



Grant Thornton

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Dealtracker

Providing M&A and private equity deal insights

Q3 2019

Volume 15.9



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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.

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Foreword



Pankaj Chopda

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The year 2019 has so far witnessed global economic uncertainty, trade and other constraints that uneased geopolitical relationships and heightened volatility in the equity markets, dampening the deal activity. Along with all these factors, there are India-specific indicators like the recent slowdown in the automobile sector, crisis in the financial services sector, sluggish consumer demand, struggling manufacturing sector, tight liquidity and deceleration of growth rate which indicate tougher times. The GDP growth rate of the Indian economy slipped to 5% in the quarter from April-June 2019, the lowest in over six years. Amid this scenario, the year so far recorded 917 deals with deal values being almost half of those recorded in YTD 2018 and the lowest in the last three years (YTD 2019: USD 48 billion, YTD 2018: USD 93 billion).

Despite the government's efforts to revive sentiments, market performance remained muted due to global and domestic growth concerns. The July-September quarter recorded 308 deals valued at USD 15.6 billion, which saw a 12% and 15% drop in the deal volumes and values respectively as compared to Q3 2018. However, as compared to Q2 2019, the quarter recorded a healthy 27% increase in deal values, with a marginal 2% increase in deal volumes.

There was a steep decline in the M&A deal activity in Q3 2019 with total values dropping by more than half compared to Q3 2018, largely driven by a 71% fall in cross-border deal values. Regardless of this drop, it is encouraging to witness a steady pipeline of deals pushed by acquisitions of distressed assets, acquisitions to accelerate topline growth through new and attractive market segments and new capabilities, and divestment of non-core assets or businesses, particularly in capital-intensive industries. Similar to deal values, volumes also witnessed a 28% fall on the back of a 37% fall in domestic deal volumes. In addition to this, Indian companies remained inactive executing outbound transactions in Q3 2019 because of domestic and global uncertainties.

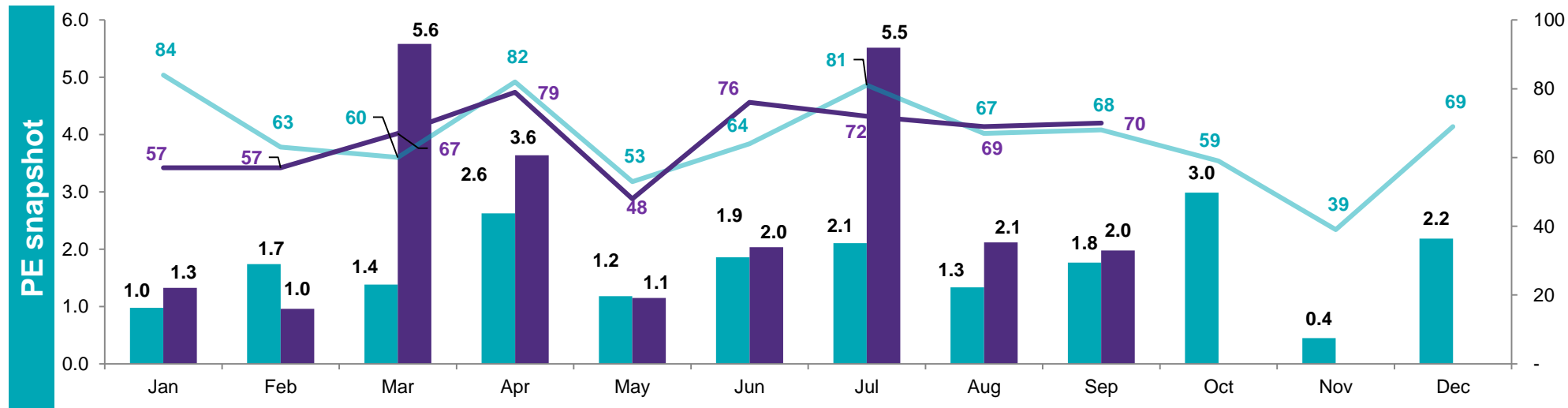
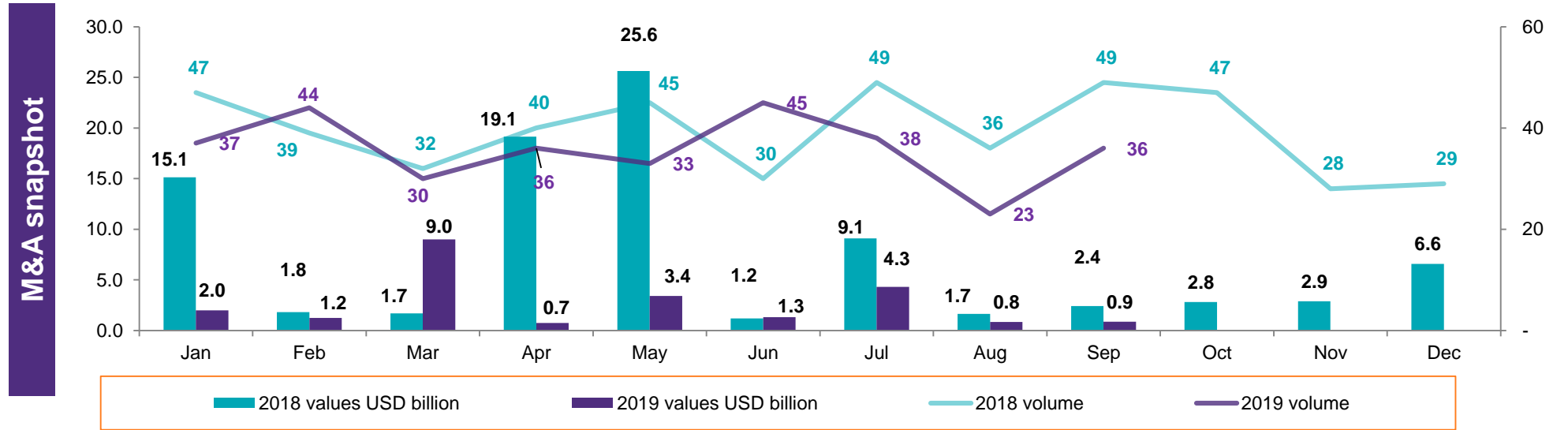
Contrary to the M&A deal activity, PE investments recorded an all-time high of USD 9.4 billion in the third quarter, surpassing the previous record of USD 7.9 billion in Q1 2019. Large investments added real momentum to the Indian private equity investment activity

