

PE/VC Agenda

India Trend Book 2021



Contents

Foreword.....	3
Preface and outlook	4
A brief review of 2020.....	9
PE/VC in India - a decade in review	15
2011-2020: key trends	27
Analysis of sectoral performance - 2011-2020	49
Exits - a mixed bag.....	63
Trends for the next decade	75
Tax and regulatory updates	77
Glossary of acronyms.....	90
Appendices.....	92



Foreword



Renuka Ramnath
Chairperson, IVCA

Founder, Managing Director & CEO,
Multiples Alternate Asset Management Pvt. Ltd.

2020 was a remarkable year; a year that can be deemed as the year of digital acceleration. The pandemic and its aftermath literally brought the planet to a standstill for some time, disrupting economic and social activity in ways never seen before. It was a year that saw PE/VC investment activity start off on a sombre note, then plunge sharply in 2Q-3Q2020, only to recover smartly in 4Q2020. It was a year that saw the Reliance Group entities successfully pull off the largest private fund-raising exercise across their Jio and Retail platforms, attracting several marquee global investors to make their maiden investments in India. It was a year that saw increased prominence of sectors like pharmaceuticals, education and telecom. There was however a significant reduction in PE/VC backed exits.

Notwithstanding the challenges thrown up by the pandemic, the Indian PE/VC ecosystem has only become more resilient and better at finding newer opportunities, bringing in much needed capital into the country. During this past decade, dollar value of Indian PE/VC investments grew from US\$8.4 billion in 2010 to US\$47.6 billion in 2020, a CAGR of ~19%. A lot of this growth came in the period 2015-2020, during which Indian PE/VC investments compounded at a CAGR of >26%. It was during this time that India moved from 8th in 2014 to the top three for the last five years in a row in the ranks of attractive emerging market investments for LPs¹.

Investor confidence in India is a combination of long-term growth opportunities, a robust business infrastructure and supportive government and regulatory measures and reforms.

Today, the Indian PE/VC industry is an important part of the Indian economy. It is the single largest source of much needed FDI. The industry is not just a provider of capital, but also an agent of change, that is playing an important role in providing the right momentum to the Indian economy. PE/VC backed companies are helping the cause of nation building by bringing in new business models, creating new jobs, backing entrepreneurs, and helping fund financial inclusion, better infrastructure, increase renewable energy and promote capital efficiency in the Indian economy.

As we embark on a new decade, the future is bright for the Indian PE/VC sector. India offers a range of investment opportunities suitable for a range of investors from angel to seed capital to start-ups to growth to buyouts and across a range of sectors. I thank the EY team for putting together this report and for their detailed work.

I thank all of you for your support and look forward to your continued participation in IVCA initiatives which is working tirelessly to strengthen the Indian private equity and venture capital ecosystem.

¹ Global Limited Partners Survey: Investors' Views of Private Equity in Emerging Markets



Preface and outlook

Preface

2011-2020 was a pivotal decade for the Indian PE/VC industry during which the industry grew from a nascent asset class to a mature ecosystem, crossing many significant milestones. In this decade, PE/VC investments grew at a CAGR of 19% aggregating to a total of US\$232.4 billion. A major portion of these investments came in the last four years, accounting for 68% of all the PE/VC investments made during the decade, growing at a CAGR of 31%.

Notwithstanding the sharp downturn in investment sentiment due to the COVID-19 pandemic, the decade ended on a record high of US\$47.6 billion in PE/VC investments in 2020. This was largely on account of a flurry of mega investments in Jio Platforms and Reliance Retail of US\$17.3 billion. Without these investments, PE/VC investments in 2020 would have been lower by 36% on y-o-y basis. Though PE/VC investment activity rebounded in the fourth quarter of 2020 on the back of large stimulus programs by global central banks and hopes of return to normalcy with the successful development of vaccines for COVID-19, the pandemic has caused a significant shift in PE/VC investments from the traditionally 'in favor' sectors. The pandemic has led to the rapid adoption of technology across companies and governments alike, as well as, brought into focus the need for investments in the life sciences sector. Sectors like edtech, life sciences, technology and some sub-sectors of financial services have demonstrated *resilience* to the disruptions caused by the pandemic and ensuing lockdowns and thus gained prominence over the traditionally favorite sectors for PE/VC investors like infrastructure, real estate, consumer and retail and sub-sectors of financial services like lending. Going forward into the new decade, we expect these new favorites to continue attracting higher than before PE/VC investments.

In this decade, the PE/VC investment mix also changed significantly, progressing from primarily minority growth investments into one in which large buyouts have become a significant part of the overall PE/VC investment pie (by dollar value).

This report attempts to summarize some of the key trends that emerged over the decade:

1. As global corporations look to mitigate risks by diversifying their supply chains, many new opportunities will open-up for Indian corporates, who will look to raise private equity capital to fund the new investments required.
2. The pandemic has widened the chasm between large companies and the smaller ones. Differential access to resources will drive consolidation in most Indian sectors that have a long unorganized tail and create new and larger opportunities for both growth and buyout PE investors.
3. The trend of infrastructure and real estate investors coming into structures like InvITs and REITs is expected to further strengthen in the coming years with many companies/government entities making plans to monetize assets through InvITs and REITs. As per some news reports, already InvITs worth almost US\$5 billion are in the pipeline.
4. The tectonic shifts in India's digitization unleashed by the pandemic coupled with the sentiment boost driven by mega successful IPOs/listings of PE backed tech companies in the US are expected to keep Indian VC investors

busy as new, hyper scalable business models emerge and home grown technology companies look to list in the public markets. billion in 2020—an 11-fold increase over a 10-year period. Between 2011-2020, these funds have directly invested US\$50.7 billion in India, accounting for ~22% of total PE/VC investments.

5. Financial services, infrastructure, real estate, e-commerce and technology have been the most preferred sectors for PE/VC investments, accounting for 60-70% of all PE/VC investments during the decade.
6. The Indian start-up ecosystem has developed into one of the most vibrant globally. The number of start-up investments have grown more than three-fold from 159 in 2011 to 557 in 2020. According to a report by NASSCOM, with 38 unicorns as of 2020, India has the third largest number of unicorns globally after US and China.

India's growing attractiveness as an investment destination for PE/VC investments has been acknowledged by global LP's as well. The Global Limited Partners Survey² conducted every year by EMPEA has in the last five years, consistently ranked India amongst the top three most-attractive emerging market destinations to make GP investments, a significant improvement from 8th rank in 2014. This is further underlined by the record PE/VC investments made in India in 2020 despite the strong headwinds caused by the pandemic.

Emerging out of the GFC, exits was one of biggest pain points for the Indian PE/VC industry. Exits remained subdued in the first half of the decade accounting for 23% of all exits by value. Post 2015 there was a pickup in exit activity with the last five years accounting for 77% of exits by value, notwithstanding a lackluster performance in 2020 that was severely impacted by the pandemic. The exit environment in India in the earlier years was marred by issues of corporate governance, contract enforcement and lack of a vibrant ecosystem for secondary and strategic deals. However, the growing attractiveness of India in the latter half of the decade and the entry of a new class of investors like pension funds, sovereign wealth funds, specialized secondary funds, global buyout funds and strategic investors brought in new pools of capital, thus providing exit opportunities to early investors. Further, multi-billion dollar exits like the Flipkart-Walmart strategic exit and SBI Cards IPO by Carlyle have significantly improved sentiment, bolstering the confidence of investors with respect to exits.

Exits in 2020 recorded significant underperformance as a fallout of the COVID-19 pandemic, falling to a six year low of US\$6 billion. Secondary and strategic deals dwindled as PE/VC funds as well as corporates shifted focus away from deal making to managing their existing portfolios and businesses. Moreover, with rising uncertainty reducing valuations, it became difficult for existing investors to get desired returns and it became prudent to postpone exit decisions.

Outlook

PE/VC investments

PE/VC investments in 2021 have gotten off to a slow start, with Jan-Feb 2021 investments being 11% lesser than Jan-Feb 2020 and almost 66% lesser than the previous two-month period Nov-Dec 2020.

Exhibit 1A

Investments	Value US\$ million			Number of deals		
	2020 (Jan-Feb)	2020 (Nov-Dec)	2021 (Jan-Feb)	2020 (Jan-Feb)	2020 (Nov-Dec)	2021 (Jan-Feb)
Deal type						
Growth capital	1,673	3,549	1,540	28	36	33
Start-up	1,004	1,072	1,576	93	85	107
Credit investment	727	12	158	14	3	14
PIPE	492	194	126	11	8	7
Buyout	280	6,120	327	6	14	3
Grand total	4,176	10,947	3,727	152	146	164

Source: EY analysis of VCCEdge data

² Global Limited Partners Survey: Investors' Views of Private Equity in Emerging Markets

At a macro level, the mega liquidity unleashed by US and European central banks, low yields and the declining dollar is forcing large LP's to increase their allocations towards higher yield generating and growing emerging markets - of which India will be a beneficiary. With the new US administration in place, markets are hoping for less trade war rhetoric and a reduction in hostilities. Brexit too is no longer an unknown and with successful vaccine announcements, most of the global uncertainties that plagued markets in 2020 appear to be on the decline.

Looking ahead, the deal pipeline remains robust and investment teams of most large and medium sized PE funds are working flat out diligencing and negotiating multiple deals. In our view, the global macro has thrust the India investment opportunity in a favourable position and most PE/VC investors are inclined towards investing increased amounts in larger deals. While there are still concerns on the possibility of a second wave, new mutant virus strains and the complexity of the vaccine rollout, most Indian corporates as well as investors seem to have a positive view. The Government too has played its part well by way of an accommodative budget that is expected to spur growth on the back of increased govt spend and kickstart of the capex cycle.

The successful fund raising by the RIL Group entities from global PE and strategic investors during the peak of the pandemic has added a new dimension to India's attractiveness as a destination for global capital. Several large marquee global investors have made their maiden investments in India via the RIL Group deals and one can expect most of them to follow through with more investments as the Indian recovery picks up steam.

We think the following factors will play an important role in driving PE/VC investments in the future:

1. As global corporations look to mitigate risks by diversifying their supply chains, many new opportunities will open-up for Indian corporates, who will look to raise private equity capital to fund the new investments required.
2. The pandemic has widened the chasm between large companies and the smaller ones. Differential access to resources will drive consolidation in most Indian sectors that have a long unorganized tail and create new and larger opportunities for both growth and buyout PE investors.
3. The trend of infrastructure and real estate investors coming into structures like InvITs and REITs is expected to further strengthen in the coming years with many companies/government entities making plans to monetize assets through InvITs and REITs. As per some news reports, already InvITs worth almost US\$5 billion are in the pipeline.
4. The tectonic shifts in India's digitization unleashed by the pandemic coupled with the sentiment boost driven by mega successful IPOs/listings of PE backed tech companies in the US are expected to keep Indian VC investors busy as new, hyper scalable business models emerge and home grown technology companies look to list in the public markets.
5. To keep up with these fast-changing times, large companies and diversified conglomerates will review their product/business portfolios and sharpen their focus by carving out and selling business divisions/companies that are no longer considered core, creating more opportunities for buyout funds.

PE/VC Exits

Exits have gotten off to a decent start, with Jan-Feb 2021 recording exits 176% higher than Jan-Feb 2020 and 9% higher than the previous two-month period Nov-Dec 2020.

Exhibit 1B

Exits	Value US\$ million			Number of deals		
Deal type	2020 (Jan-Feb)	2020 (Nov-Dec)	2021 (Jan-Feb)	2020 (Jan-Feb)	2020 (Nov-Dec)	2021 (Jan-Feb)
Strategic	293	601	1,000	8	12	5
Open Market	410	311	482	13	8	13
Buyback	63	211	430	3	3	2
IPO	-	51	165	-	2	3
Secondary	25	834	106	4	7	6
Grand total	790	2,008	2,182	28	32	29

Source: EY analysis of VCCEdge data

Going forward, large corporates acquiring start-ups to augment their e-commerce and technology capabilities is expected to be one of the major trends influencing PE/VC exits in the coming years. Reliance Group's acquisition of Netmeds (an online pharmacy platform) in 2020 and Tata Group's US\$1.2 billion acquisition (announced) of Bigbasket in 2021 are indicative of this emerging trend. With the recovery in mid-cap and small-cap indices, we expect a busy IPO calendar by PE/VC backed companies. Open market exits remain strong and secondary exits are expected to recover sharply in 2021.

The easing of norms for overseas listing by the Government and emergence of new investment vehicles like SPACs is further adding to the rise in exit options available to PE/VC investee companies.

With the better than expected Indian economic revival³, launch of vaccination drives and this positive alignment of global macro factors, we expect 2021 to be significantly better than 2019 and 2020 for both Indian PE/VC investments as well as exits. We look forward to your feedback and hope you have a fruitful and safe 2021.

Caveat: Should the pandemic worsen globally, it will dampen both investor appetite and economic activity.



Vivek Soni
Partner and National Leader
Private Equity Services, EY India
vivek.soni@in.ey.com

³ [India Economic Pulse - economic indicators and policy measures](#)



A brief review of 2020

1

A brief review of 2020

Though a quick glance at the headline numbers may suggest otherwise, 2020 was one of the most difficult years for the Indian PE/VC industry for both investors and investees alike. Indian PE/VC investments in 2020 closed at an all-time high of US\$47.6 billion, helped greatly by the mega investments in Jio Platforms and Reliance Retail.

Had it not been for these PE investments of US\$17.3 billion in the Reliance Group entities, 2020 would have been 36% lower than last year. In terms of volume, number of deals in 2020 declined by 11% compared to 2019 (921 deals in 2020 vs. 1,030 deals in 2019).

- ▶ Prior to the pandemic-induced lockdowns in India in the fourth week of March 2020, PE/VC investments were already trending downwards in the beginning of the year as the early spread of the pandemic in developed markets had made PE/VC investors cautious. The initial uncertainty around the impact of the virus and the ensuing fear caused global markets to record one of the steepest falls and subsequent recovery in history.
- ▶ The NIFTY50 index crashed from a peak of 12,201 in the beginning of February 2020 to a low of 7,610 by the end of March 2020, almost a 38% decline in a span of around 40 days, mirroring similar falls across global markets. A similar sentiment was also reflected in the private equity industry with investors either cancelling or postponing deals that were on the block.
- ▶ The lockdowns that followed across India and most countries added to the uncertainty and severely impacted sales visibility of many businesses negatively and dampened their valuations while raising questions on the sustainability of many others.
- ▶ During April-June 2020, most large funds shifted their focus from investments to portfolio management, working overtime to help their portfolio companies tide over the crisis. As a result, deal flow came down to a trickle and if it had not been for the mega investments in Reliance Group entities, PE/VC investments in India would have recorded a four-year low of US\$795 million in May 2020.
- ▶ However, with the gradual lifting of lockdowns and positive news on vaccine approvals emerging in 4Q2020, PE/VC investment activity picked up significantly recording US\$18.5 billion in investments vs. US\$10.9 billion recorded in 4Q2019. Even if we adjust for the US\$5.6 billion invested in Reliance Group entities in 4Q2020, the last quarter of 2020 recorded a 18% increase in PE/VC investment value compared to same period last year.

By investment strategy:

Large deals (>US\$100 m) fell from 108 in 2019 to 66 (excl. RIL Group deals) largely due to tepid deal making for 1/3rd of the year. Consequently, most sectors witnessed declines in PE/VC investments, barring technology, pharmaceuticals, edtech and enterprise SaaS which demonstrated resilience. Infrastructure sector investments declined the most, from US\$13.8 billion in 2019 to US\$4.9 billion in 2020. As a result, there has been a sharp decline in buyout activity as well, which has recorded a decline of 28% in terms of value and 30% in terms of volume. Infrastructure and real estate sectors accounted for 71% of all buyouts by value in 2019 which has dropped to 61% in 2020.

In percentage terms, start-up investments recorded the steepest decline of 40% to US\$4.8 billion across 557 deals (US\$7.9 billion across 606 deals in 2019). Private investment in public equity (PIPE) deals too declined by 39% to US\$3.1 billion across 61 deals (US\$5.0 billion across 59 deals in 2019). Credit investments declined by 17% to US\$2.6 billion across 73 deals (US\$3.1 billion across 76 deals in 2019). Growth deals were the highest with US\$25.4 billion invested across 187 deals (US\$14.8 billion across 228 deals in 2019). The significant increase in value of growth deals was primarily on account of the US\$17.3 billion invested in entities of the Reliance Group; else, even growth deals would have declined by 39%.

By sector:

From a sector point of view, in 2020 almost all sectors recorded sharp declines in value invested. Telecom, retail, education and pharma were the only sectors to record significant increase in value invested. Moreover, these sectors also recorded their highest ever annual value of investments in 2020. Telecom was the top sector with US\$10 billion invested across 13 deals (10 times increase y-o-y) mainly attributable to the mega investments in Jio Platforms. It was followed by the retail and consumer sector with US\$6.6 billion invested across 46 deals (6.7 times increase y-o-y), on the back of large investments in Reliance Retail, real estate with US\$5.2 billion invested across 31 deals (16% decline y-o-y), financial services with US\$4.8 billion invested across 145 deals (47% decline y-o-y), technology with US\$3.3 billion invested across 139 deals (16% decline y-o-y), pharmaceuticals with US\$3.0 billion invested across 36 deals (2.4 times increase y-o-y), e-commerce with US\$2.8 billion invested across 124 deals (43% decline y-o-y), and education with US\$2.1 billion invested across 71 deals (2.7 times increase y-o-y). Infrastructure sector that received the highest value of investments in 2019 received US\$4.9 billion across 29 deals in 2020 (64% decline y-o-y).

PE/VC exits:

PE/VC exits too saw a significant decline of 46% from 2019 levels, reaching a six-year low of US\$6 billion as pandemic induced lockdowns and the resulting disruptions roiled asset prices, forcing PE/VC investors to postpone stake sales to better times.

Exits via open market were the highest at US\$2.4 billion (67 deals) in 2020, 47% decline compared to 2019. Exits via initial public offerings (IPOs) were second in line with US\$1.2 billion recorded across nine IPOs (US\$247 million across eight IPOs in 2019), which included the US\$1 billion SBI Cards partial exit by Carlyle. Exits via strategic sale recorded US\$1 billion (44 deals) in 2020, a 47% decline compared to 2019. Exits via secondary sale (sale to other PE funds) recorded US\$913 million (20 deals) in 2020, their lowest value in four years.

PE/VC fund raising:

2020 saw US\$8.2 billion in fundraise; 30% lower than last year (US\$11.7 billion in 2019). There were only 13 fundraises of over US\$100 million in 2020 compared to 25 in the same period last year. The largest fundraise in 2020 saw NIF close its US\$2.3 billion master fund for investments in transportation and energy infrastructure, followed by Sequoia which raised a US\$1.4 billion venture fund for investments in India and Southeast Asia and Edelweiss Asset Management's US\$900 million fundraise for structured debt investments.

Exhibit 2

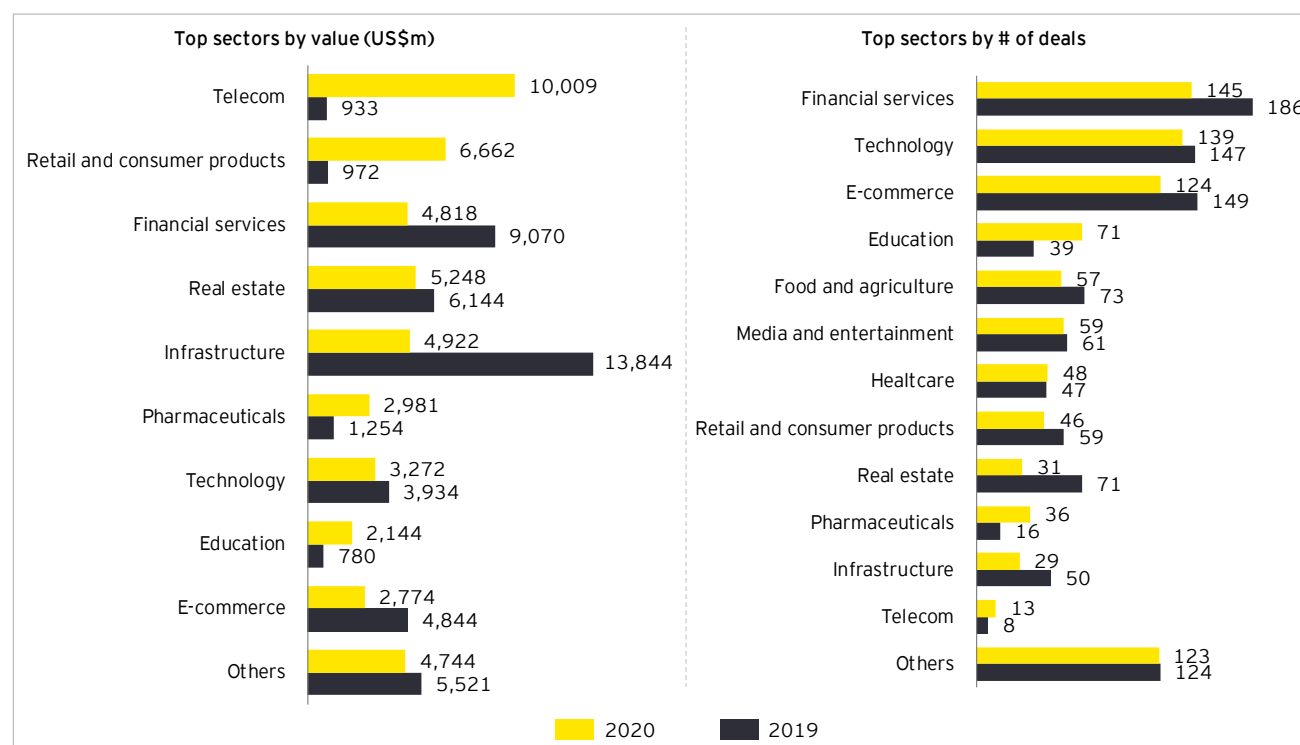


Exhibit 3

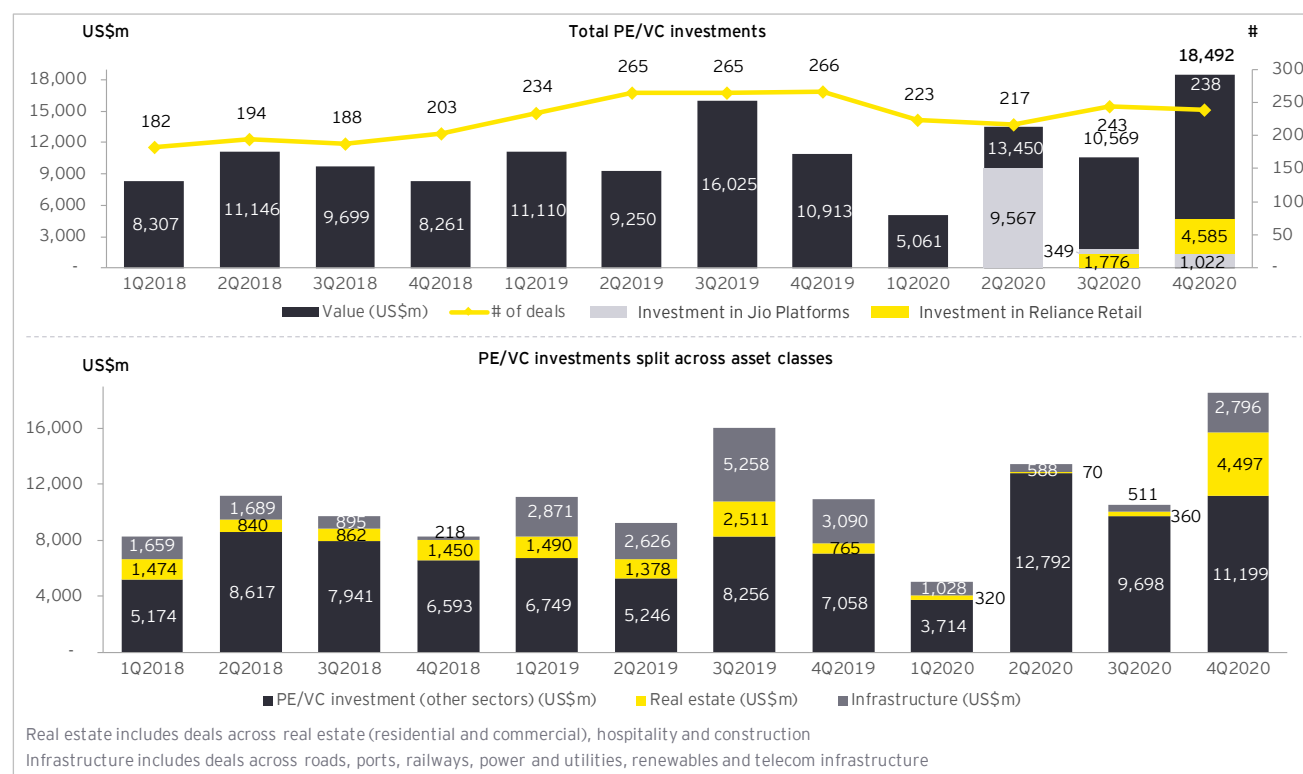


Exhibit 4

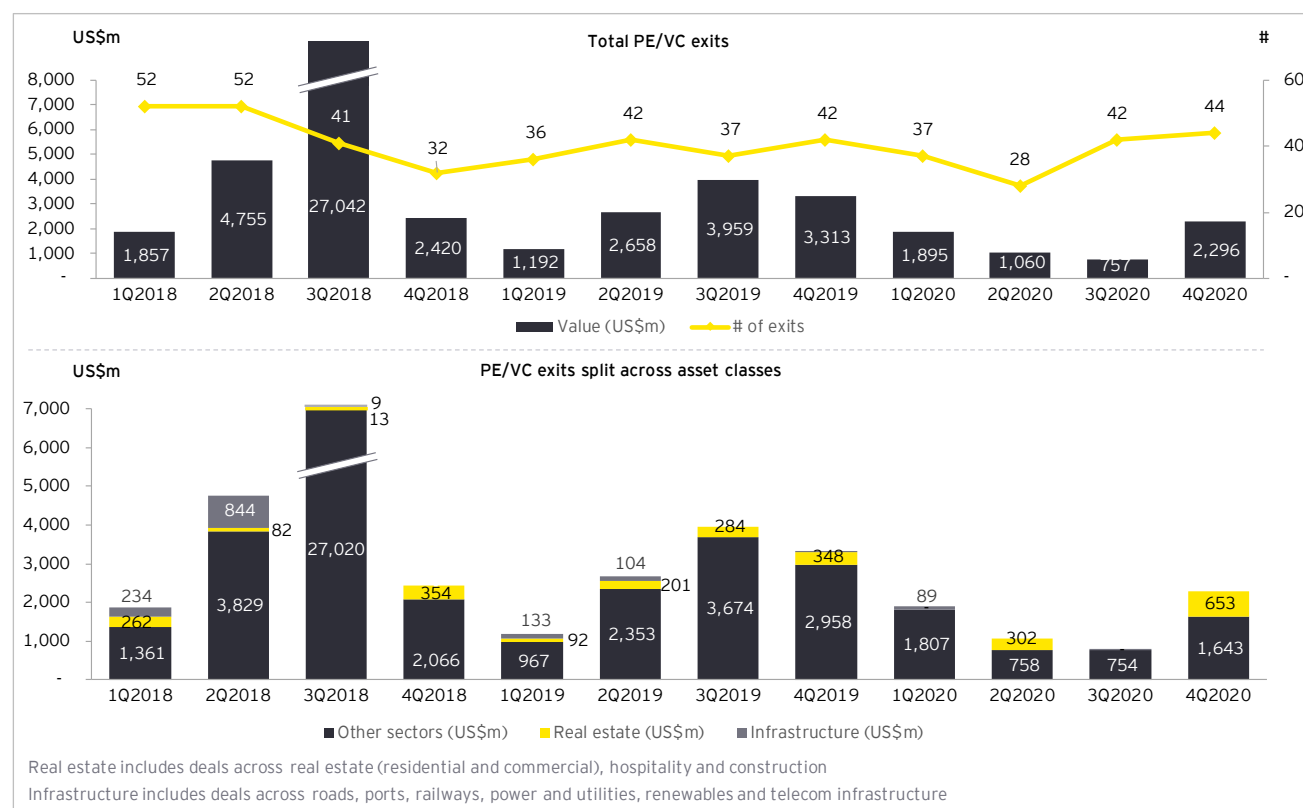


Exhibit 5

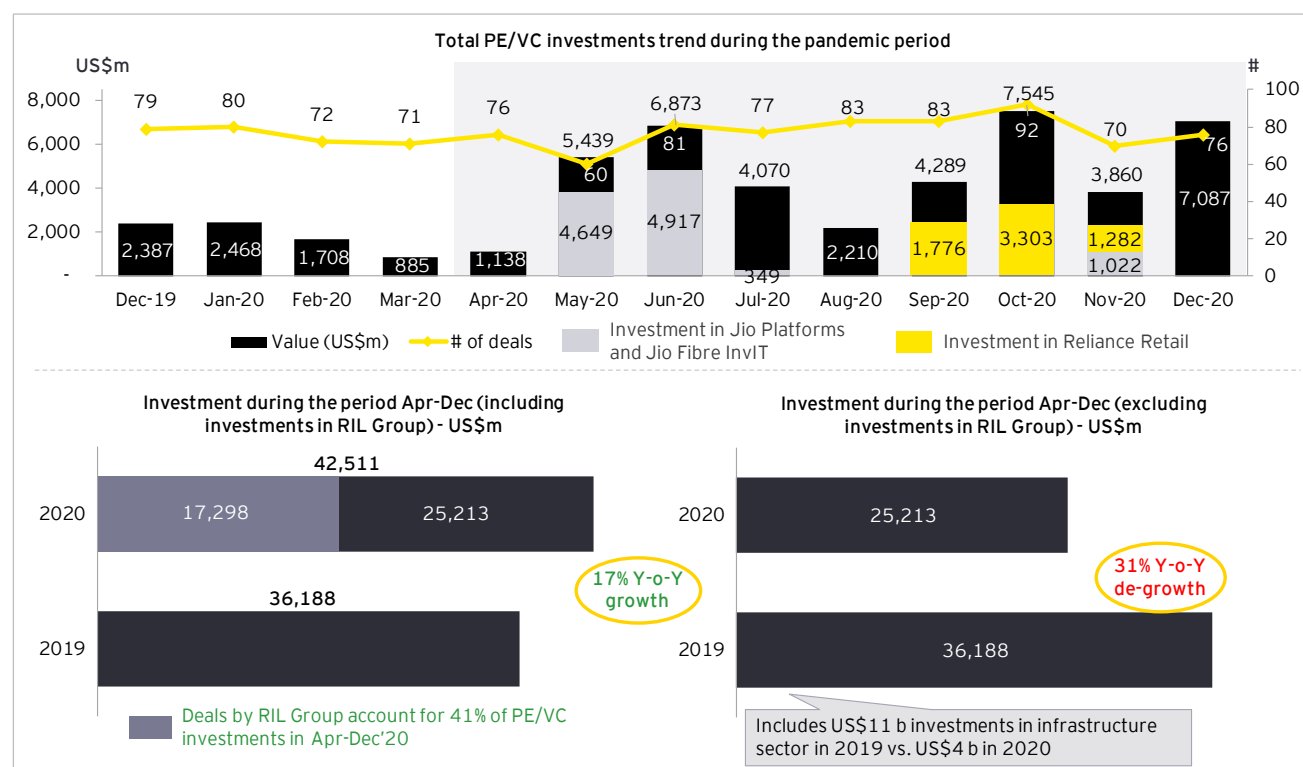
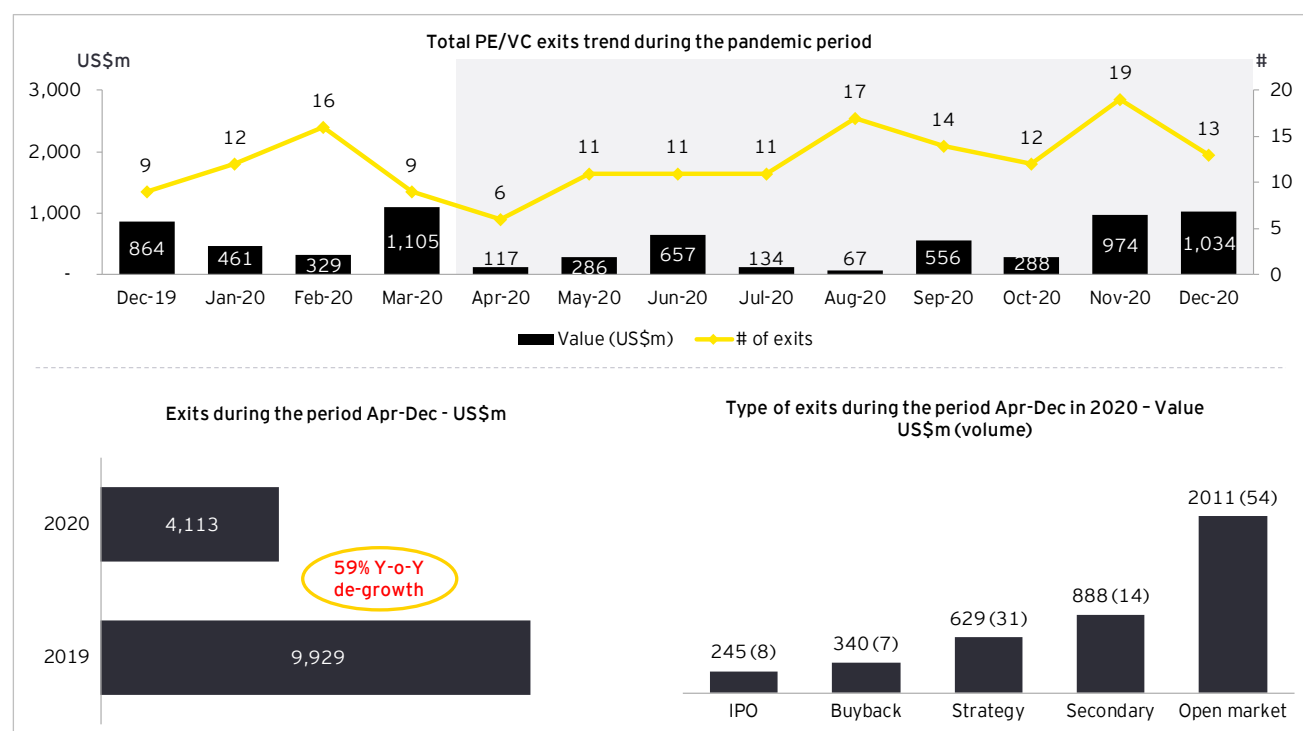


Exhibit 6





PE/VC in India - a decade
in review

2



PE/VC in India - a decade in review

2011-2020 saw the Indian Private Equity (PE)/Venture Capital (VC) industry come of age and into the mainstream. This decade saw PE/VC investments grow at a CAGR of 19% from a base of US\$8.4 billion in 2010 to US\$47.6 billion in 2020 and spread its wings across all investment classes and strategies. The cumulative value of PE/VC investments between 2011-2020 totaled US\$232.4 billion which is more than twice the value recorded in the preceding decade. This decade also saw many structural shifts in the Indian PE/VC industry including changes in the investor mix, deal type, deal size, and sectors.

