INDIA PRIVATE EQUITY REPORT 2016

BAIN & COMPANY

We thank Delhivery, a key e-commerce logistics service provider in India, whose data helped sharpen some of our insights on the consumer Internet market in India.

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Executive summary

Overview of the current conditions

The global economy maintained slow but stable growth in 2015, evidenced by a 2.4% increase in global GDP. In the US, GDP growth increased slightly, to 2.5%, largely due to increased consumer and government spending, business investments and exports. Europe witnessed signs of recovery, with overall GDP growth of approximately 1.6%; this was due primarily to exchange rate depreciation, low oil prices and quantitative easing by the European Central Bank (ECB). However, uncertainties about the global macroeconomic scenario remain, mostly as a result of the unclear stance of the US Federal Reserve on raising the federal funds rate, fallout from the Greek economic crisis on Europe and other countries, and China's stock exchange crash.

In contrast, growth in the top emerging economies slowed over the past year. The Economist Intelligence Unit estimates that the economies of BRICS (Brazil, Russia, India, China and South Africa) grew at 4.3%, marking a decrease from 2014 levels of 5.4%. Within BRICS, India showed higher growth in 2015 compared with 2014, while all other economies showed slower growth.

A decline in commodity prices and the acute drop in oil prices tempered inflationary pressure in India. India meets approximately 80% of its oil needs through imports, and since oil prices have declined, its oil bill decreased by almost half. In addition, the continued decline in commodities prices helped reduce the overall rate of inflation. Interest rates in India also fell, contributing to growth; notably, yields on one-year government bonds dropped to 7.2% by January 2016, compared with 8.1% in January 2015.

Currencies depreciated across BRICS in 2015, driven primarily by the exodus of capital resulting from the expectation that the US Federal Reserve would raise short-term interest rates. The Indian rupee remained relatively stable in comparison with currencies in other developing countries, depreciating only about 5%. Meanwhile, Brazil experienced a real GDP growth rate of negative 4%, and its currency depreciated by more than 46% across the same period.

Bolstered by all of the considerations mentioned, India's GDP grew by 7.2% in FY15, compared with 5.4% in FY14. The services sector experienced particularly strong growth, and its contribution to GDP climbed to 53% in 2015. Notably, financial services, insurance, real estate and professional services grew by 11%, leading the sector's overall growth.

In 2015, global buyout value increased by a marginal 5% to $282 billion. North America saw a 16% increase to $143 billion, and Asia-Pacific saw a 12% decrease to $36 billion. Meanwhile, the Asia-Pacific private equity (PE) market set a new all-time high at $125 billion, 44% higher than 2014.

Not surprisingly, PE investments in India experienced a robust increase over 2015. Deal value, including real estate, infrastructure and venture capital (VC) deals, increased by 51% to $22.9 billion—surpassing 2007 peak levels of $17.1 billion. Overall deal volume in India grew by 31%. Overall deal value also rose as a result of a few megadeals. Looking at the year ahead, GPs in India expect a further increase in deal activity, propelled by macroeconomic conditions, an improved exit environment and changes in valuation expectations.

To attract investment, India needs to continue to improve the ease of doing business in the country, a large part of which involves a regulatory environment that is more conducive to business growth. India's government continues to focus on encouraging investments within the country through policies such as Make in India, tax regime rationalisation and Startup India. The government is also fast-tracking approvals for industry and infrastructure projects and relaxing FEMA rules to provide easier access to capital for domestic investment funds.

In terms of attracting PE investments, India remains the most attractive market in Asia-Pacific, followed closely by China. India boasts strong GDP growth, a vibrant entrepreneurship ecosystem and a positive outlook, making it one of the most attractive of the emerging economies for PE investments in 2016.

Fund-raising

Funds allocated to Asia-Pacific on a regional level declined by 14% in 2015 to $50 billion. Similarly, funds allocated to India dropped by 12%. Indian dry powder continued to increase and stood at $11 billion in 2015, suggesting there is no dearth of capital. To add to this, there is additional capital drawn into India via allocations from global and APAC funds, which is not reflected in the number above. In addition, several sovereign wealth funds (SWFs) have increased direct participation in India deals: The number of deals SWFs participated in directly increased to 24 in 2015 from 19 in 2014. PE firms expect co-investments with limited partners (LPs) to further increase in 2016.

In 2015, foreign direct investments (FDI) remained the biggest source of capital for most PE firms, and this trend is expected to continue in the next two years. The majority of funds expect fund-raising to get slightly easier in 2016. However, they cite macroeconomic uncertainties and prior bad experiences as major potential hindrances.

Deal making

Deal volume in India grew by 31%, driven by the consumer technology sector; the banking, financial services and insurance (BFSI) sector; and the real estate sector.

Together, the top 25 deals, excluding real estate, represented 43% of total investments in 2015, or $8.2 billion, climbing 29% from $6.4 billion in 2014. The $700 million investment into Flipkart by a series of funds represented the year's largest deal. Growth-stage and late-stage deals were the most prominent in 2015 by deal value, and funds expect growth-stage and buyout deals to dominate in the future.

The average deal size across all deals increased by 15%, from $19 million in 2014 to $22 million in 2015. Excluding deals smaller than $10 million, the average deal size increased from $55 million in 2014 to $63 million in 2015. The majority of GPs we surveyed expect average deal sizes to continue to rise over the next two to three years. They feel that healthcare and financial services will be the most attractive sectors in the next two years.

GPs expect valuations to slightly temper in the future. SWFs have increased participation in India, especially in larger deals. Funds expect global PE firms, LPs and SWFs to remain the biggest threats in 2016.

Portfolio management and exits

The exit market in India performed exceedingly well in 2015. The number of reported exits in the country grew 10% from 2014 to 2015, and the value of exited investments increased by 57% across the same period, rising from $6 billion in 2014 to $9.4 billion in 2015. Also in 2015, public market sales, secondary sales and strategic sales were equally prominent as exit options. Average deal sizes were significantly higher for secondary and strategic sales.

Funds cited improvements in capital markets and the macroeconomic environment as the primary factors for the increased exits in 2015. Funds further expect exits to increase in the next two to three years. However, they believe that underperformance within the IPO market, macroeconomic instability and a mismatch in valuations could be potential hindrances.

Of the several pre-2008 deals that remain unexited, most are in the energy and BFSI sectors. PE funds aim to adopt a wait-and-see policy for these deals in 2016.

Funds cite top-line growth as the leading cause of value creation in portfolio companies. They also emphasise the need to build strong internal portfolio support teams and develop operating partners to create value in a disciplined manner. However, this intent has not translated into action as the scaling up of portfolio teams has been muted.

Sector in focus: Consumer technology: Still the flavour of the month

As far as the Indian market is concerned, 2015 has been a very good year for the consumer technology sector. The continued rise of Internet penetration was a key factor in the sector's growth. India today has approximately 275 million individuals with Internet access, and this figure is projected to grow to approximately 575 million by 2019, driven by increasing penetration of smartphones and broadband. Some estimates show that the number of smartphone users in the country will increase to approximately 230 million in 2017 from about 160 million in 2015. In addition, online channel penetration has increased across most traditional sectors, representing a trend that could significantly boost consumer technology investments. From booking a taxi to buying groceries to purchasing furniture, Indians are rapidly turning to mobile phones and computers for their transactions. We estimate the total Indian digital commerce market to be about $30 billion in 2015.

Investments reflected the belief in the sector's growth potential: Consumer technology was the largest sector in terms of PE and VC investments in 2015, contributing approximately 30% to overall deal value and accounting for approximately 41% of overall deal volume. Deal values in the sector grew by 46% (from $4.7 billion in 2014 to $6.9 billion in 2015), as did deal volume (from 295 in 2014 to 432 in 2015). The top 10 deals in the sector accounted for approximately $3.5 billion, representing half of the total investments. Flipkart, One97 Communications/Paytm and Snapdeal fund-raising were the top three deals of 2015—with values of $700 million, $635 million and $500 million, respectively. Exits in the sector were worth approximately $800 million. And several early-stage acquisitions focused on consolidation and capability-building.

Still, investors in consumer tech space face several challenges: the capability of start-ups to scale up consistently and rapidly, market creation for disruptive business models, the work of ensuring profitability of the business model in the long run, a growing competitive intensity that is leading to lower capital efficiency and the need for management depth as companies progress. Only one in seven companies have been able to scale up and receive two or more rounds of funding. Major investors have backed multiple disruptors in the hope of finding clear winners.

Implications

Overall, 2015 was a growth year for PE in India, as deal activity, deal value and deal volume all increased. And that trajectory should continue in coming years. Consumer technology turned out to be the most attractive sector for PE and VC in 2015. Funds are sharpening their focus on early- and growth-stage deals, with continued emphasis on improving operating teams to focus on value creation. The government is also trying to do its part by announcing a series of new initiatives to promote investment across sectors.

Investors (GPs/LPs)

The investment scenario in India is positive thanks to strong GDP growth and a low inflationary environment as commodity prices decline, especially for crude oil. This is an opportune time for GPs to increase their investments in India. They need to develop strong teams for fund-raising, deal making and portfolio management. A solid value creation and implementation plan could be a differentiator for tapping quality deals.

The consumer technology sector, with its increasing growth, continues to present a strong opportunity for investments. GPs should continue to actively participate in this sector, but they should focus on generating value from their existing investments. Five key takeaways should be top of mind: 1) reexamine the portfolio and assess risks; 2) invest in winners, and back them so they can scale and win; 3) back entrepreneurs and ideas, but selectively; 4) help existing portfolio companies grow and be profitable; 5) develop sustainable and robust models that will be easier to exit.

Additionally, investors should be mindful of the delay in implementation of key government reforms and further depreciation of currency, as these factors heavily influence returns.

Indian entrepreneurs

Entrepreneurs need to recognise the value of PE investors, including learning and adopting best practices in financing, expansion and customer access. Our survey suggests that there are still significant differences between the expectations of investors and promoters after they make the investment. Entrepreneurs should align with the investors early in the partnership and develop a robust collaboration plan. Another important consideration is the fact that investors come with a predetermined exit time frame that company founders or owners should actively align with early in the relationship.

Public policymakers

PE accounts for more than 50% of foreign capital, which has played a pivotal role to date in fuelling India's growth aspirations. Policymakers have an important role to play in terms of maintaining investor confidence. Further growth in India's economy depends on the government delivering its promised reforms of the goods and services tax (GST), the land acquisition bill and the tax regime rationalisation. It is imperative that it focuses on those initiatives because they could unlock tremendous value for the economy.

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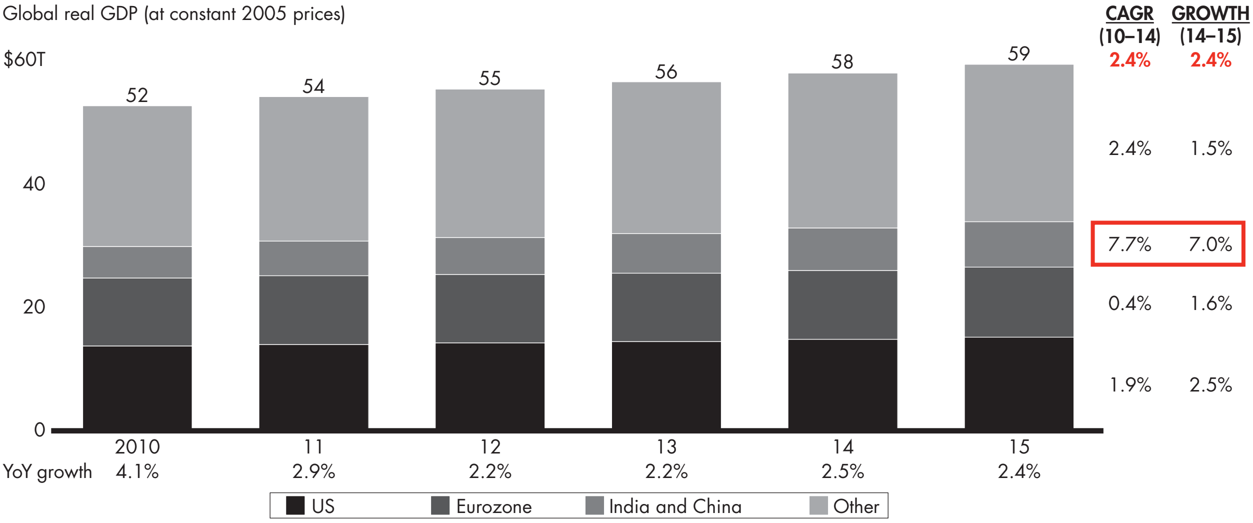
SYRIA
SAUDI ARABIA
OMAN
YEMEN
SOMALIA
NEPAL
BHUTAN
BANGLADESH
MYANMAR
LAOS
THAILAND
VIETNAM
CAMBODIA
MALAYSIA
SRI LANKA
MALDIVES
SEYCHELLES
Arabian Sea
Bay of Bengal
Black Sea
Mediterranean Sea
Himalaya
Kunlun Mts.
Gobi
Moscow
Tehran
Kabul
Islamabad
New Delhi
Mumbai
Bangalore
Chennai
Kolkata
Hyderabad
Karachi
Baghdad
Riyadh
Muscat
Astana
Bishkek
Dushanbe
Tashkent
Ulaanbaatar
Lhasa
Chengdu
Bangkok
Yangon
Colombo
Male
Victoria
Socotra
Mogadishu
Andaman Is.
Nicobar Is.
Kuala Lumpur

1.

Global macro-economic trends

- 2015 was a mixed year. The US economy showed signs of recovery, but the global economy felt the effects of the financial crisis in Greece, the instability in the Chinese stock exchange and uncertainty in US fiscal policy.
- India's macro environment strengthened as key sectors grew. Inflation pressure eased in 2015 as crude oil and other commodity prices continued to fall. Interest rates decreased, bolstering the business environment.
- Foreign direct investments increased while foreign institutional investments declined. PE continued to play a pivotal role in Indian capital needs.
- Within Asia-Pacific, total deal volume grew 44%, largely due to the approximately 60% growth in India and Greater China.

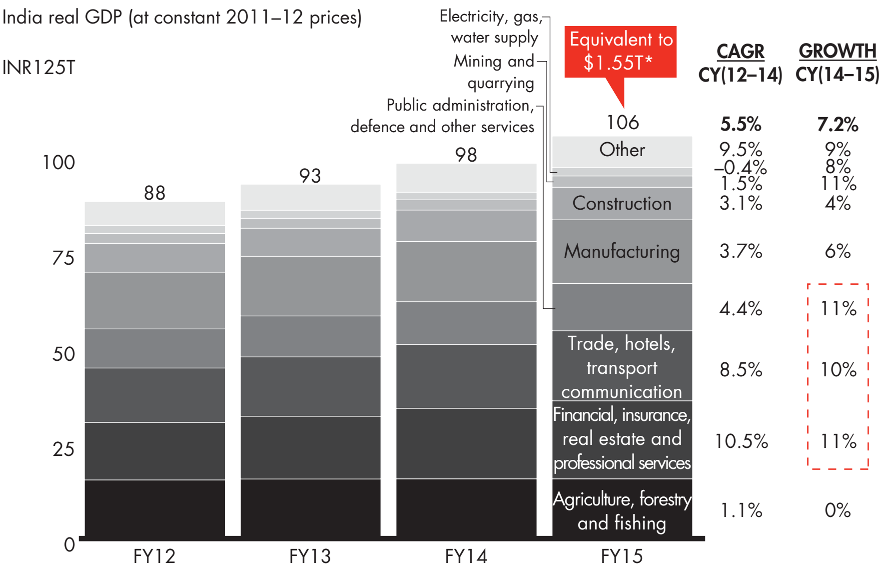
Figure 1.1: In 2015, global GDP maintained its growth at 2.4%, driven by India, China and a strengthening US economy



"Global growth will be weak next year. We are also likely to see substantial turmoil in financial markets. The combination of the recovery in the US and, even if weaker, in Europe, as well as a deceleration of growth in China is creating uncertainty for the financial markets. The key factor deciding the degree of turbulence will be inflation in the US and reforms in China." —Former Finance Minister, Sweden, December 2015

Notes: GDP adjusted for inflation and represented at constant 2005 USD prices; Eurozone refers to member states of the EU that have adopted the euro as their currency
Source: Economist Intelligence Unit (estimates)

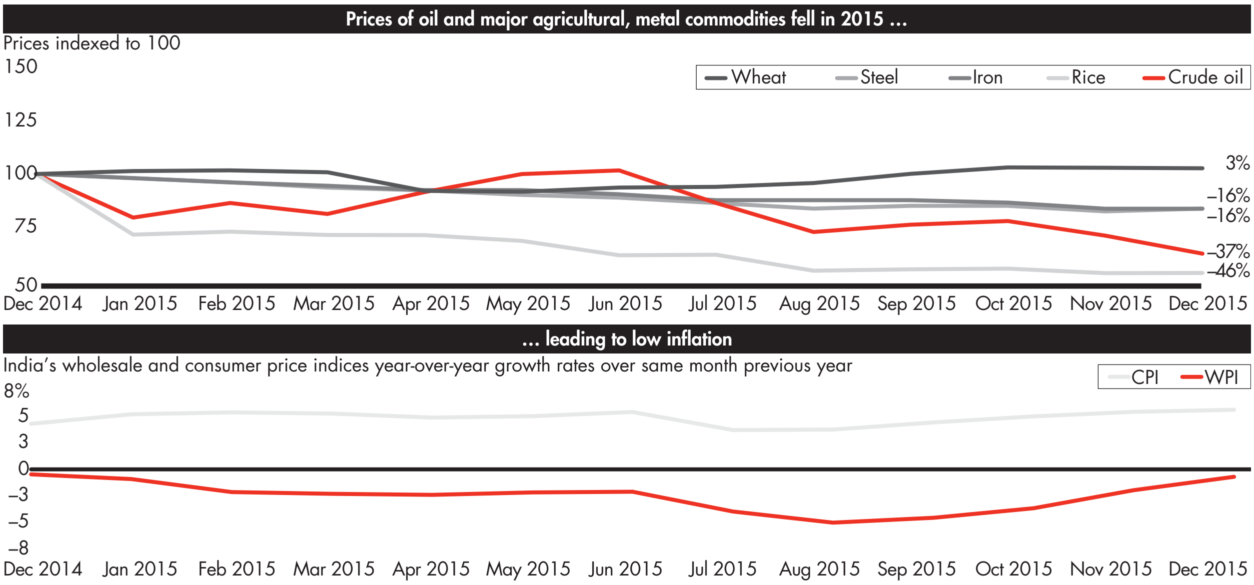
Figure 1.2: Largely due to continued growth in services, India's GDP grew at 7.2% over fiscal year 2014 to 2015



