

# The India Private Equity Report 2009

## An inflection point for PE in India



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## I. Executive summary

The global financial crisis hurt the private equity industry in India, as it has everywhere else in the world. But a number of fundamentals shifting direction in the past six to nine months now point to positive news for investors and companies seeking growth capital. The country has not been as hard hit as many others in the downturn. India grew 6.7 per cent in the 2008–2009 fiscal year, slowing from rates of 9 per cent or higher in the previous three years. The predicted rate of 6 per cent for 2009–2010 for it is still higher than that of any other Asian country except China, and higher than GDP growth projections for North America and Europe.

Signs of improvement are everywhere. India's manufacturing output increased for three consecutive months until June 2009, reflected in a 4.3 per cent increase for the April–July 2009 period over the previous year. Both debt and equity markets are rising. Corporations have issued more than 1 trillion rupees (\$21 billion) in bonds in the first three quarters of 2009, compared with less than 700 billion rupees (\$14 billion) for the same period in 2008. And most stock market indices, including NIFTY, have returned to their pre-September 2008 levels.

This is positive news for private equity in India. It means companies will feel more optimistic about their opportunities for growth—and will be looking for sources of funding, including private equity, to fuel that growth. While valuation expectations have also risen in tandem, investments are expected to increase across all sectors, with some of the biggest growth rates expected in real estate, infrastructure, healthcare and industrials. Even throughout the downturn, executives in India exuded optimism about managing the impact of the global slowdown—and emerging stronger from the storm. For example, a Bain & Company global survey conducted in January 2009 found that a large majority of Indian executives believe their companies responded proactively to the downturn: Only two out of 10 felt their firms waited too long to act. In China, 40 per cent of managers felt their firms' response was slow, while the figure for the rest of Asia Pacific was 34 per cent.

The following report, prepared by the Indian Venture Capital Association and Bain & Company, will examine the private equity landscape—globally, in Asia and in India—both looking backward and into the coming 12–18 months.

### a) The background

The past year and a half has been a dramatic and disappointing one for the private equity industry as investment value has dwindled. India has seen a drop-off in both the number of deals and in investment size—although not as significant as the drop globally or in most Asian countries.

Globally, the total investments made by private equity funds shrank from \$761 billion in 2007 to \$232 billion in 2008, a decrease of 70 per cent. The first half of 2009 saw only \$34 billion in activity.

Asia's private equity market declined, but not nearly as much, from \$76 billion in 2007 to \$48 billion in 2008—a decline of 37 per cent—and \$22 billion in the first half of 2009. Despite the

slowdown, deals in Asia took place across a wide range of sectors. The largest markets were China (including Hong Kong) and Australia/New Zealand, with a mix of buyout and growth deals – although China's deals were almost all for growth.

Financial services is an area of growth in Asia. The year 2008 saw a 67 per cent decline in funding for financial services companies. But that drop was more than recovered in the first half of 2009, which witnessed \$11 billion in deals – more than any other industry. Consumer products managed to hold its own in 2008, when deal value jumped 24 per cent, to \$1.5 billion. In the first half of 2009, the consumer products industry saw deal value increase to \$2.5 billion.

In India, the six years preceding the global financial crisis witnessed a flourishing private equity industry. It's to the point where private equity, including venture capital investments, now represents a significant percentage of all direct foreign investment in the country. A relatively small portion of private equity investments are from domestic funds. India's private equity industry investments shrank from \$17.1 billion in 2007 to \$14.1 billion in 2008 and to \$2 billion in the first half of 2009.

The number of companies in India receiving funding was basically flat – 392 companies in 2007 and 346 in 2008 – and has dropped to 80 companies for the first half of 2009. There are two fundamental reasons why private equity in India has remained low. First, promoters' expectations on valuations have remained high despite the economic slowdown. Meanwhile, entrepreneurs have had adequate access to capital beyond private equity.

For those taking private equity investments, average deal size for the first half of 2009 dipped to \$21 million from a peak of \$35 million in 2007. About two-thirds of the deals involved a minority stake (less than 25 per cent), with no deals exceeding \$500 million. Generally speaking, India's business owners aren't as eager as their counterparts elsewhere in the world to turn over majority ownership. The bulk of deals are Private Investment in Public Equity (PIPE) or late-stage investments.

While returns have been attractive, driven by strong market growth over the last six years, exits have almost dried up in the past year. India witnessed only \$200 million in exits in the first six months of 2009 as compared with \$1.2 billion in 2007 and \$1.1 billion in 2008. The typical exit routes – mergers and acquisitions (M&As) and initial public offerings (IPOs) – have generally been unavailable. The economic slowdown and tightening of credit affected M&A activity. Wary investor sentiment and a weak stock market, until recently, discouraged companies from launching IPOs.

Before these challenges emerged, India's private equity industry flourished. More than 1,300 Indian companies across a broad spectrum of industries have received private equity. Among the biggest successes: Growth capital from Warburg Pincus, CVC International and Temasek Holdings fueled Bharti Airtel's rise to become a \$33 billion market cap telecom leader within a decade. Akhil Gupta, the company's JMD and CFO, credited Warburg Pincus with helping the company "scale up significantly". In 1999, when the international private equity firm first invested in the telecom, Bharti had 104,000 subscribers. It now has more than 100 million. Warburg Pincus created a sensation in March 2005 when it sold its \$560 million Bharti stake; the Bombay Stock Exchange transaction was the largest block trade ever on the Indian market.

Like Bharti, investments in India's top 500 firms represent 30 per cent of the country's private equity investments.

## **b) Looking ahead**

Over the next 18 months, global private equity funds with considerable investment capital can be an important source of funding to Indian firms as the economy continues to improve. The level of "dry powder" available to invest has topped the \$1 trillion mark since late 2007. Not only is there already a significant amount of money available to invest in India but the country's projected growth is expected to attract even more private equity in the years ahead. In its transition from an agrarian society, India already has established itself as a global player in the services industry and now is becoming more competitive in manufacturing.

Driving the economic expansion will be a critical mass of young, educated workers. A full 60 per cent of India's population is under 30 years of age. Middle-class consumption has given rise to a booming domestic market. Retail consumption in four areas alone—apparel; footwear; jewelry and watches; and furniture and furnishing—is expected to skyrocket, from \$4 billion in 2006 to \$29 billion in 2011. In India, 8 million mobile phones are bought every month.

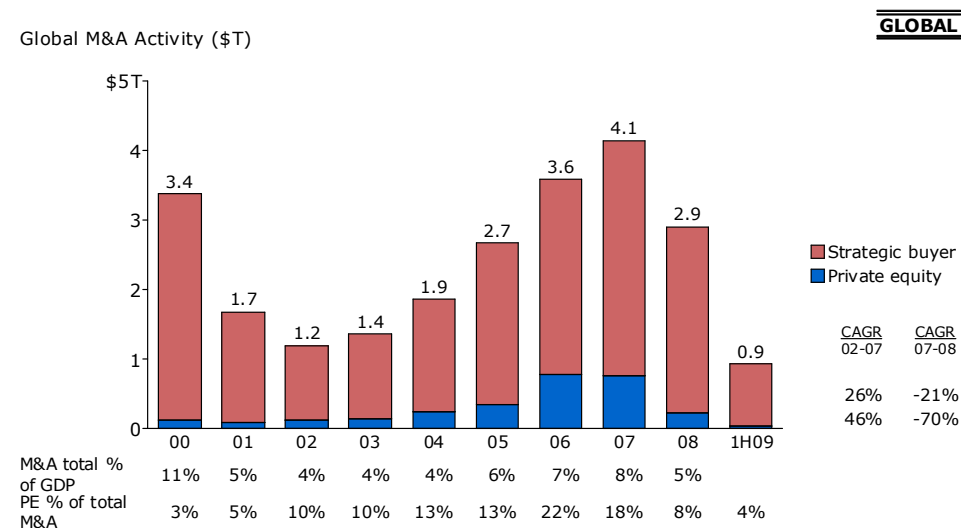
Multinational companies are increasing their investments in India's growing economy. For example, the Italian carmaker Fiat will source more than \$1 billion worth of components for its global businesses in 2010 in India. In 2007 Cisco opened its Globalisation Centre East (GCE) in Bangalore, which serves as the company's second headquarters. And PepsiCo is doubling its investment in its Indian beverage business for 2009, to more than \$220 million.

Among the substantial areas for growth aided by private equity investments: Infrastructure, including power plants, ports and airports, and manufacturing. Private equity will be a major enabler of India's push to build infrastructure in the decades ahead. "The country needs tremendous capital in this area", said Ashish Dhawan, a Senior Managing Director of ChrysCapital, who pointed out that a lot of infrastructure investing is driven now by government policy that is much more aggressive in terms of encouraging private-public partnership. "There is a fundamental game change that has taken place in this sector", he said.

Such advances are likely to continue as the economy picks up steam. The report that follows will offer glimpses into the future. Based on research conducted by the India Venture Capital Association and Bain & Company, it also provides important details and critical insights into private equity's recent achievements in India, Asia and throughout the world.

## II. The global picture: Fewer M&A deals and possible restructuring

Figure 1: Globally, private equity as a percentage of M&A peaked in 2007 and dropped significantly in 2008 and H1 09



Source: Thomson Reuters; Bain Analysis

As the financial crisis took hold globally, private equity plunged dramatically from its peak of \$761 billion in 2007 – 18 per cent of all M&A activity – to just \$232 billion in 2008. In the first six months of 2009, there was just \$34 billion in private equity activity worldwide. As a percentage of global mergers and acquisitions, private equity shrank from 18 per cent in 2007 to a sliver – 4 per cent – through June 2009.