In the following section, we have tried to analyze the key trends that emerged in the Indian PE/VC industry over the past decade to flesh out some insights on the continuing evolution of the Indian PE/VC industry.

I. Historical evolution of the Indian PE/VC sector:

Prior to 1997, the Indian private equity market was very small and mostly based on official funding from the Government and multilateral agencies such as World Bank, IFC, CDC and DFID. The initial growth was observed during early days of the dotcom boom with entry of foreign institutional investors (FIIs)

VC financing was first introduced in India during the year 1975 with the setting up of Industrial Finance Corporation of India (IFCI) sponsored Risk Capital Foundation (now known as IFCI Venture capital Fund Limited). In 1976, a seed capital scheme was introduced by The Industrial Development Bank of India (IDBI).

In March 1987, IDBI introduced a venture capital fund scheme for financing ventures seeking development of indigenous technologies/adaptation of foreign technology to wider domestic applications. Similarly, ICICI in association with UTI formed a venture capital subsidiary Technology Development and Information Company of India (TDICI) for financing technology oriented innovative companies. In mid-80's all the three Indian financial institutions viz IDBI, ICICI, IFCI started investing equity in small technological companies.

In November 1988, GOI decided to institutionalize the venture capital industry and formulated first comprehensive guidelines governing venture capital funds.

Exhibit 7: Stages of evolution of the India PE/VC industry

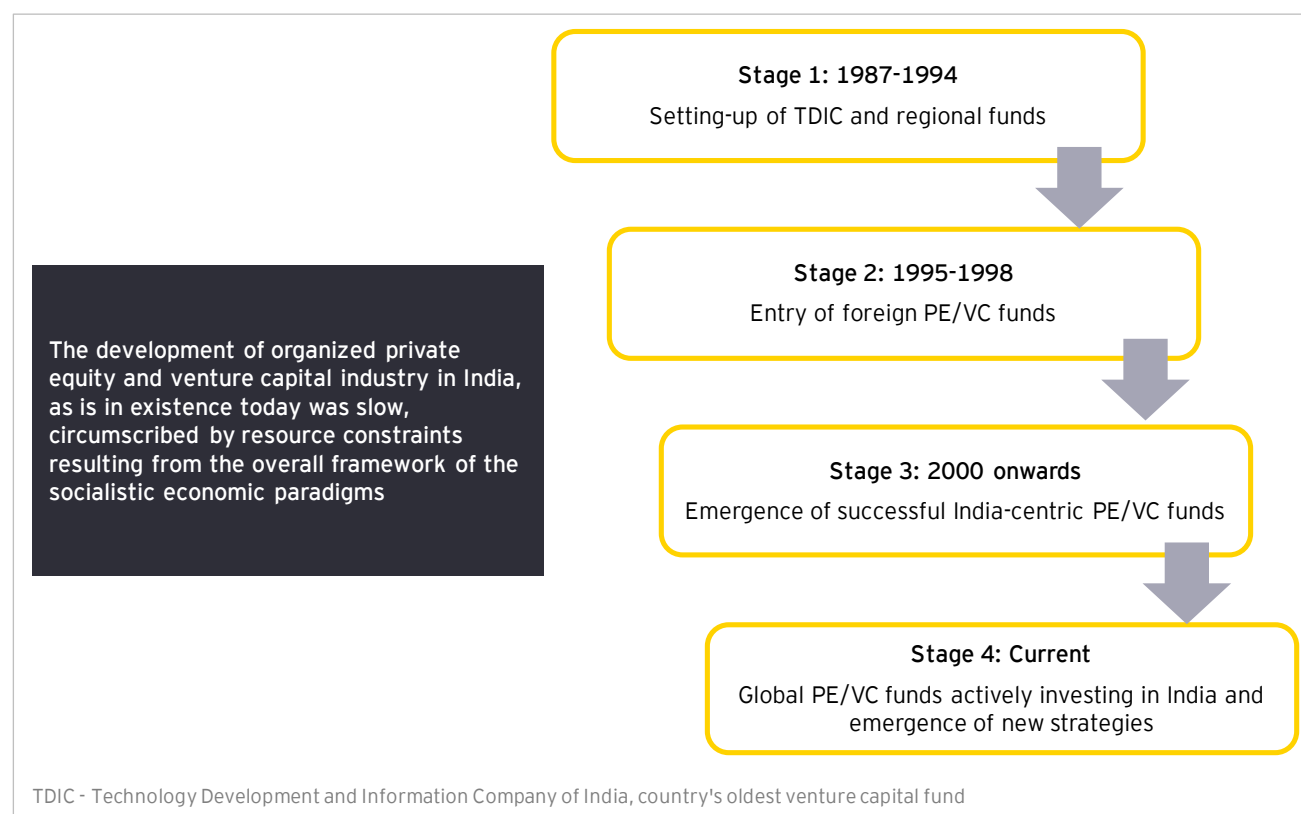


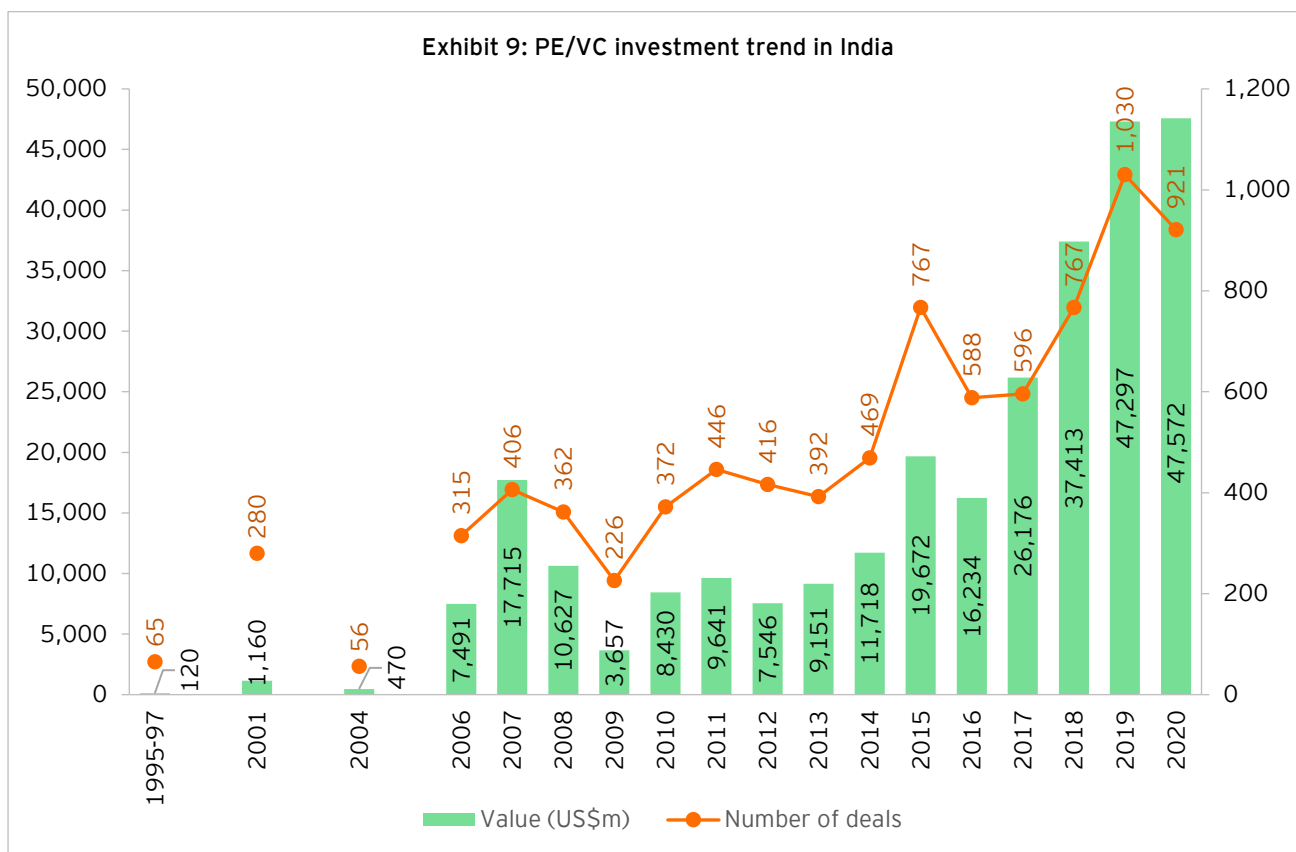
Exhibit 8: Key features of the different phases of development of the Indian PE/VC industry

	Phase - I Pre - 1995	Phase - II 1995-1997	Phase - III 1998-2001	Phase - IV 2002-2009	Current 2010-2020
Number of active PE/VC funds	8	20	50	75	Over 300
Total Investments (US\$m)	~30	~125	~3,000	~70,000	~240,000
Primary stages and sectors	Seed, early stage and development - diversified	Development - diversified	Early stage and Development - telecom and IT	Growth/ Maturity - tech, financial services, infra and industrials	Growth/ Maturity/ Credit/ Distress/ Buyout/ Platform - financial services, infra, RE, tech, e-com, healthcare, consumer
Primary sources of funds	World Bank, Government	Government	Overseas Institutional	Overseas Institutional	Overseas Institutional/ Domestic
Number of transactions	~20	~65	~548	~1,500	~7,000
Avg. investment (US\$ m)	1	2	5.2	20	35

India's growth in terms of PE/VC investments has been significant over the past several years. The flow of risk capital in India has increased substantially since 2000. Exhibit 8 shows that the supply of finance took off after 1997. However, there was a sharp drop in early stage financing after the end of the internet boom (1998-2001). In the year 2000, at the height of the internet boom, fund raising activity in the US touched its peak but when the dotcom bust happened in 2001 and was followed by events such as 9/11 and the US economic slowdown, fund raising activity declined dramatically. The impact of the internet bust was harder in India as over 90 per cent of the country's private equity money capital originated from the US.

Fueled by liquidity and attracted by the high growth prospects of the Indian economy that became more receptive to FDI, PE/VC investors renewed their interest and investment activity picked up again in 2004, reaching a high of US\$17.7 billion in 2007.

In 2008, the Indian PE/VC sector was adversely affected by American sub-prime crisis and upheaval in the world financial system following the bankruptcy of Lehman Brothers. It was a challenging time for PE/VC firms as liquidity dried up and limited partners (LPs) were reluctant to back new PE/VC funds in the wake of substantial write-downs in their public equity and debt portfolios. The ensuing markdown in valuations and slow growth of the Indian equity market throughout 2008 to the beginning of 2009 was a period of uncertainty for the Indian PE/VC industry. With companies scaling back on expansion plans and uncertain earnings outlook of corporate India, PE/VC investments in 2009 dropped 66% to US\$3.7 billion from the high of US\$17.7 billion recorded in 2007. Thereafter, it took the sector eight years to surpass the 2007 highs in 2015, after which, buoyed by reforms ushered in by the GoI, acceleration in PE/VC investments continued at a brisk pace to more than double over to US\$47 billion in 2019.

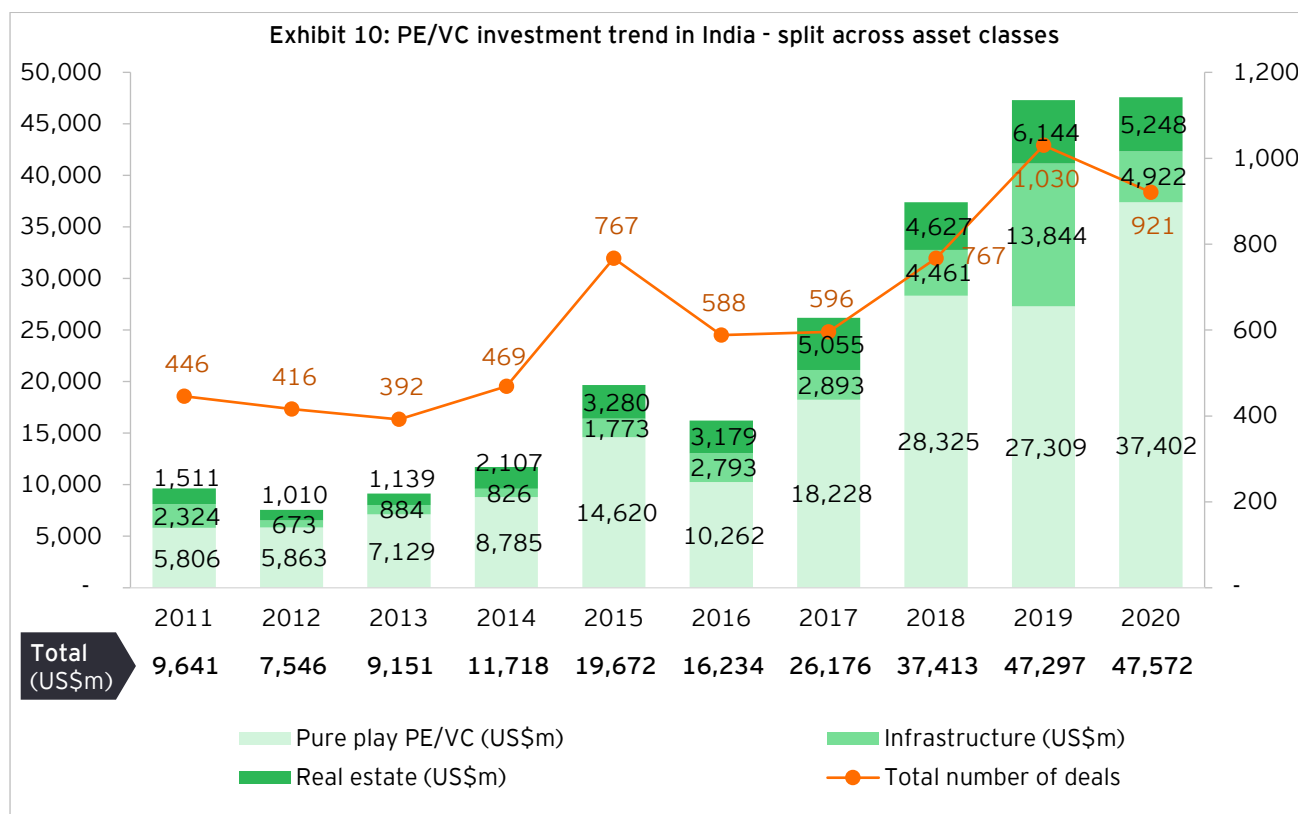


Source: EY analysis of VCCEdge data



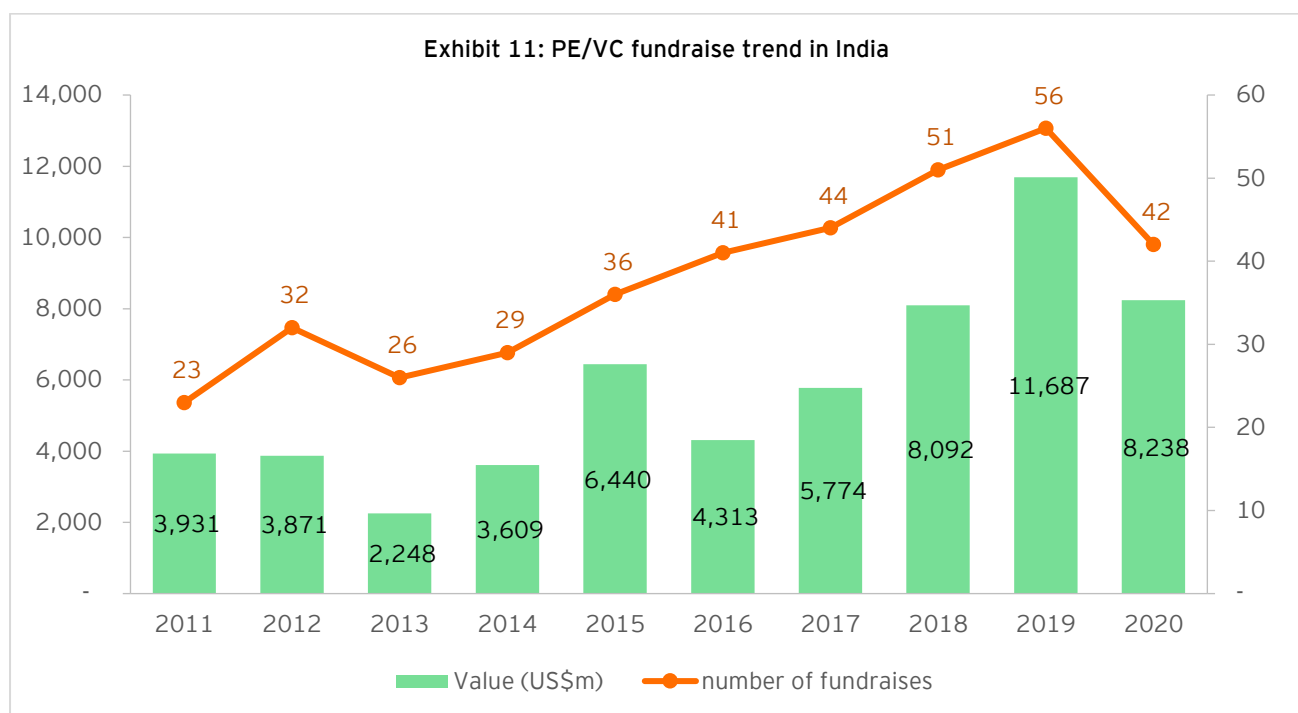
II. 2011-2020: Rise of the new alternative asset class in India:

The decade 2011-2020 began with significant headwinds ensuing the global financial crisis (GFC). There was a lot of uncertainty around the revival of the Indian PE/VC industry given that many funds had incurred massive losses on trades undertaken at peak valuations during the 2005-2007 boom. Further, there were many other issues around corporate governance, contract enforcement, limited control on decision making and exit timing, that rightfully concerned many limited partners (LP's) and general partners (GP's).

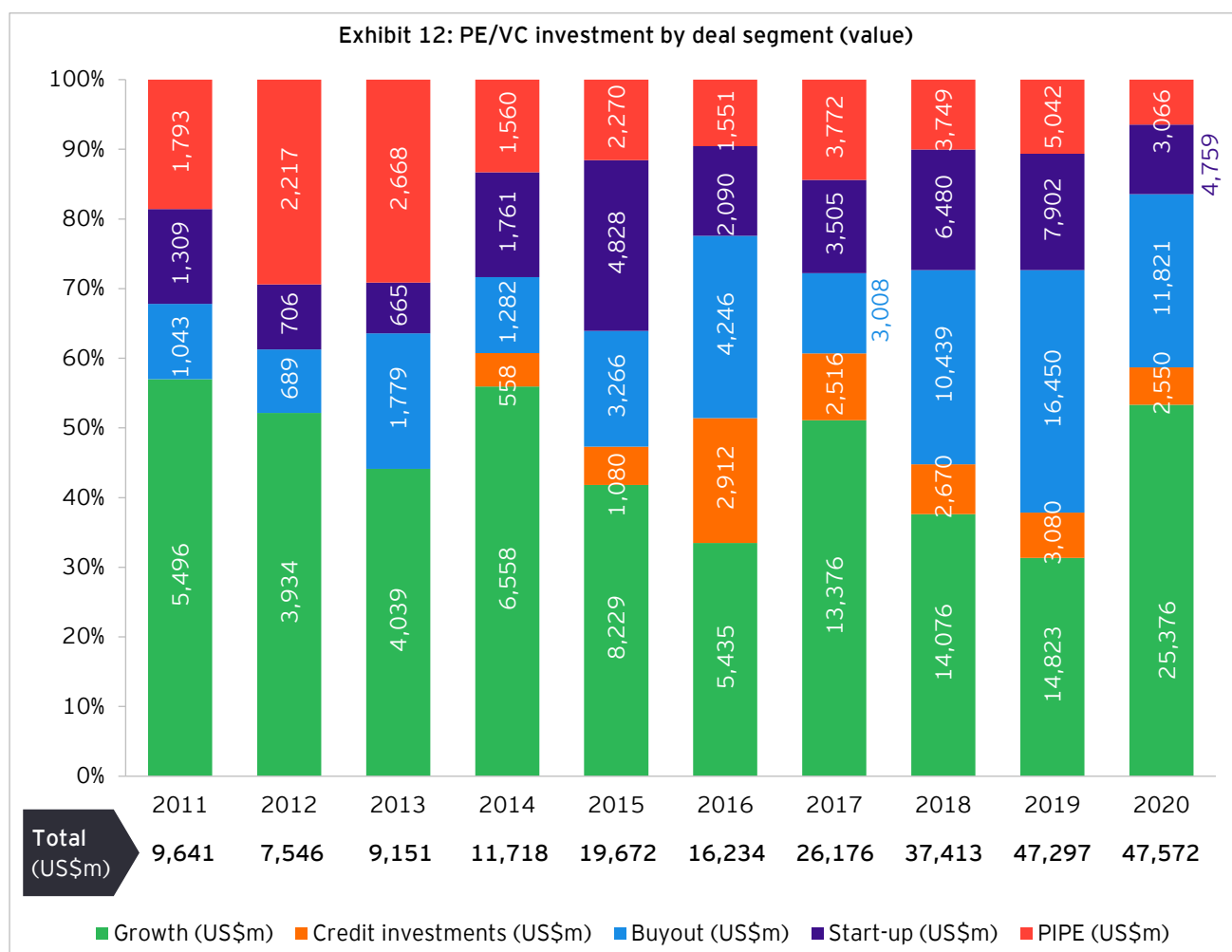


Source: EY analysis of VCCEdge data

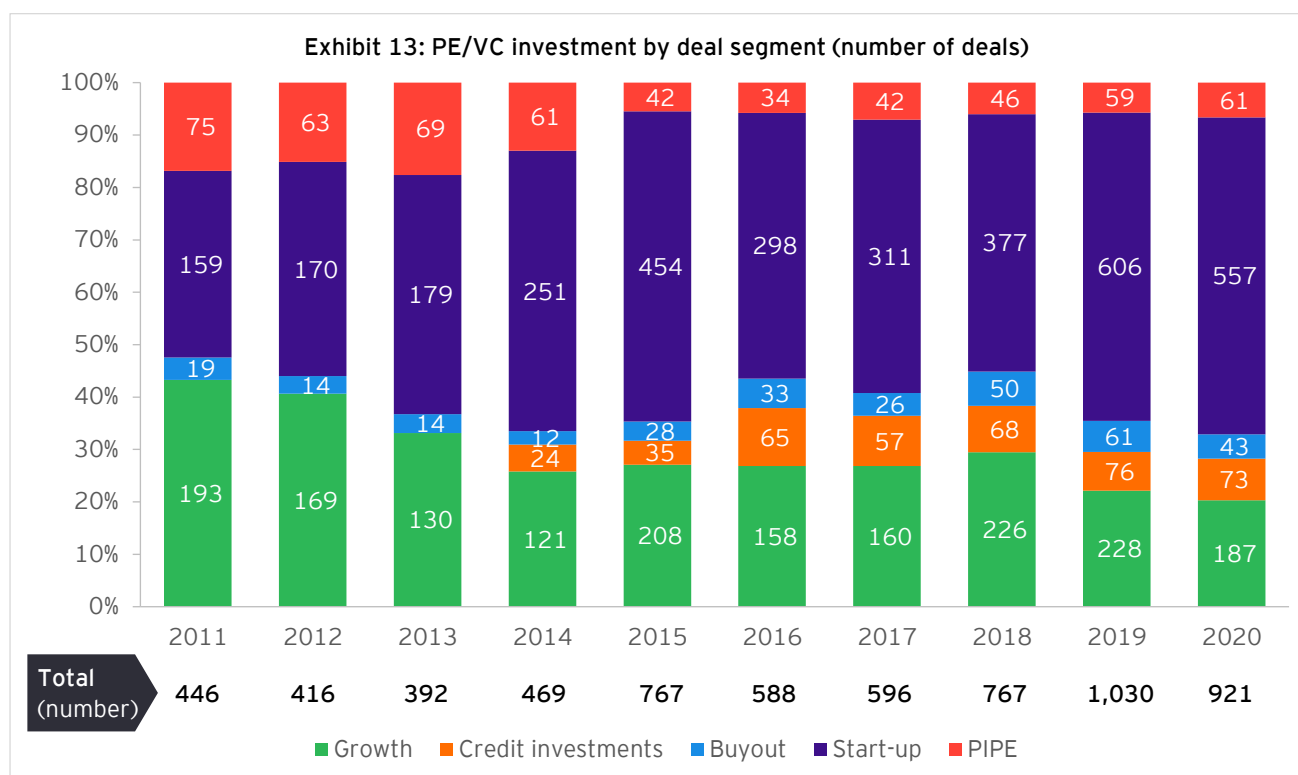
This decade gone by can be viewed as two periods based on PE/VC deal flow, one between 2011 and 2014 and another from 2015 to 2020. In the period 2011-2014, PE/VC investments remained sub US\$10 billion, growing at a CAGR of 8.6% from the base of US\$8.4 billion in 2010 to US\$11.7 billion in 2014, with average number of deals per annum being ~400. Between 2015-2020, PE/VC investments compounded at a CAGR of 26.3%, reaching an all-time high of US\$47.6 billion, notwithstanding a tumultuous 2020 on account of COVID-19. A large part of the funds invested were sourced from globally fungible pools of capital managed by international GP's as only US\$58.2 billion of India dedicated fund were raised between 2011-2020, approximately 25% of the PE/VC investments of US\$232.4 billion invested during this period. Looking ahead to the next decade, as both the sector and the Indian economy grows, we believe more India dedicated fundraises will take place with many international funds planning a dedicated India investment strategy. Furthermore, in the coming decade, we foresee the emergence of many new first-time funds as seasoned investors with international franchises spin-off and turn entrepreneur.



Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data



EY analysis of VCCEdge data

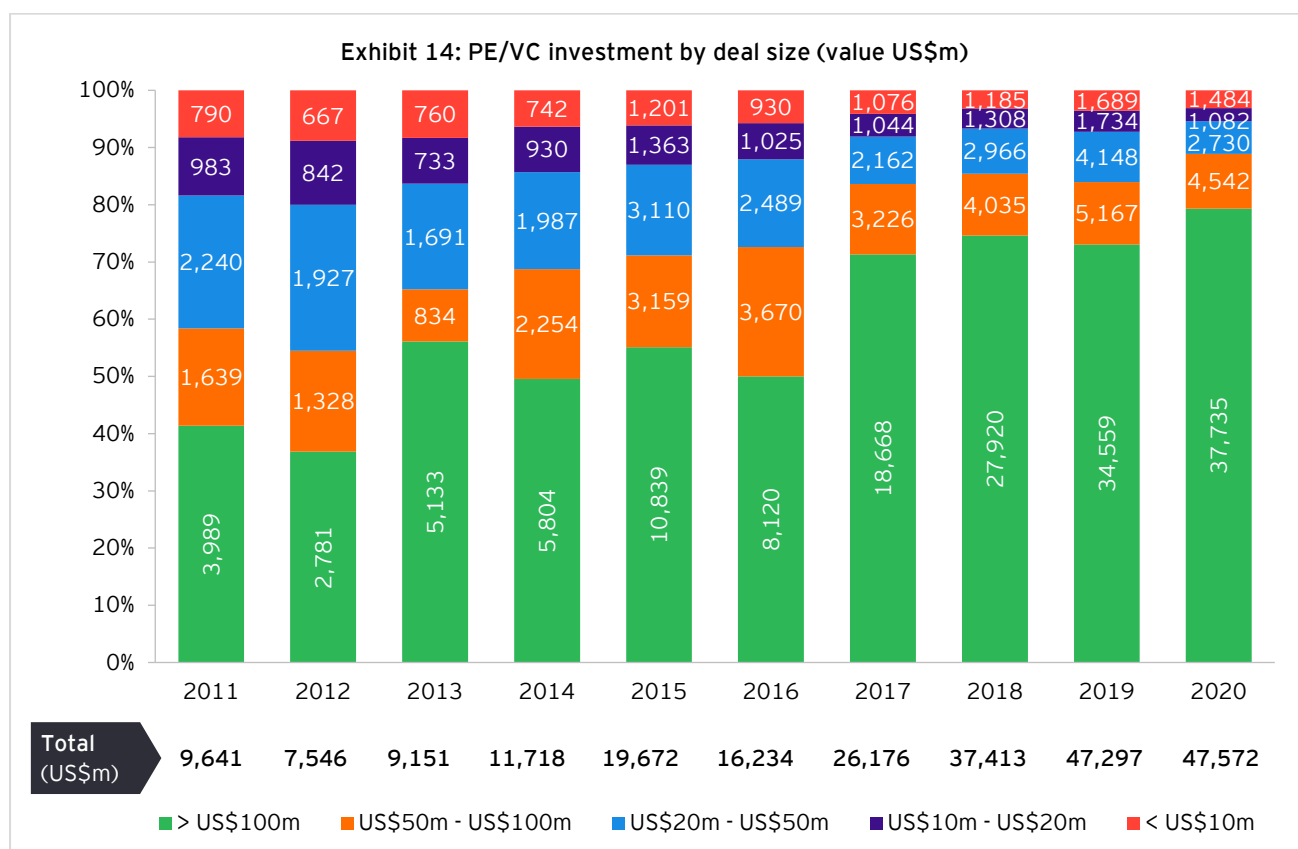
During the early part of the decade, 'growth investments' was the dominant investment strategy, accounting for more than 50% of all PE/VC investments by value, followed by Public Investment in Private Equity (PIPE) investments that accounted for around 20% of the total deals by value.

While growth investments continue to remain the largest PE/VC investment strategy, its share declined in the second half of the decade, with buyouts gaining prominence. Share of buyouts grew from around 10% to over 25% of the total PE/VC investment pie. In fact, emergence of buyouts and large deals has been one of the major drivers of hyper growth in Indian PE/VC investments in the second half of the decade.

Another investment strategy that emerged in the second half of the decade is credit investments. This strategy can be considered as an offshoot of growth investments (due to its small size, our analysis included credit investments as part of growth strategy prior to 2014.)

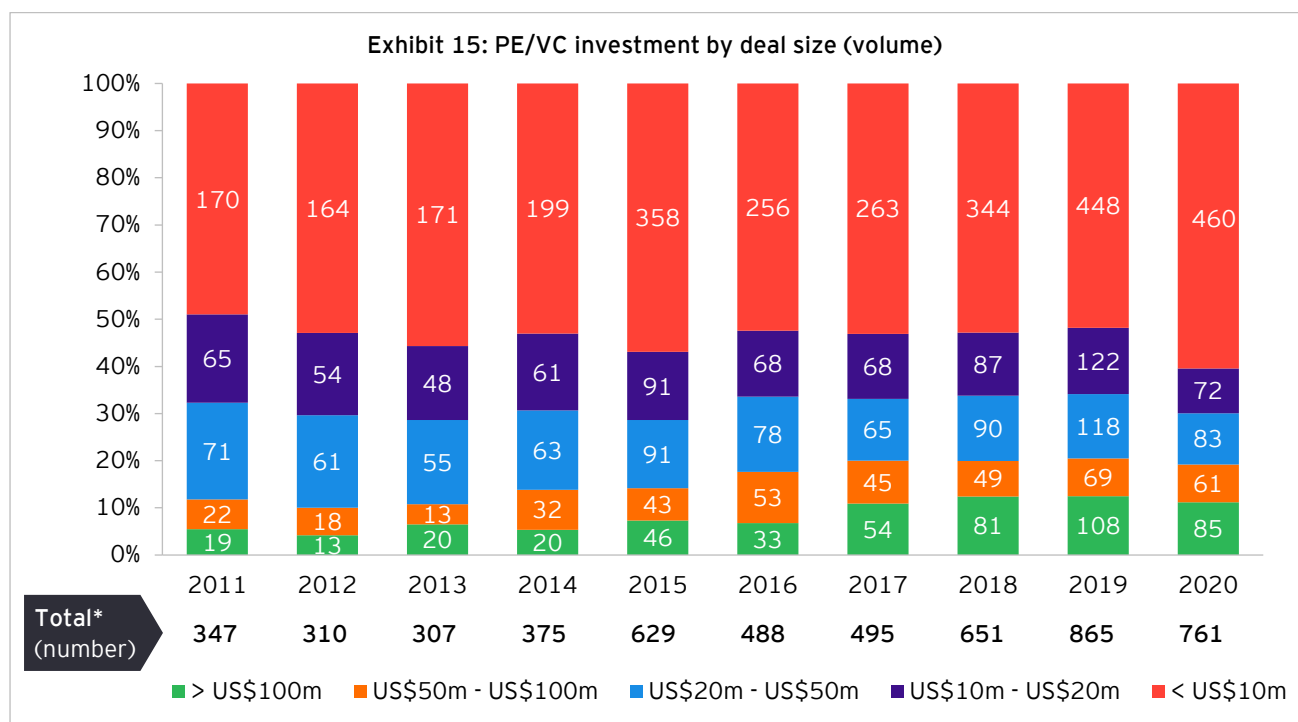
By volume, growth strategy that accounted for ~40% of total PE/VC deals at the beginning of the decade has declined to less than 20% by deal count in 2020. However, its share in the overall value invested has not declined significantly on the back of significant increase in average deal size of growth investments.

Start-up investments have seen a significant increase in both value and number of deals. Indian PE/VC investments have become more broad-based, as the entrepreneurial landscape of India became more vibrant and amenable to PE/VC funding. In terms of deal count, start-up investments have increased from a 30% share at the beginning of the decade to over 60% in 2020.



Source: EY analysis of VCCEdge data

In terms of deal size, large deals (deals greater than US\$100 million) have seen a significant increase in their overall share, growing from around 40% at the beginning of the decade to almost 80% in 2020, with a large proportion of these deals being buyout transactions. This growth in large deals, primarily by international GP's, has been instrumental in the significant rise of Indian PE/VC investments in the second half of the decade.