	Contribution to GDP 2012	Contribution to GDP 2015	CAGR CY 2012–15
Agriculture	19%	16%	0.6%
Services**	48%	53%	8.9%
Industry***	33%	31%	4.0%

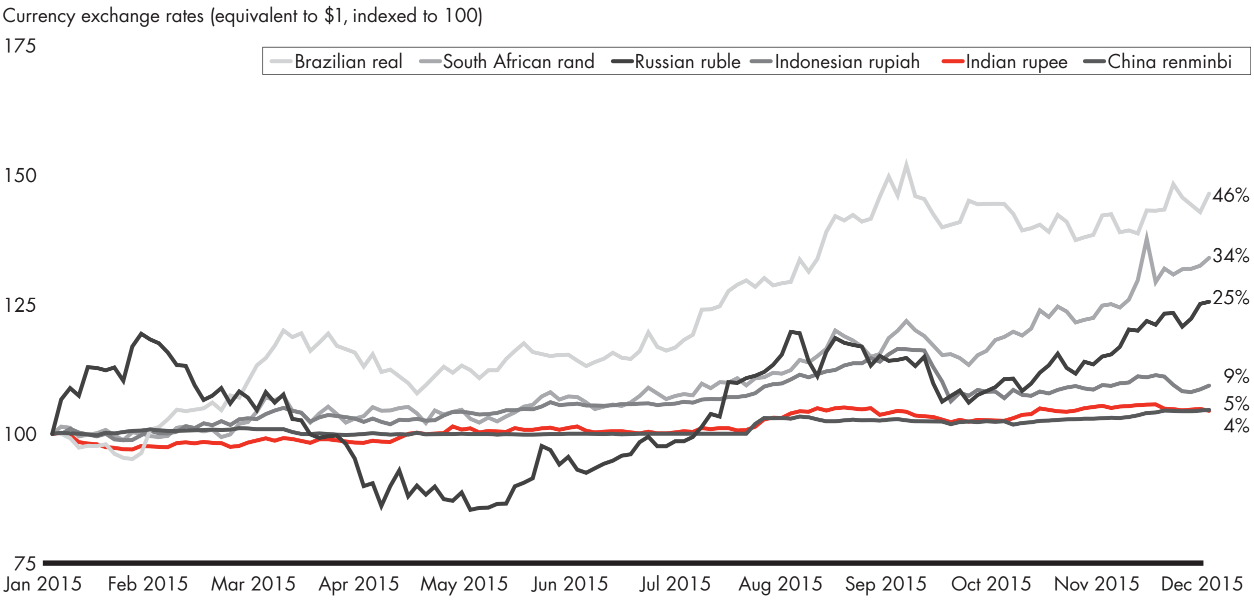
*1 USD=68.4 INR
**Services includes but is not restricted to trade, hotels, transport, communication, financial, insurance, real estate and professional services and public administration and defense
***Industry includes but is not restricted to manufacturing, construction, mining and quarrying, electricity, gas and water supply
Note: Other is taxes on products including import duties less subsidies on products, not used for calculating sector percentages
Sources: CEIC; Ministry of Statistics and Programme Implementation (MOSPI)

Figure 1.3: The continued fall in the prices of major commodities helped reduce the rate of inflation in the country



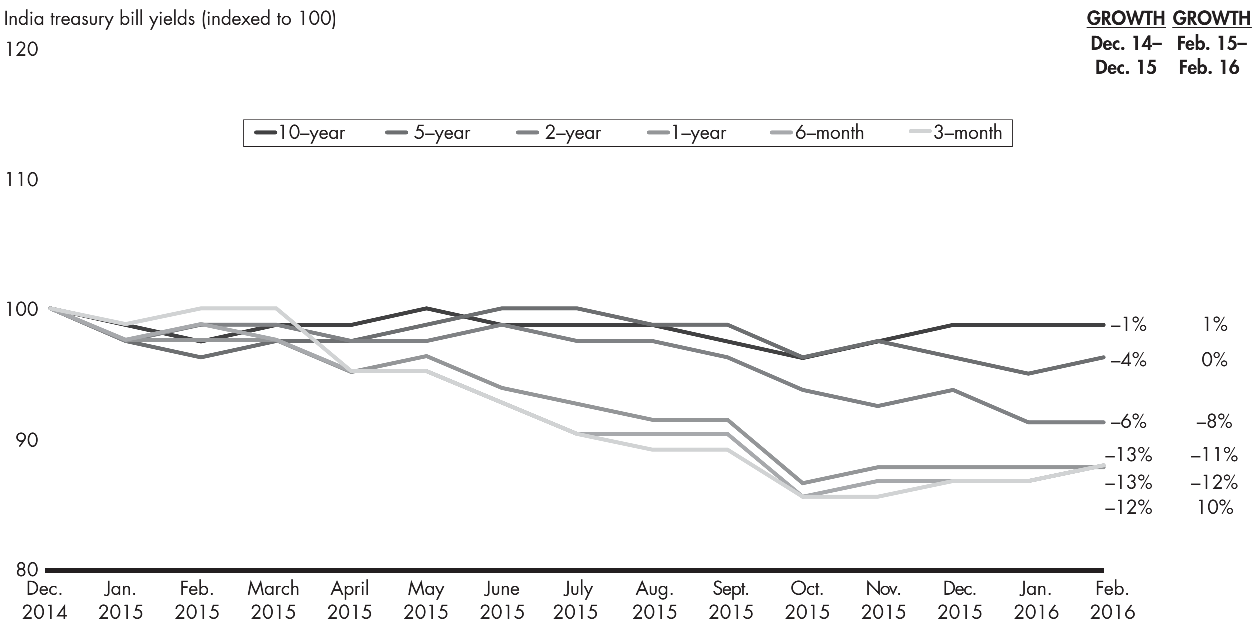
Notes: Crude oil prices based on WTI Cushing crude oil price; wheat prices based on MCX wheat commodity price; rice prices based on Amritsar Punjab rice price; iron prices based on pig iron price; steel prices based on HR coil price; average monthly prices have been plotted, for agricultural products these are average of weekly prices, for oil these are computed as average of daily prices; CPI is Consumer Price Index, WPI is Wholesale Price Index
Sources: Bloomberg, CRISIL; CEIC

Figure 1.4: Indian currency has remained stable compared with most other developing countries



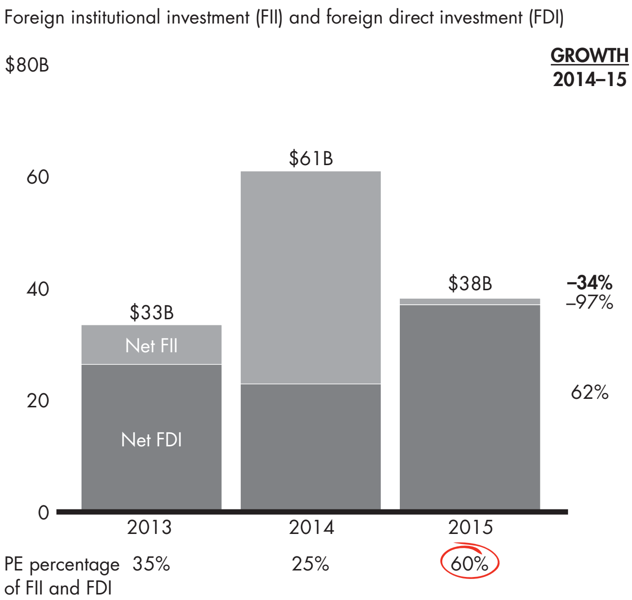
Notes: Currencies used include Brazilian real, South African rand, Russian ruble, Indonesian rupiah, Indian rupee, Chinese renminbi
Source: Bloomberg

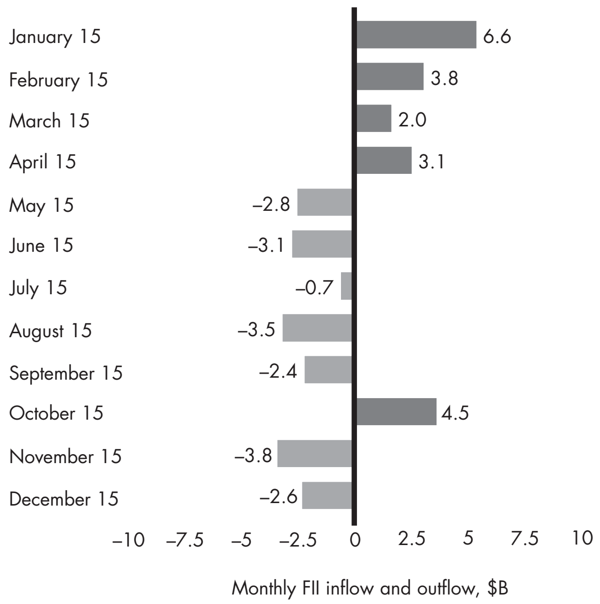
Figure 1.5: Interest rates in India fell in 2015, indicating a boost in the business environment



Notes: Indian government bond yields used for maturity >1 year
Sources: Bloomberg

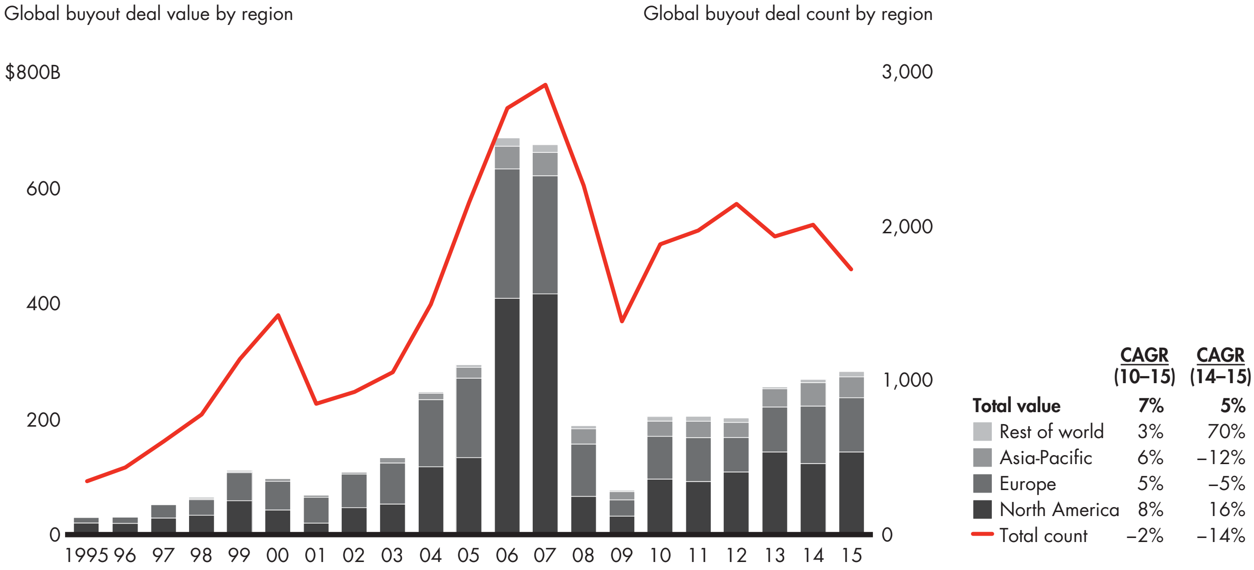
Figure 1.6: Total foreign investments in India at $38 billion, net FII investment low given capital withdrawal during second half





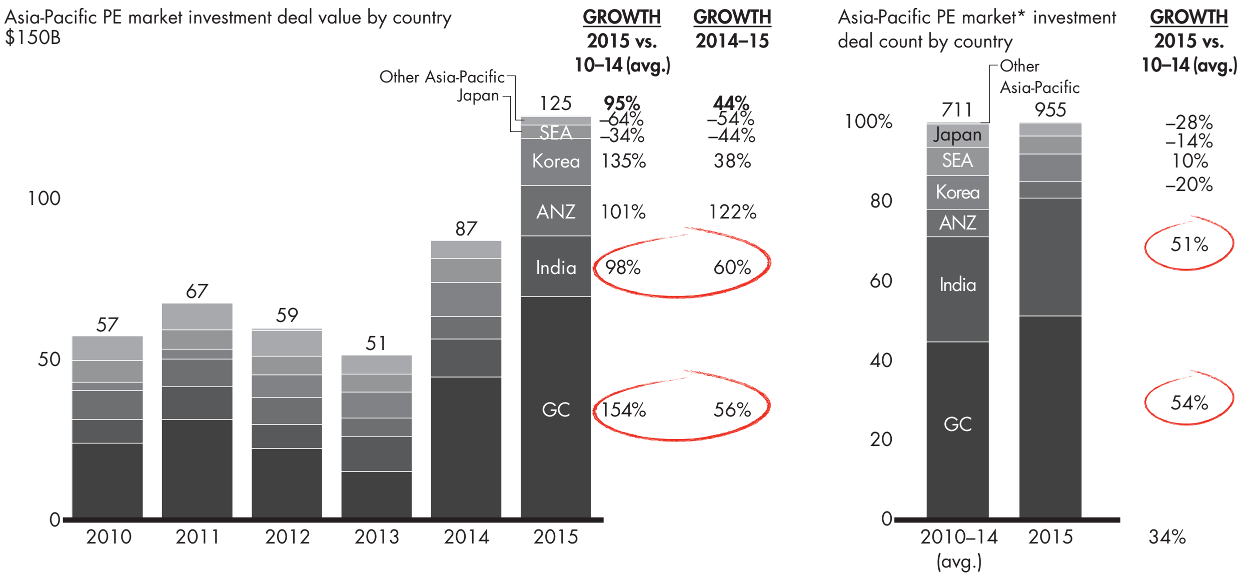
Notes: Net foreign direct investment=FDI into India, or FDI made by India; FDI includes equity capital, reinvested earnings and other direct capital (intercorporate debt transactions between related entities); Net F
Sources: Reserve Bank of India; Bain PE deals database

Figure 1.7: Global buyout activity in 2015 was up slightly, 5% over last year, but it declined in Asia-Pacific by 12%

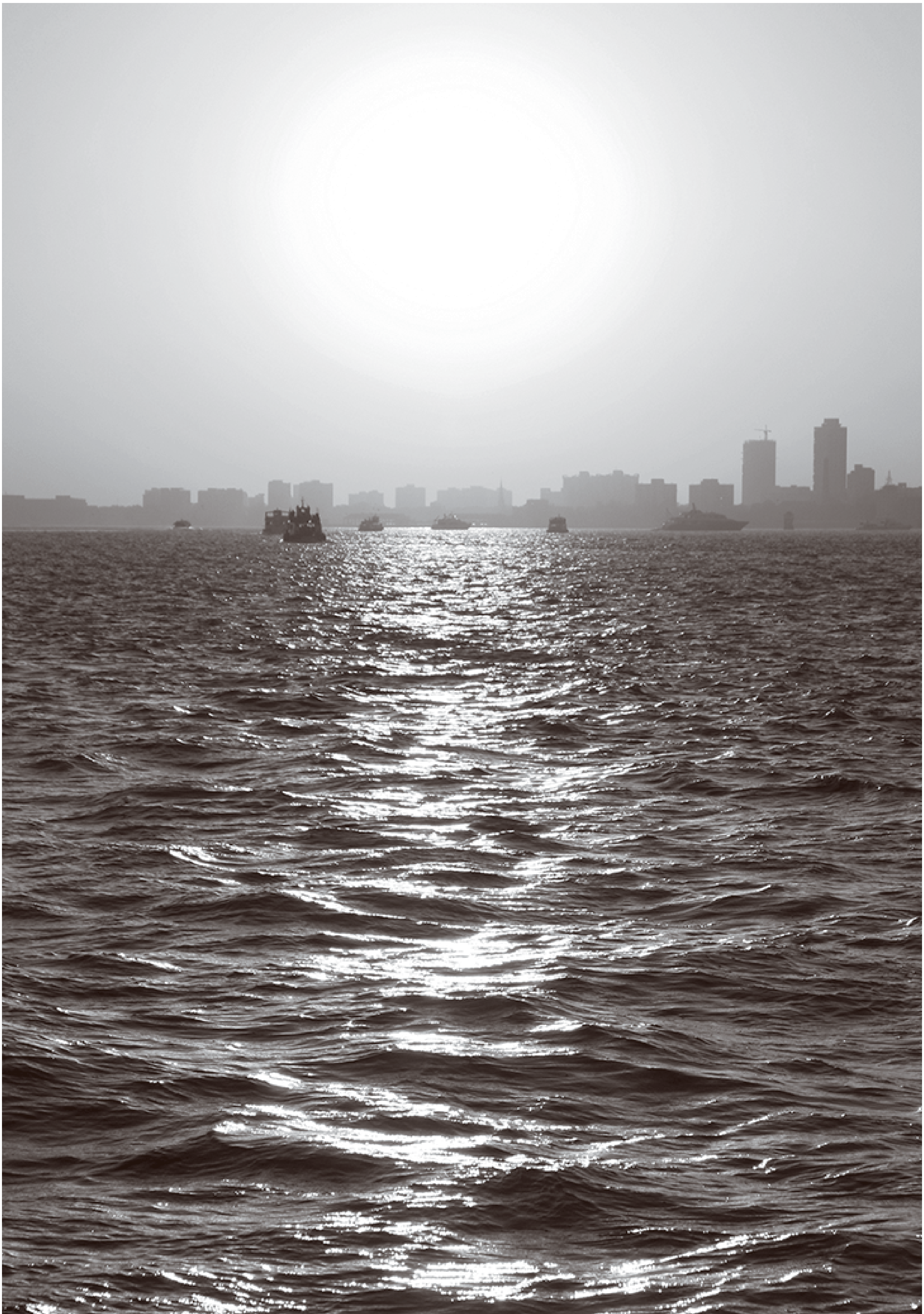


Notes: Excludes add-ons, loan-to-own transactions and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change; geography based on the location of targets
Source: Dealogic

Figure 1.8: Investments grew significantly in the Asia-Pacific region due in large part to disbursements in Greater China and India



Notes: Inclusions count investments and exits with announced value of greater than or equal to US$10M, investments and exits done in Asia-Pacific (GC is Greater China, includes China, Taiwan, Hong Kong; ANZ is Australia and New Zealand; SEA is Southeast Asia, including Singapore, Indonesia, Malaysia, Thailand, Vietnam, Philippines, Laos, Cambodia, Brunei, Myanmar; other Asia-Pacific); investments with closed, agreement in principle or definitive agreement status; exclusions include franchise funding, seed and R&D deals, all non-PE and VC deals (e.g., M&A, consolidation), real estate and infrastructure (e.g., airport, railroad, highway and street construction, heavy construction, ports, containers and other transport infrastructure)
Source: Asian Venture Capital Journal



2.

