The Fourth Wheel 2018

Private Equity in the Corporate Landscape

March 2018

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Foreword from IVCA

The growth in the industry is a result of our government's validation of AIFs as the preferred vehicle for private capital pooling which is ably supported by several structural and fundamental policy reforms.

2017 marked a year of the Alternate Investment Funds (AIF) maturing in every step, from fundraising to investments. PE/ VC investments as of FY17 stood at INR 90,000 crore (USD 14 bn), and is expected to grow 70 per cent over last year to reach INR 1.5 lakh crore (USD 23 bn). The total number of active PE/ VC funds operating in India as of 2016 were 660 (2.5× growth over 2011). The numbers of AIFs operating has doubled over the last two years.

The growth in the industry is a result of our government's validation of AIFs as the preferred vehicle for private capital pooling. This is ably supported by several structural and fundamental policy reforms including implementation of Goods & Services Tax (GST) and Indian Bankruptcy Code (IBC); establishment of Real Estate Regulatory Authority (RERA); allowing Real Estate Investment Trusts (REIT) and Infrastructure Investment Trust (InvIT) to raise debt capital; abolishing Foreign Investment Promotion Board (FIPB); relaxing FDI norms and recapitalising banks along with various provisions (example: to permit scheduled banks to invest up to 10 per cent of the paid-up capital in Category II AIFs); relaxing transfer pricing norms to avoid multiple taxation for offshore funds set up as multi-tier investment structures; among others.

2017 witnessed a robust increase in deal value primarily on account of increased number of large deals and improved exit environment. Increase in interest shown by offshore investors contributed fairly well to the figures. Given the market dynamics, buyouts shall be the most preferred investment strategy this year, along with follow on investments.

Although, deal volumes across sectors were on a decline, 2017 saw certain large investments in consumer technology start-ups with companies such as Flipkart, Ola and Paytm garnering billion-dollar investments. Going forward, Indian private equity and venture capital industry has many expectations with regards to tax reforms, measures to bring offshore pools to onshore IFSCs and steps to enhance capital formation.

Thus, it is with great pleasure that we, along with our member and partner, Grant Thornton, have put together the sixth edition of the PE report 'The Fourth Wheel'.

The report showcases some very interesting acts and datasets on PE/VC investments in the country. The report also tracks the deal sizes, provides an in-depth analysis on the deals and investments across sectors. Grant Thornton reached out to PE/ VCs to get insights on the current trend and future outlook. Its experts also shared their views on the relevant areas for PE/ VCs and the investee companies covering areas like tax and regulatory framework, structuring and sector insights.

IVCA believes this report will help everyone understand the opportunities and challenges in the market. I look forward to your feedback and continued support in our efforts.

Finally, I would like to thank everyone at Grant Thornton and IVCA who worked tirelessly to produce this invaluable report.

Gopal Srinivasan
Chairman
IVCA

Foreword from Grant Thornton

The data presented in the study is based on Grant Thornton's Dealtracker along with views from leading PE/VC fund houses. PEs have played an instrumental role in shaping the corporate landscape in the Indian economy, similar to how things panned out in developed economies.

We are pleased to present the sixth edition of The Fourth Wheel, an annual report capturing recent developments and trends in the private equity (PE) deal landscape, first launched by Grant Thornton in association with IVCA in 2011.

For the benefit of first time readers, I will start with the story behind the name of the publication. Earlier India Inc. used to have three types of companies: Public sector, Indian private sector and MNCs. Around 2010, triggering a shift in perception, another type of company emerged with unique characteristics. Soon, this set of companies, in which PE/VC held significant minority or majority stake, grabbed a sizeable share of the corporate pie of India Inc. (nearly 15 per cent of market capitalisation at that time). The name 'Fourth Wheel' represents private equity in the Indian corporate landscape and it is aligned with the other three wheels (PSU, Indian private sector and MNC).

We entered 2018 in high spirits as the economy is poised for growth post demonitisation and successful initial implementation of the GST. Moody's has upgraded India's sovereign rating after 14 years to Baa2 with a stable economic outlook. India's ranking has also improved in the World Bank's Doing Business report by 30 spots over its 2017 ranking. Also, as per the mid-year Economic Survey of India, the country received its highest ever FDI of USD 43.4 bn in FY17, becoming one of the most open global economies with the right liberalisation measures.

Since 2011, private equity players have made over 4600 investments, pumping in around USD 100 bn of capital into Indian businesses. The role that PE/VC has played in the Indian corporate landscape extends beyond being a vital source of funding. PE/VC contribution to Indian economy is significant; creator of new age entrepreneurs, provider of otherwise inaccessible capital, gatekeeper of governance, provider of exits to promoters, promoter of mergers and acquisitions, facilitator of strategic alliances and more. In a nutshell, they have created significant value across all stages of a business life cycle.

PE/VCs were here to stay and they have provided much-needed support during difficult economic cycles, especially when IPOs or FIIs dried up. Over the years, PEs have increasingly favoured larger stakes in investee companies as opposed to the preferred significant minority route in earlier times. This gradual shift in PE mindset to acquire larger stakes resulted in several new trends in the Indian corporate arena including PE backed buyouts, consolidation among PE backed entities, sectoral platform creation by large PE houses, PE backed cross-border/domestic acquisitions, etc. If we were to take any key sector today - ITeS, BFSI, healthcare, pharma, telecom, e-commerce, real estate - a large portion of the top companies would either be PE backed, or would have taken PE funding at some stage. That's the instrumental role PEs have played in shaping the corporate landscape in the Indian economy, similar to how things panned out in developed economies.

We expected 2017 to be the year of reckoning for India on the back of implementation of structural policies and reforms, Brexit uncertainties and slowing Chinese economy. 2017 ended up registering a whopping all-time high with USD 21 bn PE /VC investment in 735 deals, recording a 54 per cent jump in values over 2016, despite a 24 per cent decline in volumes.

2017 saw six USD 500 mn plus investments compared to only three in 2016. It witnessed 25 investments valued between USD 100 mn and USD 400 mn compared to 19 in 2016, signaling the revival of big-ticket investments and larger stake acquisitions.

E-commerce, start-ups, banking and financial services, real estate, and IT/ITeS continued as top sectors. A common theme across investments since 2015 has been 'technology as an enabler'. E-commerce, start-ups, IT/ITeS and a portion of BFSI, all of which are technology-driven, have contributed to over 80 per cent of deal volumes and 57 per cent of deal values since 2015, and the share will continue to grow going forward.

2017 also saw a surge in IPO activity with the quantum of capital raised being 2.7 times the amount raised in 2016.

On the reforms and regulatory front, 2017 was an action-packed year with various initiatives aimed at driving economic stability, namely the Insolvency and Bankruptcy Code (IBC), Real Estate (Regulation and Development) Act, GST and the bank recapitalisation plan. We believe these efforts will boost long-term investors' confidence and help in creating a platform for a new era of PE/VC activity in Indian corporate landscape, where they take larger roles, higher stakes and greater exposure in the long-run.

The data presented in the study is based on Grant Thornton's Dealtracker along with views from leading PE/VC fund houses. This makes the report abundantly rich with datasets and analysis.

I am hopeful that 2018 will surpass 2017 in terms of deal activity and overall investment sentiments. We are looking at a mega deal for a billion dollar plus management buyout (MBO) which could be a first in this market. This will set the stage for more such transactions in future.

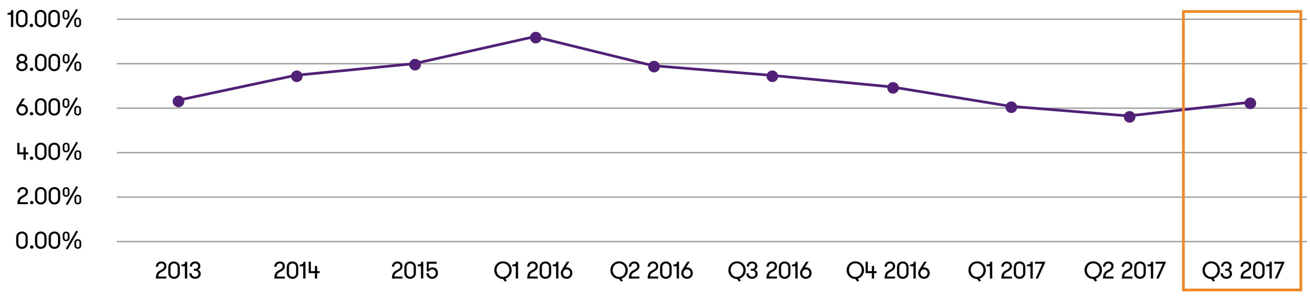
I am thankful to all the people involved in preparing the report and trust you will find the report insightful. We thank you all for your continued support and look forward to your valuable feedback.

Harish HV
Partner
Grant Thornton India LLP

I. Entering 2018 with a rebounding economy

Rebound and upgrade

Quarterly trends in GDP growth



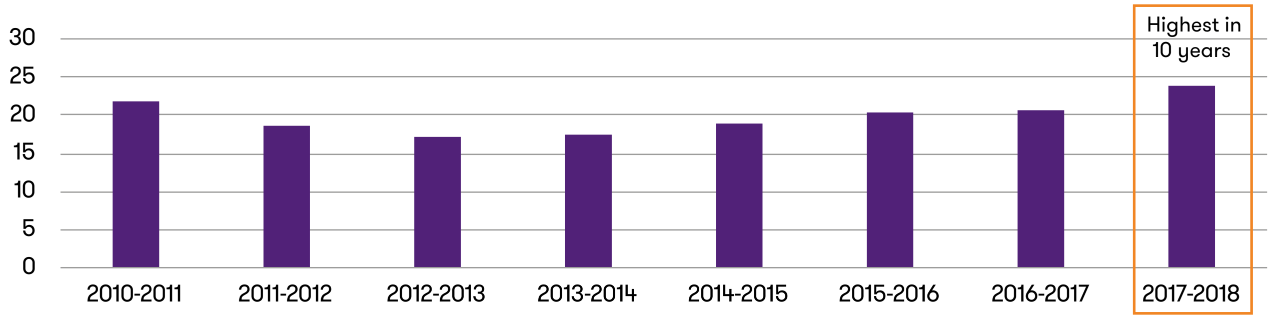
Source: Statista

After five consecutive quarters of declining GDP growth trend, September quarter recorded 6.3 per cent growth on account of the normalisation of business after roll-out of demonetisation and the GST. Indian economy has entered 2018 on a positive note with Moody's upgrading India's sovereign rating after 14 years to Baa2 with a stable economic outlook. Moreover, it is expected that GST will contribute to productivity gains and higher GDP growth by improving the ease of doing business, unifying the national market and enhancing India's attractiveness as a foreign investment destination.

Key highlights in the current economic scenario

- Rebounding industrial production and exports, suggesting stability post GST disruptions.
- Private consumption expected to remain firm due to increases in public pensions and wages.
- Initial positive response from markets to the announcement of bank recapitalisation plan of INR 2.1 tn.
- India's ranking in the World Bank's Ease of Doing Business Index improved from 130 in 2017 to 100 in 2018.
- India's ranking in the taxation and insolvency parameters improved by 53 and 33 spots
- The Indian government entering deals with the governments of Japan, Australia and China is a big boost for the external sector.

BSE SENSEX PE ratio

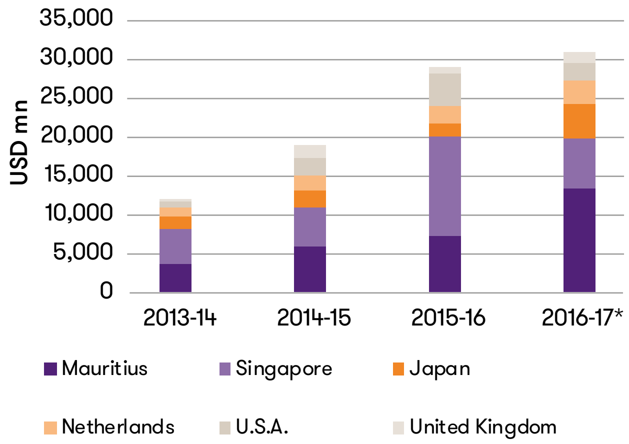


Source: BSE India

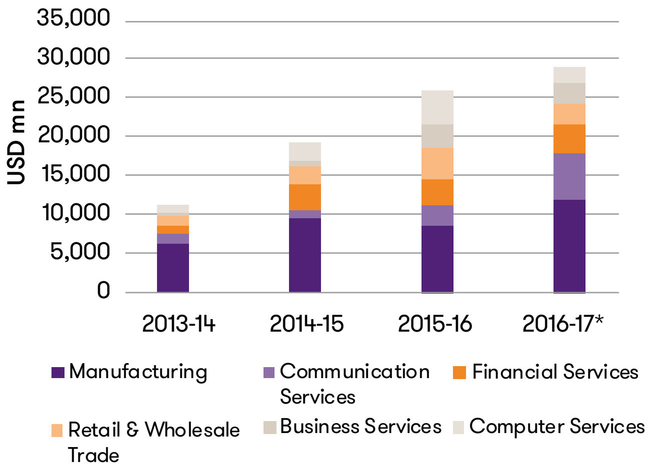
Stock Market: The Indian stock market rallied to be among the top performers in the world in 2017. The sensex closed with a 28 per cent gain at 34,057 points, while the Nifty was up 29 per cent at 10,531 points as investors pushed both the indices to record closing highs in the last session of the year.