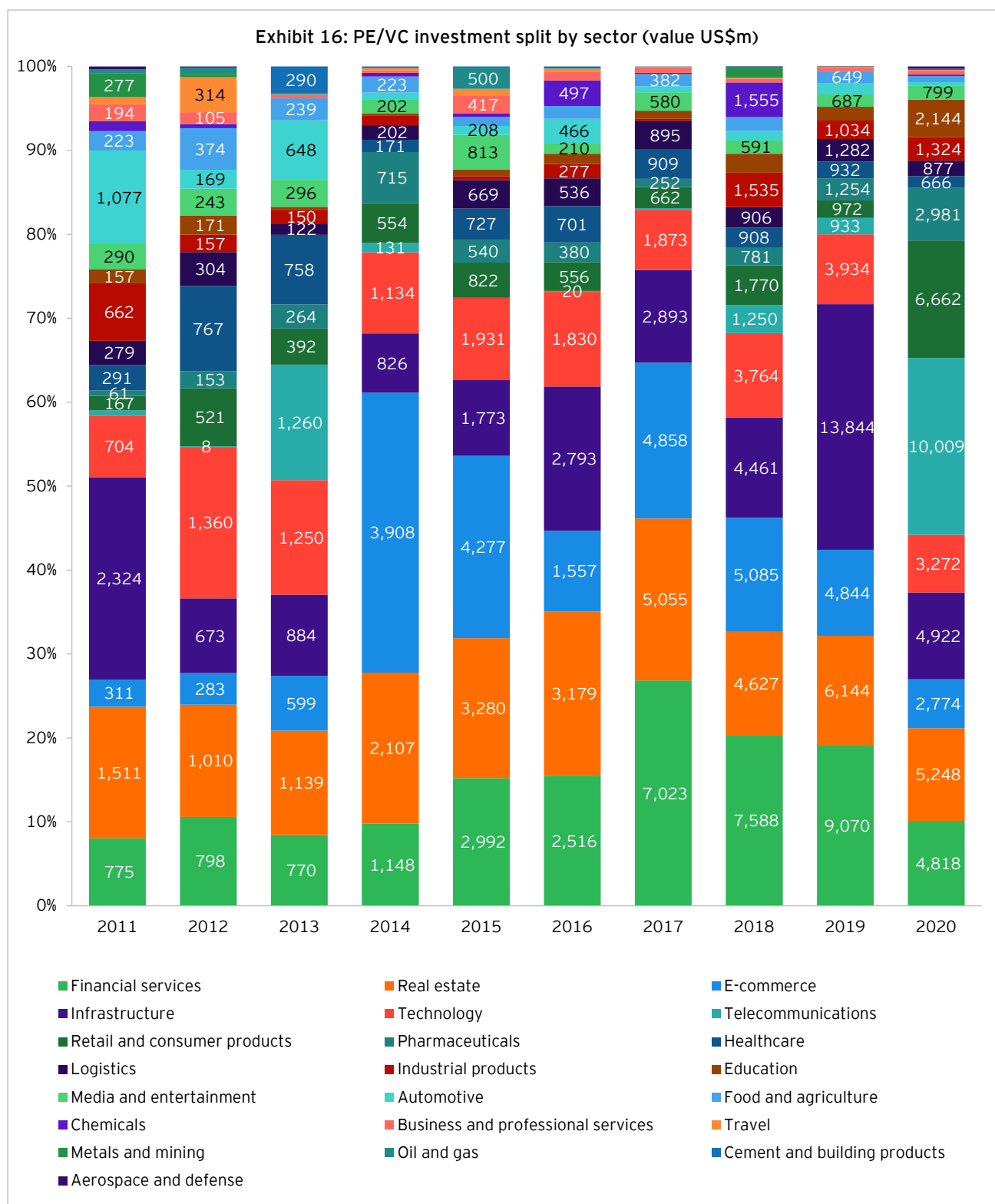


Source: EY analysis of VCCEdge data

*Does not include deals where deal value is not available

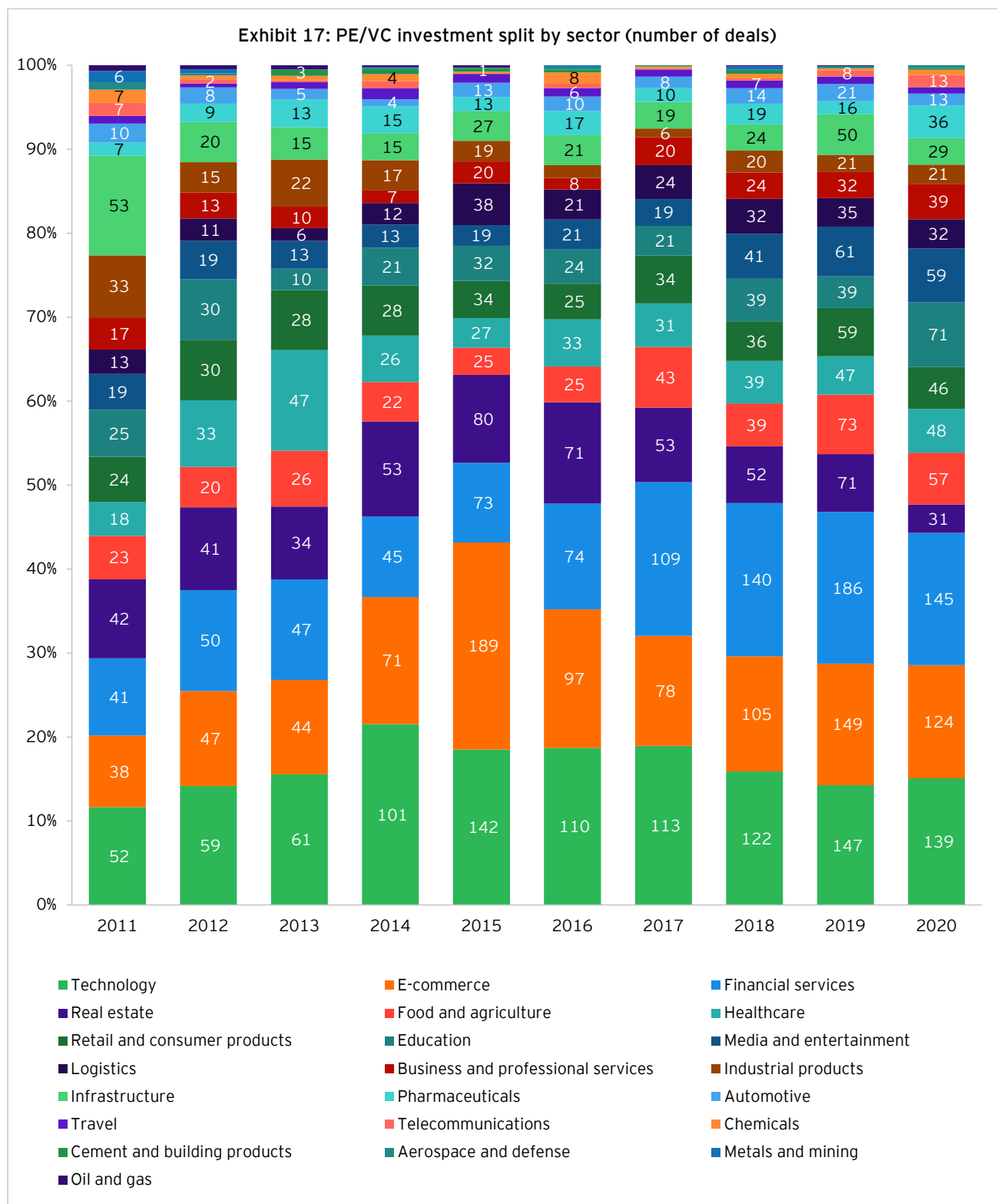
During 2011-2020, the Indian start-up ecosystem flourished as the number of small deals (<US\$10m) grew by almost three times.

From a sector perspective, four to five sectors have accounted for ~60-70% of investment value in most of the years in the previous decade. These sectors are- financial services, infrastructure, real estate, e-commerce and technology. If we were to exclude the asset classes of infrastructure and real estate, then within pure-play PE/VC, three sectors - financial services, e-commerce and technology have accounted for more than 50% of investment value in most of the years in the period 2011-2020.



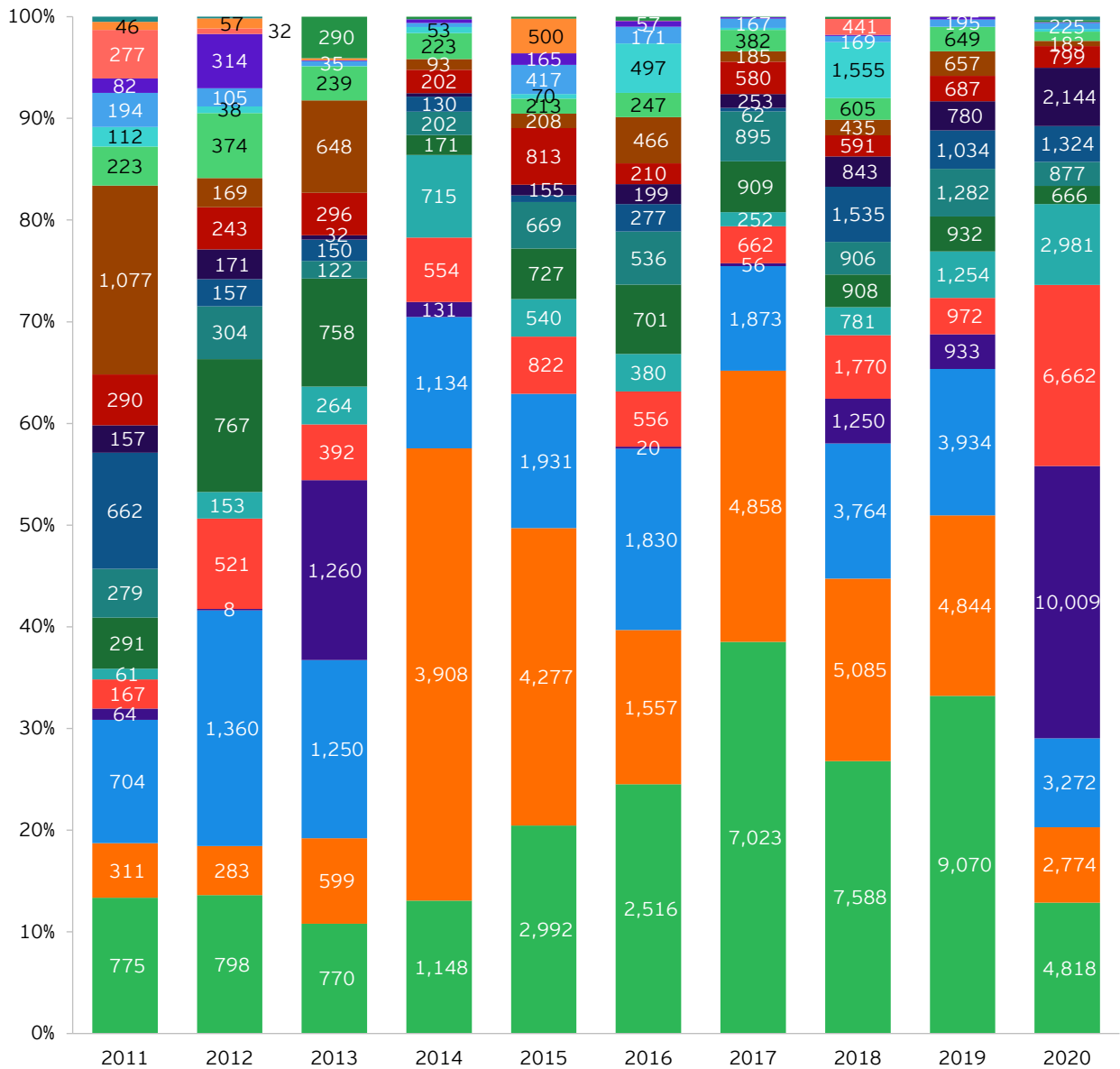
Source: EY analysis of VCCEdge data

Similarly, the top four-to-five sectors which include technology, e-commerce, financial services, real estate, healthcare and consumer account for 50-60% of the total number of deals in each of the previous 10 years. Although consumer and healthcare sectors have seen a significant number of transactions, average deal size has been rather small compared to other prominent sectors like financial services, technology and e-commerce.



Source: EY analysis of VCCEdge data

Exhibit 18: PE/VC investment split by sector excluding Infrastructure and real estate sectors (value US\$m)



**Total
(US\$m)**

5,802 5,864 7,128 8,784 14,621 10,623 18,227 28,325 27,307 37,403

- Financial services
- Telecommunications
- Healthcare
- Education
- Food and agriculture
- Travel
- Cement and building products
- E-commerce
- Retail and consumer products
- Logistics
- Media and entertainment
- Chemicals
- Metals and mining
- Aerospace and defense
- Technology
- Pharmaceuticals
- Industrial products
- Business and professional services
- Oil and gas

Source: EY analysis of VCCEdge data



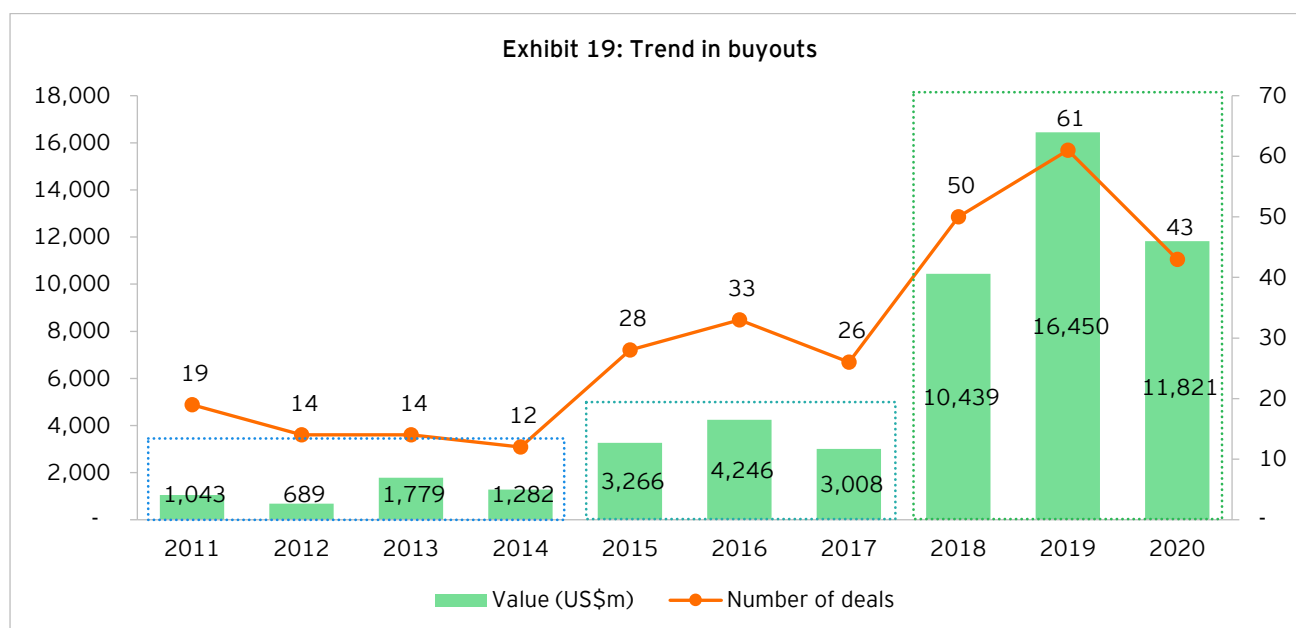


Key trends of the decade

3

2011-2020: key trends

Buyouts emerge as a key investment strategy



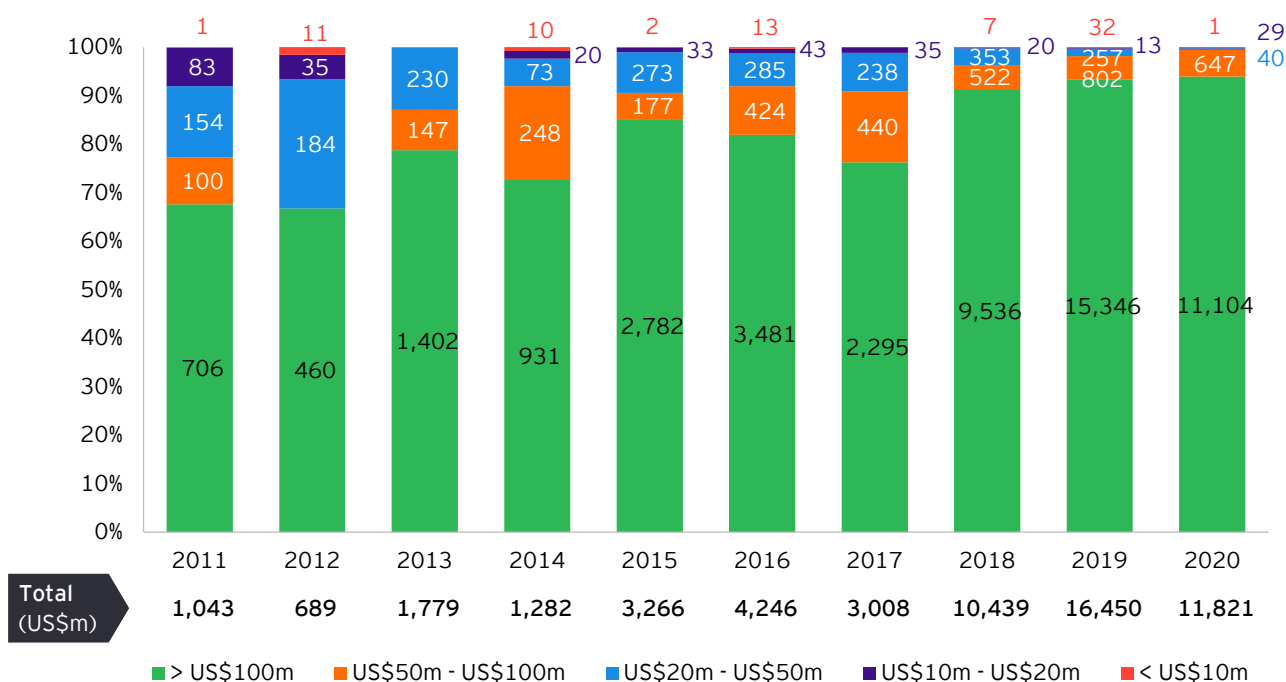
Source: EY analysis of VCCEdge data

Buyouts have recorded significant growth in the last decade, growing more than 10-fold in deal value. This growth in buyouts has been a defining feature of this decade, one that indicates India's emergence as a serious destination for large PE/VC investments.

This progression of buyout investment strategy can be divided into three phases. The early years from 2011-2014 that saw buyout deal value in the low teens and aggregate values of around US\$1.5 billion per year. These years immediately followed the aftermath of GFC and PE/VC funds were on their way to reach firmer ground. This was followed by the 2015-2017 period where the number of buyout deal count moved into the 25-30 range, with aggregate deal value per year doubling to over US\$3 billion. This was the period when the growing confidence of PE/VC funds was matched by a slow yet sure shift in the mindset of Indian entrepreneurs towards partnerships with PE/VC funds. The past three years have stood out in terms of buyout activity, with aggregate buyout investment value per year crossing the US\$10 billion mark and deal count rising to >50. In these last three years, not only has the buyout deal count increased, but also the average buyout deal size has increased significantly, which is a testament to the growing confidence of PE/VCs to deploy larger sums of capital in complex transactions. These last three years have seen India move closer to more mature PE markets, wherein buyouts dominate PE/VC investments by value.

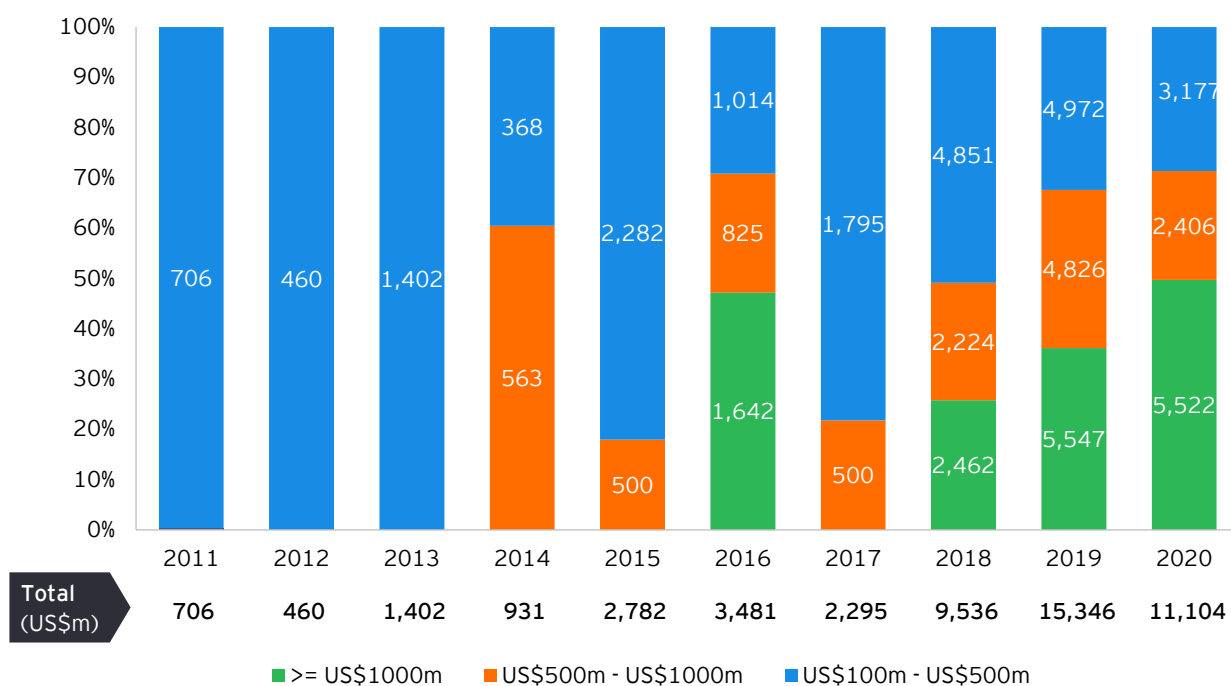
An analysis of buyout deals over the past decade demonstrates the increase in average buyout deal value, with 90% of buyout deals being over US\$100 million in 2020 compared to ~65% buyout deals above US\$100 million in 2011. The data shows a 10-fold increase in the total value of buyouts with deals greater than US\$500 million accounting for 70% of deals by value compared to no such deals till 2013. There were four US\$1 billion plus buyouts in 2020 and two each in 2019 and 2018. Similarly, there were four US\$500 million plus buyouts in 2020, eight in 2019 and three in 2018.

Exhibit 20: Buyouts by deal size (value US\$m)



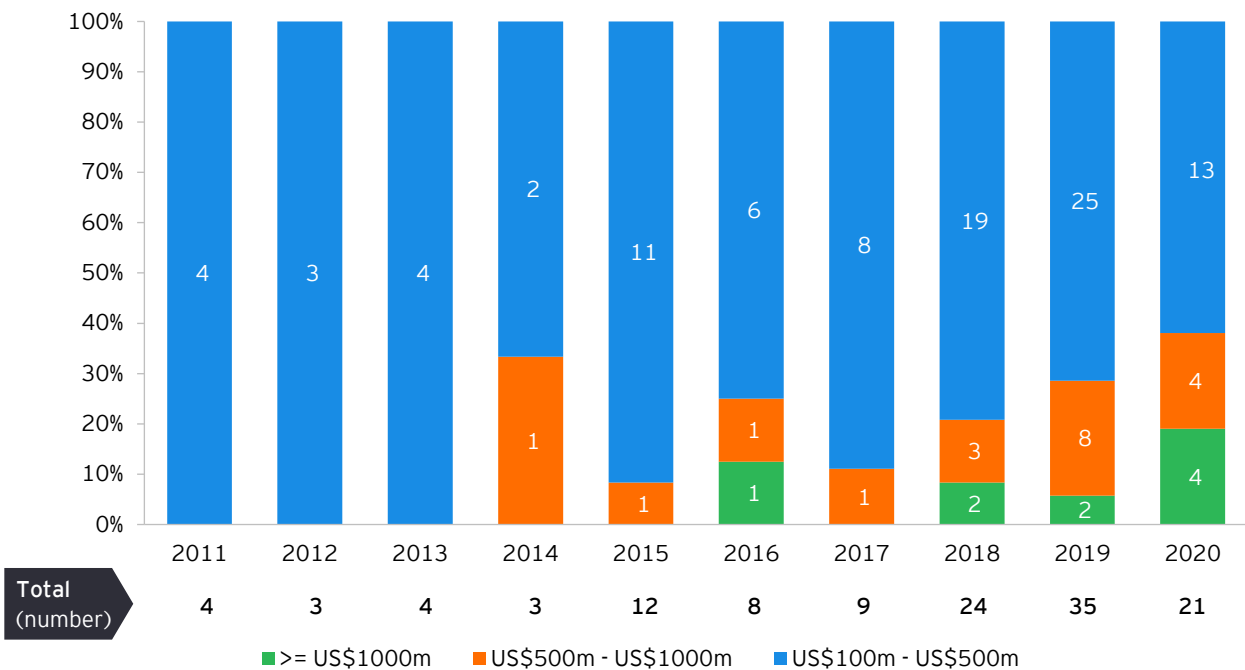
Source: EY analysis of VCCEdge data

Exhibit 21: Further break-up of large buyouts by deal size (value US\$m)



Source: EY analysis of VCCEdge data

Exhibit 22: Further break-up of large buyouts by deal size (number of deals)



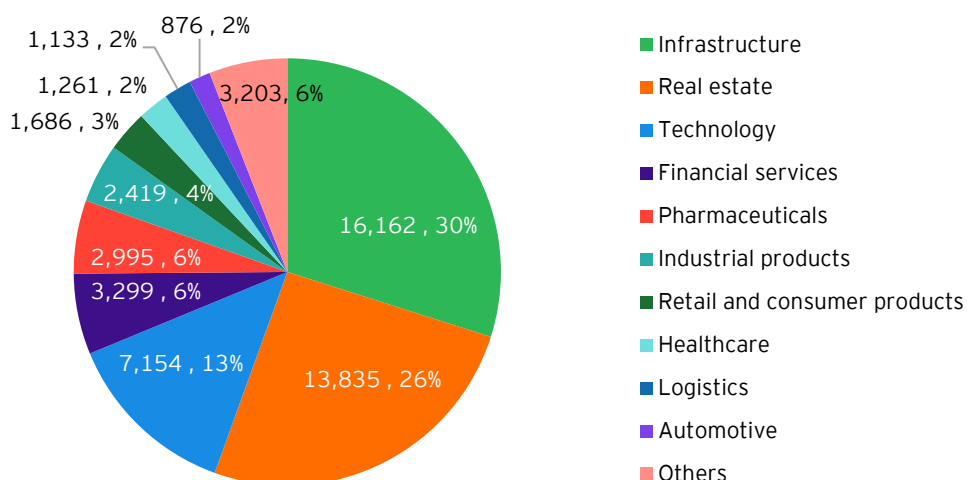
Source: EY analysis of VCCEdge data

On the supply side, factors that are contributing to this rise in buyout deals include:

- Succession-related issues in family owned businesses and promoter willingness to mentor the business while keeping minority investment
- Companies / conglomerates hiving off non-core businesses or monetizing assets to pare debt
- Significant increase in the number of VC-backed companies, whereby financial investors together hold >51% equity after four-to-five rounds of funding

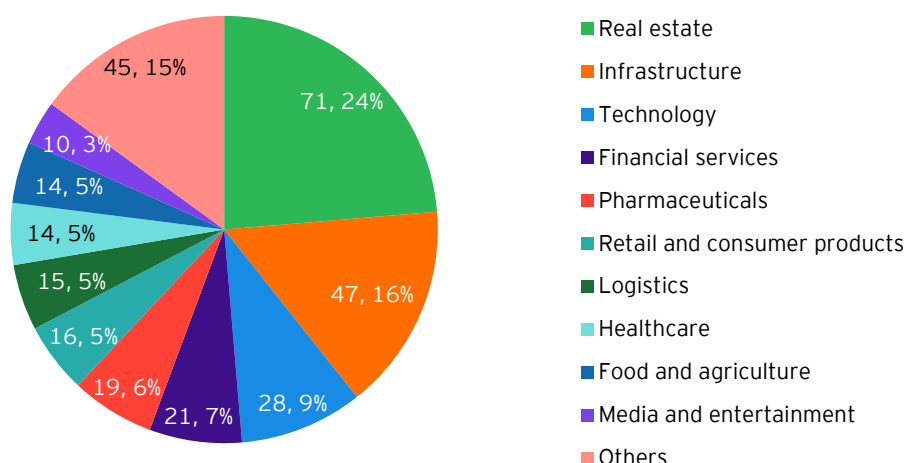
Infrastructure and real estate sectors have accounted for 56% of all buyouts by value and 39% by volume in the past decade. Technology, financial services, pharmaceuticals, and consumer and healthcare are amongst the other top sectors for buyouts.

Exhibit 23: Buyouts split by sector (value US\$m)



Source: EY analysis of VCCEdge data

Exhibit 24: Buyouts split by sector (number of deals)



Source: EY analysis of VCCEdge data

Exhibit 25: Top pure play PE buyouts between 2011-2020

Company/Asset	Investors	Sector	Amount (US\$m)	Deal Stake %	Year
Piramal Glass Private Limited	Blackstone	Industrial products	1,000	100	2020
Star Health and Allied Insurance Co. Limited	Madison India, Westbridge Capital	Financial services	1,000	94	2018
GlobalLogic Inc.	Partners Group	Technology	960	>50	2018
Mphasis Limited	Blackstone	Technology	825	61	2016
CitiusTech Healthcare Technology Private Limited	Baring PE Asia	Technology	800	80	2019
Vishal Mega Mart Private Limited	Partners Group, Kedaara	Retail and consumer products	734	100	2018
Majesco Limited (US business)	Thoma Bravo	Technology	729	100	2020
Aurobindo Pharma, Natrol LLC (US Unit)	New Mountain Capital	Pharmaceuticals	550	100	2020
Essel Propack Limited	Blackstone	Industrial products	540	75	2019
Kyowa Pharmaceutical Industry Co. Limited	Unison Capital Partners	Pharmaceuticals	525	100	2019
Atria Convergence Technologies Private Limited	True North and TA Associates	Media and entertainment	500	95	2015
J.B. Chemicals and Pharmaceuticals Limited	KKR	Pharmaceuticals	496	65	2020
Alliance Tire Group (ATG)	KKR	Automotive	470	90	2013
Everise Holding Pte Limited	Brookfield	Technology	450	>50	2020
GlobalLogic Inc.	Apax Partners	Technology	420	100	2013

Source: EY analysis of VCCEdge data

Exhibit 26: Top infrastructure sector buyouts between 2011-2020

Company/Asset	Investors	Sector	Amount (US\$m)	Deal Stake %	Year
Summit Digital Infrastructure Private Limited (Reliance Jio's tower arm)	Brookfield	Telecom assets	3,660	>50	2019
RIL's East West Pipeline	Brookfield	Oil and gas	1,888	90	2019
Reliance Infratel	Brookfield	Telecom assets	1,642	51	2016
National Highway Authority of India's (NHAI's) road assets	Macquarie	Roads and highways	1,462	NA	2018
Jio Fibre Network InvIT - Digital Fibre Infrastructure Trust	PIF, Abu Dhabi Investment Authority (ADIA)	Telecom assets	1,022	51	2020
Nine toll operate transfer (TOT) projects of National Highway Authority of India's (NHAI's)	Cube Highways	Roads and highways	716	100	2019
Ramky Enviro Engineers Limited	KKR	Utilities	530	60	2018
Chenani Nashri Tunnelway Limited	Cube Highways	Roads and highways	527	>50	2020
Essel Infraprojects Ltd (three road assets)	CDPQ	Roads and highways	500	100	2019
India Grid Trust	GIC, KKR	Power	400	57	2019
Ayana Renewable Power Private Limited	CDC, Green Growth Equity Fund, NIIF	Power	390	NA	2020
Seven road assets of IDFC PE	CDPQ	Roads and highways	339	>50	2019
ACME Solar Holdings Limited, Two Solar Power Projects	Actis Long Life Infrastructure Fund	Power	270	100	2020
Greenko Mauritius Limited	GIC	Power	252	80	2015
Hindustan Powerprojects, formerly Moser Baer Projects Private Limited	Macquarie	Power	250	100	2017

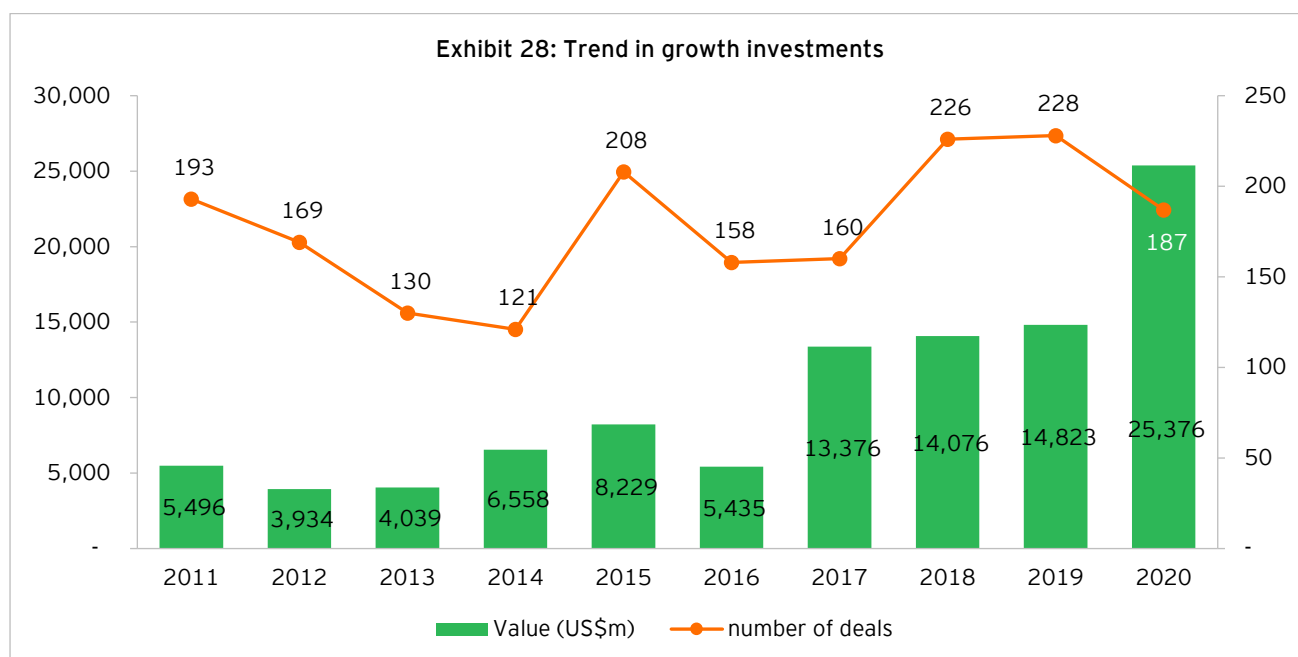
Source: EY analysis of VCCEdge data

Exhibit 27: Top real estate sector buyouts between 2011-2020

Company/Asset	Investors	Sector	Amount (US\$m)	Deal Stake %	Year
RMZ Corp, 12.5 million sq ft real estate assets	Brookfield	Commercial	2,000	>50	2020
Prestige Estates Projects Limited, certain commercial and retail properties	Blackstone	Commercial	1,500	100	2020
Indiabulls Real Estate's commercial properties	Blackstone	Commercial	624	50	2019
ESR Cayman JV, industrial and logistics assets	GIC	Commercial	600	80	2020
Hotel Leela Venture Limited, Four Hotels	Brookfield	Hospitality	572	100	2019
Unitech Limited, IT Park SEZ Business	Brookfield	Commercial	563	NA	2014
Two existing malls and an upcoming retail development project	Virtuous Retail, a APG Management - Xander JV	Commercial	550	NA	2019
IndoSpace	CPPIB	Commercial	500	NA	2017
Coffee Day's Global Village Tech Park	Blackstone	Commercial	400	100	2019
Equinox Business Park	Brookfield	Commercial	384	NA	2018
Radius Infra Holdings Private Limited, One BKC	Blackstone	Commercial	357	100	2019
SP Infocity, IT Park	Temasek	Commercial	353	NA	2018
Phoenix's Hyderabad office project	Xander	Commercial	350	100	2018
Indiabulls Properties Private Limited	Blackstone	Commercial	346	50	2018
Carnival's Chandigarh Property	Blackstone	Commercial	340	100	2017