with 21 high-value investments of at and over USD 100 million each contributing to 79% of the total PE investment values. With the increasing confidence amongst investors, the reduction in corporate tax rate is also expected to give a boost to companies in India and those that want to invest in India, making it more attractive for both overseas and domestic investors. This, in turn, will boost economic growth in the country.

Deal volumes across start-up, IT and ITeS, retail and consumer, pharma and BSFI sectors represented 75% of the deals by volume. Q3 witnessed the single-biggest private equity deal ever in India with Brookfield's USD 3.7 billion investment in Reliance Industries Ltd's telecom tower assets. With this, the telecom sector topped the value chart for the quarter followed by high-value deals in the retail, infra, energy and banking sectors, together capturing 66% of the total deal values. Cross-sector deals are on the rise with significant opportunities to build scale through adoption of robotics, artificial intelligence and other technology solutions. The government has been working on a roadmap to not just clean the banking system but also make it robust. Rising investment in technology and infrastructure will realise efficiency gains. Additionally, adoption of technology and continuous innovations across sectors is likely to boost deal activity.

In light of the economic slowdown and depressed capital markets, Finance Minister (FM) Nirmala Sitharaman announced a slew of measures, including a rollback of the surcharge on foreign and domestic portfolio investors to increase consumer demand and investments, enhancing the liquidity of banks to shore up purchases by consumers, easing Goods and Services Tax (GST) refunds to micro, small and medium enterprises, easing conditions for a struggling automotive sector, and exempting start-ups and their investors from angel tax. These measures are expected to boost the deal sentiment.