Capital inflows

Top source of FDI (USD mn)



Top sectors attracting FDI (USD mn)



As of Aug, 30 2017 for top countries and top sectors only

Source: RBI

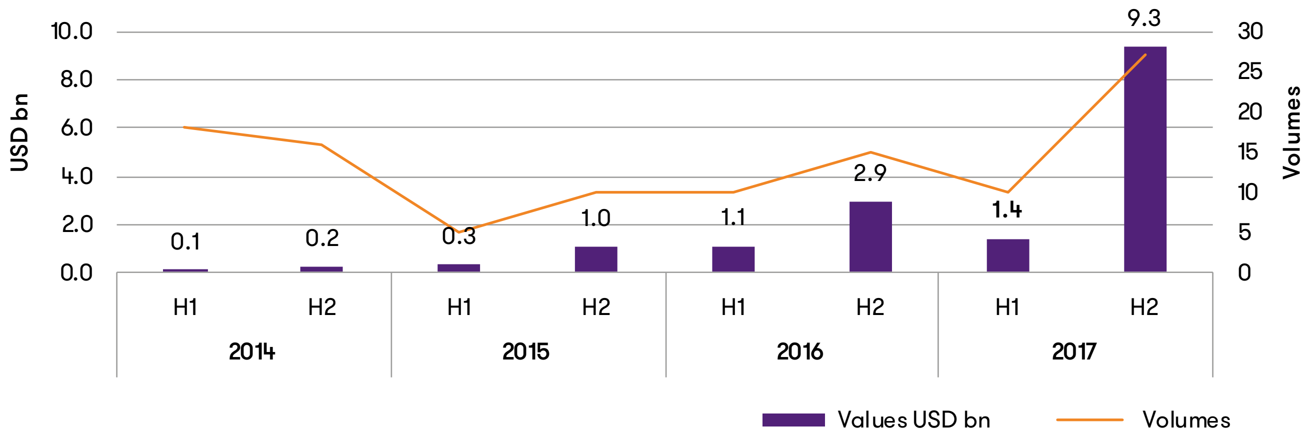
FDI inflows during April-August 2017 exceeded the annual FDI inflow in FY16, suggesting FDIs are increasingly favoured as a major source of non-debt financial capital in India. The changes in the FDI policy in 2017 display the efforts of the Indian government to remove multiple layers of bureaucracy, and to process proposals in a more streamlined, positive and expeditious manner. Virtually, every sector of the economy is open to foreign direct investment and the World Bank has stated that private investments in India are expected to grow by 8.8 per cent in FY 2018-19 to overtake private consumption growth of 7.4 per cent, and thereby drive growth in India's GDP in FY 2018-19.

Key FDI measures

- The government has eased 87 FDI rules across 21 sectors in the last three years, opening up traditionally conservative sectors like rail infrastructure and defence.
- One of the fundamental reforms undertaken by the government last year was the abolition of the Foreign Investment Promotion Board (which had been responsible for processing FDI proposals for over 25 years) with the intention of expediting FDI approvals.
- For the first time, the FDI Policy 2017, makes specific reference to fundraising through convertible instruments by start-ups, which should encourage fund raising by Indian start-ups from Foreign Venture Capital Investors (FVCI) and non-residents.

Market buoyancy

Heightened IPO activity: USD 10.7 bn raised across 37 issues



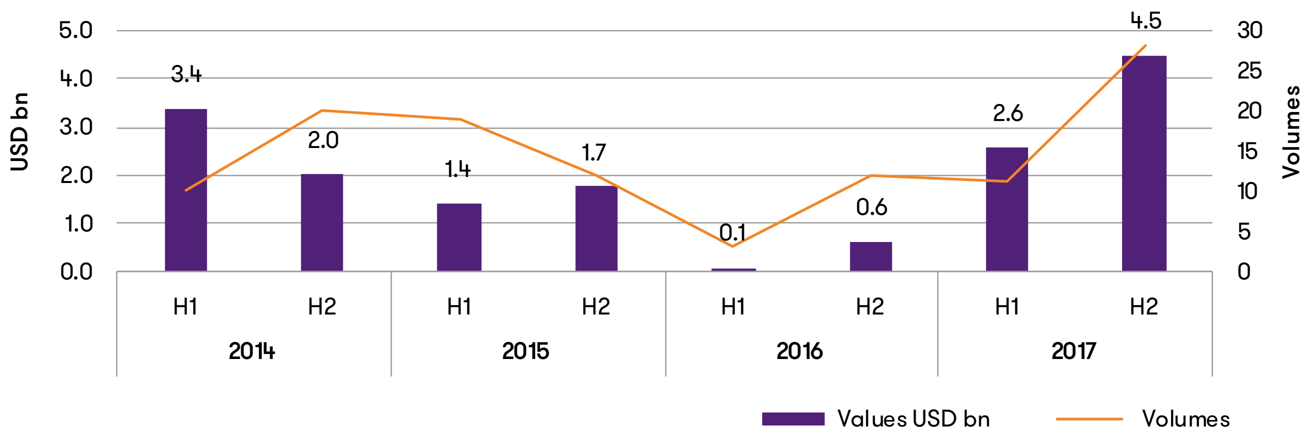
Source: Dealtracker report

2017 was also a blockbuster year of equity raising through IPO with 37 issues aggregating over USD 10.7 bn, partly driven by big insurer listings, and most issues witnessing significant over subscriptions. One of the reasons for boom in IPO market can be attributed to policy reform initiatives by the government that have given investor sentiment a boost. The strong IPO market has also attracted PE funds owning majority stakes in companies to look at IPOs as an exit option.

The attraction of IPOs as an exit route has significantly increased with several PE investors such as Warburg Pincus, ChrysCapital, Kedaara Capital and others reaping successful exits or part-exits through IPOs of firms such as Eris Lifesciences, and Au Financiers (India) Ltd, among others.

The buoyancy of the public markets, continued reforms by the government, backed by the recent upgrade to India's ratings by Moody's, should continue to drive PE-backed IPOs in 2018.

QIP Activity: USD 7.1 bn raised across 39 deals



Source: Dealtracker report

India's qualified institutional placement market saw a sharp uptick in activity, recording over 10 times more funds raised through QIPs in 2017 over 2016. One of the key drivers of growth in QIP during 2017 was the intense fundraising activity we witnessed in the BFSI sector following the recapitalisation agenda of banks. With nearly eight more banks already slated to raise funds through the QIP route by March 2018, we can expect much activity in this space next year as well.

"Overall, economic growth is expected to be resilient with recent measures taken to fine-tune GST compliance, improve the health of banks (following the IBC and recapitalisation) and ease policy uncertainty. The government is keen to make India an attractive and easy place to do business, and this has resonated well with the investors."

Raja Lahiri
Partner
Grant Thornton India LLP

II. Asia Private Equity Insight 2018: What lies ahead for PE

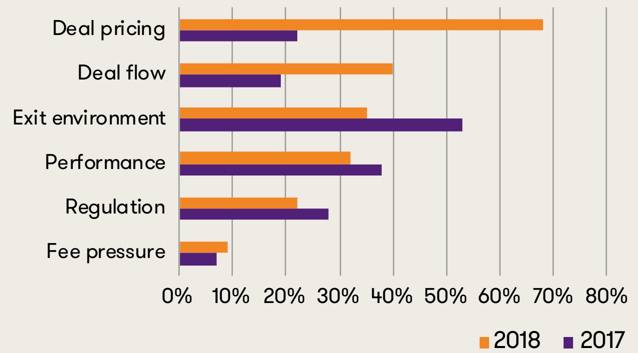
(An extract from a report by Grant Thornton Hong Kong)

Asia Survey Results

Overall outlook for Asian and global PEs

A survey conducted by Grant Thornton Hong Kong on M&A deal sentiments in Asia for 2018 revealed that 77 per cent and 95 per cent of the respondents are anticipating China and India to become more influential in the Asian region respectively. Around 90 per cent of interviewees are even expecting an increase in cross-border M&A transactions involving Indian companies.

What do Asia-based fund managers see as the biggest challenges facing the PE industry in the next 12 months



Source: Asia Private Equity Insight 2018

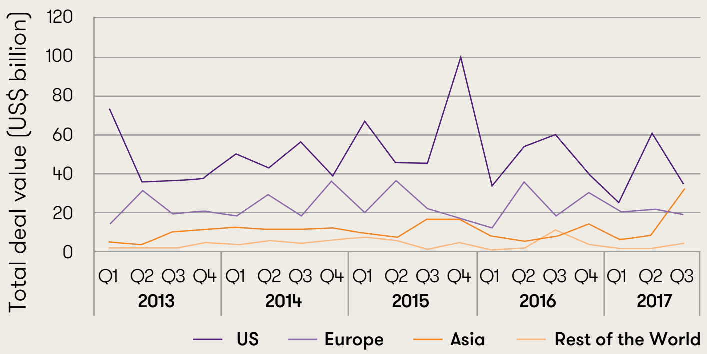
Challenges faced by Asian fund managers

- Deal pricing was the biggest challenge, signifying increased valuation trends.
- However, lesser respondents felt exit environment to be a challenge, suggesting favourable conditions for funds.

PE-backed buyouts in Asia

Contrary to the drop in the overall global market and other key markets like the US and Europe, PE-backed buyouts in Asia increased by around 129 per cent to USD 48 bn in the first nine months of 2017, comparing to the same period of 2016 (including the USD 18 bn Toshiba Memory Corporation-Bain Capital deal which is the largest PE-backed buyout deal since 2015). Among other reasons contributing to an upward trend in buyouts, a fast-growing Indian economy that focused on digital solutions and technologies is expected to attract investors.

Total value of PE-Backed buyout deals by region between 2013 and Q3 2017



Source: Asia Private Equity Insight 2018

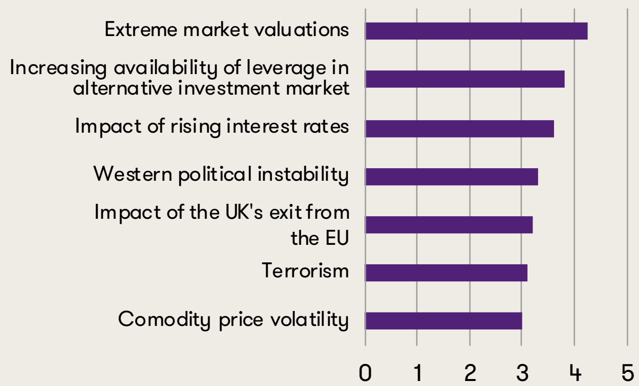
> "There is a clear sign of a switch in focus from 'later stage pre-IPO investments' to 'early stage venture capital investments'. The former is indeed becoming more challenging as good deals are scarce and their valuations are becoming unrealistically high."

Kevin Chan
Partner of Transaction Advisory Services, China

Challenges faced by global funds

Global fundraising continued to boom; dry powder at private equity firms remains high and valuations have gone up.

What do respondents see as their most pressing macro and structural issues during 2018

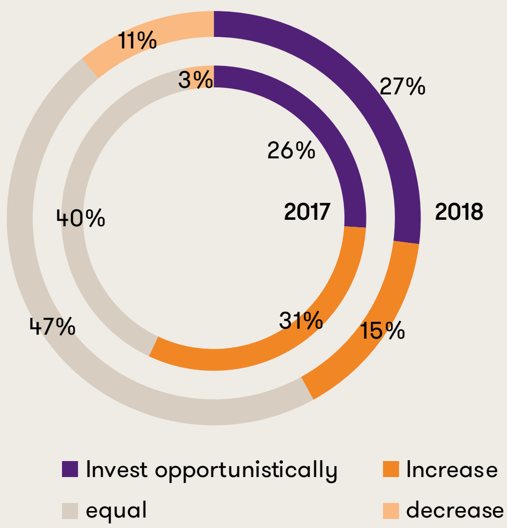


Source: Asia Private Equity Insight 2018

High market valuation is the foremost concern of investors in the global market. Given the vast stockpile of dry powder and the long-term out-performance of private equity over listed equities, a surge in competition among private equity participants will continue and valuation will remain a challenge. **Median EV/EBITDA multiples of global private equity transaction valuations reached a new high of 10× in Q3 2017.**

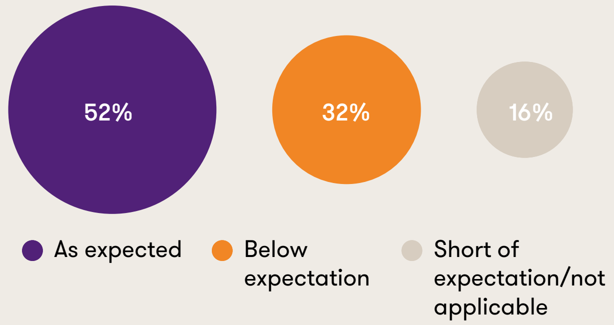
2017 performance and 2018 outlook for global PE funds

What is your exposure level to PE in the next year



Source: Asia Private Equity Insight 2018

How did your PE portfolio perform against benchmarks in 2017?