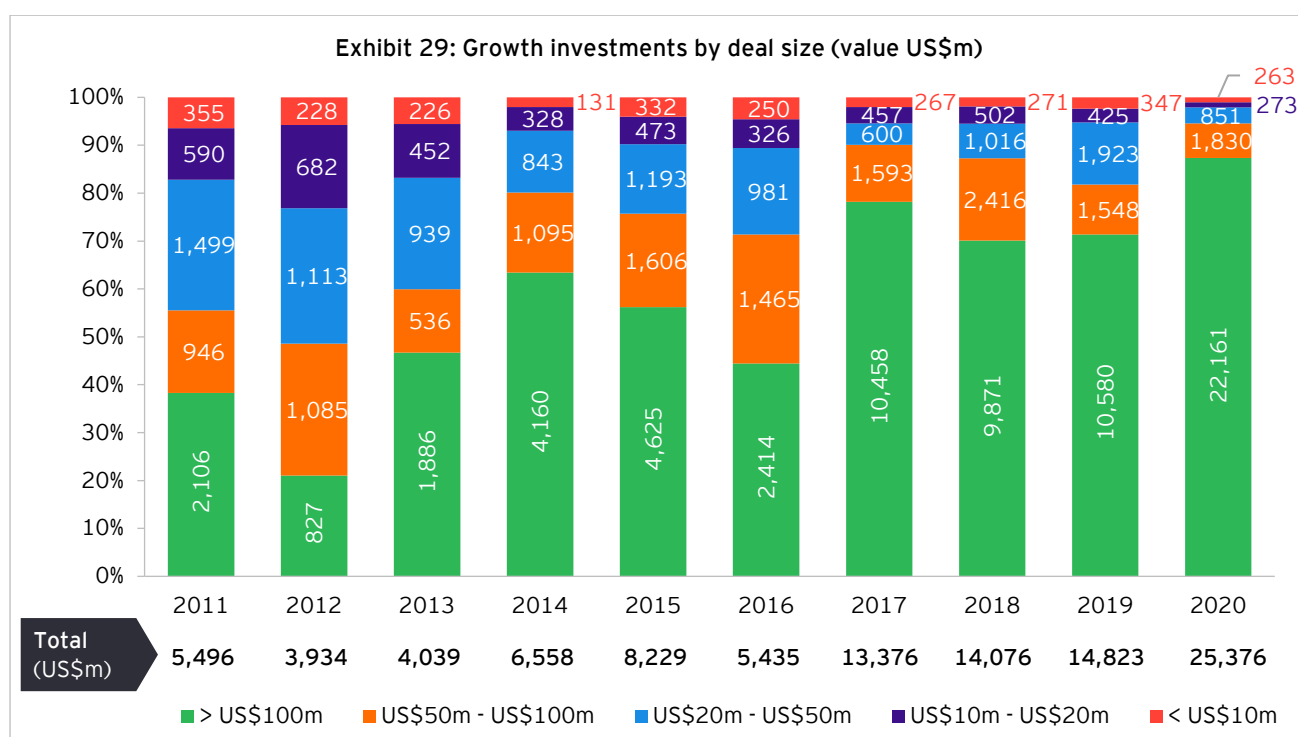
Source: EY analysis of VCCEdge data

Growth investments have become larger and more complex

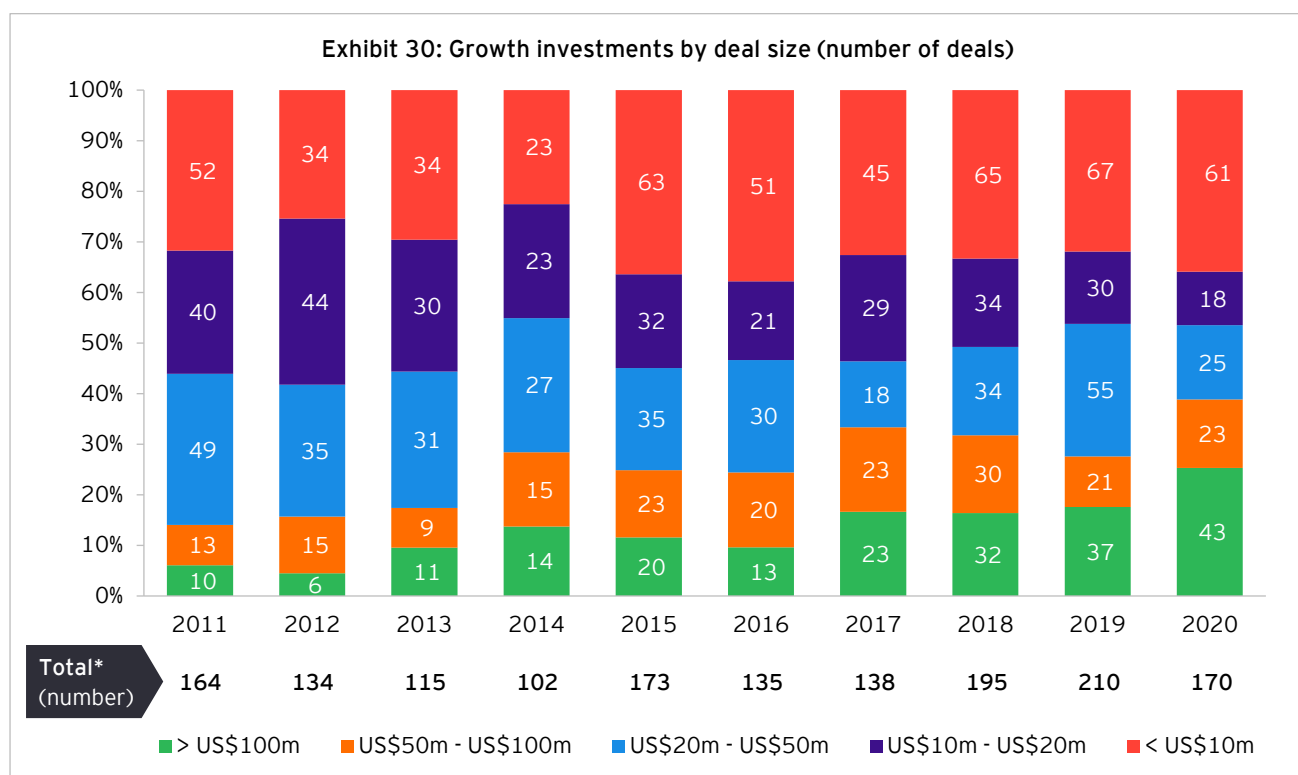


Source: EY analysis of VCCEdge data

With buyouts gaining prominence over the past 3-4 years, % share of growth deals declined from over 55% in 2011 to around 30% in 2019 as seen in exhibit 12 (share of growth deals had a rebound in 2020 on the back of one-off mega investments in Reliance Group entities). Nonetheless, growth deals continue to be the dominant strategy for PE/VC investments in India and has grown at a CAGR of 15% over the past 10 years, largely on the back of increase in deal size as opposed to any significant increase in the number of deals. The growth has mainly been driven by deals becoming larger and more complex. Large deals accounted for around 40% of all deals by value in 2011 which have grown almost eight times in terms of aggregate value, accounting for over 85% of all growth investments by value in 2020. Similarly, by volume, large deals accounted for 25% of all growth deals in 2020 compared to 5% in 2011, a 5-fold growth in 10 years.



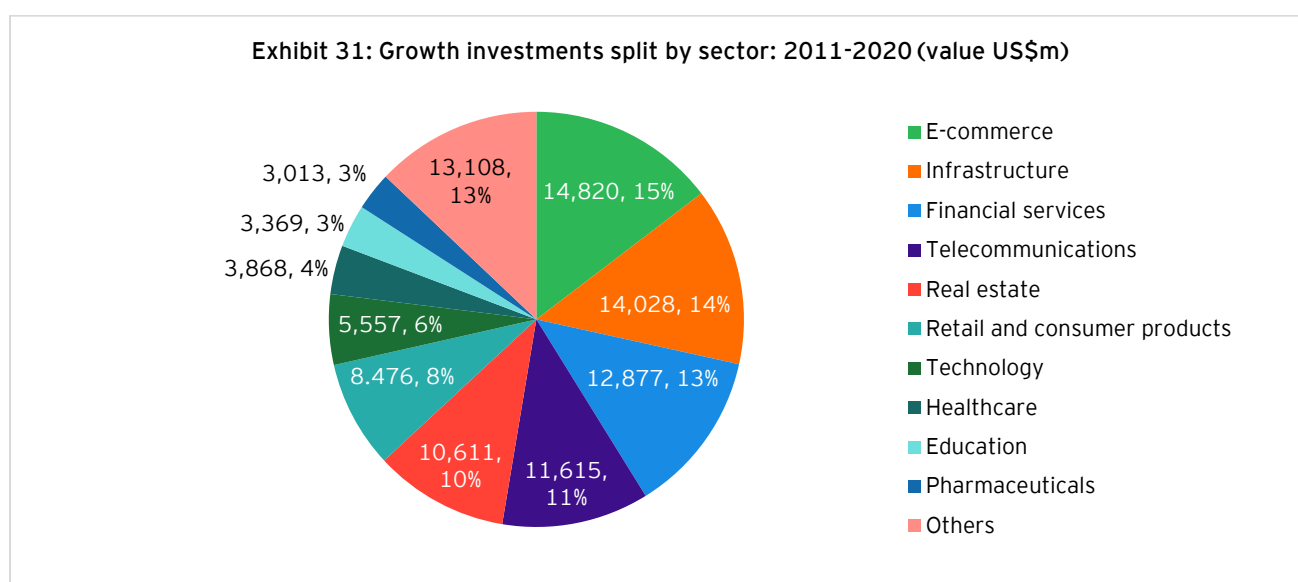
Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

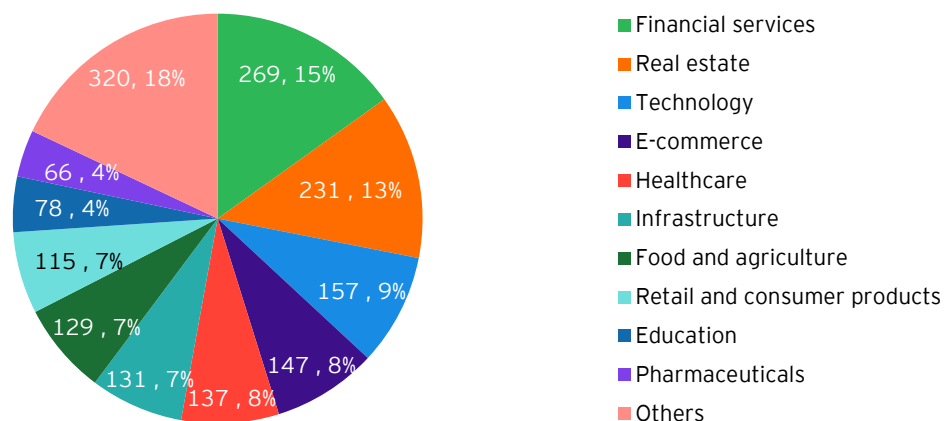
*Does not include deals where deal value is not available

From a sector perspective, e-commerce, infrastructure, financial services, telecom, real estate and consumer sectors have been among the top sectors for growth investments each recording over US\$10 billion in investments over the past decade. Except for telecom that recorded US\$10 billion of PE investments in 2020 alone, all others have recorded a consistent flow of deals in each year. In terms of number for deals, financial services, real estate, infrastructure, e-commerce, technology, and healthcare have been among the top sectors each recording over 100 deals in the past decade.



Source: EY analysis of VCCEdge data

Exhibit 32: Growth investments split by sector: 2011-2020 (number of deals)



Source: EY analysis of VCCEdge data

Exhibit 33: Top growth investments between 2011-2020 (excluding investments in Reliance Group entities)

Company/Asset	Investors	Sector	Amount (US\$m)	Deal Stake %	Year
Flipkart Private Limited	SoftBank	E-commerce	2,500	24	2017
One 97 Communications Limited (Paytm)	SoftBank	Financial services	1,400	NA	2017
DLF Cyber City Developers Limited	GIC	Real estate	1,390	33	2017
Airtel Africa Limited	Warburg Pincus, Temasek, SingTel Innov8, SoftBank	Telecommunications	1,250	28	2018
UPL Corporation Limited	Abu Dhabi Investment Council (ADIA), TPG	Chemicals	1,200	22	2018
ANI Technologies Private Limited (Ola Cabs)	Tencent, Softbank	E-commerce	1,100	NA	2017
One 97 Communications Limited (Paytm)	Alibaba Group, Softbank	Financial services	1,000	NA	2019
Flipkart Private Limited	GIC, Tiger Global, Naspers and others	E-commerce	1,000	NA	2014
Hero Investment Private Limited	GIC and Bain Capital	Automotive	850	NA	2011
Larsen & Toubro's Electrical & Automation business	Temasek	Industrial products	761	35	2018
GlobalLogic Inc.	CPPIB	Technology	720	48	2017
Flipkart Private Limited	Tiger global, Steadview Capital	E-commerce	700	NA	2015
Flipkart Private Limited	Greenoaks Capital, Steadview Capital, Qatar Investment Authority and others	E-commerce	700	NA	2014
Zomato Pvt. Ltd.	Tiger Global, D1 Capital, Steadview and others	E-commerce	660	NA	2020

Source: EY analysis of VCCEdge data

Exhibit 34: Top growth investments in Reliance Group entities in 2020

Company/Asset	Investors	Sector	Amount (US\$m)	Deal Stake %
Jio Platforms Limited	KKR	Telecommunications	1,512	2.32
Jio Platforms Limited	Vista Equity Partners	Telecommunications	1,510	2.32
Jio Platforms Limited	Public Investment Fund of Saudi Arabia (PIF)	Telecommunications	1,497	2.30
Reliance Retail Ventures Limited	Public Investment Fund of Saudi Arabia (PIF)	Retail and consumer products	1,282	2.04
Jio Platforms Limited	Mubadala Investment Co.	Telecommunications	1,211	1.85
Reliance Retail Ventures Limited	Silver Lake Management	Retail and consumer products	1,022	1.75
Reliance Retail Ventures Limited	GIC, TPG Asia	Retail and consumer products	953	1.63
Jio Platforms Limited	General Atlantic	Telecommunications	878	1.34
Jio Platforms Limited	Tarrant Capital, TPG Capital Asia, L Catterton Management and Others	Telecommunications	849	1.32
Reliance Retail Ventures Limited	Mubadala Investment Co.	Retail and consumer products	846	1.40
Jio Platforms Limited	Abu Dhabi Investment Council	Telecommunications	754	1.16
Reliance Retail Ventures Limited	KKR	Retail and consumer products	754	1.28
Reliance Retail Ventures Limited	Abu Dhabi Investment Council	Retail and consumer products	751	1.20
Jio Platforms Limited	Silver Lake Management	Telecommunications	750	1.15
Jio Platforms Limited	Silver Lake Management	Telecommunications	606	0.93
Reliance Retail Ventures Limited	General Atlantic	Retail and consumer products	498	0.84
Reliance Retail Ventures Limited	Silver Lake's co-investors	Retail and consumer products	254	0.38
Jio Platforms Limited	Intel Capital	Telecommunications	251	0.39
Jio Platforms Limited	Qualcomm Ventures	Telecommunications	97	0.15

Source: EY analysis of VCCEdge data

Maturing start-up ecosystem

Start-up investments have grown at a CAGR of 18% in the previous decade. In fact, until 2019 the growth was even better at 28% CAGR. 2020 recorded a significant decline in the value of start-up investments due to the impact of COVID-19 which led to many deals being cancelled or put on hold. In addition, ticket sizes reduced as start-ups were most affected by business uncertainty that ensued the pandemic, making investors circumspect.

By deal volume, start-ups have been the biggest segment in the last decade, recording more than three-fold increase in the deal volume in 2020 compared to 2011. However, the average deal size in the start-up space continues to remain small with 80% of deals being of less than US\$10 million in value.

From a sector perspective, three sectors - e-commerce, financial services and technology have dominated start-up investments accounting for 69% of deals by value and 58% by volume over the previous decade.

2011-2020 has truly been a remarkable decade for the Indian start-up ecosystem, one that saw the Indian start-up sector mature into a flourishing ecosystem that continues to lead to the creation of several unicorns.

According to a recent study by NASSCOM, India is ranked third in terms of total number of unicorns at 38 and second highest number of unicorns in 2020 after US at 12.⁴ The combined valuation of the Indian unicorns is easily in excess of US\$90 billion.

On average, it takes about eight years for an Indian start-up to turn into a unicorn. But that period has been shrinking. A recent report by Orios Venture Partners shows that newer tech firms have been hitting the billion-dollar-valuation mark sooner than some of their older counterparts. India's oldest start-ups like MakeMyTrip, Naukri.com and Justdial—founded prior to 2005—have taken roughly 15 years to become unicorns.⁵ 30 of 38 active Indian unicorns achieved US\$1 billion+ valuation in the last three years.

E-commerce, fintech, AI and SaaS are top four core sectors of world's unicorns, making up 45.9 percent of the sectoral universe of these unicorns. In India one-third of the unicorns are from the e-commerce sector.

The NASSCOM report also forecasts that India will have more than 50 unicorns before 2021 is over, and more than 100 by 2025. Within the first two months of 2021 two Indian companies entered the unicorn club - Digit, an insurance technology company and Innovaccer, a healthTech start-up. Similarly, Meesho, a social commerce company is expected to be valued over US\$1 billion once its latest funding round of around US\$250 million from Softbank concludes.

This projection by NASSCOM seems plausible, given that in 2020, 12 unicorns emerged notwithstanding the pandemic, the highest number ever in any year. In December 2020, short video platform Glance achieved unicorn valuation—Glance is a subsidiary of InMobi, the first Indian unicorn from 2011. Paytm's spin-off Paytm Mall also achieved unicorn status like its parent company a couple of years ago. Moreover, Paytm itself is not just a unicorn, but is now a 'decacorn', or a company with valuation of more than US\$10 billion. Two other Indian companies have most likely achieved this status —Edutech giant BYJU's and the hospitality chain Oyo.

12 unicorns that emerged in 2020 are - Pinelabs, FirstCry, Glance, Nykaa, Postman, Unacademy, Razorpay, CAR24, Zenoti, Dailyhunt, Highradius and Tekion.

Moreover, with the initial public offering (IPO) market for start-ups strengthening, a number of startup firms like Freshworks, Druva, PolicyBazaar, Zomato and Delhivery have announced plans to list their shares in 2021-22.

COVID-19 has accelerated digital adoption and the shift to online in the country. This has created new opportunities for tech start-ups that are capitalizing on the same with rapid digital acceleration and a shift to SaaS-based solutions.

Exhibit 35: Top 10 sectors for unicorns

Rank	Industry	No. of Unicorns	% of Total Value
1	E-commerce	7	33%
2	FinTech	3	14%
3	Shared economy	2	10%
4	Logistics	2	10%
5	On-demand delivery	2	10%
6	Renewable energy	1	5%
7	EdTech	1	5%
8	Big data	1	5%
8	Communication platform	1	5%
10	Gaming	1	5%

Source: Hurun India unicorn index 2020, August 2020, Hurun Research Institute

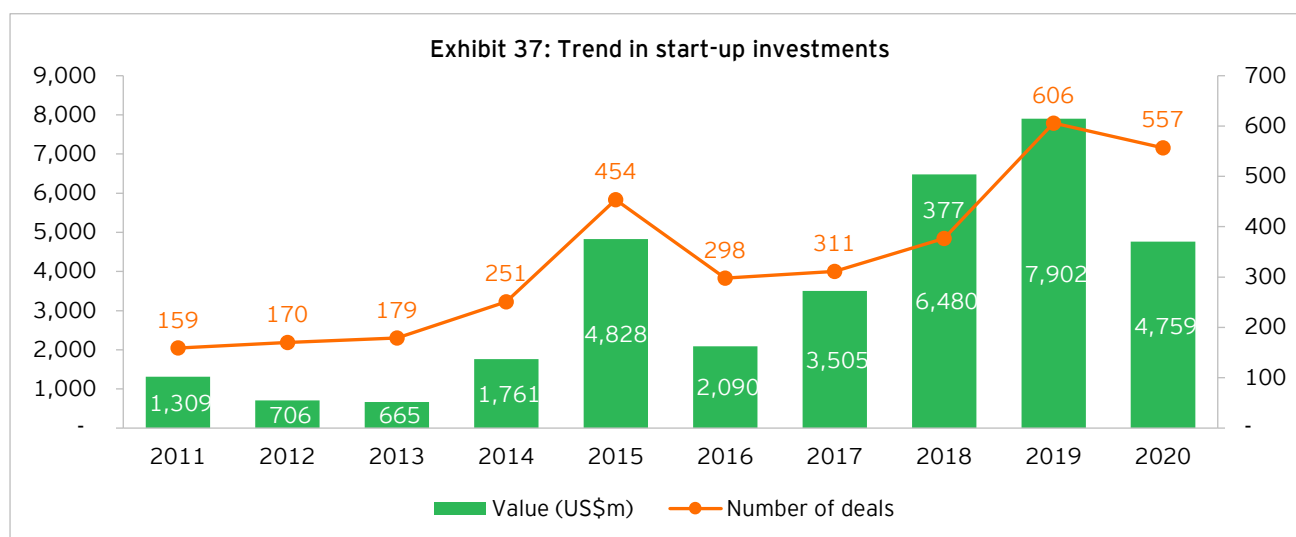
⁴ https://nasscom.in/sites/default/files/media_pdf/Digital-acceleration-Deep-tech-adoption%2C-driving-steady-growth-for-India%E2%80%99s-tech-start-up-ecosystem-in-2021_NASSCOM-Zinnov%20report_1.pdf

⁵ <https://www.bloomberquint.com/business/startup-street-time-to-billion-dollar-status-has-nearly-halved-since-indias-earliest-unicorns>

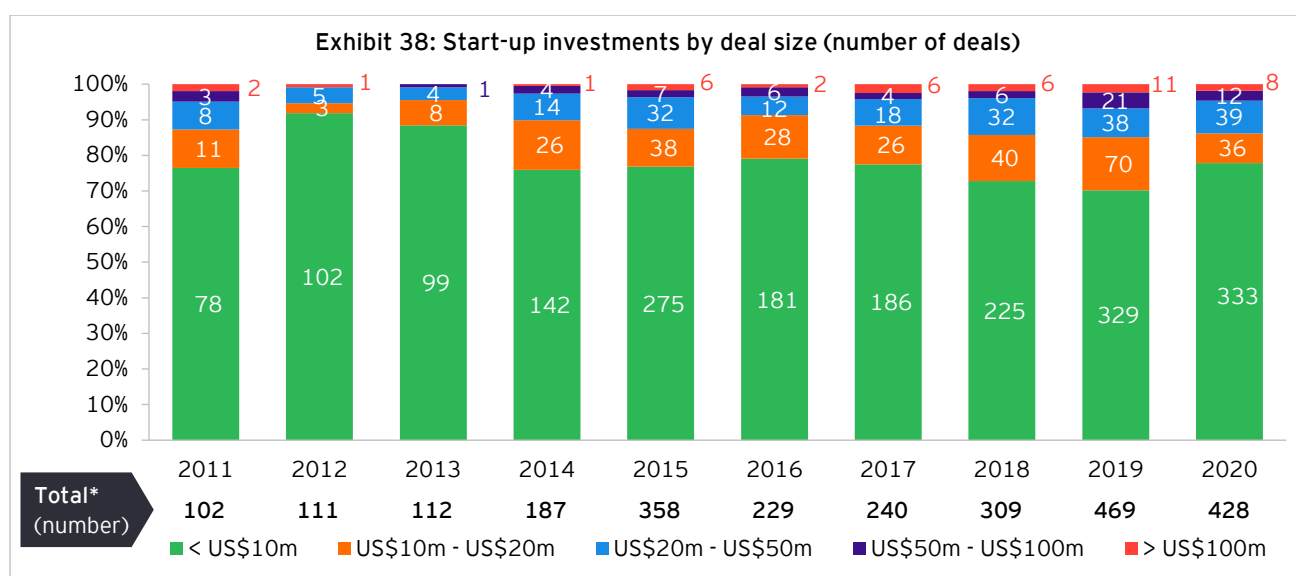
Exhibit 36: Top 10 unicorns

Rank	Name	Valuation (US\$ billion)	Sector
1	Paytm	16	FinTech
2	OYO Rooms	8	B2C
2	BYJU's	8	EdTech
4	Ola Cabs	6	Shared economy
5	Swiggy	3.5	On-demand delivery
5	Zomato	3.5	On-demand delivery
7	Paytm Mall	3	B2C
7	ReNew Power	3	Renewable energy
9	BigBasket	2.5	B2C
10	Udaan	2.5	B2B

Source: Hurun India unicorn index 2020, August 2020, Hurun Research Institute



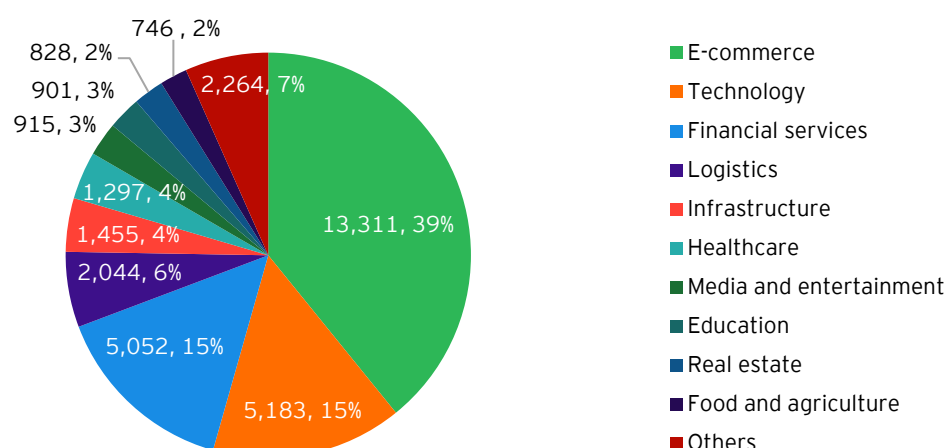
Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

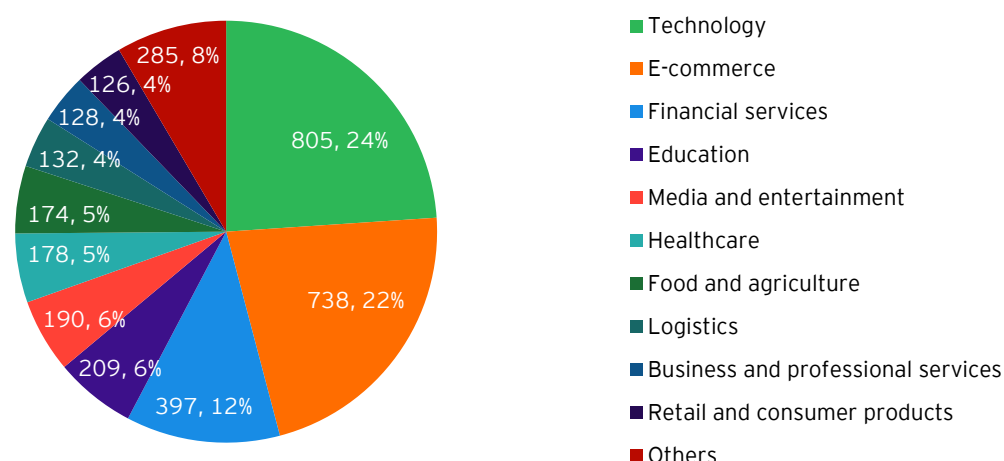
*Does not include deals where deal value is not available

Exhibit 39: Start-up investments split by sector: 2011-2020 (value US\$m)



Source: EY analysis of VCCEdge data

Exhibit 40: Start-up investments split by sector: 2011-2020 (number of deals)



Source: EY analysis of VCCEdge data

Exhibit 41: Top start-up investments between 2011-2020

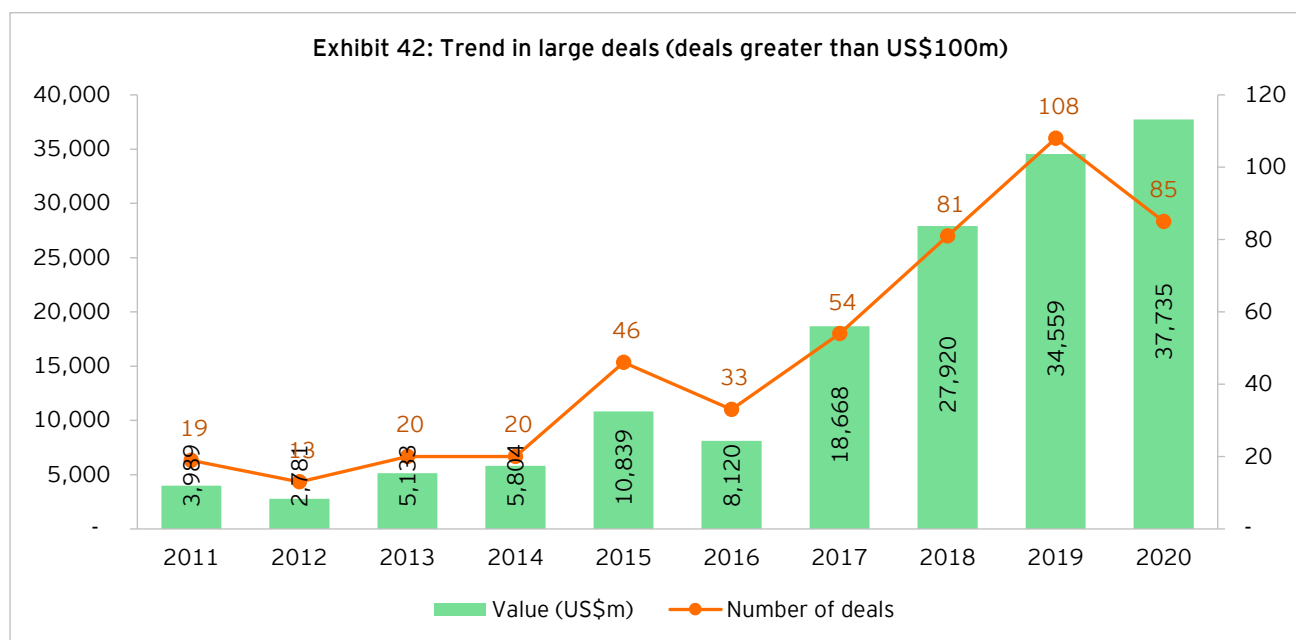
Company/Asset	Investors	Sector	Amount (US\$m)	Deal Stake %	Year
Bundl Technologies Private Limited (Swiggy)	DST Global, Naspers Ventures, Tencent, Hillhouse Capital and others	E-commerce	1,000	NA	2018
Oravel Stays Private Limited (Oyo)	Lightspeed Venture, Sequoia Capital, SoftBank and others	E-commerce	1,000	NA	2018
Oravel Stays Private Limited (Oyo)	SoftBank	E-commerce	810	NA	2019
Hiveloop Technology Private Limited (Udaan)	GGV Capital, Altimeter Capital Management, Hillhouse Capital, DST Global, Lightspeed Ventures	E-commerce	585	NA	2019
Logos India	CDPQ	Logistics	400	NA	2017

Company/Asset	Investors	Sector	Amount (US\$m)	Deal Stake %	Year
ANI Technologies Private Limited (Olacabs)	Steadview Capital, Accel, DST Global, Tiger Global, SoftBank, GIC and others	E-commerce	400	NA	2015
Emerald Media	KKR	Media and entertainment	300	NA	2015
ANI Technologies Private Limited (Olacabs)	Tiger Global, Steadview Capital, SoftBank, ABG Capital, Falcon Edge Capital	E-commerce	275	NA	2015
Oravel Stays Private Limited (Oyo)	Lightspeed Venture, Sequoia Capital, Greenoaks Capital, SoftBank and others	E-commerce	260	NA	2017
Oravel Stays Private Limited (Oyo)	SoftBank	E-commerce	250	15	2017
91Streets Media Technologies Private Limited (PharmEasy)	Temasek, Bessemer Venture Partners, Orios Venture Partners, Eight Roads and others	E-commerce	226	NA	2019
Hiveloop Technology Private Limited (Udaan)	Lightspeed Ventures, DST Global	E-commerce	225	26	2018

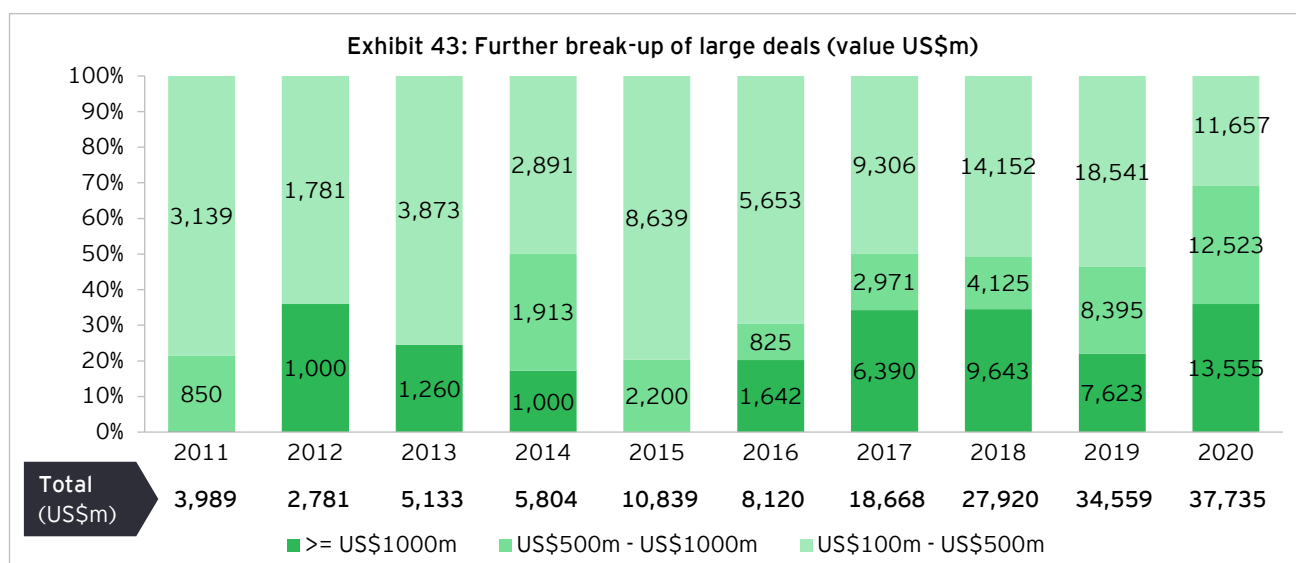
Source: EY analysis of VCCEdge data

Deals have become progressively larger

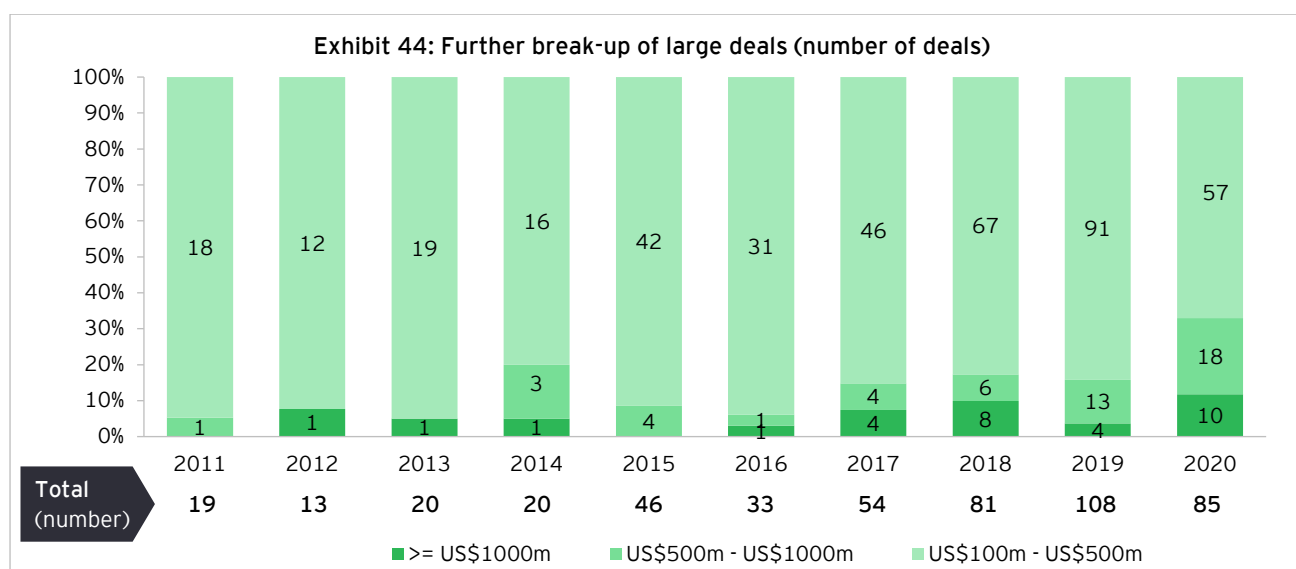
Growth in large deals has been a major contributor to the exponential rise in PE/VC investments in India in the second half of the last decade. Aggregate value of large deals has increased almost 10-folds from 2011 to 2020. 2020 recorded 10 deals of value greater than US\$1 billion compared to four deals in 2019 and eight deals in 2018. The trend has become more pronounced in recent years with deals greater than US\$500 million increasing from eight in 2017 to 28 in 2020. Largely on account of the Jio Platform and Reliance Retail deals, despite a reduction in their number, the aggregate value of large deals has increased to US\$37.7 billion in 2020 compared to US\$34.6 billion in 2019.



