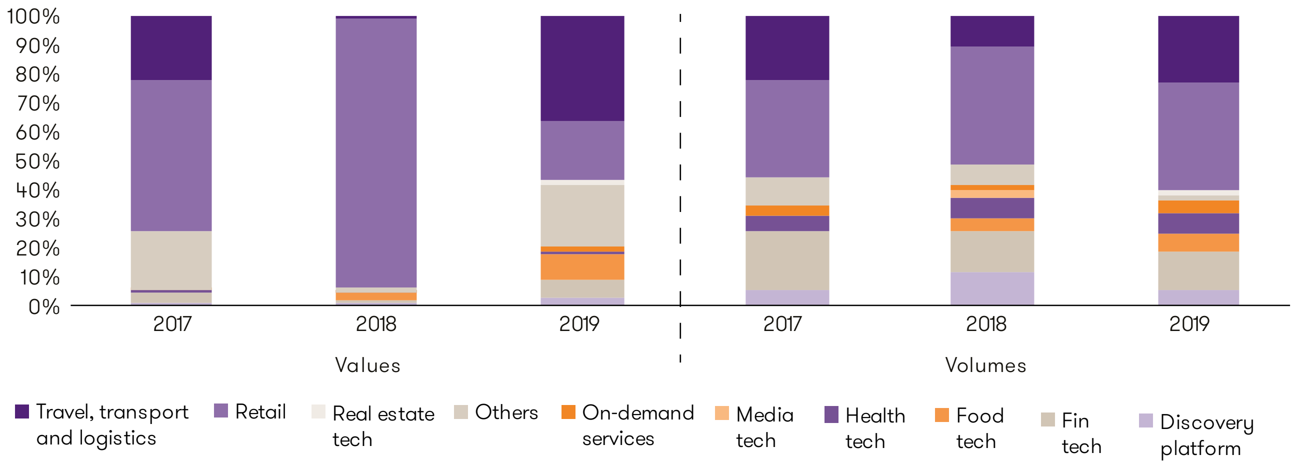
**Shanthi Vijetha**
**Partner**
**Grant Thornton India LLP**

# E-commerce

## Year-on-year trend




## Sub-sector classification




# Top M&A deals

**The top deals accounted for 87% of the total sector deal values**

| Acquirer | Target | Sub sector | USDm | % stake |
|---|---|---|---|---|
| Ebix Inc. | Yatra Online Pvt. Ltd. | Travel, transport and logistics | 338 | 100% |
| Hyundai Motor Co. and Kia Motors Corp. | Olacabs.com-ANI Technologies Pvt. Ltd. | Travel, transport and logistics | 300 | N.A. |
| Delivery Hero SE | Zomato Media Pvt. Ltd.-UAE business unit | Foodtech | 172 | 100% |
| Pine Labs Pvt. Ltd. | QwikCilver Solutions Pvt. Ltd. | Retail | 110 | 100% |
| Walmart Inc. | Flipkart Online Services Pvt. Ltd. | Retail | 76 | 0.3% |

## Top PE deals

**The top deals accounted for 60% of the total sector values**

| Investor | Investee | Sub sector | % stake | USDm |
|---|---|---|---|---|
| T Rowe Price, Alibaba's Ant Financial, SoftBank Vision Fund, and Discovery Capital | One97 Communications Ltd.-Paytm | Fintech | N.A. | 1,000 |
| SoftBank Group Corp, Carlyle Group and Fosun International | Delhivery - SSN Logistics Pvt. Ltd. | Travel, transport and logistics | N.A. | 413 |
| Softbank Vision Fund | Lenskart Solutions Private limited-Lenskart.com | Retail | N.A. | 275 |
| SoftBank Group Corp, KTB Ventures, Tiger Global, Abu Dhabi Investment Group and Sequoia Capital | Grofers India Pvt. Ltd. | Travel, transport and logistics | N.A. | 210 |
| Mirae Asset Financial Group, CDC Group and Alibaba Group | Innovative Retail Concepts Pvt. Ltd. - BigBasket.com | Retail | N.A. | 150 |
| Tencent Holdings Ltd. | PolicyBazaar - eTechAces Marketing and Consulting Pvt. Ltd. | Fintech | 10% | 150 |

## Expert speak

Despite the economic headwinds and industry-specific challenges posed by the new e-commerce policy (draft) and Data Protection Bill, the e-commerce sector in India showed resilience and witnessed a healthy transaction activity in 2019. The transactions in the sector increased in 2019, in terms of volumes, with a total of 84 transactions versus 70 in 2018. Even in value terms, excluding the one-off mega Walmart-Flipkart transaction, the value of transactions increased in 2019 over 2018.

The transaction activity was mainly fuelled by PE deals where consumer sector focused PE funds like Softbank, Tiger Global, Alibaba Group, etc., continued their investment in online companies like Paytm, Ola, Delhivery, Grofers, Lenskart, etc. One97 Communications (Paytm) was the biggest recipient of funds in 2019 in the e-commerce sector, receiving USD 1 billion at a valuation of close to USD 16 billion.

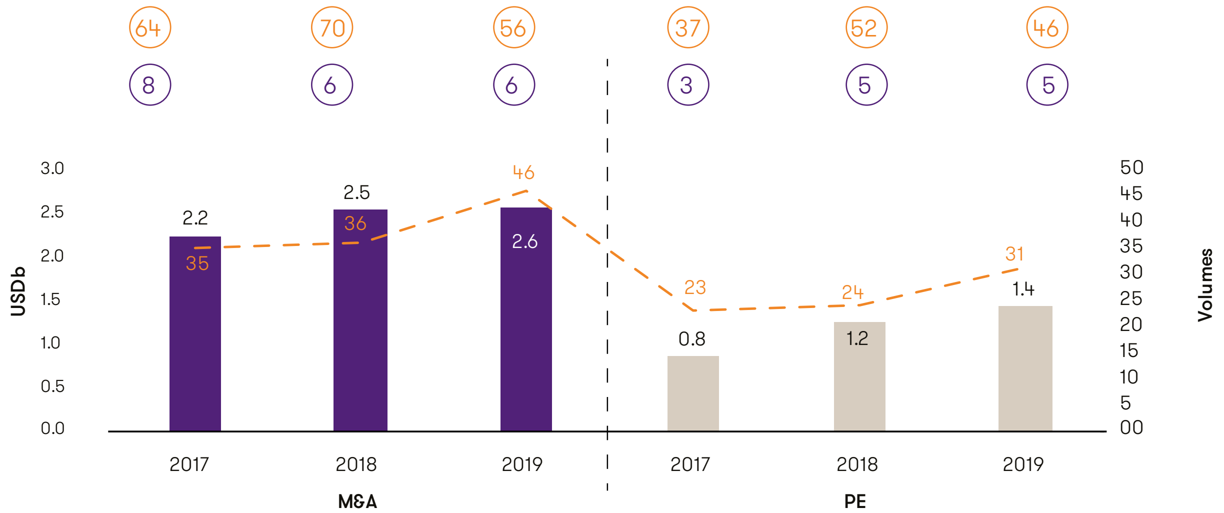
In terms of M&A activity, the year saw several acquisitions of e-commerce and consumer technology companies by the traditional brick and mortar companies, indicating a shift in their strategy towards e-commerce. Reliance Industrial Investments acquired majority stakes in Shopsense and Grab A Grub, Titan and Walmart acquired additional stakes in Caratlane and Flipkart respectively and Aditya Birla Fashions acquired Jaypore.

