INDIA PRIVATE EQUITY

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Acknowledgments

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About this report

Bain & Company provides strategic guidance and advice to stakeholders across India's private equity (PE) landscape, including general partners (GPs), limited partners (LPs), corporates, entrepreneurs and regulators. Bain has played a key role in developing India's PE industry over the past decade. Over the past five years, we have drawn upon this experience for our private equity reports, which outline the latest developments and trends in the industry. We are pleased to collaborate with the Indian Private Equity and Venture Capital Association (IVCA) in bringing you our latest edition.

Our India Private Equity Report 2014 contains in-depth analysis of India's PE landscape, including a close look at LPs' perspective of India. Our conclusions were informed by interviews with stakeholders such as GPs at PE funds, LPs, entrepreneurs and regulators. We also drew from Bain's proprietary deal and exit databases, and an extensive survey of GPs at various PE funds.

Section 1 presents a broad overview of the changes in the macroeconomic environment and the global private equity industry. We touch upon how the business environment in India evolved and where India stands against other competing markets.

In section 2, we analyse the Indian private equity industry and identify the key trends that have shaped the past year. Through the lens of the wider political and economic context, we examine the challenges still facing the sector and the changing attitudes of industry players. We also give an overview of each aspect of private equity investing: fund-raising, deal making, portfolio management and exits. We look at how the different elements of the investment process have evolved over the past year and outline perspectives from industry professionals for the year ahead.

In section 3, we convey LPs' viewpoint on India and how the importance of India as an investment destination is changing. We also look at the evolution of the LP-GP equation and what further changes are imminent. We conclude by summarising the potential developments that LPs want to see in order to engage with India in the future.

Finally, in section 4, we take a step back to assess what these multiple factors mean for the future of PE investment in India. We analyse the current roles that various stakeholders play and make recommendations for how LPs, GPs, entrepreneurs, promoters and policy makers can work together to create a thriving investment climate.

Key takeaways

Overview of the current conditions

The global economy moved ahead on its path towards recovery in 2013 with slow but steady growth. The growth in global GDP seems to be stabilising at approximately 2% per annum. The US weathered periods of uncertainty caused by the 'fiscal cliff' crisis, the debt-ceiling crisis and a 16-day government shutdown. The US Federal Reserve finally began to taper its bond-buying programme in December, signalling a slow return to normal. In spite of everything, the US GDP managed to grow at about 2% annually. In contrast, the euro zone economy continued to face stiff headwinds but managed to avoid a major contraction during 2013.

Growth in top emerging economies has slowed over the past year as new growth concerns and a modest flight of capital have pressured investments. The economies under the BRICS (Brazil, Russia, India, China and South Africa) and MINT (Mexico, Indonesia, Nigeria and Turkey) umbrellas grew at a combined rate of 5% from 2012 to 2013, relatively slower than the 6% annual growth seen from 2009 to 2013. India experienced its own set of economic troubles, starting with a gaping fiscal deficit, persistently high inflation, currency depreciation and pessimism among businesses and consumers. Consequently, the Indian economy only managed a GDP growth of 4.7% during 2013. Despite an overall slowdown, financial services, insurance, real estate and business services, as well as community, social and personal services continued to grow at rates in excess of 6%. The Indian stock market remained flat through much of the year but saw an uptick in the last quarter, while the declining rupee has stabilised, suggesting that the cyclical flight from India may be abating. The Reserve Bank of India lowered repo rates in the first half of the year to boost slowing growth, while increasing inflation was countered by increasing repo rates in the second half. Despite the macroeconomic challenges, private equity continued to play a pivotal role in India's capital needs, accounting for 54% of foreign direct investment inflows against 45% in 2012.

The impact of global macroeconomic changes is reflected in the increased deal activity. Global buyout value has gone up 22% in 2013, led by North America and Europe, which experienced growths of 24% and 36%, respectively. On the other hand, much of the Asia-Pacific region experienced a decline in PE activity, except India and Korea, which showed strong growth in deal values as well as volume. In India, overall deal volume grew by 26%, with an increase in deal value of 16% ending the year at $11.8 billion, but not quite a return to 2011 levels of $14.8 billion. Volume grew due to a sharp increase in early- and growth-stage deals sized less than $20 million, while deal value grew due to a few large-sized deals.

Looking at the year ahead, GPs in India continue to be concerned about macroeconomic conditions, exit environment challenges and valuation expectations in good-quality deals. The upcoming general elections are expected to play an important role in redefining the macroeconomic outlook and investment environment in India.

Most GPs and LPs we spoke with believe that PE asset allocation to India has declined in recent times, driven by the following key factors: lower-than-expected returns from investments, low liquidity and uncertainly around government policy and regulations. On the upside, investors continue to believe in the long-term potential of India. They see the value of staying invested, but with increased caution and clarity.

Fund-raising

Fund-raising for India has become more difficult as LPs have intensified their scrutiny of who they trust with their fund commitments. They are now looking much more closely at factors like team stability, GP track record and investment philosophy.

Moreover, LPs are becoming more hands-on in order to pressure-test the quality of investments, assess value upside potential and ensure liquidity at the time of exit.

Funds allocated towards Asia-Pacific on a regional level continued to expand. On the other hand, country-focused funds declined for India, China, Australia and New Zealand. Specifically, India-focused fund allocation—excluding real estate and infrastructure—dropped by 40%, which contributed to dry powder shrinking in India to $8 billion (vs. $9 billion in 2012). However, there continues to be enough capital chasing good deals, especially because a significant amount of capital is also drawn into India via allocations from Asia-Pacific and global funds. In addition to this, several sovereign wealth funds have made large direct investments already—an example is the $237 million PIPE into Kotak Mahindra Bank by GIC—and will continue to draw funds from their deep pockets as interesting opportunities arise.

In the future, fund-raising will continue to be difficult as uncertainties about India's macroeconomic situation remain, and the next wave of emerging economies in sub-Saharan Africa, Southeast Asia and Latin America present attractive avenues of investment. In such a scenario, GPs need to work harder on their existing portfolios to demonstrate their value creation ability and differentiate themselves on operational capability and realisations with LPs.

Deal making

The overall volume of deals in India increased across sectors, growing by 26% overall, predominantly fuelled by IT and information technology enabled services (ITES), healthcare and banking, financial services and insurance (BFSI) sectors. The top 25 deals comprised a higher share of total investments in 2013, standing at 55%, compared with 44% in 2012; the largest deal was the $1.26 billion PIPE into Bharti Airtel by Qatar Foundation Endowment. Investments in early and growth-stage deals continued to surge in 2013 and comprised more than 70% of total deals made, up from 66% in 2012. The average size of PE deals, excluding real estate and venture capital (VC) deals, increased significantly, driven by a shift to larger deal sizes. A majority of GPs surveyed expect that average deal sizes will increase further in the next two to three years.

The Indian PE market continues to be dominated by minority investments, but the mix is slowly and steadily moving towards buyouts. The market seems to be rationalising, and valuations have shown signs of tempering. However, the overall level of competition in deals has not reduced, primarily due to a paucity of good-quality deals. GPs are taking more time to get comfortable with the fundamental value creation potential of possible investments and doing more comprehensive diligence as well as including all aspects of the business. This is accompanied by an increasing preference towards activist deals. GPs agree that relationships are becoming more important, and several funds are now seeing proprietary deals.

Though there is immense interest associated with the results of the general elections in April, GPs are cautiously optimistic about the prospects of the Indian PE and VC industry, with more than 35% of them expecting to see a growth of 10% to 25% in 2014 in terms of the investments made. Healthcare, technology and IT, and consumer products and retail are expected to be the most attractive sectors for PE and VC investments in the next two years. While healthcare, technology and IT will be driven by export-oriented stories, domestic consumption will continue to power consumer products and retail.

In an environment where access to debt is low, owing to high interest rates and tight liquidity, the number of companies looking to raise private equity money should have been higher. However, in some cases promoters have pushed back their plans to raise capital until the macroeconomic environment and valuations improve.

Entrepreneurs' understanding of PE propositions has improved considerably in the last few years. Indian entrepreneurs and management teams appreciate the role of PE as being activist long-term capital that can positively contribute to value creation.

Portfolio management and exits

The past year saw a 43% increase in the number of exits in India, though the value of exited deals stayed flat at $6.8 billion. A comparison of investments and exits over the last few years shows that investments in sectors such as BFSI, IT and ITES and have seen good liquidity and capital returns.

In 2013, lacklustre capital markets limited public market sales. Strategic and secondary sales gained importance, and several PE funds are preparing their portfolios for such exits. Funds coming to re-up points are also exploring promoter buybacks actively, even though these might not yield attractive returns.

The pressure to exit is expected to increase. If viable exits do not happen in the next couple of years, one could expect to see a shakeout in the industry as fund tenures come to expiry. Investors are looking at the general elections intently in anticipation of a resurgence of the Indian growth story. They specifically hope to see a clear mandate leading to stable and favourable regulations. In the meantime, PE funds will continue to get more hands-on with portfolio companies to ensure that there are robust exits.

LPs' perspective of India

LPs have come to be dissatisfied with India's performance over the last few years. While some have chosen to discontinue investing, others still hold a positive, long-term view and are willing to continue to engage with India. However, most investors are not willing to take the risks that they have in the past and will approach investments in the Indian market with greater caution. The challenging economic climate is expected to make raising funds from LPs increasingly difficult in the next few years.

The adoption of a back-to-basics approach has created a much more interactive relationship between LPs and GPs. LPs are waiting to see exit realisations before committing more capital to India. They have also started digging deeper into details of deals. As the due diligence process becomes more stringent, LPs also want to see key differentiators that will ensure success of their investments in PE funds. In some cases, LPs are seeking higher involvement in deal making through regular and detailed reporting, as well as engagement in scrutinising the target company, though such instances are sparse.

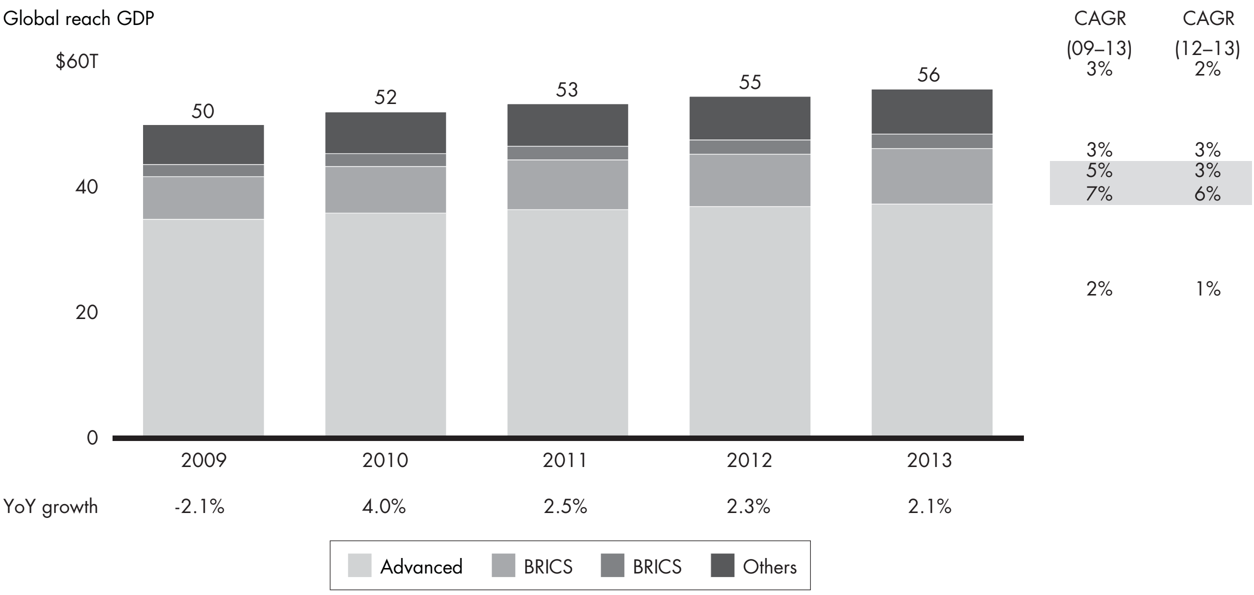
Given the turbulent macroeconomic situation LPs have lowered their return expectations, and this might impact LP-GP economics. In addition, there is an increasing preference towards direct investments across global markets and a similar trend is likely in India, though at a slower pace.

1.

Global macroeconomic and investment trends: Light at the end of the tunnel

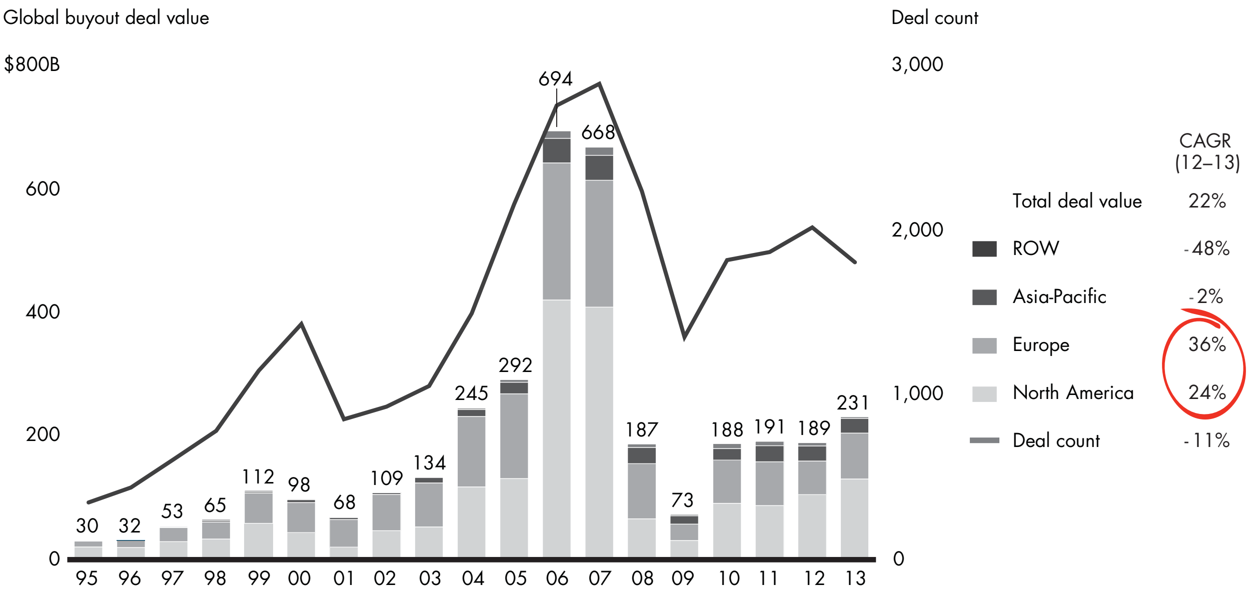
- The global economy showed signs of stability at about 2% growth in 2013, coming out of lows experienced during the economic crisis.
- Emerging economies slowed down, but continued to lead growth in 2013. Select emerging economies, such as BRICS (Brazil, Russia, India, China and South Africa) and MINT (Mexico, Indonesia, Nigeria and Turkey) grew at 6% and 3%, respectively—faster than developed markets, which grew at 1%.
- Global buyout activity in 2013 rose by 22% over 2012, though the deal count went down 11%. Deal activity bounced back in North America and Europe as it grew by 24% and 36%, respectively.
- Asia-Pacific's deal activity went down by 22%, driven by a steep decline in Japan, China, Australia and New Zealand, while India and Korea remained in the positive zone. Asia-Pacific's deal activity was primarily impacted by growth slowing down, exit overhang building up and the inability in many instances to exert control, which hurt returns.
- India witnessed a tough macroeconomic environment with muted year-over-year growth of approximately 5%, inflationary pressures, about 11% currency depreciation and unstable interest rates.
- Despite overall slowdown, financial services, insurance, real estate and business services, as well as community, social and personal services continued to grow at rates in excess of 6%.
- In the face of all these challenges, PE continues to play a major role in Indian capital needs.
- PE strengthened its role as a source of capital for Indian businesses as interest rates did not soften significantly and stock markets stayed stagnant most of the year.