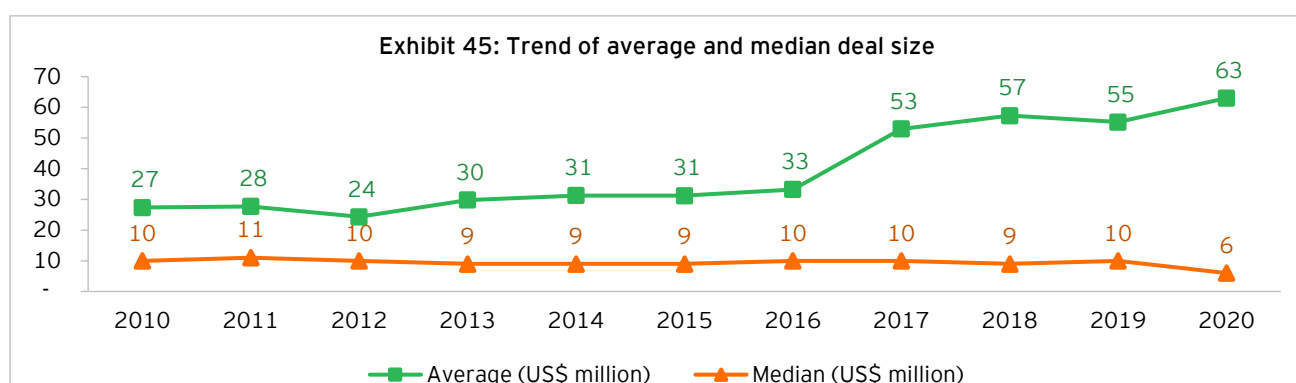
Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data



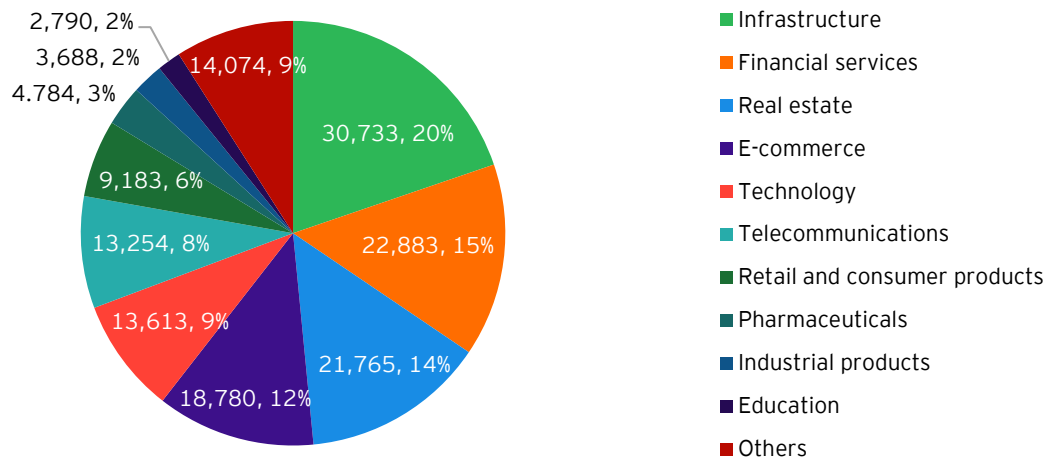
Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

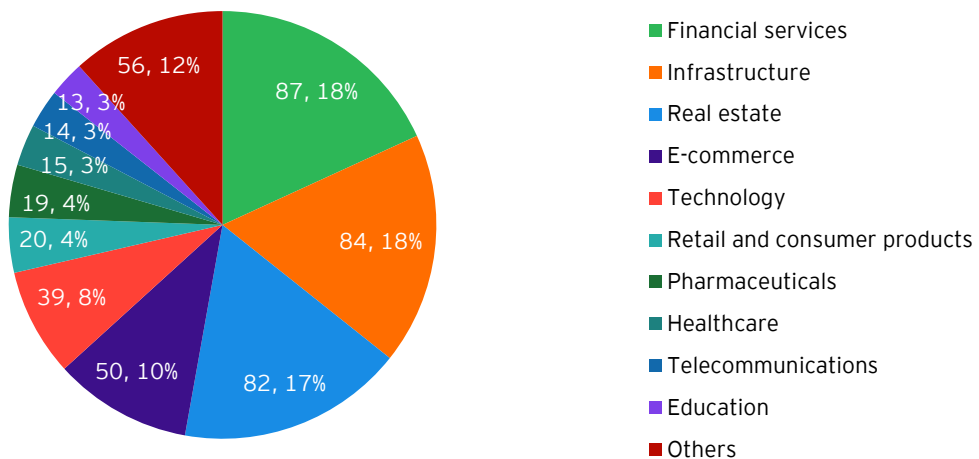
From a sector perspective, the top five sectors including infrastructure, real estate, financial services, e-commerce and technology have accounted for 69% of all large deals by value and 71% by volume. Excluding infrastructure and real estate asset classes, financial services, e-commerce and technology sectors accounted for more than 53% of large deals by value and 56% by volume.

Exhibit 46: Large deals split by sector: 2011-2020 (value US\$m)



Source: EY analysis of VCCEdge data

Exhibit 47: Large deals split by sector: 2011-2020 (number of deals)



Source: EY analysis of VCCEdge data

Exhibit 48: Top large deals between 2011-2020 (pure play PE/VC deals)

Company/Asset	Investors	Sector	Stage	Amount (US\$m)	Deal Stake %	Year
Flipkart Private Limited	SoftBank Vision Fund	E-commerce	Growth capital	2,500	24	2017
HDFC Limited	GIC, KKR, PremjiInvest, OTP and Others	Financial services	PIPE	1,731	3.9	2018
Jio Platforms Limited	KKR	Telecommunications	Growth capital	1,512	2.3	2020
Jio Platforms Limited	Vista Equity Partners	Telecommunications	Growth capital	1,510	2.3	2020
Jio Platforms Limited	Public Investment Fund of Saudi Arabia	Telecommunications	Growth capital	1,497	2.3	2020
Paytm	SoftBank	Financial services	Growth capital	1,400	NA	2017
Reliance Retail Ventures Limited	Public Investment Fund of Saudi Arabia	Retail and consumer products	Growth capital	1,282	2	2020

Company/Asset	Investors	Sector	Stage	Amount (US\$m)	Deal Stake %	Year
Bharti Airtel Limited	Qatar Foundation Endowment	Telecommunications	PIPE	1,260	5	2013
Airtel Africa Limited	Warburg Pincus, Temasek, SingTel Innov8, SoftBank	Telecommunications	Growth capital	1,250	28	2018
Jio Platforms Limited	Mubadala Investment Co.	Telecommunications	Growth capital	1,211	1.9	2020
UPL Corporation Limited	Abu Dhabi Investment Council, TPG	Chemicals	Growth capital	1,200	22	2018
ANI Technologies Private Limited (Ola Cabs)	Tencent, Softbank	E-commerce	Growth capital	1,100	NA	2017
Reliance Retail Ventures Limited	Silver Lake Management	Retail and consumer products	Growth capital	1,022	1.8	2020
Piramal Glass Private Limited	Blackstone	Industrial products	Buyout	1,000	100	2020
Star Health and Allied Insurance Co. Limited	Madison India, Westbridge Capital	Financial services	Buyout	1000	94	2018

Source: EY analysis of VCCEdge data

Exhibit 49: Top large deals between 2011-2020 (infrastructure sector)

Company/Asset	Investors	Sector	Stage	Amount (US\$m)	Deal Stake %	Year
Summit Digital Infrastructure Private Limited (Reliance Jio's tower arm)	Brookfield	Telecom assets	Buyout	3,660	>50	2019
RIL's East West Pipeline	Brookfield	Oil and gas	Buyout	1,888	90	2019
Reliance Infratel	Brookfield	Telecom assets	Buyout	1,642	51	2016
National Highway Authority of India's (NHAI's) road assets	Macquarie	Roads and highways	Buyout	1,462	NA	2018
Bharti Infratel Limited	KKR, CPPIB	Telecom assets	PIPE	956	10	2017
Nine TOT projects of NHAI	Cube Highways	Roads and highways	Buyout	716	100	2019
National Highways Authority of India (9 ToT projects)	Cube Highways	Roads and highways	Growth capital	684	NA	2020
IRB Infrastructure Developers Limited, Road Platform InvIT	GIC	Roads and highways	Growth capital	631	NA	2019
IndInfravit Trust, sponsored by L&T Infrastructure Development Projects Limited (L&T IDPL)	CPPIB and Allianz Capital Partners	Roads and highways	Growth capital	600	55	2018
RattanIndia Power Limited	Goldman Sachs, Varde Partners	Power	Credit investment	566	NA	2020
Ramky Enviro Engineers Limited	KKR	Utilities	Buyout	530	60	2018

Source: EY analysis of VCCEdge data

Exhibit 50: Top large deals between 2011-2020 (real estate sector)

Company/Asset	Investors	Sector	Stage	Amount (US\$m)	Deal Stake %	Year
RMZ Corp, 12.5 million sq ft real estate assets	Brookfield	Commercial	Buyout	2,000	>50	2020
Prestige Estates Projects Limited, certain commercial and retail properties	Blackstone	Commercial	Buyout	1,500	100	2020
DLF Cyber City Developers Limited	GIC	Commercial	Growth capital	1,390	33	2017
Indiabulls Real Estate's commercial properties	Blackstone	Commercial	Buyout	624	50	2019
ESR Cayman JV, industrial and logistics assets	GIC	Commercial	Buyout	600	80	2020
Hotel Leela Venture Limited, Four Hotels	Brookfield	Hospitality	Buyout	572	100	2019
Unitech Limited, IT Park SEZ Business	Brookfield	Commercial	Buyout	563	NA	2014
Two existing malls and an upcoming retail development project	Virtuous Retail, a APG Management - Xander JV	Commercial	Buyout	550	NA	2019
IndoSpace	CPPIB	Commercial	Buyout	500	NA	2017
Coffee Day's Global Village Tech Park	Blackstone	Commercial	Buyout	400	100	2019

Source: EY analysis of VCCEdge data

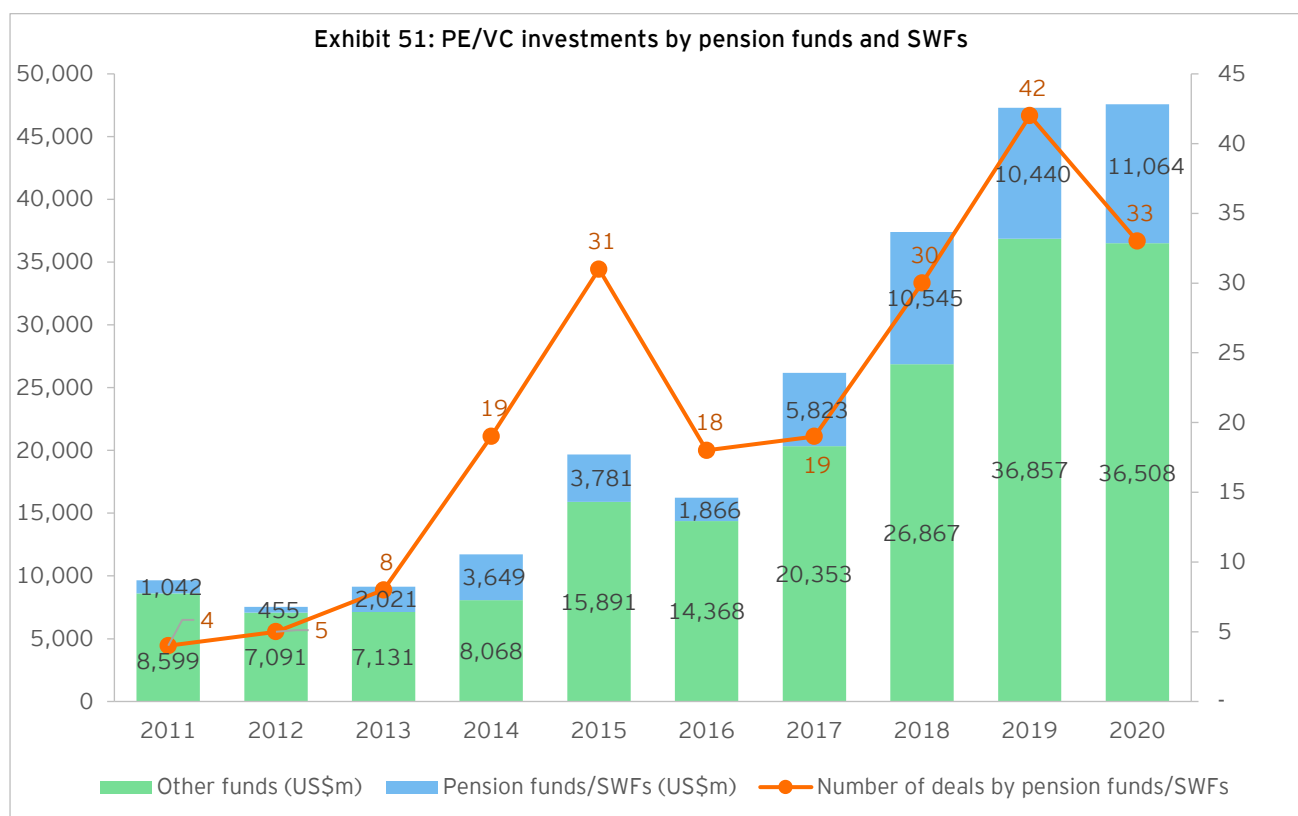
Pension funds and sovereign wealth funds (SWFs) emerge as a prominent investor class

Direct investments from pension funds and sovereign wealth funds have been a major contributor to the tremendous growth seen in PE/VC investments in India. Direct investments by these funds have increased from US\$1 billion in 2011 to US\$11.1 billion in 2020- an 11-fold increase over a 10-year period. Between 2011-2020 these funds have invested US\$50.7 billion in India, of which 78% of investment value has come in the last five years, coinciding with the exponential growth witnessed in overall PE/VC investments in India. Their share in total investments has increased from around 10% in 2011 to over 20% in 2020. Going forward their share in investments in India is expected to increase further as many of them are looking to increase their India/emerging market allocations in the wake of a declining trend in global yields and real interest rates. Earlier, many of these funds took the LP route but are now increasingly seeking direct and co-investing opportunities in the India market.

Globally, pension funds tend to invest significant amounts in real assets (infrastructure and real estate), while securing long-term cash flow returns to match their long-term pension liabilities. Infrastructure, real estate and financial services have been the top sectors of interest for SWFs and pension funds investing directly in India.

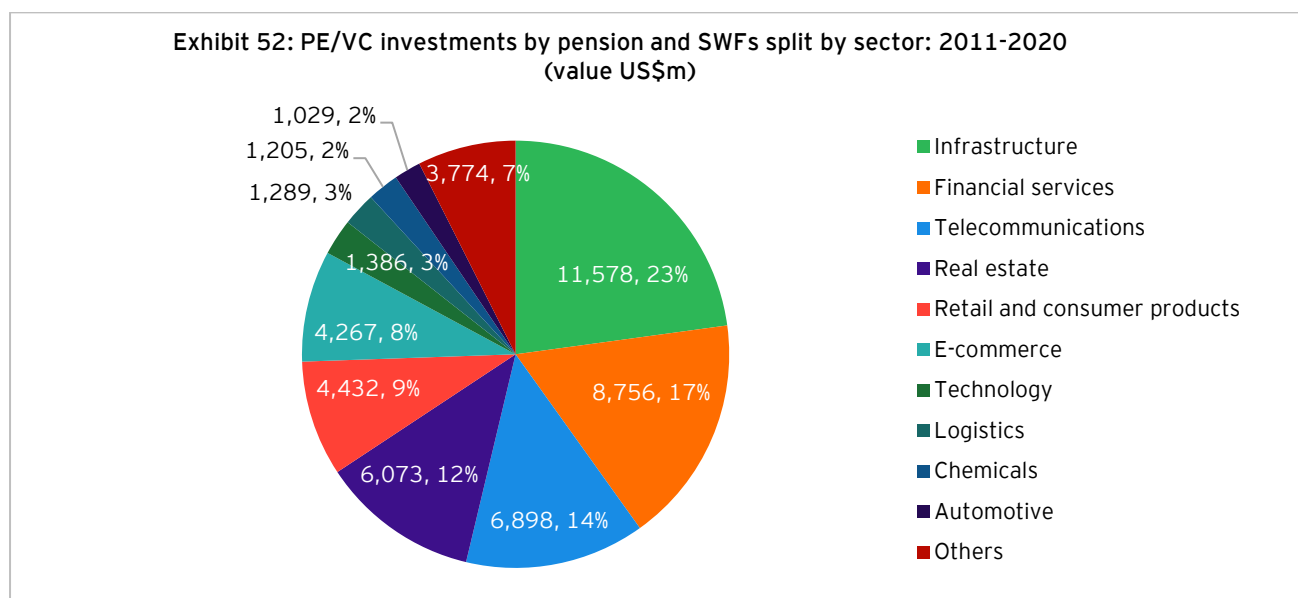
Canadian funds like Canada Pension Plan Investment Board (CPPIB), Caisse de dépôt et placement du Québec (CDPQ), Ontario Municipal Employees Retirement System (OMERS) and Ontario Teachers' Pension Plan (OTPP) have been the largest pension funds investing directly in India. Amongst sovereign wealth funds, GIC, Temasek and Abu Dhabi Investment Authority (ADIA) have been the largest investors so far.

Evolution of new investment structures like infrastructure investment trust (InvITs) and real estate investment trusts (REITs) is attracting pension funds and SWFs to the Indian market. Moreover, the favorable tax treatment for investments in these structures by this class of investors is further increasing the attractiveness of these investment options.



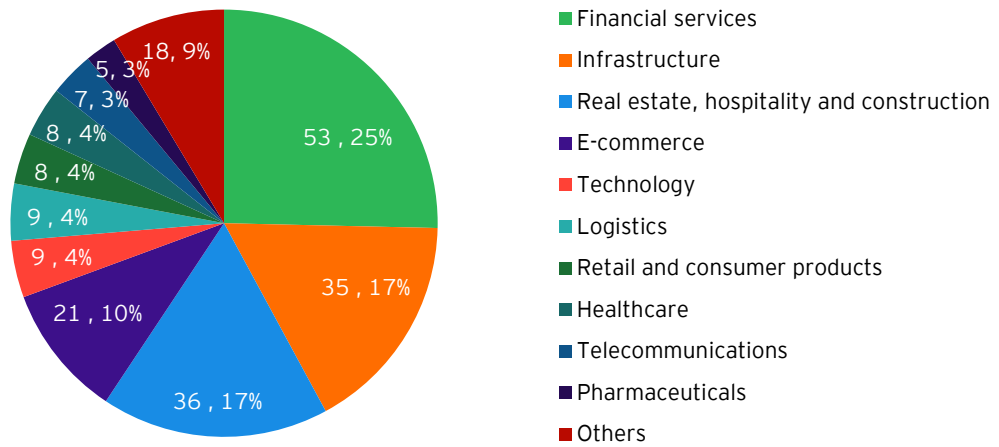
Source: EY analysis of VCCEdge data

Note: complete value of the deal is attributed to pension funds/SWFs when multiple investors are involved in a deal as generally pension funds/SWFs are the lead investors when they are involved in any deal



Source: EY analysis of VCCEdge data

**Exhibit 53: PE/VC investments by pension and SWFs split by sector: 2011-2020
(number of deals)**



Source: EY analysis of VCCEdge data

Exhibit 54: Top investments involving pension funds and SWFs between 2011-2020

Company/Asset	Investors	Sector	Stage	Amount (US\$m)	Deal Stake %	Year
HDFC Limited	GIC, KKR, PremjiInvest, OTPP and others	Financial services	PIPE	1,731	3.9	2018
Jio Platforms Limited	Public Investment Fund of Saudi Arabia (PIF)	Telecommunications	Growth capital	1,497	2.3	2020
DLF Cyber City Developers Limited	GIC	Real estate	Growth capital	1,390	33.0	2017
Reliance Retail Ventures Limited	Public Investment Fund of Saudi Arabia (PIF)	Retail and consumer products	Growth capital	1,282	2.0	2020
Bharti Airtel Limited	Qatar Foundation Endowment	Telecommunications	PIPE	1,260	5.0	2013
Airtel Africa Limited	Warburg Pincus, Temasek, SingTel Innov8, SoftBank	Telecommunications	Growth capital	1,250	28.4	2018
Jio Platforms Limited	Mubadala Investment Co.	Telecommunications	Growth capital	1,211	1.9	2020
UPL Corporation Limited	Abu Dhabi Investment Council, TPG	Chemicals	Growth capital	1,200	22	2018
Jio Fibre Network InvIT - Digital Fibre Infrastructure Trust	PIF, ADIA	Infrastructure	Buyout	1,022	51.0	2020
Flipkart Private Limited	GIC, Tiger Global, Naspers and others	E-commerce	Growth capital	1,000	NA	2014
Bharti Infratel Limited	KKR, CPPIB	Infrastructure	PIPE	956	10.3	2017
Reliance Retail Ventures Limited	GIC, TPG	Retail and consumer products	Growth capital	953	1.6	2020
Hero Investment Private Limited	GIC and Bain Capital	Automotive	Growth capital	850	NA	2011
Reliance Retail Ventures Limited	Mubadala Investment Co.	Retail and consumer products	Growth capital	846	1.4	2020

Source: EY analysis of VCCEdge data



4

Analysis of sectoral
performance - 2011-2020

Analysis of sectoral performance - 2011-2020

As discussed in the earlier section of the report, PE/VC investment activity in India has been dominated by four-five sectors that have accounted for 2/3rd of all investments by value and volume.

The heatmaps in exhibits 55 and 56 try to analyze the changing preference over the years among various sectors and based on them we can infer the following:

1. Technology has been the most preferred sector over the years.
2. While e-commerce sector was among the preferred sectors throughout the decade, the deals were much smaller in the initial years.
3. Financial services and real estate have consistently been among the top five preferred sectors for PE/VC investments.
4. Infrastructure sector has received a disproportionate share of capital despite very few deals over the decade.
5. Healthcare was among the preferred sectors in the initial years but fell behind in the latter half of the decade. This is expected to change after the Government's focus on increasing healthcare investments and renewed interest from PE/VC funds in the healthcare sector post the pandemic.
6. Media and entertainment sector has seen an uptick in deal activity in recent years, though the deal sizes are rather small.
7. Pharmaceuticals sector has seen an increase in capital allocation in recent years, however, in terms of deal share it continues to remain a laggard.

Exhibit 55: Sector ranking heatmap based on aggregate deal value 2011-2020

Sector	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Financial services	4	3	5	3	3	3	1	1	2	4
Infrastructure	1	5	4	5	5	2	4	4	1	1
RHC	2	2	3	2	2	1	2	3	3	2
E-commerce	7	10	8	1	1	5	3	2	4	7
Technology	5	1	2	4	4	4	5	5	5	5
Telecommunications	18	21	1	12	23	19	16	9	10	18
Retail and consumer products	14	6	9	7	6	7	8	6	9	14
Pharmaceuticals	19	15	12	6	10	11	11	13	7	19
Healthcare	8	4	6	11	8	6	6	10	11	8
Logistics	10	9	15	10	9	8	7	11	6	10
Industrial products	6	14	14	13	17	12	15	8	8	6
Education	15	12	17	18	16	15	12	12	12	15
Media and entertainment	9	11	10	9	7	14	9	15	13	9
Automotive	3	13	7	14	14	10	13	17	14	3
Food and agriculture	12	7	13	8	13	13	10	14	15	12
Chemicals	16	18	20	15	18	9	17	7	18	16
Business and professional services	13	16	16	16	12	16	14	18	16	13
Travel	17	8	19	17	15	17	18	20	17	17
Metals and mining	11	19	23	23	23	20	23	16	23	11
Oil and gas	20	17	18	23	11	23	23	22	20	20
Cement and building products	23	23	11	19	19	18	19	19	23	23
Aerospace and defence	21	20	23	23	23	23	23	21	19	21

Source: EY analysis of VCCEdge data

Note: The numbers within the heat map represents the ranking of the sector in a given year.

Exhibit 56: Sector ranking heatmap based on number of deals 2011-2020

Sector	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Financial services	3	2	2	4	4	3	2	1	1	1
Infrastructure	1	8	9	10	9	10	10	11	8	13
RHC	4	4	5	3	3	4	4	4	5	12
E-commerce	5	3	4	2	1	2	3	3	2	3
Technology	2	1	1	1	2	1	1	2	3	2
Telecommunications	15	16	20	18	23	18	18	20	17	16
Retail and consumer products	8	7	6	5	6	6	6	9	7	8
Pharmaceuticals	16	14	11	11	14	12	13	14	15	10
Healthcare	11	5	3	6	8	5	7	7	9	7
Logistics	13	13	14	13	5	9	8	10	11	11
Industrial products	6	11	8	9	12	14	15	13	13	14
Education	7	6	12	8	7	8	9	8	10	4
Media and entertainment	10	10	10	12	13	11	12	5	6	5
Automotive	14	15	15	16	15	13	14	15	14	15
Food and agriculture	9	9	7	7	10	7	5	6	4	6
Chemicals	17	17	18	17	18	16	17	17	18	18
Business and professional services	12	12	13	14	11	15	11	12	12	9
Travel	19	19	17	15	16	17	16	16	16	17
Metals and mining	18	18	23	20	23	21	23	18	23	23
Oil and gas	21	20	19	21	19	23	23	21	21	23
Cement and building products	23	23	16	19	17	19	19	19	20	20
Aerospace and defence	20	21	23	23	20	20	23	22	19	19

Source: EY analysis of VCCEdge data

Note: The numbers within the heat map represents the ranking of the sector in a given year.

The following section covers key highlights of some of the prominent sectors over the years

Financial services is the largest and most evergreen sector for PE/VC investments

Financial services sector has been the largest sector in terms of value of deals and third largest in terms of number of deals for PE/VC investments in the previous decade with over US\$37.5 billion invested across 910 deals. PE/VC investments in financial services have grown from US\$775 million in 2011 to a high of US\$9.1 billion in 2019, an 11-fold increase with an exponential rise in both value and number of deals witnessed in the second half of the decade. Investments in financial services sector, however, declined to US\$4.8 billion in 2020, a 47% decline y-o-y due to the spike in uncertainty caused by the COVID-19 pandemic.

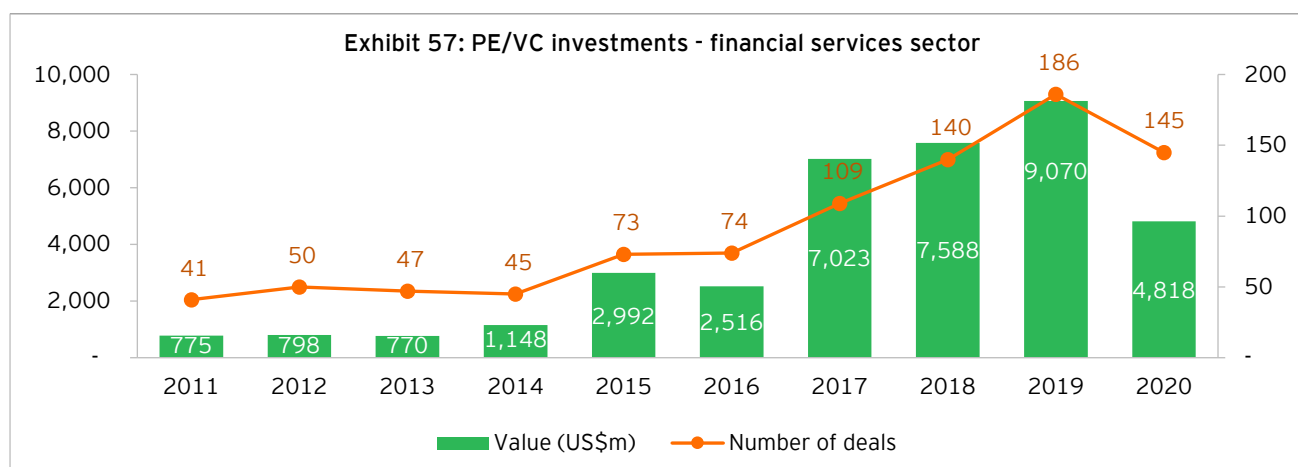
The financial services sector has been one of the most versatile sectors for alternative investments with direct links to the economy, providing a good proxy of the long-term India growth story for investors to play on. This sector provides investors varied options across business models ranging from pure play banks to specialized non-banking finance companies (NBFCs), small finance banks, online credit platforms, insurance companies, and payment solution companies. Further, with technology becoming a key component of the sector, many new tech enabled business models have emerged that are helping to increase financial inclusion, increasing the addressable market for the financial services sector.

NBFC sector was the largest sub-sector for investments, both in terms of value and volume, accounting for more than a third of all financial services sector PE/VC investments by value and volume. From the number of deals perspective, fintech and payments accounted for 28% of the deals in the financial services sector. This trend is expected to get stronger as more and more PE/VC funds back financial services companies that leverage technology to do business, solving real world problems revolving around distribution, underwriting and collection of credit.

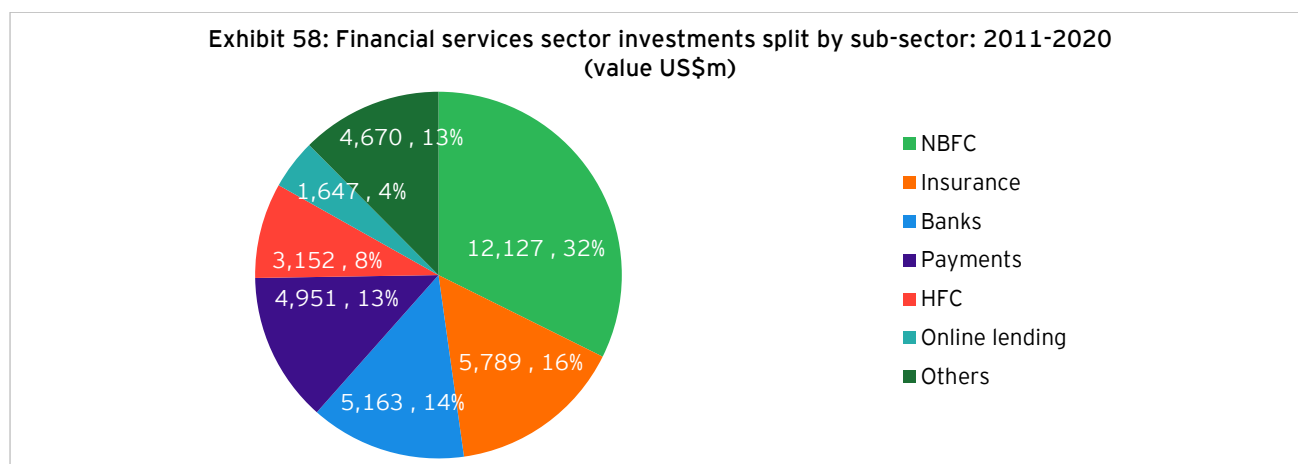
Insurance is another sector that has gained favor with PE/VC investors recording US\$5.8 billion in investments in the last decade. This is expected to further increase, aided in part by the recently proposed increase in FDI for the

insurance sector to 74% from 49% earlier. This could precipitate a discernible spike in PE/VC investments into the insurance sector, which is vastly underpenetrated in India and has a huge growth potential.

Fintech and insurance have been among the fastest growing sub-sectors in terms of deal activity and we project a significant increase in PE/VC capital flowing into these sub-sectors going forward.