Overview of India's PE landscape

- Total India PE deal value in 2015, including real estate, infrastructure and smaller deals, grew to approximately $23 billion—an increase of 51% from 2014 and an increase of 34% over peak levels of 2007 ($17 billion).
- Increased deal activity in 2015 is attributed to improving macroeconomic conditions, positive changes in the exit environment and changes in valuation expectations.
- Several government initiatives—such as the Startup India programme, tax regime rationalisation and Make in India—have encouraged investments. More funds now participate in Indian markets (240 in 2015 compared with 193 in 2014).
- Funds expect India's attractiveness for new deals to increase with respect to other Asia-Pacific markets.
- Number of exits increased by 10% in 2015; total exit value increased by 57% to reach $9.4 billion.
- Volatile macroeconomic factors, difficulty in fund-raising and an inability to exit continue to be the biggest challenges to the VC and PE industry in 2015.

Figure 2.1: Total PE deal value in 2015 grew 51% to $22.9 billion, crossing 2007's peak levels; deal volume grew by 31%

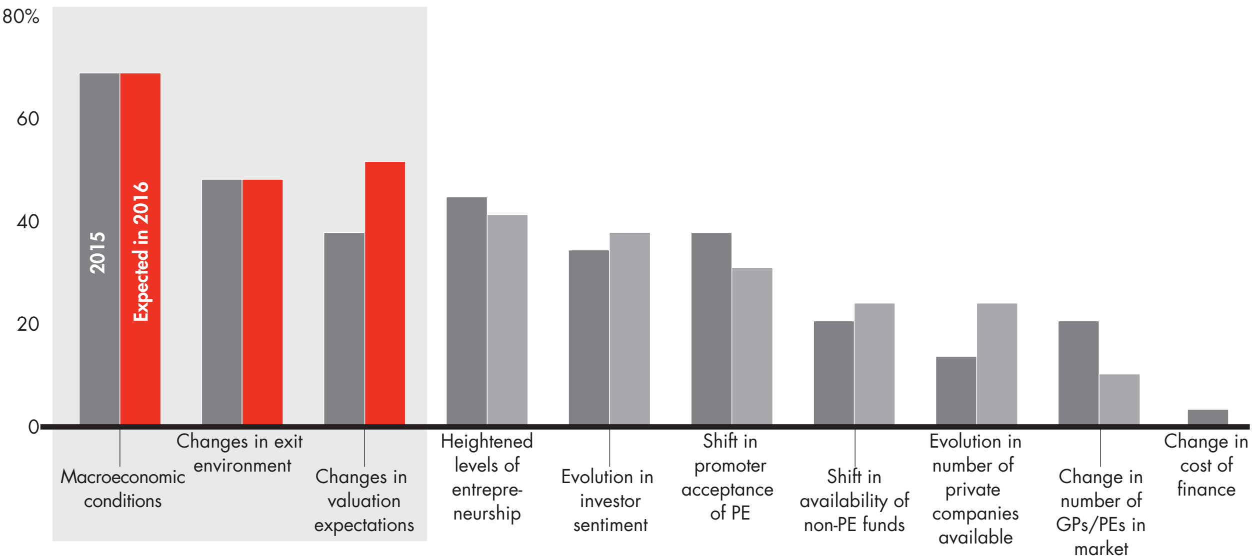
Source: Bain PE deals database

Top 10 deals in 2015 accounted for 20% of total deal value		
Company	**Fund(s)**	**Value ($M)**
Flipkart	Tiger Global Management, Steadview Capital	**700**
One97 Communications/Paytm	Alibaba Group Holding, SAIF Partners	**635**
Jasper Infotech/ Snapdeal	Blackrock, Myriad Asset Management, SoftBank, Hon Hai Precision Industry, Alibaba Group, PremjiInvest	**500**
Atria Convergence Technologies/ ACT Television	TA Associate Advisory; India Value Fund Advisors Indium-V	**500**
ANI Technologies/ Ola Cabs	Baillie Gifford; Didi Kuaidi; DST-Advisors; Falcon Edge Capital; SoftBank; Tiger Global Management	**500**
ANI Technologies/ Ola Cabs	Tiger Global Management, Steadview Capital, Accel India, DST Global, ABG Capital, Falcon Edge Capital, GIC, SoftBank, RNT Associates	**402**
Shriram City Union	Apax Partners	**386**
Intelenet Global/Serco India	Blackstone	**384**
Crompton Greaves Consumer Electricals	Temasek, Advent India	**316**
Tata Realty & Infrastructure	Standard Chartered PE	**302**
	Total	**4,625**

Figure 2.2: Increased deal activity in 2015 is attributed to improving macroeconomic conditions, changes in exit environment and valuation expectations

What were the reasons for change in deal activity (number and value of deals) in 2015? What do you think will drive change in 2016? (Select all that apply)

Percentage of total respondents selecting the factor as one of the key influencers

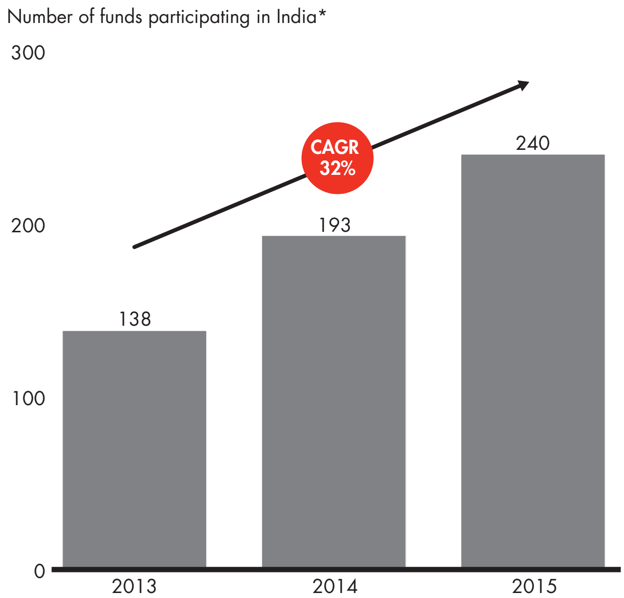


Source: Bain Private Equity Survey 2016 (n=29)

Figure 2.3: Government of India initiatives such as Startup India and tax regime rationalisation have encouraged investments leading to participation of more funds

Initiatives that encourage investment

- **Startup India:** a set of initiatives introduced to encourage entrepreneurship in India
- **Make in India:** measures aimed at increasing ease of doing business and encouraging manufacturing in India
- **Tax regime rationalisation**
  - Emphasis laid on avoiding retrospective taxation
- **Introduction of fast-tracked approvals in industry and infrastructure projects**
  - Accompanied with higher budget allocation for infrastructure spending
- **FEMA rules relaxed to allow overseas investors in domestic alternative investment funds without prior approvals**
  - Downstream investments of a domestic AIF not considered as FDI capital



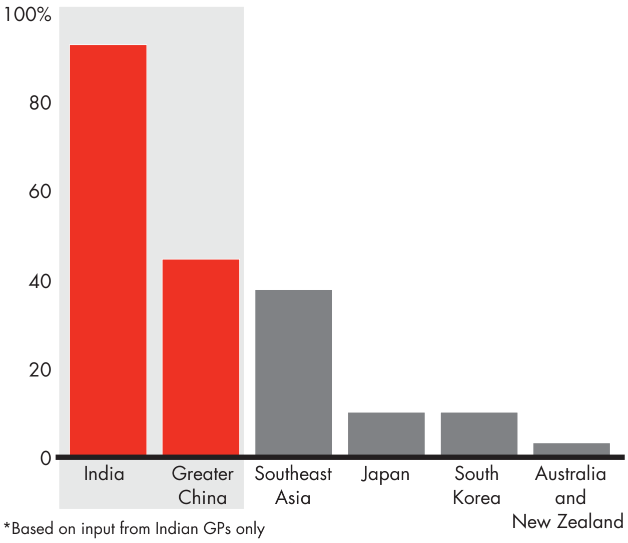
*All funds included who participated in one or more deals in India in that year, only deals >$10M considered for analysis, consortium deals attributed to all the participating funds; AIF is alternate investment funds; FDI is foreign direct investment; FEMA is foreign exchange management act

Sources: Bain PE deals database; Startup India; Make in India; Economic Times; Mint

Figure 2.4: India's attractiveness for deal making compared with other Asia-Pacific markets expected to increase

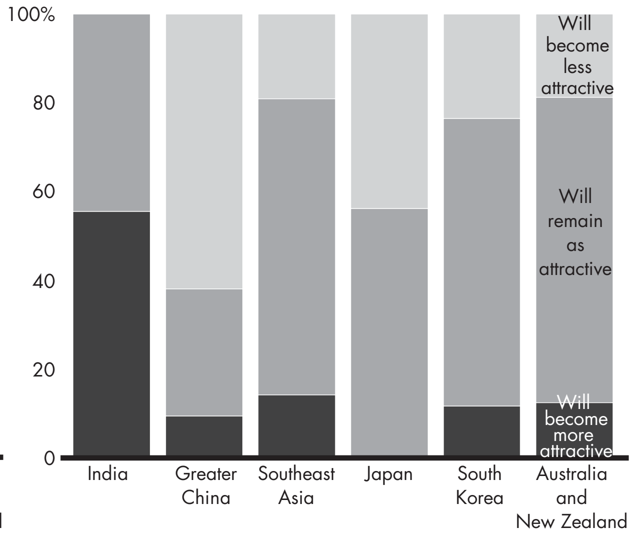
Within Asia-Pacific, which will be the most important or attractive markets for new deals in 2016?

Percentage of total respondents selecting the country as attractive for 2016 deals



For each major Asia-Pacific country, what changes do you expect during 2016 in terms of importance?

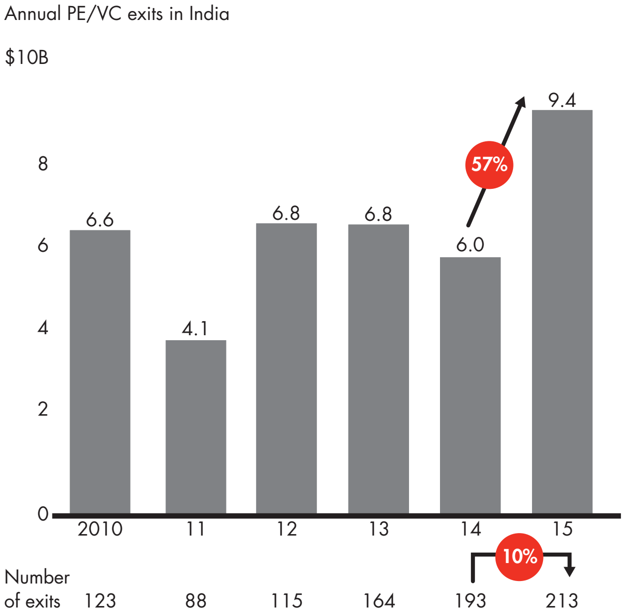
Percentage of total respondents selecting the direction of change in importance of country in 2016*



*Based on input from Indian GPs only

Source: Bain Private Equity Survey 2016 (n=29)

Figure 2.5: Total exit value in 2015 grew 57% to $9.4 billion and exit volume grew by 10%; the top 10 exits account for 43% of total exits



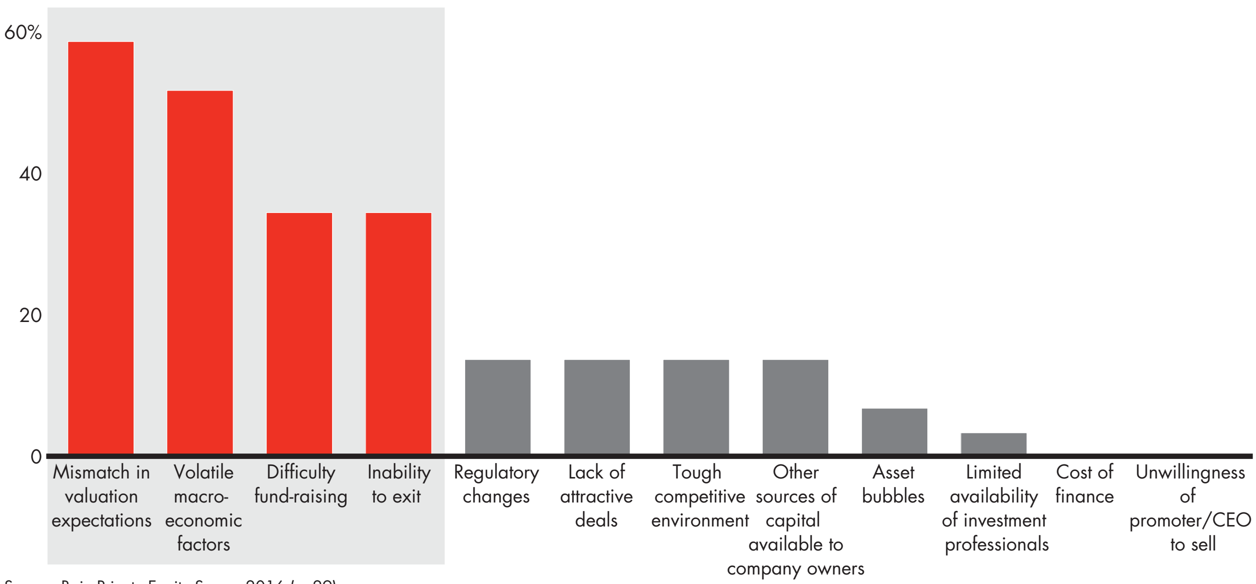
Company	Funds	Exit Value ($M)
IGATE	Apax Partners	**1,150**
Accelyst Solutions	ru-Net, Sequoia Capital, Sofina, Tybourne Capital Management, Valiant Capital Partners	**450**
ACT Broadband	India Value Fund Advisors	**410**
Shriram City Union Finance	TPG	**386**
Sharekhan	CVCI, Growth Fund II, IDFC, Baring Asia, Samara Capital	**340**
Lafarge India	Baring Asia Private Equity	**300**
Bharti Infratel	KKR	**260**
PNB Housing Finance	Destimoney; New Silk Route	**257**
CMS Info Systems	Blackstone, CMS Computers	**250**
QVC Realty	IL&FS India Realty Fund I	**233**
	Total	**4,036**

Note: CVCI Growth Fund II – Citi Venture Capital International Growth Fund II; IDFC – Infrastructure Development Finance Company
Source: Bain PE deals database

Figure 2.6: Mismatch in valuation expectations, volatile macroeconomic factors, difficulty in fund-raising and exits seen as biggest challenges to PE industry

In your view, what will be the biggest challenges and barriers to growth of the PE industry in your geographic area over the next two years?