In 2013, global GDP growth showed signs of stability at 2% per annum, with select emerging economies leading its growth



Notes: GDP adjusted for inflation and represented at constant 2005 USD prices; "advanced countries" refers to 34 countries classified as "advanced economies" by the IMF; BRICs refers to Brazil, Russia, India, China and South Africa; MINT refers to Mexico, Indonesia, Nigeria and Turkey.
Source: Economic Intelligence Unit (estimates)

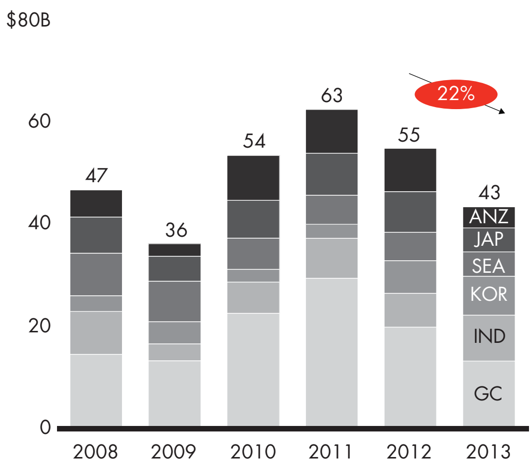
Global buyout activity was up in value, but down in count vs. 2012; North America and Europe saw huge spurts of growth in deal value



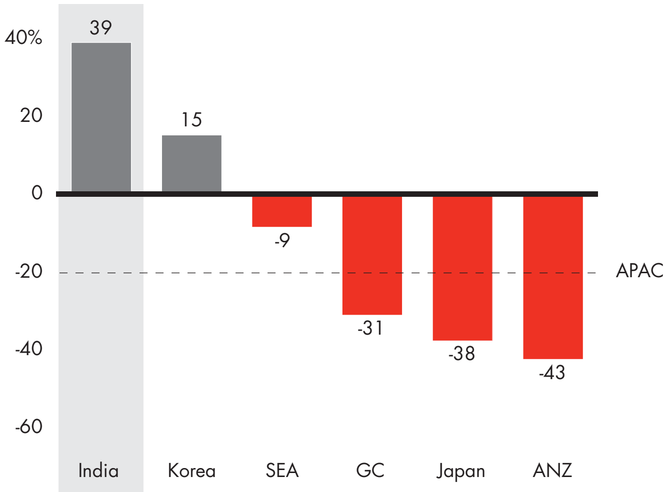
Notes: ROW stands for rest of the world; excludes add-ons, loan-to-own transactions and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change; geography based on the location of targets.
Source: Dealogic

Asia-Pacific witnessed a significant decline in PE activity in most countries except India and Korea

Asia-Pacific Deal value fell by approximately 22%
Asia-Pacific deal value



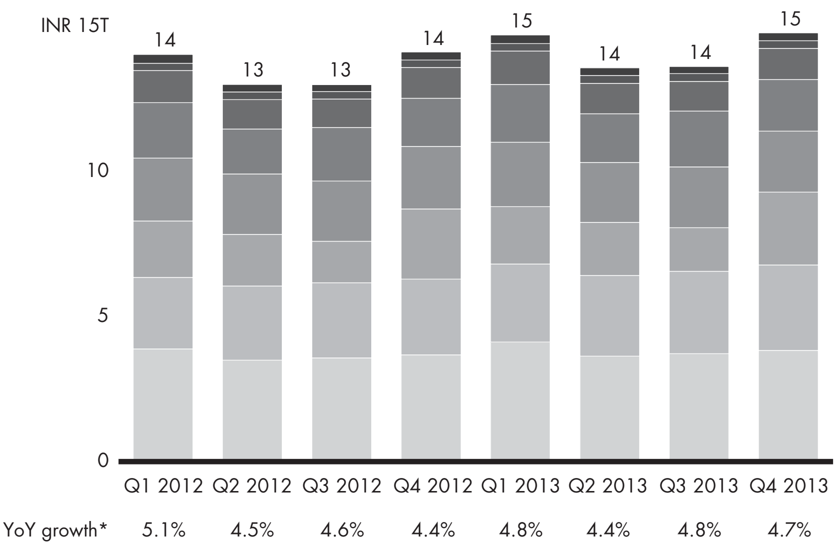
PE in India grew WHILE it experienced a DECLINE in several asia-pacific countries
CAGR (12—13) deal value



Notes: The above analysis includes exits and investments with announced deal value of more than $10 million only, done in APAC with closed agreement in principle or definitive agreement status; excludes all non-PE/VC deals, bridge loans, franchise funding seed/R&D, concept and distressed deals; also excludes real estate, hotels and lodging, infrastructure and large domestic transfers from SWF to government
Sources: AVCJ

India's growth slowed compared with 2012, as a result of slower growth in larger sectors

India real GDP



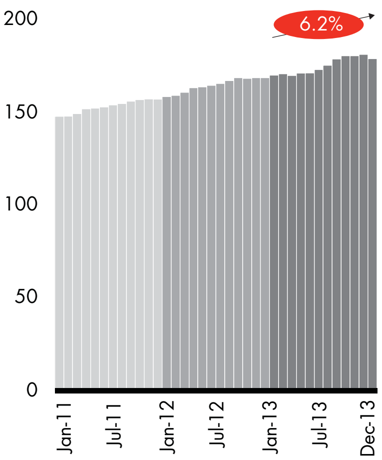
	CAGR (11-12)	CAGR (12-13)
Mining and Quarrying	1%	-2%
Electricity, Gas and Water Supply	3%	5%
Construction	2%	3%
Community, Social and Personal Services	6%	6%
Manufacturing	0%	0%
Agriculture, Forestry and Fishing	2%	3%
Financing, Insurance, Real Estate and Business Ser	11%	10%
Trade, Hotels, Transport and Comm.	5%	5%

Notes: GDP represented at factor cost at 2004-05 prices; Quarters represented correspond to calendar years; *Year-over-year growth calculated as the annual growth between reference quarter and the corresponding quarter in the previous year
Source: CEIC

The Reserve Bank of India's monetary policy adjusted key rates to spur growth, control inflation and manage currency exchange rates

Inflationary pressures continued to haunt the Indian economy

India—wholesale price index

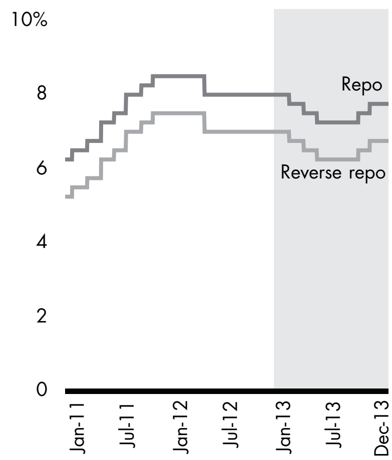


INR dropped by 11% relative to USD

USD/INR

RBI used key interest rates to balance inflation, growth and exchange rates

Key benchmark interest rates

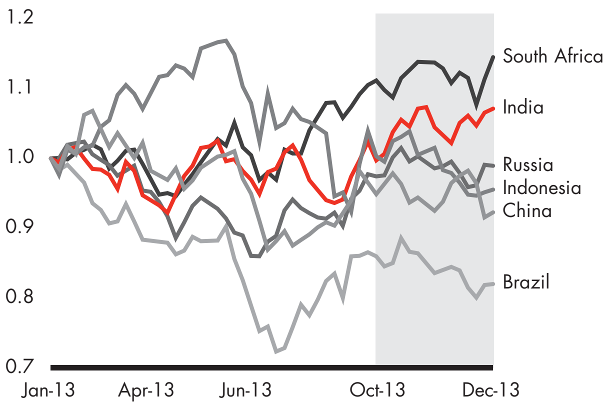


Notes: Inflation rate of 6.2% is from December 2012 to December 2013; inflation rates in 2013 ranged between 4.6% to 7.5%; Repo rate is the rate at which the central bank of a country (RBI, in the case of India) lends money to commercial banks in the event of any shortfall of funds; Reverse repo rate is the rate at which the central bank of a country (RBI, in the case of India) borrows money from commercial banks within the country.
Sources: Bloomberg; CEIC

Indian stocks signaled improved confidence in the last quarter, while PE continued to play a major role in India's capital needs

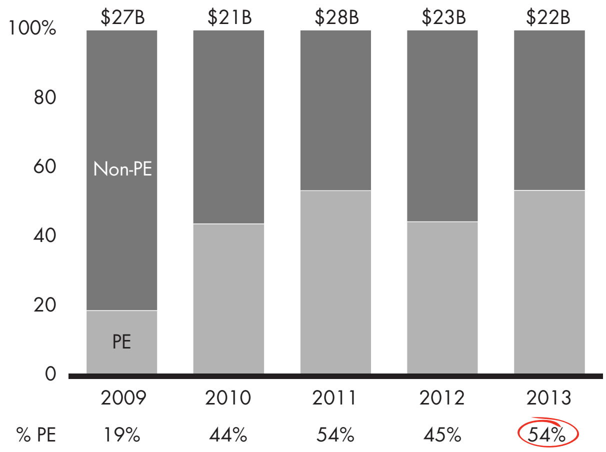
Indian stock markets remained largely flat with some uptick in Q4

Stock market indices

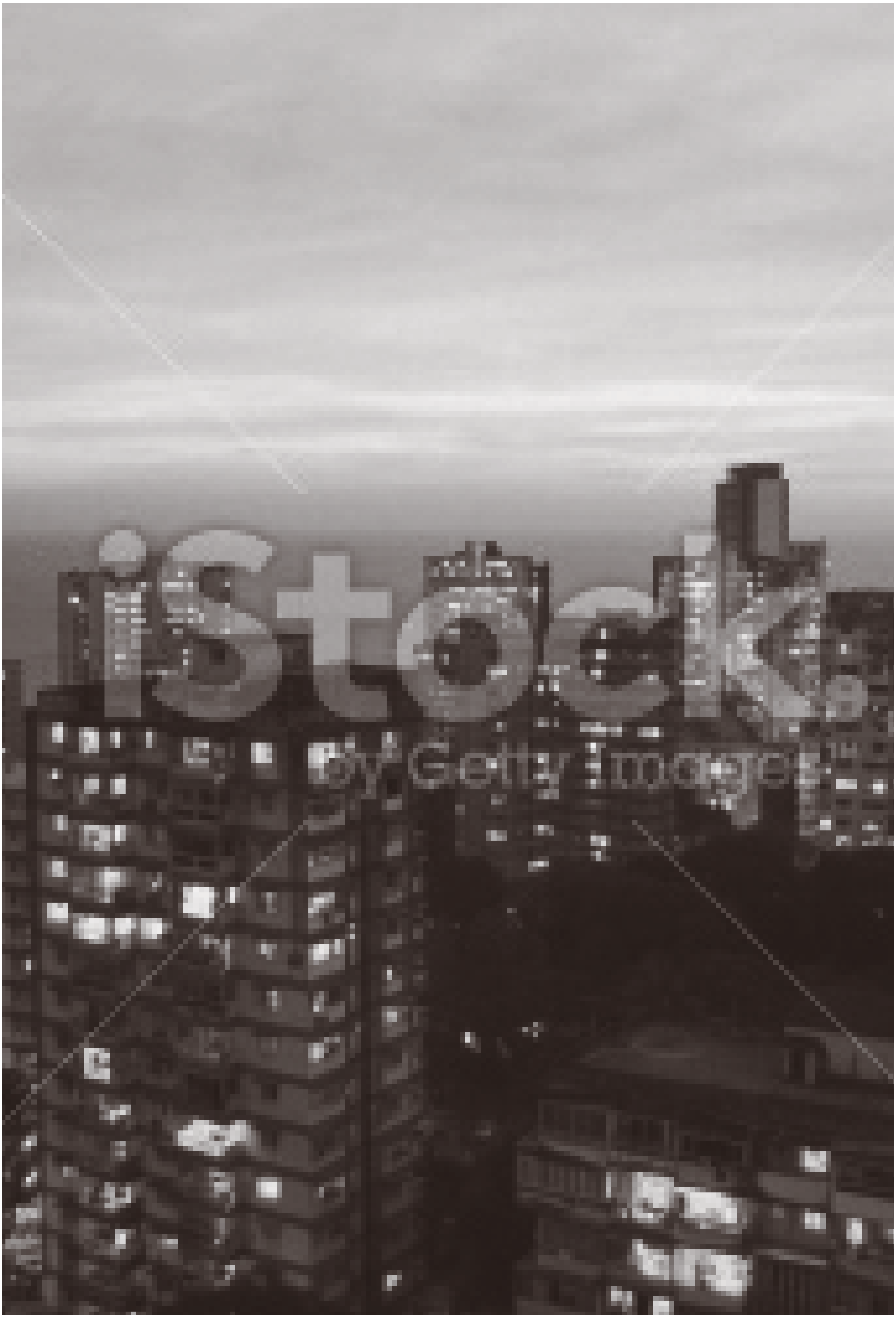


PE accounted for about 54% of FDI, an increase from approximately 45% in 2012

% of total FDI inflow into India



Notes: Stock market indices adjusted to common base at start of 2013; Indices used are China-Shanghai Stock Exchange Composite, Indonesia-Jakarta Stock Exchange Composite, India-S&P BSE SENSEX, Russia-MICEX, South Africa-FTSE/JSE Africa Top 40 Tradeable, Brazil-Ibovespa Brasil Sao Paulo Stock Exchange; PE as percent of FDI calculated by dividing total deal value in the respective year by the total FDI inflow; FDI refers to an investment made by a company or entity based in one country, into a company or entity based in another country. It differs from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange.
Sources: Bloomberg; CEIC; Bain PE deals database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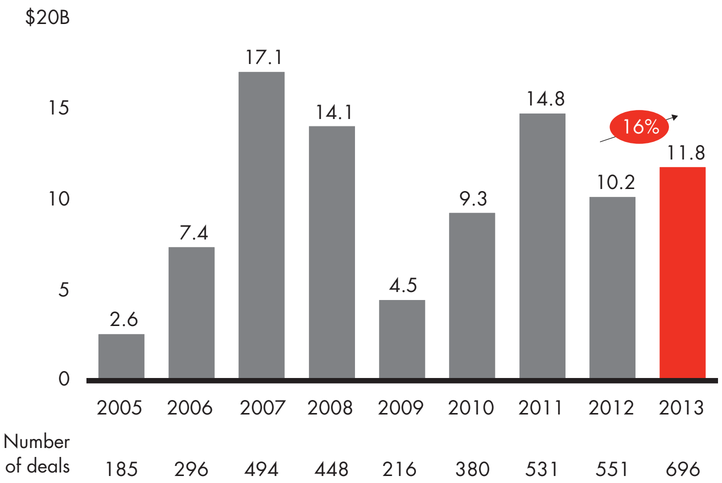
2.