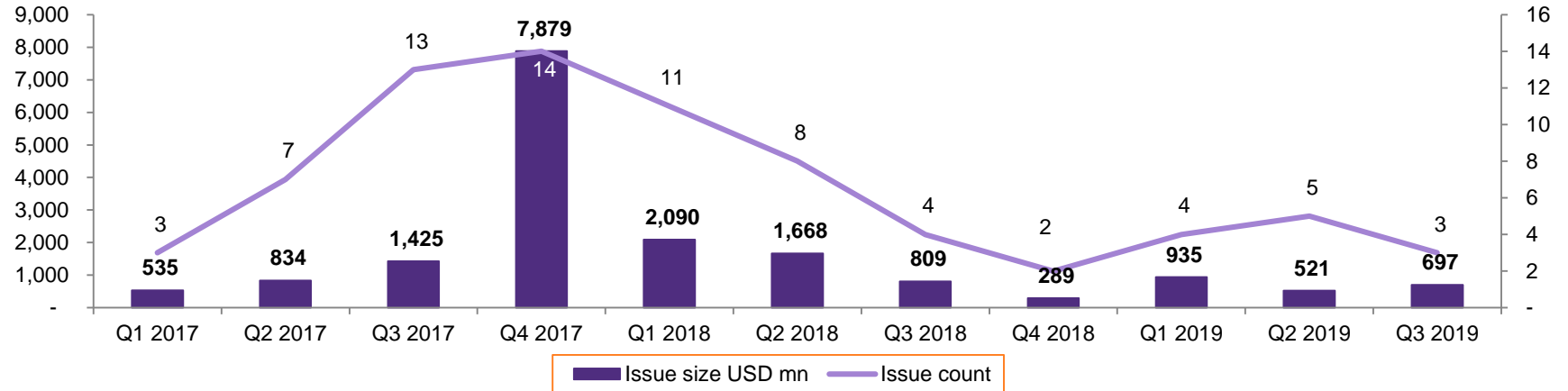
Deal snapshot



Deal snapshot

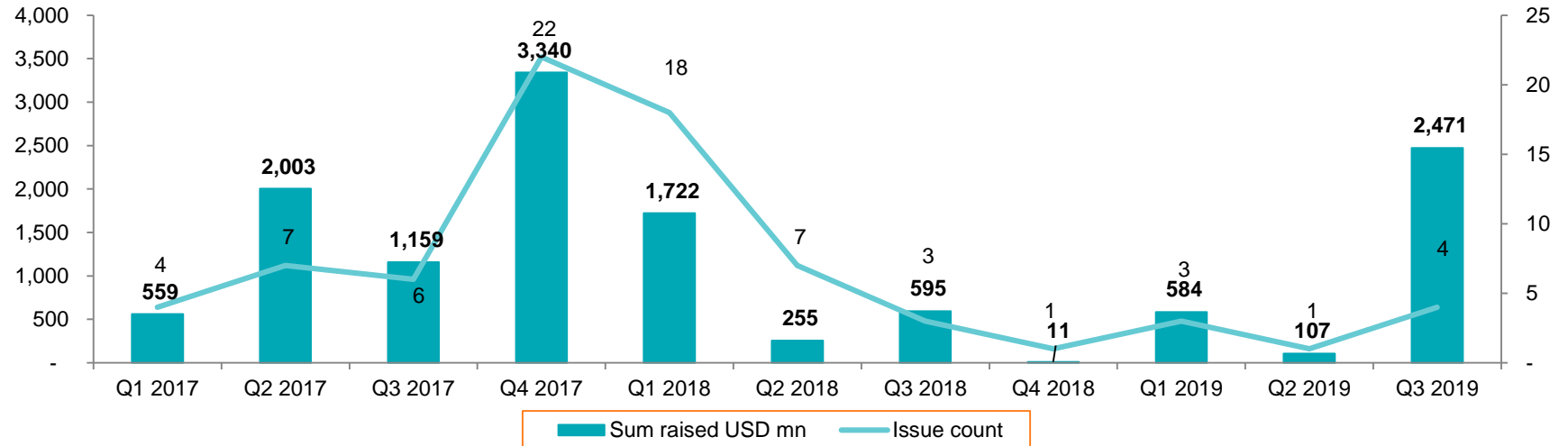
IPO snapshot

In YTD 2019, only 12 IPOs were raised worth USD 2.2 billion compared to 23 IPOs worth USD 4.6 billion raised in YTD 2018.



