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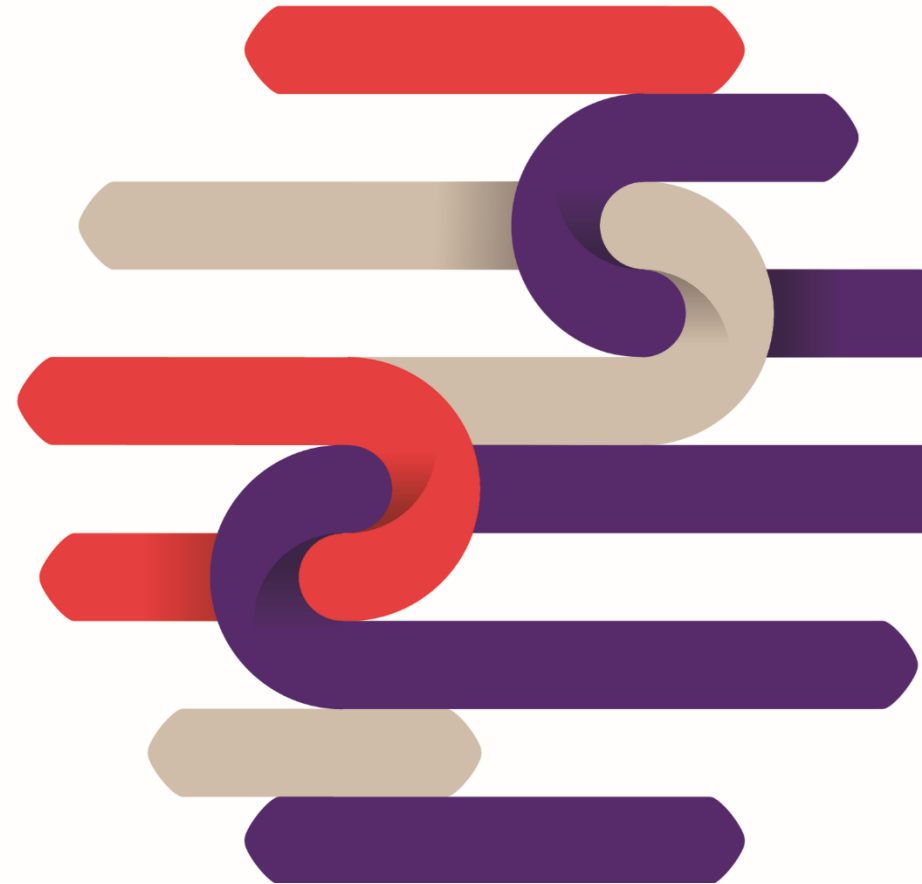
An instinct for growth™

Dealtracker - Q1 2019

Providing M&A and private
equity deal insights

March 2019

Volume 15.3



Disclaimer:

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Please note that the criteria used to define 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



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Director

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The year 2018 ended with signs of global economic uncertainty, concerns around Brexit and trade, and other constraints, resulting in heightened volatility in the equity markets. Along with all of this, the Indian economy also had to factor in the upcoming general elections fever and consequently, as anticipated, the 2019 deal landscape commenced with a low pitch. The first three months of the year recorded around 290 deals valued at \$21 billion, which was 10% and 8% lower in volume and value respectively as compared to Q1 2018. However, despite a slow start to the year, Q1 2019 recorded 33 deals valued and estimated at and above \$100 million each, aggregating to \$18.2 billion, which is an encouraging trend.

Though we entered 2019 with substantially less momentum with 110 M&A deals worth \$12.5 billion compared to 118 deals worth \$18.7 billion in Q1 2018, there were some indications of a healthy M&A outlook with big deals such as Arcelor Mittal's acquisition of Essar Steel for \$7.2 billion and Radiant Life Care's merger with Max healthcare for \$1 billion. Strengthening market position through consolidation and geographical expansion along with monetisation of non-core assets to strengthen the core business were key drivers for the transactions during the quarter. We also expect to see an uptick in the M&A deal activity across domestic, inbound and outbound segments spurred by action from the financial services sector to minimise NPAs and the US-China trade war boosting India's manufacturing exports.