Overview of India PE landscape

- Indian PE and VC deal value increased by 16% to reach $11.8 billion in 2013 over 2012; deal volumes grew even faster at 26% over 2012.
- GPs pointed out that deal activity in 2013 was influenced by the macroeconomic situation, the exit environment and changes in valuation expectations. These factors are expected to continue to be key motivators of change in 2014.
- The number of PE and VC funds investing in India continued to increase. Approximately 150 funds from 2012 continued engaging in deals in 2013, while about 160 funds that did not invest in 2012 made investments in 2013.

India witnessed an increase in PE/VC deal value from 2012, reaching $11.8 billion. Deal volume grew by about 26%

Annual investments increased by 16% to $11.8 billion across 696 deals in 2013
Annual PE/VC investment in India



Top 10 deals in 2013

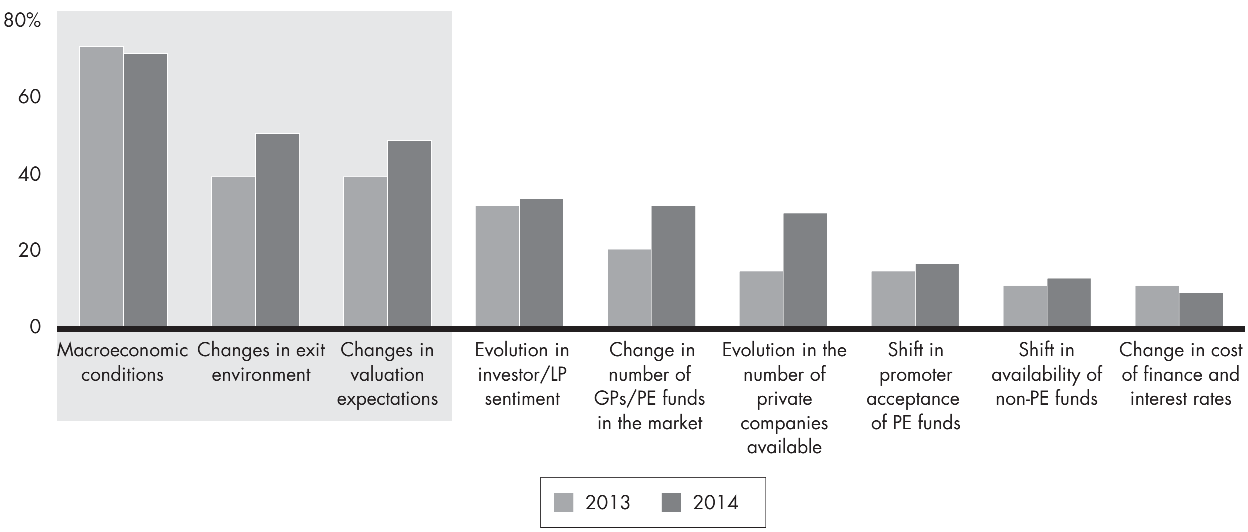
Company	Fund(s)	($M)
Bharti Airtel	Qatar Foundation Endowment	1,260
Alliance Tire Group	KKR	460
Hexaware Tech	Baring Asia	443
GlobalLogic	Apax	420
Flipkart*	Tiger Global; Accel; Morgan Stanley; Sofina; Dragoneer; Vulcan	360
CSS Group	Partners Group, others	270
Lafarge India	Baring Asia	257
Kotak Mahindra Bank	GIC	237
Gland Pharma	KKR	200
Shapoorji Pallonji Group	Canada Pension Plan Investment Board	200
Total		4,107

Note: *In addition to the listed funds, Naspers (a multinational media group) also participated in the Flipkart deal.
Source: Bain PE deals database

GPs agree that deal activity will continue to depend on the macro environment and exit liquidity

What were the key influencers of change in deal activity (number and value of deals) in 2013? What do you think will influence change in 2014?

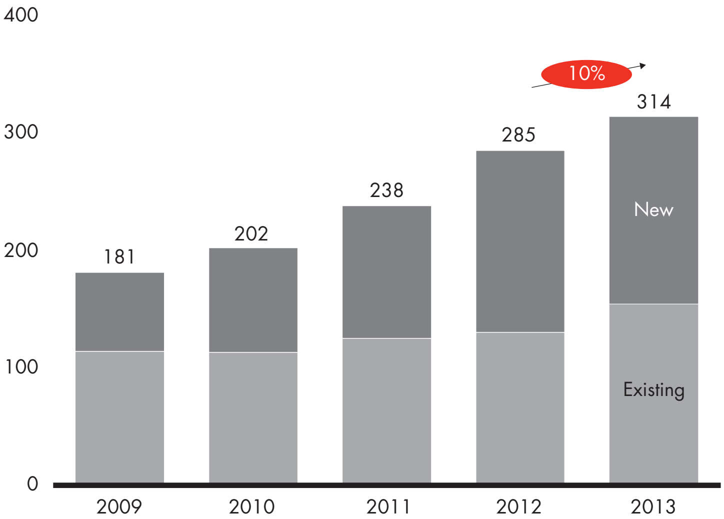
% of total respondents selecting the factor as one of the key influencers



Source: Bain-IVCA General Partner Research Survey 2014 (n=53)

The number of funds participating in deals in India grew by 10% in 2013

Active funds 2009–2013
Number of PE/VC firms conducting deals in Indian market



Top 10 Deals involving funds investing for the first time in India

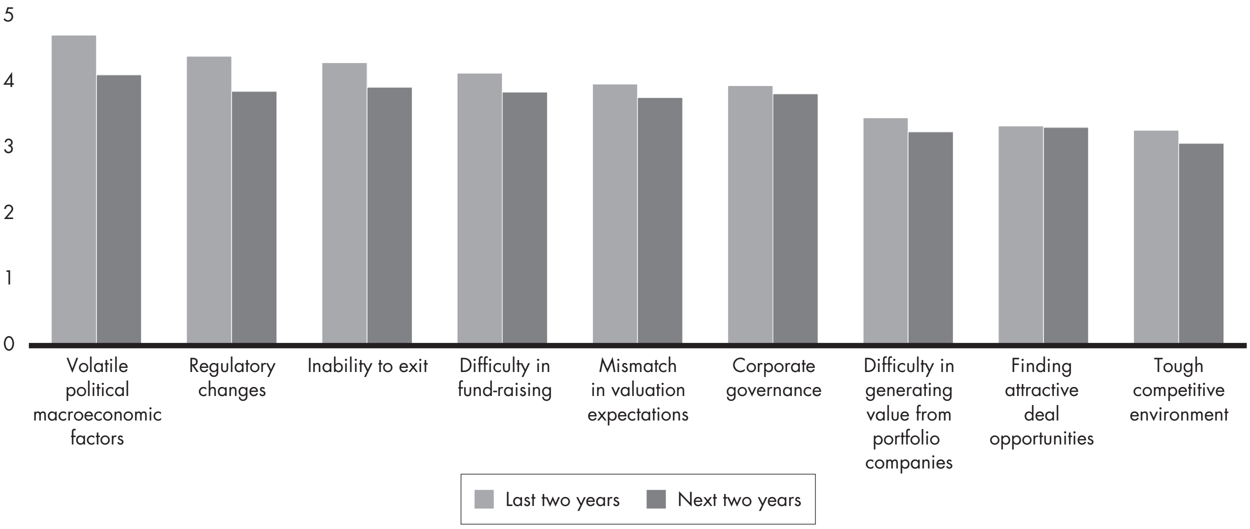
Fund(s)	Investment	Deal size ($M)
Qatar Foundation Endowment	Bharti Airtel	1,260
Vulcan	Flipkart	360
AION**	Avantha Holdings	150
Hassad Food Co.	Bush Foods Overseas	100
Asia Clean Energy	NSL Renewable Power	90
Quadria	Medica Synergie	64
Abu Dhabi Investment Council	Den Networks	50
Invus	Capital Foods	29
AION**	Jyoti International	23
IvyCap Ventures	Reuters Market Light	20

Notes: A fund is classified as new if it has not done any deal in the preceding year, i.e., new funds include funds that did a deal in the current year but were inactive last year; *only funds investing for the first time in India and participating in the deal listed; **AION is a joint venture between ICICI Ventures and Apollo Global.
Source: Bain PE deals database

Market participants do not see much change in the challenges faced by the PE/VC industry

In your view, what have been the biggest challenges and barriers to growth of the Indian PE/VC industry over the last two years? How do you expect these to change?

Average rating on a scale of 1 to 5, where 1=challenge is least important; 5=challenge is very important



Source: Bain-IVCA General Partner Research Survey 2014 (n=53)

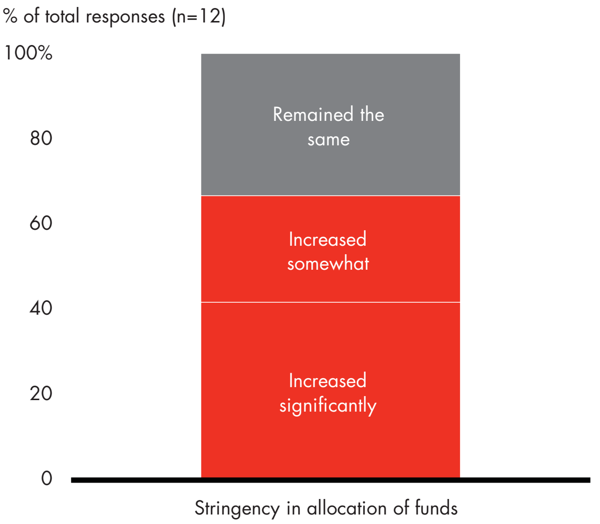
3.

Fund-raising

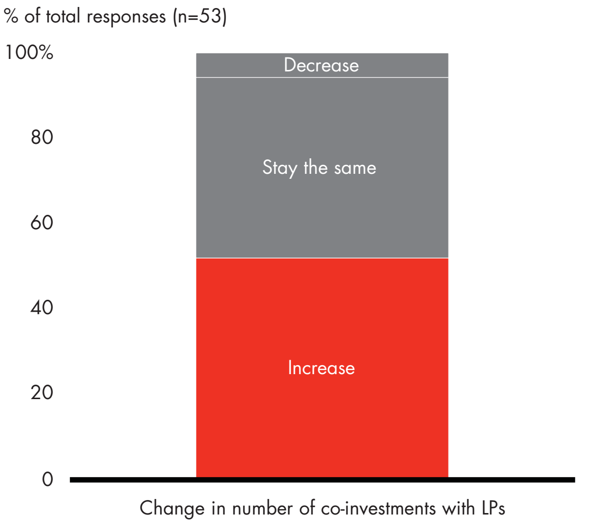
- LPs have increased their scrutiny of GPs when allocating funds. GPs expect to see a larger number of co-investments with LPs in the future.
- 2013 saw continued growth in Asia-Pacific regional funds. Country-focused fund allocation fell in China, India, Australia and New Zealand.
- Dry powder focused on India dropped further and reached $8 billion. However, there is sufficient capital in the market for deal making as funds for India are also drawn from regional allocations of Asia-Pacific and global funds.
- GPs surveyed believe that fund-raising will continue to be tough due to difficult macroeconomic challenges and poor experiences in the past. In the future, GPs will focus on building good investment and exit records to enable easier fund-raising.
- LPs identified PE funds' team quality and industry-focused operational expertise as most critical when allocating funds. GPs seem to understand this view and differentiate most on industry expertise and credibility.

LPs have increased their scrutiny of GPs, and the majority of GPs in India expect to increase their co-investments with LPs

LP survey: How has your scrutiny of GPs changed over the last two to three years?



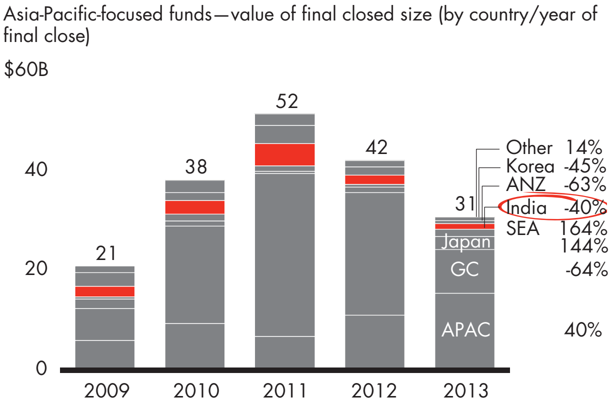
GP survey: How do you expect the number of co-investments with LPs to change in 2014 compared with last two years?