QIP snapshot

YTD 2019 recorded eight QIP issues of USD 3.2 billion compared to 28 issues worth USD 2.6 billion recorded in YTD 2018



Deal round-up: Q3 2019

Deal summary	Volume			Value (USD million)		
	2017	2018	2019	2017	2018	2019
Domestic	66	87	55	751	2,349	2,871
Cross-border	46	45	42	1,019	10,826	3,154
Merger and internal restructuring	7	2		376	10	
Total M&A	119	134	↓ 28% 97	2,146	13,185	↓ 54% 6,025
Private equity	153	216	↓ 2% 211	7,119	5,202	↑ 85% 9,613
Grand total	272	350	↓ 12% 308	9,265	18,387	↓ 15% 15,638
Cross-border includes						
Inbound	26	19	23	690	2,438	3,007
Outbound	20	26	19	329	8,388	147

Q3 2019

Deal summary	Volume			Value (USD million)		
	2017	2018	2019	2017	2018	2019
Domestic	170	215	183	4,179	25,946	14,858
Cross-border	130	139	132	5,210	34,414	7,808
Merger and internal restructuring	16	13	7	23,694	17,469	1,050
Total M&A	316	367	↓ 12% 322	33,083	77,829	↓ 70% 23,716
Private equity	565	622	↓ 4% 595	15,490	14,961	↑ 62% 24,302
Grand total	881	989	↓ 7% 917	48,573	92,790	↓ 48% 48,018
Cross-border includes						
Inbound	70	70	68	4,059	23,846	6,057
Outbound	60	69	64	1,151	10,568	1,751

YTD 2019

Overall deal activity remains sluggish, but PE activity is on the rise

- The slump in the Indian economy is evident with overall deal activity witnessing 12% and 15% declines in the deal volumes and values respectively in Q3 2019 compared to Q3 2018. Macro factors leading the fall include the GDP growth rate of the Indian economy slipping to 5% from the April to June quarter, the lowest in over six years. Exogenous factors seen adding to the slump in the economy include the US-China trade war, fears of a looming global recession, a possible disorderly Brexit, protests in Hong Kong and political jitters in Italy, Chinese debt crisis, long recession in Germany and recent drone strike on Saudi's oil production facilities, among others.
- Though the deal levels in Q3 2019 did not match the levels seen in any of the quarters of 2018, this (Q3) quarter recorded a strong 27% increase in the deal values with a marginal 2% increase in deal volumes compared to Q2 2019, indicating some positivity. Q3 2019 also saw average deal size going up to USD 51 million from USD 39 million recorded in Q2 2019.
- M&A deal activity in Q3 2019 witnessed a downtrend with total values falling by more than half compared to Q3 2018, largely due to a 70% fall in the cross-border deal values driven by a sharp fall in the outbound deal values from USD 8 billion in Q3 2018 to USD 0.1 billion in Q3 2019. However, domestic and inbound M&A deal values retained their essence during the quarter. Volumes, on the other hand, saw a drastic 28% fall on the back of a 37% fall in domestic deal values.
- Contrary to M&A, PE investment values almost doubled with a marginal fall in the PE volumes compared to Q3 2018, driven by 21 high-value investments of at and over USD 100 million each contributing to 79% of the total PE investment values. This included the Brookfield-Reliance Jio deal worth USD 3.7 billion marking the single-largest foreign investment in an Indian infrastructure vehicle. The quarter also recorded the highest quarterly PE investment values till date, bringing in new confidence amongst the investor group.
- Year to date (YTD) 2019: YTD deal activity continued to witness weak performance in terms of both deal volumes and values compared to YTD 2017 and YTD 2018. While M&A in YTD 2019 recorded a 70% fall in the deal values on account of the absence of high-value deals compared to YTD 2018, PE investment values on the other hand soared 1.6x times despite a 4% fall in deal volumes. This increase demonstrated the growing PE average deal size and appetite of PE/VC investors to write big cheques.
- Manufacturing, energy, telecom, infra, banking, IT, e-commerce, pharma and real estate sectors led the deal values in YTD 2019, capturing 80% of the overall deal values. The start-up sector, on the other hand, still continues to drive deal volumes capturing 45% of the total deal volumes and garnering USD 5.9 billion through 411 deals.