"Despite stringent regulations and challenges, PE firms that are optimistic about investing time and resources into driving new eras and investment strategies throughout their portfolios look set to come out ahead in 2018."

Barry Tong
National Head of Transaction Advisory Services, China

III. PE life cycle in India

Fundraising → Investment → Exits

The global private equity industry raised a record USD 453 bn from investors in 2017, leaving it with more than USD 1 tn to pour into companies and new business ventures, according to London-based data tracker Preqin's report. The money raised in 2017 surpassed the previous record of USD 414 bn set in 2007.

Industry sources estimate that nearly USD 15 bn of funds are waiting to be deployed in India, the highest amount of free cash to date. However, fundraising activity continued unabated, signalling increasing competition among funds to be a part of the India growth story.

India focused fund raises totalled USD 6.4 bn in 2017. Big-ticket asset owners such as pension and sovereign funds have started showing interest, especially after Moody's upgraded India's sovereign rating outlook. The fund sizes have increased for most of the PE funds and they are looking at larger deals, since they have a limited time frame to deploy the raised funds. In several cases, competition to scout for deployable targets may push prices and eventually erode returns.

Evolving PE appetites

Minority stakes →	Majority, buyouts, large strategic deals
Early stage investments →	All stages, open to pre-IPO stages
Selective investments →	Stiff competition; multiple funds chasing targets
Mostly primary infusion →	Open to primary + secondary to match larger ticket sizes
PE/VCs playing the role of financial investor →	Donning strategic roles, large investments and stakes creating sector platforms, backing acquisitions, etc.

The average net internal rate of return (IRR) of India-focused funds was 14 per cent over the past 10 years, compared with the median net IRR of 11.9 per cent across all Asia-based private equity funds of all vintages, according to Prequin.

2018 seems poised for topping the previous year figures as more than 20 India-based funds have in principle secured and closed fundraising and additionally, more than 80 funds are in the process of roadshows to raise approximately USD 15 bn.

Key global fund raises

Fund	Amount (USD mn)	Sector	Region
Softbank Vision	100,000	Tech-focussed	Global
Apollo Global	24,600	Buyout fund	North America and Western Europe
KKR Asian	9,300	Financial services, environment protection, specialised technology, consumer goods, industrials, retail, precision manufacturing, medical treatment and healthcare, education, and infrastructure projects	APAC
Goldman Sachs	7,000	Buyout fund	Global
Partners Group	7,000	Healthcare, education, technology and consumer	Global
Carlyle	4,500	Buyout fund	APAC, buyout

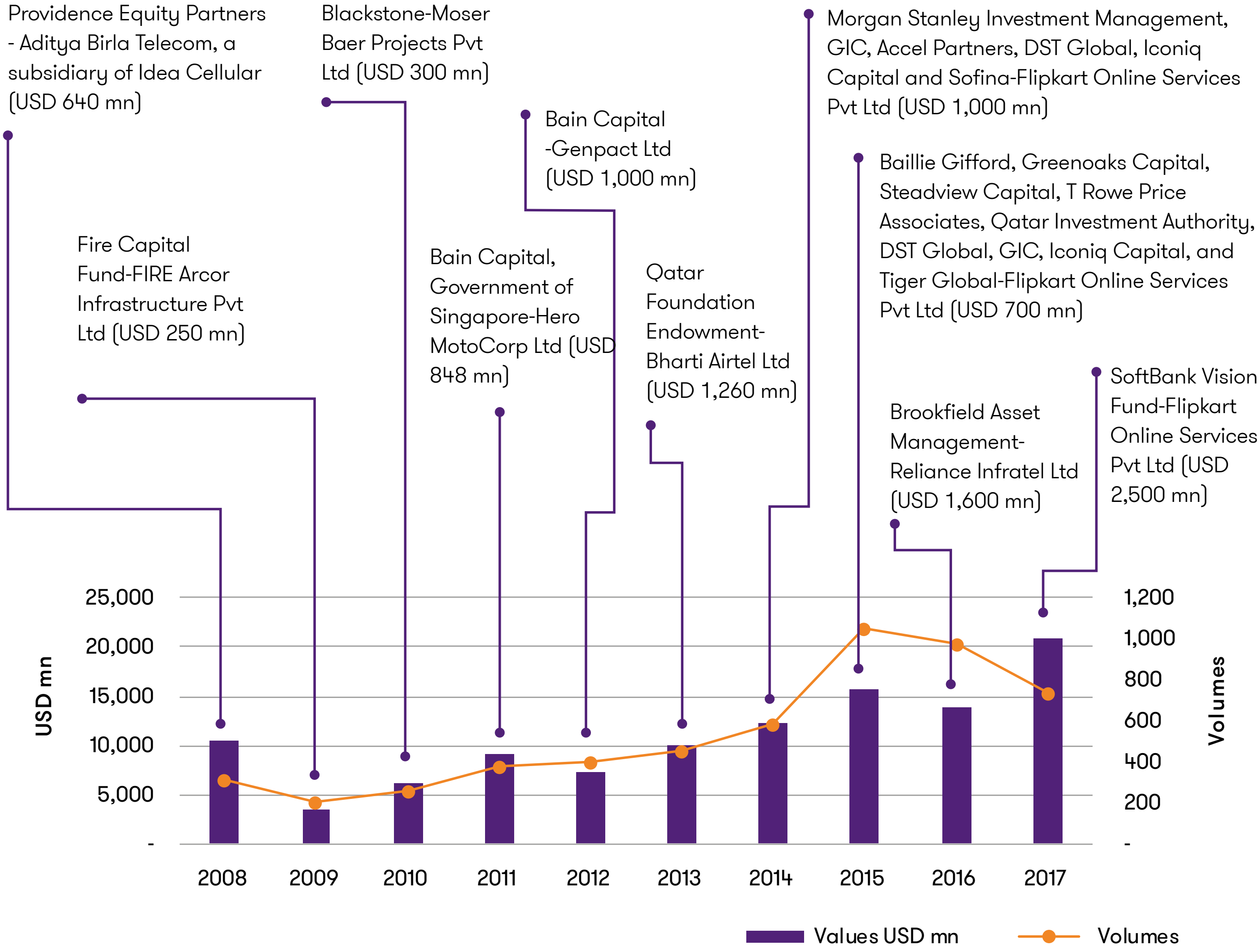
Key India-focused fund raises

India focused funds	Amount (USD mn)	Sector
The National Investment and Infrastructure Fund	1000	Infrastructure management
Kedaara Capital Advisors Ltd	650	Logistics, packaging, specialty chemicals and ingredients, pharmaceuticals and finance
Toro Finserve LLP-India Healthcare Opportunities Fund	500	Healthcare infrastructure
Logos India	400	Logistics and warehouses
SAIF Partners	350	Consumer internet companies, education, healthcare, SaaS, consumer brands and content

Fundraising → Investment → Exits

10 year PE trajectory

2017 witnessed a whopping 735 deals valued at USD 21 bn, recording the highest ever investment value in a year. This momentum can largely be attributed to increased interest from sovereign wealth funds, pension funds and family offices, which were at the frontline of PE activity. It is interesting to note that the USD 21 bn came from fewer deals compared to 2016 which saw USD 14 bn from 971 deals, suggesting larger ticket sizes in 2017. Also, since 2014, Flipkart has managed to garner the largest investment each year, except in 2016.



Top deals in 2017 broke all-time records in India's PE deal history. Top 10 deals accounted for 51 per cent of total deals in 2017 versus 36 per cent in 2016.

Investor	Investee	Sector	Stake %	Investment Value (in USD mn)
SoftBank Vision Fund	Flipkart Online Services Pvt Ltd	E-commerce	20%	2,500
Bain Capital and its affiliate firms, American asset manager Capital Group and Life Insurance Corporation of India	Axis Bank Ltd	Banking & Financial Services	N.A.	1,780
SoftBank Group Corp	One97 Communications Ltd-Paytm	E-commerce	20%	1,400
GIC	DLF Cyber City Developers Ltd	Real Estate	33%	1,390
Tencent Holdings Ltd and SoftBank Group Corp.	Olacabs.com-ANI Technologies Pvt Ltd	E-commerce	N.A.	1,100
Kohlberg Kravis & Roberts and Canada Pension Plan Investment Board	Bharti Infratel Ltd	Telecom	10%	952
Warburg Pincus, Tamarind Capital Pte and IIFL Special Opportunities Fund	ICICI Lombard General Insurance	Banking & Financial Services	12%	383
Warburg Pincus	Tata Technologies Ltd	Infrastructure Management	43%	360
The Xander Group Inc.	Shriram Properties Private Limited- Shriram Gateway IT SEZ	Real Estate	100%	350
Warburg Pincus	Bharti Telemedia Ltd	Media & Entertainment	20%	350

Key highlights of 2017 deals:

SoftBank, the world's largest technology investment firm, has bought approximately 20 per cent stake in India's largest online retail company, making it the country's biggest private investment.

The largest PE deal in Indian BFSI sector could be a precursor to other big-ticket PE investments in Indian stressed assets and banking space.

Marks SoftBank Group Corp's second largest funding round by a single investor in India's start-up ecosystem and largest in the digital payments space in India.

This marks the biggest FDI deal in India's real estate space.

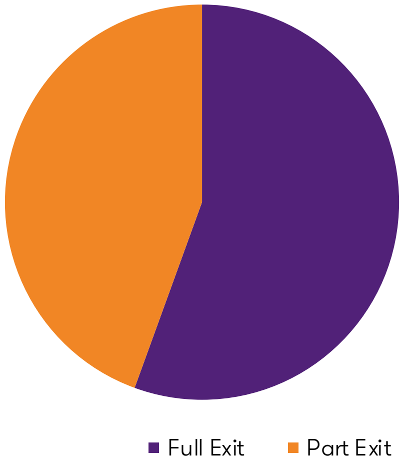
Marks the largest funding round in Ola's six-year history.

Fundraising → Investment → **Exits**

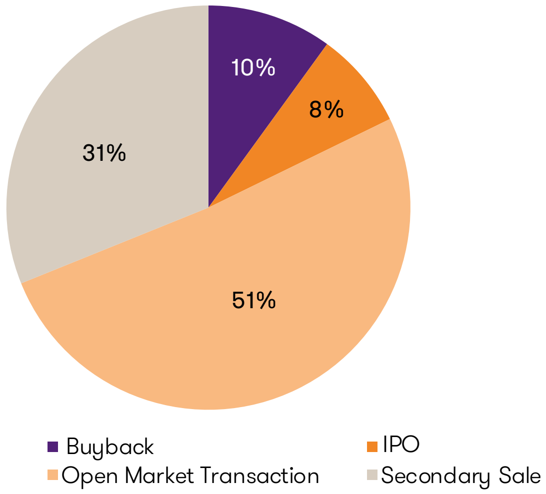
2017 was a good year for PE exits registering 90 plus exits aggregating USD 6.7 bn (to the extent of details in the publicly announced deals), which exceeded the previous year by nearly 42 per cent in terms of value on the back of buoyant public markets. Given the prevailing economic conditions, the phase of the economic cycle and the perception of valuations in the markets, the exit trend is expected to continue in the coming year as well.

Exit volumes 2017

Exit volumes by type



Exit volumes by route



Open market transaction was the preferred exit route in 2017 followed by secondary sale, together capturing 82 per cent of total preferred exit route.

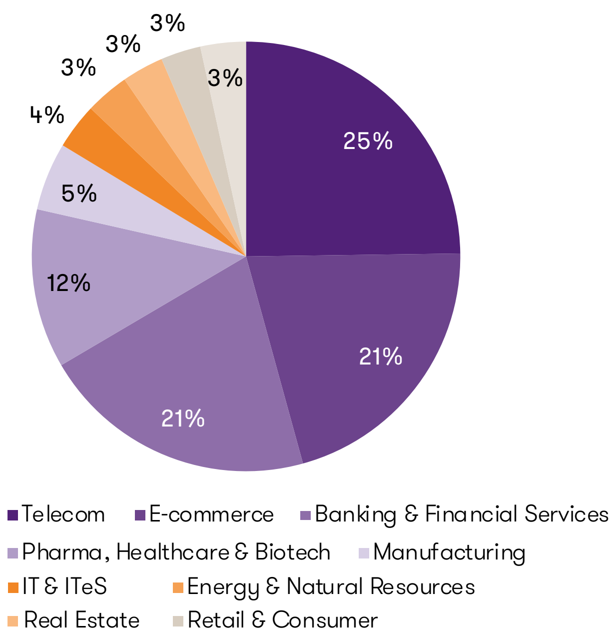
The year 2017 also witnessed many big-ticket M&A transactions in which PE funds cashed in on their investments and the strong IPO market has also attracted PE funds owning majority stakes in companies to look at IPOs as an exit option.