The continued pace of investment and M&A activity in the sector clearly highlights the future potential of e-commerce in India. Despite all the progress and the multibillion dollar valuations being ascribed on Indian companies, there is more room for growth as the fundamental drivers of the sector still remain intact. The proportion of organised retail and e-commerce industry to the overall retail sector, the industry's contribution to India's GDP, internet penetration and the percentage of people shopping online when compared to developed countries is still low. Further, digital payments, online financial services and online logistics is expected to enable the growth in e-commerce going forward. These factors are expected to continue driving the transaction activity in 2020.

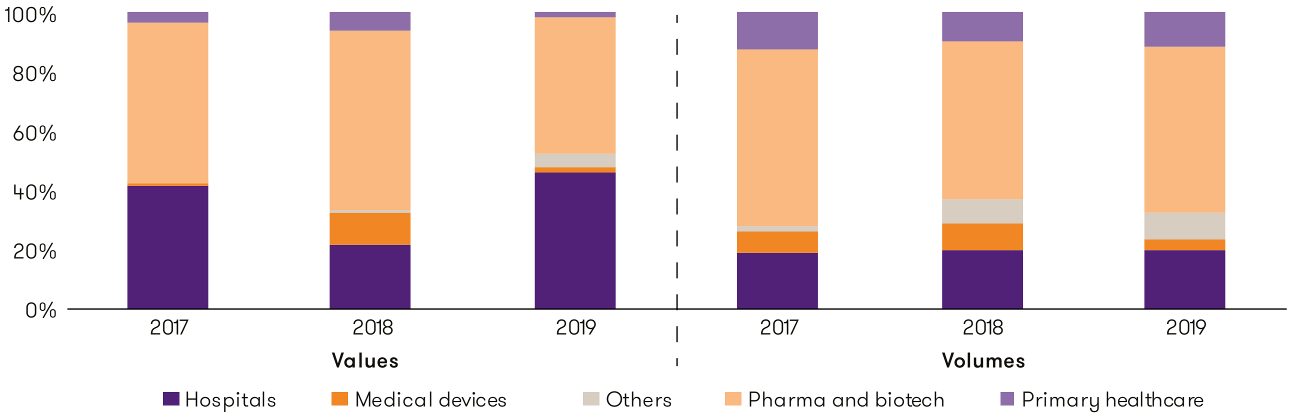
**Manish Saxena**
**Partner**
**Grant Thornton India LLP**

# Pharma, healthcare and biotech

## Year-on-year trend




## Sub-sector classification




## Top M&A deals

**The top deals accounted for 80% of the total sector deal values**

| Acquirer | Target | Sub sector | USD m | % stake |
|---|---|---|---|---|
| Radiant Life Care Pvt. Ltd. - Healthcare Business | Max Healthcare Institute Ltd. and Max India Ltd. | Hospitals | 1,020 | N.A. |
| Radiant Life Care Pvt. Ltd. | Max Healthcare Institute Ltd. | Hospitals | 301 | 50% |
| Varian Medical Systems, Inc. | Cancer Treatment Services International | Hospitals | 283 | 100% |
| Apotex Inc- Apotex Pty Ltd. | Strides Shasun Ltd. (Strides Pharma Global Pte) - Arrow Pharmaceuticals | Pharma and biotech | 282 | 100% |
| Dhanuka Laboratories Ltd. | Orchid Pharma Ltd. | Pharma and biotech | 162 | 100% |

## Top PE deals

**The top deals accounted for 69% of the total sector values**

| Investor | Investee | Sub sector | % stake | USDm |
|---|---|---|---|---|
| Unison Capital Partners | Lupin Ltd. Kyowa Pharmaceutical Industry Co. Ltd. | Pharma and biotech | 99.8% | 525 |
| Caisse de dépôt et placement du Québec | Piramal Enterprises Ltd. | Pharma and biotech | N.A. | 250 |
| General Atlantic | Rubicon Research Pvt. Ltd. | Others | N.A. | 100 |
| Quadria Capital | Akums Drugs & Pharmaceuticals Ltd. | Pharma and biotech | N.A. | 70 |
| Affirma Capital | Tirupati Medicare Ltd. | Pharma and biotech | N.A. | 50 |

## Expert speak

The pharma and healthcare sector deal activity was minimal during 2019. There were expectations of new PE funding and PE portfolio exits to fuel the deal activities during this year, but the financial performance of companies, valuation expectations, demand outlook and certain economic factors have pushed the plans of new private investments and exits by PE funds possibly by another year.

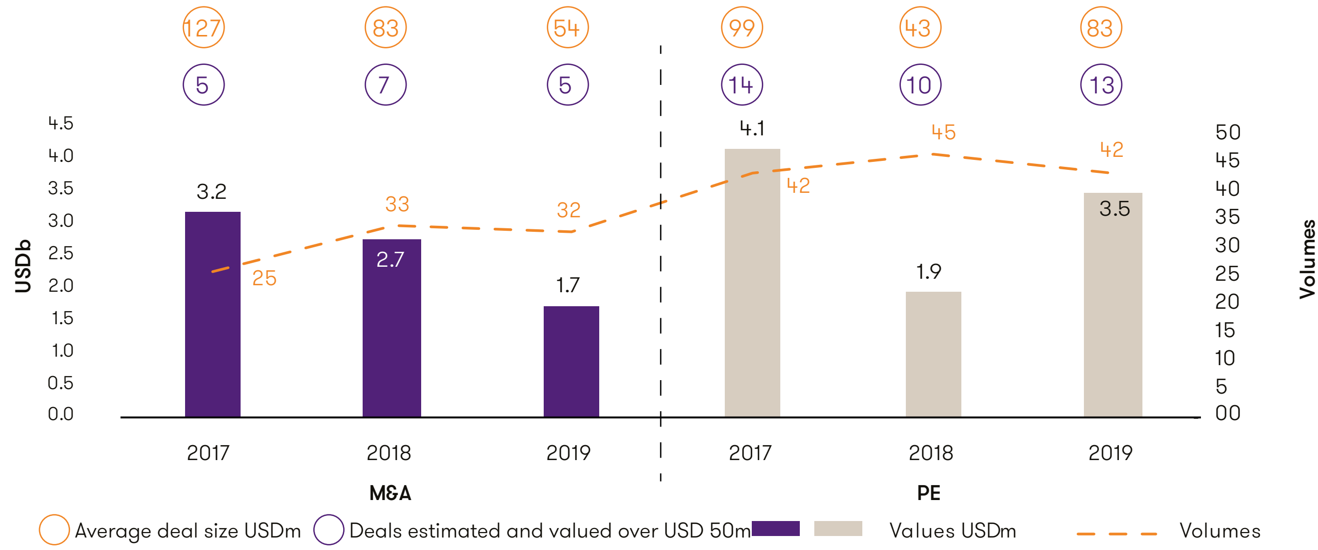
In the healthcare segment, single specialty healthcare continues to be an attractive segment from an investment perspective - Dr Agarwals, Centre for Sight, NephroPlus and CTSI were some that got funded. The pharma and lifesciences segment saw good traction in M&A deals but there were no blockbuster deals. The government policy interventions like Ayushman Bharat, National Pharmaceutical Pricing Authority (NPPA) and regulatory requirements of US Food and Drug Administration (USFDA) had an impact on deal-making and overall performance in this sector. Bharat Serums, Caplin Point Laborities Limited, Rubicon and Ashish Life Sciences were some of marquee inbound pharma deals, and Lupin's exit from Kyowa Pharma was one of the marquee outbound pharma deals during 2019.