The PE/VC deal values during Q1 2019 doubled as compared to Q1 2018 despite a 12% decline in volumes. A peculiar trend during the quarter was that there were 11 transactions in which the PE/VC bought a stake greater than 50% aggregating to about 39% of the PE/VC deal values reported. This indicates a growing interest towards acquiring a controlling stake and the increasing trend of InvIT transactions. Key transactions involving a controlling stake included Brookfield Asset Management's 100% acquisition of East West Gas Pipeline from Reliance Industries in their InvIT portfolio, 100% acquisition of Hotel Leelaventure Limited by Brookfield Asset Management and

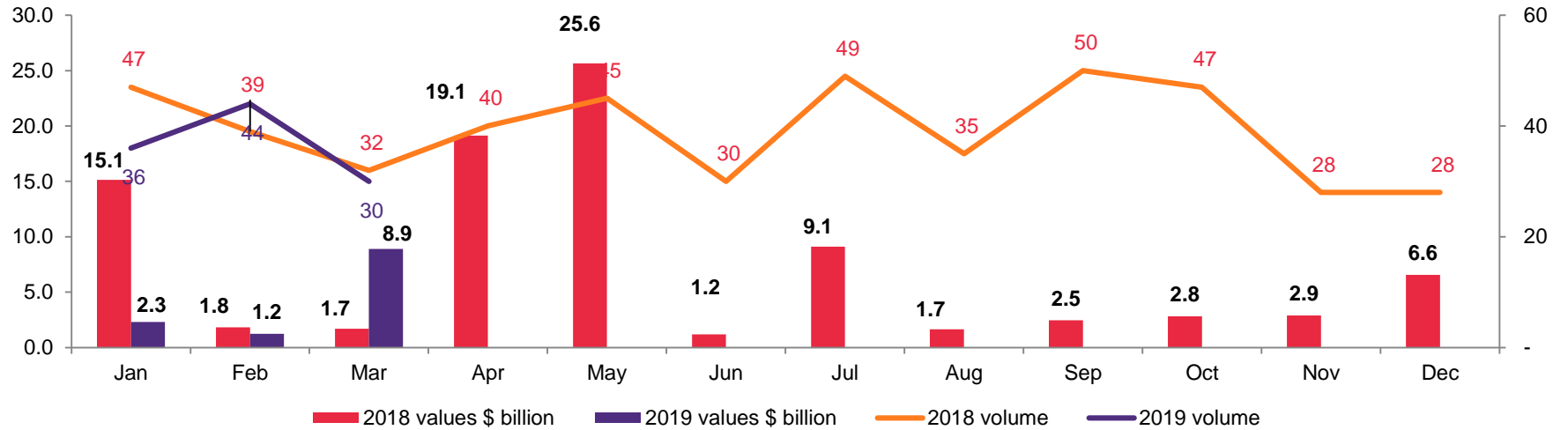
100% acquisition of the toll road asset (DA Toll Road Private Limited) owned by Reliance Infrastructure Limited by ISQ Global Infrastructure Fund II. Fifty percent of the PE/VC transactions in volume terms were consortium transactions, ie multiple PE/VCS participating in a single transaction aggregating to transaction value of about \$2.25 billion. The need for funding for small and medium businesses to fuel the growth and availability of transaction structures to monetise capital-intensive businesses indicates the opportunity for higher tractions in the PE/VC landscape.

Driven by the closure of the \$7.2 billion Essar Steel IBC case, along with 13 other transactions, the manufacturing sector contributed to 37% of the overall transaction value. The energy and natural sector saw eight transactions which garnered 12% of the overall transaction value. A total of five PE transactions in the energy and natural resources sector led the value chart. The volume chart in terms of the overall transactions count was led by 110 transactions in the start-up sector and 35 transactions in the IT&ITES sectors.