Notable PE exits

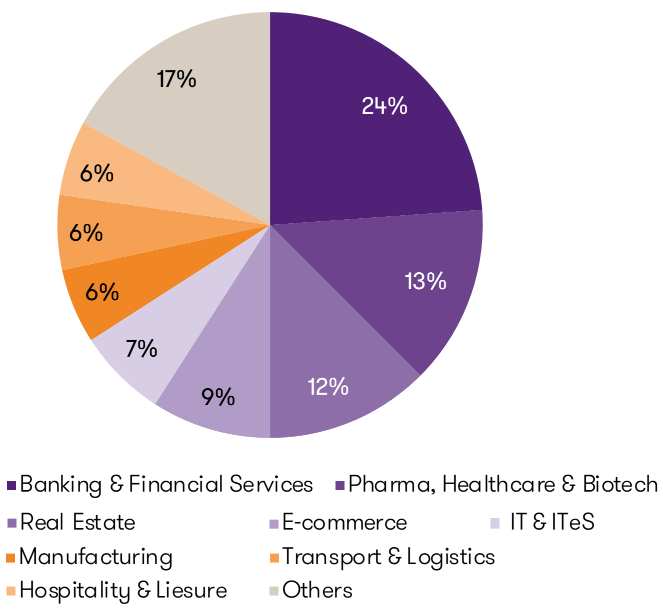
Investor exited	Investee company	Sector	Exit route
Qatar Foundation Endowment	Bharti Airtel Ltd	Telecom	Open market transaction
Tiger Global	Flipkart Online Services Pvt Ltd	E-commerce	Secondary Sale
SAIF partners	MakeMyTrip India Pvt Ltd	E-commerce	Open market transaction
SAIF Partners	One97 Communications Ltd- Paytm	E-commerce	Secondary Sale
Fairfax Financial Holdings	ICICI Lombard General Insurance	Banking & Financial Services	Secondary Sale
Warburg Pincus	Capital First Ltd	Banking & Financial Services	Open market transaction
KKR	Dalmia Bharat Ltd	Manufacturing	Open market transaction
IDFC Alternatives	Sembcorp Green Infra Ltd	Energy & Natural Resources	Secondary sale
ChrysCapital	Eris Lifesciences Pvt Ltd	Pharma, Healthcare & Biotech	IPO
Providence Equity Partners	Idea Cellular Limited	Telecom	Open market transaction

BFSI sector provided most exits followed by pharma and real estate sectors capturing nearly 50 per cent of exits. On the other hand, sectors like telecom, e-commerce and banking, provided high value exits to PE funds.

2017 PE exit sectors by values



2017 PE exit sectors by volumes

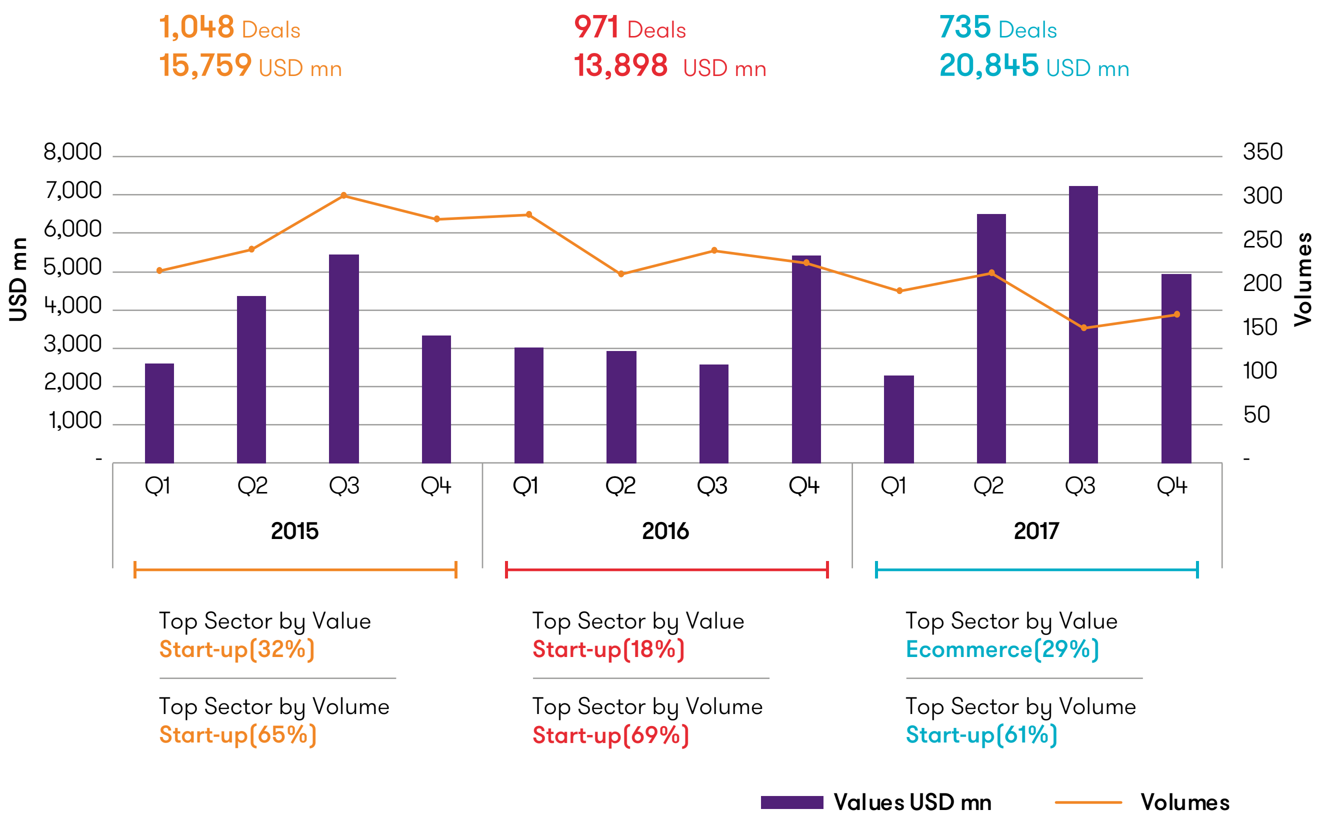


IV. Next big leap for PEs in India: Trending themes

Technology enablers dominate

Over the years, PEs have played a transformational role in the Indian corporate landscape - from being mere financial investors, to strategic advisors, minority stakeholders to taking greater control – they have done it all. This gradual shift in PE mindset resulted in several new themes in the PE dealscape: PE-backed buyouts, consolidation among PE-backed entities, sectoral platform creation by large PE houses, PE-backed cross-border/domestic acquisitions, etc. PE activity has even shaped the regional characteristics of the country with cities being mapped as specific sector hubs. In this section, we have tried to highlight select trending themes in the PE landscape in India.

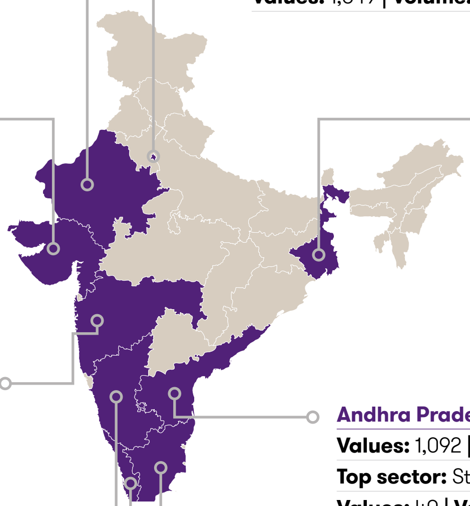
Quarterly PE trend



Start-ups and e-commerce dominated PE deal activity since 2015, quarter after quarter. It is interesting to note how technology and technology-enabled sectors continue to drive the Indian economy in recent times, on the back of rising adoption of digitisation, automated techniques supported by the latest technology upgradation and an increasing appetite for innovation.

Start-ups driving deal volumes

Region in focus - PE investments



Rajasthan
Values: 57 | **Volume:** 11
Top sector: Start-up
Values: 4 | **Volume:** 9

NCR
Values: 6,464 | **Volume:** 211
Top sector: Start-up
Values: 1,049 | **Volume:** 147

Gujarat
Values: 319 | **Volume:** 14
Top sector: Start-up
Values: 20 | **Volume:** 7

West Bengal
Values: 94 | **Volume:** 9
Top sector: Start-up
Values: 4 | **Volume:** 4

Maharashtra
Values: 7,579 | **Volume:** 196
Top sector: Start-up
Values: 471 | **Volume:** 99

Andhra Pradesh
Values: 1,092 | **Volume:** 32
Top sector: Start-up
Values: 40 | **Volume:** 16

Karnataka
Values: 4,418 | **Volume:** 216
Top sector: Start-up
Values: 825 | **Volume:** 126

Kerala
Values: 301 | **Volume:** 5
Top sector:
Pharma, Healthcare & Biotech
Values: 200 | **Volume:** 1

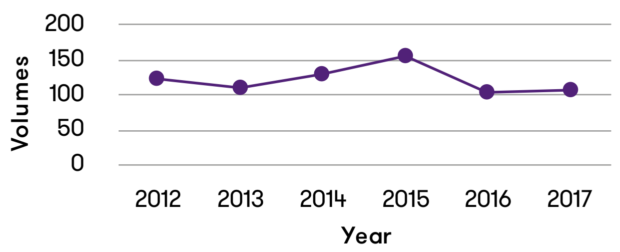
Tamil Nadu
Values: 718 | **Volume:** 28
Top sector: Start-up
Values: 32 | **Volume:** 12

Values are in US$ mn

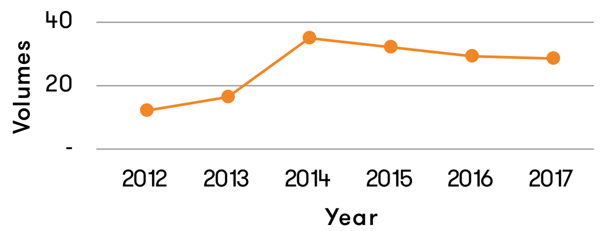
Finding favour: Big-ticket sizes

PE investment ranges

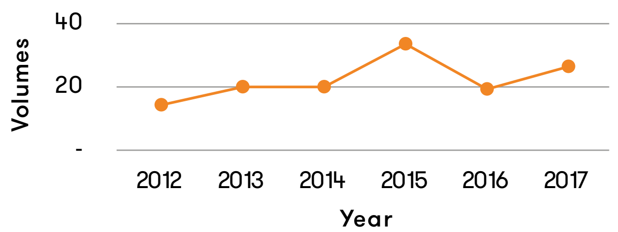
Investment USD 10 mn - USD 49.9 mn



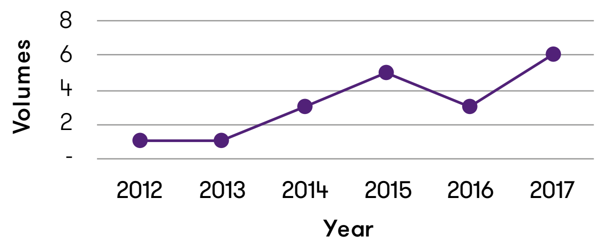
Investment USD 50 mn - USD 99.9 mn



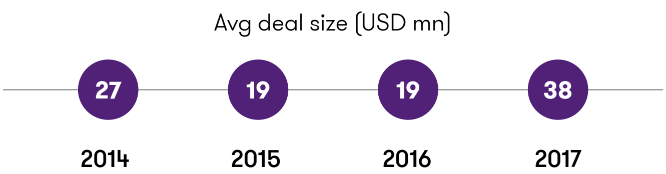
Investment USD 100 mn - USD 499.9 mn



Investment above USD 500 mn



Average PE deal size based on disclosed deal values



Buoyant on big-ticket investments, the average deal size in 2017 almost doubled compared to 2016. This momentum can be largely attributed to increased interest from sovereign wealth funds, pension funds and family offices, which were at the front line of the PE activity unlike past few years. 2017 also witnessed a clutch of mega investments with four deals over USD 1 bn each compared to only two such deals in 2016. On the flip side, volumes dropped across funding stages in 2017 with early stage funding taking a hit in terms of deal activity and value. This happened mainly because investors turned extremely selective in placing their bets on start-ups despite having adequate funds at their disposal.

Shaping buyout trends

PE players in India are at a stage where they have gained significant experience in India and have the wherewithal to deal with governance and regulatory risks and exposure. This has placed PE funds in a favourable position, where they are able to apply their expertise from running businesses globally to the Indian context.

The ability to do the following has enabled buyouts in India

- Drive exits at an opportune time irrespective of promoter decisions
- Drive PE-backed acquisitions for strategic consolidation or synergies among investee companies in the portfolio
- Transforming governance and professionalism, and
- Emulating global best practices.

Notable buyout/control deals in 2017

Investor	Investee	Sector	% Stake	Investment Value (in USD mn)
The Xander Group Inc.	Shriram Properties Private Limited - Shriram Gateway IT SEZ	Real Estate	100%	350
General Atlantic	Karvy Computershare Private Limited	Banking & Financial Services	74%	238 est.
Everstone Group	Century Appliances Ltd- Kenstar	Retail & Consumer	100%	200 est.
True North Managers, Faering Capital, and angel investors	Religare Health Insurance Co. Ltd	Banking & Financial Services	80%	158 est.
Marigold Capital and Investments	Hotel Leela Venture Limited- The Leela Palace, Chennai	Hospitality & Leisure	100%	109 est.