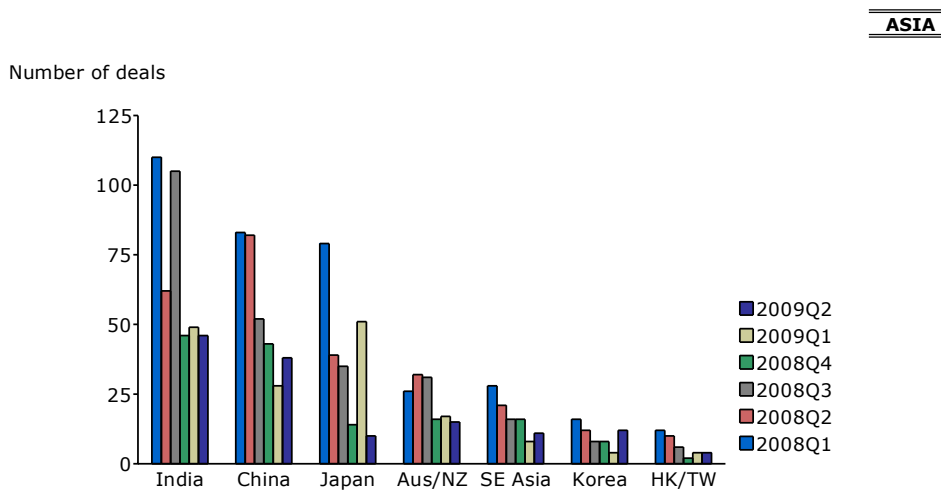
While the worst may be over, a recent survey found that one out of every four funds will likely need to restructure more than a quarter of its portfolio in the next three years. Also, some funds have a low reserve of “dry powder” at a time when new funding is hard to find. About \$500 billion in dry powder for buyouts is available globally, and double that amount when other types of private equity investments are included. But more than one fund in five has called on at least 75 per cent of the capital previously committed by their limited partners.

It won't be fatal for funds that find themselves in one of these situations – either the need to restructure or low reserves of dry powder. But the combination can create trouble for private equity business models that rely on raising one fund after another. Our research suggests that between 20 per cent and 40 per cent of all private equity firms may be at risk.

### III. Asia: A bigger role for private equity

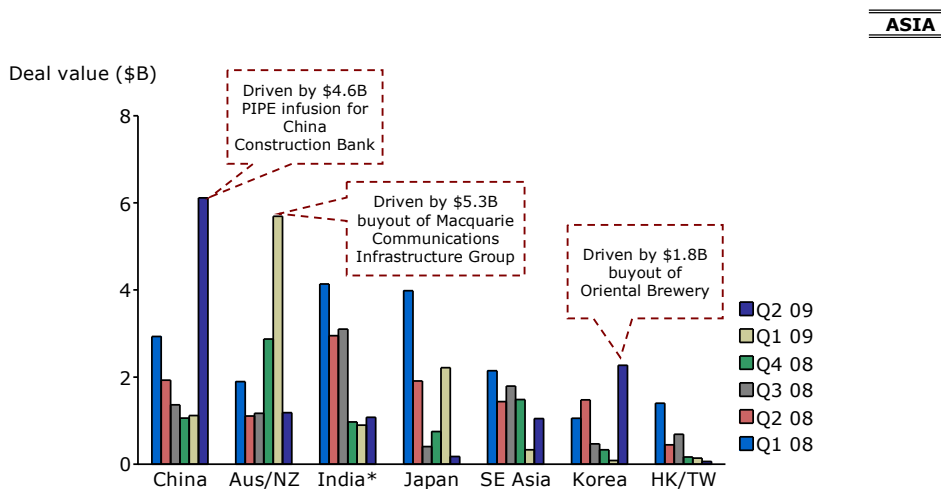
Asia remains one of the most attractive markets for private equity investing. Following the global trend, over the past six years, Asia's private equity market steadily expanded. Even though the region witnessed a decline in the number of deals and total deal value, Asia fared better during the downturn than other areas.

Figure 2: The number of deals has declined across the region...



Note: Only includes deals with disclosed values  
Source: AVCJ; Bain Analysis

...and the total value of deals is soft across most markets in Asia



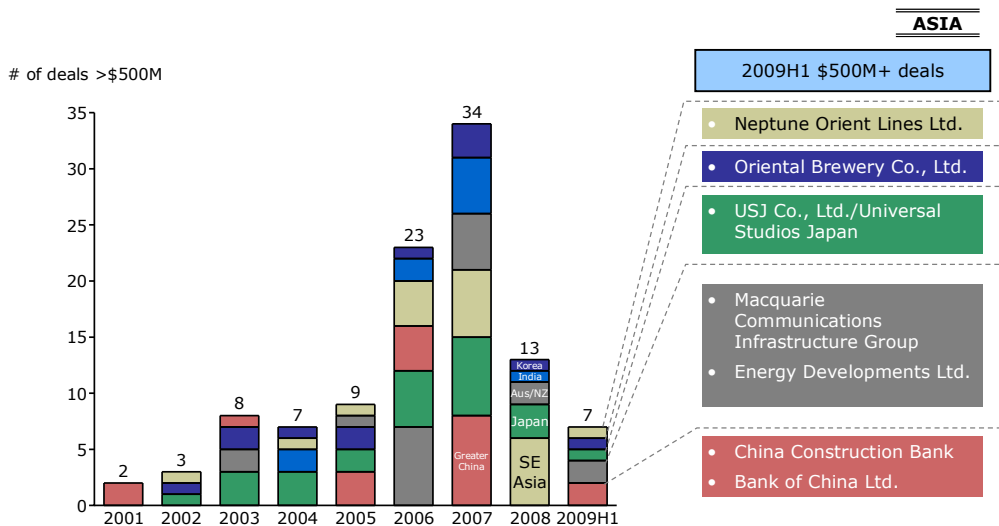
Note: Only includes deals with disclosed values  
Source: AVCJ; Bain Analysis

Figure 3: In Asia, deal value dropped across markets in 2008, H1 09; China and Aus/NZ are the largest markets

Annual deal value by destination (in \$B, 2004-H1 09)								
	2004	2005	2006	2007	2008	2009H1	CAGR (04-08)	CAGR (07-08)
China	2.2	8.9	7.8	11.2	7.3	7.2	35%	-35%
HK/TW	0.3	0.5	4.7	7.0	2.7	0.2	73%	-61%
India	1.6	2.6	7.4	17.1	14.1	2.0	72%	-18%
Aus/NZ	2.5	3.1	19.0	11.3	7.0	6.9	30%	-38%
Japan	7.1	8.2	10.4	11.8	7.0	2.4	0%	-40%
SE Asia	2.5	5.2	7.0	13.0	6.9	1.4	28%	-47%
Korea	1.6	2.4	2.3	4.2	3.3	2.4	21%	-21%
<b>Total</b>	<b>17.6</b>	<b>30.2</b>	<b>58.4</b>	<b>73.6</b>	<b>42.6</b>	<b>22.4</b>	<b>25%</b>	<b>-42%</b>

Note: India includes aggregate value of all deals (including real estate)  
Source: AVCJ; Bain analysis

Figure 4: Overall, the number of \$500M-plus transactions has decreased significantly in 2008, H1 09



Source: AVCJ; Bain Analysis



Figure 5: Despite slow take-off in H1 09, financial services, consumer products and leisure saw a significant uptick in deal value

Deal value by industry - Asia (\$B)					
Sector	2007	2008	H1 09	CAGR (07-08)	Annualised CAGR (08-09)
Financial services	18.1	6.0	11.0	-67%	263%
Mining and metals	2.3	4.4	0.2	91%	-91%
Manufacturing (Heavy)	5.4	4.2	0.4	-23%	-82%
Transportation/distribution	3.8	4.1	1.5	8%	-26%
Medical	2.3	3.0	0.3	29%	-81%
Travel/Hospitality	2.5	2.9	0.1	17%	-91%
Services (Non-financial)	3.7	2.6	0.2	-32%	-84%
Utilities	1.3	2.5	0.7	94%	-45%
Telecommunications	8.0	1.8	0.6	-77%	-40%
Consumer products/services	1.2	1.5	2.5	24%	239%
Leisure/entertainment	2.5	0.6	1.7	-76%	493%
Other	22.5	9.0	1.8	-60%	-60%

Although the region was not as hard hit, it still was shaken by the turbulence. Shock waves are reflected in sharply declining deal values. By the end of 2008, China gave up all of the value growth gained over the past four years. Japan, which saw no growth since 2004, saw deal values sink by 40 per cent. India had the least impact, with just an 18 per cent drop.

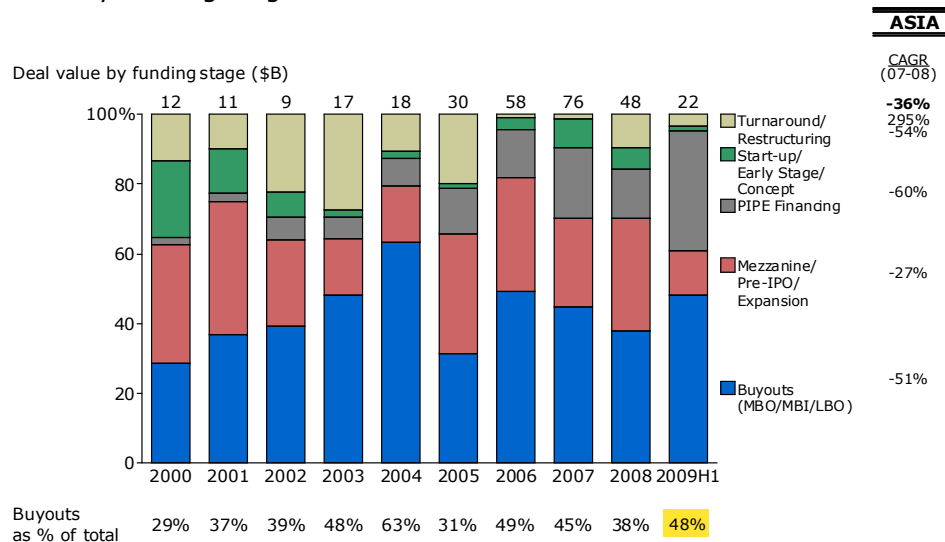
Deal making in the region plummeted from a peak of \$76 billion in 2007 to \$22 billion in the first half of 2009. While the region saw a drop in value overall, China, Australia, New Zealand and Korea saw their average deal value increase. In the first half of 2009, the average deal size ranged from a high of \$215 million in Australia/New Zealand to \$110 million in China to \$39 million in Japan and \$21 million in India. The number of transactions of more than \$500 million in size decreased significantly, from a high of 34 deals in 2007 to just seven in the first half of 2009.