The M&A and PE outlook for the sector in 2020 will remain guarded as both the promoters and investors are focusing on the business fundamentals, pushing domestic market growth, digital investments and strengthening the product offerings for global markets. The investors will continue to be in wait-and-watch mode from both investment and exit perspectives. The government and industry are making significant efforts in strengthening various corridors of growth, which should result in positive deal sentiments in the market.

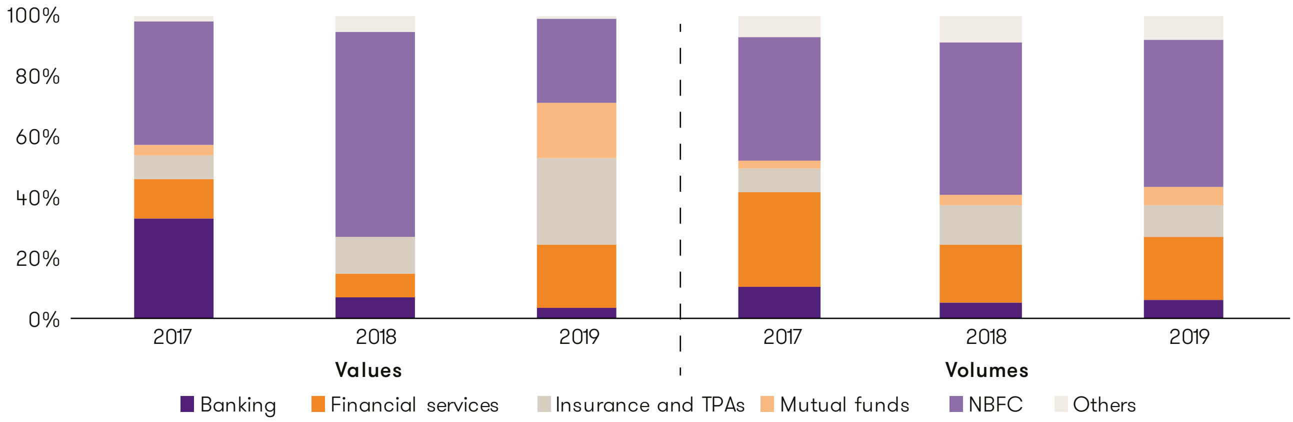
**Santhosh C**
**Director**
**Grant Thornton India LLP**

# Banking and financial services

## Year-on-year trend




## Sub-sector classification




## Top M&A deals

**The top deals accounted for 83% of the total sector deal values**

| Acquirer | Target | Sub sector | % stake | USDm |
|---|---|---|---|---|
| Nippon Life Insurance Co. Ltd. and other existing investors | Reliance Nippon Life Asset Management Limited | Mutual funds | 43% | 860 |
| HDFC Ltd | Apollo Munich Health Insurance Co. Ltd. | Insurance and TPAs | 51% | 195 |
| Sundaram Finance Ltd. | Sundaram BNP Paribas Home Finance Ltd. | Banking | 50% | 145 |
| CreditAccess Grameen Ltd. | Madura Micro Finance Ltd. | NBFC | 100% | 123 |
| BAC Acquisitions Pvt. Ltd.- BACQ | Chaitanya Rural Intermediation Development Services Pvt. Ltd. | NBFC | N.A. | 104 |

# Top PE deals

**The top five deals accounted for 44% of the total sector values**

| Investor | Investee | Sub sector | %stake | USDm |
|---|---|---|---|---|
| Warburg Pincus and Premji Invest | SBI General Insurance Company Ltd. | Insurance and TPAs | 26% | 432 |
| Blackstone Group Inc. | Aadhaar Housing Finance Ltd. | Financial services | 70% | 310 |
| Grasim Industries Limited, Surya Kiran Investments Pte Limited, IGH Holdings Private Limited, Pilani Investment and Industries Corporation Limited, PI Opportunities Fund-I, Jomei Investments Limited | Aditya Birla Capital Ltd. | Financial services | N.A. | 296 |
| Caisse de dépôt et placement du Québec | ECL Finance Ltd. | NBFC | N.A. | 250 |
| New Investment Solutions | DMI Finance Pvt. Ltd. | NBFC | N.A. | 230 |

# Expert speak

## Life insurance sector growth

Gross premiums written in India reached USD 82.8 billion in FY19, with USD 58.5 billion from life insurance and USD 24.3 billion from non-life insurance. The life insurance industry in the country is expected to grow 12-15% annually for the next three to five years. In the life insurance segment, private players had a market share of 25.29% in the new business in FY19.

## Non-life insurance sector growth

The gross direct premiums of non-life insurers in India reached USD 24.32 billion in FY19. In FY20 (up to August 2019), gross direct premiums reached USD 10.21 billion, showing a year-on-year growth rate of 14.47% and gross direct premium from health insurance reached USD 1.21 million in FY20 (up to June 2019), contributing 5.87% to the gross direct premiums of non-life insurance companies in India. The market-share of private sector companies in the non-life insurance market rose from 13.12 % in FY03 to 55.7 % in FY20 (up to April 2019).

Large insurers continue to expand, focusing on cost-effective measures/cost rationalisation and aligning business models to realise reported embedded value. The efforts of the insurers are towards creating value from future business rather than focusing on present profits.

- There is high focus on digitalisation in India to drive online insurance sales.
- Digitalisation has had its impact on several industries in the country, insurance being one of them.
- In India, the digital influence on insurance sales is 13% for life insurance, 15% for health insurance, 9% for motor insurance and 21% for travel insurance.
- Approximately INR 80 billion of new insurance sales are digitally influenced. It is estimated that it may rise to 50% for life insurance and 75% for non-life insurance by 2020.
- This changing behaviour of the Indian consumer towards online transactions is expected to have a significant impact on the sales of online insurance policies.
- Digitisation is expected to reduce 15-20% of total cost for life insurance and 20-30% for non-life insurance.
- The reduced cost associated with buying insurance through online channel and the availability of a wide range of product information for the comparison of policies are expected to attract more customers towards buying insurance policies through the online channel.

## Road ahead

The future looks promising for the life insurance industry with several changes in the regulatory framework that will lead to changes in the way the industry conducts its business and engages with its customers. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance.

## Broking sector

Discount broking is gaining pace and is soon expected to be at par with full-service broking before even gaining a majority share of the market. Some of the leading discount broking entities in India are Zerodha, 5Paisa, Upstox, Samco Securities and Trade Smart Online.