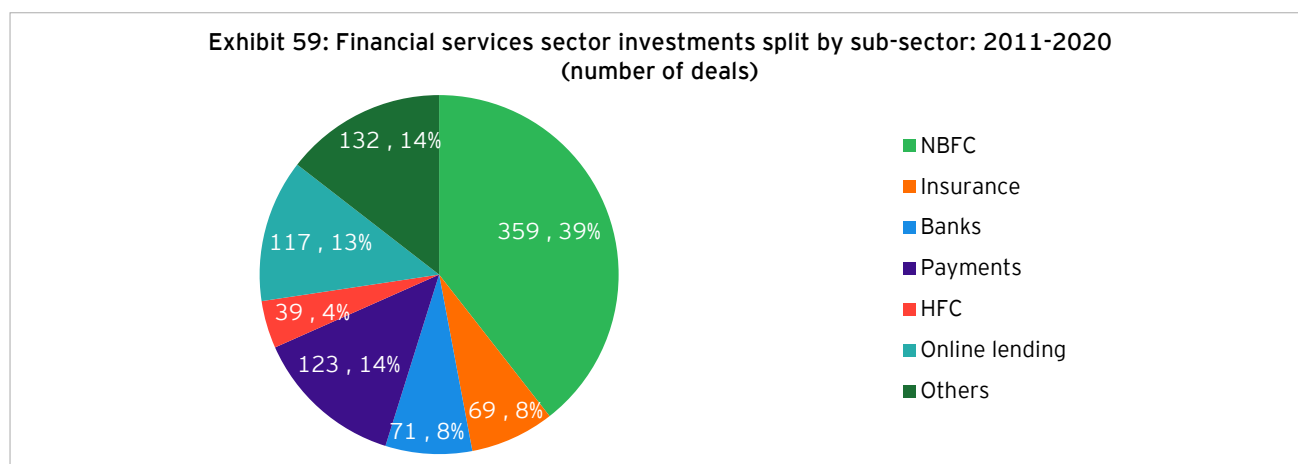


Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

Note: Others includes wealth management, investment banking, exchanges etc.



Source: EY analysis of VCCEdge data

Note: Others includes wealth management, investment banking, exchanges etc.

Exhibit 60: Top financial services sector investments between 2011-2020

Company/Asset	Investors	Sub-sector	Stage	Amount (US\$m)	Deal Stake %	Year
HDFC Limited	GIC, KKR, PremjiInvest, OTPP and others	HFC	PIPE	1,731	3.9	2018
One 97 Communications Limited (Paytm)	SoftBank	Payments	Growth capital	1,400	NA	2017
One 97 Communications Limited (Paytm)	Alibaba Group, Softbank	Payments	Growth capital	1,000	NA	2019
Star Health and Allied Insurance Co. Limited	Madison India, Westbridge Capital	Insurance	Buyout	1,000	94.0	2018
SBI Life Insurance Company Limited	Carlyle, CPPIB	Insurance	PIPE	817	11.0	2019
Axis Bank Limited	Bain Capital	Bank	PIPE	795	3.7	2017
SBI General Insurance Co. Limited	PI Opportunities Fund I, Warburg Pincus	Insurance	Growth capital	433	26.0	2019
ECL Finance Limited	Farallon Capital and SSG Capital	NBFC	Credit investment	400	NA	2020
ICICI Lombard General Insurance Company Limited	Warburg Pincus, Clermont Group, IIFL Special Opportunities Fund	Insurance	Growth capital	383	12.2	2017
Kotak Mahindra Bank Limited	CPPIB	Bank	PIPE	372	3.2	2014
Shriram City Union Finance Limited	Apax Partners	NBFC	PIPE	370	20.4	2015
HDFC Standard Life Insurance Co. Limited	UC-RNT Fund and other anchor investors	Insurance	PIPE	356	NA	2017
Piramal Enterprises Limited	Farallon Capital	NBFC	Credit investment	346	NA	2020
Kotak Mahindra Bank Limited	CPPIB, CDPQ	Bank	PIPE	342	1.5	2017
Bajaj Finance Limited	GIC	NBFC	PIPE	339	1.0	2019

Source: EY analysis of VCCEdge data

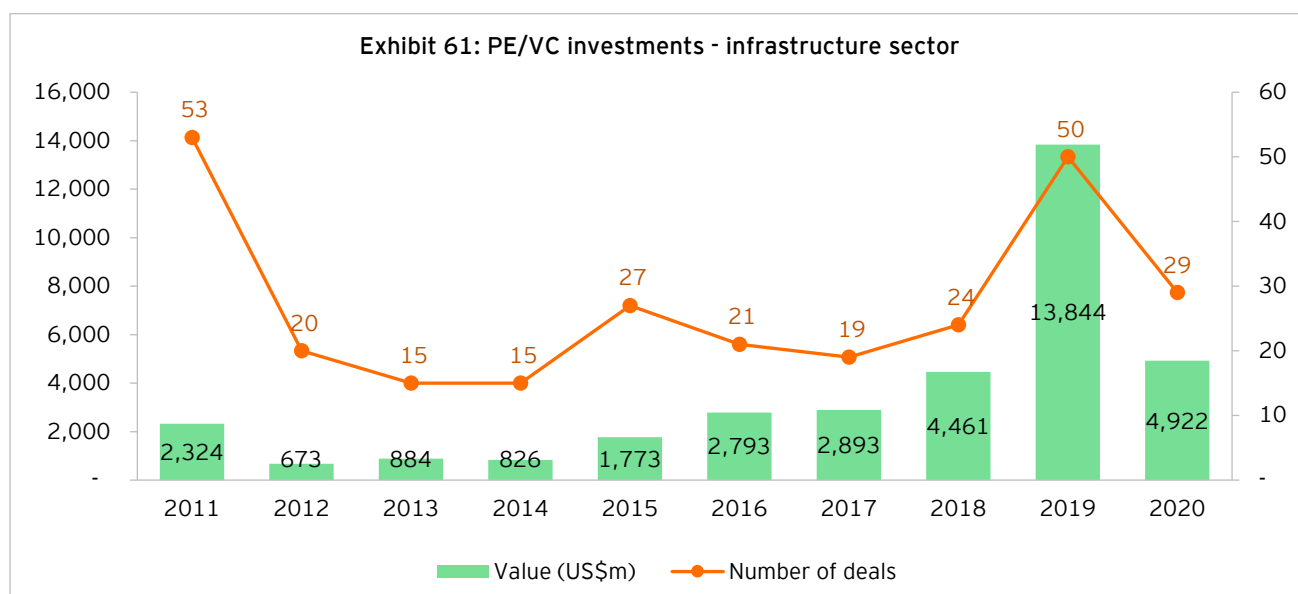
Infrastructure sector emerges as one of the largest asset class for PE/VC investments

Infrastructure sector has emerged as the second largest sector for PE/VC investments over the previous decade with US\$35.4 billion invested across 273 deals accounting for 15% of deals by value. Major surge in PE/VC investments in the infrastructure sector has come in the last three years which recorded mega deals in the sector. The sector has recorded 15 deals of value >US\$500 million of which six were US\$1 billion plus deals.

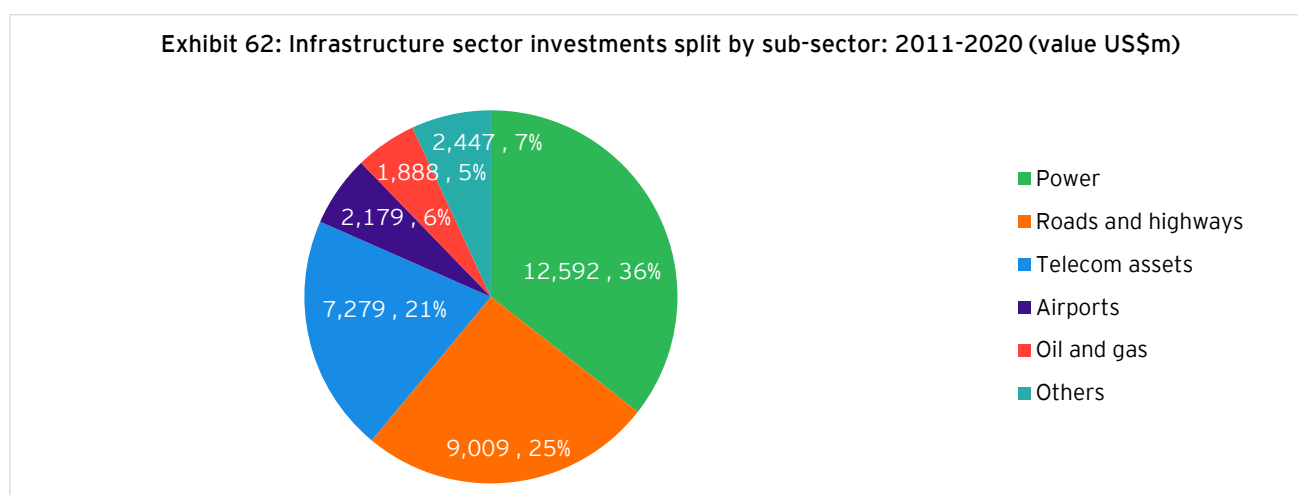
More than half the deals in the infrastructure sector have been in the power sub-sector predominantly in the renewables space aggregating to US\$12.6 billion and accounting for 36% of all infrastructure investments followed by roads and highways that have accounted for 25% of all infrastructure deals by value aggregating to US\$9 billion.

Some of the major factors for this trend are:

1. Spike in direct investments by pension funds and SWFs in the past three years. These funds have invested US\$11.6 billion in the Indian infrastructure sector over the past 10 years, accounting for almost a third of all the investments in the sector.
2. Emergence of new investment vehicles like InvITs have greatly helped attract capital into the sector. These structures enable investors to benefit from steady cashflows from quality infrastructure assets in a tax-efficient manner with most operational risks/costs being carved out/priced in. At the same time, these structures enable asset owners to rotate capital by monetizing ready, yield generating assets without ceding control. Almost 24% of all PE/VC investments in Indian infrastructure in the past decade have been through the InvIT structures all of which have happened in the last two years. This trend should strengthen further in the coming years with many more companies/government entities making plans to monetise assets through InvITs. As per some news reports, already InvITs worth almost US\$5 billion are in the pipeline.
3. Quality assets are now becoming available for investment as both corporate and government-controlled entities look to monetize passive infrastructure assets to fund future investments and/or reduce leverage.

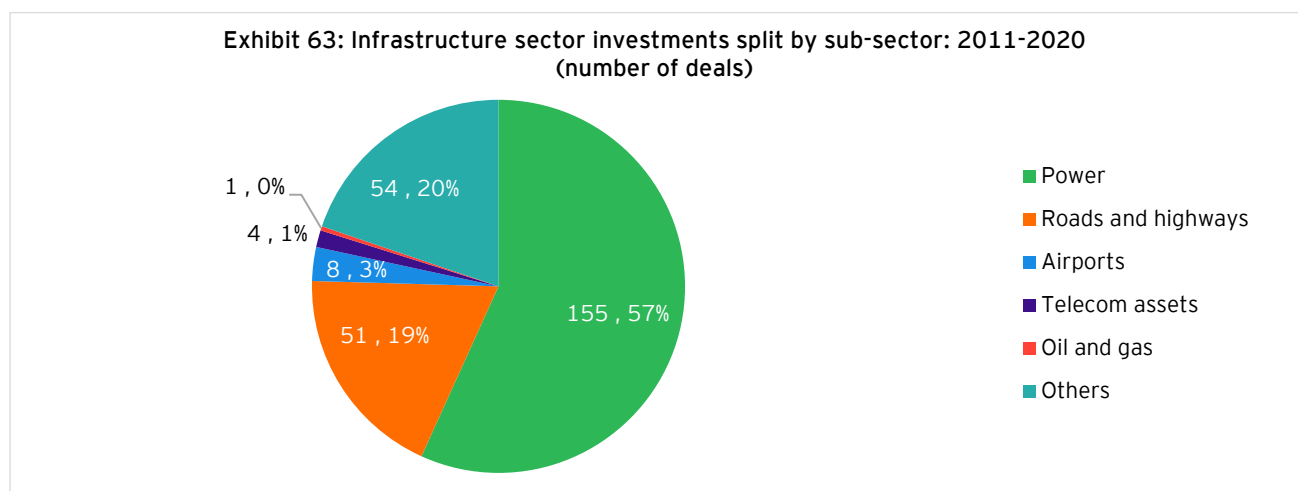


Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

Note: Others includes EPC contractors, waste treatment and other utilities.



Source: EY analysis of VCCEdge data

Note: Others includes EPC contractors, waste treatment and other utilities.

Exhibit 64: Top infrastructure sector investments between 2011-2020

Company/Asset	Investors	Sub-sector	Stage	Amount (US\$m)	Deal Stake %	Year
Summit Digital Infrastructure Private Limited (Reliance Jio's tower arm)	Brookfield	Telecom assets	Buyout	3,660	>50	2019
RIL's East West Pipeline	Brookfield	Oil and gas	Buyout	1,888	90	2019
Reliance Infratel	Brookfield	Telecom assets	Buyout	1,642	51	2016
NHAI road assets	Macquarie	Roads and highways	Buyout	1,462	NA	2018
Jio Fibre Network InvIT - Digital Fibre Infrastructure Trust	PIF, ADIA	Telecom assets	Buyout	1,022	51	2020
Bharti Infratel Limited	KKR, CPPIB	Telecom assets	PIPE	956	10	2017
Nine TOT projects of NHAI	Cube Highways	Roads and highways	Buyout	716	100	2019
National Highways Authority of India (nine ToT projects)	Cube Highways	Roads and highways	Growth capital	684	NA	2020
IRB Infrastructure Developers Limited, Road Platform InvIT	GIC	Roads and highways	Growth capital	631	NA	2019
IndInfravit Trust, sponsored by L&T Infrastructure Development Projects Limited (L&T IDPL)	CPPIB and Allianz Capital Partners	Roads and highways	Growth capital	600	55	2018
RattanIndia Power Limited	Goldman Sachs, Varde Partners	Power	Credit investment	566	NA	2020
Ramky Enviro Engineers Limited	KKR	Utilities	Buyout	530	60	2018
Chenani Nashri Tunnelway Limited	Cube Highways	Roads and highways	Buyout	527	>50	2020
Essel Infraprojects Limited (three road assets)	CDPQ	Roads and highways	Buyout	500	100	2019

Source: EY analysis of VCCEdge data

Exhibit 65: InvIT investments between 2011-2020

Company/Asset	Investors	Sub-sector	Stage	Amount (US\$m)	Deal Stake %	Year
Summit Digital Infrastructure Pvt. Limited. (Reliance Jio's tower arm)	Brookfield	Telecom assets	Buyout	3,660	>50	2019
RIL's East West Pipeline	Brookfield	Oil and gas	Buyout	1,888	90	2019
Jio Fibre Network InvIT - Digital Fibre Infrastructure Trust	PIF, ADIA	Telecom assets	Buyout	1,022	51	2020
IRB Infrastructure Developers Limited., Road Platform InvIT	GIC	Roads and highways	Growth capital	631	NA	2019
India Grid Trust	GIC, KKR	Power	Buyout	400	57	2019
Oriental Structural's Infra Investment Trust	AIIB, DEG, IFC and HEG	Roads and highways	Growth capital	331	NA	2019
IndInfravit Trust	CPPIB, Allianz Capital Partners, OMERS	Roads and highways	Growth capital	246	24	2020
L&T IndInfravit Trust -Sadbhav Infrastructure Project Limited	CPPIB	Roads and highways	Growth capital	200	NA	2019
IndInfravit Trust	OMERS	Roads and highways	Growth capital	122	22	2019
IRB Infrastructure Developers Limited., Road Platform INVIT	GIC	Roads and highways	Credit investment	104	NA	2019

Source: EY analysis of VCCEdge data

Real estate sector

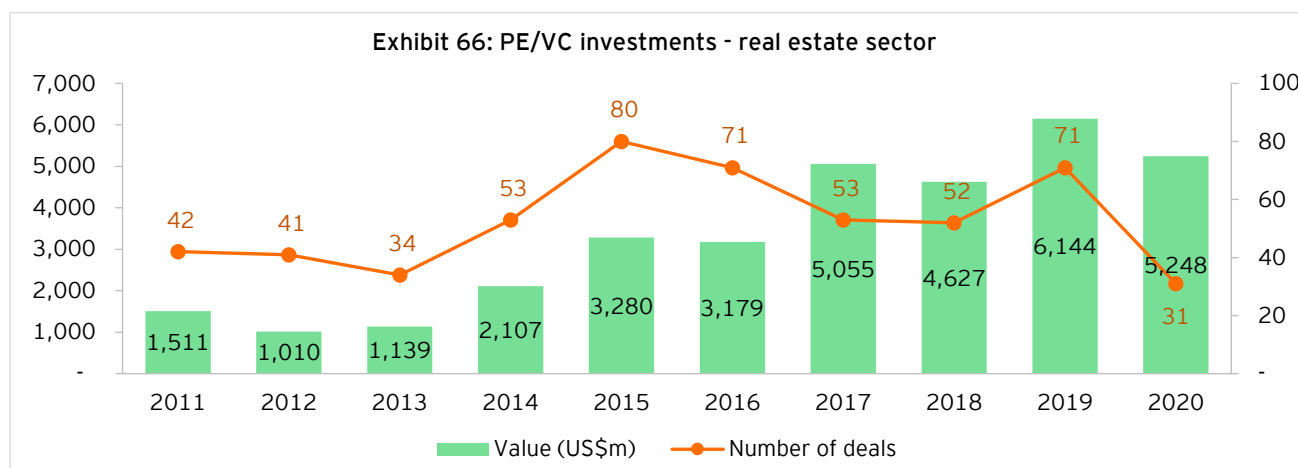
Real estate sector recorded US\$33.3 billion in PE/VC investments across 528 deals driven by large investments in yield generating commercial real estate assets by global buyout funds as well as pension and sovereign wealth funds, which accounts for 54% of all investments into the sector by value.

The Government's focus on introducing reforms such as Real Estate Regulation and Development Act (RERA) has bolstered the confidence of both consumers and investors alike. The introduction of new investments structures like real estate investment trusts (REITs) has opened up a new avenue for investment, providing fund starved companies with more options to monetize their assets while also attracting a new class of investors.

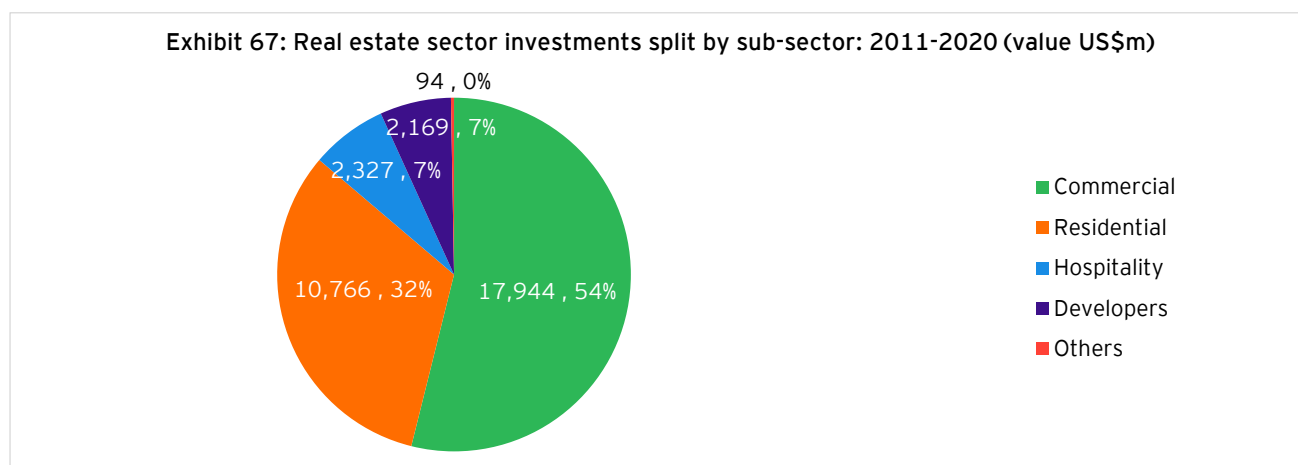
India saw its first REIT (Embassy REIT) backed by Blackstone list on the exchanges in 2019. In the midst of the pandemic we saw the second Blackstone backed REIT (MindSpace REIT) record a successful listing. These successes have prompted many other investors/corporates with good portfolio of commercial assets to draw up plans for REIT listings.

REITs have opened up a new exit option for investors who can now structure portfolios of assets in a way so as to maximize returns in addition to outright sale of independent assets. Going forward, the hope is that PE/VC funds will be encouraged to fund commercial real estate projects across development lifecycle (debt to equity) given the liquidity option being provided by REITs.

Despite the pull-back in 2020 on account of the COVID-19 induced economic slowdown, the real estate sector is expected to be one of the major drivers of PE/VC investments into India. With the implementation of GST, proliferation of e-commerce and social media, adoption of cloud and AI technology, government initiatives like the PLI scheme and push for housing for all, and change in consumer lifestyles, the next wave of PE/VC real estate investments is expected to be attracted by the growth in warehousing, industrial parks, affordable housing, student housing and data centers apart from the commercial office segment which is expected to continue to witnessing steady growth.



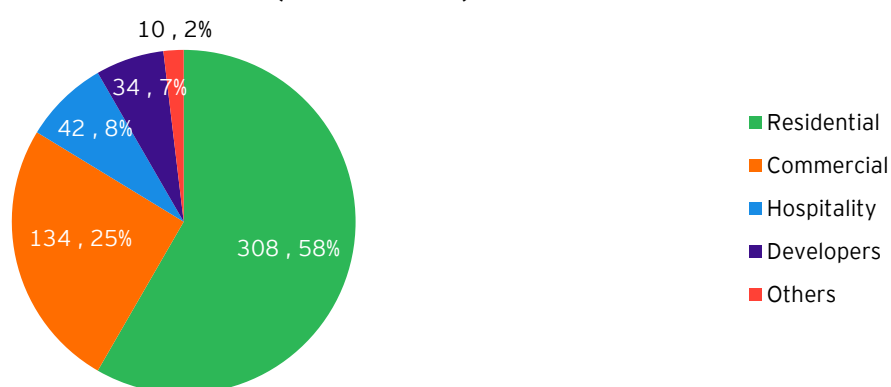
Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

Note: Others includes ancillary real estate services like interior design, architecture etc.

**Exhibit 68: Real estate sector investments split by sub-sector: 2011-2020
(number of deals)**



Source: EY analysis of VCCEdge data

Note: Others includes ancillary real estate services like interior design, architecture etc.

Exhibit 69: Top real estate sector investments between 2011-2020

Company/Asset	Investors	Sub-sector	Stage	Amount (US\$m)	Deal Stake %	Year
RMZ Corp, 12.5 million sq ft real estate assets	Brookfield	Commercial	Buyout	2,000	>50	2020
Prestige Estates Projects Limited, certain commercial and retail properties	Blackstone	Commercial	Buyout	1,500	100	2020
DLF Cyber City Developers Limited	GIC	Commercial	Growth capital	1,390	33	2017
Indiabulls Real Estate's commercial properties	Blackstone	Commercial	Buyout	624	50	2019
ESR Cayman JV, industrial and logistics assets	GIC	Commercial	Buyout	600	80	2020
Hotel Leela Venture Limited, Four Hotels	Brookfield	Hospitality	Buyout	572	100	2019
Unitech Limited, IT Park SEZ Business	Brookfield	Commercial	Buyout	563	NA	2014
Two existing malls and an upcoming retail development project	Virtuous Retail, a APG Management - Xander JV	Commercial	Buyout	550	NA	2019
IndoSpace	CPPIB	Commercial	Buyout	500	NA	2017
Coffee Day's Global Village Tech Park	Blackstone	Commercial	Buyout	400	100	2019
DivyaSree Developers Private Limited, Hub6	ADIA - Kotak	Commercial	Growth capital	400	NA	2019
Equinox Business Park	Brookfield	Commercial	Buyout	384	NA	2018
several projects of the Lodha Group	Piramal Fund Management (PFM)	Residential	Credit investment	376	NA	2016
Radius Infra Holdings Private Limited, One BKC	Blackstone	Commercial	Buyout	357	100	2019
SP Infocity, IT Park	Temasek	Commercial	Buyout	353	NA	2018

Source: EY analysis of VCCEdge data

E-commerce sector expected to be the fastest growing sector in India

The e-commerce sector has recorded a cumulative total of US\$28.5 billion in PE/VC investments across 942 deals increasing from US\$311 million in 2011 to a high US\$5.1 billion 2018, a 16-fold increase over eight years. However, in 2020, e-commerce sector recorded US\$2.8 billion in investment, a 53% decline compared to 2019, largely on account of the pandemic which saw PE/VC funds pullback on investment outlays into businesses with significant cash burn rates in the absence of sales/revenue visibility. Since most of the e-commerce companies have an evolving business model with high cash burn rates, they witnessed significant reduction in investment interest during 2020. Nonetheless, most of the leading e-commerce companies have bounced back smartly with improved business metrics and the sector is expected to remain one of the major recipients of PE/VC investments in the coming years.

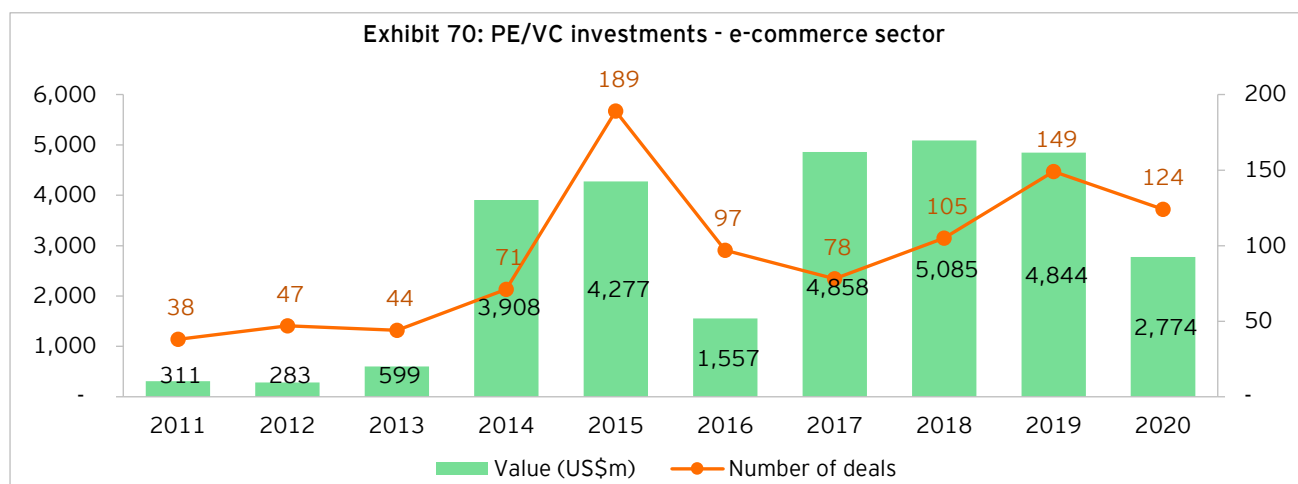
The online retail market in India is estimated to be 25% of the total organized retail market and is expected to reach 37% by 2030. By 2034, it is predicted to surpass the United States to become the second largest e-commerce market globally, after China.

A young demography, increasing internet and smartphone penetration, and relatively better economic performance are some key drivers of this sector. Each month, India adds approximately 10 million daily active internet users- the highest rate in the world; number of smartphones per 100 people has risen from 5.4 in 2014 to 26.2 in 2018.⁶

In order to tap into this large market, the e-commerce industry has also seen an increase in innovation across platforms, and ancillary segments such as logistics. E-commerce segments that are expected to see some strong action in the coming years include⁷:

1. **Online grocery:** Entry of Reliance Group and Tata Group will spur competition and even consolidation
2. **E-pharmacy:** Consolidation underway in the sector and strong tailwinds from rapid digital adoption post COVID-19
3. **Social commerce:** Increased investments by venture funds and focus of companies like Facebook, Google, TikTok and others
4. **Superapps:** Mobile applications that offer various services within a single app are expected to pick-up traction. WhatsApp is already making strides in this direction with introduction of payments and shopping features

The growth in e-commerce will also drive allied industries such as logistics, supply chain, agri-tech and omnichannel sales solutions, which have already received higher investments in 2020.



Source: EY analysis of VCCEdge data

⁶ <https://www.investindia.gov.in/sector/retail-e-commerce/e-commerce>

⁷ https://economictimes.indiatimes.com/tech/technology/indias-e-commerce-sector-sees-big-growth-in-2021/articleshow/80055318.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

Exhibit 71: Top e-commerce sector investments between 2011-2020

Company/Asset	Investors	Stage	Amount (US\$m)	Deal Stake %	Year
Flipkart Private Limited	SoftBank	Growth capital	2,500	24	2017
ANI Technologies Private Limited (Ola Cabs)	Tencent, Softbank	Growth capital	1,100	NA	2017
Bundl Technologies Private Limited (Swiggy)	DST Global, Naspers Ventures, Tencent and others	Start-up	1,000	NA	2018
Oravel Stays Private Limited (Oyo)	Lightspeed Venture, Sequoia Capital, SoftBank and others	Start-up	1,000	NA	2018
Flipkart Private Limited	GIC, Tiger Global, Naspers and others	Growth capital	1,000	NA	2014
Oravel Stays Private Limited (Oyo)	SoftBank	Start-up	810	NA	2019
Flipkart Private Limited	Tiger global, Steadview Capital	Growth capital	700	NA	2015
Flipkart Private Limited	Steadview Capital, Qatar Investment Authority, Tiger Global and others	Growth capital	700	NA	2014
Zomato Private Limited	Tiger Global, Kora, Mirae, Steadview and others	Growth capital	660	NA	2020
Jasper Infotech Private Limited (Snapdeal.com)	Temasek, SoftBank, PI Opportunities Fund I and others	Growth capital	650	33	2014
Hiveloop Technology Private Limited (Udaan)	GGV Capital, DST Global, Lightspeed Ventures and others	Start-up	585	NA	2019
Jasper Infotech Private Limited (snapdeal.com)	SoftBank, Alibaba Group, PremjiInvest and others	Growth capital	500	10	2015
Paytm E-commerce	SoftBank	Growth capital	400	21	2018
ANI Technologies Private Limited (Ola Cabs)	Steadview Capital, Accel, DST Global, Tiger Global, SoftBank, GIC and others	Start-up	400	NA	2015
BrainBees Solutions Private Limited (FirstCry)	SoftBank	Growth capital	397	48	2019

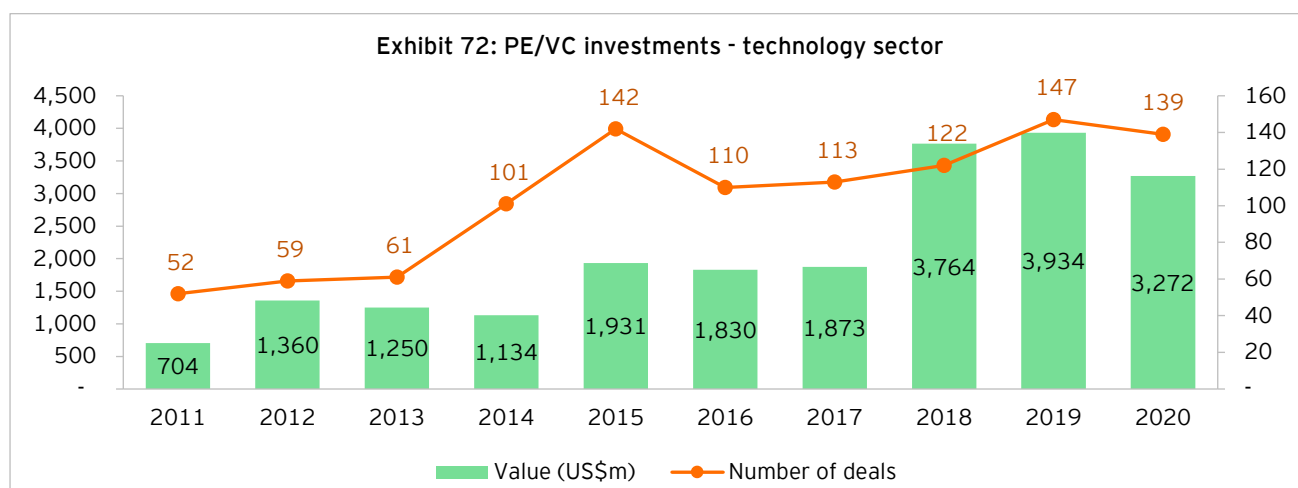
Source: EY analysis of VCCEdge data

Technology investments expected to soar on the back of multiple global tailwinds

In the previous decade, technology sector was the most preferred sector by PE/VC funds, recording 1,046 deals aggregating to US\$21 billion in investments. This sector has been one of the steadiest in terms of deal flow and among the least affected by the pandemic, recording just a 5% decline in number of deals. In fact, COVID-19 has accelerated the adoption of technology with corporates embarking on digitization roadmaps to prepare for the working environment of the future characterized by automation, remote working, high levels of efficiency, and analytics driven business intelligence.

Technology has proved to be critical for many companies for maintaining business continuity. A robust technical infrastructure and end-to-end digital processes ("paper-less") have proven to be key elements for safeguarding productivity during the pandemic and the ensuing lockdowns.

Competitive moats are increasingly becoming technology based with the democratization of technology through cloud storage, cloud computing, and SaaS. A combination of scalability and margin improvement has reconfigured the risk/return profile of technology sector in India which is also coinciding with movement of Indian technology sector up the product/services value chain.