Still, there were a few huge deals. A \$4.6 billion infusion in China Construction Bank by Beijing-based Hopu Investment Management and Temasek and a \$5.3 billion buyout of Australia's Macquarie Communications Infrastructure Group by the Canada Pension Plan Investment Board (CPPIB) helped to make China and Australia the largest Asian private equity markets, with a mix of buyout and growth deals.

Despite the drop, deals continue across a wide range of sectors. The start of 2009 saw deal values increase significantly in three sectors. The annualised growth in value for leisure and entertainment deals shot up 493 per cent; financial services grew by 263 per cent; and consumer products deals experienced a 239 per cent surge in value.

## a) Growth vs. buyouts across Asia

Figure 6: Buyouts and PIPE financing have increased as a proportion of deal value by funding stage



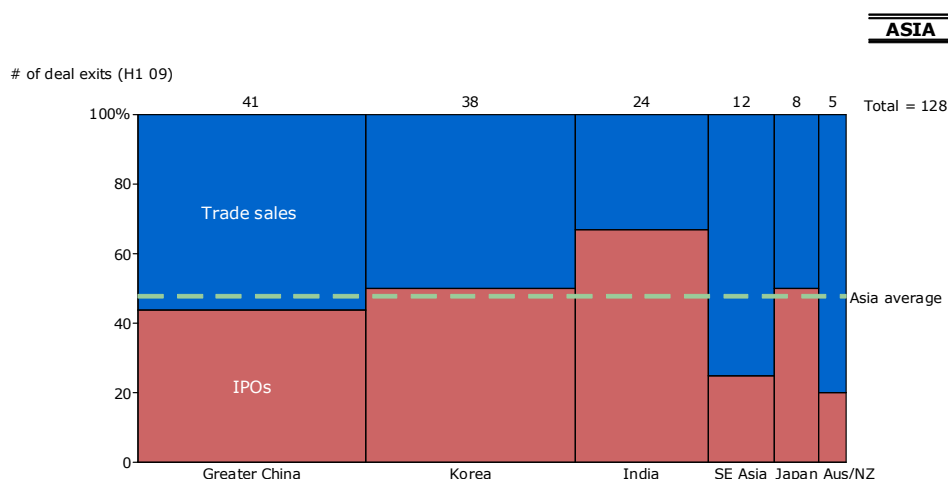
Source: AVCJ; TSJ Media; Bain Analysis

Across Asian markets, early-stage funding for start-ups and growth dominated investing in most countries during the first half of 2009—96 per cent in Australia/New Zealand, 90 per cent in Korea and 86 per cent in Japan. However, buyouts were the focus in China (83 per cent) and Southeast Asia (69 per cent).

Since 2000, buyouts and Private Investments in Public Equities (PIPE) have increased as a proportion of deal value in Asia. PIPE finance increased from 13 per cent in 2008 to 34 per cent in the first six months of 2009 as a proportion of total deal activity. Buyouts increased from 38 per cent in 2008 to 48 per cent in the first six months of 2009 as a proportion of total deal activity.

## b) Asia exits: An equal split between trade sales and IPOs

Figure 7: In H1 09, divestments in Asia were equally split through trade sales and IPOs



Note: For India, total value of public market sale exits was \$149M; value for three trade sales exits was \$52M; Greater China includes PRC, HK and Taiwan.  
Source: AVCJ; TSJ Media; Bain analysis

When it comes to exiting deals, investors split the activity equally between trade sales within the investment industry and IPOs. In China, the majority were trade sales during the first six months of the year, while in India, IPOs dominated.

## c) Top 10 deals in Asia

Figure 8: Top 10 deals in Asia in H1 09

	Target	Market	Industry	Investor	Value (\$B)	Financial Stage
1	Macquarie Communications Infrastructure Group	Australia	Financial services	Canada Pension Plan Investment Board	5.3	Buyout
2	China Construction Bank	China	Financial services	Hopu Investment Management Co., Ltd.; Temasek Holdings Pte. Ltd.	4.6	PIPE Financing
3	Oriental Brewery Co., Ltd.	South Korea	Consumer products	Affinity Equity Partners (S) Pte Ltd.; KKR Asia Ltd.	1.8	Buyout
4	USJ Co., Ltd./Universal Studios Japan	Japan	Leisure/Entertainment	Glenn Gumpel; Goldman Sachs (Japan) Ltd.; MBK Partners K.K.; Owl Creek Asset Management, L.P.	1.7	Buyout
5	Bank of China Ltd.	China	Financial services	Hopu Investment Management Co., Ltd.	0.7	PIPE Financing
6	Neptune Orient Lines Ltd.	Singapore	Transportation/Distribution	Temasek Holdings Pte. Ltd.	0.7	PIPE Financing
7	Energy Developments Ltd.	Australia	Utilities	Archer Capital Pty Ltd.	0.6	Buyout
8	Gome Electrical Appliances Holding Ltd.	China	Retail/Wholesale	Bain Capital Asia, LLC	0.4	PIPE Financing
9	Chery Automobile Co., Ltd.	China	Transportation/Distribution	BOCI Private Equity; Bohai Industrial Investment Fund Management Co., Ltd.; CDH China Management Co., Ltd.; China Huarong Asset Management Corp. and others	0.4	Expansion/ Growth Capital
10	Olam International Ltd.	Singapore	Consumer products	Temasek Holdings Pte. Ltd.	0.3	Expansion/ Growth Capital

Source: AVCJ; Bain Analysis

At the top of the list is the \$5.3 billion takeover of Macquarie Communications Infrastructure Group (MCG) by CPPIB, one of Canada's largest institutional investors. MCG owns and operates the radio and TV broadcast infrastructure in Australia and the UK, including a 48 per cent stake in Argiva, the leading transmission provider in Britain and a 50 per cent stake in Airwave, Britain's emergency and public services communication network. CPPIB praised the acquisition as providing a diversified portfolio of infrastructure assets with stable cash flows at an attractive valuation.

#### d) Top 10 trade exits in Asia

Figure 9: Top 10 trade exits in Asia in H1 09

	Target	Country/industry	Exiting investor	Exit value	Acquirer	Estimated return
1	• Industrial and Commercial Bank of China Ltd.	• China: Financial services	• Goldman Sachs (Asia) Ltd.	• \$1.9B	• Undisclosed Investor(s)	• 4x return • 3 year holding
2	• Shenzhen Development Bank Co., Ltd.	• China: Financial services	• TPG Capital, L.P.	• \$1.7B	• Ping An Insurance (Group) Company of China, Ltd.	• 11x return • 5 year holding
3	• He Jian Technology (Suzhou) Co., Ltd.	• China: Computer related	• AIG Global Investment (Asia); Daiwa SMBC Capital Asia; He Jian Technology; Kawasaki Microelectronics; SAIF Partners	• \$0.3B	• United Microelectronics Corp.	• Unknown return • Unknown holding period
4	• Kracie Holdings, Ltd.	• Japan: Consumer products	• Advantage Partners, Inc.; MKS Partners Ltd.; Unison Capital	• \$0.3B	• Hoyu Co., Ltd.	• Unknown return • 3 year holding
5	• Wall Street English	• China: Services - non-financial	• The Carlyle Group; Wall Street Institute	• \$0.1B	• Pearson PLC	• Unknown • 4 year holding
6	• XCEL Telecom Pvt. Ltd.	• India: Telecom	• Q Investments, L.P.	• \$0.1B	• American Tower Corp.	• 3x return • 2 year holding
7	• China Shanshui Cement Group Ltd. (Sunnysy Group)	• China: Manufacturing - heavy	• CDH China Management Co., Ltd.; Morgan Stanley Private Equity Advisory (Beijing) Ltd.	• \$0.1B	• Undisclosed Investor(s)	• Unknown • 4 year holding
8	• SSangyong Corp.	• South Korea: Retail/wholesale	• Morgan Stanley Private Equity Asia Ltd.	• \$0.1B	• GS Holdings	• 1.4x return • 3 year holding
9	• Vetnax Animal Health Ltd.	• India: Medical	• ICICI Venture Funds Management Company Ltd.	• \$0.1B	• Pfizer Animal Health	• 2.8x return • 4 year holding
10	• China Dongxiang (Group) Co., Ltd.	• China: Retail/wholesale	• Morgan Stanley Private Equity Advisory (Beijing) Ltd.	• \$0.1B	• Undisclosed Investor(s)	• 10x return • 1 year holding

Note: Exit multiple measures cash return on initial investment; Holding period rounded to the nearest year.  
Source: AVCJ; Literature Review; Bain Analysis

Goldman Sachs's sale of 3.03 billion shares of the Industrial and Commercial Bank of China (ICBC) to undisclosed investors was the largest trade exit in Asia in the first half of 2009, giving Goldman a return of \$1.9 billion. Earlier in the year, ICBC's two other foreign strategic investors, Allianz Group and American Express, each sold shares.