Capital market regulator SEBI has tightened the rules for usage of securities/client funds by trading/clearing members. As per the new rules, stockbrokers have been asked to transfer the securities to their client accounts within one day of receiving the payment. If the client defaults on the payment, brokers have been asked to hold the securities up to five days, post which they can liquidate the securities in the market and recover dues. This tightening of rules around utilisation of client funds by brokers comes after the regulator has witnessed several instances where brokers used client funds to pay for their proprietary trades. The frauds at Karvy Stock Broking and BRH Wealth Kreators (formerly BMA Wealth Creators), among others, have been triggered by mishandling of clients' shares and funds, which were unearthed during audits by the NSE.

## Mutual fund sector

Mutual fund investing has a significant contribution in the development of the Indian economy.

The economic slowdown, which has been gathering pace since the start of 2018, has now come to bite mutual fund returns. Key equity mutual fund categories have delivered lower returns than the Public Provident Fund (PPF), a risk- and tax-free debt instrument, in the last five years.

Fund houses have to strive for more innovative schemes and a better approach to attract investors, even as more and more people are now investing in mutual funds, enthused by the government's promise of bold economic reforms. Financial planners have expressed confidence in the long-term prospects of the economy as reforms are implemented.

Mutual fund investing has the ability to satisfy a diverse range of investors due to various risk-return preferences. Investors are gradually moving away from the physical asset market. With real estate prices falling as well as the inflation-protection asset class like gold also declining, people are shifting to mutual funds. This will lead to an increased investment in financial savings. Such rise in domestic inflows in mutual funds will support the equity prices.

## HFCs

Housing finance companies (HFCs) are the backbone of the Indian housing market and among the low and middle-income group houses, the proportion of loans from HFCs significantly increases. While large HFCs have access to bond markets in addition to bank borrowing and refinance as their source of funding, smaller HFCs, which play a critical role in providing home loans to economically weaker sections in India, almost entirely rely on banks and NHB refinance for funding. Thus, to achieve the Narendra Modi government's ambitious target of providing housing for all Indians by 2022, HFCs need to remain healthy. The target of housing for all needs an investment of INR 100 lakh crore to build 10 crore more houses, going by tan RBI report.

As announced in the 2019 Union Budget, the government has taken away the powers of the National Housing Bank (NHB) to regulate HFCs and handed them to RBI. The RBI Act will be amended to give RBI powers to regulate the HFC sector.

The housing finance sector growth has slowed down in the last one year due to a liquidity crunch. HFCs lowered their disbursements and raised portfolio sale through securitisation for repayment of debt obligations. Banks increased their retail home loan portfolio by 19 % while HFCs grew by 9% last financial year, as banks used this opportunity to expand in the retail segment.

The Centre and RBI have taken several steps to ease liquidity. Due to the change in the minimum holding period criteria, additional assets worth INR 40,000 crore have become eligible for selling down. NHB has enhanced the refinance limits that can be accessed by eligible HFCs to tide over temporary mismatches. RBI has infused liquidity in the system by conducting open market operations, enhanced the single-borrower limit for exposure of banks to NBFCs, and reduced the minimum average maturity requirement for external commercial borrowings (ECBs) in the infrastructure space to three years from five years.

Affordable housing under the Pradhan Mantri Awas Yojana is growing and projects catering to the affordable housing segment are getting liquidity. Tax breaks on interest paid on loans for affordable housing have been extended until 2020.

## NBFCs

Due to the deepening liquidity crisis in the financial services sector and the resultant failure of some of the biggest NBFCs in discharging their debt obligations, the Ministry of Corporate Affairs (MCA) set out the rules governing the insolvency and liquidation of financial service providers (FSPs) and cast the applicability of these rules and the Code to systemically important NBFCs (including housing finance companies) as a class of FSPs. These rules keep FSPs on a different footing as compared to corporate entities in other sectors and set out certain unique requirements/limitations in respect of initiation and administration of insolvency and/or liquidation proceedings against FSPs. The notification also designates RBI as the appropriate regulator for the purposes of the FSP rules.

Since this MCA notification, only DHFL has been admitted under this Regulation and the Code. All previous applications were rejected/set aside by NCLT on the grounds that NBFCs are FSPs and the corporate insolvency resolution process cannot be initiated if it is registered with the RBI as such.

During the calendar year 2019, RBI cancelled the Certificate of Registrations of 291 NBFCs. Further, 45 NBFCs surrendered their certificate of registration during 2019.

## MFIs

NBFC-MFIs continue to maintain their market dominance with a market share of 38% in Q3 FY 2019 and a robust 24% YoY growth. The market is expected to witness some structural adjustments primarily due to consolidation in the industry but the organic growth of MFIs is likely to continue. As per data shared by MFIN, microfinance currently reaches less than 20% of potential households. With banks having difficulties in making last-mile access to credit available, there is a large gap to be met. The delinquency rates (in some states) are expected to increase in the coming periods primarily due to the impact of natural calamities (floods, cyclones) and politicisation of government policies (NRC). Policymaking and regulations also need to evolve taking into account the ground realities and new business models. RBI has recently increased the threshold for household income limits and also the limits on the total indebtedness of borrowers, which will pave the way for increased credit flow into this sector.

## Banking sector and its current scenario

The slowdown in global and domestic growth impulses in the recent past impinged on credit demand. Further, the asset quality, capital adequacy and profitability of scheduled commercial banks improved after a long period of stress, although challenges emerged from other institutions like NBFCs, HFCs and co-operative banks. Currently, issues such as resolution of stressed assets, weak corporate governance and frauds need to be addressed to reaffirm a robust financial sector that minimises systemic risks. Digitalisation in the banking industry has gained significant momentum, leading to ease and a more secured banking in the current time.

## Banks need to be cautious

RBI has cautioned banks on retail lending and asked them to be watchful of household leverage and indebtedness. With demand for credit slowing down from the corporate sector, the retail segment saw a big surge in lending. The slowdown in consumption and overall economic growth may affect the demand for and the quality of retail loans in the future. Amidst a slowdown in the economy, bank credit is expected to grow at 6.5-7.0% during the current fiscal FY20 from 13.3% during FY19 on account of limited incremental credit growth during the financial year so far, which will be the lowest growth in the last 58 years. Delinquency in home loans rose for NBFCs and HFCs, while it remained stable for banks.

## Some good news

As the bad loan recognition process nears completion, the health of the banking system has improved as the numbers indicate on a full-year basis - in FY18, the gross NPA ratio stood at a high of 11.2% and slipped to 9.1% in FY19. Reflecting the improvement in the health of the banking system, net NPAs nearly halved to 3.7% in FY19 from 6% in FY18. Decline in the slippage ratio as well as a reduction in outstanding gross NPAs are good signs of improvement in the banking system.

## Recapitalisation of PSBs and big bank mergers

Finance Minister Nirmala Sitharaman in the 2019 Union Budget said that the government will infuse INR 70,000 crore into public sector banks (PSBs) in FY20 to strengthen and enhance their lending capacity. Over the last five financial years (FY15 to FY19), PSBs have been recapitalised to the extent of INR 3.19 lakh crore, with an infusion of INR 2.5 lakh crore by the government and the mobilisation of over INR 66,000 crore by PSBs themselves. The deferment of the implementation of the last tranche of the capital conversion buffer (CCB) till 31 March 2020 has offered some breathing space to these banks. Further, the government initiated an extensive consolidation of state-owned banks that will see 10 of them being merged to form four bigger lenders to strengthen a sector struggling with bad-loan clean-up and aimed at creating lenders of global scale.