Note: For the purpose of analysis on buyouts, all the transactions resulting in controlling stake of more than 50 percent and are publicly disclosed have been included

Recent years have seen a significant portion of the total PE investments in India being directed towards acquiring controlling stakes in companies. Based on current evidence, the landscape for such transactions is maturing and it appears that control deals are here to stay. The volume of these deals is also likely to increase on account of stressed asset sales in the financial sector. If the challenges posed by such investments are tackled effectively, and good governance practices to management are adopted, control deals by PE firms may well spike in the near future.

"Since acquisition financing is not available in India and corporate balance sheets remain thin, it is an opportunity for PEs to back large and established corporates for marquee acquisitions and thus PEs will be looked at as an alternate means of financing."

Prashant Mehra
Partner
Grant Thornton India LLP

Activity monitor

Based on number of investments during 2017

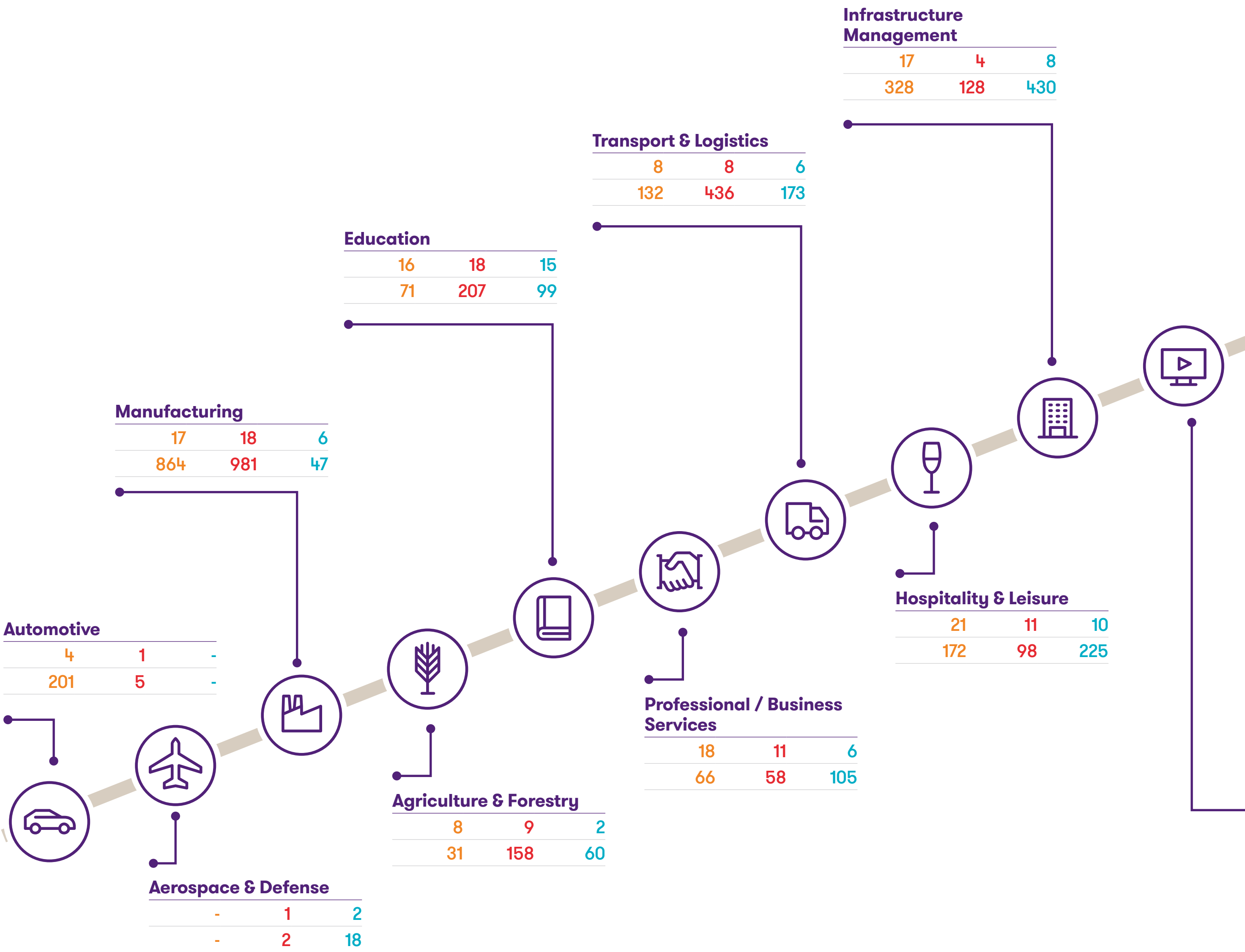
Investor	Investments	Select 2017 investments
Angel investors	310	WeAreHolidays, 10i Commerce Services, Wassup, Fynd, Leadburg, Mind Your Fleet, Couponhaat, myCBSEguide.com, BabyOnBoard, PumpKart, etc
Accel Partners	31	Swiggy, Blackbuck, Collectabillia, Fabhotels
Sequoia Capital	25	Oyo rooms, Vini Cosmetics, Practo, Capital float
Blume Ventures	20	Dunzo, Unacademy, Nowfloats
IDG Ventures	20	Policy Bazaar, Nestaway, Curefit, Rentomojo
Matrix Partners India	17	Practo, Five Star Business Finance Ltd, Treebo Hotels, Mswipe, Chumbak
Kalaari Capital	16	Power2sme, Curefit, Urban Ladder, Jumbotail
Indian Angel Network	12	Get my parking, Little Black Book, Tagbox, Skillenza
SAIF Partners	12	Swiggy, CapitalFloat, Treebo Hotels, Paytm, Urbanclap, Urban Ladder
Kae Capital	10	1mg Technologies, Fynd, Credifiable, Loantap, Parentune, Trupay
Nexus Venture partners	9	Druva Software, Snapdeal, Unacademy, Hypertrack Inc
Bessemer Venture Partners	9	Swiggy, Urbanclap, Innoviti, Pharmeasy, Docsapp, Bigbasket

Increased risk-taking appetite of angel investors and active participation by HNIs and UHNIs in the angel investing ecosystem resonated in the investment approach of individual investors, regular investments by active players like Indian Angel Network, as well as in the investment activities of local angel networks such as The Chennai Angel Network, Chandigarh Angel Network, Mumbai Angel network, Hyderabad Angels, etc. These investors enriched the local investment ecosystem.

V. Sector round-up

Top sectors

In 2017, e-commerce, financial services, and real estate, dominated PE investments capturing 62 per cent of the total PE investment values, while start-ups dominated the volumes. It is interesting to note that core sectors such as BFSI and real estate continue to lead the race alongside trending sectors such as start-ups or e-commerce. While traditional IT & ITES has taken a backseat, new age technology enabled sectors within the start-up space, and e-commerce space continue to hog the limelight. This trend will continue as India embraces digitisation.



Sector	Volumes 2015	Volumes 2016	Volumes 2017	Values (USD mn) 2015	Values (USD mn) 2016	Values (USD mn) 2017
Retail & Consumer	32	28	28	468	334	585
Energy & Natural Resources	12	7	8	1,107	481	639
IT & ITeS	44	51	53	586	1,367	814
Pharma, Healthcare & Biotech	30	30	23	981	656	846
Telecom	1	3	2	500	2,055	1,040
Start-up	684	669	452	4,974	2,459	2,215
Real Estate	32	17	24	1,187	1,474	2,864
Banking & Financial Services	39	38	42	1,924	1,878	4,137
E-commerce	41	31	33	1,838	975	6,023
Media & Entertainment	24	16	15	328	146	523

Volumes	2015	2016	2017
Values (USD mn)	2015	2016	2017

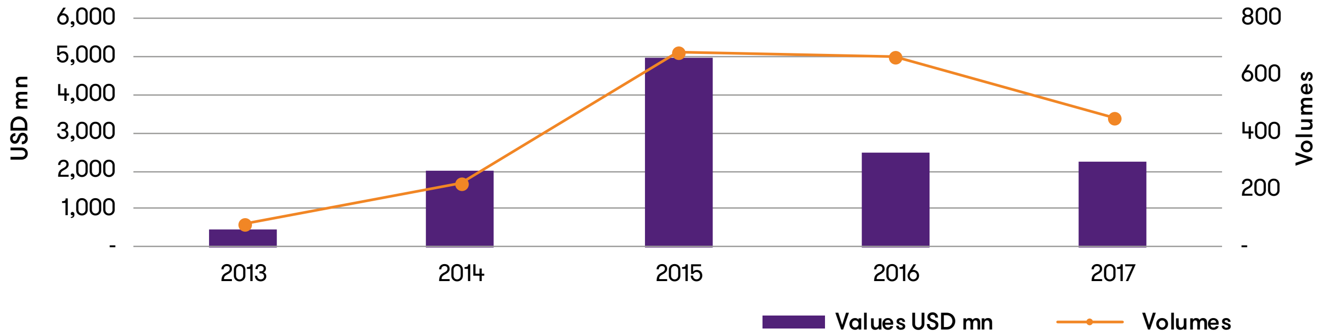
Start-ups

India is home to the world's third largest start-up ecosystem and witnesses the birth of 3-4 new start-ups each day. With the influx of investments from both Indian and global investors, this space generated significant traction in terms of new ideas, path-breaking inventions to the extent that the government initiated its Startup India programme. The programme is aimed at fostering entrepreneurship and promoting innovation by creating an ecosystem that is conducive to the growth of start-ups.

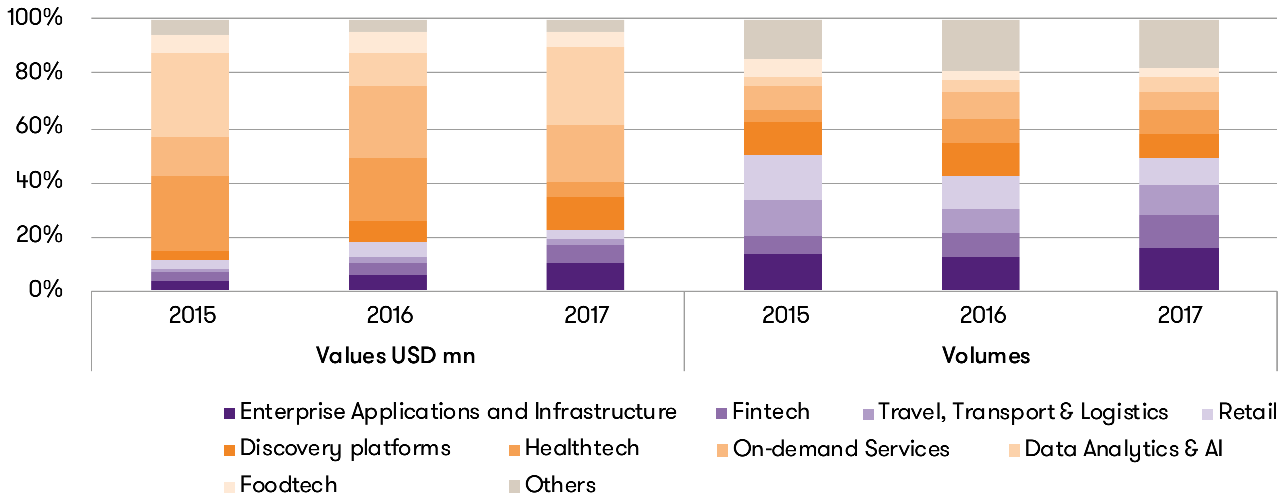
The role of VCs in enabling start-ups realise their business potential cannot be understated, and is evident in the sheer volume of investments in this space. While 2015 peaked at ~700 investments in the start-up space, investors have been cautious in identifying valuable targets resulting in more stable volumes in 2016, 2017 of around 450 .

Consumer-focused start-ups, specifically in travel, food, discovery platforms and retail, dominated the space. This can largely be attributed to the growing levels of smartphone penetration and adoption of digitisation in India. However, since the larger B2C space is dominated by established e-commerce players, there is a growing shift towards the lesser crowded B2B commerce.

Yearly PE investment trends in the sector



Sub-sector break-up



Top deals

Investor	Investee	Sub Sector	% Stake	Value in USD mn
SoftBank Group Corp, Hero Enterprise, Sequoia Capital India, Lightspeed Venture Partners and Greenoaks Capital	Oravel Stays Pvt Ltd-OYORooms.com	Travel, Transport & Logistics	N.A.	250
Ali Cloud Investments	Just Buy Live Enterprise Pvt. Ltd	Enterprise Applications and Infrastructure	N.A.	100
Naspers Ltd, Accel Partners, SAIF Partners, Bessemer Venture Partners, Harmony Partners and Norwest Venture Partners	Bundl Technologies Pvt Ltd-Swiggy.com	Foodtech	N.A.	80
Sands Capital, International Finance Corp, Accel Partners, Flipkart Ltd and angel investor	Zinka Logistics solutions Pvt Ltd -Blackbuck	Travel, Transport & Logistics	N.A.	70
REA Group and SoftBank	Proptiger Realty Pvt Ltd & Locon Solutions Private Limited - Housing.com	Others	80%	55

"Any keen follower of the start-ups space in India and world over will tell you that the new age of disruption has just begun albeit with inevitable flux; we are witnessing a record presence of early stage funds operating in India and the slow awakening of the Indian LP though we are a long way from what's ideal. Nevertheless, regulatory changes around angel tax and relaxation around valuation of start-ups will provide much-needed impetus and encourage more investors to explore Digital India investment opportunities."