Percentage of total respondents selecting the factor as one of the key challenges



Source: Bain Private Equity Survey 2016 (n=29)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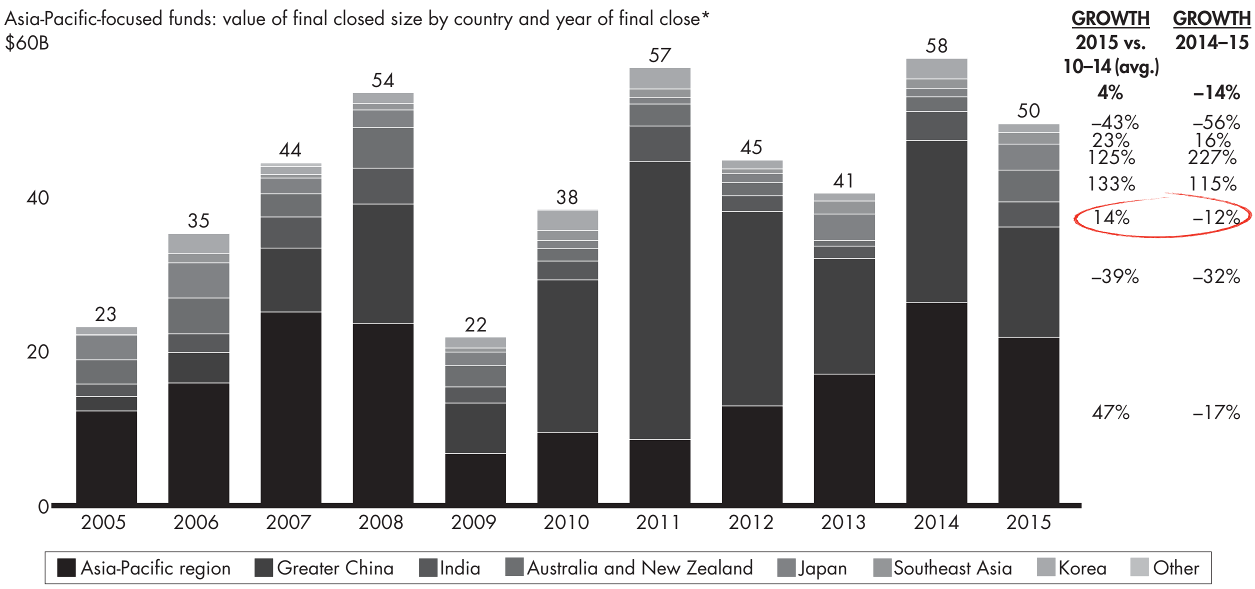
Fund-raising

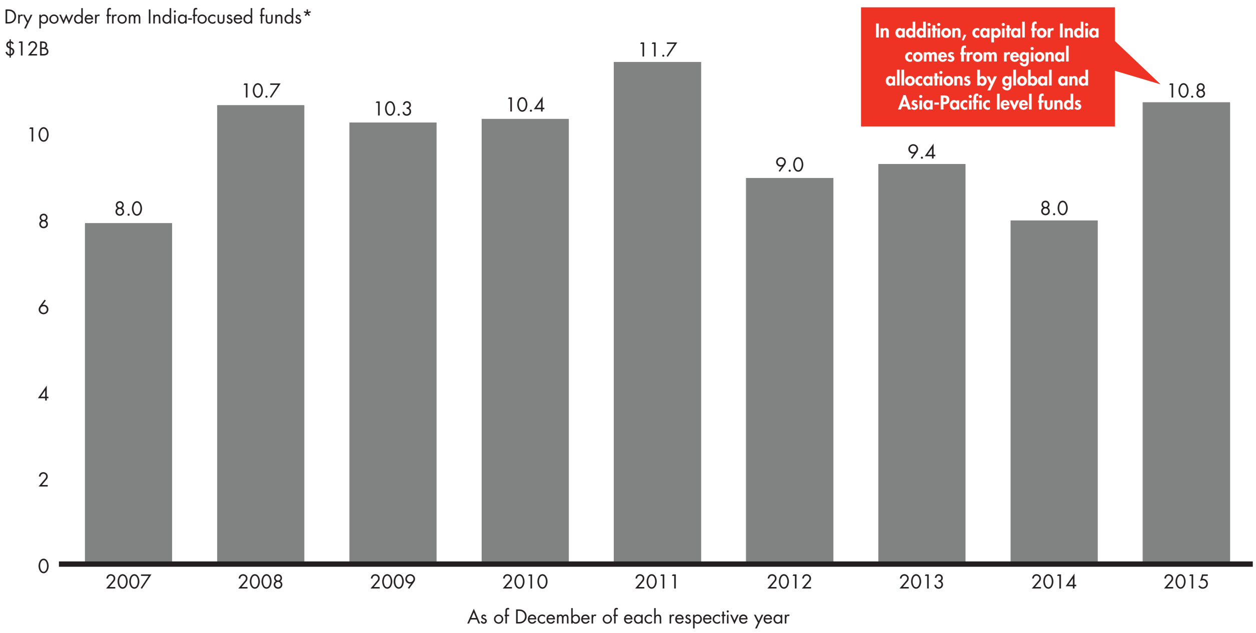
- Fund-raising in Asia-Pacific declined by 14% to $50 billion in 2015; in India, new funds declined by 12% in aggregate.
- India-focused PE firms are carrying approximately $11 billion in dry powder, up from last year's $8 billion, further reaffirming the potential for increased investments in the Indian market.
- Foreign direct and institutional investments have been the primary source of capital for funds for the last two years, and investors expect this to remain the case in the future.
- GPs expect fund-raising to get slightly easier in 2016; however, they cite macroeconomic uncertainties and prior bad experiences as the biggest challenges.
- GPs expect co-investments with LPs to increase; deals with participation of sovereign wealth funds increased from 19 in 2014 to 24 in 2015.

Figure 2.7: Fund-raising in Asia-Pacific declined by 14% to $50 billion in 2015; in India, it declined by 12%



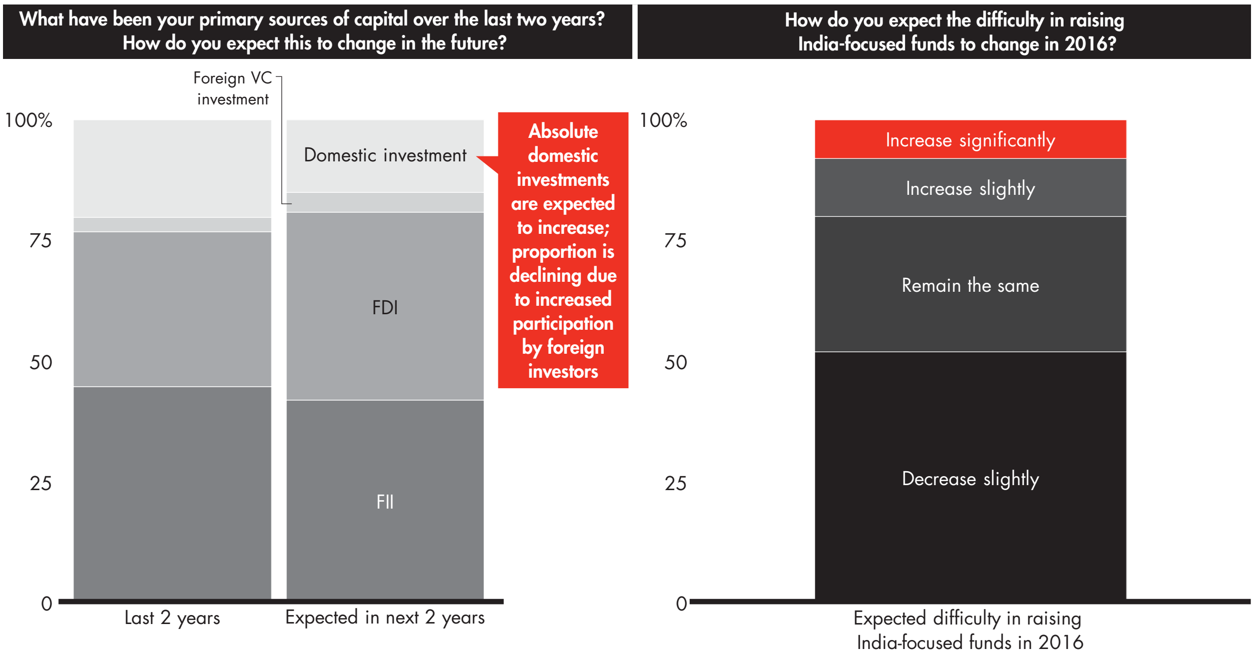
*excludes real estate and infrastructure
Note: GC is Greater China, which includes China, Taiwan, Hong Kong; SEA is Southeast Asia which includes Singapore, Indonesia, Malaysia, Thailand, Vietnam, Philippines, Laos, Cambodia, Brunei, Myanmar
Source: Preqin

Figure 2.8: India-focused dry powder increased to nearly $11 billion; good quality deals are not lacking capital



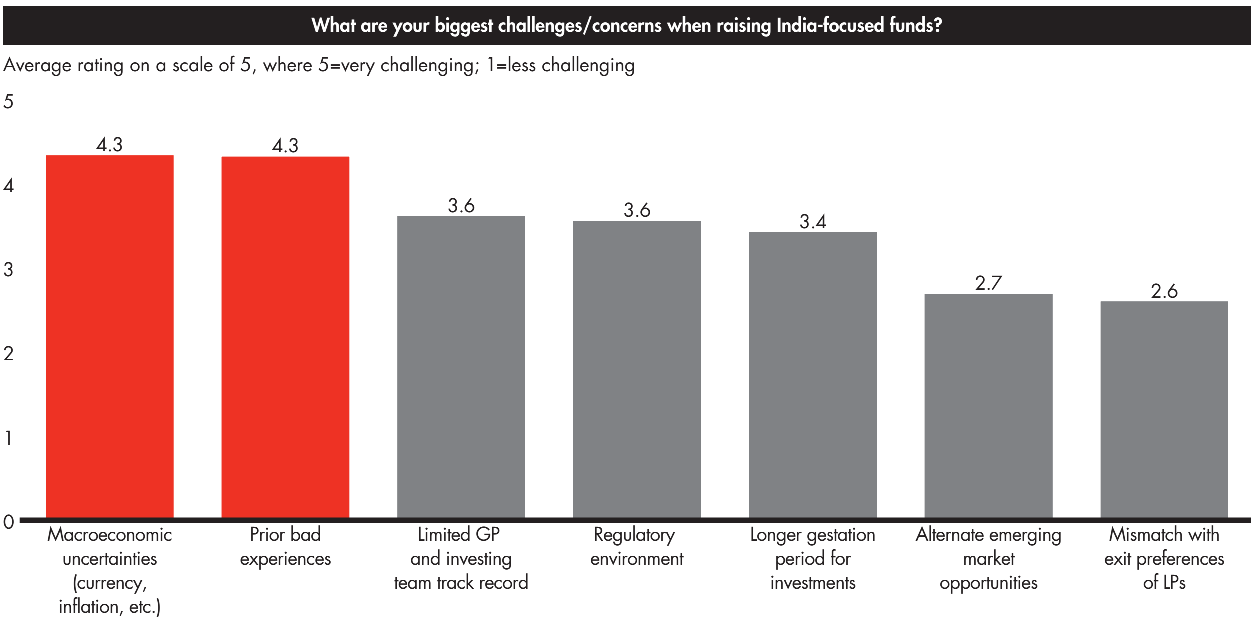
Note: *excludes real estate and infrastructure funds
Source: Preqin

Figure 2.9: Foreign investments have been the primary source of capital for most funds; fund-raising expected to get slightly easier in future



Source: Bain Private Equity Survey 2016 (n=29)

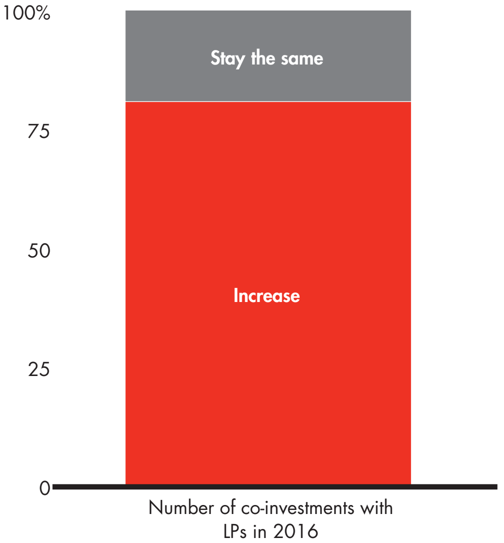
Figure 2.10: Prior bad experiences and macroeconomic uncertainties remain the biggest challenges to fund-raising in India



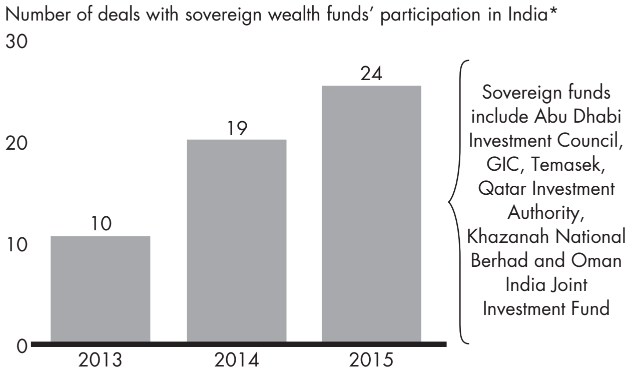
Note: Average rating for "Limited GP and investing track record" is 3.62 and average rating for "Regulatory environment" is 3.56
Source: Bain Private Equity Survey 2016 (n=29)

Figure 2.11: Co-investments with LPs are expected to increase in 2016; investments by sovereign wealth funds have also increased

Respondents believe co-investments with LPs will increase in future



Investments by sovereign wealth funds have increased significantly over 2013–15



India plans to launch its own sovereign wealth fund: The National Investment and Infrastructure Fund

- To be implemented for infrastructure projects and nationally important projects like manufacturing
- Government will contribute $2.9 billion,** contributing 49% of the fund
- Government to give equity to private sector projects via this fund

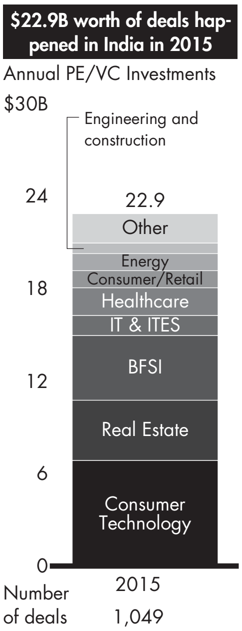
*We considered only deals of more than $10 million for analysis; consortium deals attributed to all the participating funds
**Government of India has committed INR20,000 Crore; 1USD=68.4 INR used for conversion
Sources: Bain Private Equity Survey 2016 (n=29); Bain PE deals database

2b.

Deal making

- Total deal value increased to $22.9 billion in 2015; deal making spiked in the consumer technology, BFSI and real estate sectors.
- The top 25 deals accounted for approximately 43% of total investments, dropping from a 49% contribution in 2014. Average deal size increased to $22 million in 2015 from $19 million in 2014 due to some large investments; deal size is expected to stabilise or increase in the next three years.
- Funds expect that the healthcare, financial services, technology and IT, and services will see maximum investment activity.
- Growth- and late-stage deals dominate in terms of deal values; GPs expect growth and buyout deals to dominate in the future.
- Minority-stake deals continue to dominate, accounting for more than 90% of all deals.
- Competition for deals is increasing, largely due to more activity among LPs and SWFs; GPs are concerned about LP and SWF activity in 2016.
- Funds expect valuations to remain stable or even decrease slightly in 2016 and beyond.