## e) Top 10 IPO exits in Asia

Figure 10: Top 10 IPO exits in Asia in H1 09

<b>ESTIMATES</b>				
Target	Country/ industry	Exiting investor	IPO offer	Exchange
1 • China Zhongwang Holdings	• China: Manufacturing – Heavy	• Olympus Capital Holdings Asia	• \$1.3B	• Hong Kong
2 • China Metal Recycling (Holdings)	• China: Manufacturing – Heavy	• ADM Capital, Spinnaker Capital	• \$0.2B	• Hong Kong
3 • Lumena Resources Corp.	• China: Manufacturing – Heavy	• STIC International Hong Kong	• \$0.2B	• Hong Kong
4 • Duoyuan Global Water Inc.	• China: Manufacturing – Heavy	• Global Environment Fund	• \$0.1B	• NYSE
5 • Chemspec International Limited	• China: Manufacturing – Heavy	• CMT ChinaValue Capital Advisors, Indus Capital Advisors, SEAVI Advent	• \$0.1B	• NYSE
6 • Phu Nhuan Jewelry JSC.	• Vietnam: Manufacturing – Light	• Mekong Capital, VinaCapital Investment Management	• \$0.1B	• Vietnam
7 • Joymax Co., Ltd.	• South Korea: Leisure/Entertainment	• Hanmi Technology Investment, STIC Investments	• \$0.04B	• South Korea
8 • Young Fast Optoelectronics Co., Ltd.	• Taiwan: Electronics	• The CID Group	• \$0.03B	• Taiwan
9 • Haeduk Rudder & R Stock	• South Korea: Transportation/ Distribution	• Hyundai Venture Investment, m-Venture Investment	• \$0.02B	• South Korea
10 • Daiken Medical Co., Ltd.	• Japan: Medical	• Challenge Japan Investment	• \$0.02B	• Japan

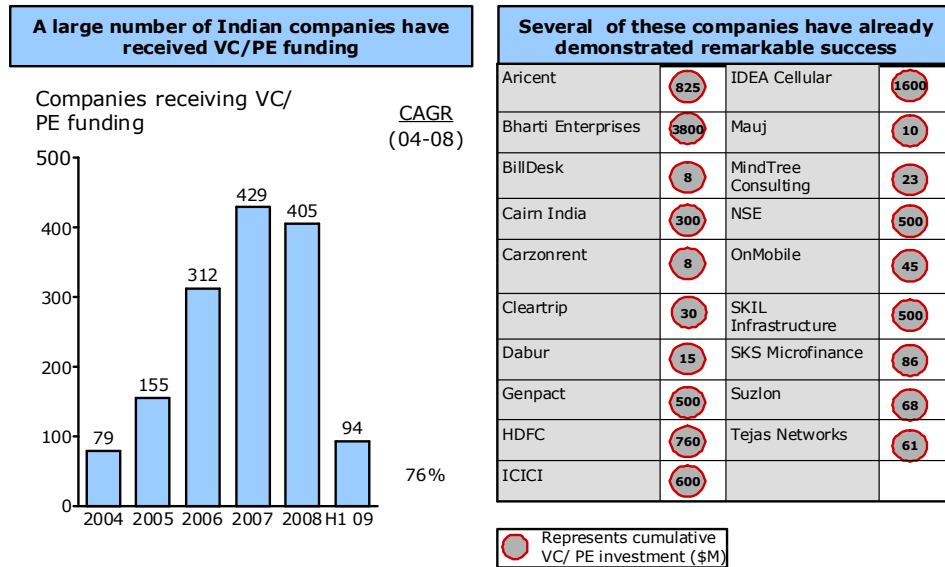
Note: IPO exit does not imply investor has completely exited position. Excludes Khazanah Nasional's exit from Parkson Retail Group via a \$649m deal as it is a combined sale of Islamic bonds and secondary Parkson shares  
Source: AVCJ; Literature Review; Bain Analysis

Despite a dramatic drop in IPO activity by April this year, China's Zhongwang Holdings Ltd. scored the world's biggest IPO to date, raising \$1.3 billion in funding. Olympus Capital Holdings Asia was the existing investor. Zhongwang, Asia's largest aluminum-extrusion product developer and manufacturer, sold 1.4 billion new shares, equaling about 26 per cent of its enlarged share capital. Although the offering fell below the targeted \$1.6 billion, Zhongwang still raised more than \$1 billion more than the number-two Asian IPO – China Metal Recycling's IPO, which raised \$200 million.

## IV. Where India stands: Fundamentals for a strong private equity industry

### a) Indian companies are growing with venture capital and private equity

Figure 11: More than 1,300 Indian companies have accessed VC/ PE capital in the last six years

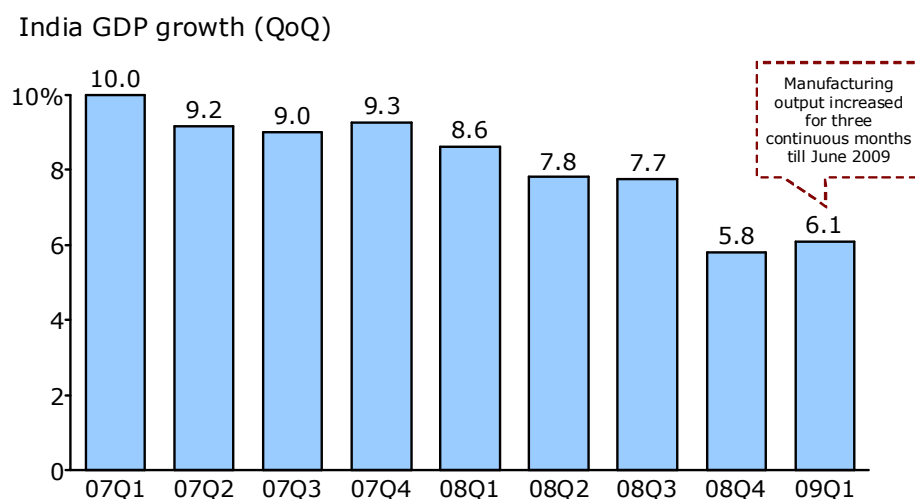


Source: Bain PE database

Private equity in India has seen steady, robust growth over the past five years. Since 2004, investors have funded more than 1,300 companies, which have grown into some of India's biggest and most successful businesses. As we mentioned, more than 30 per cent of private equity investments in India are among the largest 500 firms. In contrast to the US, private equity investors in India are focused on a wide range of sectors.

## b) India: Economic indicators show promise

Figure 12: Macroeconomic trends are largely positive in India



But despite the drop-off in private equity activity, market fundamentals remain strong. India and China are rapidly growing economies, with GDP projections of 6 per cent for India and 8 per cent for China. Given India's underlying economic strength, the recent decline in investing and deal values across sectors is viewed as an aberration, triggered by the global financial crisis, which dried up credit and undermined investor confidence. India's fall-off in deals tracks with global trends. Among the hardest-hit industries in terms of deal value are real estate and energy – with annual growth declining by as much as 88 per cent each – and manufacturing, which is down by 80 per cent (if we project half-year 2009 numbers to the end of 2009).

### c) India's biggest deals in 2009

Figure 13: Top 25 private equity deals in India for H1 09

PE firm	Target	Sector	Purchase date	Purchase price	Stake
13i India Infrastructure Fund	<b>Krishnapatanam Port Company</b>	Transport & Logistics	Feb-09	\$161M	NA
2 IDFC PE, Oman Investment Fund	<b>Quippo Telecom Infrastructure</b>	Telecom	Jun-09	\$150M	NA
3Morgan Stanley & Co International	<b>Indiabulls Real Estate</b>	Real Estate	May-09	\$114M	8%
4 AAA United	<b>Bombay Rayon Fashions</b>	Textiles & Garments	Mar-09	\$67M	21%
5Sun Apollo	<b>Keystone Realtors</b>	Real Estate	May-09	\$60M	15%
6 3i, Cisco, Oman Investment Fund	<b>Nimbus Communications</b>	Media & Entertainment	Feb-09	\$50M	8%
7 IDFC Project Equity	<b>Ashoka BuildCon</b>	Engg. & Construction	Apr-09	\$50M	49%
8 Norwest	<b>National Stock Exchange</b>	BFSI	Jun-09	\$50M	2%
9 IFC, Others	<b>Share Microfin</b>	BFSI	May-09	\$50M	NA
10Blackstone Advisors India	<b>Allcargo Global</b>	Transport & Logistics	Mar-09	\$48M	10%
11Goldman Sachs, Indivision, Oak Investment Partners	<b>Tikona Digital Networks</b>	Telecom	Mar-09	\$48M	70%
12 India Value Fund	<b>Inlogistics</b>	Transport & Logistics	Apr-09	\$40M	51%
13 StanChart-IL&FS	<b>Ramky Enviro Engineers</b>	Other Services	Jun-09	\$40M	5%
14IL&FS Realty Fund	<b>Infrastructure Ventures India</b>	Real Estate	Feb-09	\$40M	NA
15 Citi, New Silk Route, Baring Asia	<b>KS Oils</b>	Food & Beverages	May-09	\$37M	8%
16Citigroup Venture Capital Int'l	<b>Coastal Projects</b>	Transport & Logistics	Jan-09	\$36M	18%
17 Kotak PE, ICICI Venture	<b>Home Solutions Retail</b>	Retail	Feb-09	\$30M	NA
18 Pangea Capital	<b>Cobol Technologies</b>	Energy	May-09	\$30M	NA
19 NEA, BlueRun Ventures, DFJ, Others	<b>Deeya Energy</b>	Energy	May-09	\$30M	NA
20 Navis Capital	<b>Edutech</b>	Education	Apr-09	\$30M	NA
21IFC	<b>Max India</b>	Healthcare & Life Sciences	May-09	\$30M	4%
22 ADG Fund	<b>SBQ Steels</b>	Manufacturing	Apr-09	\$27M	NA
23 Baring India	<b>Mphasis</b>	IT & ITES	Mar-09	\$26M	4%
24 SAIF	<b>Network18 Media &amp; Investm'ts</b>	Media & Entertainment	Jun-09	\$25M	NA
25 Sequoia Capital India	<b>Vasan Health Care Group</b>	Healthcare & Life Sciences	Apr-09	\$20M	10%

Note: Bain PE database captures ~80% of total deal value since 2000  
Source: Bain PE database

Historically, funds in India haven't shown much interest in infrastructure, construction, engineering, manufacturing and energy. But a shift is taking place. An infrastructure deal was No. 1 in the top 25 list for the first half of 2009, reflecting investors' interest in the promise of India's continued growth. 3i Group took a \$161 million minority stake in the Krishnapatnam Port Company Ltd. (KPCL), which won the concession to develop the new Krishnapatnam port on the east coast of India. Because of limited port capacity and rapid growth in international trade, India's Planning Commission estimates that the port sector will require about \$20 billion in investments over the next five years. Other top deals include IDFC Project Equity's minority stake for \$50 million in Ashoka Buildcon, an engineering and construction company, and a \$30 million injection by Pangea Capital into Cobol Technologies, an energy firm.