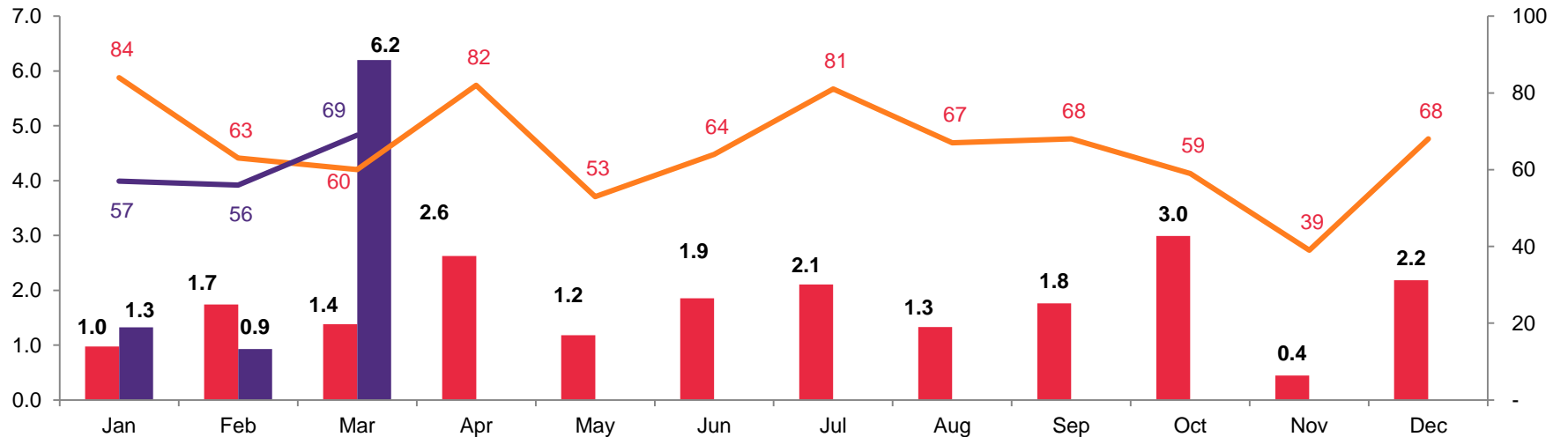
Continued reforms in the Goods and Services Tax (GST) and the Insolvency and Bankruptcy Code (IBC), major reforms related to foreign direct investment in sectors such as defence, restructuring of cross-border mergers, and amendments to Delisting Regulations 2009 will act as accelerators to the deal momentum. Further, PE firms looking for places to park their capital in leverage buyouts will help keep up the pace of deal-making. In recent times, various domestic private equity funds and their investors, or limited partners (LPs), are also collaborating in the form of co-investment, which presents a favourable scenario for both sides. While strategic investors seem to have the edge currently, PE funds are also actively exploring various structures to fund distressed M&A (for example, platform deals, ARC and AIF set-up, etc.). In addition to the investments, we expect fund/consortium formation and securitisation transactions to dominate activity in the distressed M&A sphere. While all of these present a favourable deal environment, much of the action is dependent on the policies of the incoming government, consequent to the general elections.