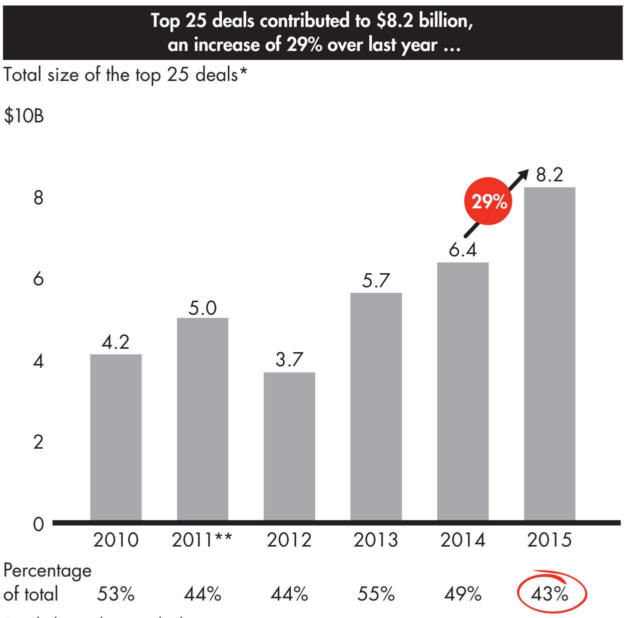
Figure 2.12: Greatest investments were made in consumer technology, real estate, and banking, financial services and insurance (BFSI) sectors

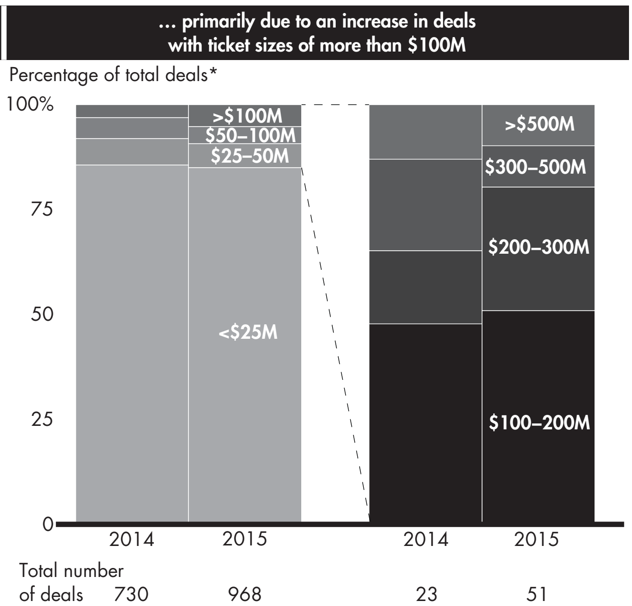


Sector	Deal value ($B) CY 12	CY 13	CY 14	CY 15	CAGR (CY12–15)	Key drivers of deal growth
Consumer technology	1.0	1.2	4.7	6.9	89%	•Increasing Internet and smartphone penetration •Availability of capital fostering entrepreneurship
BFSI	0.9	1.2	1.9	4.0	65%	•Significant under-penetration in financial products, government initiatives
Real estate	1.8	1.4	2.2	3.9	29%	•Moderation in real estate prices •Easing regulatory environment (100% FDI in real estate)
Healthcare	1.2	1.4	0.9	1.8	12%	•Increased secondary deal flow in healthcare delivery
IT & ITES	1.4	1.4	1.2	1.3	–4%	•Key driver of GDP growth in India, continues to maintain growth momentum •Increased flow of secondary capital
Energy	0.4	0.8	1.0	1.1	37%	•Increasing focus on renewables
Consumer and retail	0.8	1.0	1.3	1.1	11%	•Increasing disposable income and traction in organized retail
Manufacturing	0.5	1.3	0.5	0.8	16%	•N/A
Engineering and construction	0.4	0.3	0.6	0.7	19%	•Increased infrastructure & industrial investments
Telecommunications	0.0	1.3	0.1	0.5	279%	•Continued evolution from 3G to 4G network in a scale market
Shipping and logistics	1.5	0.2	0.4	0.4	–7%	•N/A
Media and entertainment	0.3	0.4	0.4	0.2	–8%	•Wave of digitization
Other	0.8	0.0	0.0	0.2	–33%	•N/A
Total	10.2	11.8	15.2	22.9	31%	

Note: Other includes hotels and resorts, retail, textiles, education and other services
Source: Bain PE deals database

Figure 2.13: The top 25 deals accounted for ~$8.2 billion of deployed capital (43% of total investments in 2015); and the number of deals of $100 million or more doubled

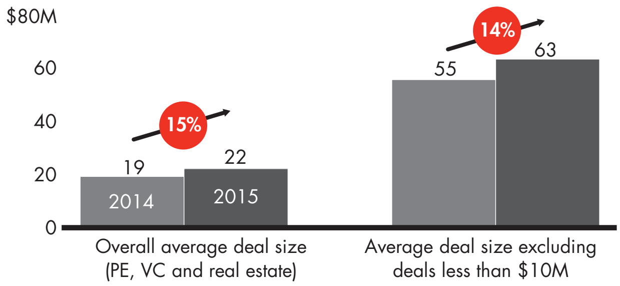


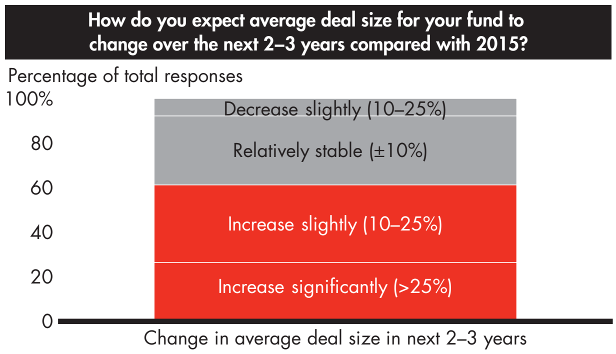


*excludes real estate deals
**includes 26 deals, as deals ranked 23 to 26 are of the same size equalling $100M
Source: Bain PE deals database

Figure 2.14: Average deal size increased by 16% to ~$22 million in 2015, and even excluding deals less than $10 million, it increased by 14% to ~$63 million; further increase is expected

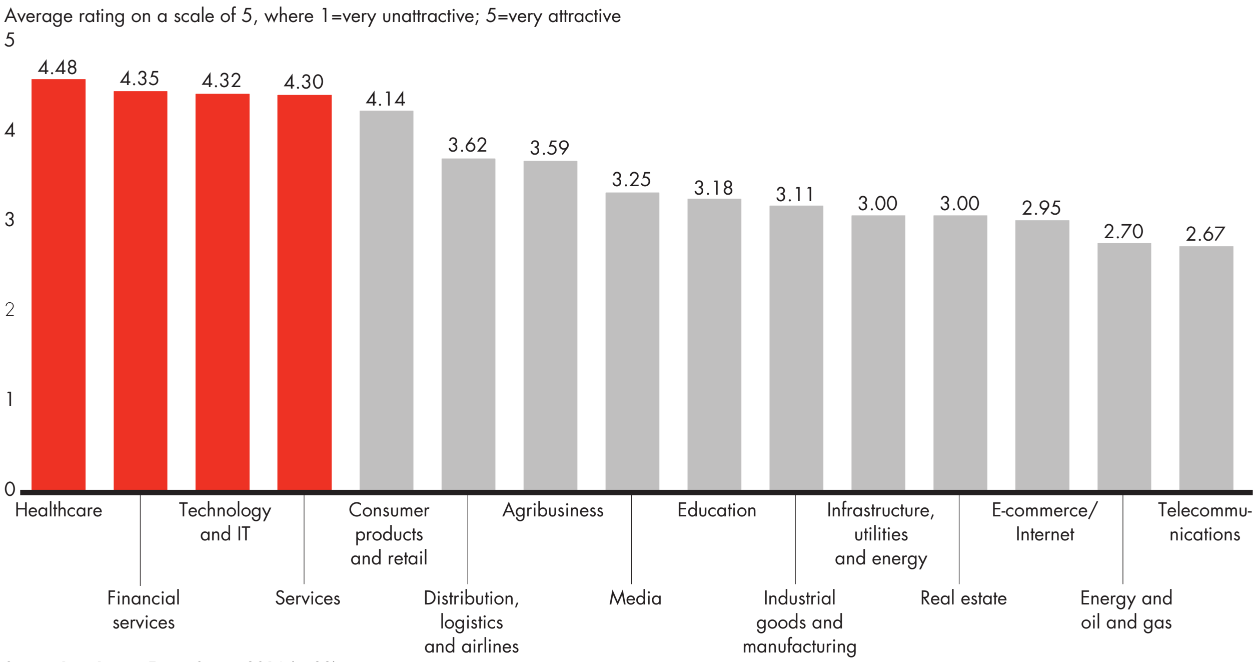
Deal value	Percentage of deals (volume)		Average deal size ($M)	
	CY14	CY15	CY14	CY15
<$10M	68%	68%	2.2	2.0
$10M–$25M	16%	15%	15.8	14.6
$25M–$100M	12%	12%	48.1	45.4
>$100M	4%	6%	267.1	220.6





Sources: Bain PE deals database; Bain Private Equity Survey 2016 (n=29)

Figure 2.15: Funds expect healthcare, financial services, technology & IT and services to get maximum investment activity



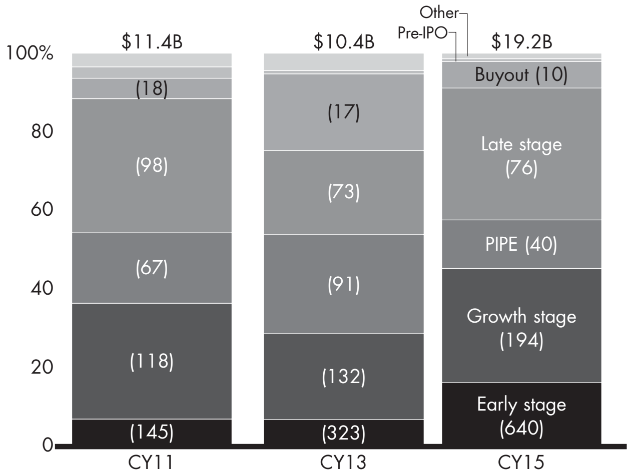
Source: Bain Private Equity Survey 2016 (n=29)

Figure 2.16: Growth- and late-stage deals dominate by deal values; growth and buyout deals expected to dominate in future

Growth- and late-stage deals dominate by deal value; early-stage deals dominate by volume

PE deals by stage

PE/VC investments in India by investment stage* (number of deals in brackets)



*excludes real estate deals

Notes: PIPE is private investment in public equity; IPO is initial public offering

Sources: Bain PE deals database; Bain Private Equity Survey 2016 (n=29)

Growth-stage and buyout deals expected to dominate in future

What type of deals do you think will account for 80% or more of your investments over the next 2–3 years?

% of total responses

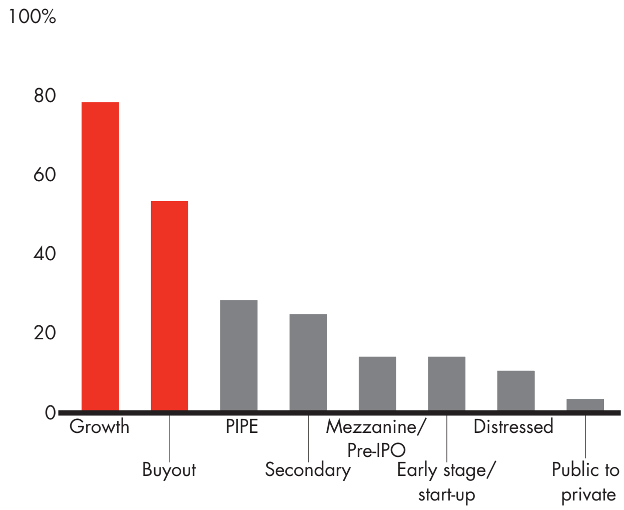
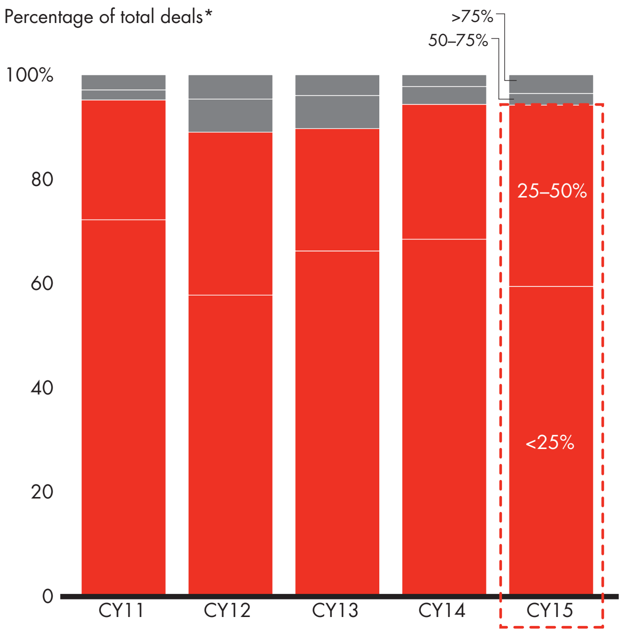
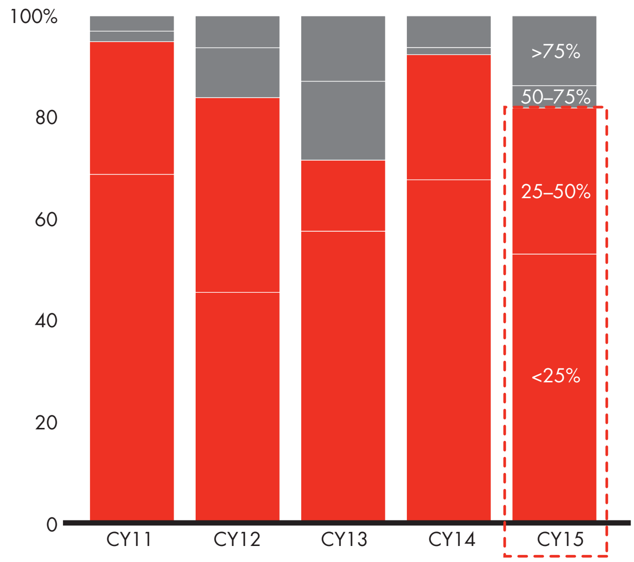


Figure 2.17: Minority stake deals continue to dominate with more than 90% of the share of total deals

Percentage of total deals*



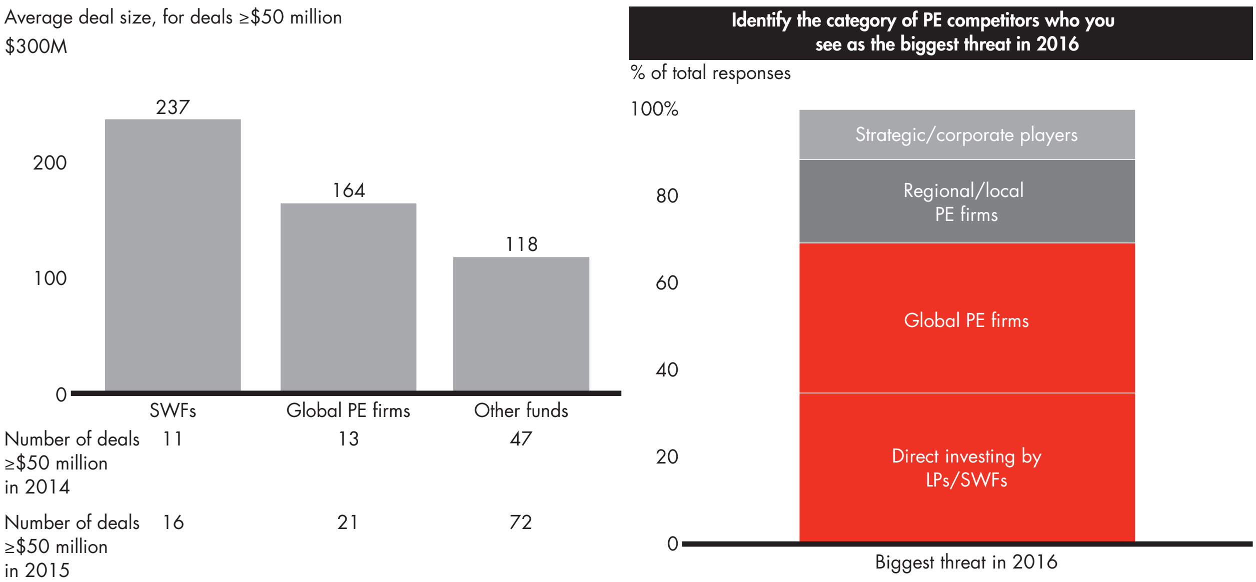
PE/VC investments ($B) in India by purchase stake*



*excludes real estate deals, includes only those deals where stake size is known

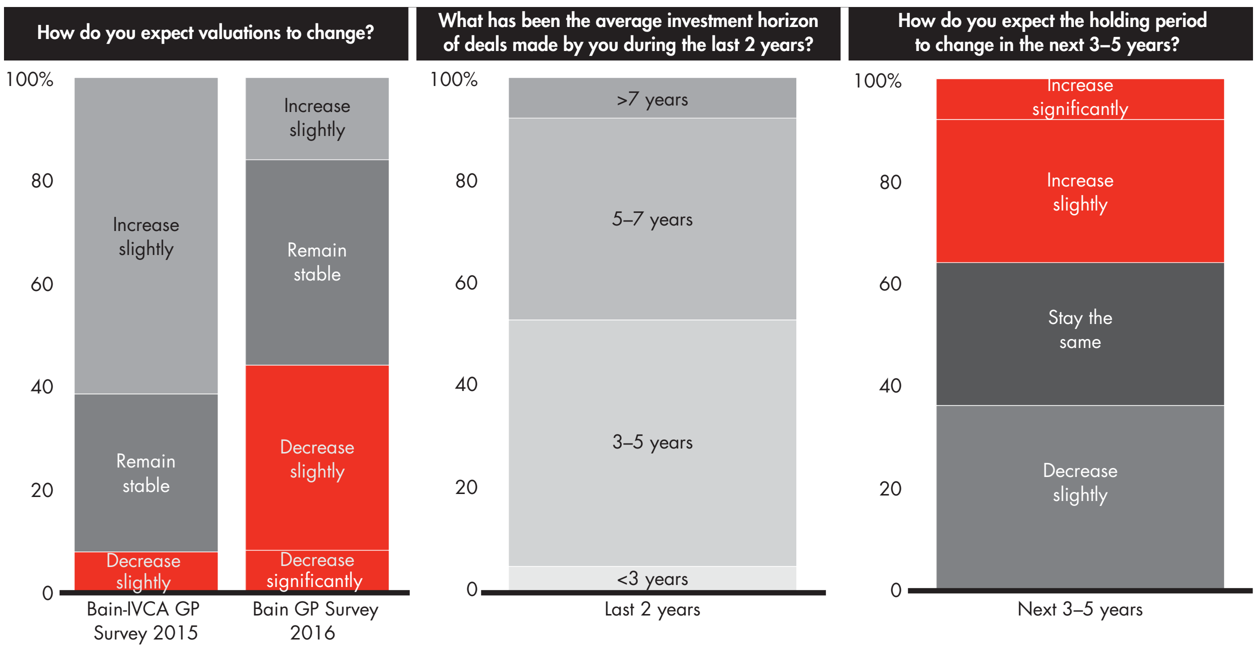
Source: Bain PE deals database

Figure 2.18: Sovereign wealth funds increased their participation primarily in larger deals to drive up competition in 2016



Notes: Global PE firms include Advent, Apax Partners, Bain Capital, Blackstone, Carlyle, CVC International, Goldman Sachs, KKR, TPG, Warburg Pincus; SWFs include Abu Dhabi Investment Council, GIC, Khazanah National Berhad, Oman India joint Investment Fund, Oman Investment Fund, Qatar Investment Authority, Temasek; deals other than those with participation of these funds are indicated in other funds
Source: Bain Private Equity Survey 2016 (n=29)

Figure 2.19: Valuations expected to moderate or soften while average holding periods expected to increase



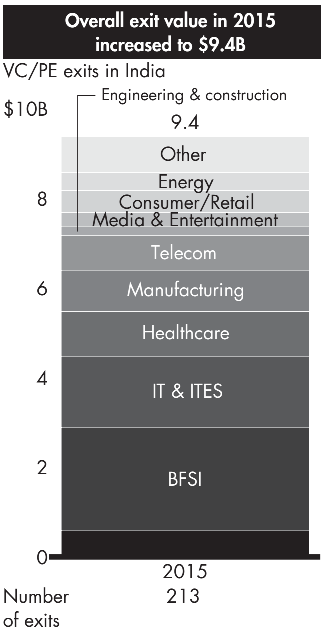
Sources: Bain Private Equity Survey 2016 (n=29); based on Bain-IVCA Private Equity Survey 2015 (n=39)

2c.