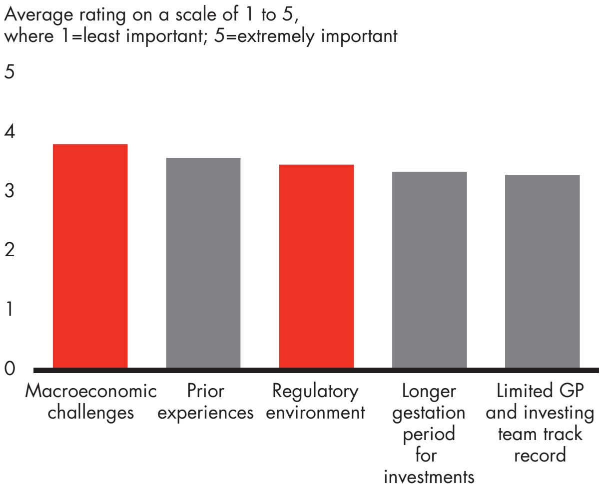
Sources: Bain-IVCA Limited Partner Research Survey 2014 (n=12); Bain-IVCA General Partner Research Survey 2014 (n=53)

Fund-raising is shifting in favor of Asia-Pacific regional funds, while the macro and regulatory environment are major challenges in raising India funds

Funds closed



What are your biggest challenges/concerns when raising India-focused funds from LPs?

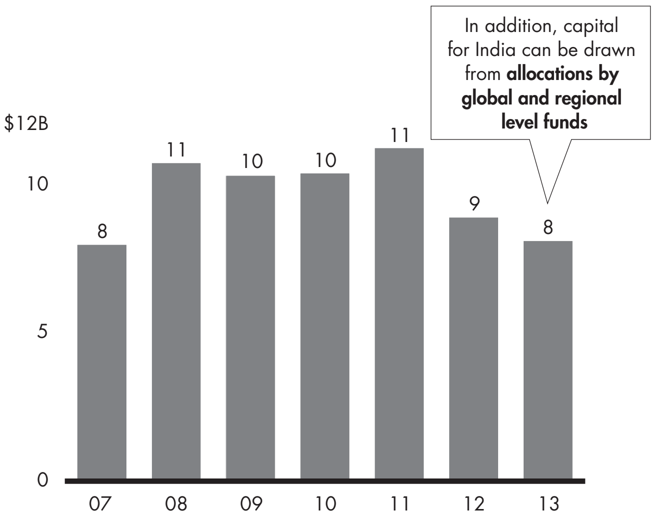


Notes: Left-side figure includes only exits and investments with announced deal value more than $10 million, done in APAC with closed agreement in principle or definitive agreement status; excludes all non-PE/VC deals, bridge loans, franchise funding seed/R&D, concept and distressed deals; also excludes real estate, hotels and lodging, infrastructure and large domestic transfers from SWF to government; excludes funds with no value; estimated APAC value of final close size based on estimated allocation of funds according to location focus and breakdown of investments by region/country for 2008-2012.
Sources: Preqin; Bain-IVCA General Partner Research Survey 2014 (n=53)

India-focused dry powder shrank to $8 billion, but there is no dearth of capital for good quality deals

India dry powder dropped to $8 billion due to reduction in focused fund-raising

Estimated India dry powder—end of year*



Note: *Excludes real estate and infrastructure funds
Source: Preqin-Fund Managers/Dry Powder (21 Jan 2014)

However, there is enough capital in the market to fuel deals

"Dry powder in India might have fallen due to tough fund-raising but it is still more than sufficient to fuel good deals in the market. In addition, the advent of sovereign wealth funds means that deeper pockets are now available to sustain the market."

– GP

"LPs who are taking a long-term view on India are willing to allocate funds if they see potential investments. The problem is not with the funds available but with the low number of good investment opportunities that the Indian market provides."

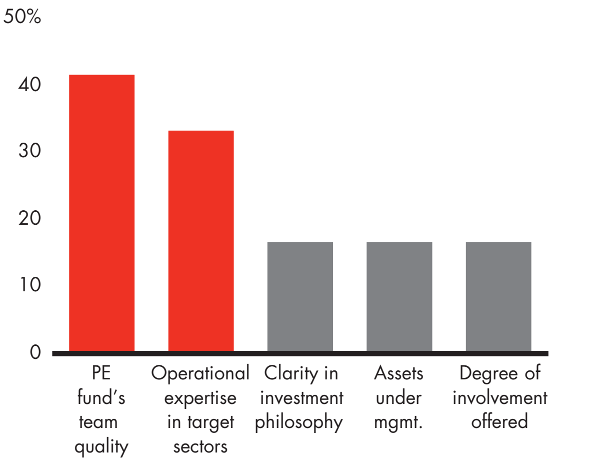
– LP

As LPs are looking for PE fund team quality and operational expertise in target sectors, GPs are focusing on industry expertise

Team quality and focused operational expertise are critical for LP fund allocation

LP survey: What are the most important parameters on which you allocate capital to different GPs/PE funds?

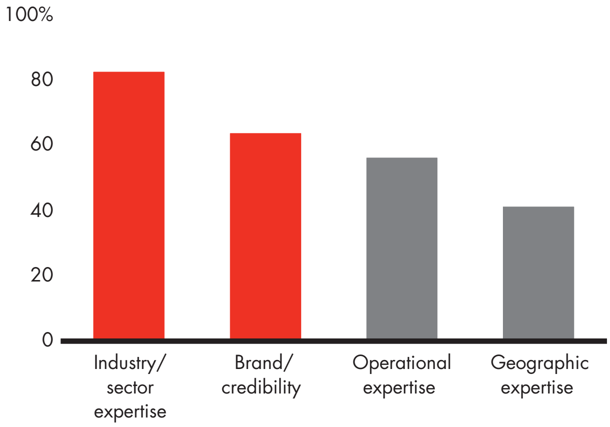
% of total respondents ranking the factor in top two



GPs are aligned with LPs' preferences and differentiate most on industry expertise and credibility

GP survey: Which of the following would you describe as the most important differentiators for your firm?

% of total respondents selecting an option as one of the top two differentiators



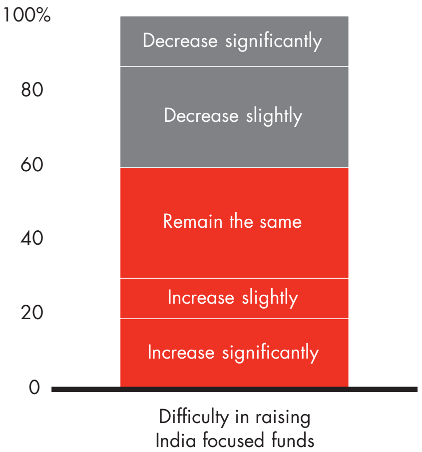
Sources: Bain-IVCA Limited Partner Research Survey 2014 (n=12); Bain-IVCA General Partner Research Survey 2014 (n=53)

Fund-raising is expected to remain tough, but GPs are preparing for next rounds by building good investment and exit records

About 60% of GPs surveyed expect Fund-raising to be tough

How do you expect the difficulty in raising India focused funds to change in 2014?

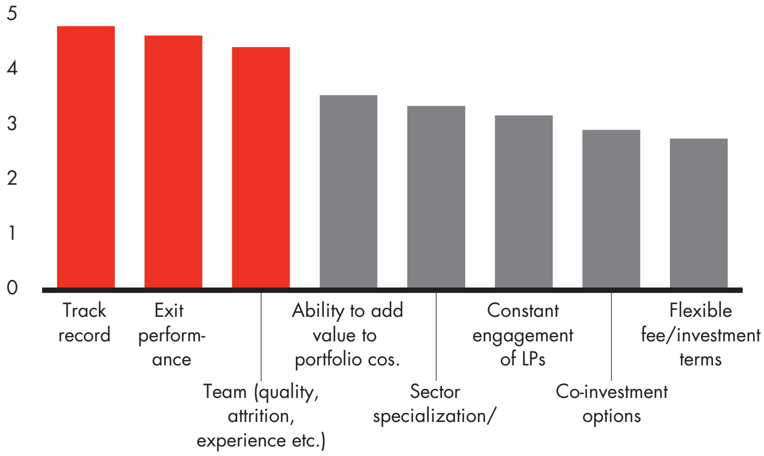
% of total responses



Track record, exit performance and team quality perceived as most important for successful fund-raising

Please rate the importance of the following factors for a successful fund-raising

Average rating on a scale of 1 to 5,
where 1=least important; 5=extremely important



Source: Bain-IVCA General Partner Research Survey 2014 (n=53)

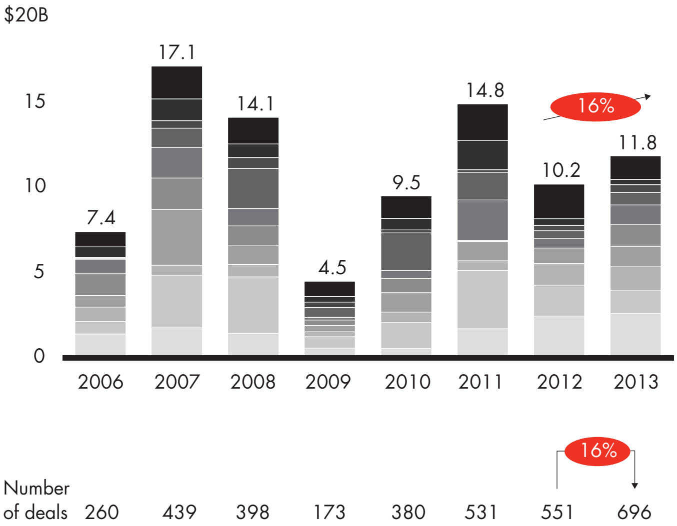
4.

Deal making

- Deal activity in India was robust in 2013 as funds invested grew at 16% and the number of deals jumped by 26%.
- The average PE deal size increased significantly from $35 million in 2012 to $41 million in 2013, fuelled by a growing number of large deals; GPs expect this trend to continue.
- The top 25 deals constituted 55% of total PE deal activity in 2013.
- Competition for deals is increasing, especially as sovereign wealth funds, LPs and strategic players get more interested in deals. However, valuations seem to be rationalising as PE funds become more meticulous in deal evaluation and stick to their investment philosophy.
- As a result of the disciplined approach, GPs feel positive about the potential to generate returns in India but agree that the investment horizon will continue to stay on the higher side.
- India continues to be a predominantly minority-stake market with 50% of deal flow driven by early-stage deals; however, buyouts will continue to increase.
- Looking ahead, GPs are cautiously optimistic about growth in 2014 for the PE and VC industry, with the general elections being a wild card; most funds we surveyed expect an increase in investment targets after 2014.
- Healthcare, technology and IT and consumer services are expected to be the most attractive sectors for investment over the next two years due to underlying secular growth and dollar-denominated deal flow.

PE/VC deal volume increased across sectors; IT & ITES, Healthcare and BFSI saw the most increase in volume

Annual PE/VC investments in India by sector



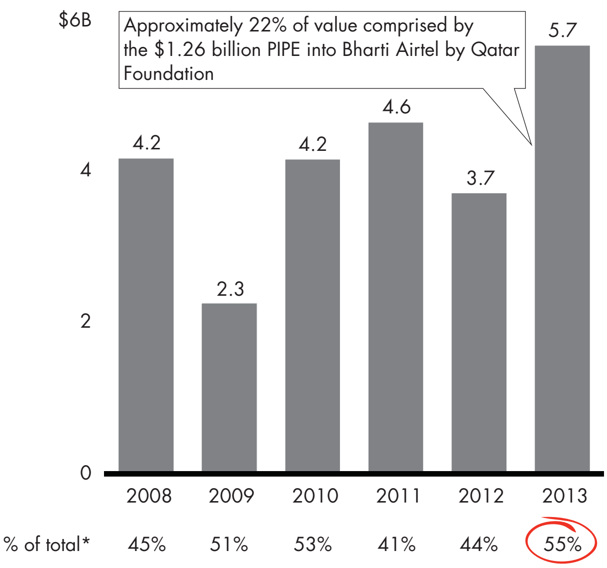
Breakup of deals (by volume)

Sector	Number of deals 2012	Number of deals 2013	Deal value CAGR (12-13)
Other	108	123	-32%
Eng. and construction	14	10	-22%
Media and entertainment	21	36	41%
Energy	19	16	64%
Manufacturing	34	45	105%
Telecom	0	2	–
BFSI	41	66	32%
Healthcare	45	71	8%
Real estate	44	53	-23%
IT & ITES	225	274	5%
Total	551	696	16%

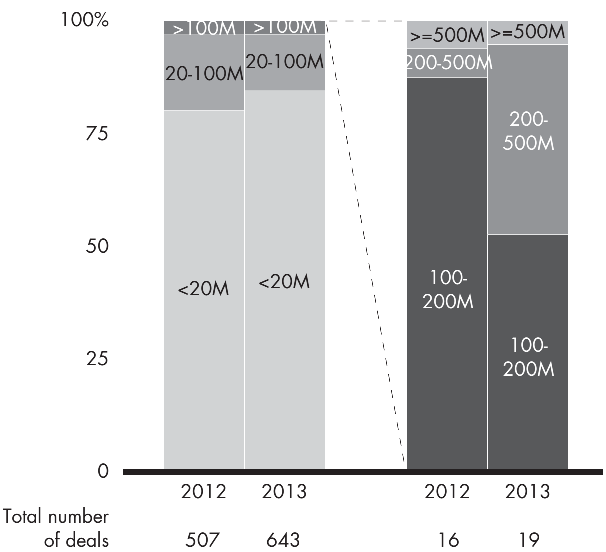
Notes: "Other" includes consumer products, hotels and resorts, retail, shipping and logistics, textiles, education and other services; BFSI refers to banking, financial services and insurance
Source: Bain PE deals database

The top 25 deals comprised a higher share of total investment in 2013 than 2012, due to an increase in deals of more than $200 million

Top 25 deals comprised about 55% of total deal value...
Total size—top 25 deals*



...primarily due to an increase in deals of more than $200 million
% of total deals*

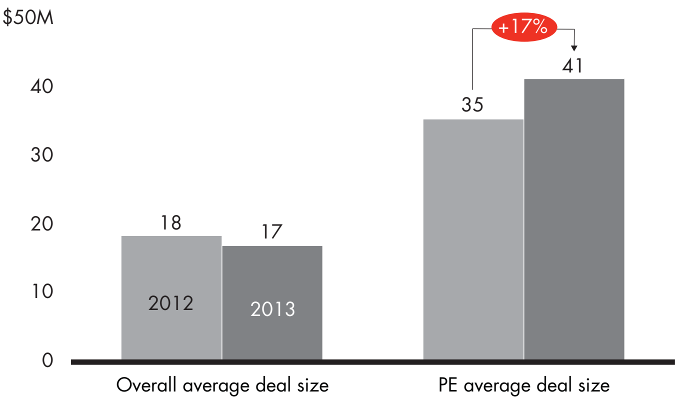


Note: *Excludes real estate deals
Source: Bain PE deals database

Average PE deal size increased and it is expected to grow further

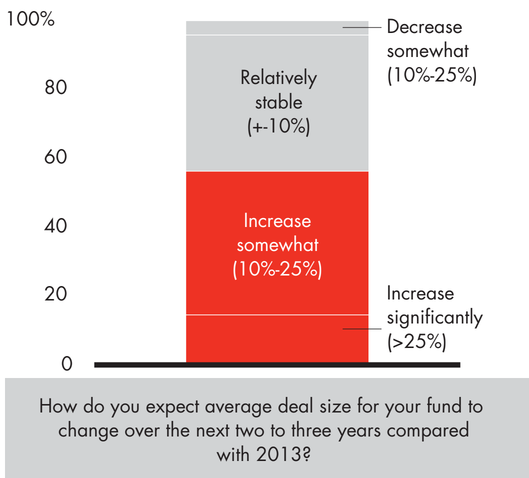
The average deal size increased from $35 million to $41 million for PE deals...