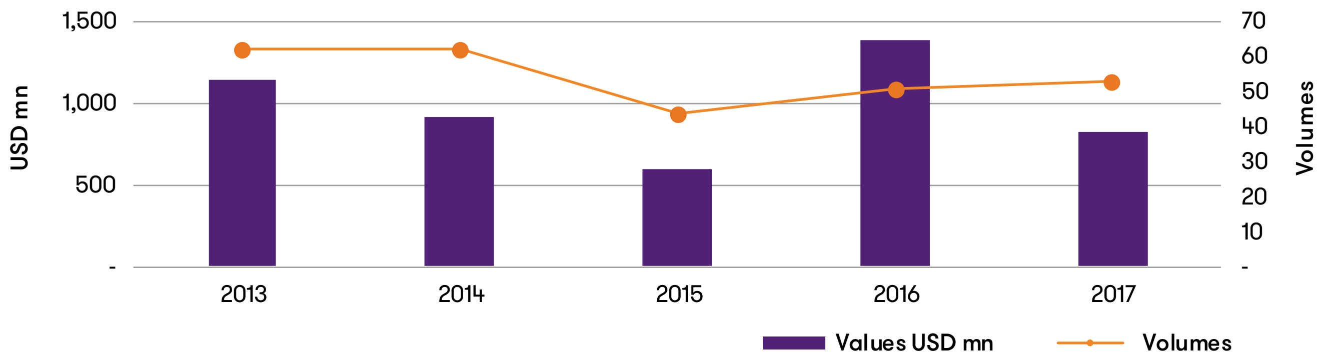
Vidhya Shankar
Executive Director
Grant Thornton India LLP

IT & ITeS

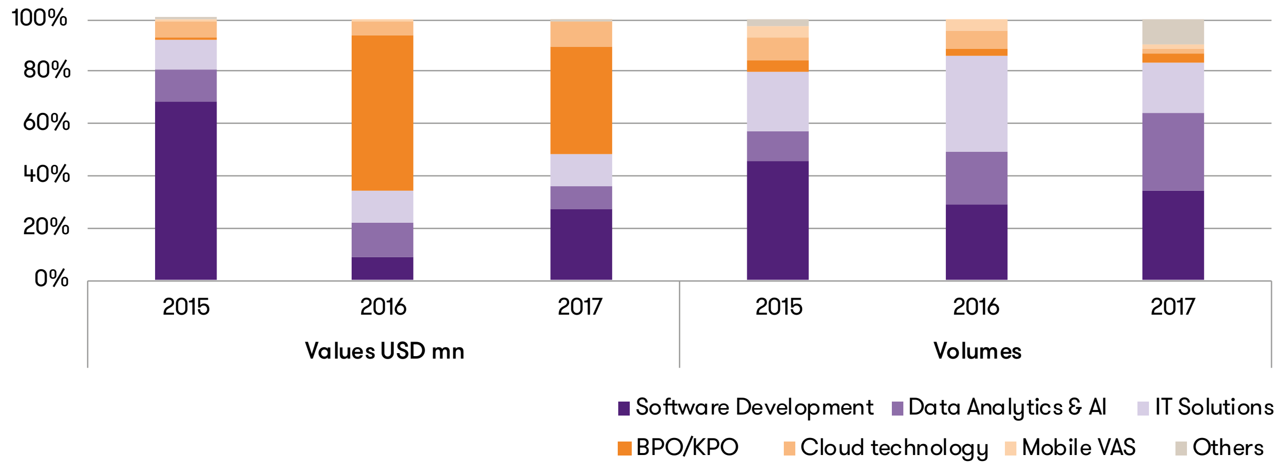
IT & ITeS sector saw a dip in PE investments compared to 2016, with over 40 per cent lower deal values, while volumes remained stable. We continue to see traction in cloud based solutions, data protection solutions, analytics and AI segments. Core sub-segments like software products and IT solutions seem to be blending with recent developments in cloud and analytics platforms. The industry continues to evolve as businesses face newer issues in storage, big data analysis, cybersecurity.

It is interesting to note that of the top PE investments in the sector, two have been in gaming-related areas: Clairvest's USD 73 mn investment in Ace2Three and IIFL's USD 51mn investment in Nazara (popular for its Chhota Bheem game).

Yearly PE investment trends in the sector



Sub-sector break-up



Top deals

Investor	Investee	Sub Sector	% Stake	Value in US$ mn
Riverwood Capital, Sequoia Capital India, Nexus Venture Partners, Tenaya Capital, and most other existing venture investors	Druva Software Pvt Ltd	Cloud technology	N.A.	80
Everstone Capital and angel investors	Servion Global Solutions Ltd	IT Solutions	N.A.	74
Clairvest Group and other investors	Head Infotech India Pvt. Ltd-Ace2Three	Software Development	N.A.	74
FTV Capital and Zodius Capital	MarketsandMarkets Research Pvt. Ltd	BPO/KPO	N.A.	56
IIFL Special Opportunities Fund	Nazara Technologies Pvt. Ltd	Software Development	N.A.	51

"Technology sector is fast evolving and disruption is the key theme impacting businesses. Traditional IT/ITeS companies are also transforming to embrace the newer technology growth engines of digital, e-commerce, fintech, cloud, social media, design and data-analytics. In my view, private equity and venture capital investments are expected to follow this changing trend too in providing growth capital to companies building businesses in the newer technologies.

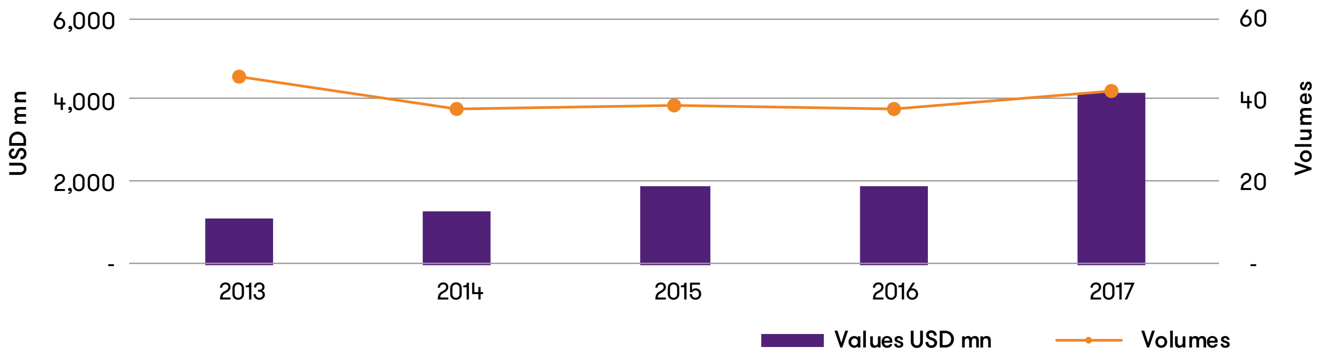
In the traditional IT/ITeS space (software services, BPO/KPO), one has already seen large scale buyouts by some of the large funds and consolidation through M&A and one would expect this to be fairly active space from deal-making perspective."

Raja Lahiri
Partner
Grant Thornton India LLP

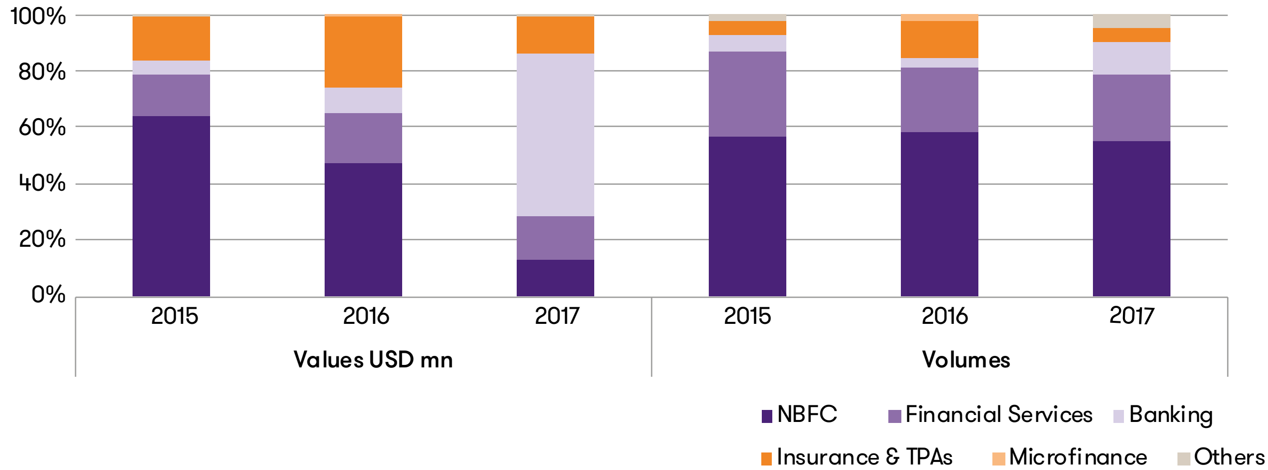
BFSI

BFSI investments more than doubled in 2017 recording 12 deals estimated and valued at and over USD 100 mn compared to only seven such deals in 2016. In one of the largest private equity investments in the Indian banking sector consortium, Bain Capital invested USD 1.8 bn in Axis Bank. While it is not new for Indian banking sector to attract foreign private capital, as has been seen earlier in cases such as ING Vysya, Yes Bank, Centurion Bank, etc, the current scenario with significant potential on one side and a heavy asset quality burden on the other, presents new deal opportunities for global PE players to look at stressed assets, buyouts, etc. Microfinance lenders and small banks are also witnessing significant traction as investors are optimistic about the opportunity of filling a huge gap between what traditional banks offer and what India's growing population needs.

Yearly PE investment trends in the sector



Sub-sector break-up



Top deals

Investor	Investee	Sub-sector	% Stake	Value in USD mn
Bain Capital and its affiliate firms, American asset manager Capital Group and Life Insurance Corporation of India	Axis Bank Ltd	Banking	N.A.	1,780
Warburg Pincus, Tamarind Capital Pte and IIFL Special Opportunities Fund	ICICI Lombard General Insurance	Insurance & TPAs	12%	383
Multiples PE, CDC, Steadview Capital, ABG Capital, Global IVY Ventures, HDFC Standard Life Insurance Co. Ltd, ICICI Lombard General Insurance Co. Ltd, LTR Focus Fund, Plenty CI Fund I and Plenty Private Equity Fund.	RBL Bank Ltd	Banking	N.A.	263
TPG, Morgan Stanley Asia managed PE fund, Treeline, QRG Enterprises, Bajaj Allianz Life Insurance, Bajaj Allianz General Insurance and angel investor	Janalakshmi Financial Services Pvt Ltd	NBFC	N.A.	161
True North Managers, Faering Capital, and angel investors	Religare Health Insurance Co. Ltd	Insurance & TPAs	80%	158

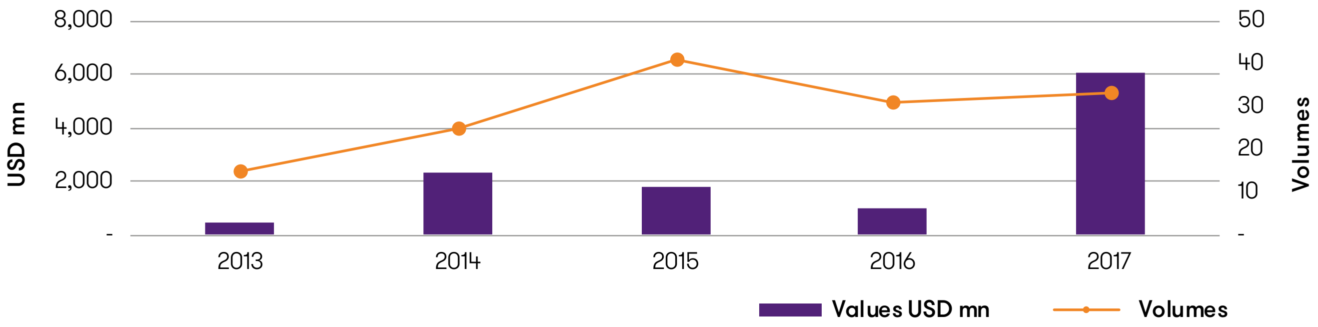
"Financial services and banking in any economy is impacted by an interplay of several sectoral trends, regulatory changes, policy initiatives, etc. Indian BFSI sector, which was once considered traditional, is ripe for disruption as it is impacted by a slew of government reforms, mobile wallets, cryptocurrency, increased adoption of insurance, and infrastructure push. BFSI is topping deal charts with large PE investments, IPO activity and QIP fund raises. It is just the beginning of a new era in the Indian financial sector."