Deal snapshot

M&A snapshot

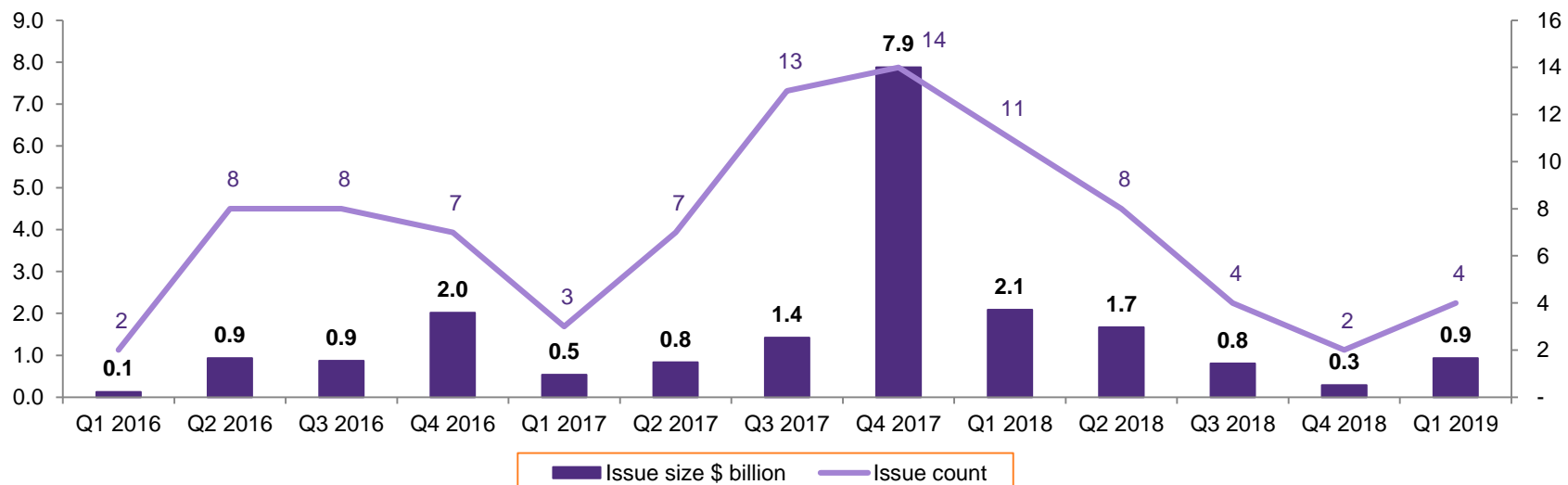


PE snapshot

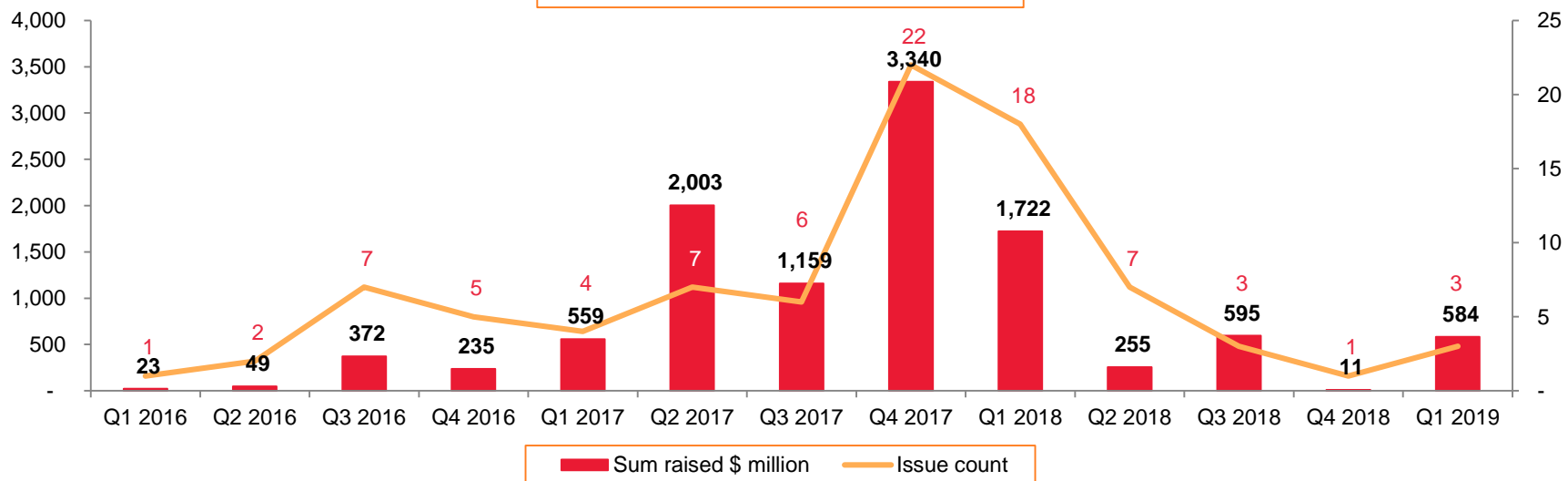


Deal snapshot – Q1 2018

IPO snapshot



QIP snapshot



Deal round-up – Q1 2019

	Deal summary			Volume			Value (\$ million)		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
Q1 2019	Domestic	53	67	58	2,490	13,311	9,011		
	Cross-border	46	45	49	1,717	3,170	2,420		
	Merger and internal restructuring	5	6	3	23,265	2,180	1,030		
	Total M&A	104	118	↓ 7% 110	27,472	18,661	↓ 33% 12,461		
	Private equity	196	207	↓ 12% 182	2,271	4,099	↑ 106% 8,451		
	Grand total	300	325	↓ 10% 292	29,743	22,760	↓ 8% 20,912		
Cross-border includes									
	Inbound	24	23	24	1,137	1,969	1,794		
	Outbound	22	22	25	580	1,201	626		

	Deal summary			Volume			Value (\$ million)		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
March 2019	Domestic	14	14	20	349	496	8,247		
	Cross-border	11	16	10	463	1,202	660		
	Merger and internal restructuring	2	2	0	23,005	10			
	Total M&A	27	32	↓ 6% 30	23,817	1,708	↑ 422% 8,907		
	Private equity	70	60	↑ 15% 69	888	1,382	↑ 348% 6,198		
	Grand total	97	92	↑ 8% 99	24,705	3,090	↑ 389% 15,105		
Cross-border includes									
	Inbound	6	6	5	336	672	597		
	Outbound	5	10	5	127	530	63		