Exits and portfolio management

- In 2015, the number of exits increased by 10% to 213 while exit value increased by 57% to $9.4 billion; BFSI and IT saw highest-value exits.
- Public market sales, secondary and strategic sales were equally as prominent as exit options; most large exits have been strategic and secondary sales.
- GPs expect number of exits to increase, but volatile macroeconomic conditions, IPO market underperformance and a mismatch in valuation expectations could hinder exits.
- Most firms are adopting a wait-and-see approach in 2016 for pre-2008 unexited investments.
- 52% of respondents cited topline growth as the primary cause of value creation. PE funds have pointed out mismatches in investor and promoter expectations.
- Most funds see the value in internal portfolio support teams and want operating partners to create value in a more disciplined way. As a result, most funds have two or three full-time employees dedicated to value creation.

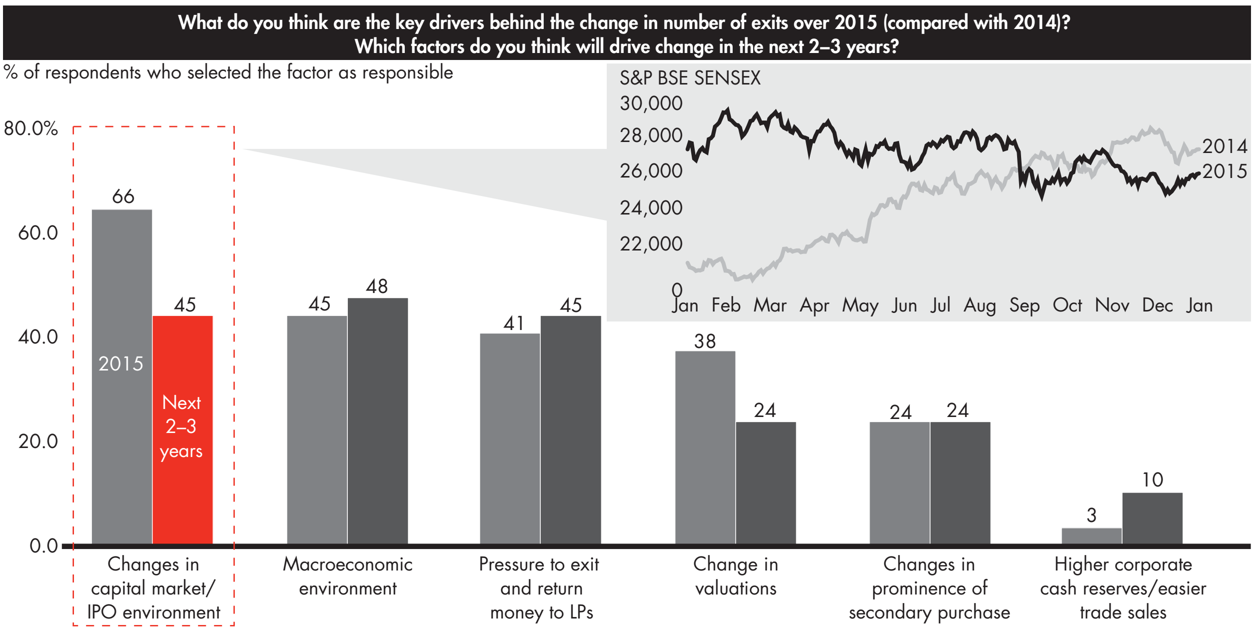
Figure 2.20: In 2015, the number of exits and exit values increased; banking, financial services and insurance (BFSI) and IT & ITES saw highest exits



Sector	Exit value ($B) CY 12	CY 13	CY 14	CY 15	CAGR (CY12–15)	2015 Largest Exits
BFSI	2.1	1.0	0.7	2.3	2%	•$386M, TPG Capital exit from Shriram City Union Finance
IT & ITES	1.3	1.7	1.0	1.6	7%	•$1150M, Apax Partners exit from iGate Corp
Healthcare	0.3	0.9	0.5	1.0	41%	•$200M, Chryscapital exit from Mankind Pharma
Manufacturing	0.1	1.0	1.3	0.9	87%	•$300M, Baring Asia exit from Lafarge India
Consumer technology	0.0	0.0	0.3	0.8	225%	•$450M, ru-Net, Sequoia, Tybourne, Valiant, Sofina exit from Freecharge
Telecommunications	1.0	0.3	0.3	0.8	–9%	•$410M, India Value fund exit from ACT Broadband
Real estate	0.9	1.1	0.4	0.6	–11%	•$233M, IL&FS exit from QVC Realty
Consumer and retail	0.2	0.2	0.3	0.5	30%	•$95M, GIC exit from Marico
Energy	0.0	0.0	0.3	0.4	122%	•$169M, IDFC exit from Green Infra
Media and entertainment	0.0	0.1	0.3	0.3	1263%	•$77M, Apollo exit from Dish TV
Engineering and construction	0.1	0.2	0.2	0.2	54%	•$100M, Genesis exit from Ambuja Cements
Shipping and logistics	0.1	0.1	0.3	0.1	–21%	•$47M, New Silk Route exit from VRL Logistics
Other	0.1	0.4	0.2	0.1	–7%	•$46M, Rabo Equity exit from NCMS
Total	6.4	7.0	6.0	9.4	14%	

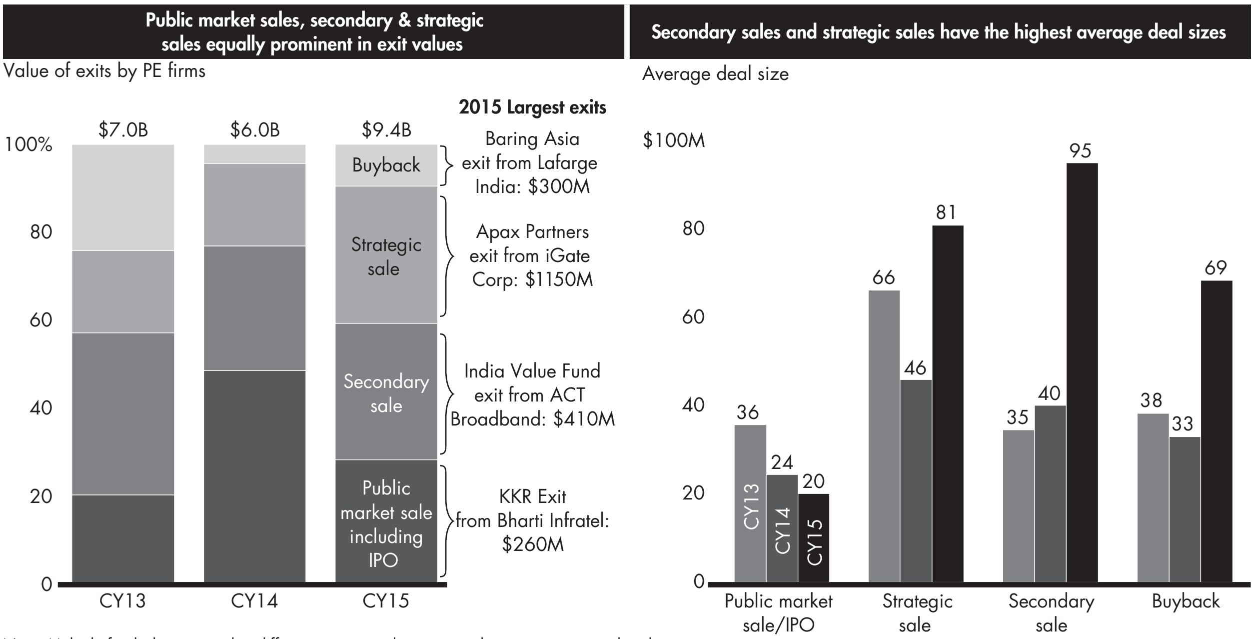
Notes: Only includes exits that were publicly reported; other includes hotels and resorts, textiles, education and other services
Source: Bain PE exits database

Figure 2.21: Changes in capital markets drove exits in 2015, but the macroeconomic environment may be more influential in the next few years



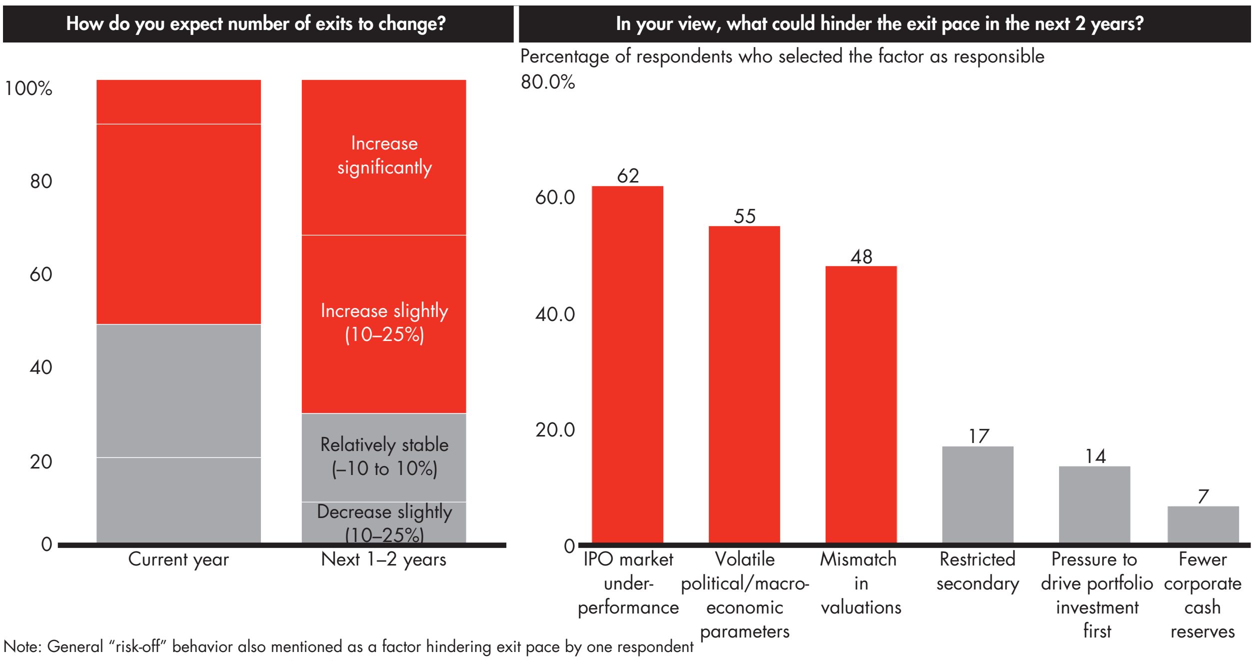
Note: General "risk-on" behavior also mentioned by one respondent as a factor responsible for increasing number of exits
Sources: Bain Private Equity Survey 2016 (n=29); Bloomberg

Figure 2.22: Public market sales, and secondary and strategic sales are equally prominent as exit options; most large exits have been strategic or secondary sales



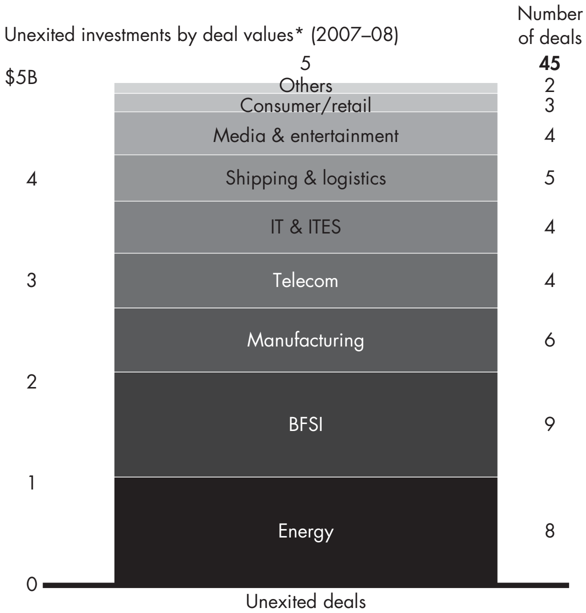
Note: Multiple funds that invested in different time periods exiting at the same time considered as separate exits
Source: Bain PE exits database

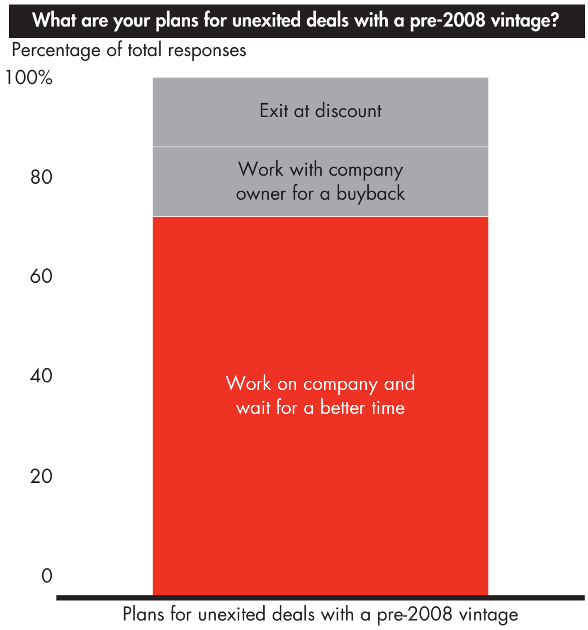
Figure 2.23: Exits are expected to increase in future while IPO market, macroeconomic parameters and valuation mismatch may pose challenges



Note: General "risk-off" behavior also mentioned as a factor hindering exit pace by one respondent
Source: Bain Private Equity Survey 2016 (n=29)

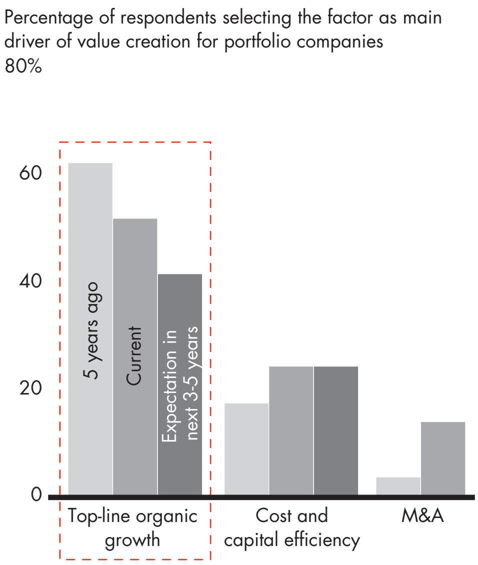
Figure 2.24: Energy, BFSI sectors dominate unexited deals from the period 2007–08, most GPs plan to hold on to their pre-2008 investments

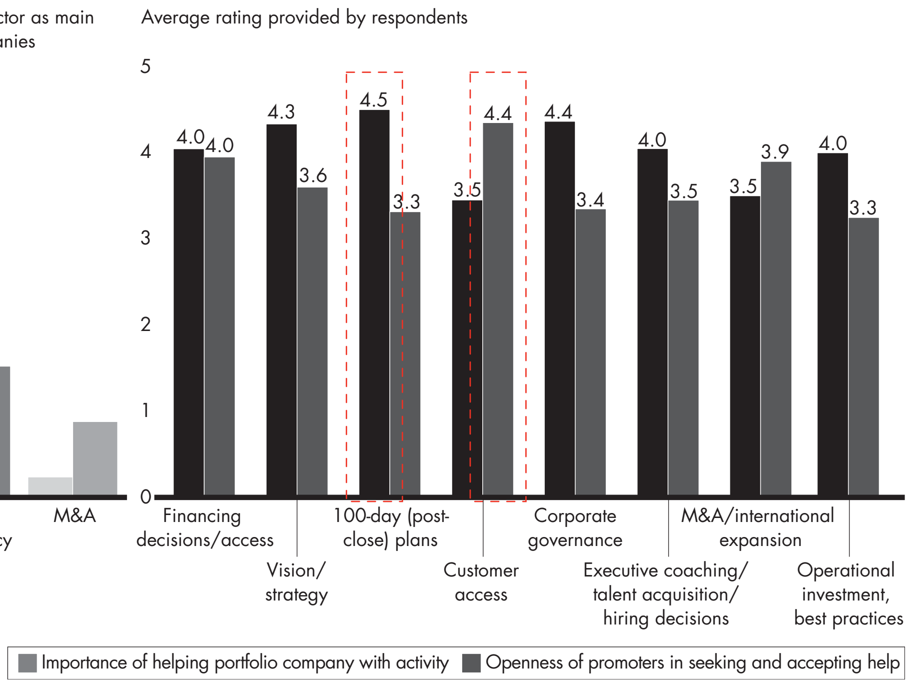




Note: For this analysis, we considered deals greater than or equal to $50 million from the period 2007–2008
Sources: Bain PE Deals Database; Bain Private Equity Survey 2016 (n=29)