Khushroo B. Panthaky
Director
Grant Thornton Advisory Pvt Ltd

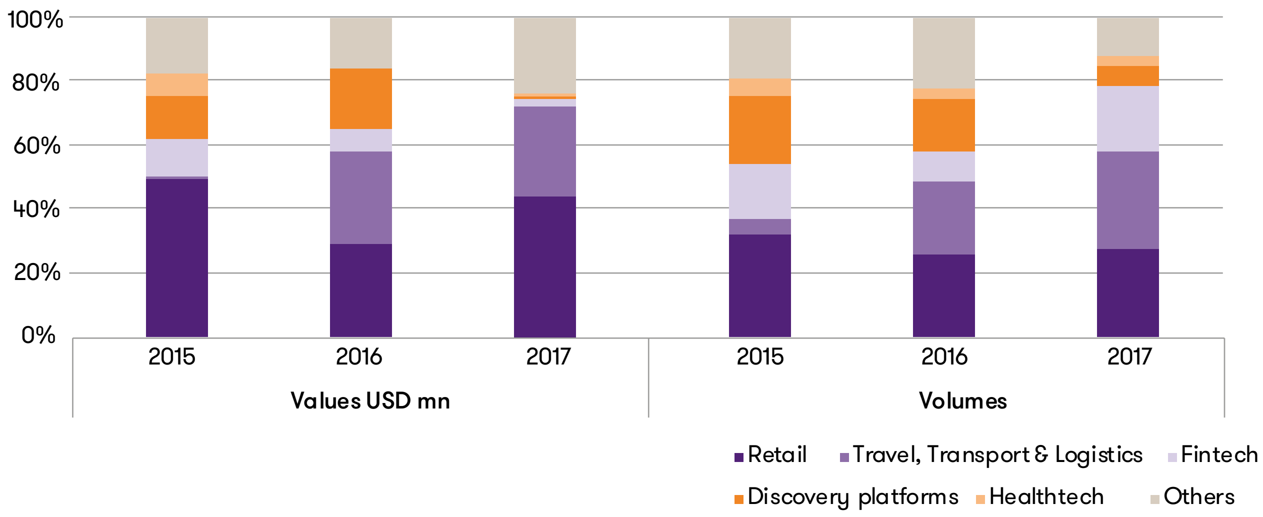
E-commerce

E-commerce witnessed the largest y-o-y jump over 2016, with USD 6 bn worth of investments from 33 deals, compared to USD 1 bn from 31 deals in the previous year. Retail & travel, transport and logistics segments attracted the highest investments capturing 72 per cent of the deal values and 58 per cent of deal volumes. Flipkart's fundraise of USD 2.5 bn from SoftBank contributed 42 per cent to the total e-commerce sector deal values and the top three deals (Flipkart, One97, Olacabs) contributed 85 per cent of e-commerce deal values. Barring these three deals, 2017 activity remained stable at 2016 levels with both years seeing maximum interest in retail and travel/logistics platforms.

Yearly PE investment trends in the sector



E-commerce sub-sector break-up



Top deals

Investor	Investee	Sub-sector	% Stake	Value in US$ mn
SoftBank Vision Fund	Flipkart Online Services Pvt Ltd	Retail	20%	2500
SoftBank Group Corp	One97 Communications Ltd-Paytm	Others	20%	1400
Tencent Holdings Ltd and SoftBank Group Corp.	Olacabs.com -ANI Technologies Pvt Ltd	Travel, Transport & Logistics	N.A.	1100
Carlyle Asia Partners and Tiger Global Management	Delhivery-SSN Logistics Pvt. Ltd	Travel, Transport & Logistics	N.A.	100
Wellington Management, IDG Ventures India, True North, Tiger Global Management, Temasek and PremjiInvest	PolicyBazaar-eTechAces Marketing and Consulting Pvt Ltd	Fintech	N.A.	77

"India's e-commerce space witnesses more transformation, competitive rivalry, cash burn, strategy rejig than any other sector. While urban retail and transportation dominates the sector currently, we expect to see major overhaul in the coming years as more Indians from semi urban and rural also adopt digitisation, online transactions and smartphones. This will translate into deals, both strategic M&A consolidation and further PE investments across funding stages and rounds."

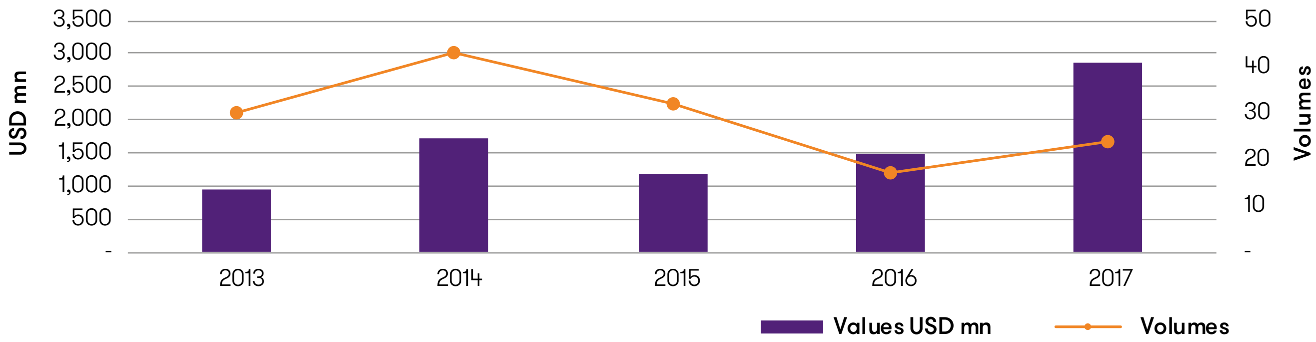
Siddhartha Nigam
Partner
Grant Thornton Advisory Pvt. Ltd.

Real Estate

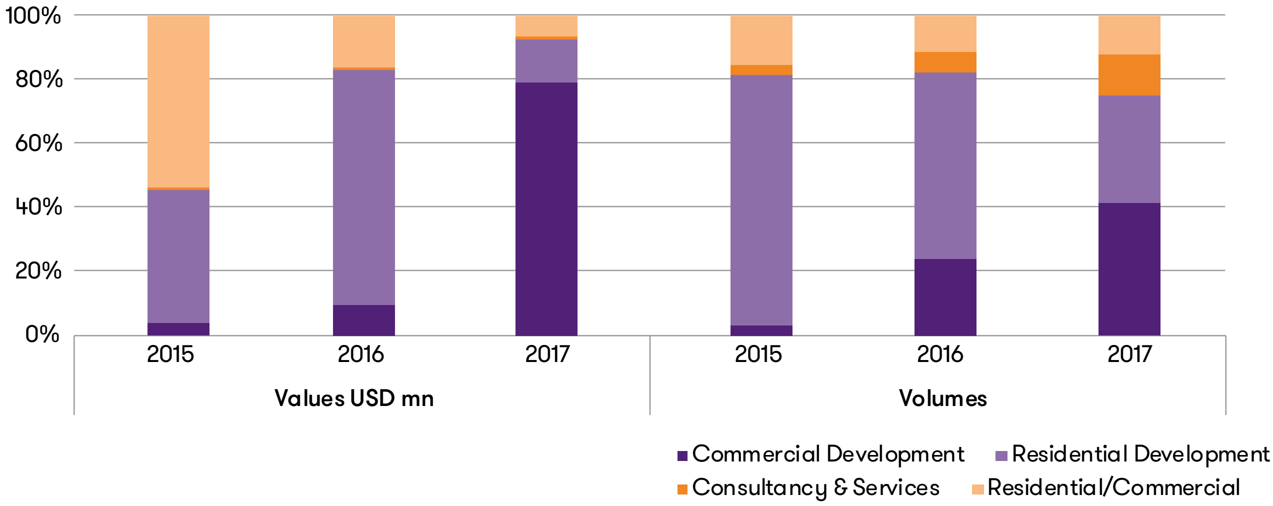
Real estate PE investments almost doubled in 2017 coupled with 41 per cent increase in volumes, signifying big-ticket investments. The sector witnessed some landmark deals during 2017. In the largest private equity buyout so far in India's real estate sector, Xander Group acquired 100 per cent interest in Shriram's Gateway SEZ in Chennai. Large global investors have shown significant interest in India's retail real estate, specifically pension funds such as Canada Pension Plan Investment, Dutch APG Pension, etc.

Within the sector, the mixed use, commercial-cum-residential project is a benchmark in the industry. It is gaining significant attention from investors. While office and residential market is expected to be main drivers, alternate sectors such as retail, warehousing and hospitality is expected to gain prominence going forward as regulatory environment becomes more favourable and investor confidence improves.

Yearly PE investment trends in the sector



Real estate sub-sector break-up



Top deals

Investor	Investee	Sub-sector	% Stake	Value in USD mn
GIC	DLF Cyber City Developers Ltd	Commercial Development	33%	1,390
The Xander Group Inc.	Shriram Properties Private Limited-Shriram Gateway IT SEZ	Real Estate development	100%	350
Canada Pension Plan Investment Board	The Phoenix Mills Limited- Island Star Mall Developers Pvt. Ltd	Commercial Development	49%	250
APG Asset Management	Virtuous Retail South Asia Pte. Ltd	Commercial Development	N.A.	175
Blackstone Group	First International Financial Centre- BKC	Commercial development	N.A.	129

"Private equity and debt investments in Indian real estate market remained positive in 2017. Key deals of 2017 were GIC acquiring stake in DLF Cyber City for USD 1.45 billion and the JV created by Canadian Pension Plan Investment Board (CPPIB) and IndoSpace (an industrial warehouse space provider). With RERA, GST getting stabilised and continuous push on the affordable housing segment, the sector holds lot of promise from an investment perspective."

Neeraj Sharma
Director
Grant Thornton Advisory Pvt. Ltd.

VI. Snippets from the industry

What we hear

Survey insights

How do you view PE investment activity in 2018 as compared to 2017? Will volume and value increase in 2018?

Overall a positive outlook

Volumes may remain stable; larger ticket sizes may drive values

Go-go public markets may stretch PE valuations

Expected to see a lot of buyouts

Continuously improving exit environment to continue

What are the key challenges for the PE industry in the near term?

Valuation and regulatory challenges.

Finding scalable businesses with high levels of corporate governance.

Delayed exit for small funds.

Increase in capital availability leading to inflated valuations

What are the key sectors that can provide attractive investment opportunities for PE /VC funds in India in the next 12 months?

Infrastructure

Financial services

Consumer

Rural demand-driven businesses

Enterprise tech, sector based deep tech start-ups.

Artificial Intelligence in healthcare, energy and financial services;

Blockchain technology in sectors like financial services, healthcare & insurance

What are the major challenges faced in managing relationships with promoters and ways to address the same?

Tendency to focus only on promoter interests. Founders' over-confidence about their ability to raise subsequent round at ever increasing valuation

Less focus on path to profitability and operating metrics improvement

Lack of transparency

The above challenges can be addressed by:

Upfront discussions

Due diligence of promoter attitude

Clear pre-investment articulation of the mode of engagement

What are the key challenges faced by the portfolio companies?

Lack of availability of talent, particularly for mid-market companies

Inability to scale team capital

Slowdown in growth rates

Lack of timely availability of growth capital - debt or equity

For tech start-ups, cracking the North American market remains holy grail for B2B

What is your one key ask from the government/regulatory perspective to help boost participation of the PE/VC industry in India's economic growth? Give reasons.

Simpler compliance processes ("shift the burden of proof on the prosecutor from the corporate/defender")

High-tech and fast growth SMEs should have different policies and laws, rather than the current approach of one-size-fits-all.

Boost domestic pools of capital by permitting EPFO and large charitable & religious trusts to invest in AIFs.

Restore pass-through status for losses at fund level and allow management expenses to be capitalised as cost of improvement.

Valuable insights

“Application of frontier technologies in under-penetrated sectors is leading to new product and business models that are specific to emerging markets like India. The key will be to resist the “this of that” investment strategy of past decade where financiers focused on finding Indian versions of globally successful models. For example, complexity and nuance of India’s manufacturing, agriculture and financial sectors, do not lend an easily applicable thesis and will require some bold thinking on part of fund managers.”

Brij Bhasin
Principal
Rebright Partners

“While valuations have normalised and government has passed number of regulations making AIFs more conducive as investment vehicle, quality of companies is still a challenge in near term. For PE funds, family-owned enterprises and promoter-driven culture leads to friction when implementing management changes or structuring exits. For VC investments, lack of innovation in terms of new technologies or innovative business models leads to start-ups emulating successful global ideas. However, these challenges also open up opportunities for professionally run companies with strong corporate governance and start-ups working on innovative technologies and unique business models.”

Bhaskar Majumdar
Founder and Managing Partner
Unicorn IVC

“In general, there is a strong need for the PE/VC industry to create a positive buzz about itself. After all, PE/VC investors don’t just create value for themselves, but help create jobs in the economy and improve standards of corporate governance.”

Jayanta Banerjee
Managing Partner
Ask Pravi

"Availability of talent, inability to scale team capital, and slowdown in growth are the biggest challenges faced by portfolio companies today."

Karthik Reddy
Co-founder
Blume Ventures

"Clear guidelines for managers operating in India – safe harbour regulations, not subject to management fee to GST and allowing this as a set-off in computing capital gains would be a key ask from the government/regulators."