The recent decrease in both the size and number of deals stems from two factors: initially, it was the impact of the downturn and subsequently, as the economy came back, the fact that Indian companies have had access to other funding sources, especially debt.



d) Top 25 deals by size

Figure 14: Top 25 deals by size of deal in India

	2000-08	2006	2007	2008	H1 09
<50M					16
50-100M		17			6
100-200M		5	16	17	3
200-300M	11	0	2	6	
300-500M	7	1	3	1	
>500M	7	2	4	1	
Average deal size (\$M)	446	154	326	192	

Note: Top 25 deals are from Bain deal database  
 Source: INDATA (India Advisory Partners); TSJ Media; Bain deal database

e) India companies prefer to retain control

Figure 15: While \$48B has been invested in India since 2000, few deals exceeded \$500M

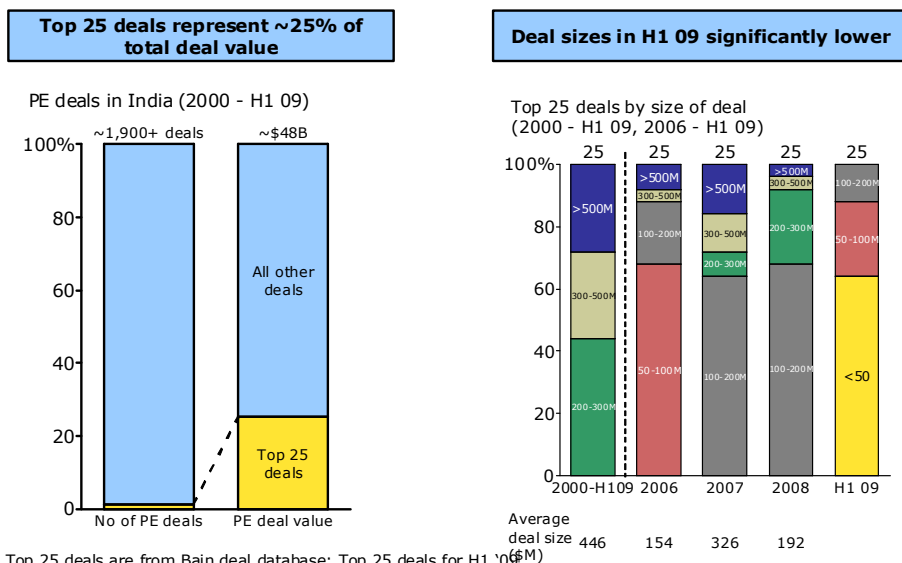
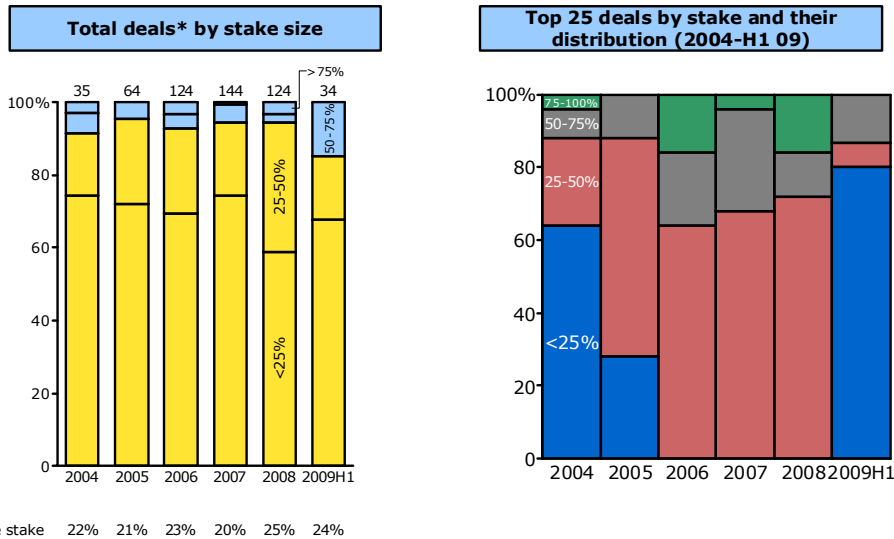
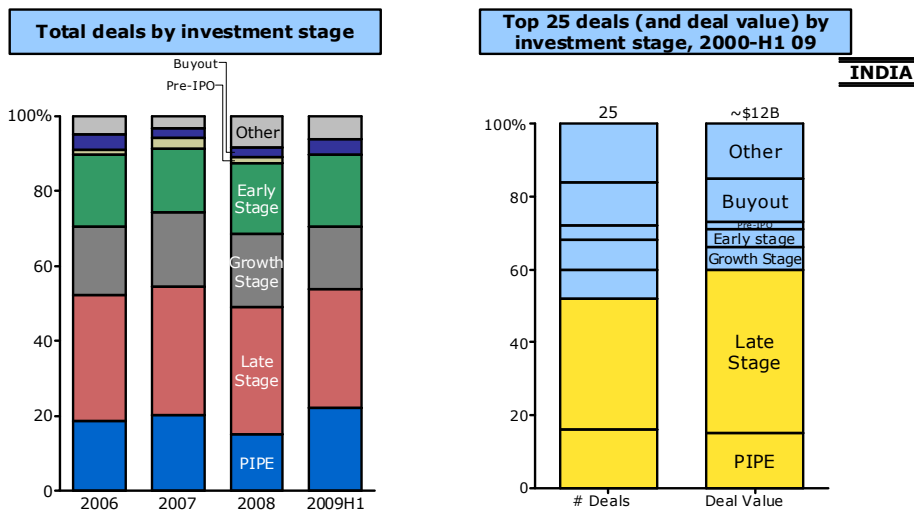


Figure 16: Most deals in India continue to involve a minority stake



\*Includes only those deals where stake size is known; ~60-70% of the deals do not disclose stake sold  
Source: TSJ Media; Bain deal database

Figure 17: A majority of investments (in 2006-H1 09) have been PIPEs/late-stage investments



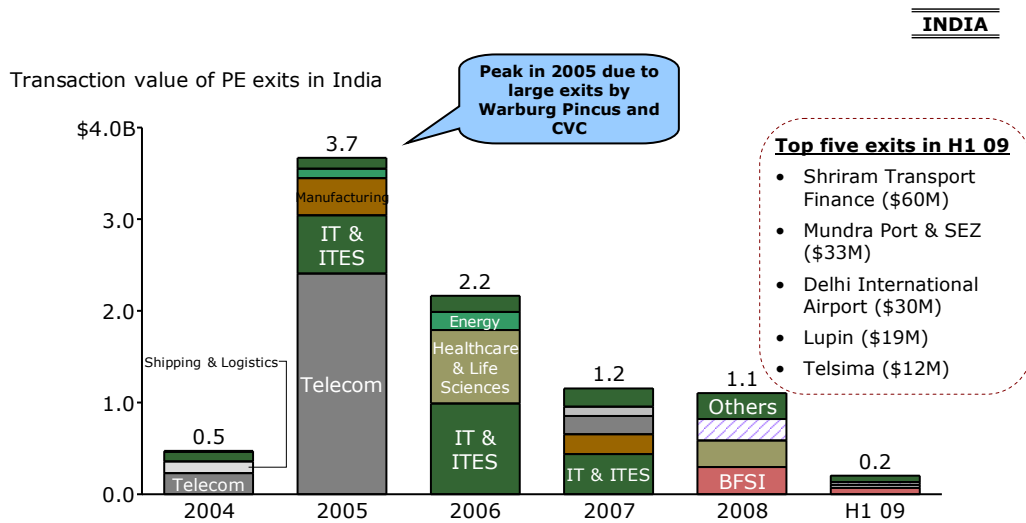
Source: TSJ Media; Bain deal database

Since 2000, the top 25 private equity deals amounted to more than 25 per cent of the total deal value. It underscores the fact that few Indian deals exceed \$500 million, and most private equity investors are limited to minority stakes. The key reason: Family entrepreneurs are typically unwilling to give up majority control. As a result, PIPE and late-stage investments account for a majority of deals since 2006. Many private investment funds are

willing to take minority stakes in businesses through private placements, allowing them to participate in market growth. Companies preparing to go public are more willing to accept PIPE funding to strengthen their market position.

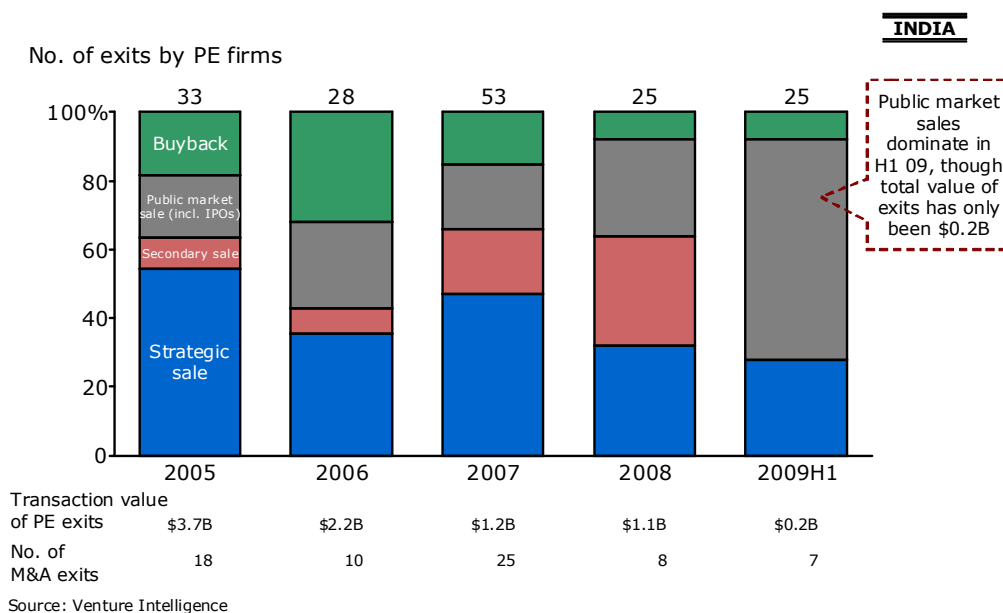
**f) Delaying exits until the right time**