Subdued quarterly deal activity but impressive comeback in March 2019

- Q1 2019 recorded 292 transactions worth \$21 billion, which is a 10% and 8% decline in terms of deal volumes and values, respectively, as compared to Q1 2018. This drop can be attributed to the delays in the execution of the deals, growing complexity in deal structures and macro economic factors like upcoming general elections, volatile global economic conditions, and the uncertainty around Brexit dampening investor sentiment.
- However, owing to other encouraging factors such as the IBC, divestment of non-core assets, separation of ownership from operating businesses specially in the roads, infra, power, telecom, real asset and hospitality sectors, drive in the stressed asset space and cleaning up of NPAs, the quarter recorded a marginal increase in the deal activity as compared to Q4 2018.
- Q1 2019 recorded three billion-dollar deals and 30 deals valued and estimated at and over \$100 million each, together contributing to 87% of the total deal values and 11% of the deal volumes. This demonstrated an appetite for big ticket deals and an uptick in the deal activity amidst other uncertainties.
- Owing to the sluggish start in 2019, the M&A activity in Q1 2019 witnessed a declining trend over the previous quarter and Q1 2018. However, values increased over 5x times in March 2019 as compared to March 2018. The month also recorded the highest values in the last seven months on the back of eight high-value transactions despite a 6% fall in volumes.
- PE investments witnessed a significant 2x growth in the investment values on account of increased big-ticket investments. There were 11 investments attracting funds in the range of \$100 million to \$500 million each and five investments valued at and over \$500 million each in this quarter, together accounting for 79% of the PE investment values.
- Compared to Q4 2018, this quarter witnessed an increasing trend, both in terms of deal values (17%) and volumes (9%), demonstrating a positive and promising deal sentiment.
- Q1 2019 recorded only three QIP issues of \$584 million against 18 issues worth \$1.7 billion in Q1 2018 and four IPO issues valued at \$935 million compared to 11 issues at \$2.1 billion in Q1 2018.