Mahesh Parasuraman
Co-Founder & Partner
Amicus Capital Partners

"In 2018, we are going to see a lot of buyouts, on the back of the IBC and corporate groups considering selling some assets due to greater focus on return on capital, streamlining the groups' management focus and disposition of non-core assets. We are also witnessing a shift in the PE deal trend now. If you look at the private equity deals between 2005 and 2010, most deals were primary in nature. But if you exclude financial services, lot of deals in 2017 have actually been secondary transactions.

Capital markets have always been an exit opportunity. Overseas investors will continue to look at India and large corporates will continue to make acquisitions. Capital markets are much more robust and deeper now after demonetisation. Our experience suggests that good companies always have a buyer in each of these exit scenarios."

Rupen Jhaveri
MD, Private Equity
KKR

"PE activity is bound to increase to unlock the potential for growth in several late stage ventures and ventures promoted by second generation entrepreneurs. Most of these would be traditional companies in nature. The VC activity will be limited to a few large deals, so in terms of quality there will be an increase, volume-wise it may stall, and value-wise larger ticket sizes would make up for the fewer numbers."

Dr. Srikanth Sundararajan
General Partner
Venture East

"A key ask from the government and regulators would be simpler compliance processes. As a principle, shift the burden of proof on the prosecutor from the corporate/defender."

Vamesh Chovatia
Partner - Healthcare Fund
Tata Capital Limited

"I think the government should look at us too as the way forward to create a conducive environment for start-ups. For example, taxes imposed both, in terms of period and turnover, should be made comparable to some of our Southeast Asian counterparts. This will bring parity with other geographies."

Vishesh Rajaram
Managing Partner
Speciale Incept Advisors LLP

VII. Our views on what lies ahead

Conclusion

As fund sizes continue to grow, PEs are optimistic to pursue larger deals with greater exposure, higher stakes and increased strategic role.

2017 turned out to be a milestone year for PE investments clocking USD 21 bn, the highest yearly value, across 735 transactions. This was largely due to some marquee technology enabled sector investments and rich valuations. Another driver for the growth in PE investments values was the reassurance drawn by PE funds from achieving healthy performances in their portfolio companies and encashing high return exit opportunities. As fund sizes continue to grow, PEs are optimistic to pursue larger deals with greater exposure, higher stakes and increased strategic role.

Key trends underscoring the Indian PE arena are increase in deal sizes, increase in fund sizes, availability of capital, technology as an enabler driving investment themes, positive IPO market opening exit avenues, consolidation within industries, among others. As the role played by PEs assumes a gradual shift from being mere financial investors to strategic advisors, we see an increase in willingness of promoters to dilute control and management stakes. Entry valuations continue to be a key challenge faced by PEs. It is all the more relevant in the current scenario, as funds with more deployable capital chase quality targets, resulting in increased valuations which will eventually reduce return potential.

The Indian private equity market saw a large number of funds close in 2017 compared to previous year with rising allocations, both from existing LPs and fresh investors. 2017 also witnessed sector focused funds as a result of growing willingness on the part of investors to create global sectoral platforms. 2018 could be a year of larger ticket investments and buyouts as we see interest from investors looking to buy a score of large companies that are undergoing insolvency proceedings in the National Company Law Tribunal (NCLT), stressed assets in select sectors such as BFSI, etc.

Investments are likely to stay healthy given the attractiveness of the Indian economy and relentless effort by the government to improve ease of doing business in the country. In addition, the proposal to abolish the FIPB in the Union Budget FY17-18 will further liberalise the FDI policy and encourage foreign investors. Start-ups, banking and insurance, e-commerce, and manufacturing will be key sectors to look out for in 2018. Given the increase in government spending and focus in Union Budget, the infrastructure and healthcare sector could see a revival in investments.

We hope to see an active exit year in 2018 on the back of a blockbuster IPO activity seen in 2017. The year saw over 38 mainstream issues aggregating over USD 10.7 bn recording 2.7× increase over 2016, with most issues oversubscribed. Many of the successful IPOs during the year provided a smooth exit for PE funds which is further expected to accelerate PE investments this year. The top 4 IPOs, all in the insurance sector, accounted for 55 per cent of overall IPO equity raised.

We entered 2018 looking more positive and optimistic than ever before, with an upgraded Moody's rating, an impending election, markets on a high, improved ease of business index, and significant dry powder among PE funds. On this note, we believe PE activity in 2018 will surpass levels seen before and play a key role in shaping the Indian economy.

Vrinda Mathur
Partner
Grant Thornton India LLP

Tax and Regulatory update

Many key regulatory and tax developments of the last one year will redefine the M&A deal landscape in India. Here's how

Calendar year 2017 was a historic year for India where it witnessed the government introducing one of the biggest reforms in the country: the GST. With corporates engrossed in digesting this legislation, M&A deals momentarily took a backseat, especially in the second half of 2017. However, the transactions again regained its momentum by end of 2017 with the trend continuing in 2018, primarily led by bids in stressed companies involved in the IBC. This article summarizes some of the key tax and regulatory developments of last 12 months, which could impact M&A deals in India.

Key amendments to facilitate IBC transaction

- SEBI via notification dated August 14, 2017 has exempted material stake acquisitions in listed stressed companies under SEBI Takeover Regulations, if such acquisitions are made through an approved Resolution Plan under IBC. Likewise, preferential allotments made to winning bidder consequent to an approved resolution plan under IBC has been exempt from complying with the preferential issue guidelines viz. pricing, disclosures, et al.
- Ministry of Corporate Affairs vide circular dated October 25, 2017 has deemed clearance of shareholders/members of corporate debtor (viz., the distressed Target) to have been accorded for any action required for implementing the approved resolution plan.
- Key Tax amendments in Finance Bill 2018
  - Distress companies covered under IBC are proposed to be allowed to set off aggregate brought-forward book losses (including unabsorbed book depreciation) for the purpose of arriving at its Book Profits for the purpose of Minimum Alternate Tax
  - Distress companies covered under IBC are proposed to continue their unabsorbed business losses for future set off irrespective of its non-compliance with the 51 per cent shareholding condition under S. 79, if it is so approved in the Resolution Plan, after according an opportunity of being heard by the jurisdictional principal commissioner/ commissioner.

Key amendments in FDI

In November 2017, revised FDI regulations, basis DIPP's Consolidated FDI policy of August 2017, were introduced by RBI, which inter alia include abolition of FIPB, specific start-up related provisions, definitions distinguishing between FDI and FPI, allowing swap of capital instruments (earlier FDI policy only permitted 'share' swap) and allowing issuance of capital instruments other than shares in mergers/demergers involving non-resident shareholders and treatment of any foreign investment made on a non-repatriable basis as domestic investment.

Cross-border mergers

The Ministry of Corporate Affairs (MCA) notified Section 234 of Companies Act, 2013 in April 2017 to permit cross-border mergers (both inbound and outbound merger) with a prior RBI approval. However, RBI is yet to notify the final guidelines for obtaining approval.

Introduction of Companies (Restriction on number of layers) Rules, 2017

The Central government on September 20, 2017 introduced 'restriction on number of layers' rules whereby, a company shall not have more than two layers of subsidiaries, except for one layer which consists of one or more wholly owned subsidiaries. However, the already-existing structures have been grand-fathered.

Other key regulatory developments concerning listed securities

SEBI vide its circular dated January 3, 2008 amended its previous circular which laid down framework for scheme of arrangement by listed entities.

Some key reforms introduced include non-applicability of circular to schemes between a parent company and its wholly owned subsidiary, not requiring submission of certain documents to the stock exchange post sanction of the scheme by Tribunal/High Court, allowing inter-se transfer of securities held by promoters during the lock-in period among promoters, compliance with the listing and trading of specified securities within the prescribed time limit. Also, the requirement of at least 25 per cent of shareholding in the merged entity by public shareholders of listed entity and Qualified Institutional Buyers of the unlisted entity shall be considered on a fully diluted basis.

Block deal window

SEBI w.e.f. January 1, 2018, has improved the threshold and flexibility of availing the 'Block Deal' Window. The window now remains open twice a day for 15 minutes each (the earlier timing of 35 minutes in the morning only) and the de minimis transaction size having increased to INR 10 cr (the earlier threshold was 5 lakh shares or INR 5 cr).

Minimum Public Shareholding (MPS)

To ensure strict compliance of the MPS norms, SEBI has announced absolute penalties on defaulting parties as follows:

Non-Compliance continues for a period up to 1 year	Non-compliance continues for more than 1 year
Fine of INR 5000/- per day	Fine of INR 10,000 per day
Freezing of entire shareholding of promoter and promoter group in such non-compliant listed entity	Freezing of all the securities held in the Demat account of the promoter and promoter group
The promoters, promoter group and directors of such non-complaint listed entity cannot hold any new position as director in any other listed entity till date of compliance	

Additionally, following two new methods were recently introduced by SEBI to facilitate a listed company achieve its MPS:

- Open market sale of shares held by promoters/promoter group upto 2 per cent of the total paid-up equity shares capital of the listed entity, subject to certain conditions
- Allotment of securities through Qualified Institutional Placement

Other key tax proposals in Finance Bill 2018:

Expanding the scope of the term Accumulated Profits

Scope of the term 'Accumulated profits is widened to include accumulated profits or losses of the amalgamating company, to the accumulated profits of the amalgamated company, making a merger transaction more tax-expensive for the merged entity going forward.

Taxation of long-term capital gains

Government has proposed a long-term capital gains tax on transactions of equity shares or units of equity oriented fund, carried out on recognised stock exchange @ 10 per cent without indexation benefit. This may have an adverse effect on PE/VC returns under PIPE deals done using the block/bulk deal window.

Applying and obtaining Permanent Account Number (PAN)

Effective April 1, 2018, any non-individual entities entering into financial transactions aggregating INR 250000 p.a. or above has to mandatorily obtain PAN from the Indian Tax Authorities.

Conclusion

It has been the endeavour of the government to provide greater clarity, transparency, rationality and simplicity in the tax and regulatory framework governing M&A transactions. However, clearly these laws and regulations are in a state of evolution. Having said that, India continues to remain a promising destination given its economic momentum.

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Partner

Grant Thornton India LLP

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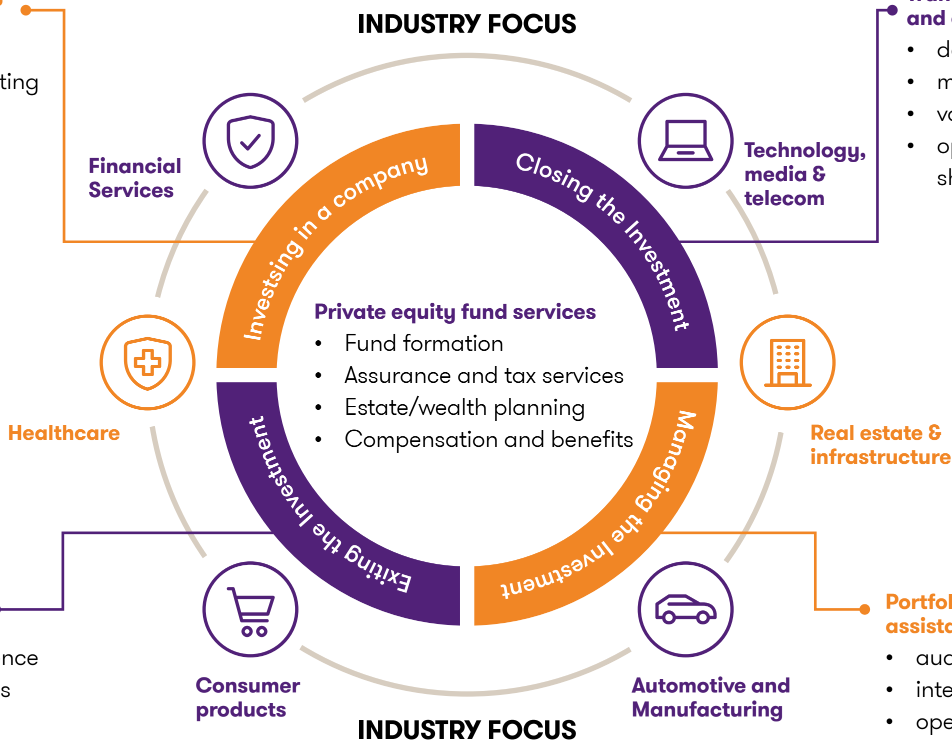

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About this publication

Methodology

The deal data for this report has been sourced from Grant Thornton's Dealtracker report. This report includes views from experts across leading Private Equity (PE)/Venture Capital (VC) funds. We highlight that the views of the investor are their personal views and may not always necessarily reflect the views of the organisation. The reference to PE in the report includes VC unless mentioned otherwise. Deals have been classified by sectors based on certain assumptions, wherever necessary. If different assumptions were to be adopted, the classification would therefore be different.

Please write to **contact@in.gt.com** for details on the list of private equity deals in India

Disclaimer

This document captures the list of deals announced based on information available in the public domain and based on public announcements. 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 are based on publicly available information and based on 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 18 December 2017.

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The Association stimulates the promotion, research and analysis of private equity and venture capital in India, and facilitates contact with policy makers, research institutions, universities, trade associations and other relevant organisations. IVCA collects, circulates and disseminates commercial statistics and information related to the private equity & venture capital industry.

http://www.ivca.in/members_firm.php

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