Average deal size



...with further increase expected

% of total responses



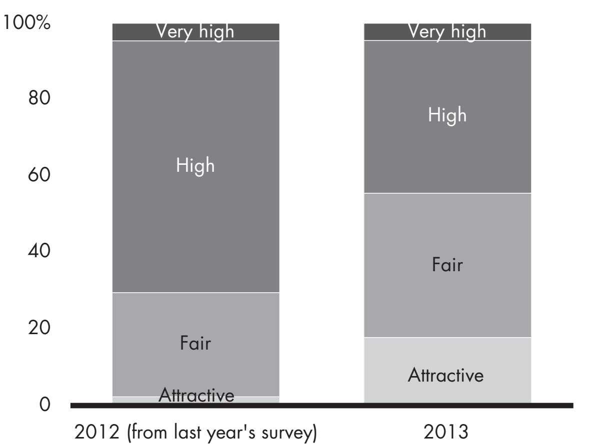
Notes: PE deals exclude VC and real estate deals; VC deals defined as early and growth stage deals with value less than $20 million
Sources: Bain PE deals database; Bain-IVCA General Partner Research Survey 2014 (n=53)

GPs believe that valuations are rationalizing and expect them to stay stable in the future

Most GPs perceive that valuations are tempering and getting more fair

What is your appraisal of current valuations of potential targets in India?

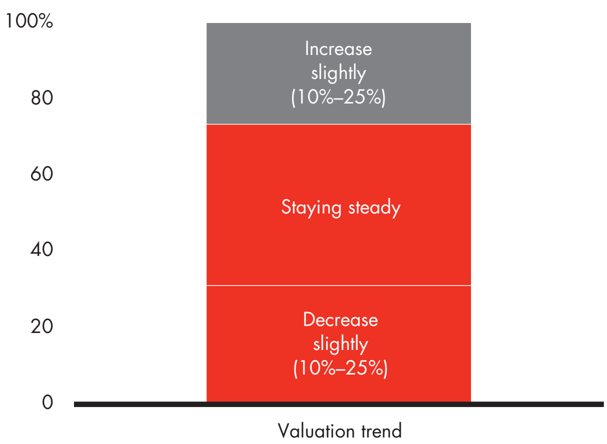
% of total responses



Approximately 75% of GPs believe that valuations will either decrease or stay stable

How do you expect valuations to change?

% of total responses

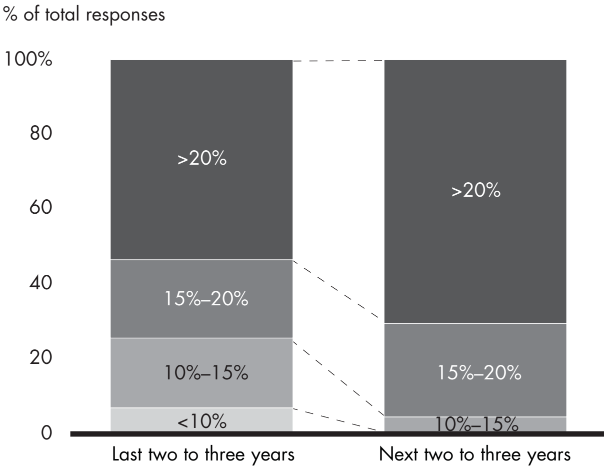


Source: Bain-IVCA General Partner Research Survey 2014 (n=53)

GPs feel positive about the potential to generate returns from current deals, and they expect horizons to stretch

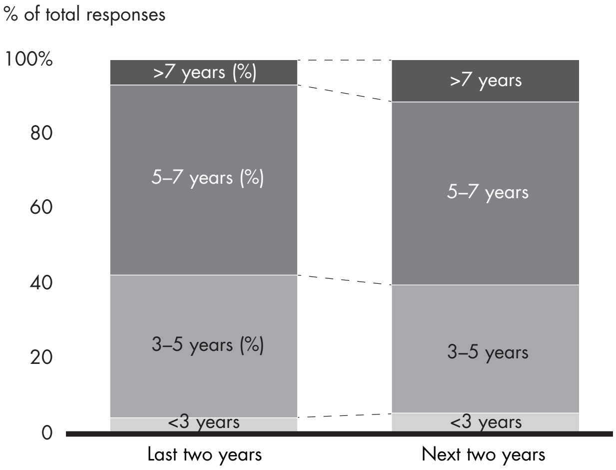
Return expectations for future investments are much higher

What returns (annual net IRR) do you expect from the investments you made in the last two to three years? How will your expectations change for future investments?



Investments with horizons of more than seven years are expected to increase

What has been the average investment horizon of deals made by you during the last two years? How do you expect this to change over the next two years?

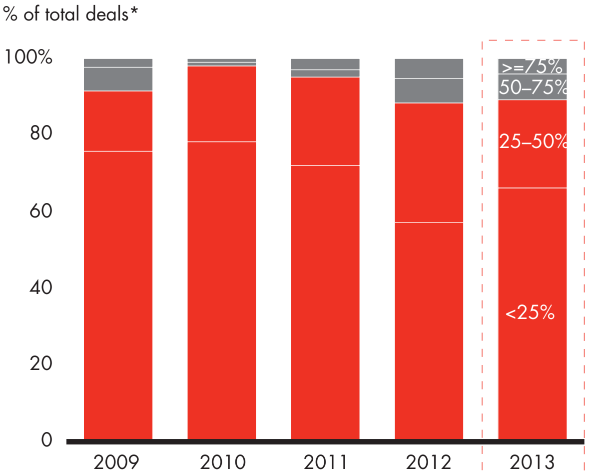


Source: Bain-IVCA General Partner Research Survey 2014 (n=53)

Minority stake deals continue to dominate but are declining in share

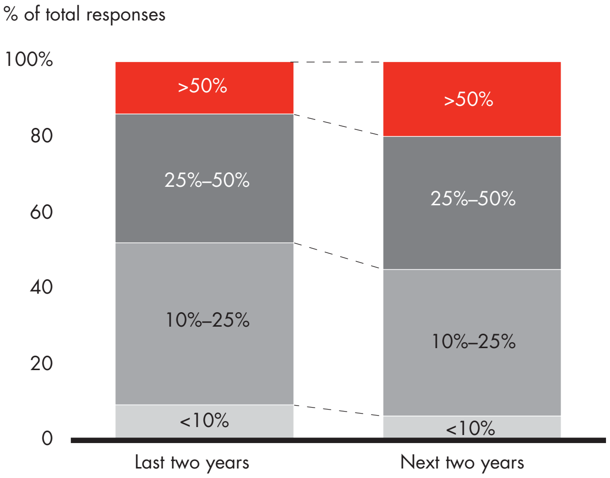
Approximately 90% deals in 2013 were minority stake

PE deals by stake



More GPs are inclined toward majority stake deals in the future

What stakes have you taken in companies you have invested in during the last two years? How do you expect this to change over the next two years?

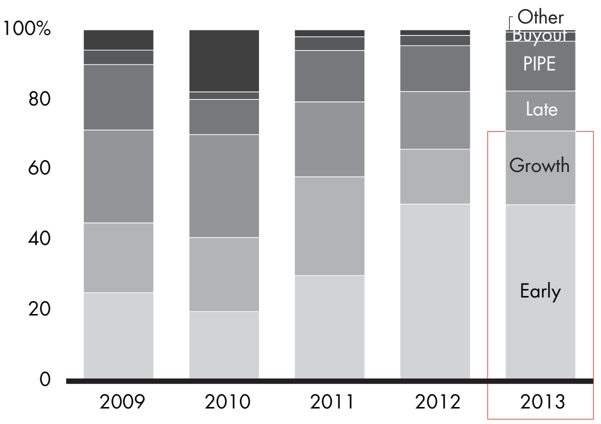


Notes: *Excludes real estate deals; includes only those deals where stake size is known
Sources: Bain PE deals database; Bain-IVCA General Partner Research Survey 2014 (n=53)

Early and growth stage deals gained share in 2013, but buyouts are expected to increase in the next two years

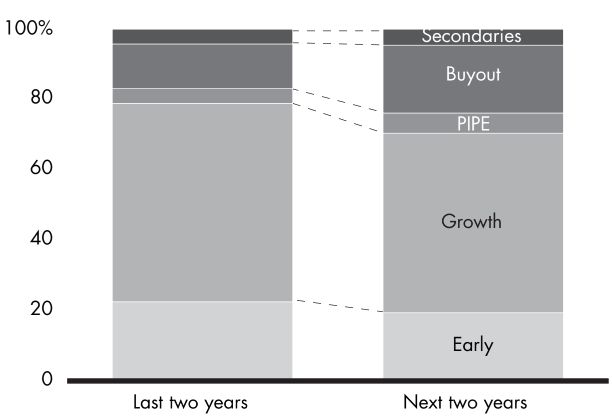
Early and growth stages comprised more than 70% share in 2013, driving volume growth

PE deals by stage



Buyouts are expected to increase sharply

What have been the types of investments made by your fund during the last two years? How do you expect this to change over the next two years?

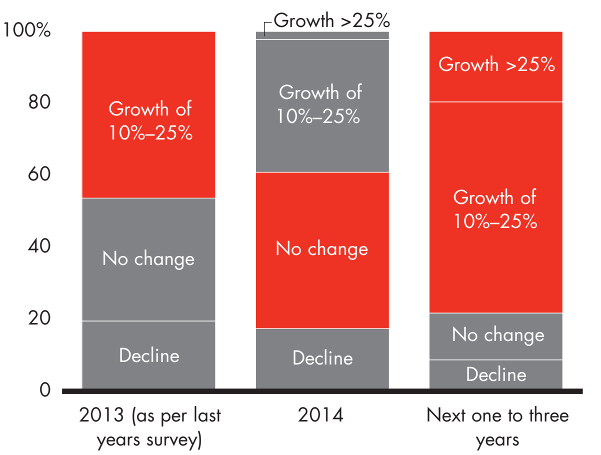


Notes: *Excludes real estate deals; growth stage includes pre-IPO deals
Sources: Bain PE deals database; Bain-IVCA General Partner Research Survey 2014 (n=53)

Despite the uncertainty around 2014 growth, investment outlook in the medium term is positive

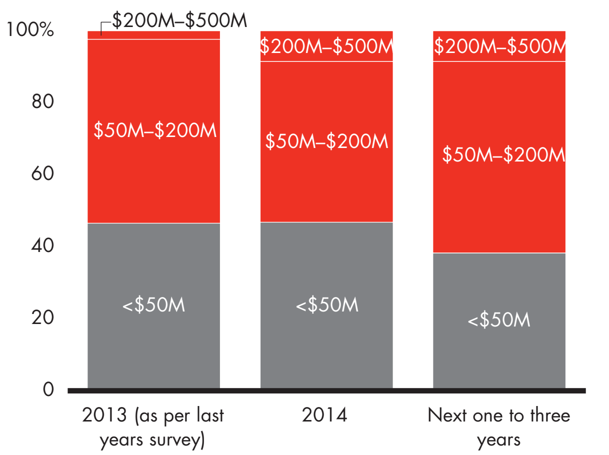
2014 expected to be slow but outlook remains positive

What is your expectation for growth in the Indian PE/VC industry in the future, compared with 2013 (in terms of investments made)?



Investment targets are also set to rise

Approximately how much will your fund target to invest in India on an annual basis in 2014 and beyond?

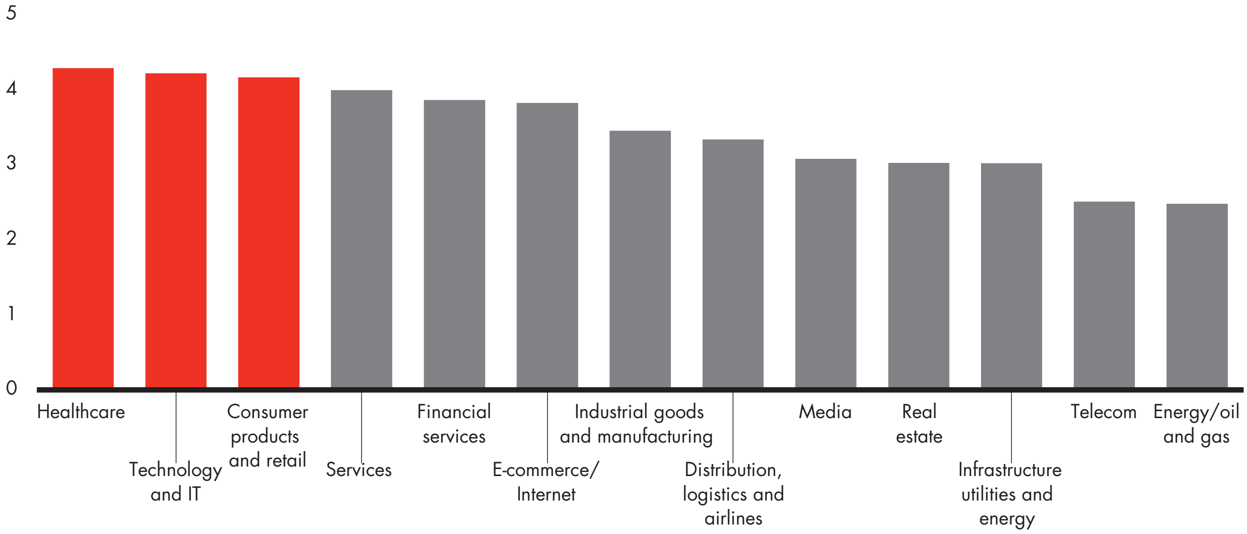


Source: Bain-IVCA General Partner Research Survey 2014 (n=53)

Healthcare, tech/IT and consumer products are considered to be the most attractive sectors for PE/VC investments over the next two years

Which sectors are expected to be attractive for PE/VC investments over the next two years?