Source: EY analysis of VCCEdge data

Exhibit 73: Top technology sector investments between 2011-2020

Company/Asset	Investors	Stage	Amount (US\$m)	Deal Stake %	Year
Genpact Limited	Bain Capital	PIPE	1,000	30	2012
GlobalLogic Inc.	Partners Group	Buyout	960	>50	2018
Mphasis Limited	Blackstone	Buyout	825	61	2016
CitiusTech Healthcare Technology Private Limited	Baring PE Asia	Buyout	800	80	2019
Majesco Limited (US business)	Thoma Bravo	Buyout	729	100	2020
GlobalLogic Inc.	CPPIB	Growth capital	720	48	2017
Hexaware Technologies Limited	Baring PE Asia	PIPE	565	29	2020
Everise Holding Pte Limited	Brookfield	Buyout	450	>50	2020
GlobalLogic Inc.	Apax Partners	Buyout	420	100	2013
Intelenet Global Services Private Limited	Blackstone	Buyout	384	100	2015
NIIT Technologies Limited	Baring PE Asia	PIPE	381	30	2019
AGS Health Private Limited	Baring PE Asia	Buyout	339	>50	2019
iGate Patni	Apax Partners	PIPE	330	NA	2011
Aegis Limited	Capital Square Partners	Buyout	275	100	2017

Source: EY analysis of VCCEdge data

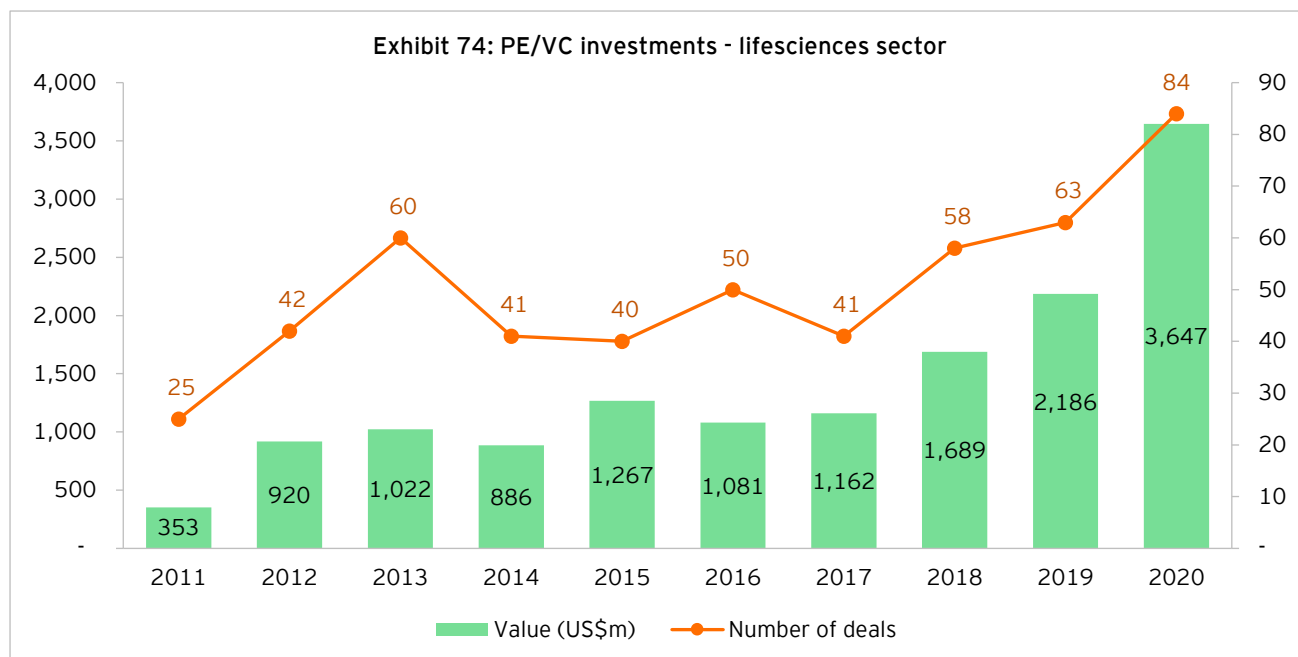
Life sciences sector has seen a renewed interest

PE/VC investments in the life sciences sector have recorded a robust growth in recent years growing almost 10-fold over the past decade from US\$353 million in 2011 to US\$3.65 billion in 2020. The number of deals too have more than tripled in the same period. The COVID-19 pandemic has brought the sector into focus and provided the necessary tailwinds for a 67% y-o-y increase in the value invested over 2019.

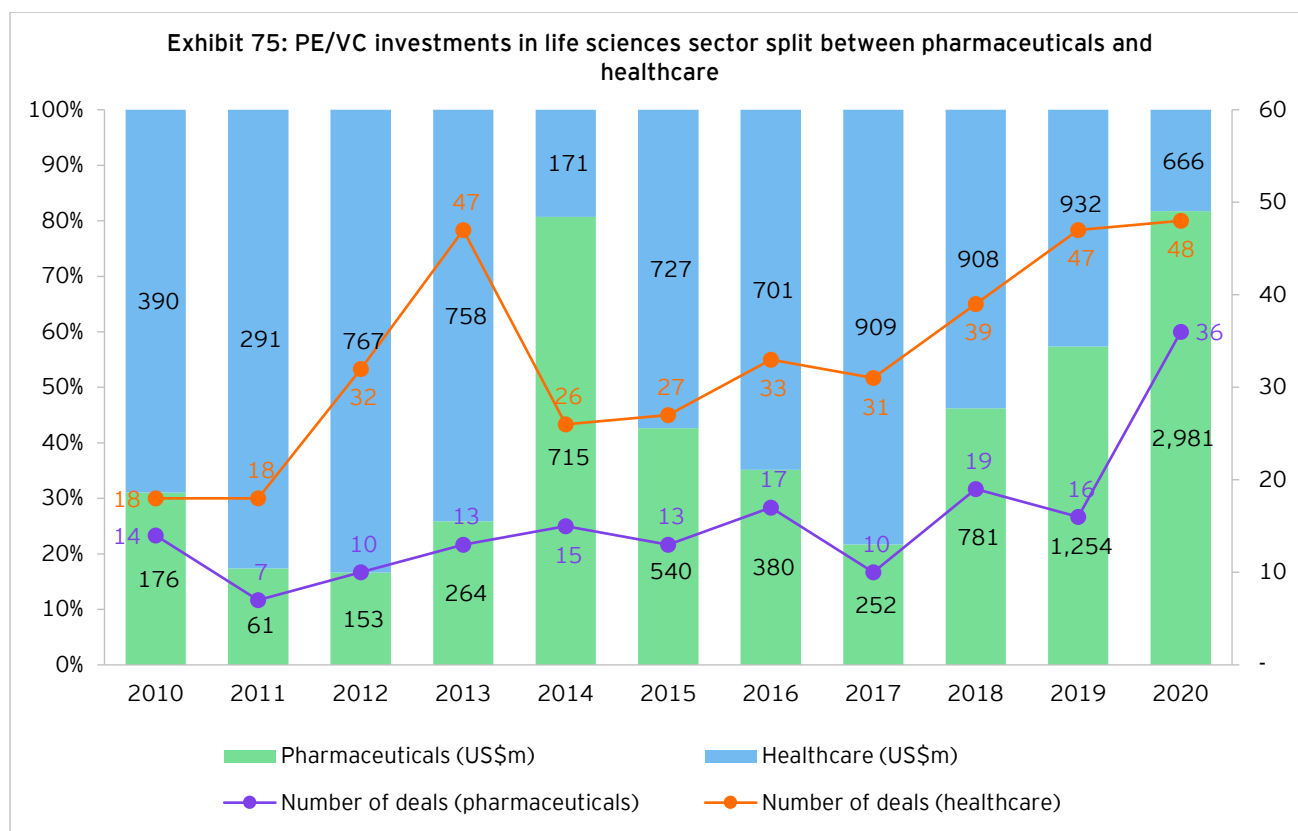
During the earlier half of the decade, PE/VC investments in the life sciences sector were dominated by healthcare, accounting for 80% of all investments by value, majority of which were into hospitals. However, over the past three years, PE/VC investments in the pharmaceuticals sector have seen good traction, so much so that pharmaceuticals became the dominant sub sector with 80% share of all life sciences PE/VC investments in 2020.

Globally, there has been a shift towards contract research and manufacturing services (CRAMS) type of business models with innovator companies focusing on new drug discovery and outsourcing other ancillary activities thus enabling them to be asset light and allocate greater resources towards research and market development. This has helped unlock the value chain, providing an opportunity to specialized companies in India to benefit from operating leverage and manufacturing efficiencies without having to focus on market development. India with its large talent pool has benefited greatly from this trend leading to an expansion in revenues/margins and valuations of small and big players alike in the sector.

Moreover, the supply shocks due to COVID-19 have caused many large pharma companies to rethink their global supply chains and diversify sourcing, and India can be a major beneficiary of this trend. Also, with increasing impetus from the Government through schemes such as PLI we expect the life sciences sector to be one of the top sectors for PE/VC investments in the coming years.



Source: EY analysis of VCCEdge data

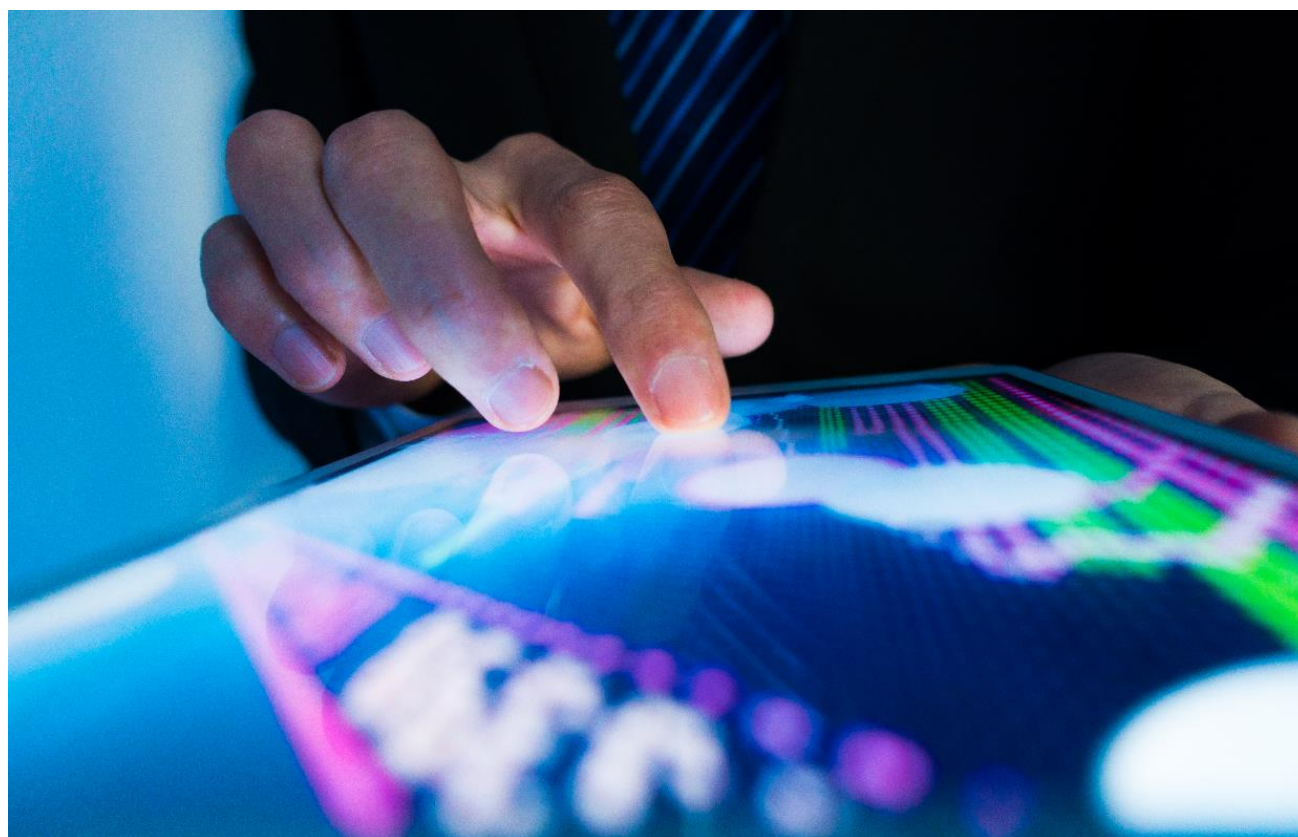


Source: EY analysis of VCCEdge data

Exhibit 76: Top life sciences sector investments between 2011-2020

Company/Asset	Investors	Sector	Stage	Amount (US\$m)	Deal Stake %	Year
Aurobindo Pharma (US unit)	New Mountain Capital	Buyout	Pharmaceuticals	550	100	2020
Kyowa Pharmaceutical Industry Co. Limited	Unison Capital Partners	Buyout	Pharmaceuticals	525	100	2019
J.B.Chemicals and Pharmaceuticals Limited	KKR	Buyout	Pharmaceuticals	496	65	2020
Piramal Pharma	Carlyle	Growth capital	Pharmaceuticals	490	20	2020
Healthium Medtech Private Limited	Apax Partners	Buyout	Healthcare	350	~100	2018
Mankind Pharma Limited	ChrysCapital, GIC, CPPIB	Growth capital	Pharmaceuticals	350	10	2018
Sun Pharmaceutical Industries Limited	Temasek	PIPE	Pharmaceuticals	299	1	2015
Bharat Serums and Vaccines Limited	Advent International	Buyout	Pharmaceuticals	250	60	2019
Gland Pharma Limited	KKR	Growth capital	Pharmaceuticals	230	38	2014
Ascent Health and Wellness Solutions Private Limited	Temasek, LGT Lightstone Aspada and others	Growth capital	Healthcare	220	NA	2020
SeQuent Scientific Limited	Carlyle	Buyout	Pharmaceuticals	210	74	2020
Radiant Life Care Private Limited	KKR	Growth capital	Healthcare	200	49	2017
KIMS Group	True North	Growth capital	Healthcare	200	40	2017
Quality Care India Limited	Abraaj Capital	Buyout	Healthcare	200	NA	2016
RA Chem Pharma Limited	Advent International	Buyout	Pharmaceuticals	173	74	2020

Source: EY analysis of VCCEdge data





5

Exits - a mixed bag

Exits – a mixed bag

Emerging out of the GFC, exits were one of the biggest pain point for the Indian PE/VC industry. Exits remained subdued in the first half of the decade at around US\$3 billion per year. Post 2015 there was a pickup in exit activity which doubled to over US\$6 billion in 2015 and reached a high of US\$27 billion in 2018 which recorded India's biggest PE/VC exit of US\$16 billion (Flipkart-Walmart deal). Off late, the exit activity has slowed down due to lower economic growth in 2019 and strong headwinds of COVID-19 in 2020, impacting valuations and making exits difficult.

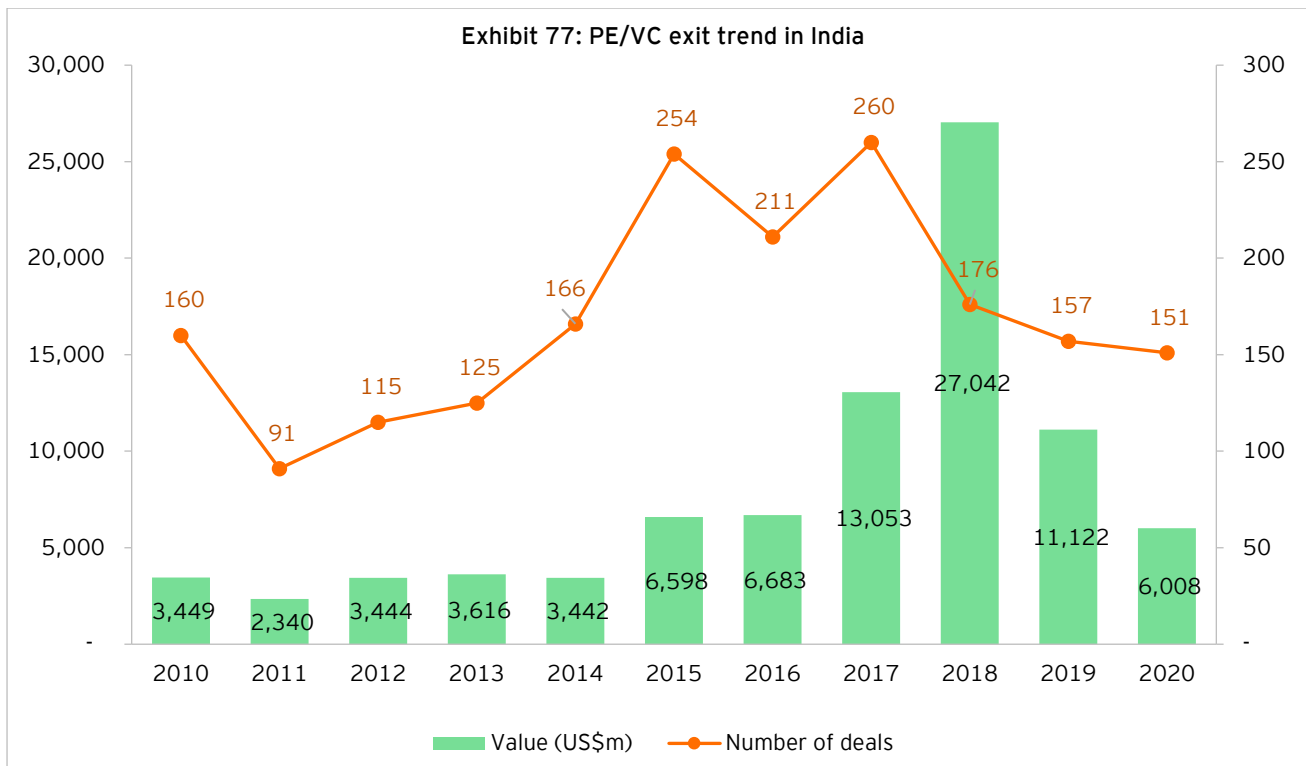
Open market exits have dominated the PE/VC exit activity in India over the previous decade accounting for more than a third of all PE/VC exits by value and volume. However, strategic and secondary exits have also emerged as a viable exit option for investors over the recent years.

Some of the challenges that have plagued the Indian exit environment include:

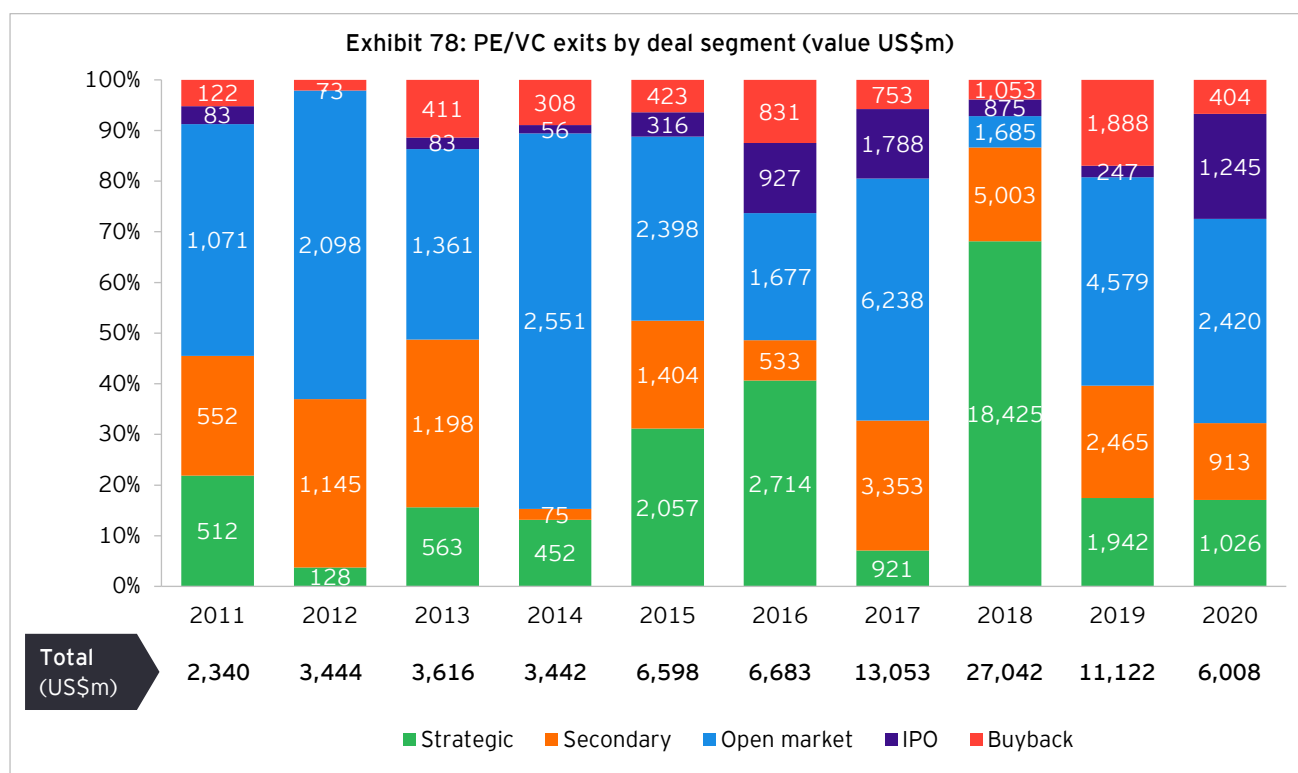
1. Low corporate governance in investees resulting in mismatch between actual performance vs. reported performance making valuations difficult and investors circumspect
2. Very competitive environment for investments with many funds chasing few quality assets
3. Regulatory uncertainties on taxation policies and terms of engagement have impacted return expectations
4. Relative absence of domestic pools of capital

While some of these challenges are being resolved, there remains substantial scope for improvement.

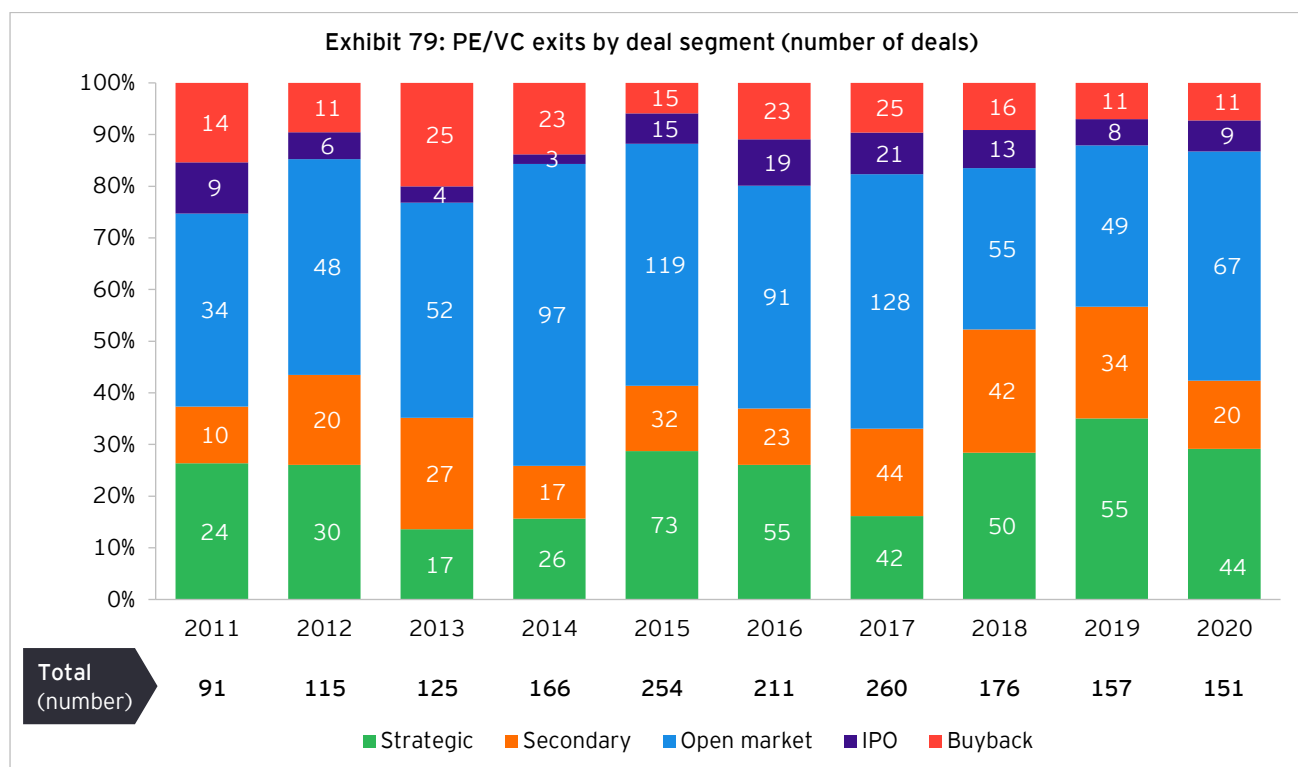
Evolution of new investments structures like InvITs, REITs, and SPACs has broadened exit options for PE/VC investors. Also, with India's increasing attractiveness as an investment destination, new pools of capital like sovereign wealth funds, pension funds, family offices, and dedicated secondary funds, have entered India, providing more opportunities for exit to early investors.



Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

Exhibit 80: Top exits between 2011-2020

Company/Asset	Sellers	Investors	Sector	Exit Type	Amount (US\$m)	Deal Stake %	Year
Flipkart Private Limited	Naspers, Sofina, Qatar Investment Authority, Greenoaks Capital, Steadview, DST Global, SoftBank Corp, PremjiInvest, Accel India, IDG Ventures, Tiger Global, Kalaari Capital, GIC and others	Walmart Inc.	E-commerce	Strategic	16,000	77	2018
Oravel Stays Private Limited (Oyo)	Sequoia and Lightspeed Partners	NA	E-commerce	Buyback	1,500	NA	2019
Bharti Airtel Limited	Qatar Foundation Endowment	NA	Telecommunication	Open market	1,485	5	2017
Alliance Tire Group	KKR	Yokohama Rubber Co. Limited	Automotive	Strategic	1,179	100	2016
iGate	Apax Partners	Capgemini	Technology	Strategic	1,150	NA	2015
Genpact Limited	General Atlantic, Oak Hill Capital Partners	Bain Capital	Technology	Secondary	1,000	NA	2012
Intelenet Global Services Private Limited	Blackstone	Teleperformance S.A.	Technology	Strategic	1,000	100	2018
SBI Cards and Payment Services Limited	Carlyle	NA	Financial services	IPO	1,000	9	2020
GlobalLogic	Apax	Partners Group	Technology	Secondary	960	52	2018
Housing Development Finance Corp. Limited	Carlyle	NA	Financial services	Open market	841	NA	2012
Flipkart Private Limited	Tiger Global	SoftBank	E-commerce	Secondary	800	NA	2017
Vishal Mega Mart Private Limited	TPG Capital and others	Partners Group, Kedaara Capital	Retail and consumer products	Secondary	769	NA	2018
Star Health and Allied Insurance Co. Limited	India Advantage Fund, Tata Capital, Apis Growth Fund, Sequoia and others	Madison India, Westbridge Capital and others	Financial services	Secondary	745	70	2018
ICICI Lombard General Insurance Company Limited	Fairfax	NA	Financial services	Open market	732	10	2019
GlobalLogic	Apax	CPPIB	Technology	Secondary	720	48	2017

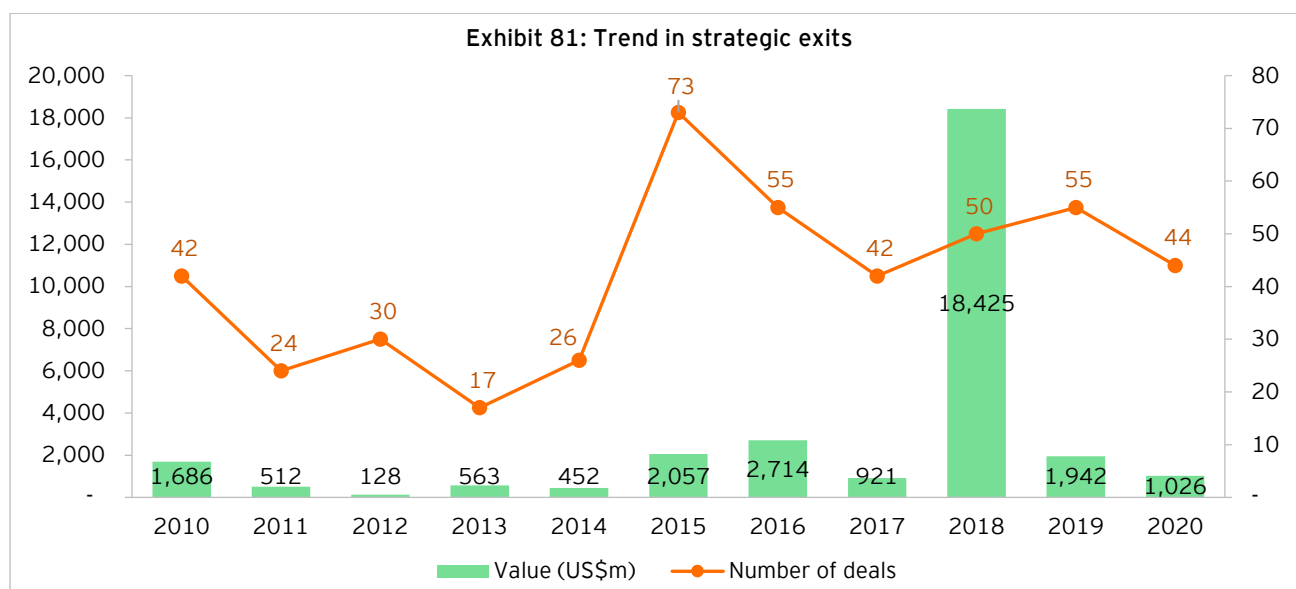
Source: EY analysis of VCCEdge data

Strategic exits

Strategic exits have struggled to take off in a big way in the past decade barring a few sporadic large exits like the US\$16 billion Flipkart-Walmart deal, the US\$1.2 billion Alliance Tire-Yokohama Rubber deal and a few others. One of the major reasons for the low numbers so far has been the fewer number of control transaction by PE/VC funds. India has traditionally been a market for growth investments with PE/VC funds having minority holding and hence being sometimes constrained to drive control transactions with strategic buyers. In addition, traditionally India promoters have been reluctant to give away control creating very few opportunities for strategic exits for PE/VC investors.

This trend is however changing because of the following factors:

1. Buyout deals have increased over the recent years and in the coming years, will create a pipeline that would be ripe for strategic exits.
2. Many traditional businesses are facing succession issues, growth challenges, and capital constraints which is making them amenable to strategic deals.
3. Many strategic investors are also facilitating founders/promoters to remain connected with their ventures by continuing to run and manage the business within the new set-up which is creating a win-win situation for both the parties involved.



Source: EY analysis of VCCEdge data

Exhibit 82: Top strategic exits between 2011-2020

Company/Asset	Sellers	Investors	Sector	Amount (US\$m)	Deal Stake %	Year
Flipkart Private Limited	Naspers, Sofina, Qatar Investment Authority, Greenoaks Capital, Steadview, DST Global, SoftBank Corp, PremjiInvest, Accel India, IDG Ventures, Tiger Global, Kalaari Capital, GIC and others	Walmart Inc.	E-commerce	16,000	77	2018
Alliance Tire Group	KKR	Yokohama Rubber Co. Limited	Automotive	1,179	100	2016
iGate	Apax Partners	Capgemini	Technology	1,150	NA	2015
Intelenet Global Services Private Limited	Blackstone	Teleperformance S.A.	Technology	1,000	100	2018

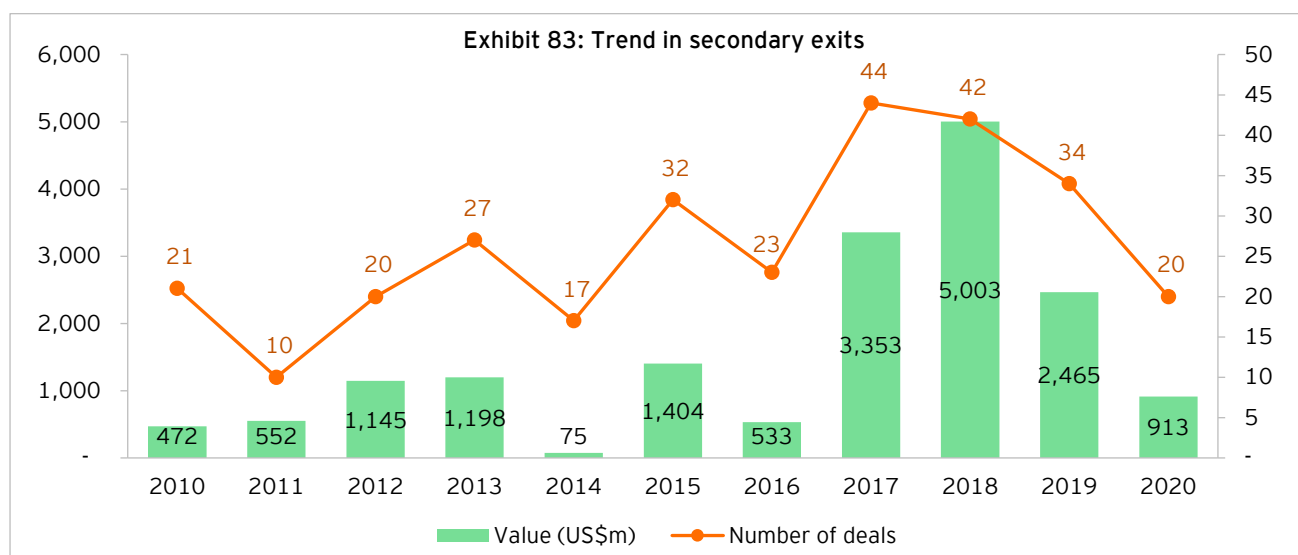
Company/Asset	Sellers	Investors	Sector	Amount (US\$m)	Deal Stake %	Year
Ostro Energy Private Limited	Actis	ReNew Power Ventures Private Limited	Power and utilities	692	NA	2018
Gland Pharma Limited	KKR, Gland Celsus Bio Chemicals Private Limited	Shanghai Fosun Pharmaceutical Group Co. Limited	Pharmaceuticals	542	37	2016
Vrindavan Tech Village Private Limited	Blackstone, Embassy Office Ventures Private Limited	Embassy Office Parks REIT	Real estate	524	40	2020
Minacs Private Limited	Capital Square Partners, CX Capital	SYNNEX Corporation	Technology	420	100	2016
Intelenet Global Services Private Limited	Blackstone	Serco	Technology	418	66	2011
Bharti Telecom Limited	Temasek	SingTel Limited	Telecommunication	384	NA	2013
Paysense Services India Private Limited	Nexus India, Jungle Ventures and Naspers Limited	PayU Corporate	Financial services	293	NA	2020
Cancer Treatment Services International Inc.	TPG	Varian Medical Systems Inc.	Healthcare	283	NA	2019
E-Infochips Limited	Gujarat Venture Finance Limited	Arrow Electronics Inc.	Technology	281	100	2018
2.5 million sq ft IT SEZ property "Waverock"	GIC, Tishman Speyer	Allianz-Shapoorji JV	Real estate	250	100	2019
MindTree Limited	Nalanda India	Larsen and Toubro Limited	Technology	247	11	2019

Source: EY analysis of VCCEdge data

Secondary exits

Secondary exits were one of the major factors for the impressive growth in PE/VC exits during the 2015-2018 period of the last decade. Exits via secondary sales increased almost 10-fold from US\$552 million in 2011 to US\$5 billion in 2018. Thereafter, there has been a considerable slowdown in secondary exits primarily on account of mismatch in valuation expectations. Moreover, the COVID-19 pandemic in 2020 has severely hit deal velocity for secondary transactions as funds decided to focus on supporting their current portfolio companies to tide over the difficult times with top-up funding/bridge funding. A large part of the growth capital investments in 2020 were in the form of primary capital with a very small secondary component and that too at less than optimal valuations.

If we look at the past decade, a large proportion of the secondary deals have happened in mature companies that have shown remarkable improvement in revenues and profitability prompting a new set of investors (primarily large global funds) to invest in the company for the next phase of its evolution.