## Massive cuts

RBI cut repo rates by a total of 135 basis points this year, in order to boost economic growth and increase liquidity. The policy rates are at a decade low of 5.15%.

## Resolution kicks in

The resolution of Essar Steel and Ruchi Soya will boost profitability of various banks in the third quarter of the current financial year. There are some more hopes of resolution under the IBC regime and that the last quarter too will be better as the money from the resolution of Alok Industries and Bhushan Power & Steel Ltd. would flow in during January-March 2020.

## Corporate governance in regulated entities

The growing size and complexity of the Indian financial system underscore the significance of strengthening corporate governance standards in regulated entities. The recent governance failures in some financial entities have shown the impact of the quality of corporate governance on efficiency in allocation of resources as well as on financial stability. RBI is in the process of issuing draft guidelines on corporate governance for regulated entities; the objective is to align the current regulatory framework with global best practices while being mindful of the context of the domestic financial system. During 2018-19, RBI introduced a prudential framework for resolution of stressed assets, which aimed at ring-fencing and protecting the banking sector from the build-up of non-performing assets that was further aligned to the best international practices, while monetary policy responded to the emerging macroeconomic developments.

## Guidelines on compensation

Employees were often rewarded for increasing short-term profit without adequate recognition of the risks and long-term consequences that their activities posed to the organisations. These perverse incentives amplified excessive risk taking that severely threatened the global financial system. The compensation issue has, therefore, been at the centre stage of regulatory reforms. Accordingly, guidelines have since been reviewed based on experience gained and evolving international best practices and will be applicable for pay cycles beginning from/after 1 April 2020.

## Early fraud detection

Frauds can occur on account of overlooking regulatory guidelines and/or on lapses in process, internal risk governance, compliance and audit functions.

The following are some of the statistics related to the frauds reported by the banks:

- Frauds reported by banks during H1FY20 touched an all-time high amount of INR 1.13 lakh crore, owing to delay in detection by lenders. Similarly, in FY19, banks had reported 6,801 cases of fraud involving INR 71,543 crore.
- An analysis of the frauds reported during FY19 and H1FY20 shows a significant time-lag between the date of occurrence of a fraud and its detection.
- Loan-related frauds continued to dominate in aggregate, constituting 90% of all frauds reported in FY19 by value and 97% of all frauds reported in H1FY20.

The following are some of the mechanism by RBI and banks for early fraud detections:

- Steps are being taken to integrate fraud reporting of NBFCs and urban co-operative banks in central fraud registry database by the RBI. Such interlinking would serve as an invaluable resource in effective fraud detection/monitoring and a greater thrust has been put on improved governance.
- Special emphasis is being given towards specific expectations on board/its committees and senior management towards fraud management. Sharpened focus on fraud response plan is being sought from the banks and for this, stricter timelines and clear-cut guidance with respect to reporting of frauds and declaration and processing of red flagged accounts (RFAs) will be prescribed.

## Way forward

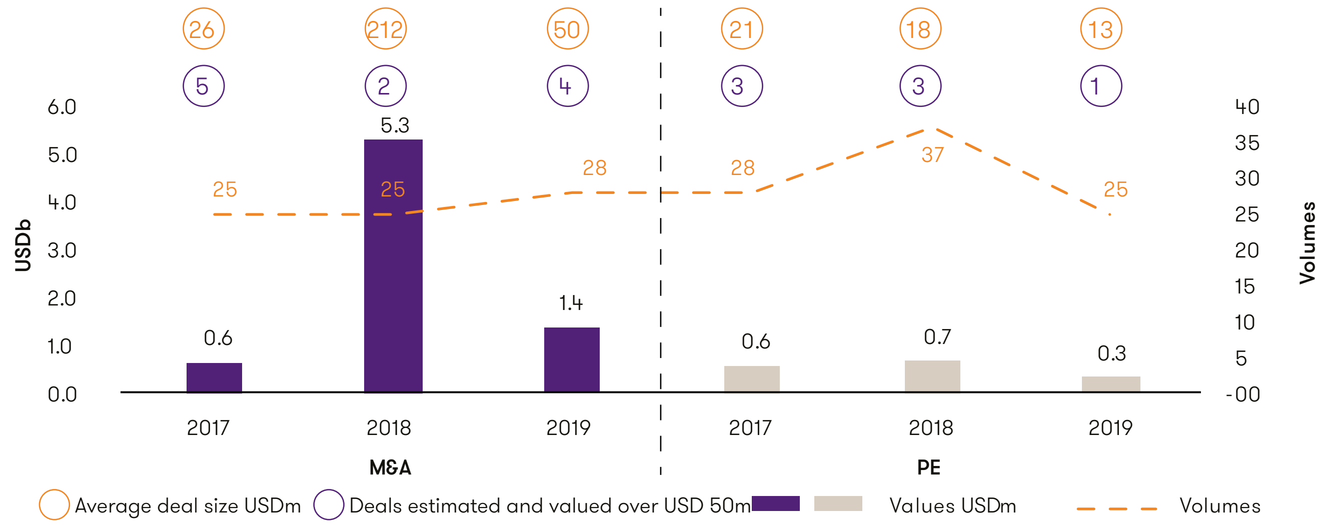
RBI has asked lenders to cut their stakes in insurers to 30%, as the banking regulator attempts to shield banks from risks arising out of their non-banking businesses and steer focus to boosting credit growth in a slowing economy. Going forward, optimal bank capital, stringent corporate governance practices and effective risk management strategies will help in strengthening the robustness of the banking system in an increasingly dynamic economic environment.

**Khushroo Panthaky**
**Chartered Accountant**
**Mumbai**

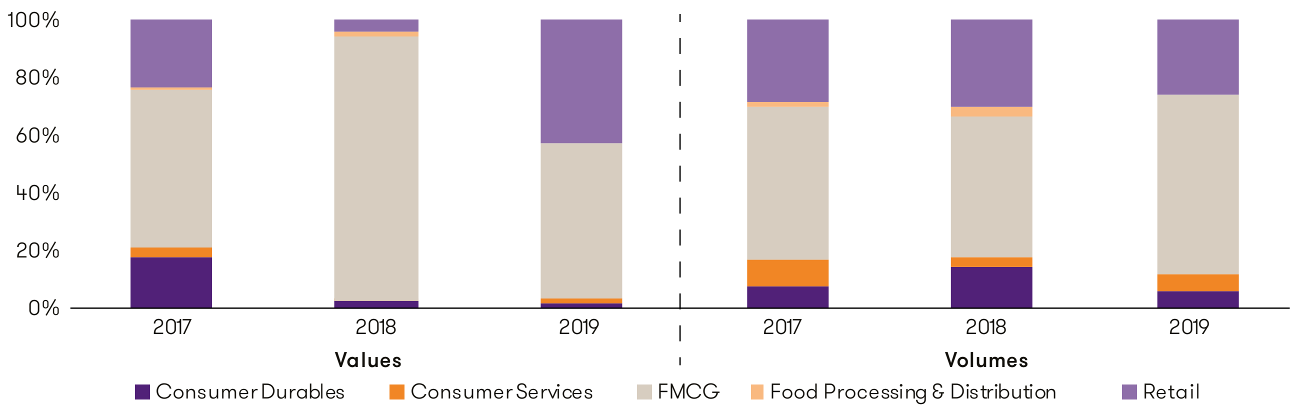
Source : The Economic Times, RBI, IRDAI, IBEF, Mordor intelligence