Average rating on a scale of 5, where 1=least important; 5=very important



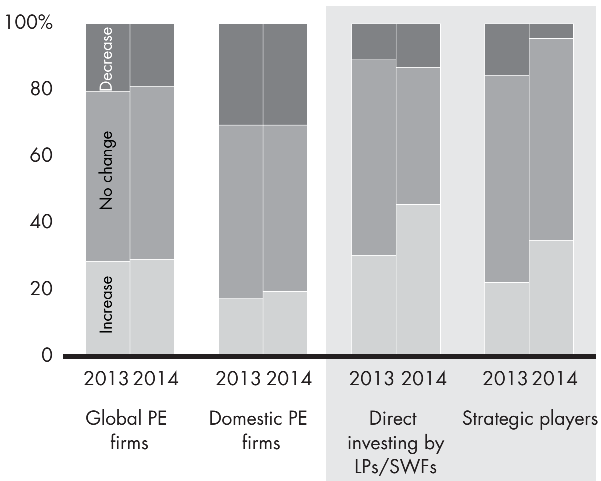
Source: Bain-IVCA General Partner Research Survey 2014 (n=53)

Competition for deals is increasing as LPs and strategic players chase good quality deals

Competition from direct investing by LPs and strategic players is expected to increase in 2014...

How did the competition for PE deals change over 2013 for each category of competitors? How do you think it will change in 2014?

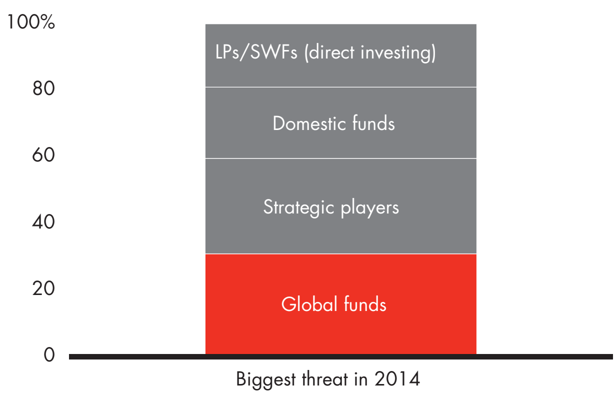
% of total responses



...but global funds with deep pockets are considered the biggest competitor

Identify the category of PE competitors who you see as the biggest threat in 2014.

% of total responses



Source: Bain-IVCA General Partner Research Survey 2014 (n=53)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5.

Portfolio management and exits

- More and more entrepreneurs and management teams are recognising the value of PE and VC as patient and activist capital
- GPs believe that valuations, referrals and sector expertise are the most important criteria for Indian entrepreneurs when seeking PE funding. The success in getting the deal closed is also influenced by the relationship built by the fund with the owner or management teams throughout the deal-making process.
- PE funds are strengthening their portfolio teams, and more than 50% of PE funds we surveyed intend to expand portfolio teams in the future.
- The total number of exits shot up significantly, by 43% in 2013, but the overall value of exits remained flat at 2012 levels of $6.8 billion.
- Only two sectors—IT and ITES, and BFSI—have shown good returns on the invested PE capital.
- Buybacks gained a significant share of total exit volume in 2013, as public markets continued to be tight and secondary deals are taking more time to close.
- Even as a large number of pre-2008 vintage deals stay in PE fund portfolios, most GPs seem to be readying their investments for exit and waiting for a resurgence in valuations (potentially after the elections).
- GPs anticipate a 'rush to exit' post-2014 with secondary and strategic routes gaining favour even as the IPO environment remains uncertain.

Entrepreneur acceptance of PE is increasing; referrals and expertise becoming important along with valuations

GPs agree that Indian promoters now understand PE better

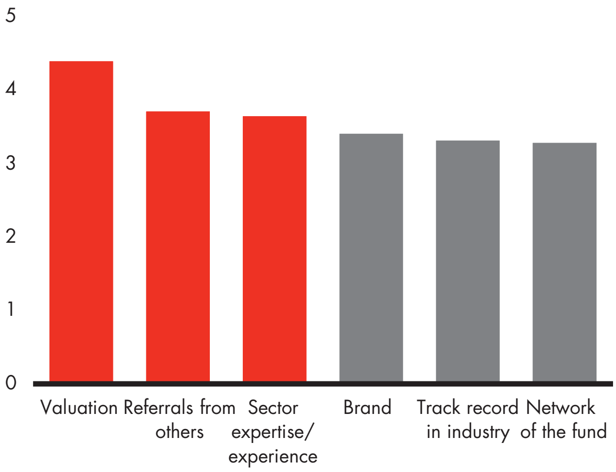
In your view, how well do Indian promoters understand the PE funding proposition?

% of total responses

Valuations, referrals and sector expertise perceived as most important criteria when seeking a PE fund

In your opinion, what is the importance ascribed by entrepreneurs to each of the following criteria while seeking PE funding?

Average rating on a scale of 5 where 1=least important; 5=very important

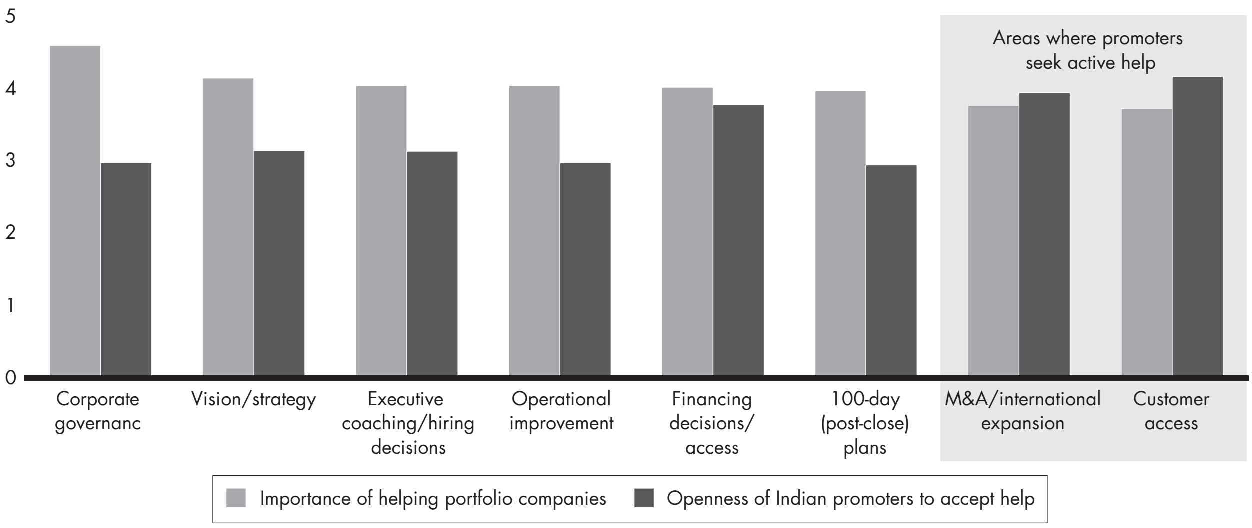


Source: Bain-IVCA General Partner Research Survey 2014 (n=53)

While corporate governance is top of mind for investors, entrepreneurs continue to seek PE support for expansion and customer access

Based on your experience with portfolio companies in India, please rate how important it is to help them in the following areas. Also rate how open are Indian promoters in seeking and accepting help in the following areas.

Average rating on a scale of 5, where 1=least important; 5=very important



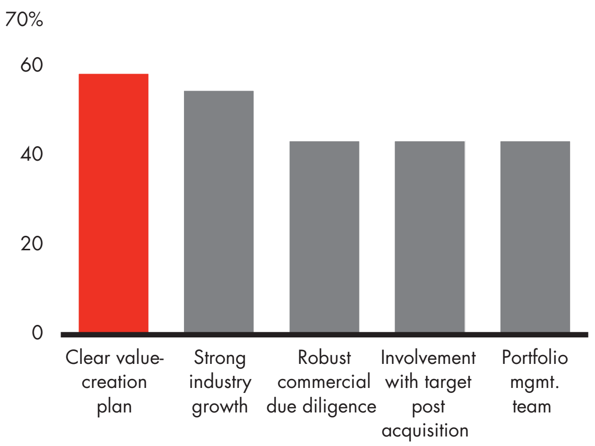
Source: Bain-IVCA General Partner Research Survey 2014 (n=53)

A clear value-creation plan is the most critical element of a successful investment; more than 60% funds either have or are building a value-creation model

Clear value-creation plan rated most critical for investment success

Which of the following do you find most critical for an investment to be a success?

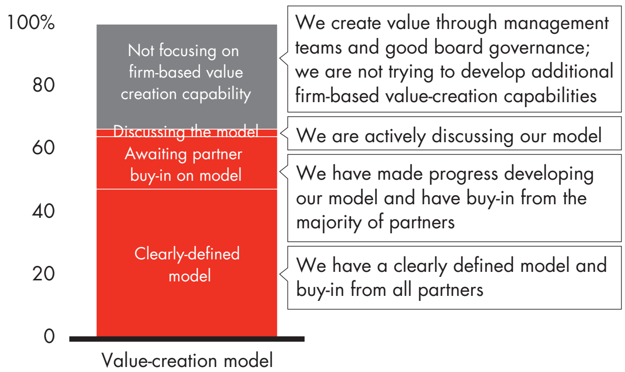
% of total respondents selecting an option as one of top three critical factors



About half of GPs have a clear value-creation model; approximately 35% do not plan to have firm based value-creation capabilities

How would you characterise your firm's view of its post-acquisition value-creation model?

% of total responses



Source: Bain-IVCA General Partner Research Survey 2014 (n=53)

Funds are strengthening their portfolio teams and enrolling operating partners to enhance value creation and differentiate

Portfolio value addition mostly effected through operating partners and portfolio teams

Who is mostly involved in working on the value addition of your portfolio companies?

% of total responses

"Differentiation is becoming important for successful fund-raising. Operational capabilities act as an important differentiator as it showcases the fund's ability to derive value from its investments."

– GP

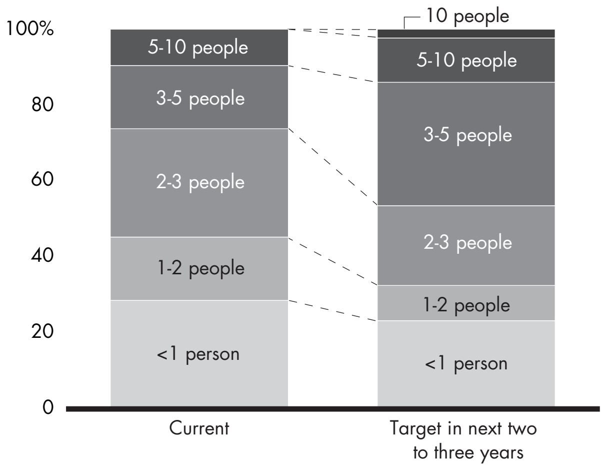
"There is increased pressure from LPs to engage operating teams in order to hasten value creation and enable smoother exits. As a result, there is an increased trend toward hiring operational teams and consultants."

– GP

Most GPs intend to expand operating teams

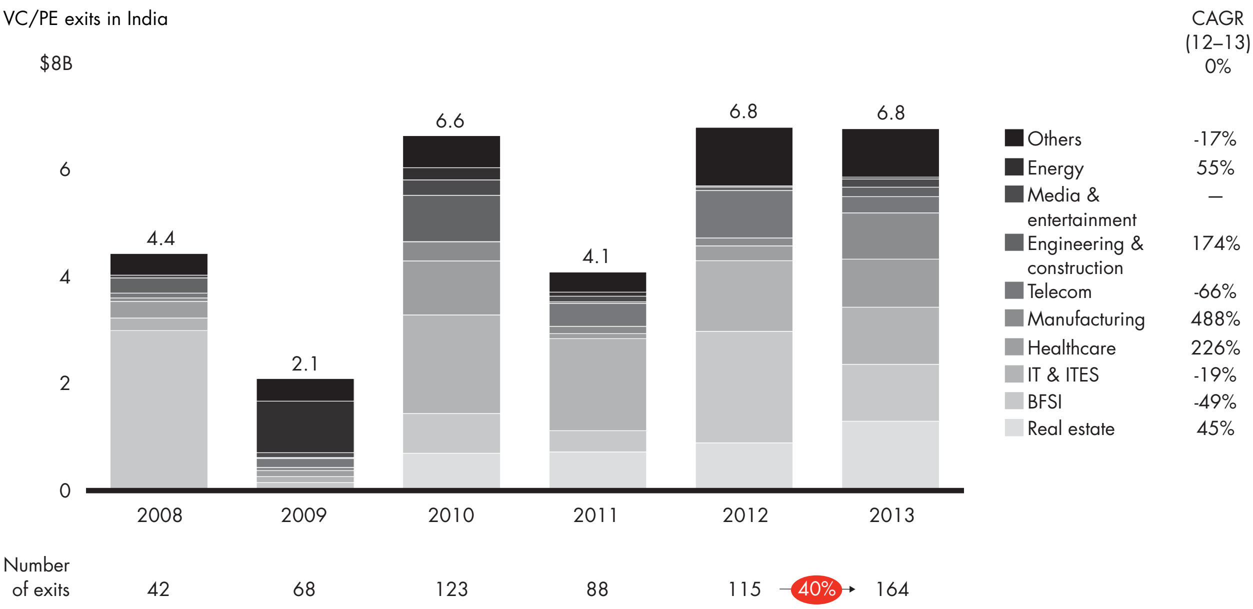
How many people (or full-time equivalents) do you have who focus exclusively on portfolio company value addition? How do you plan to expand the team in the next two to three years?