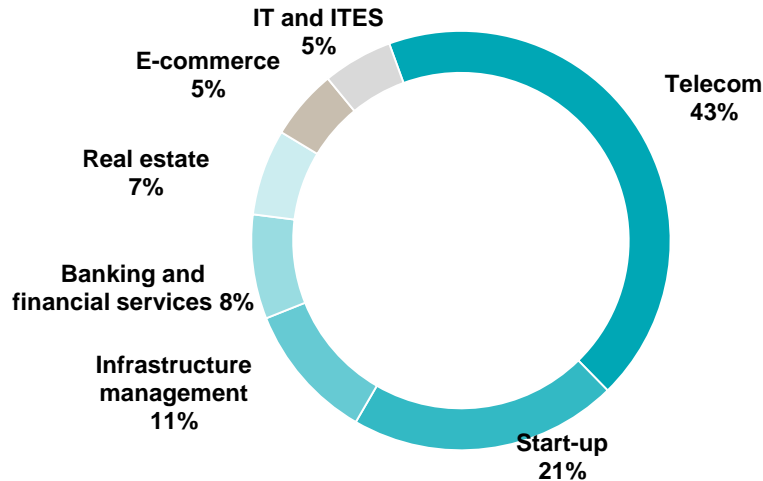
M&A round-up: Q3 2019

Top 10 deals accounted for 84% of the total M&A deal values in Q3 2019.

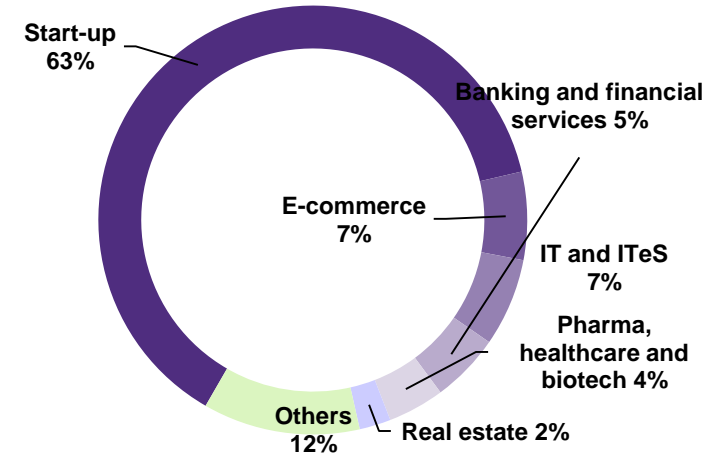
Top M&A deals of the quarter						
Acquirer	Target	Sector	USD million	Deal type	% stake	Domestic/ Cross-border
RA Hospitality Holdings - Cayman	Oravel Stays Pvt. Ltd. - OYORooms.com	Start-up	2,000	Increasing stake to 30%	20%	Inbound
L&T Infrastructure Development Projects Ltd. - IndInfravit Trust	Sadbhav Infrastructure Project - Nine operational road assets	Infrastructure management	959	Acquisition	100%	Domestic
Adani Power Ltd.	GMR Chhattisgarh Energy Ltd.	Energy and natural resources	512	Acquisition	100%	Domestic
CLP India Pvt. Ltd.	Kalpataru Power Transmission Ltd. - Kalpataru Satpura Transco Pvt. Ltd. (KSTPL), Alipurduar Transmission Ltd. (ATL) and Kohima Mariani Transmission Ltd. (KMTL)	Energy and natural resources	475	Acquisition	100%	Domestic
Ebix Inc.	Yatra Online Pvt. Ltd.	E-commerce	338	Acquisition	100%	Inbound
Air Water Inc.	Linde India Ltd.	Manufacturing	194	Acquisition	100%	Inbound
Adani Power Ltd.	Essel Green Energy Pvt. Ltd. - (205 megawatt (MW) solar energy assets)	Energy and natural resources	183	Acquisition	100%	Domestic
Dhanuka Laboratories Ltd.	Orchid Pharma Ltd.	Pharma, healthcare and biotech	162	Acquisition	100%	Domestic
eBay Inc.	Paytm E-commerce Pvt. Ltd. - Paytm Mall	Start-up	160	Minority stake	6%	Inbound
Exxaro Resources Ltd.	Gennergi (Pty) Ltd.	Energy and natural resources	106	Increasing stake to 100%	50%	Inbound

M&A sector spotlight: Q3 2019

Top sectors based on deal value (USD million)