# Retail and consumer

## Year-on-year trend




## Sub-sector classification




## Top M&A deals

**The top deals accounted for 90% of the total sector deal values**

| Acquirer | Target | Sub-sector | % stake | USDm |
|---|---|---|---|---|
| Patanjali Ayurved Ltd. | Ruchi Soya Industries Ltd. | FMCG | 100% | 613 |
| Amazon Inc. | Witzig Advisory Services Private Ltd. | Retail | 49% | 294 |
| Amazon Inc. | Future Coupons Ltd. | Retail | 49% | 214 |
| Reliance Industries Ltd. | Hamleys Global Holdings Ltd. | Retail | 100% | 89 |
| Spencer's Retail Ltd. | Nature's Basket Ltd. | Retail | 100% | 43 |

## Top PE deals

**The top deals accounted for 71% of the total sector values**

| Investor | Investee | Sub-sector | % stake | USDm |
|---|---|---|---|---|
| Advent International | DFM Foods Ltd. | FMCG | 68% | 120 |
| Advent International | Gokaldas Intimatewear Pvt. Ltd.-Enamor | Retail | 100% | 45 |
| Samara Capital | Nature's Essence Pvt. Ltd. | FMCG | N.A. | 29 |
| Danone Manifesto Ventures, Verlinvest, DSG Consumer Partners and angel investors | Drums Food International Pvt. Ltd. | FMCG | N.A. | 26 |
| NeoMile Capital | British Brewing Company Pvt. Ltd. | FMCG | N.A. | 14 |

## Expert speak

The Indian retail industry would play a pivotal role in enabling the country to achieve the USD 5 trillion economy mark. Retail industry in India stood at an impressive USD 970 billion in 2019 when the country's GDP was USD 2.72 trillion. It is expected that the industry will continue to grow at a CAGR of 6% between 2019 and 2021 and reach USD 1,140 billion.

The private sector consumption expenditure in India has grown at about 10-12% historically, and is expected to grow by 10-11% year-on-year until 2021, thereby giving a boost to the retail industry. Moreover, in 2019, India's per capita GDP was USD 2,000, a feat that China achieved in 2004 post which their retail industry shifted gears and grew significantly.

The retail market in India is growing at a robust rate and some key market trends shaping the Indian retail industry are highlighted below:

- **Higher discretionary spending**: With the largest millennial population globally, India offers a tremendous growth potential for the consumer markets and retailers. A significant portion of the country's population is driving consumption and a thrust in discretionary spending is fuelling growth in the retail sector
- **Growth in organised players**: While traditional formats or unorganised retail formats continue to dominate the retail market, organised retail is growing at a faster pace and capturing greater share of the traditional retail segment. Organised players are impacting the consumer's share of wallet and driving consumption.
- **Higher women workforce**: With a changing societal mind-set and increasing gender equality at office, the number of women entering workforce has been on the rise. The women workforce in India is expected to reach 8 million by 2021. This has led to an increase in earning members and family income, thereby rising discretionary spending.
- **Rapid growth in e-commerce:** This can be attributable with growing internet penetration, rising number of online shoppers and increasing usage of smartphones.
- **Large retail brands betting on India**: India is increasingly becoming a focal point for fashionistas with more than 300 international brands expected to open stores by 2021.
  - **Shift in share of wallet**: The growing middle class consumers will contribute to a large part of sales mainly due to impulse buying driven by high disposable incomes.
  - **GST policies on e-commerce**: GST and several government policies to boost e-commerce have been initiated in the country. This will provide further thrust to the growth of the organised sector in India.

Given the aforesaid paradigm shift, the deal environment is expected to be positive driven by PE investments in businesses trying to organise unorganised sub sectors and consolidation driving the M&A trends.

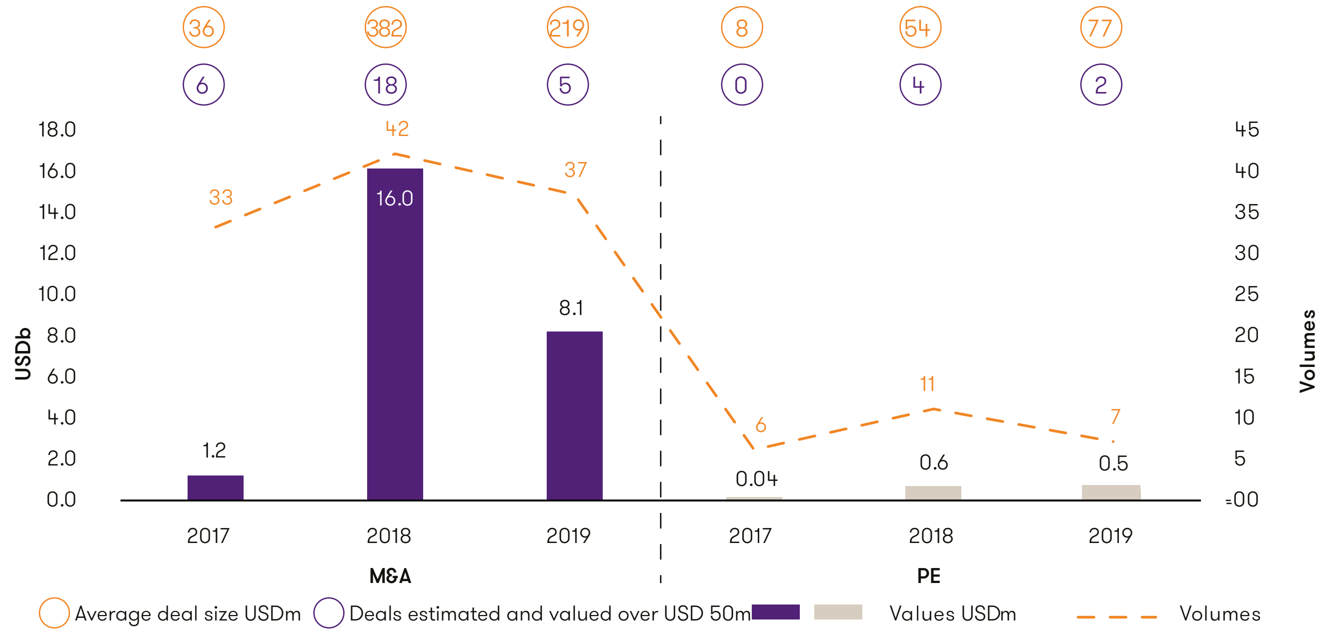
**Rahul Kapur**
**Partner**
**Grant Thornton India LLP**

# Sectors attracting big-ticket deals

- Manufacturing
- Energy and natural resources
- Infrastructure management

# Manufacturing

## Year-on-year trend




## Expert speak

Various government initiatives such as Make in India as well as National Manufacturing Policy have given manufacturing the impetus that is necessary for its potential growth. Further, global majors such as GE, Siemens, Boeing, etc., have considered India a stronghold for manufacturing facilities considering India's burgeoning workforce. These events have put India well on course to gaining traction and featuring as a global manufacturing hub.