Figure 18: Overall, exit volumes have remained low relative to deals



Source: Venture Intelligence

Figure 19: 40%-60% of exits are historically made through strategic sales



Source: Venture Intelligence

Figure 20: Exit volumes, sector by sector

Transaction volumes of PE exits in India (in \$B, 2004-H1 09)						
Sector	2004	2005	2006	2007	2008	H1 09
IT/ITES	105	635	989	438	67	12
Telecom	231	2408	-	200	69	-
Shipping & logistics	126	-	4	18	-	34
Travel and transport	-	-	-	-	234	30
Energy	-	104	197	-	-	3
Engineering & construction	-	16	97	38	-	9
Food & beverages	-	-	-	100	-	-
Retail	4	3	-	18	56	-
BFSI	-	13	-	-	296	68
Education	-	0.14	-	-	-	-
Healthcare & life sciences	-	44	802	50	290	19
Manufacturing	-	405	29	216	14	1
Media & entertainment	-	11	-	48	48	10
Textiles & garments	-	30	-	-	-	2
Hotel & resorts	-	-	48	-	3	0.40
Others	6	-	-	28	25	13
<b>Total</b>	<b>472</b>	<b>3669</b>	<b>2165</b>	<b>1154</b>	<b>1102</b>	<b>201</b>

Source: Bain PE database

The low relative number of exits reflects the downturn's impact on the private equity cycle. Deal making in India was at its peak between 2005 and 2007 and exits should have taken place in 2009. But crumbling financial markets put investor plans on hold. That's starting to change. Since June, when equity markets began a rebound, exits, too, have started to pick up. The banking, financial services and insurance industries have seen the most activity, with 68 transactions in the first half of the year, followed by shipping and logistics, and travel and transport. Top exits in the past six months include Shriram Transport Finance (PE firm: ChrysCapital) for \$60 million; Mundra Port & SEZ (PE firm: 3i) for \$33 million and Delhi International Airport (PE firm: IDFC PE) for \$30 million. M&As are expected to remain a favourite exit strategy. They have accounted for 40-60 per cent of the exits since 2005.

## g) A preference for strategic investors

Figure 21: The deal size of secondary sales to other PE firms is low

Secondary sales to other PE firms (2007 and 2008*)					
PE Firm	Acquirer	Target	Industry	Deal size-\$M	Year
UTI Ventures, Others	DE Shaw	Excelsoft	IT & ITES	31	2008
SIDBI VC, Others	Lumis Partners	Karrox	IT & ITES	-	2008
Actis, Others	New Silk Route	Ortel Communications	Media & Entertainment	-	2008
Aureos, Others	Actis	Paras Pharmaceuticals	Healthcare & Life Sciences	-	2008
Citi, Others	Baring Asia	Sharekhan	BFSI	-	2008
ICICI Venture, Others	PremjiInvest	Subhiksha Trading Services	Retail	56	2008
New Vernon, Others	ICICI Venture	Updater Services	Other Services	25	2008
Connect Capital, Greater Pacific Capital, Others	Lehman Brothers , Thomas Schmidheiny , Galleon Partners, Shuaa Capital , Sequoia Capital	Edelweiss Capital	BFSI	-	2007
Navis Capital, Others	India Hospitality Corp	Mars Restaurants	Food & Beverages	-	2007
APIVC VC, Others	India Equity Partners	Ocean Sparkle	Shipping & Logistics	18	2007
IFC, Others	IIML, Evolvece	RSB Group	Manufacturing	-	2007
Navis Capital, Others	India Hospitality Corp	Skygourmet	Food & Beverages	-	2007
Gem India Advisors, Others	Indivision	Sula Vineyards	Agri-business	-	2007
Jina Ventures, Others	Global Investment House	Uma Precision	Manufacturing	-	2007

\*No secondary sales in 2009H1  
Source: Bain PE database

Figure 22: Major Exits in 2007, 2008 and H1 09

Selling PE firm	Target	Exit Year	Deal value (\$M)	Purchase year	ROI	% stake sold
SAIF	IL&FS Investsmart	2008	261	2004	8.8x	73
Dubai Investment Group, Others	Thomas Cook India	2008	234	2005	1.7x	68
IFC	Dabur Pharma	2008	218	2005	1.42x	7.75
Actis, Others	Punjab Tractors	2007	211	2003	2.4x	28.4
iLabs	Cibernet	2007	200	2001	-	-
Sequoia Capital India, Others	Zavata	2007	180	-	-	-
Sequoia Capital India, Andwel Partners, Others	MarketRx	2007	135	2003	13x	-
JP Morgan, Aquarius	MTR Foods	2007	100	2002	5x	26%
Sequoia Capital India	Idea Cellular	2008	69	2006	1.6x	1.5%
ChrysCapital	Shriram Transport Finance	2009	60	-	8.5x	5%

Source: Industry reports

Investors are relying less on secondary sales to other private equity investors and instead opting to sell stakes to strategic investors, including companies looking to enter the Indian market or domestic firms that want to consolidate their market position in core or adjacent

businesses. A prime example is ChrysCapital’s sale of Shriram Transport Finance to ICICI Prudential Life Insurance, India’s largest private insurer, for \$60 million. New Delhi-based ChrysCapital won a return of over eight times on its initial investment in Shriram, a commercial vehicle financier.

## V. Global outlook: The recovery begins

Figure 23: Globally, growth and liquidity have bottomed out; appear to be trending upwards

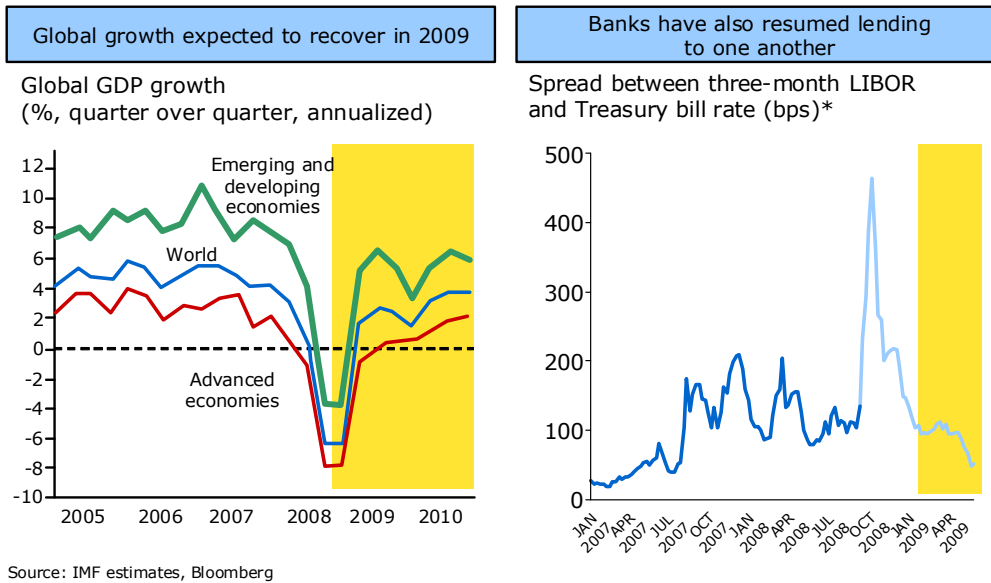


Figure 24: Globally, corporate credit is starting to flow to higher-quality issuers at “pre-bubble-bursting” rates

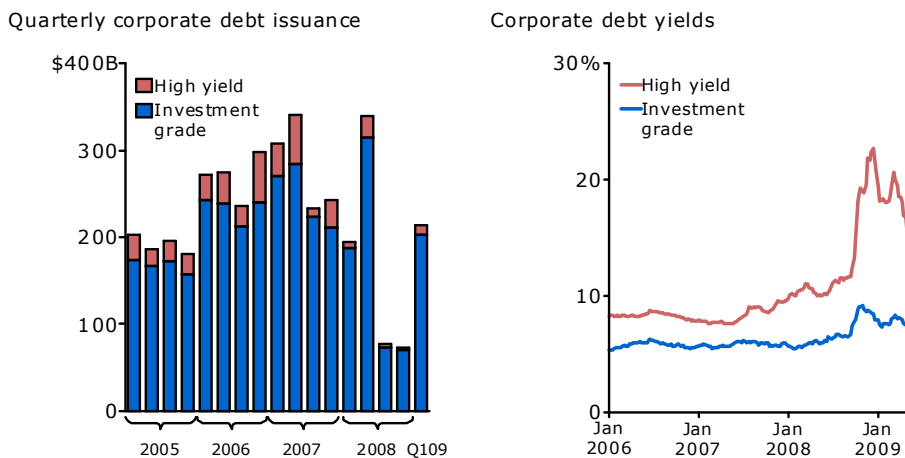
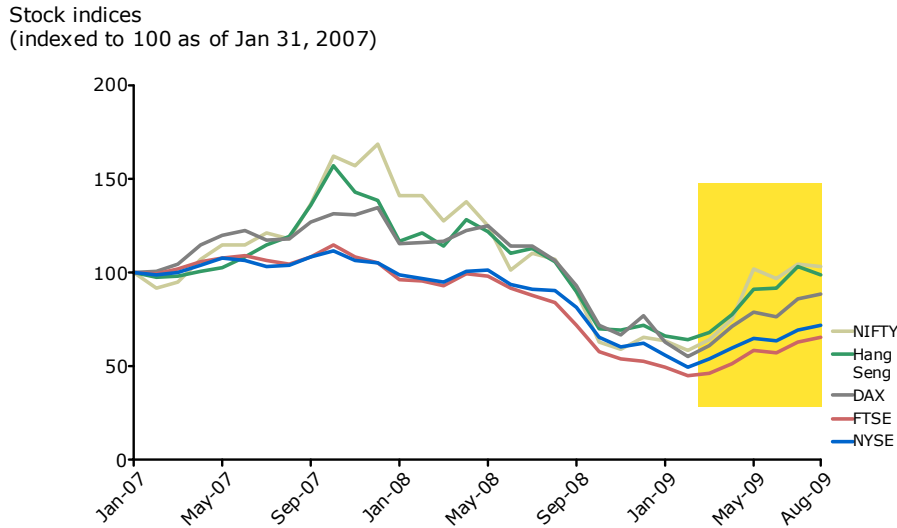