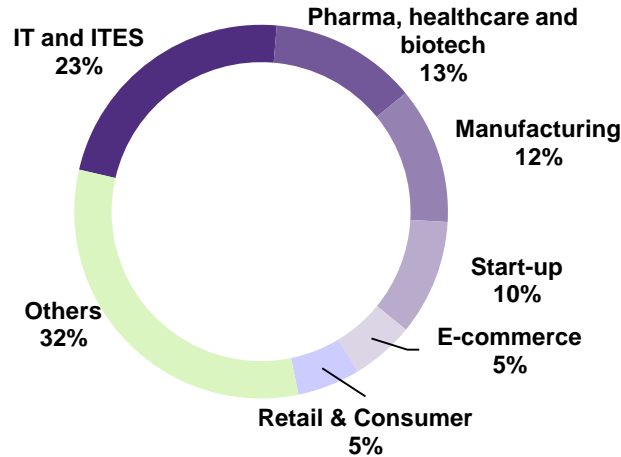
M&A round-up – Q1 2019

Top 10 deals accounted for 85% of the total M&A deal values in Q1 2019

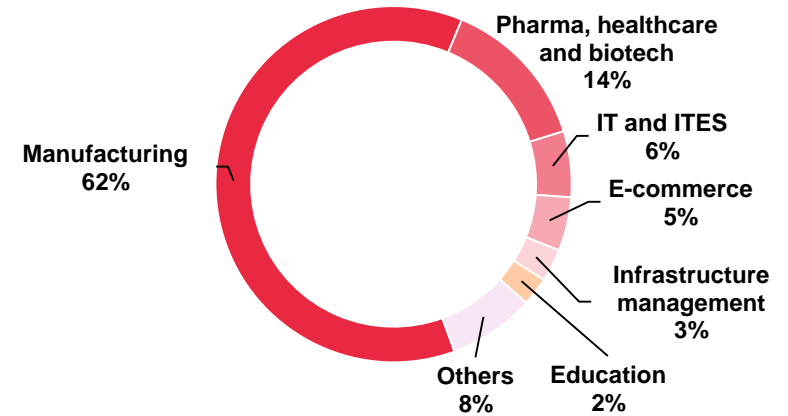
Top M&A deals of the quarter						
Acquirer	Target	Sector	\$ million	Deal type	% stake	Domestic/cross-border
ArcelorMittal India Private Limited	Essar Steel India Ltd.	Manufacturing	7,246	Acquisition	100%	Domestic
Radiant Life Care Pvt. Ltd. - Healthcare Business	Max Healthcare Institute Ltd and Max India Ltd.	Pharma, healthcare and biotech	1,020	Merger	N.A.	Merger and internal restructuring
Larsen & Toubro Ltd.	Mindtree Ltd.	IT and ITES	476	Minority stake	20%	Domestic
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.	Manufacturing	327	Majority stake	70%	Inbound
Radiant Life Care Pvt. Ltd.	Max Healthcare Institute Ltd.	Pharma, healthcare and biotech	301	Strategic stake	50%	Domestic
Hyundai Motor Co and Kia Motors Corp	Olacabs.com - ANI Technologies Pvt. Ltd.	E-commerce	300	Minority stake	N.A.	Inbound
Apotex Inc- Apotex Pty Ltd.	Strides Shasun Ltd. (Strides Pharma Global Pte) - Arrow Pharmaceuticals	Pharma, healthcare and biotech	282	Acquisition	100%	Inbound
Groupe Lactalis - Tirumala Milk Products Pvt. Ltd.	Sunfresh Agro Industries Pvt. Ltd.	Agriculture and forestry	239	Acquisition	100%	Inbound
Cairn India Holdings Ltd.	Anglo American Plc	Energy and natural resources	200	Minority stake	N.A.	Outbound
GVK Airport Holdings Pvt. Ltd.	Mumbai International Airport Pvt. Ltd. from Bid Services Division (Mauritius) Ltd.	Infrastructure management	175	Increasing stake to 64%	14%	Domestic

M&A sector spotlight – Q1 2019

Top sectors based on deal volumes



Top sectors based on deal values (\$ million)



Notable sector trends

- Driven by IBC, Q1 witnessed the ArcelorMittal-Essar Steel deal valued at \$7.2 billion pushing the manufacturing sector values to 62% of the total M&A deal values. This deal alone accounted for 95% of the manufacturing sector deal values.
- Contrary to previous quarters, which were dominated by transactions in the start-up space, the IT sector led the volumes steered by the IT solutions, software development and cloud technology segments. This sector is further expected to see significant deal activity with developments around globalisation 4.0 and 5G technology.
- Q1 2019 recorded two deals in the billion-dollar category, one each in the manufacturing sector (driven by IBC) and pharma sector (driven by a merger where the combined entity became India's third-largest hospital and diagnostics company).
- The pharma sector remained active with 14 transactions accounting for 14% of the deal values. These transactions were led by Indian pharmaceutical companies looking to enter and expand their operations in the generics and global pharmaceutical markets.

Key sectors

Notable sectors	Volume	\$ million
IT and ITES	25	747
Pharma, healthcare and biotech	14	1,737
Manufacturing	13	7,702
Start-up	11	68
E-commerce	6	607
Infrastructure management	5	370
Education	3	324