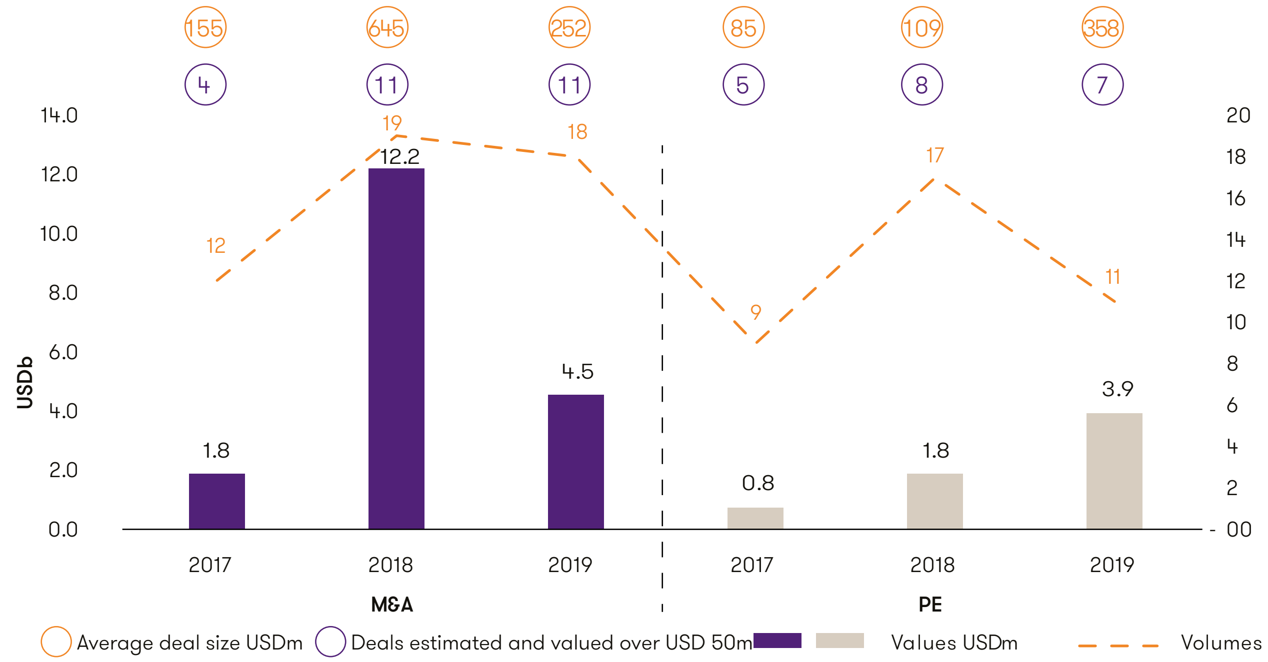
Deal activity in the manufacturing space remained subdued at USD 8.6 billion in 2019 after a buoyant trend noticed in the last few years. While 2019 registered a de-growth on an annualised basis in terms of deal activity, 2018 was a better year for deal making in this sector due to large-ticket transactions, including distressed deals under the corporate insolvency resolution process. The decline in 2019 was on the back of a general economic slowdown witnessed globally, which has resulted in decreasing output. Consequently, deal activity in 2019 fell short of the 2018 levels both in terms of (a) value and volume of cross-border transactions as well as (b) value of domestic transactions.

However, despite these concerns, the Indian manufacturing sector is expected to revive at a macro level. Recent impetus provided by the government in the form of reduction of corporate tax rates, special schemes for start-ups, etc. are anticipated to be the catalysts for metamorphosing a favourable environment going forward.

**Gautam Dayaldasani**
**Director**
**Grant Thornton India LLP**

# Energy and natural resources

## Year-on-year trend




## Expert speak

The energy and natural resources segment in general had some momentum in 2019. India has set a huge target for renewable energy of 225  GW by 2022, which could bring in more investments, and some of the PEs have shown active interest in this space. The coal sector has been further opened for FDI and one could see some action there. More refining and downstream investments are planned. The challenges, though many, need to be addressed with more reforms coming in this space to achieve potential.

While there is a slowdown in the economy, it either throws up opportunities for consolidation or presents opportunities for good investment stake. Energy and natural resources saw such opportunities in abundance in 2019 as well. Power generation businesses including cleantech have seen much traction in the M&A space (India Grid and Sterlite Power Transmission of USD 1.7 billion) and contributed to the largest deal in this segment in value terms. Oil and gas (Total SA and Adani Gas USD 866 million) has contributed to the second largest deal in this segment, while in numbers there have not been many. Mining had the sole deal of USD 200 million in Cairn India and Anglo-American Plc.

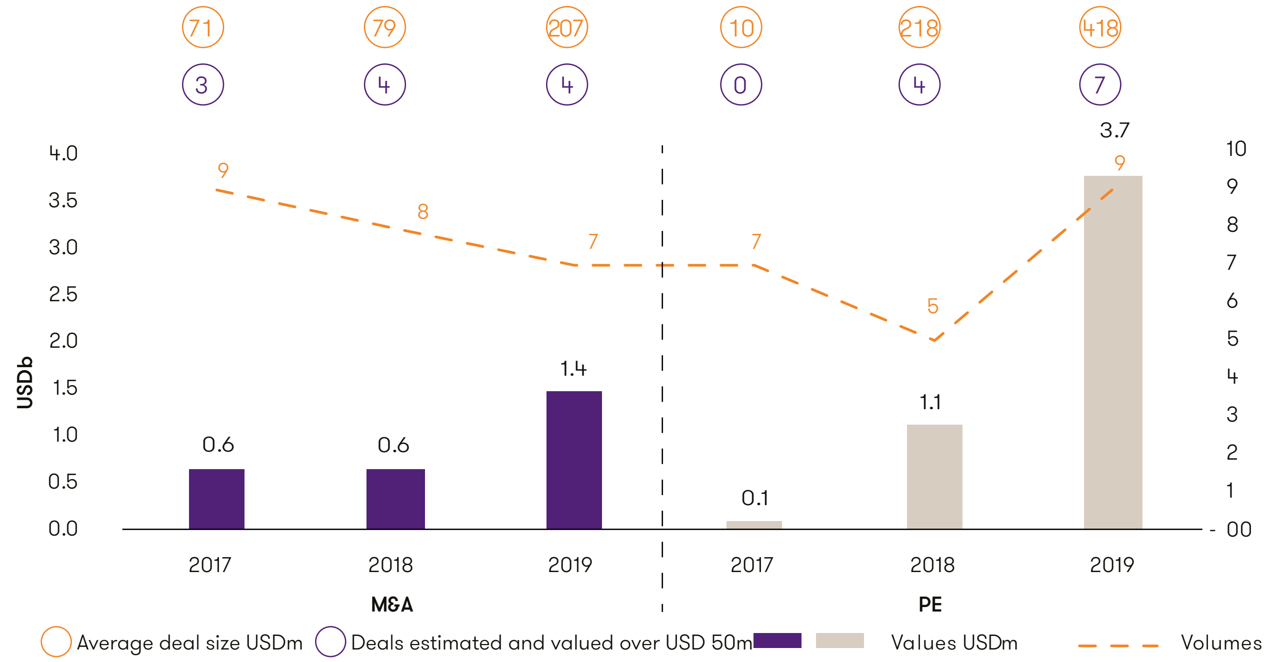
PE investment, however, gained better traction this year compared to the previous year with 11 deals amounting to USD 4 billion. However, oil and gas got the largest funding of more than 50% in the previous year in Brookfield's investment in the piped line infrastructure project of Reliance Industries Limited. Rest of the investments poured into the cleantech business.