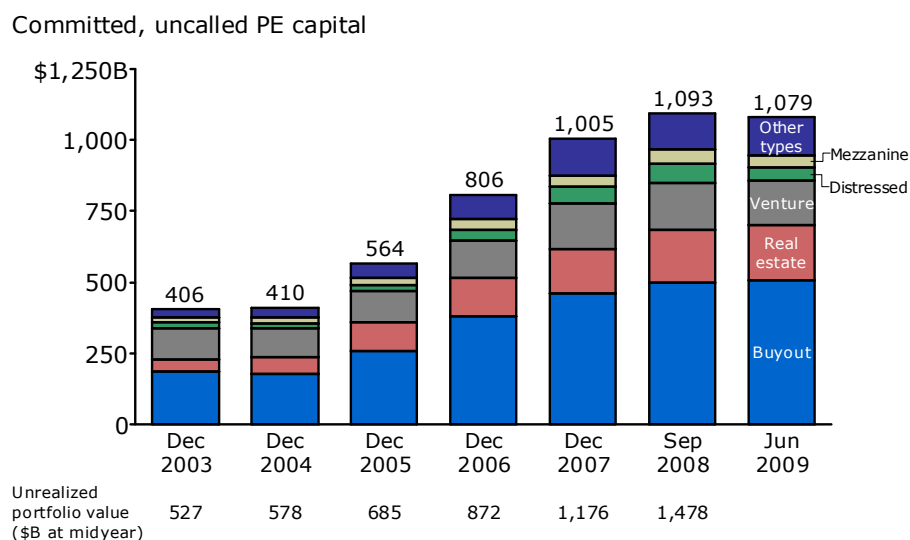
Figure 25: Globally, equity markets appear to be on the road to recovery as well



Source: Bloomberg

As global growth began recovering in 2009 and banks resumed lending to one another, PE investors are returning to the marketplace. Several key indicators are restoring confidence, along with easing credit and dropping interest rates. World-wide, GDP growth started rebounding in 2009, with emerging markets continuing to outpace advanced economies. As an indication of banks' willingness to lend to one another, the spread between the three-month London Interbank Offered Rate (LIBOR) and Treasury bill rates has dropped from its high of 463 basis points in October 2008 to 52 basis points in May 2009. At the same time, corporate debt lending increased to higher quality issuers in the first quarter of 2009.

Figure 26: Globally, PE firms have a significant amount of “dry powder” available



Source: Preqin June 2009 Spotlight newsletter

By early 2009, stock exchanges around the world also started recovering, showing a steady climb back from historic lows. India and China’s equity markets showed the strongest gains, reinforcing their position as highly attractive markets for investors. By September 2009, the Dow Jones Industrial Average had regained its losses for the year and approached 9,800. After sitting on sidelines through the global credit crunch, private equity firms have stockpiled a significant amount of dry powder. As investing picks up, pent-up investor demand is expected to intensify competition for the best deals.

### a) The short- and medium-term view

Despite reassuring signs that global markets are on the road to recovery, the financial meltdown has altered the private equity landscape. In the short term, private equity investors may face a very challenging marketplace. Leveraged deals, the industry’s bread and butter, are unlikely to return soon in any significant numbers or size. Many have been surprised by the lack of deals emanating from corporations seeking urgent cash and banks looking for new owners for repossessed companies. The equity markets’ appetite for rights issues coupled with banks’ reluctance to take the keys explain much of the shortfall. The short supply of larger deals is driving some funds to drift away from their original strategy and focus instead on debt deals, distressed deals and private investment in public equity. Some are in intense discussions with their limited partners about retiring funds and re-cutting incentives. The delays in fundraising are causing some firms to trim staff to match reduced-fee income.

The medium-term outlook is much brighter. Credit will return eventually, and there will likely be a period of auspicious deals as the market recovers. What will emerge is a more sophisticated and mature private equity industry. Expect limited partners to demand tighter fund documentation and even greater alignment on economics. Most limited partners will

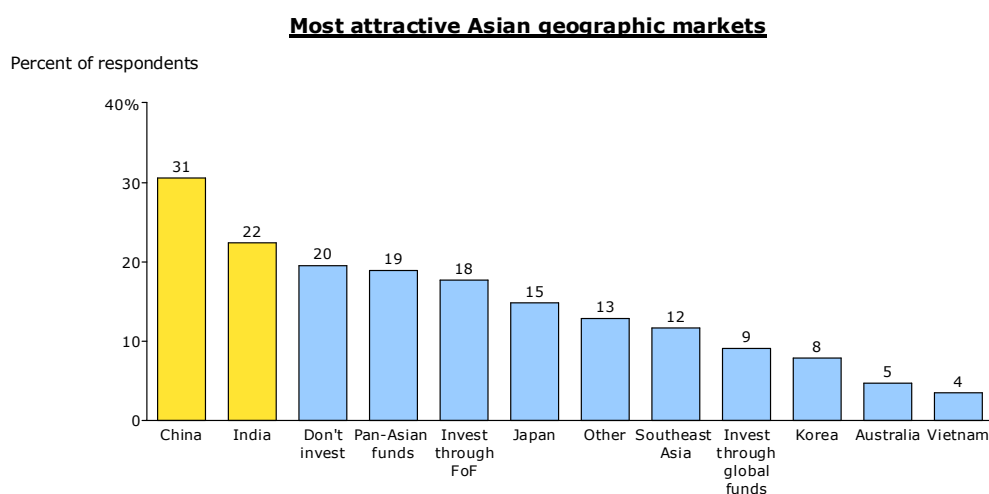


be much more sophisticated in the way they scrutinise firms' capabilities when it comes to the trinity of educated risk taking, adding value after the deal and retooling executive engagement. In response, private equity firms are investing in their teams, strategies, networks and skills. The larger private equity firms will likely create more (smaller) funds so that investors can select among asset classes, sectors and regions.

With maturity, the global industry's returns will likely narrow. Stiff competition and a reduction in froth will take out the high notes. But a more experienced industry will make fewer mistakes, weaker players will go away and the barriers to entry will grow. Unless there is a sudden rush of new money into private equity, the future holds a period of more consistent returns for more demanding investors.

## VI. Asia outlook

Figure 27: Asia remains a focus market for PE investment; China and India are still key markets



Note: Respondents could pick more than one area  
Source: Probitas 2009 Private Equity Investors Survey (January 2009, n>400 LPs globally)

### a) China and India remain focus for PE investors

Asia continues to be the most attractive destination for private equity investments, with China and India, the two rapidly growing economies, still the key markets. Asia's private equity markets have not been crushed by the downturn that dried up deal flow in Europe and North America, but they have been transformed by it. Deal values in Asia tumbled by less than half the fall-off suffered in some developed economies—and are already showing strong signs of recovery. And, in the second half of 2009, deal activity is likely to pick up.

But the relatively mild decline has intensified competition across the region driven by two forces. First, global private equity funds have stepped up their focus on Asia as the markets where opportunities lie. And second, several large local funds, particularly in China, have

joined the competitive fray. Over the past year, 189 new funds emerged wielding \$40 billion in capital to invest.

## VII. A closer look at China, Southeast Asia and India

### a) Greater China: Making the most of government stimulus

Figure 28: Market outlook for Greater China

Greater China
<ul style="list-style-type: none"><li>• Will see slower deal activity in immediate term<ul style="list-style-type: none"><li>- Buy-sell price gap still exists but closing</li><li>- General uncertainty of earning outlook and economic environment</li><li>- Stronger focus on portfolios</li></ul></li><li>• Second half of 2009 and 2010 likely to be good periods for new investment<ul style="list-style-type: none"><li>- Growth capital still needed in the economy</li><li>- Lots of PE capital available</li><li>- Alternate sources of capital are scarce<ul style="list-style-type: none"><li>- Public-to-privates</li><li>- Cross border</li></ul></li><li>- Debt crisis less of an issue for China given most deals are growth capital</li></ul></li><li>• Exits will be difficult for next 12 months but hopefully coming back after 2010</li><li>• Portfolio activity increasing<ul style="list-style-type: none"><li>- "New" way of thinking about portfolio involvement</li></ul></li></ul>

China's rapid economic rebound is credited with helping to pull the rest of the world out of the global recession. But private equity investing in China (including Hong Kong) may take longer to recover. In the short term, deal making will remain slow due to several factors. A price gap between buyers and sellers still makes it harder to close deals, although the gap is shrinking. And investors are uncertain if China's economic rebound will hold up. Huge infusions of government stimulus funding spurred a return to spending, but it's unclear how rapidly the economy will continue growing once government stimulus is reduced.

Some of these concerns already are easing. New investing in the latter half of 2009 is picking up and should continue into 2010, spurred by a pressing need for growth capital to keep pace with China's aggressive expansion strategy. There's no shortage of private equity funds and companies have few other options. As the government privatises more public entities, these new companies need new funding sources. The Chinese government also is encouraging companies to aggressively expand beyond China's borders. Since most deals involve growth capital, the debt crisis is less of an impediment for investors.

While exits will remain difficult over the next 12 months, there should be a rebound by 2011. In the wake of turbulence, investors are adapting to the new private equity landscape by rethinking how they can best support portfolio companies to ensure that they accelerate out of the downturn, stronger than before.