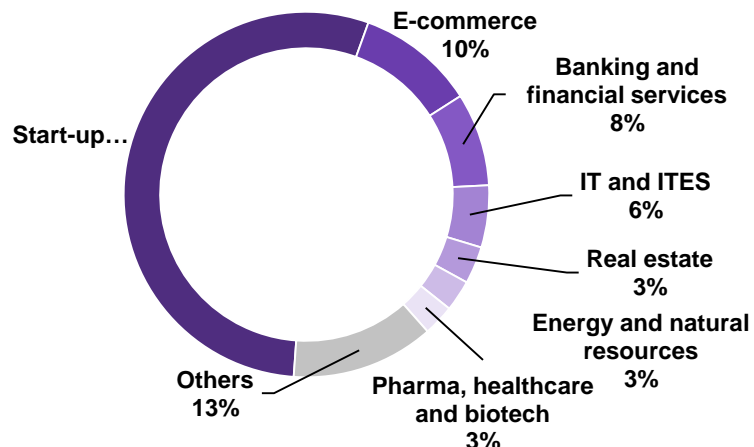
PE round-up – Q1 2019

Top 10 investments accounted for 62% of the total PE deal values in Q1 2019

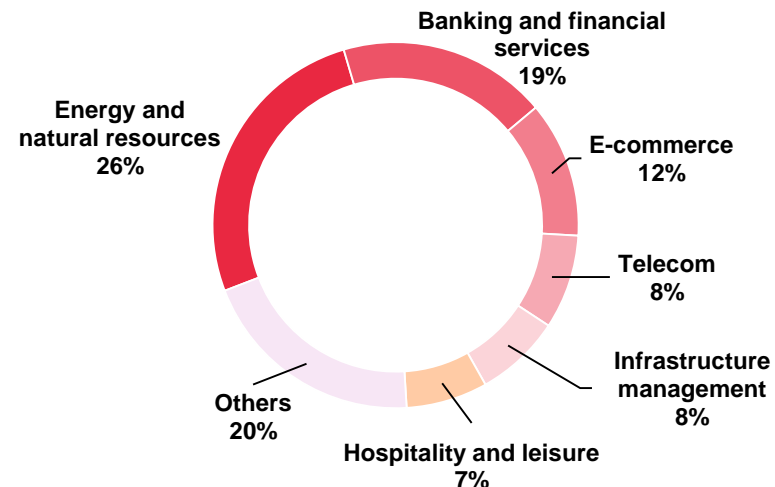
Top PE deals of the quarter				
Investor	Investee	Sector	% stake	\$ million
Brookfield Asset Management - InvIT	Pipeline Infrastructure Pvt. Ltd. - East West Pipeline Ltd.	Energy and natural resources	100%	1,831
GIC Pte. Ltd.	Bharti Airtel Ltd.	Telecom	4%	704
Brookfield Asset Management	Hotel Leelaventure Ltd. - Leela hotels in Delhi, Bengaluru, Chennai and Udaipur	Hospitality and leisure	100%	576
Cube Highways and Infrastructure Pte. Ltd. - ISQ Global Infrastructure Fund II	DA Toll Road Pvt. Ltd.	Infrastructure management	100%	518
SoftBank Vision Fund, Carlyle and Fosun International	Delhivery - SSN Logistics Pvt. Ltd.	E-commerce	N.A.	413
EverSource Capital, National Investment and Infrastructure Fund and CDC Group	Ayana Renewable Power Private Limited	Energy and natural resources	N.A.	330
Caisse de dépôt et placement du Québec (CDPQ)	ECL Finance Ltd.	Banking and financial services	N.A.	250
New Investment Solutions	DMI Finance Pvt. Ltd.	Banking and financial services	N.A.	230
Apax Partners	Fractal Analytics Ltd.	IT and ITES	N.A.	200
HDFC Realty Fund, JM Financial, Kotak Realty Fund and Piramal Fund Management	Adarsh Developers Ltd.	Real estate	N.A.	183

PE sector spotlight – Q1 2019

Top sectors based on deal volumes



Top sectors based on deal values (\$ million)



Notable sector trends

- The start-up sector garnered the largest share in the pie, accounting for 54% of PE investment volumes. Continuing the trend witnessed in the last two quarters of 2018 with starts-ups and e-commerce companies attracting late stage funding, Q1 2019 also saw companies in these sectors receiving high-value cheques, which also resulted in Delhivery joining the unicorn club with its valuation rising to more than \$1.5 billion.
- NBFC players, also looking for newer avenues to diversify their lending portfolios under the BSFI sector, dominated the investments volumes and values within the sector with eight transactions worth \$0.6 billion.
- This quarter witnessed the majority buyout deals in the energy, hospitality and leisure, infrastructure, banking, IT and real estate sectors, dominated by Brookfield, i-Square, AION capital, True north, Blackstone and Warburg Pincus among others.
- Energy, banking, telecom and hospitality sectors witnessed deals estimated and valued at over \$500 million each in this quarter, contrary to only one such deal witnessed in the real estate sector in Q1 2018.

Key sectors

Notable sectors	Volume	\$ million
Start-up	99	564
E-commerce	19	1,016
Banking and financial services	15	1,561
IT and ITES	10	543
Real estate	6	267
Energy and natural resources	5	2,219
Hospitality and leisure	4	609

Deal of the quarter - M&A

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

Sector: Manufacturing

Acquirer

ArcelorMittal is the world's leading steel and mining company with annual achievable production capacity of approximately 113 million tonnes of crude steel and 1,99,000 employees across 60 countries.

Target

Essar Steel India Limited is an integrated steel producer with an annual capacity of 10 million tonnes and a strong presence in intensive steel-consuming markets of Asia and North America. It has operations in two countries, a 10 MTPA integrated facility in India, and a 0.4 MTPA downstream complex in Indonesia.

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 okayed 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.