In 2020, more is in store with the BPCL divestment on the cards. The largest global oil company ARAMCO, which is contemplating a large investment in India, presumably has also reached an understanding with Reliance Industries.

**Sridhar V**
**Partner**
**Grant Thornton India LLP**

# Infrastructure management

## Year-on-year trend




## Expert speak

India's infrastructure sector witnessed the highest deal activity in 2019. Several factors contributed to this. The most important factor was the infusion of private equity, due to the increased interest from PE funds, to invest in already operating assets. Deals saw a five-fold increase crossing the USD 5 billion mark over 2018. The sector is going through rapid changes in the expansion activity, be it the roads sector or the airport sector, and most of the PE funds, especially the international ones, have invested in these sectors. Greenfield sectors were not preferred by the investors due to the instability in returns caused primarily due to the socio-economic-political scenario where such projects have been conceived. Therefore, deals were seen in large-sized, already operating assets where the promoters were willing to offload their debt burden by selling their stake. The biggest deals happened in the airport sector by large players like GMR and GVK.

This trend of large-value deals is expected to continue through 2020 also, as road sector players are under stress to offload their debt burden. NIIF along with other international PE funds are on the lookout for several operating road assets. Currently, with the NHAI watching its investments closely and slowing down its investments, fresh infusion of large quantum of funds is not likely to take the required pace. The Hybrid Annuity Model of execution of the NHAI has seen some success but currently, the authority has slowed down its large-sized investments through this route.

**Padma Priya**
**Partner**
**Grant Thornton India LLP**

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Gautam Dayaldasani


Kuresh Khambati


Meghna Bansal


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# Marquee transactions

## Select transaction advisory credentials

**2017**

AION Capital Partners

Private equity investment

GE Capital GE Money

Plutus Financials

US$ 115 mn
Financial services

**Exclusive advisors to Plutus**

**2017**

WNS Extending Your Enterprise

acquired

Value Edge

US$ 20 mn
Healthcare-focused KPO

**Exclusive advisors to Value Edge**

**2016**

Suprajit

acquired

Wescon Controls

US$ 44 mn
Automotive

**Exclusive financial advisora to Suprajit**

**2015**

GIC

invested in

vatika creating lasting value

US$ 25 mn
Real estate

**Advisors to Vatika**

**2014**

Multiples

acquired

Livpure

US$ 18 mn Consumer Durables

**Exclusive advisors to Livpure**

**2014**

SBS Group For Your Dreams.

acquired

Transpole

US$ 72 mn
Logistics

**Advisors to Transpole**

**2014**

INOX Live the Movie

acquired

Satyam Cineplexes

US$ 40 mn
Media

**Exclusive advisors to Inox**

**2013**

TPG Pace Energy

invested in

Sutures India protecting lives

US$ 23 mn
Health care

**Advisors to Sutures**

2019

Acquisition of GE capital by AION

Undisclosed

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2019

Private equity investment in Shiksha Financial Services Limited

US$ 7.9m

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2019

Acquisition of Auroma logistics

US$ 6.5m

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2019

Acquisition of Waferspace

Undisclosed

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2019

Disposal

Undisclosed

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2019

Financial due diligence for Acquisition of Halogen Lighting business of Osram India

Undisclosed

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2019

Acquisition of Ti Technologies Pvt. Ltd.

Undisclosed

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2019

Strategic business transfer Wipro secures US$ 300m 7-year deal from ICICI Bank

Financial due diligence advisor

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An instinct for growth

2019

Acquisition of Isagro Asia Agrochemicals Pvt. Ltd.

US$ 49m

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2019

Acquisition of Meru Travel Solutions Private Limited

US$ 414.51m

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2019

Vendor due diligence for Uniply Industries Ltd.

Undisclosed

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2019

Acquisition of Dhunseri Tea & Industries Limited

US$ 14.5m

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2019

PE investment in InformDS Technologies Private Limited

USD 4m

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2019

PE investment in Loanzen Technologies Ltd

Undisclosed

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2019

Strategic acquisition of Born Group

USD 4m

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# About Grant Thornton in India

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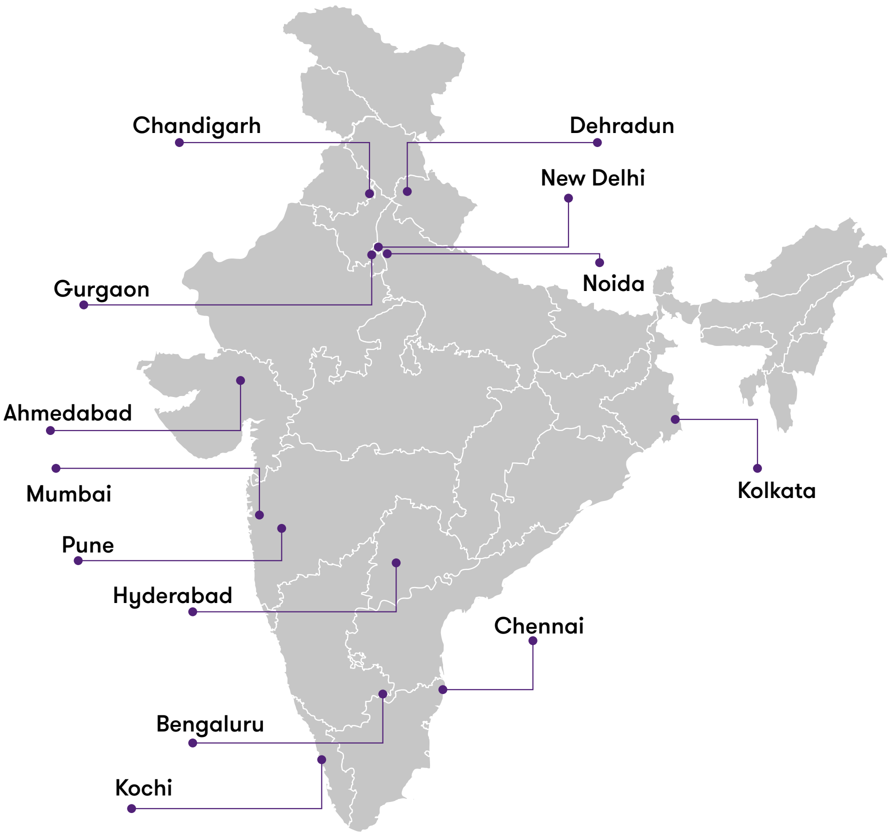

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