## b) Southeast Asia: Stable deal sizes

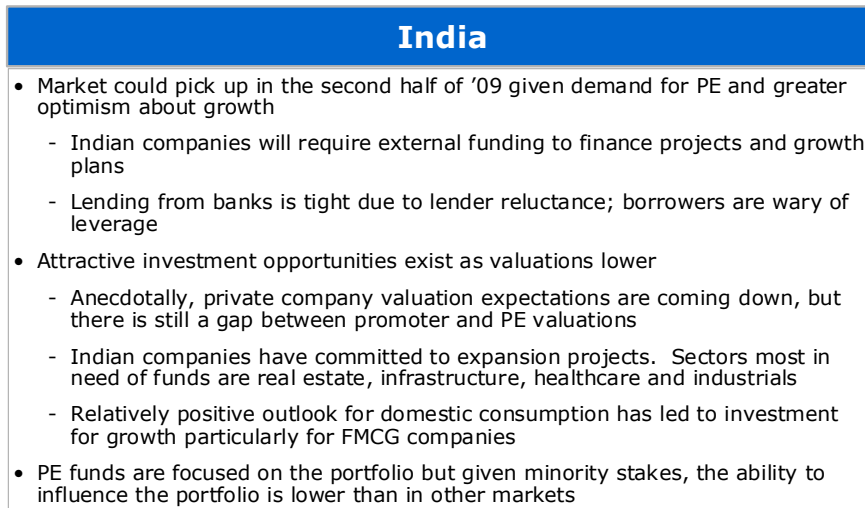
Figure 29: Market outlook for SE Asia

SE Asia
<ul style="list-style-type: none"><li>• PE investments in SE Asia saw a decline in both value and volume in 2008; however, no major impact on average deal size now or going forward</li><li>• Marked shift in industry focus from “new economy” to “old economy” industries in 2008, and this is likely to continue<ul style="list-style-type: none"><li>- Increase in investments in mining, infrastructure, manufacturing</li></ul></li><li>• Buyouts will remain dominant in SEA but 2009 - 2010 likely to see increase in PIPE financing</li><li>• SWFs and local funds to continue being active in PE space in coming years</li><li>• While new fund-raising saw a sharp decline in 2008, capital overhang from prior years will be main source of transactions in 2009 - 2010</li></ul>

Like the rest of the world, private equity investments in Southeast Asia—encompassing Singapore, Malaysia, Indonesia, Thailand and Vietnam—declined in 2008, both in value and volume. But the region has bucked the global trend and experienced no major impact on average deal size and none is expected going forward. Amid the downturn in 2008, Southeast Asian investors started shifting their focus from “new economy” to more stable “old economy” industries, such as mining, infrastructure and manufacturing, and this marked shift is likely to continue. Buyouts will continue to dominate deals; however, over the next 18 months, PIPE financing is likely to increase. In coming years, sovereign wealth funds and local funds will remain active in the private equity space. While new fundraising saw a sharp decline in 2008, capital overhang from prior years will be the main source of transactions in 2009–2010.

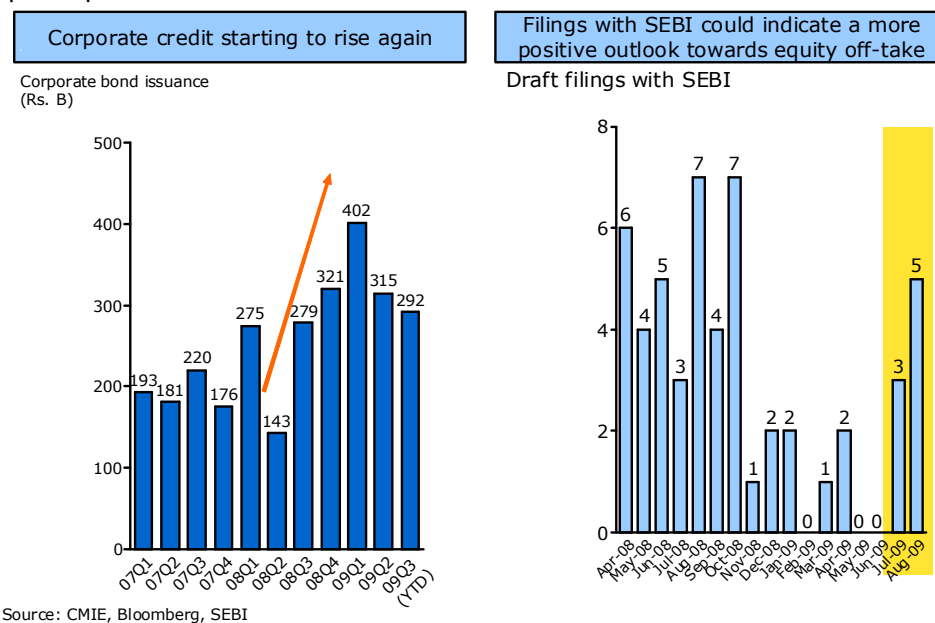
### c) India: An emphasis on later-stage investments

Figure 30: Market outlook for India



India's private equity industry is rebounding as the impact of global turbulence recedes. As investors become more confident about the country's future growth, demand for PE funding will increase. Key economic indicators are largely positive, pointing everywhere to signs of recovery. The predicted GDP growth rate of 6 per cent is ahead of every Asian country except China and is higher than growth projections for North America and Europe.

Figure 31: In India, corporate debt and equity off-take is beginning to pick up



Manufacturing output increased for the third consecutive month until June – contributing to a 4.3 per cent increase for April–July period over the same period in 2008. Advance tax collections for the second quarter of the 2009–2010 fiscal year have shown robust growth of 35–40 per cent across industries, reinforcing hopes of a sooner-than-expected recovery. Corporate credit is flowing again and most stock indices have returned to pre-September 2008 levels. An increase in companies filing to go public is another sign that they are more optimistic about their growth opportunities.

To finance that growth, India's companies will need private equity partners, which are sitting on considerable reserves of dry powder. Growth capital will continue to dominate deals across all sectors. However, in a country that's racing to modernise and expand its ports, highways, trains, airports and high-tech networks to keep pace with its aggressive expansion, certain sectors are poised for significant growth. As we mentioned, the biggest investment opportunities are in infrastructure, real estate, healthcare and industrials. India's rising middle class and critical mass of young, educated workers are giving birth to a new age of consumerism.

While access to global markets and funding for acquisitions will drive some deals, corporate governance still is a major reason that companies seek private equity partnerships; companies preparing for listing recognise the need to team with expert managers. Going forward, expect a continuing emphasis on later-stage deals and perhaps bigger deals. The challenge for well-financed funds boils down to this simple, but often difficult equation: Finding the right companies at the right valuations that recognise the value of private equity partnerships. But funds that succeed in identifying and funding those promising companies will be positioned to make the most of the future. They'll be the private equity firms that both nurture and profit from India's rising fortunes.

This report was prepared by Srivatsan Rajan, a Partner in Bain & Company's New Delhi office, and Prashant Sarin, a Manager in the same office, in association with the Indian Venture Capital Association (IVCA). The authors would like to especially thank Saurabh Srivastava, Chairman of IVCA, and Mahendra Swarup, President of IVCA, for their continuous support and advice.

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## **VIII. About Indian Venture Capital Association**

Indian Venture Capital and Private Equity Association (IVCA) is the oldest, most influential and largest member-based national organisation of its kind. It represents venture capital and private equity firms, promotes the industry within India and throughout the world and encourages investment in high-growth companies. It seeks to create a more favourable environment for equity investment and entrepreneurship, representing the industry to governmental bodies and public authorities.

IVCA members include leading venture capital and private equity firms, institutional investors, banks, incubators, angel groups, corporate advisers, accountants, lawyers, government bodies, academic institutions and other service providers to the venture capital and private equity industry. These firms provide capital for seed ventures, early-stage companies, later-stage expansion and growth finance for management buyouts/buy-ins of established companies.

IVCA's purpose is to support the examination and discussion of management and investment issues in private equity and venture capital in India. It aims to support entrepreneurial activity and innovation as well as the development and maintenance of a private equity and venture capital industry that provides equity finance. It helps establish high standards of ethics, business conduct and professional competence. IVCA also serves as a powerful platform for investment funds to interact with each other.

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 venture capital industry. It also encourages the formation, development and use of equity markets and funding structures appropriate to the needs of private equity and venture capital investors and investees.

IVCA organises symposia and seminars directly related to its purpose as well as training seminars and courses for private equity and venture capital industry practitioners. It publishes newspapers, periodicals, books and leaflets to promote its objects. IVCA has established a partnership with the European Venture Capital Association (EVCA), founded in 1987 and focused exclusively on the professional development of investment professionals.

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## IX. About Bain & Company's private equity business

Bain & Company has emerged as a leader committed to helping private equity firms grow. At Bain & Company, private equity consulting has grown twelve-fold since 1997 and now represents 25 per cent of the firm's global business. Our partners include a global network of more than 400 experienced professionals serving private equity clients in due diligence and post-acquisition performance improvement. In the past decade, Bain & Company has advised on more than half of all transactions valued at more than \$500 million. Our work with LBO funds represents 70 per cent of equity capital—we are three times larger than the next largest firm serving LBO funds.

We have deep experience working with private equity clients in Asia across all major sectors—everything from consumer products and financial services to automotive and telecom. We support a range of objectives for our private equity clients:

**Deal generation**—We help private equity funds develop the right investment thesis and augment deal flow, profiling industries, screening targets and devising a plan to approach targets.

**Due diligence**—We help funds make better deal decisions by performing diligence, assessing performance improvement opportunities and providing post-acquisition agenda.

**Immediate post-acquisition**—We support the drive for rapid returns by developing a strategic blueprint for the acquired company, leading workshops aimed at aligning management with strategic priorities and directing focused initiatives.

**Ongoing value addition**—We help increase company value by supporting most leveraged efforts in such areas as revenue enhancement and cost reduction, and by refreshing strategy.

**Exit**—We help ensure funds exit deals with a maximum return by preparing for exits, identifying the optimal exit strategy, preparing the selling documents and pre-qualifying buyers.

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