% of total responses



Source: Bain-IVCA General Partner Research Survey 2014 (n=53)

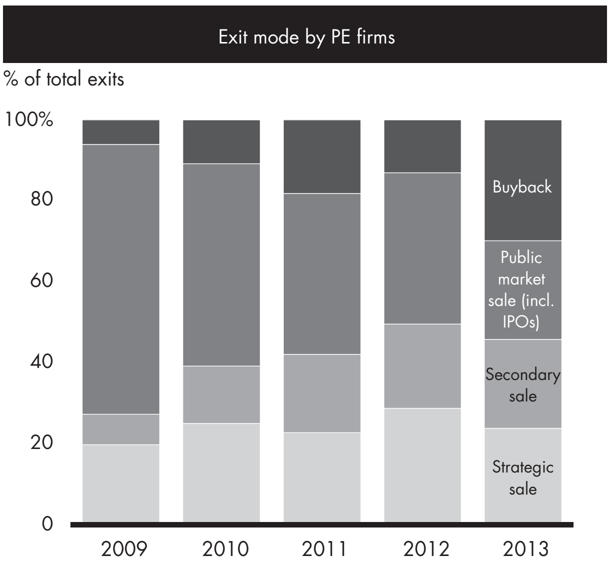
The number of exits increased by more than 40%, but the total exit value remained flat from 2012 to 2013



Note: Only includes exits that were publicly reported; "other" includes consumer products, hotels and resorts, retail, shipping and logistics, textiles, education and other services
Source: Bain PE exits database

The number of buybacks increased significantly in 2013

Buybacks experienced a sharp increase in share amongst exits



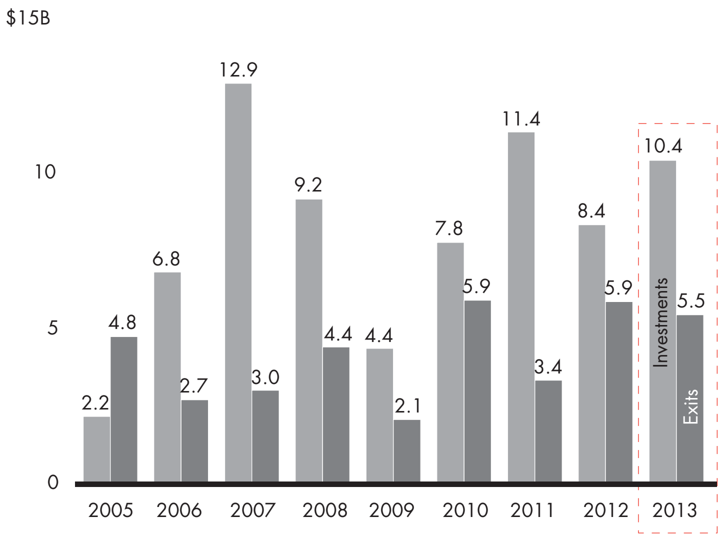
Top 10 exits in 2013

Target	Firm exiting	Value ($M)	Route
Alliance Tire Group	Warburg Pincus	418	Secondary
Shriram Transport Finance*	TPG	306	Public market
Shriram Transport Finance*	TPG	306	Public market
Bharti Telecom	Temasek	305	Strategic
CSS Group	SAIF, Goldman Sachs and Sierra Ventures	270	Secondary
Manipal Global	Capital International; Catamaran; IDFC Private Equity; Premji Invest	269	Buyback
Apollo Hospitals	Apax	203	Public market
Gland Pharma	3Logi Capital (Evolvence)	200	Secondary
WNS Global	Warburg Pincus	175	Public market
Maytas Properties**	Infinite India Investment Management	158	Buyback

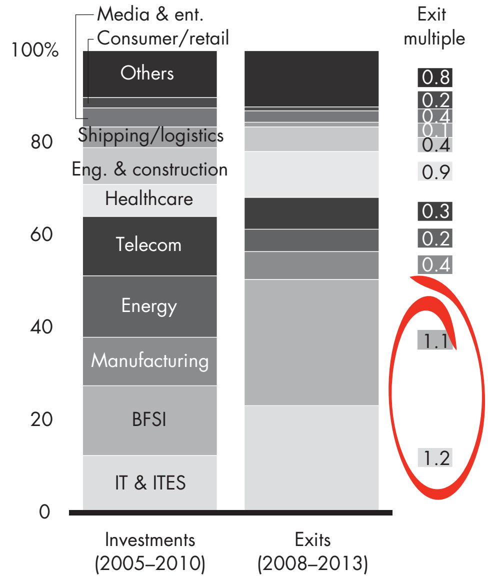
Note: *Exit via public markets done in two independent transactions; **buyback executed through settlement between Maytas (IL&FS) and Infinite India Investment Management (JM Financial & SRS); includes only those exits where exit mode is known.
Source: Bain PE exits database

Only two sectors—IT & ITES and BFSI—have shown good returns on the invested PE capital

Total PE investments and exits*



Total PE investments and exits*



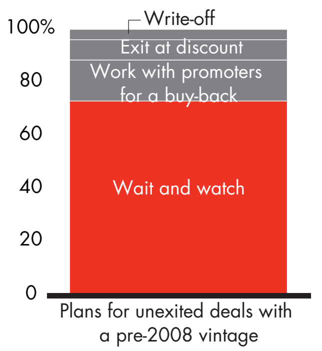
Notes: *Excludes real estate deals; exit multiple calculated as total exit value by total investment value for a particular sector
Sources: Bain PE deals database; Bain PE exits database

Pressure to return capital and potential turnaround in IPO market will accelerate exits in the future

Most GPs plan to hold on to pre-2008 investments

What are your plans for unexited deals with a pre-2008 vintage?

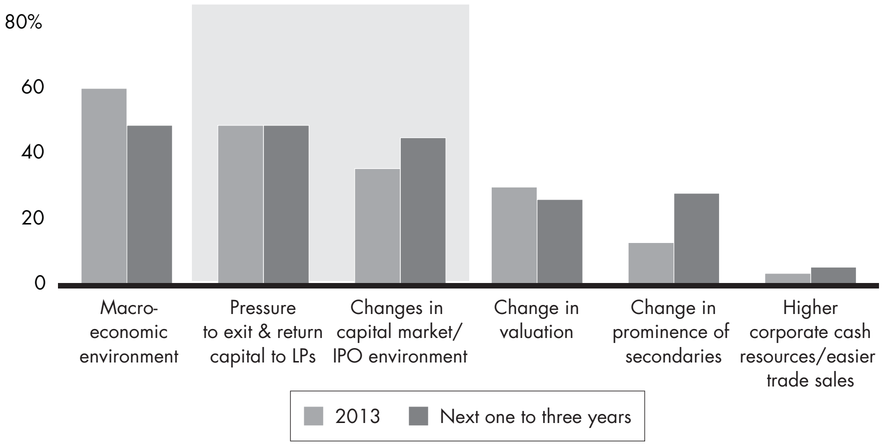
% of total responses



Pressure from LPs and improvements in IPO market are likely to effect number of exits in the next two years

What do you think are the key influencers behind change in the number of exits over 2013 (compared with 2012)? Which factors do you think will influence change in the next two to three years?

% of total responses

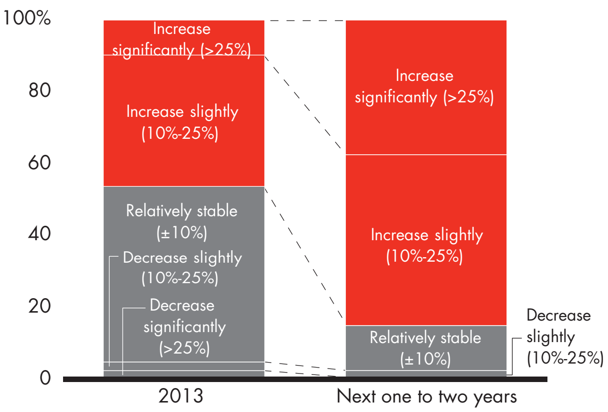


Source: Bain-IVCA General Partner Research Survey 2014 (n=53)

GPs expect strategic and secondaries exits to remain most attractive exit routes

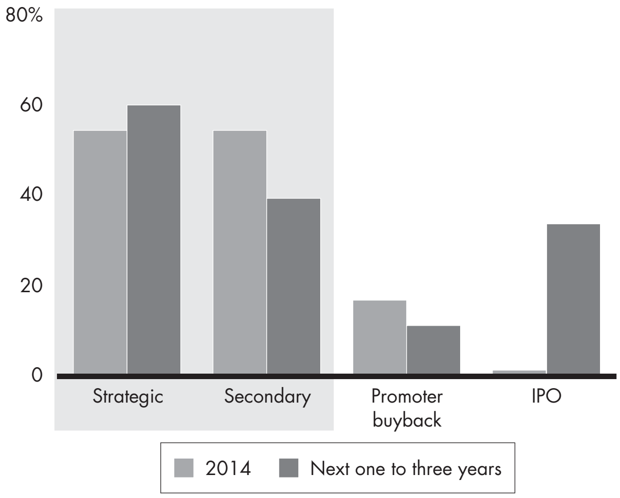
The traffic toward exits is expected to increase sharply

How do you expect the number of annual exits to change compared with 2013?



Strategic and secondary sales seen as most common exit routes

Which modes of exit do you expect to be most common in future years?



Source: Bain-IVCA General Partner Research Survey 2014 (n=53)

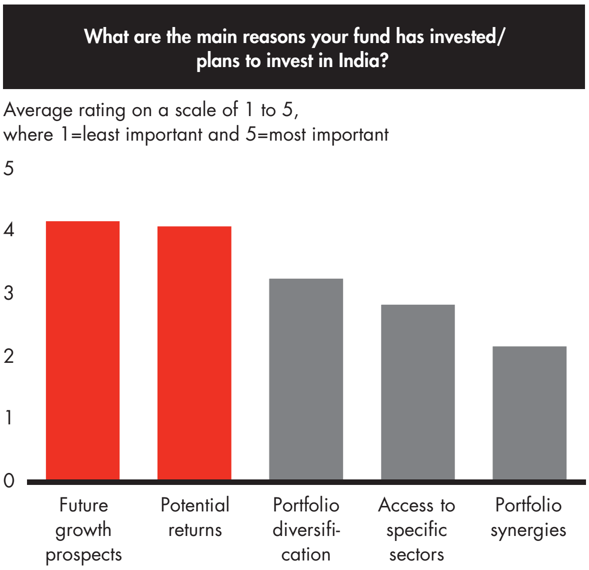
6.

LPs' perspective of India: Rolling up their sleeves

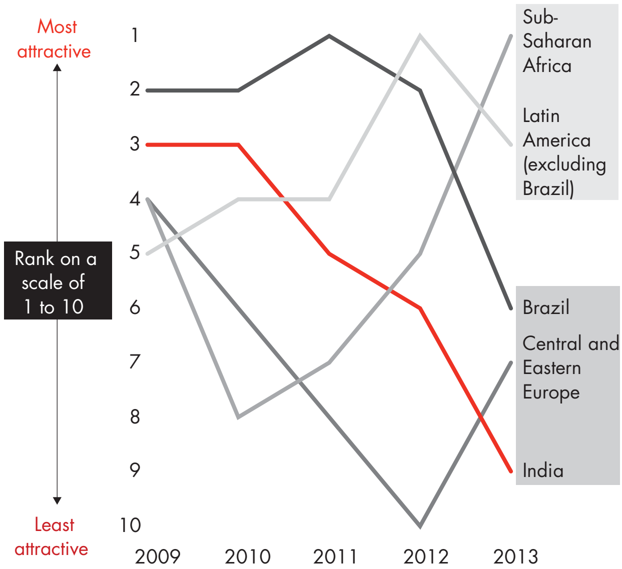
- The importance of India for LPs has reduced as a result of slowing growth and increased competition from the next wave of emerging economies like sub-Saharan Africa and Southeast Asia.
- Allocation of funds to India will remain stagnant or decline in the near term due to negative investor sentiment.
- High entry valuations, macro and exit environment are major deterrents to investing in India. However, despite these challenges, LPs continue to believe in India's long-term potential.
- The LP-GP relationship has become more interactive. LPs are more stringent when allocating funds and are showing increased involvement in deal making and fund disbursal by PE funds.
- LPs have lowered return expectations from India and the impact of this is likely to manifest in LP-GP economics.
- In line with global trends, India has also witnessed a slow but steady movement towards direct investments by LPs in the private equity space.

India is losing favour with LPs as other investment opportunities arise

Growth and potential returns have drawn investments to India…

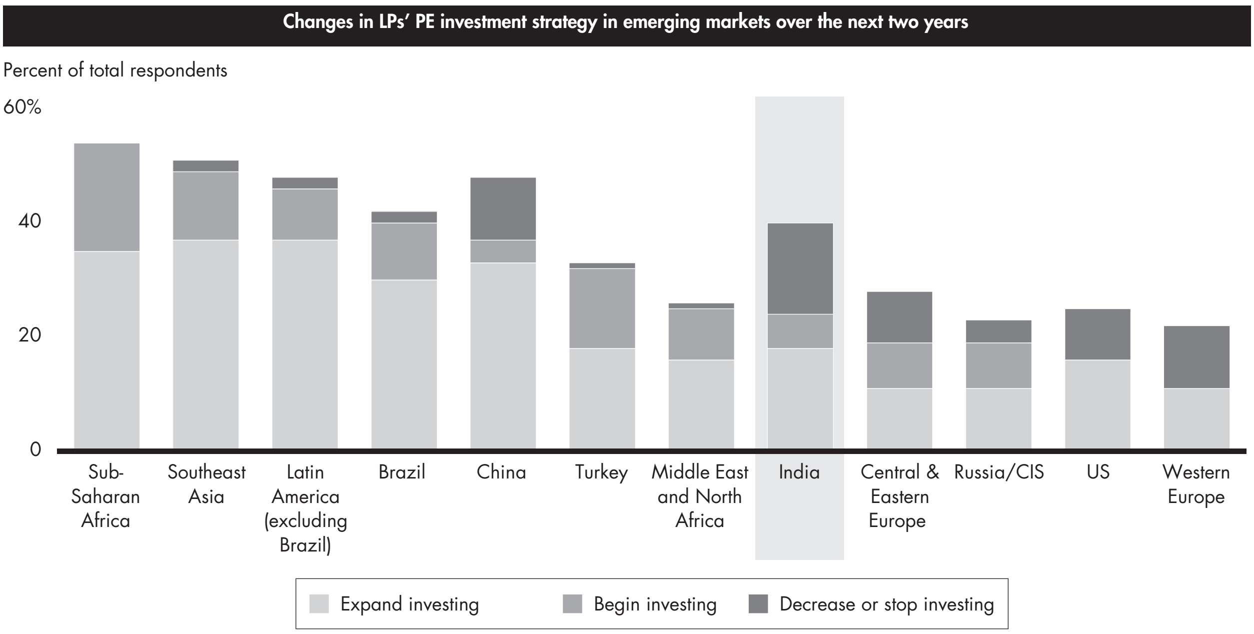


…but for LPs, India's attractiveness as a market has declined



Sources: Bain-IVCA Limited Partner Research Survey 2014 (n=12); EMPEA Global Limited Partners Survey 2013 (n=112)

Fund allocation to India is likely to decline or stay stagnant for about 40% of the LPs that consider India a focus market

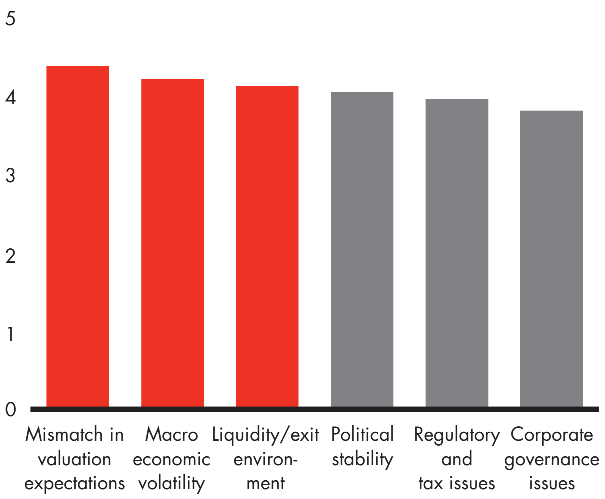


Note: CIS refers to Commonwealth of Independent States
Source: EMPEA Global Limited Partners Survey 2013 (n=112)

Despite concerns about entry valuations and the macro and exit environments, LPs' confidence in India's potential is intact

Valuations, macro and exit environments are the key concerns when it comes to investing in India

What are your major concerns about investing in India?