Top sectors based on deal volume



Notable sector trends

- The start-up sector led the M&A deal values driven by Ritesh Agarwal's acquisition of OYO Rooms worth USD 2 billion, the largest deal for the quarter. The sector also remained active with 19 deals dominated by the fintech, gaming, retail, data analytics, enterprise infrastructure and discovery platform segments.
- Q3 2019 was dominated by M&A deals in the IT and ITES sector, pushed by consolidation in the software development and IT solutions segment. It was also supported by the sector attracting strong demand and broadening horizons across verticals catering to the BSFI, telecom and retail sectors.
- Core sectors like energy, infra, banking, pharma and manufacturing have succeeded in executing high-value deals with a view to building synergies, paring debt, for inorganic expansion, market capitalisation and divestment of non-core businesses amid stiff competition and uncertainties.
- The quarter witnessed high-value deals in the energy sector with Adani's acquisition of GMR Chhattisgarh and Essel Green Energy, which was driven by the Insolvency and Bankruptcy Code (IBC) helping companies to repay their debts. Other deals in this sector were executed to divest non-core non-performing assets.

Key sectors

Notable sectors	Volume	USD million
IT and ITES	22	196
Start-up	19	2,235
Pharma, healthcare and biotech	11	275
Banking and financial services	8	173
Retail and consumer	8	64
Manufacturing	6	258
Energy and natural resources	5	1,280

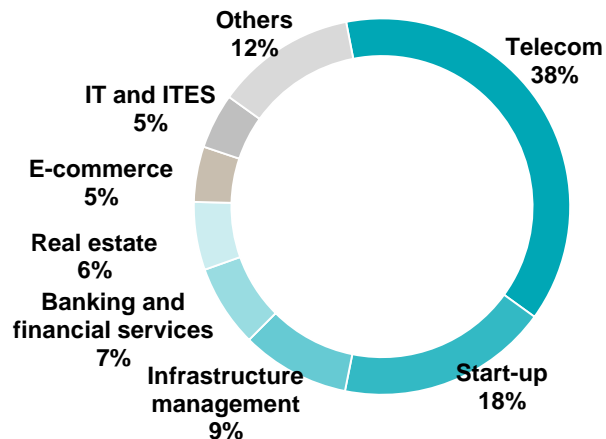
PE round-up: Q3 2019

Top 10 deals accounted for 66% of the total PE deal values in Q3 2019.

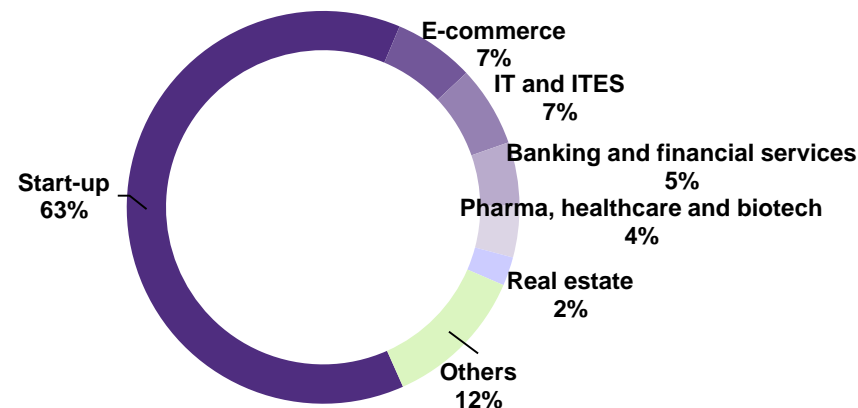
Top PE deals of the quarter				
Investor	Investee	Sector	% stake	USD million
Brookfield Asset Management Inc.	Reliance Jio Infratel Pvt. Ltd.	Telecom	49%	3,654
GIC	IRB Infrastructure Developers Ltd.	Infrastructure management	N.A.	622
Blackstone Group Lp	Yashita Buildcon Ltd., Ashkit Properties Ltd., certain subsidiaries of Indiabulls Properties Pvt. Ltd. and Indiabulls Real Estate Company	Real estate	50%	383
GIC and Abu Dhabi Investment Authority	Greenko Energy Holdings	Energy and natural resources	N.A.	329
Altimeter Capital, Footpath Ventures, GGV Capital, Hillhouse Capital, DST Global and Lightspeed Venture Partners	Hiveloop Technology Pvt. Ltd. - Udaan	Start-up	N.A.	300
Grasim Industries Ltd., Surya Kiran Investments Pte Ltd., IGH Holdings Pvt. Ltd., Pila Investment and Industries Corporation Ltd., PI Opportunities Fund—I, Jomei Investments Ltd.	Aditya Birla Capital Ltd.	Banking and financial services	N.A.	296
SoftBank Group Corp	Ola Electric Mobility Pvt. Ltd.	Start-up	N.A.	250
Xtech Invest SAS	Sintex Plastics Technology Ltd. - Sintex NP SAS	Manufacturing	N.A.	174
CPPIB	IndInfravit Trust	Infrastructure management	N.A.	168
Qatar Investment Authority and Owl Ventures	Think & Learn Pvt. Ltd. - Byju's	Education	N.A.	150