A meeting of the Essar Steel committee of creditors (CoC) is currently ongoing to consider redistribution of funds from ArcelorMittal's INR 42,000 crore plan and increasing payment to Standard Chartered Bank. Discussion is also ongoing on repaying the debt of the two dry bulk coal terminals: The Hazira terminal in Gujarat owes lenders INR 1,364 crore, while the Paradip terminal owes INR 484 crore.

Deal of the quarter - PE

Brookfield Asset Management acquire RIL's East-West Pipeline for \$1.8 billion

Sector: Energy and natural resources

Investor

Brookfield Asset Management is a leading global alternative asset manager with 120 years of experience in owning and operating real assets. It invests in and actively manages long-life, high-quality assets across real estate, infrastructure, renewable power and private equity. Through its portfolio companies, it employs over 1,00,000 people in more than 30 countries.

Investee

East West Pipeline Ltd. constructs natural gas pipelines. The company owns and operates a transmission and distribution network for natural gas and petroleum products. East West Pipeline commenced operations in 2008 and added over 1,400 km of high pressure pipeline network with an original design capacity of 80 MMSCMD (million metric standard cubic meter per day).

Comments

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 East West Pipeline which 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, 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 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 occasion a pipeline in India is being monetised.

Sector of the quarter - M&A

Values



Manufacturing

- The steel segment has been one of the major beneficiaries of IBC, which saw the ArcelorMittal-Essar steel deal in this quarter.
- Domestic consolidation dominated the sector deal activity.

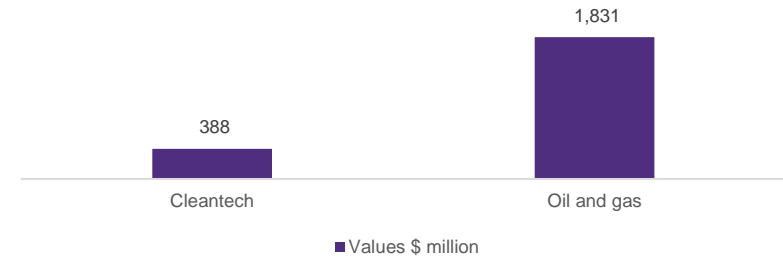


Sector of the quarter - PE



Energy and natural resources

- The renewable energy sector remained remarkably resilient with the quarter recording 4 of 5 deals in this space; oil and gas recorded the remaining one deal.

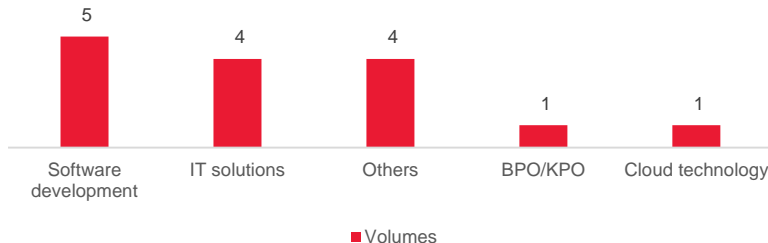


Volumes



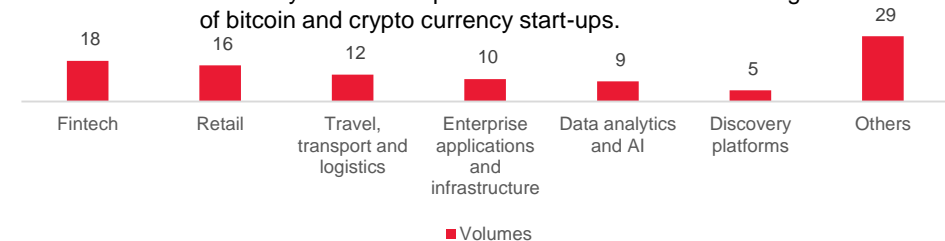
IT and ITes

- Driven by players diversifying their offerings to create differentiated portfolio of services, the quarter witnessed active deal activities across IT solutions, software development, cloud technology and mobile VAS segments.



Start-up

- Q1 2019 witnessed mega funding rounds for high-growth homegrown start-ups, also adding Delhivery to the unicorn club.
- 2019 is seeing the implementation of blockchain across sectors and evolving technologies such as brain-computer interface, quantum computing and smart robots to bring efficiency in business processes. There has also been growth of bitcoin and crypto currency start-ups.



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53,000+

More than
53,000 people

\$5.45 billion

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of \$5.45 billion (2018)

135+

Based in over
135 countries



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Grant Thornton
International

4,000

Over 4,000 people

15

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