Sources: Bain-IVCA Limited Partner Research Survey 2014 (n=12); primary research

LPs' confidence in India's macro fundamentals is still intact

"Even though Indian private equity has disappointed in the last few years, LPs continue to see India as a destination with huge potential. There have been multiple concerns, but once uncertainties in the macro situation subside and the growth story gets back on track, LPs will start investing in India again."

– LP

"While the current sentiment is negative, India continues to be a structurally attractive market with both it's 'long-term domestic consumption' and 'cost-efficient export base' stories still intact. This will ensure that India stays on the LPs' radar, though we will look at it with increased caution in the foreseeable future."

– LP

"The enthusiasm for India has clearly waned in the last few years. However, there are still many LPs who look at India as a 'must have' for their portfolios in the long run, and they will continue to allocate funds."

– GP

LPs are more cautious about allocating funds to India and are becoming more hands-on with GPs

LPs have become stringent in allocating funds

Stringency in fund allocation

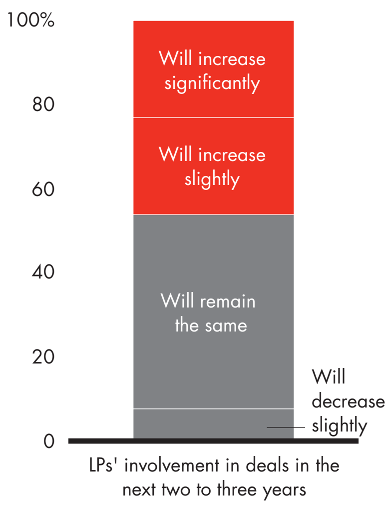
- LPs have increased their scrutiny in fund allocation
- Investment philosophy and track and exit records of PE funds are being put under the microscope
- Operational capabilities that enhance value creation are considered to be critical
- Clear and honest communication from GPs is important to preserving trust in the relationship

"The poor track record of investments in India is a major concern. We want hard proof of robust track records and realisations before allocating funds to GPs. There is also a strong preference for differentiators that will enable a fund to perform better than its peers."

– LP

LPs intend to participate more actively in deals and are also influencing the investment focus of PE funds

How do you see your involvement in deals change over the next two or three years?



- LPs are seeking regular and more detailed reporting from GPs, more control over operations and more influence in the decision about a PE fund's industry focus
- In some cases, LPs are also scrutinising deal specifics like the industry context, target company fundamentals and valuations

"Gone are the days when just being an Indian fund could attract a lot of capital. Today, LPs want you [GPs] to narrow the investment strategy to just a few sectors and only focus on them."

– GP

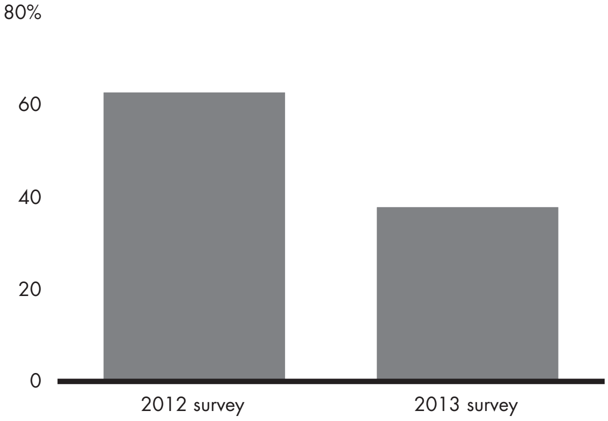
Sources: Bain IVCA Limited Partner Research Survey 2014 (n=12); primary research; secondary research

LPs have lowered their returns expectations for India, and this has implications on LP-GP economics

Most LPs have lowered their returns expectations for India

LPs with net returns expectations >16% for India 2012 vs. 2013

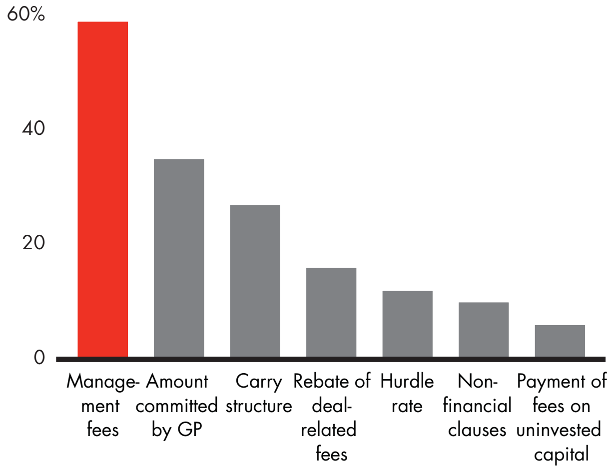
% of total respondents (n=112)



GPs' management fees affect overall returns and are 'top of mind' for LPs

Fund terms that LPs believe should to be amended to improve the LP-GP relationship

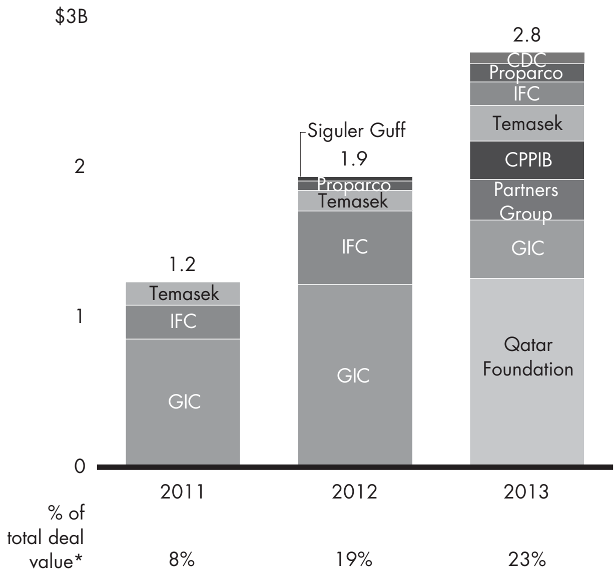
% of total respondents (n=450)



Sources: EMPEA Global Limited Partners Survey 2013 (n=112); Preqin Investor Interviews, June 2013 (n=450)

Reflecting global trends, India is also seeing a slow but steady movement towards direct and co-investments by LPs

Direct and co-investments by LPs in India
Total value of deals involving LPs*



*Includes simultaneous investments by GPs and other investors
Sources: Bain PE deals database; primary research

There is a slow but steady trend of direct investing by LPs in India

"LPs making direct investments is not an India-specific phenomenon; we are seeing that trend globally. This is fuelled by the need to cut down on management fees, which might help increase overall returns generated by the fund."

– LP

"While many LPs would like to invest directly in India, most lack the local expertise required. We are able to make direct investments in India because we have both the capability and access to do so. This ensures higher returns, compared with investing through GPs."

– LP

"Today, direct investments by LPs are not high in number, as most LPs do not have India-based teams. However, as more LPs set up presence in the country, direct investments will also gain pace."

– GP

7.

Implications

- GPs should focus on developing a network among promoters and management teams to access deals at right valuations.
- GPs should check assessment of corporate governance issues and promoter integrity before making investments and cultivating enhanced value creation capabilities to ensure good returns from investments.
- Entrepreneurs should recognise PE as activist and patient capital and work with GPs to leverage a PE fund's expertise and network in order to build a strong business with a long-term, competitive advantage.
- LPs should recognise the nuances of the Indian market and set realistic expectations on returns and investment horizons.
- It will be important for LPs to assess and understand GPs' track records and ensure alignment of their investment philosophy and risk appetite to achieve satisfactory results.
- Policy makers need to understand the role that private equity can play in the growth of India. Simplifying regulatory and tax frameworks to attract long-term capital can contribute significantly to boost both short- and long-term growth.

Implications

Overall, 2013 saw deal values rising, but it was a difficult year for private equity in India, as both fund-raising and exits proved to be challenging. A tough macroeconomic situation and a slower-than-expected pace of exits are forcing several market participants to get back to the drawing board and rework their strategy. PE funds are sharpening their focus on the best-quality deals based on their investment philosophy and are investing in relationships with promoters and management teams to conclude at reasonable valuations. Additionally, the emphasis on value creation after the acquisition has gained more importance. The PE industry anticipates that favourable results in the general elections will spur a series of economic initiatives and lead to policies that will promote further investment in multiple sectors to boost both short- and long-term growth.

General partners: First, GPs need to double down on developing differentiated value creation capabilities, which is not only critical to realise above-expectation returns but also to raise funds successfully. Second, GPs should invest in building a network with promoters and management teams well before the deal process; this is important as it plays a key role in securing the deal at the right valuation and fosters a relationship based on trust. Third, there are attractive investment opportunities emerging in the secondary market. While some of these investments have not yielded financial returns as expected, these companies understand the PE value proposition and are more experienced in how to make partnerships with PE funds win-win. Finally, focusing on the 'softer' aspects of the deal is as important as landing on the right valuation; these softer aspects include corporate governance and integrity of the leadership in the investee company.

Indian entrepreneurs: Those Indian entrepreneurs lacking prior experience with PE and VC should look at PE as activist capital, recognising the additional capabilities and network that private equity can offer, beyond just funding. Moreover, entrepreneurs should appreciate the role of private equity as patient capital and work with their private equity partners to think about business opportunities and challenges together. It is in the interests of management teams to help private equity partners appreciate market realities and seek management teams' support where they might have expertise, whether it's in leveraging their brand in the marketplace, improving a recruiting proposition when hiring a senior executive, requesting introductions with potential customers in the PE fund portfolio, or learning and adopting best practices in corporate governance, working capital management and so on.

Limited partners: The Indian market is unique and governed by its own nuances. So it is imperative for LPs to fully understand the investment opportunity in India and assess risks in certain sectors or specific companies firsthand. This would enable LPs to set realistic expectations on the return potential and investment holding periods as they commit capital to India. The Indian market has matured over time, and the PE and VC industry is now at the close of a major investment cycle. As LPs seek to commit more capital and decide whom to trust with their capital, LPs should invest time to understand the track record of the fund and its GPs, and develop a clear understanding of alignment of the fund's investment philosophy with their own risk-return appetite. Last but not the least, LPs should encourage or discourage GP behaviours to ensure alignment with the investment philosophy throughout the investment term.

Public policy makers: Realising India's growth aspirations requires a lot of capital. Private equity can play a pivotal role in bridging the gap between domestic sources of funds and the necessity for nation-building. Policy makers should re-evaluate the investment environment and regulatory framework around private investing in key sectors like education, healthcare and infrastructure, and explore opportunities to invite private capital to participate. The unique character of private equity as patient capital and its capacity to shoulder the risk in ventures differentiates it from conventional sources of funding. Creating a more conducive environment for private equity to attract funds and invest could make private equity an important contributor to the realisation of India's growth story.

The year 2013 presented many challenges to the private equity industry in India—but the industry seems to be coming out of adolescence. While prospects for 2014 seem tough, there is the potential for recovery to accelerate if all industry participants work together. We believe private equity and venture capital investors should continue to be excited about opportunity in India. PE and VC are critical to foster entrepreneurship in the country and help Indian companies professionalise and scale up rapidly, thereby unlocking the true potential of India.

About Indian Private Equity and Venture Capital Association

Indian Private Equity and Venture Capital Association (IVCA) is the oldest, most influential and largest member-based national organisation of its kind. It represents venture capital (VC) and private equity (PE) firms to promote the industry in India. It seeks to create a more favourable environment for equity investments and entrepreneurship. It is an influential forum, representing the industry to governmental bodies and public authorities.

IVCA members include leading VC and PE firms, institutional investors, banks, corporate advisers, accountants, lawyers and other service providers to the VC and PE industry. These firms provide capital for seed ventures, early-stage companies, later-stage expansion and growth financing for management buyouts and buy-ins.

IVCA's purpose is to support the examination and discussion of management and investment issues in PE and VC in India. It aims to support entrepreneurial activity and innovation, as well as the development and maintenance of a PE and VC industry that provides equity financing. 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 one another.

IVCA stimulates the promotion, research and analysis of PE and VC 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 VC industry.

About Preqin

Preqin is the alternative assets industry's leading source of data and intelligence. Its products and services are utilised by more than 20,000 professionals located in over 70 countries for a range of activities, including investor relations, fund-raising and marketing, and market research. Preqin, founded in 2003, operates from offices in New York, London, Singapore and San Francisco.

About Bain & Company's Private Equity business

Bain & Company is the leading consulting partner to the private equity (PE) industry and its stakeholders. Private equity consulting at Bain has grown thirteenfold over the past 15 years and now represents about one-quarter of the firm's global business. We maintain a global network of more than 1,000 experienced professionals serving PE clients. In India, we have a leadership position in PE consulting and have reviewed a majority of the large PE deals that have come to the market. Our practice is more than triple the size of the next-largest consulting firm serving private equity firms both globally and within India.

Bain's work with PE firms spans fund types, including buyout, infrastructure, real estate and debt. We also work with hedge funds, as well as many of the most prominent institutional investors, including sovereign wealth funds, pension funds, endowments and family investment offices. We support our clients across a broad range of objectives:

Deal generation: We help develop differentiated investment theses and enhance deal flow, profiling industries, screening companies and devising a plan to approach targets.

Due diligence: We help support better deal decisions by performing due diligence, assessing performance improvement opportunities and providing a post-acquisition agenda.

Immediate post-acquisition: We support the pursuit of rapid returns by developing a strategic blueprint for the acquired company, leading workshops that align management with strategic priorities and directing focused initiatives.

Ongoing value addition: We help increase company value by supporting revenue enhancement and cost reduction and by refreshing strategy.

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

Firm strategy and operations: We help PE firms develop their own strategy for continued excellence, by devising differentiated strategies, maximising investment capabilities, developing sector specialisation and intelligence, enhancing fund-raising, improving organisational design and decision making, and enlisting top talent.

Institutional investor strategy: We help institutional investors develop best-in-class investment programmes across asset classes, including PE, infrastructure and real estate. Topics we address cover asset-class allocation, portfolio construction and manager selection, governance and risk management, and organisational design and decision making. We also help institutional investors expand their participation in PE, including through co-investment and direct investing opportunities.

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