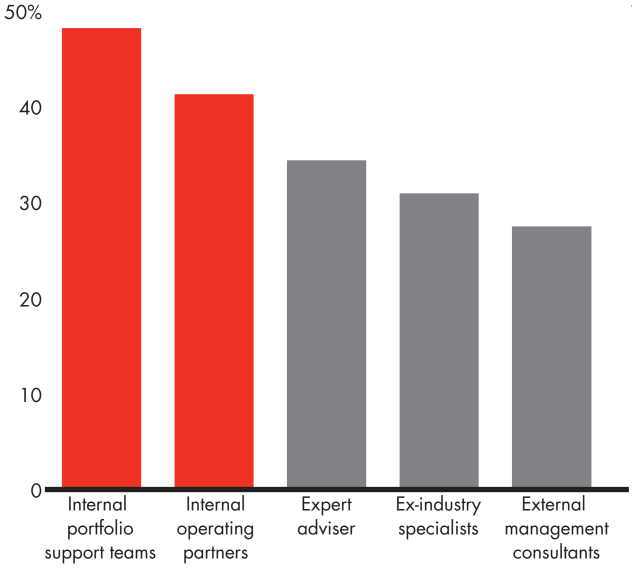
Figure 2.25: Top-line growth is critical to value creation; PE funds have pointed out mismatches in investor and promoter expectations

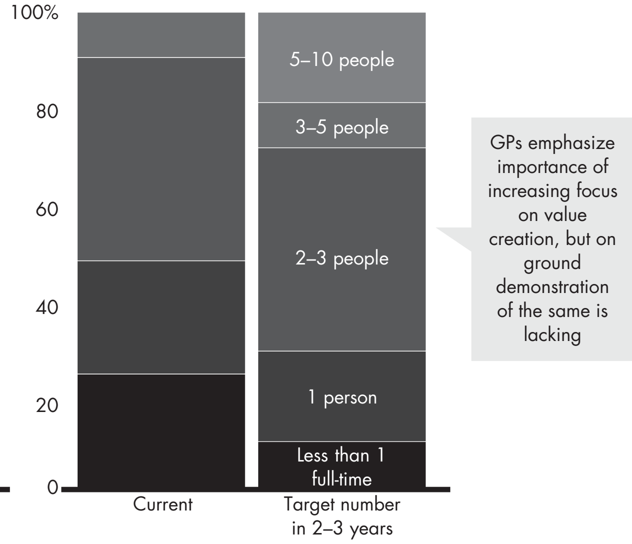




Source: Bain Private Equity Survey 2016 (n=29)

Figure 2.26: Internal portfolio support teams and operating partners are responsible for value creation; in most firms, two or three full-time employees are involved





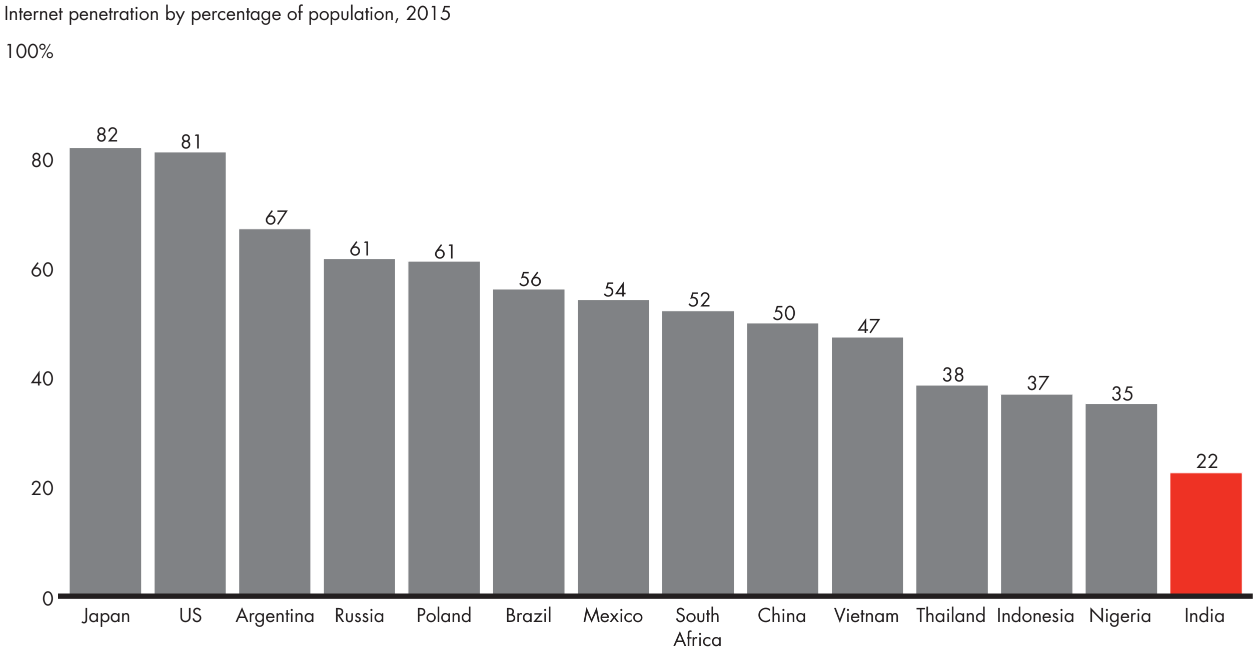
Source: Bain Private Equity Survey 2016 (n=29)

3.

Consumer tech: Riding the Internet wave

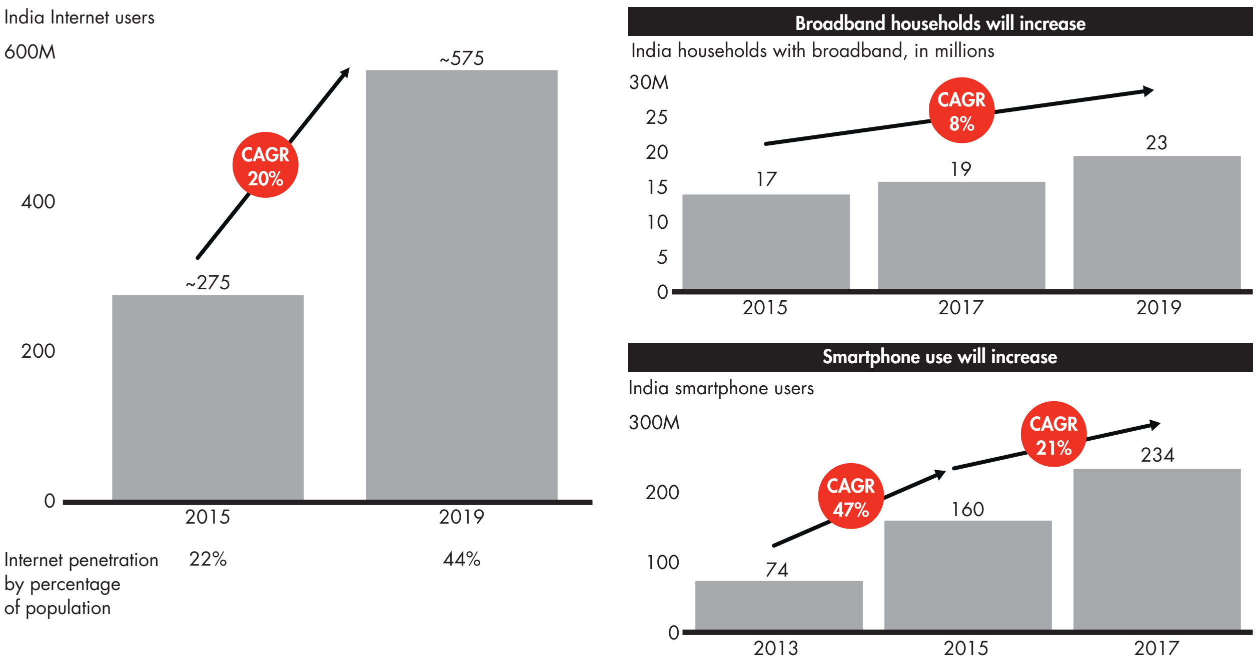
- Internet penetration in India is among the lowest in the world; however, the penetration rate is forecast to increase from 22% in 2015 to 44% by 2019.
- Indian consumers are increasingly using the Internet for multiple purposes; online channel penetration across sectors is on the rise, and we estimate the country's 2015 digital commerce market GMV to be $30 billion.
- That potential has generated a lot of interest in consumer tech: Deal values grew by 46% to $6.9 billion in 2015, and the number of deals in the sector increased from 295 in 2014 to 431 in 2015.
- The tech sector faces five key challenges: scaling business models, the decreased pace of disruption, the unit economics of disruptive models, the competitive intensity causing lower capital efficiency and balancing management depth with entrepreneurial energy. Investors need to focus on reexamining portfolios and assess risks, doubling down on the winners so they can scale, selectively backing entrepreneurs helping existing portfolio companies grow and transitioning to models that will be easier to exit.

Figure 3.1: India Internet penetration is among the lowest in the world; there is room for growth



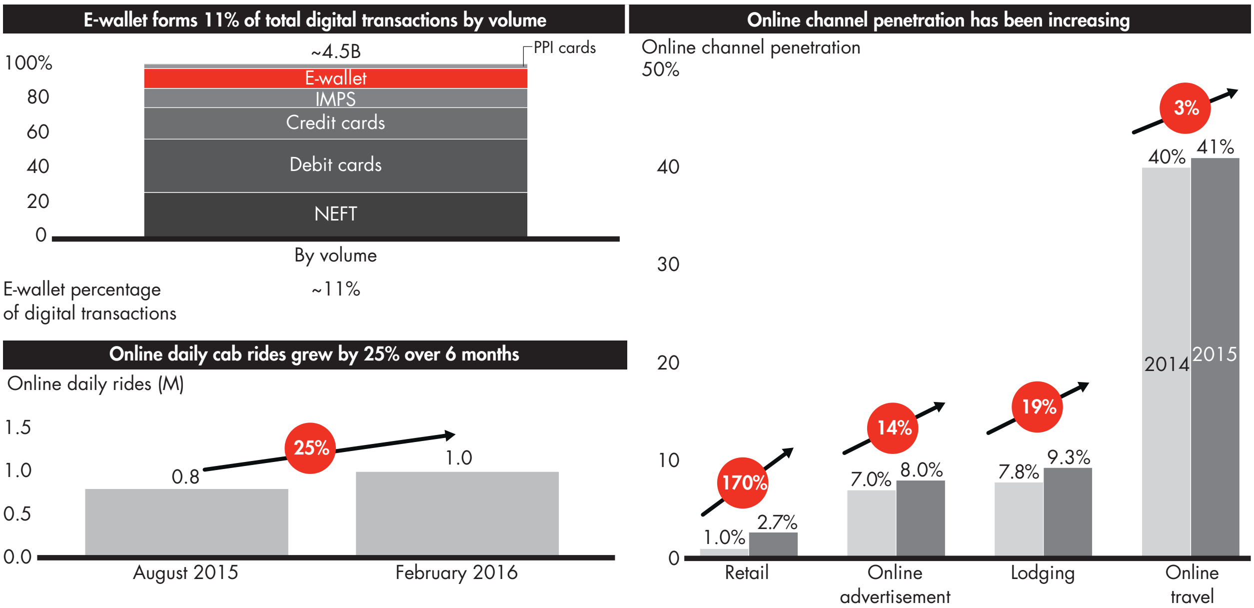
Sources: eMarketer; Bain analysis

Figure 3.2: India's Internet population will grow by 20% annually, largely due to increased use of smartphones and broadband connectivity



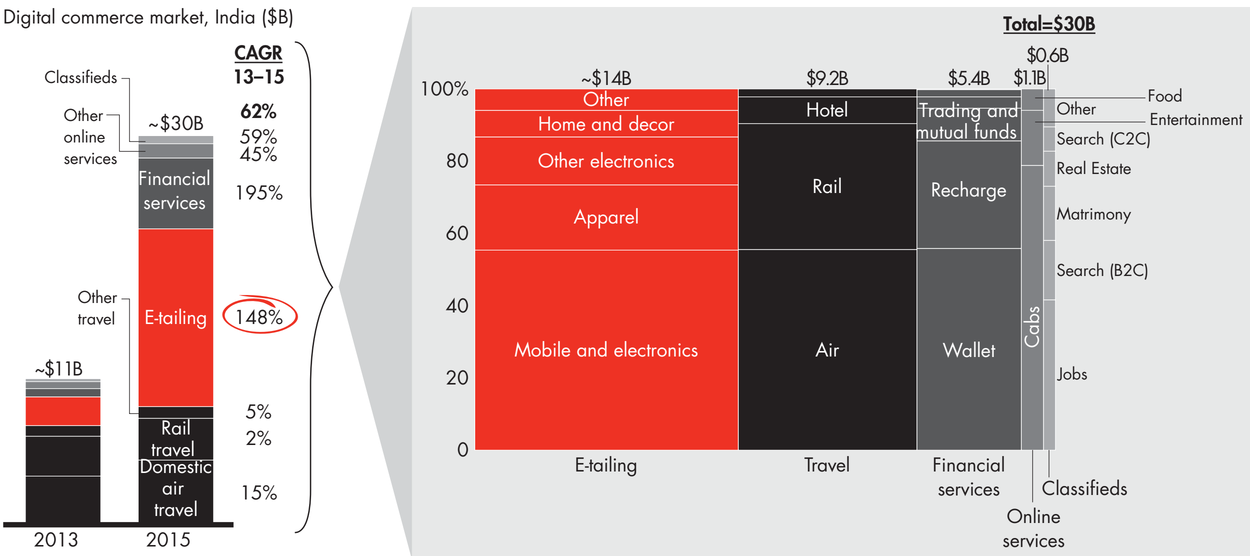
Sources: Vserv Smartphone User Persona Report; eMarketer; FICCI-KPMG Report 2015; Bain analysis

Figure 3.3: Indian consumers are now using the Internet for multiple purposes, leading to increased online channel penetration across sectors



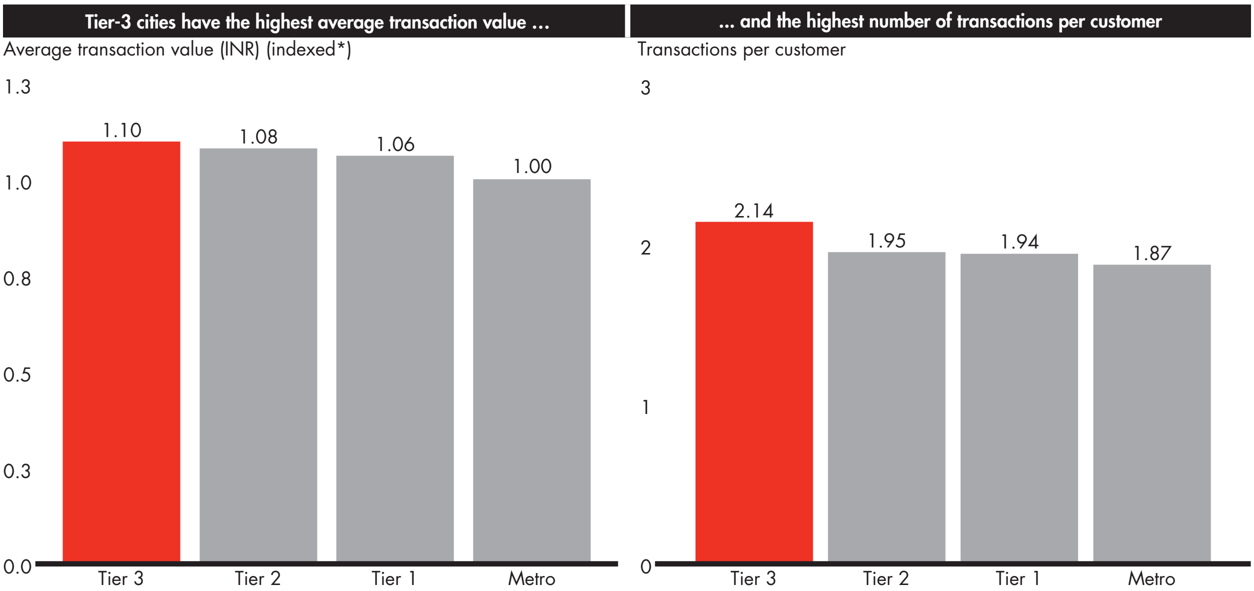
Notes: PPI is prepaid payment instrument; IMPS is immediate payment service; NEFT is national electronic funds transfer; RBI is the Reserve Bank of India; IAMAI is the Internet and Mobile Association of India
Sources: RBI data; IAMAI; Goldman Sachs; eMarketer; Bain analysis

Figure 3.4: Overall, India's digital commerce market is growing more than 62% annually