PE sector spotlight: Q3 2019

Top sectors based on deal value (USD million)



Top sectors based on deal volume



Notable sector trends

- The start-up sector continued to occupy the larger share of volumes with 63%, dominated by investments in fintech companies followed by retail, data analytics, and AI and health tech segments. Additionally, removal of angel tax for start-ups shows the government's resolve towards ease of doing business and encouraging entrepreneurship.
- Q3 witnessed the single-biggest private equity deal ever in India with Brookfield's USD 3.7 billion investment in Reliance Industries Ltd's telecom tower assets. This deal accounted for 38% of total PE deal values for the quarter.
- While tech and tech-enabled sectors like IT and e-commerce attracted PE investors driving PE volumes, core sectors like infra, BSFI and real estate garnered high-value investments.
- The quarter displayed the potential of the start-up sector with Icertis Inc. marking its entry into the Unicorn club. Uniphore's USD 51 million funding marks one of the most substantial funding rounds in the conversational AI sector. The education sector has also been very encouraging with the USD 150 million funding of Byju's. This marks the second big-ticket bet by Qatar Investment Authority this year in an Indian company along with Owl Ventures' first investment in an Indian edtech company.
- Other sectors also portrayed attractiveness with Wow! Momo's funding, marking Tiger Global's first investment in a quick service restaurant (QSR) brand in India. Generico's funding marks Lightbox Ventures' first investment in the healthcare sector.

Key sectors

Notable sectors	Volume	USD million
Start-up	133	1,749
E-commerce	14	457
IT and ITES	14	456
Banking and financial services	11	680
Pharma, healthcare and biotech	9	136
Real estate	5	562
Infrastructure management	4	897

Deal of the quarter: M&A

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

Sector: Start-up

Acquirer

RA Hospitality Holdings Cayman is a joint venture company backed by SoftBank and other global institutional banks and financial institutions. Ritesh Agarwal, founder and chief executive of OYO Hotels & Homes, is a key shareholder.

Target

Oravel Stays Pvt. Ltd. (OYORooms.com) is the fastest growing company and the sixth largest chain of operated hotels, homes, managed living and workspaces. Its portfolio has more than 23,000 hotels in over 800 cities in 18 countries.

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 its existing investors Lightspeed Venture Partners and Sequoia Capital, and investing USD 500 million to acquire another 5%.

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

Deal of the quarter: PE

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

Sector: Telecom

Investor

Brookfield Asset Management Inc. is a global alternative asset manager with 120 years of experience owning and operating real assets. Through its portfolio companies, it supports the employment of over 80,000 people in more than 30 countries. It has 2,000 assets in 30 countries across five continents.

Investee

Reliance Jio Infratel Pvt. Ltd. (RJIPL) is majorly in the transport, storage and communications businesses. It manages and operates the tower assets of Reliance Jio. The company is 51% owned by Tower Infrastructure Trust, an infrastructure investment trust, and the remaining 49% by Reliance Industries Limited (RIL).

Comments

As part of the funding, Reliance Industrial Investments and Holdings Limited (RIIHL), a wholly owned subsidiary of 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 Tower Infrastructure Trust. Brookfield's investment is subject to conditions precedent, including receipt of requisite government and regulatory approvals.

RIIHL is the sponsor of the Trust. The Trust currently holds 51% of the issued and paid-up equity share capital of 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.

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53,000 people

USD 5.45 billion

Total global revenues
of USD 5.45 billion
(2018)

135+

Based in over
135 countries



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15

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