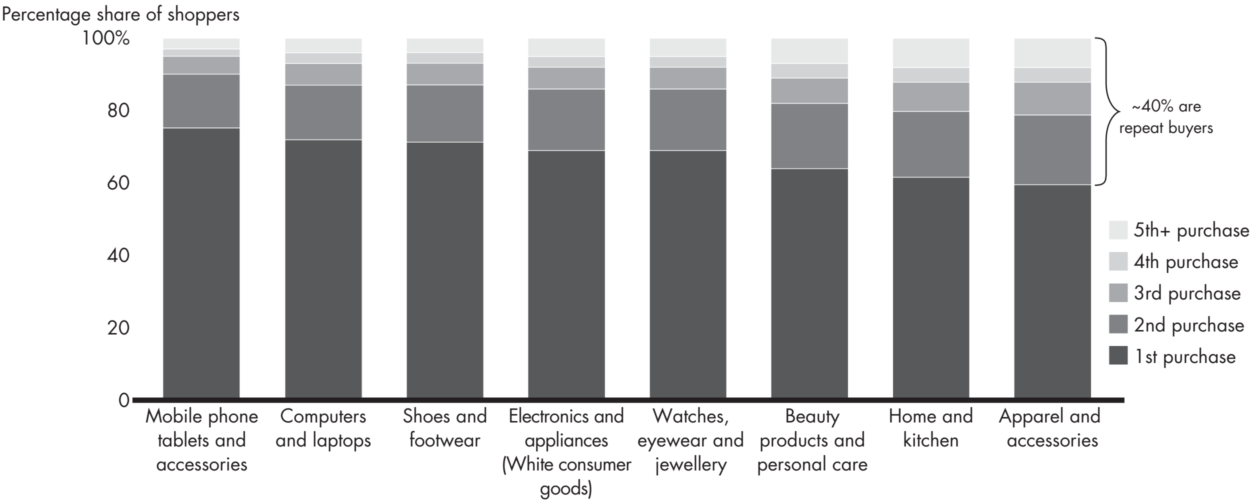
Notes: E-tailing estimated at December run rate annualized gross merchandize volume; all other estimates in gross value of service (travel by gross booking value, financial services by gross transaction value); search C2C search is Quikr-like and OLX-like companies; B2C search includes Justdial, Policybazaar; entertainment refers to money spent on tickets; figures converted from INR to US dollars; exchange rate of 60 INR/US dollars used for 2015
Sources: UBS; Goldman Sachs; news articles; Indian Brand Equity Foundation; Federation of Indian Chambers of Commerce and Industry; MXV Consulting; Internet & Mobile Association of India; Indian Market Research Bureau; Phocuswright; Bain analysis

Figure 3.5: E-tailing demand is coming from all city tiers in India



*Indexed keeping average transaction value for metros=1
Note: Data collected over the period January 2015 to June 2015
Source: Based on a representative sample set from Delhivery, an e-commerce service provider

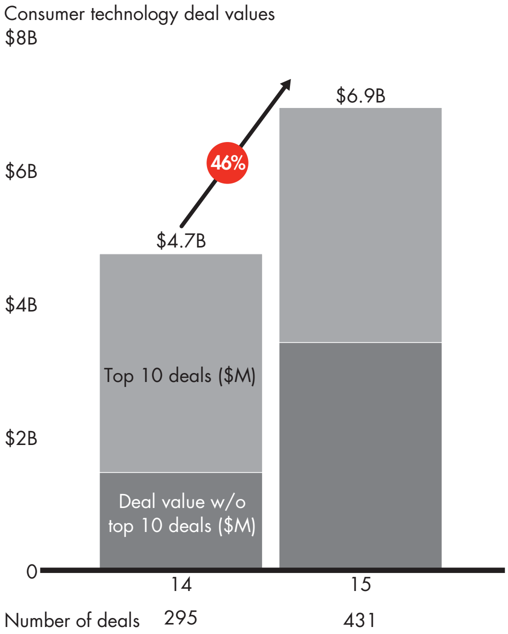
Figure 3.6: In e-tailing, 40% of apparel shoppers are repeat buyers



	Mobile phone tablets and accessories	Computers and laptops	Shoes and footwear	Electronics and appliances (White consumer goods)	Watches, eyewear and jewellery	Beauty products and personal care	Home and kitchen	Apparel and accessories
Average transaction value (indexed)*	3.7	2.4	1.2	1.6	N/A	1.0	1.0	1.1
Average transactions per customer	1.3	1.3	1.3	1.2	1.3	1.3	1.4	1.8

*Indexed to keep average transaction value for beauty products equal to one
Note: Data period was January 2015 to June 2015
Source: Based on a representative sample set from Delhivery, an e-commerce service provider

Figure 3.7: Consumer technology deal values increased 46% to $6.9 billion, while the number of deals increased to 431



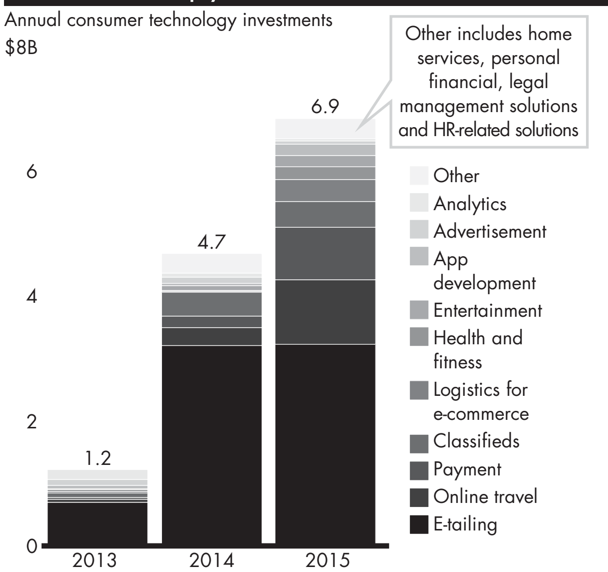
Source: Bain PE deals database

Top 10 deals constitute 50% of investments in consumer technology

Company	Fund(s)	Value ($M)
Flipkart	Tiger Global Management, Steadview Capital	**700**
One97 Communications	Alibaba Group Holding, SAIF Partners	**635**
Snapdeal	Blackrock, Myriad Asset Management, SoftBank, Hon Hai Precision Industry, Alibaba Group Holding, PremjiInvest	**500**
Ola Cabs	Baillie Gifford, Didi Kuaidi, DST Advisors, Falcon Edge Capital, SoftBank, Tiger Global Management	**500**
Ola Cabs	Tiger Global LP, Steadview Capital Master Fund, Accel India III LP, DST Global, ABG Capital, Falcon Edge Capital, GIC, SoftBank, RNT Associates	**402**
Ola Cabs	Tiger Global LP, Steadview Capital Master Fund, SoftBank, ABG Capital, Falcon Edge Capital, Arun Sarin	**225**
Quikr	Investment AB Kinnevik, Tiger Global Management,Steadview Capital Management, eBay	**150**
Ecom Express	Warburg Pincus India	**133**
Grofers (Locodel Solutions)	Sequoia Capital, Tiger Global Management, SoftBank, Yuri Milner	**120**
Foodpanda	Rocket Internet	**110**
	Total	**3,475**

Figure 3.8: Outside of e-tailing, travel, payment and logistics were the segments that attracted investments

E-tailing investments worth $3.2B; travel, payment & classifieds attracted $2.3B

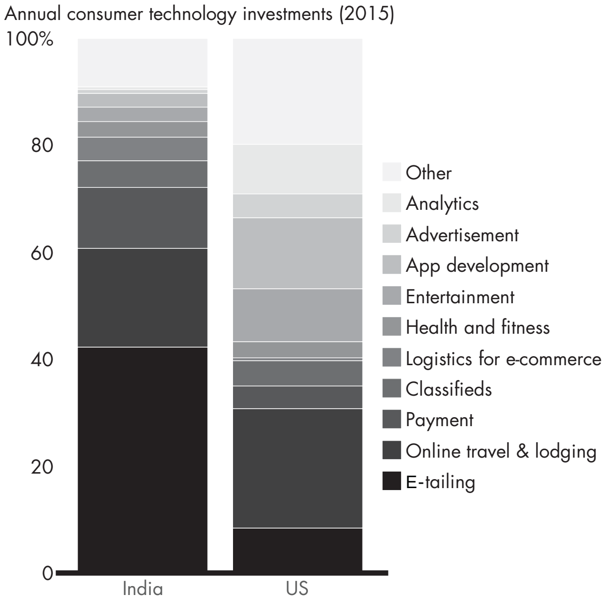


Number of deals, deal value and number of participating funds have significantly increased*

	Number of participating funds		Number of deals			Deal value		
Sector	**CY 14**	**CY 15**	**CY 14**	**CY 15**	**GROWTH (CY14–15)**	**CY 14**	**CY 15**	**GROWTH (CY14–15)**
E-tailing	70	114	62	140	126%	3.2	3.2	1%
Online travel	14	22	8	28	250%	0.3	1.0	260%
Payment	4	10	11	15	36%	0.2	0.8	357%
Classifieds	33	21	24	41	71%	0.4	0.4	8%
Logistics for e-commerce	0	10	3	10	233%	0.0	0.4	1983%
Health and fitness	0	11	9	16	78%	0.0	0.2	1354%
Entertainment	7	14	21	11	–48%	0.1	0.2	140%
App development	0	17	19	29	53%	0.0	0.2	478%
Advertisement	7	2	13	11	–15%	0.1	0.1	–49%
Analytics	3	5	18	5	–72%	0.1	0.0	–46%
Other	12	36	107	125	17%	0.3	0.4	21%
Total	**150**	**262**	**295**	**431**	**46%**	**4.7**	**6.9**	**46%**

*For number of participant funds, we considered in our analysis all deals greater than $10 million; consortium deals attributed to each participating fund
Source: Bain PE deals database

Figure 3.9: The profile of consumer technology investments in India is different from the US



Sectors in US that garnered significant investments could be potential future opportunities in India		
Online lodging		
AirBnB	$1.5B	General Atlantic, Kleiner, Perkins, Caulfield & Byers, Perkins, T. Rowe Price, Horizon Ventures & others
Social networking		
Snapchat	$650M	New Enterprise Associates, York Capital, Alibaba Capital, Glade Brook Capital & others
Pinterest	$553M	Bessemer Venture; Goldman Sachs, FirstMark Capital & others
Recruitment and training		
Zenefits	$513M	Fidelity, Bain Capital, Alibaba Capital
Online lending and trading		
Avant	$325M	August Capital, General Atlantic, JPMP Capital & others
Credit	$175M	Viking Global, Tiger Global Management, Valinor Management

Notes: For US deals, all PE deals in consumer technology space from S&P Capital IQ; we analysed deals of $50 million or more; does not include enterprise resource planning (ERP) and other management solution providers
Sources: S&P Capital IQ; Bain analysis

Figure 3.10: In 2015, about $0.8 billion of exits occurred in consumer technology; several were early-stage acquisitions aimed at consolidation and capability building

Company	Buyer	Fund(s)	Value ($M)
Freecharge	Snapdeal	ru-Net, Sequoia Capital, Sofina, Tybourne Capital, Valiant Capital	450
Taxi for Sure	Ola	Accel India, Bessemer Venture, Blume Ventures, Helion Ventures	150
Quikr	Investment AB Kinnevik	Omidyar Network, Nokia Growth Partners, Matrix Partners, Norwest Venture	60
Delhivery	Tiger Global	Multiples Equity	41
Flipkart	Undisclosed	Helion Ventures	25
Appsdaily	Zodius	Mumbai Angels	16
Instahealth Solutions	Practo	Inventus Advisory, Mumbai Angels, Focus Softnet, Tholons Capital	12
Others			28
Total			**782**

Strategic sale | Secondary sale

Source: Bain PE deals database

NON-EXHAUSTIVE

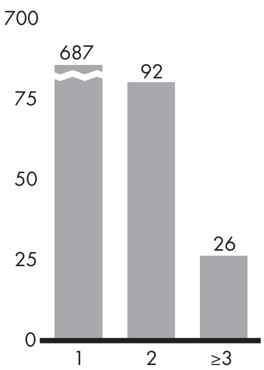
Company	Buyer	Fund(s)
Babyoye	Mahindra	Accel India, Helion Ventures, Tiger Global
Collegefeed	AfterCollege	Accel India
MyGola	MakeMyTrip	Blumberg Capital; Dave McClure; Helion Ventures
MeraGrocer	Spencer's	CCube Angels, Brand Capital
Retention.ai	Spencer's	TLabs
MapmyIndia	Flipkart	Nexus Venture, Lightbox
Konotor	Freshdesk	Qualcomm Ventures, Accel India
Niffler	Helpchat	SAIF Partners
Pickingo	Shadowfax	Orios Venture
Townrush	Grofers	Lightspeed Venture

Figure 3.11: Key challenges for those investing in consumer technology

- **Scale-up** of business models: capability of start-ups to grow consistently and rapidly
- **Unit economics** of disruptive models: ensuring profitability of the business model at least in the long run
- **Pace of disruption slowing** due to lesser gravity of need: market creation for disruptive business models is slow, and founders and investors need to be patient and strategise accordingly
- **Competitive intensity** is not abating, leading to **lower capital efficiency:** because there are no entry barriers for tech-based start-ups, multiple players have begun participating
- **Management depth** to be balanced with **entrepreneurial energy:** organisations need to have the right mindset and attitude to evolve top management basis organisation growth

Figure 3.12: One in seven companies received two or more rounds of funding; the profile of investors with successive funding rounds has noticeably changed

Number of companies receiving corresponding number of funding rounds over 2013–15



Companies securing ≥ five rounds of funding:

1. Flipkart, Justdial, Zoomcar: 5
2. OlaCabs, Snapdeal: 6
3. Housing: 7

Later funding rounds have seen large consortia participate

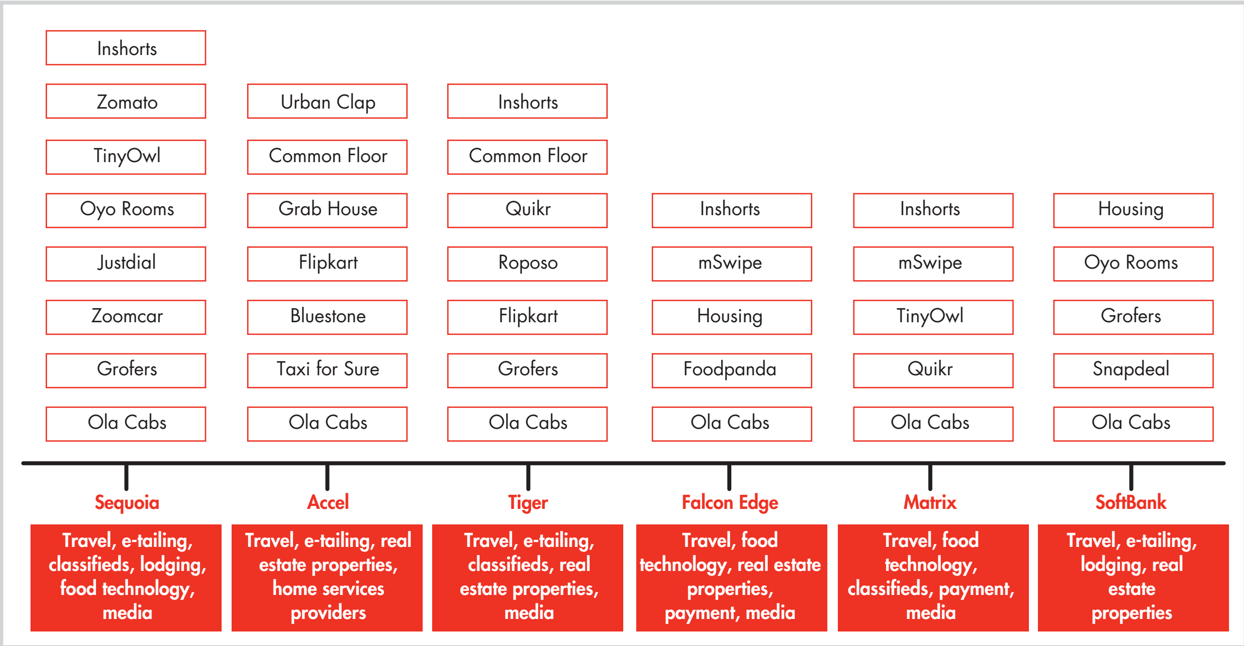
Flipkart: 9 rounds of funding since 2009	
$1M October 2009	*Accel India*
$9M December 2009	Tiger Global Management
$20M June 2011	Tiger Global Management
$150M February 2012	Tiger Global Management, *Accel India*
$360M July 2013	Naspers, Tiger Global Management, *Accel Partners*, Morgan Stanley, Sofina, Iconiq, Dragoneer, Vulcan
$210M July 2013	Tiger Global Management, Iconiq Capital, DST Global
$1,000M July 2014	Naspers, Tiger Global Management, *Accel Partners*, Morgan Stanley, DST, **GIC,** Sofina, Iconiq
$700M November 2014	**QIA,** *Greenoaks Ventures*, Baillie Gifford, DST Advisors, **GIC,** Iconiq, Steadview, T. Rowe Price, Tiger Global Management
$700M July 2015	Tiger Global Management, Steadview Capital

OlaCabs: 7 rounds of funding since 2012	
$4M April 2012	Tiger Global Management
$21M July 2013	Tiger Global Management
$42M July 2014	Tiger Global Management, *Matrix,* Steadview, *Sequoia*
$210M October 2014	**SoftBank,** Tiger Global Management Steadview, *Matrix*
$402M March 2015	Tiger Global Management, Steadview, *Accel India,* DST Global, ABG Capital, Falcon Edge, **GIC,** **SoftBank,** RNT Associates
$225M September 2015	Tiger Global Management, Steadview, SoftBank, ABG Capital, Falcon Edge
$500M November 2015	Baillie Gifford, Didi Kuaidi, DST Advisors, Falcon Edge, **SoftBank,** Tiger Global Management

Strategic investor | *Venture capital* | Private equity | **LPs/SWFs** | Other

Notes: LPs is limited partners; SWFs is sovereign wealth funds
Source: Bain PE deals database

Figure 3.13: Six top funds have backed multiple "market disruptors" to build winning portfolios



Source: Bain PE deals database

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Exit: We help ensure funds maximise returns by identifying the optimal exit strategy, preparing the selling documents and prequalifying buyers.

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