Source: EY analysis of VCCEdge data

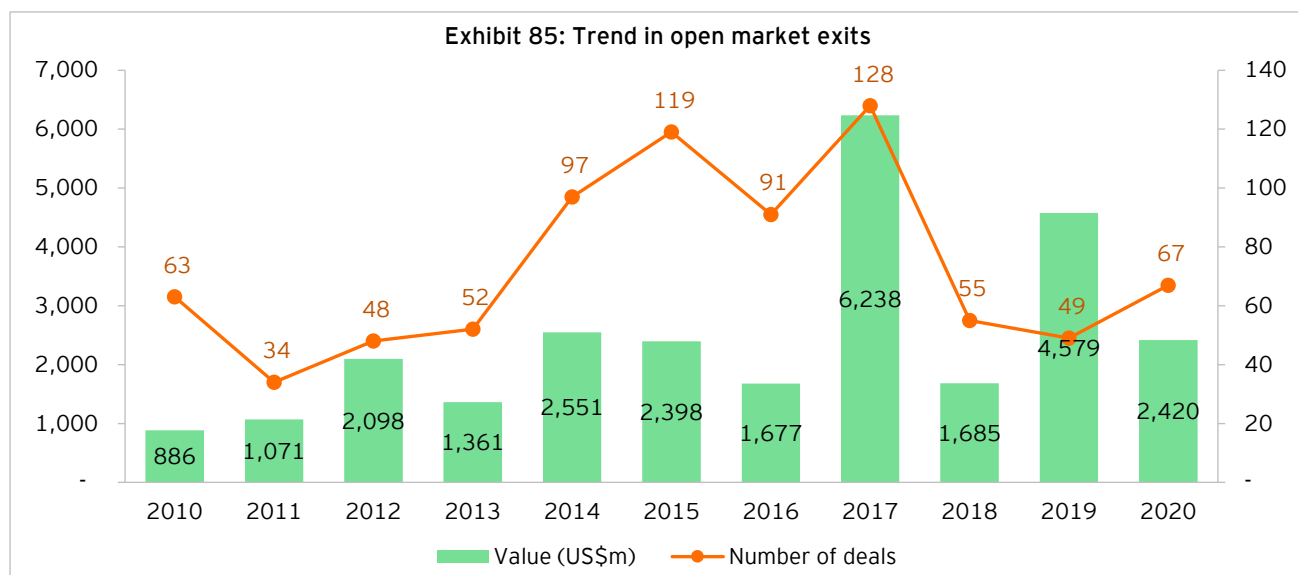
Exhibit 84: Top secondary exits between 2011-2020

Company/Asset	Sellers	Investors	Sector	Amount (US\$m)	Deal Stake %	Year
Genpact Limited	General Atlantic, Oak Hill Capital Partners	Bain Capital	Technology	1,000	NA	2012
GlobalLogic	Apax Partners	Partners Group	Technology	960	52	2018
Flipkart Private Limited	Tiger Global	SoftBank	E-commerce	800	NA	2017
Vishal Mega Mart Private Limited	TPG and others	Partners Group, Kedaara Capital	Retail and consumer products	769	NA	2018
Star Health and Allied Insurance Co. Limited	India Advantage Fund, Tata Capital, Apis Growth Fund, Sequoia and others	Madison India, Westbridge Capital and others	Financial services	745	70	2018
GlobalLogic	Apax Partners	CPPIB	Technology	720	48	2017
Everise Holding Pte Limited	Everstone	Brookfield	Technology	450	>50	2020
Alliance Tire Group (ATG)	Warburg Pincus	KKR	Automotive	422	80	2013
GlobalLogic	New Atlantic Ventures, New Enterprise Associates, Goldman Sachs and Westbridge Ventures	Apax Partners	Technology	420	NA	2013
CitiusTech Healthcare Technology Private Limited	General Atlantic	Baring PE Asia	Healthcare	389	32	2019
ICICI Lombard General Insurance Company Limited	Fairfax	Warburg Pincus, Clermont Group, IIFL Special Opportunities Fund	Financial services	383	12	2017
Shriram City Union Finance Limited	TPG	Apax Partners	Financial services	370	NA	2015
Quest Global	Warburg Pincus	Bain Capital and GIC	Technology	325	NA	2015
Healthium Medtech	TPG Growth, CX Partners	Apax Partners	Healthcare	299	100	2018
SP Infocity, IT Park	CPPIB and Shapoorji Pallonji Investment Advisors	Temasek	Real estate	283	80	2018

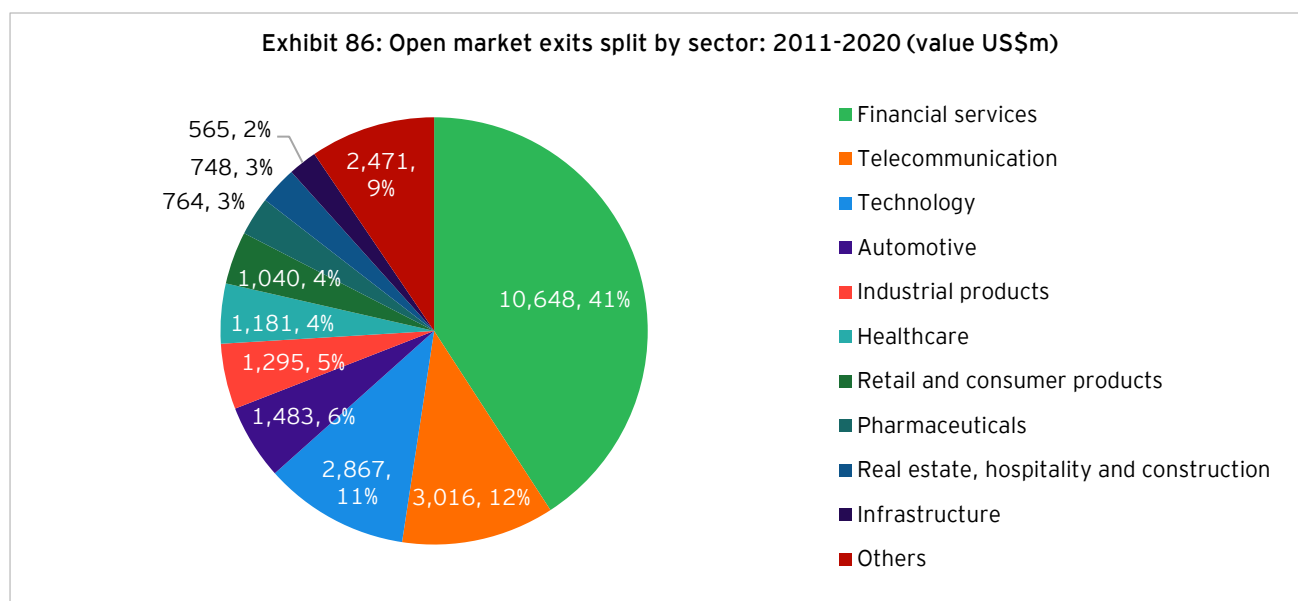
Source: EY analysis of VCCEdge data

Open market exits

Open market exits have been a mainstay for PE/VC exits in India over the past decade. 43% of all exits in the previous decade have been open market deals. From a sector perspective, financial services has been the largest sector for open market exits with US\$10.6 billion realized across 171 exit deals and accounting for 41% of all open market deals by value and 23% by volume.



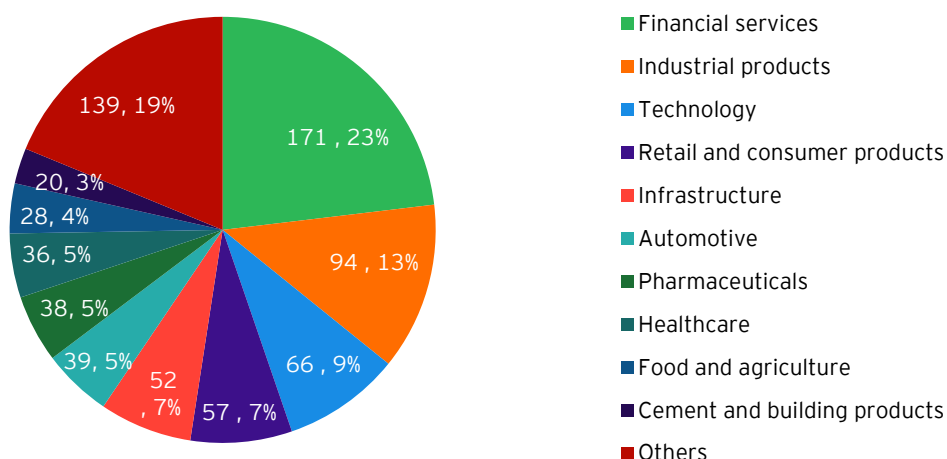
Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

Note: Others include cement and building products, food and agri, chemicals etc.

Exhibit 87: Open market exits split by sector: 2011-2020 (number of deals)



Source: EY analysis of VCCEdge data

Note: Others include cement and building products, food and agri, chemicals etc.

Exhibit 88: Top open market exits between 2011-2020

Company/Asset	Sellers	Investors	Sector	Amount (US\$m)	Deal Stake %	Year
Bharti Airtel Limited	Qatar Foundation Endowment	NA	Telecommunication	1,485	5	2017
Housing Development Finance Corp. Limited	Carlyle	NA	Financial services	841	NA	2012
ICICI Lombard General Insurance Company Limited	Fairfax	NA	Financial services	732	10	2019
Genpact Limited	Bain Capital, GIC	NA	Technology	625	15	2019
Max Group (Max Ventures and Industries Limited and Max Financial)	Goldman Sachs (GS) - Xenok Limited and GS Mace Holdings	NA	Financial services	511	16	2017
Hero MotoCorp Limited	Bain Capital	NA	Automotive	400	NA	2014
SBI Life Insurance Company Limited	Carlyle	NA	Financial services	393	3	2019
ICICI Lombard General Insurance Company Limited	Fairfax	NA	Financial services	362	5	2019
Max Financial services Limited	Goldman Sachs (Principal Investments)	NA	Financial services	358	15	2017
Genpact Limited	Bain Capital, GIC	NA	Technology	324	5	2019
Shriram Transport Finance Co., Limited	TPG	NA	Financial services	306	NA	2013
Embassy Office Parks REIT	Blackstone	NA	Real estate	302	9	2020
ICICI Bank Limited	Temasek	NA	Financial services	298	1	2012
Genpact Limited	Bain Capital, GIC	NA	Technology	294	5	2017

Source: EY analysis of VCCEdge data

IPO exits

IPO as a mode of exit has been quite cyclical changing in line with the performance of major equity indices. We witnessed a huge surge in the number of PE/VC-backed IPOs between 2015 and 2017, a three-year period which saw 45 PE/VC backed IPOs accounting for 42% of all IPOs in the previous decade. Off late there has again been an uptick in the number of IPOs post the global liquidity induced rally in the stock markets in 2020. 2020 recorded nine PE/VC backed IPOs aggregating US\$1.2 billion which included one of India's largest PE-backed IPO exit where Carlyle sold its partial stake in SBI Cards for US\$1 billion.

Financial services, technology and consumer sectors have accounted for 44% of all IPOs in the previous decade with financial services accounting for 23% of all PE-backed IPOs. In terms of value, the financial services sector has accounted for 48% of the total value of IPO exits during 2011-2020.

The pick-up in the IPO market in 2021 is strong. We have already recorded three PE-backed IPOs in the first month of 2021 with many more in the pipeline (refer exhibit 89). There are almost 91 IPOs that have filed their DRHPs with SEBI of which 49 are PE-backed.

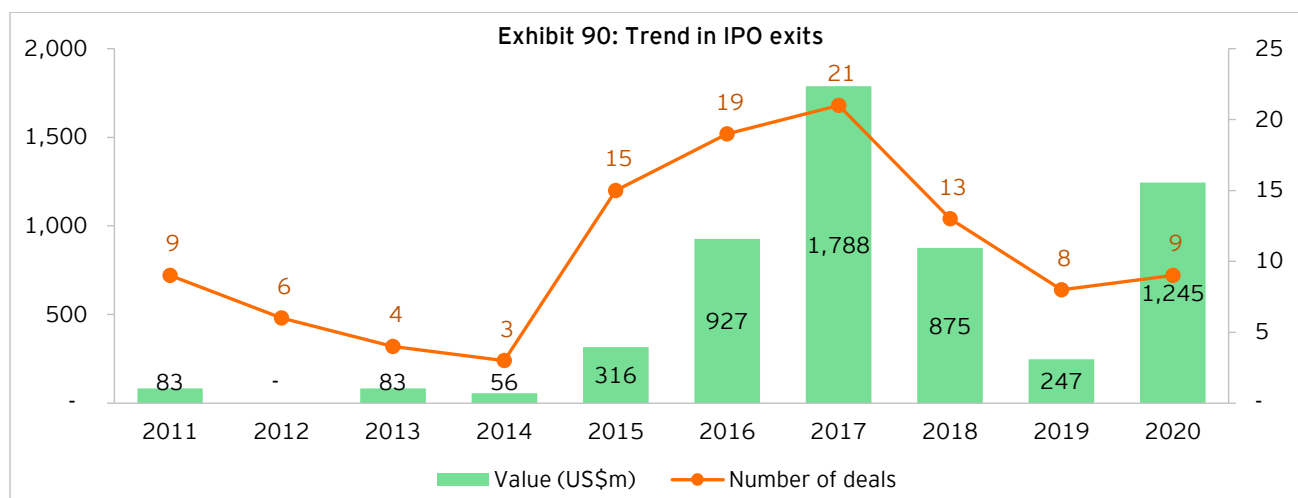
Like in the previous decade, in 2021 financial services continues to dominate the PE-backed IPO pipeline with 12 proposed IPOs. However, e-commerce has emerged as new sector wherein six companies have filed their DRHPs including Zomato, Nykaa, and Grofers. If these companies see favorable investor interest, we could see a significantly higher number of companies come up for listing from the e-commerce sector.

Exhibit 89: IPO pipeline

Company	Sector	PE/VC investors
Aadhar Housing Finance Limited	Financial services	Blackstone
Aakash Education services	Education	Blackstone
AGS Transact Technologies Limited	Technology	Trinity Ventures
Aptus Value Housing Limited	Financial services	Caspian, Madison, Steadview Capital, Westbridge
Arohan Financial services Limited	Financial services	Lok Capital, Tano Capital, TR Capital, Maj Invest, Caspian Impact
ASK Investment Managers Limited	Financial services	Advent International
Atria Convergence Technologies Limited	Telecom	TA Associates, True North
Barbeque Nation Hospitality Limited	Food and agriculture	CX Capital
Bharat Hotels Limited	Hospitality	Dubai Ventures Group
Blackstone-Panchshil Realty REIT Limited	Real estate	Blackstone
BVG Limited	Business and professional services	Oliphants Capital, 3i Group
Capricorn Food Products India Limited	Food and agriculture	Quadria
Century Metal Recycling Limited	Industrial products	AIF Capital
Coldex Limited	Logistics	Asia Climate Partners
Craftsman Automation Limited	Industrial products	Standard Chartered PE, IFC
Devyani International Limited	Food and agriculture	Temasek
Dodla Dairy Limited	Retail and consumer products	IFC, TPG
ESAF Small Finance Bank Limited	Financial services	Pi Ventures
Flipkart Limited	E-commerce	Temasek, Tiger Global
Freshworks Limited	Technology	Sequoia, Tiger Global
GR Infraprojects Limited	Infrastructure	Motilal Oswal
Grofers	E-commerce	Tiger Global, Softbank
Inventia Healthcare Limited	Healthcare	Invascent, Jacob Ballas
Kalyan Jewellers	Retail and consumer products	Warburg Pincus
KIMS Hospitals	Healthcare	General Atlantic

Company	Sector	PE/VC investors
Lava International Limited	Telecom	Global Emerging Markets
Laxmi Organic Industries Limited	Chemicals	IFC
Lodha Developers	Real estate	Kotak, Piramal
Milkbasket	E-commerce	Unilever Ventures, Blume, Kalaari, Innoven
Mobikwik Limited	E-commerce	GMO Ventures, CISCO Investments, Sequoia
Muthoot Microfin Limited	Financial services	Creation Investments
National Commodity & Derivatives Exchange Limited (NCDEX IPO)	Financial services	Oman India
National Stock Exchange (NSE)	Financial services	Elevation Capital, CVCI, General Atlantic, Baer Capital, ChrysCapital, Morgan Stanley, New Quest, PremjiInvest, Norwest, Temasek
Nazara Technologies	Media and entertainment	Kae Capital
Nykaa Limited	E-commerce	Lighthouse, TPG
PNB MetLife Insurance Limited	Financial services	Oman India
Policy Bazaar.com	Financial services	IDG Ventures, PremjiInvest, Temasek, Softbank, True North, Tiger Global, Tencent
Powerica Limited	Industrial products	Stan Chartered PE
Puranik Builders Limited	Real estate	Carval Investors LP
Samhi Hotels Limited	Hospitality	Goldman Sachs, Piramal, GTI Capital
Sansera Engineering Limited	Automotive	CVCI
Senco Gold Limited	Retail and consumer products	Elevation Capital
Seven Islands Shipping Limited	Infrastructure	Wayzata, Fairfax
Shriram Properties Limited	Real estate	Ask Property Investments
Sona Comstar Limited	Automotive	Blackstone
Star Health Insurance Limited	Financial services	Westbridge, Apis Capital, Madison Capital
Suryoday Small Finance Bank Limited	Financial services	Ask Pravi, Sarva Capital, Gaja Capital, Arpwood Partners, Lok Capital, TVS Capital, Developing World Markets, DEG
Vectus Industries Limited	Chemicals	Creador
Zomato Limited	E-commerce	Mirae Assets, Fidelity, Sequoia, Temasek, Tiger Global, VY Capital, DST Global, Steadview Capital, Lone capital, Bow Wave Capital

Source: SEBI and VCCEdge



Source: EY analysis of VCCEdge data

Exhibit 91: Top PE-backed IPO exits between 2011-2020

Company	Sellers	Sector	Amount (US\$m)	Deal Stake %	Year
SBI Cards and Payment Services Limited	Carlyle	Financial services	1,000	9	2020
ICICI Lombard General Insurance Company Limited	Fairfax	Financial services	558	12	2017
Varroc Engineering Limited	TATA Opportunities Fund	Automotive	260	15	2018
AU Small Finance Bank Limited	Kedaara Capital, International Finance Corp., Warburg Pincus, ChrysCapital	Financial services	234	21	2017
Equitas Holdings Limited	Aavishkaar, Sequoia, Westbridge, Helion Venture Partners and others	Financial services	224	35	2016
Eris Lifesciences Limited	ChrysCapital	Pharmaceuticals	200	16	2017
Aavas Financiers Limited	Kedaara Capital, Partners Group	Financial services	183	19	2018
Endurance Technologies Limited	Actis	Automotive	135	14	2016
Bandhan Bank Limited	IFC, GIC	Financial services	125	2	2018
Computer Age Management Services Private Limited	Warburg Pincus	Technology	101	13	2020
Laurus Labs	Warburg Pincus, Eight Road Ventures, FIL Capital management	Pharmaceuticals	96	15	2016
Indian Energy Exchange Limited	Lightspeed Venture, Madison India, Multiples	Power and utilities	94	12	2017
Happiest Minds Technologies Limited	JP Morgan Partners	Technology	93	19	2020
Metropolis Healthcare Limited	Carlyle	Healthcare	90	15	2019
Spandana Sphoorty Financial Limited	Kedaara Capital, Helion Ventures Partner, Valiant Capital	Financial services	88	2	2019

Source: EY analysis of VCCEdge data

Trends for the next decade

6



Trends for the next decade

1. Technology enabled businesses to see disproportionate share of investments

As technology permeates all aspects of business and life, it has become a major tool for disrupting the status quo. Based on recent trends, early movers in technology-enabled business are expected to corner a disproportionate share of the market. As such, companies that are on the forefront of technology will most likely have the competitive advantage, and PE/VC funds are realizing that. The past year has shown us the kind of valuations tech enabled business can command, and their ability to be more resilient to economic shocks.

2. New sectors to emerge as frontrunners for PE/VC investments

Most traditional sectors are being disrupted by technology and new business models have emerged. The most prominent among them for the next decade seem to be edtech, fintech, healthtech, EVs, autonomous transportation and personalized media and entertainment.

3. Increasing number of InvITs and REITs

InvITs and REITs were among the most successful investment structures in the Indian market in the past decade and are expected to grow significantly larger with the potential to evolve into an alternate asset class with dedicated funds and an enabling ecosystem. They will offer a compelling path to both corporates as well as Government owned entities for monetization of passive infrastructure and real estate portfolios.

4. Emergence and growth of special purpose acquisition companies (SPACs)

A SPAC is a company with no commercial operations that is formed strictly to raise capital through an initial public offering (IPO) for the purpose of acquiring an existing company. Also known as "blank check companies," SPACs have been around for decades. However, in recent years, they have become more popular, attracting big-name underwriters and investors and raised a record amount of IPO money in the US, in excess of US\$82 billion in 2020. In 2021, India is expected to see one of its first overseas listing of an Indian company via the SPAC route.

5. Growth of private credit/distressed asset investing

Another segment that can emerge into an independent alternate asset class is credit and distressed asset investments where funds invest in companies under special situations through complex investment structures with focus on business improvement/restructuring and turnaround. Already global funds including Bain, Apollo, Cerberus Capital, and Varde Partners have announced/set-up credit/distressed asset funds for investments in India.

6. Venture debt funding could emerge as a material alternative source of funding for cash strapped start-ups

As most of the traditional modes of credit are not adept to meet the requirement of start-ups that are non-profitable and or have no hard asset-based collateral, entrepreneurs find it an uphill challenge to raise funding without diluting their stake. Venture debt funding is stepping in to partially fill this void and has all the right ingredients to evolve into a much larger source of capital for the start-up universe in the coming decade.

7. Environmental, Social, and Corporate Governance (ESG) focused investing

Investors are increasingly applying these non-financial factors as part of their analysis process to identify material risks and growth opportunities. The coronavirus pandemic, in particular, has intensified discussions about the interconnectedness of sustainability and the financial system. ESG metrics are not commonly part of mandatory financial reporting, though companies are increasingly making disclosures in their annual report or in a standalone sustainability report. Many funds have already incorporated ESG policies in their investment decisions, a trend which will grow stronger in the next decade. Going forward, LP requirements on ESG compliance will become more acute, and at the time of exit, ESG compliant companies will find it easier to transact. Indian PE/VC investors will in time, be expected to make ESG an integrated part of a company's DNA and its operations.

8. Generate alpha through platform plays and value creation

Many buyout funds are increasingly working on platform plays where they make an initial acquisition and grow it inorganically through bolt-on acquisitions, adding capabilities and creating a holistic market player across the value chain of the business. In addition, funds are also focusing on generating alpha through value creation from day one by focusing on improving core operations, reworking sales & marketing, using digital as a change management catalyst to improve return metrics like EBITDA and ROIC rather than just relying on revenue growth and multiple expansion for generating returns. Going forward, we foresee a change in the talent mix in teams at PE/VC funds as we expect most funds investing in buyout and significant minority transactions to have on board a team of operating partners to help them drive this value creation.

Tax and regulatory updates



Tax and regulatory updates

Introduction:

The year 2020 will be remembered for the worst pandemic the world has seen in more than a century and for the strong rebound the Indian stock market staged from its March 2020 lows.

From a tax standpoint, the Government focused on stimulating growth, simplifying tax administration, streamlining tax adjudication, providing tax certainty and incentives to foreign investors.

Similarly, on the regulatory front, the Government has endeavored to strengthen relationships with foreign investors with the underlying objective of encouraging foreign investments and easing the process of doing business in India, while imposing stricter norms on foreign investments by investors from bordering countries to curb opportunistic takeovers.

We have summarized below some of the key tax and regulatory changes introduced in 2020 and in the recently announced Union Budget 2021 that could impact the alternative investments ecosystem.

Tax section:

A] Key tax proposals introduced vide Finance Bill, 2021⁸

The Union Budget 2021, being the first Budget of the new decade, presented by the Hon'ble Finance Minister, Mrs. Nirmala Sitharaman, has aimed at reviving the economy impacted by the shockwaves that stemmed from the global pandemic.

From a direct tax perspective, the Budget offered a slew of proposed amendments aimed at stimulating growth; leveraging technology for achieving transparency and efficiency; and ease of tax administration, dispute resolution and regulatory compliance. Also, no increase in tax rates and no introduction of the much anticipated 'COVID cess' was a welcome relief to taxpayers.

1. Tax incentives for units located in International Financial Services Centre (IFSC)

- ▶ **Dilution of conditions in Section 9A of the Income-tax Act, 1961 (ITL)** - Section 9A in the ITL provides a safe harbor (from permanent establishment and place of effective management) for offshore funds managed by an onshore fund manager, subject to certain conditions. Relaxation from satisfaction of various conditions (by an eligible investment fund and its eligible fund manager) for availing such safe harbor is proposed if the fund manager of such fund is located in IFSC and commences operations on or before 31 March 2024.
- ▶ **Incentives to Offshore Banking Units** - The definition of 'specified fund' (which can avail exemption from tax on capital gains arising from transfer of specified capital assets) is proposed to be widened to include investment division of offshore banking unit (commencing operations on or before 31 March 2024) of a non-resident located in IFSC which has been granted a category III Alternative Investment Fund (AIF) registration subject to satisfaction of prescribed conditions. The concessional tax rates applicable to specified funds have been proposed to be extended to income in respect of securities of aforesaid offshore banking units.
- ▶ **Relocation of existing funds to IFSC** - In order to incentivize relocation of offshore funds to IFSC, it is proposed to exempt capital gains tax in hands of offshore funds and its investors from relocation of an offshore fund into a resultant fund in IFSC, subject to conditions including:
 - ▶ Original fund means a fund which is not a person resident in India and is a resident of a country with which an agreement referred to in Section 90(1) and Section 90A(1) of the ITL has been entered into or registered in a country or a specified territory as may be notified by the Central Government;
 - ▶ Relocation defined as transfer of assets of offshore fund to resultant fund on or before 31 March 2023;
 - ▶ Resultant fund means a Category I/II/ III AIF located in IFSC in India;
 - ▶ Capital gains on transfer of a capital asset, in a relocation, by the original fund to the resulting fund and any transfer by investors, in a relocation, of a capital asset being a share or unit or interest held by the investor in the original fund in consideration for the share or unit or interest in the resultant fund to be exempt;

⁸ The provisions of Finance Bill, 2021 will be effective from 1 April 2021, unless otherwise stated

- ▶ Capital gains arising or received by a non-resident on account of transfer of shares of an Indian company by the resultant fund to be exempt from tax in India, where such shares were transferred to the resultant fund in relocation and if the capital gains on such shares were not chargeable to tax had the relocation not taken place.

2. *Inclusion of units issued by pooled investment vehicle (AIF, business trust, etc.) in the definition of "securities" under the Securities Contracts (Regulation) Act, 1956 (SCRA)*

The definition of 'securities' under SCRA is proposed to include units issued by 'pooled investment vehicle' (such as AIF, business trust, collective investment scheme registered with SEBI, etc.). As a consequence of this amendment, deemed income provisions of the ITL may be applied on transfer of units of pooled investment vehicles (such as AIF, business trust, etc.) in the hands of the transferee (under these provisions the difference between the prescribed fair market value and consideration paid is taxed as Income from other sources in the hands of the recipient). Additionally, it also puts to rest the controversy on applicability of stamp duty on units of AIF, business trust.

3. *Rationalization of provisions related to Sovereign Wealth Funds (SWFs) and Pension Funds (PF)*

- ▶ With a view to encouraging investments in the Indian infrastructure sector, Finance Act, 2020 had introduced provisions for exempting income in the nature of dividend, interest or long-term capital gains arising to "specified person" if such income was from an investment made in India and if the investment met certain conditions. One such condition was investment in qualifying investee entities. Further, "specified person" was defined to include, inter alia, a notified SWF and notified PF, subject to fulfilment of certain conditions.
- ▶ It has now been proposed to provide for the following amendments with respect to such exemption:
 - ▶ **Definition of "specified person" -**
 - ▶ The condition that notified SWF/ PF should not undertake any commercial activity in or outside India has been substituted with a liberal parameter - they should not participate in day-to-day operations of the qualifying investee entity (monitoring mechanism to protect the investment with the investee, including the right to appoint directors or executive directors for monitoring the investment would not amount to participation in day-to-day operation);
 - ▶ One of the qualifying conditions prescribed for a PF was that it should not be liable to tax in the foreign country where it was established / incorporated. It is now proposed to amend the eligibility criteria to include PFs which are liable to tax but may be exempt from taxation with respect to all or any of its income;
 - ▶ A blanket exclusion introduced - If a SWF or PF has loans or borrowings, directly or indirectly, for purposes of making India investment, then it is deemed to be not eligible for exemption. However, loans or borrowings for purposes other than for making investments in India should not be an issue.
 - ▶ **Coverage of qualifying investee entities** - Category I/ II AIFs shall be considered as an eligible investee entity if it has at least 50% investment in qualifying infrastructure entity (reduced from erstwhile condition of 100%). Investments by AIFs in Infrastructure Investment Trusts are also considered as qualified investments.
 - ▶ **Addition of following entities as qualifying investees:**
 - ▶ Domestic company, set up and registered on or after 1 April 2021, having minimum 75% investments in one or more of qualifying infrastructure entities;
 - ▶ Non-Banking Financial Companies (NBFCs) registered as Infrastructure Finance Company or an Infrastructure Debt Fund, having minimum 90% lending to qualifying infrastructure entities
 - ▶ **For purpose of calculation of thresholds above** - 50% investment for AIF, 75% for domestic companies and 90% for NBFCs - method of calculation shall be prescribed by the Central Government

4. *Key withholding tax (WHT / TDS) and tax collected at source (TCS) related proposals:*

- ▶ **Rationalization of WHT on payment to Foreign Portfolio Investors (FPIs)** - Currently, payments to FPIs attracts WHT at a rate of 20% / 5% (for interest on Rupee Denominated Bonds and Government Securities) without grant of any treaty benefits at the time of withholding taxes [based on a judicial precedent rendered by the Hon'ble Supreme Court (SC) of India] resulting in FPIs having to file refund claims. With a view to enabling FPIs to avail the beneficial rates under the relevant DTAA, it has been proposed to amend the existing provisions to provide for the withholding of taxes at the rate of 20% / 5% (in case of interest income on certain specified securities) or the rates provided in the relevant DTAA, whichever is lower on dividend/ interest pay-outs to FPIs, subject to the FPI furnishing a Tax Residency Certificate to the payer. This amendment will ensure that there is no cash trap in India, especially for those FPIs who do not have any tax payable in India or a lower tax payable under an applicable tax treaty.

- ▶ **WHT exemption to certain business trusts** - No requirement to withhold taxes on any dividend paid to business trusts, being Real Estate Infrastructure Trust (REITs) and Infrastructure Investment Vehicle Trust (InvITs), or persons as may be notified by Central Government with retrospective effect from 1 April 2020.
- ▶ **Introduction of WHT on purchase of goods** - It is now proposed to levy withholding tax of 0.1% on payments made to resident seller for purchase transaction exceeding INR 5 million in a financial year, only in cases where buyer's total sales, gross receipts or turnover from the business carried on by him exceed INR 100 million during the financial year immediately preceding the financial year in which the purchase of goods is carried out (other than persons as may be notified by Central Government subject to the specified conditions). However, the provisions not to be applicable in cases where tax is deducted or collected under any other sections (except TCS provisions applicable on sale of goods with effective from 01 October 2020). Further, where the seller does not have a Permanent Account Number (PAN), tax could be deducted at 5%. The provisions are proposed to be effective from 1 July 2021.
- ▶ **Penal TDS / TCS in case of non-filers of income tax return** - Any person making payment or receiving any sum from a specified person will be required to deduct/collect taxes at a rate twice the rate of tax deduction/collection at source or at twice the rate or rates in force (in case of TDS) or 5%, whichever is higher. Specified person means any person who has not filed the return of income for the last two years preceding the financial year in which tax is required to be deducted/collected, and the tax deducted/collected is INR 50,000 or more in each of the two preceding years. These provisions are not applicable to a non-resident not having a permanent establishment in India. These provisions are proposed to be effective from 1 July 2021.

5. *Mergers, acquisitions and corporate restructuring related proposals:*

- ▶ **Goodwill on business restructuring is not a depreciable asset** - With effect from financial year 2020-21, the definition of intangible asset for the purpose of depreciation is proposed to be amended to exclude goodwill from its ambit and therefore, no depreciation shall be allowed on the same in any situation (including amalgamation, slump sale), thus, reversing a landmark decision by the Supreme Court of India in the case of Smifs Securities Limited⁹. Further, in case of acquired goodwill, the purchase price of goodwill less depreciation already claimed shall continue to be considered as cost of acquisition for the purpose of computing capital gains. However, no corresponding depreciation shall be allowed to the purchaser.
- ▶ **Definition of slump sale amended to include all types of transfer** - There have been judicial precedents wherein courts have opined that other modes of transfer such as exchange and relinquishment are excluded from the scope of slump sale and, hence, not taxable. With effect from financial year 2020-21, it is proposed to amend the definition of slump sale to include all types of transfer within its scope and, hence, subject to tax.

6. *Tax incentives for start-ups*

- ▶ Currently, a 100% profit-linked deduction is available for income earned from eligible business to eligible start-ups which is incorporated on or after 1 April 2016 and before 1 April 2021. Tax deduction is now extended for start-ups incorporated up to 31 March 2022.

7. *Revised time limit for conducting reassessment proceedings*

Particulars	Existing	Proposed
Re-opening / reassessment of normal cases	6 Years from the end of the relevant AY	3 Years from the end of the relevant AY
Re-opening / reassessment in case of evidence of concealment of > INR 5 million subject to approval of Principal Chief Commission of Income-tax	NA	10 Years from the end of the relevant AY

- ▶ Reopening of past years as per existing provisions is grandfathered.

8. *Others key proposals:*

- ▶ Threshold for tax audit will be increased to INR 100m from existing INR 50m for taxpayers carrying on business, provided cash transaction is less than 5% in value.
- ▶ Requirement under the GST law to get accounts audited by a chartered accountant/company secretary proposed to be done away with.
- ▶ GST refund of tax paid on exports to be allowed only for to be specified persons or goods/services. It may be noted that GST refund of unutilized credit would continue to be available in case of exports.

For details, refer our alert dated [1 February 2021](#)

⁹ (2012) 348 ITR 302 (SC)

B] CBDT issues guidelines / press release to clarify doubts on new tax collection provisions of sale of goods

- ▶ As a measure to widen and deepen the tax net, Finance Act 2020 widened the withholding and tax collection provisions to, inter alia, include collection of tax from buyers at the rate of 0.1% by sellers on receipt of amount of consideration for sale of goods, with effect from 1 October 2020, subject to certain specified thresholds and exclusions.
- ▶ CBDT issued guidelines for removing certain difficulties on application of the newly introduced provisions on TCS on sale of goods, which inter-alia state that the transactions of securities or commodities traded on a recognized stock exchange or cleared and settled on a recognized clearing corporation are outside the ambit of TDS and TCS provisions.
- ▶ The CBDT also issued a press release to allay doubts that arose on application of the newly introduced provisions on TCS clarifying the below:
 - ▶ TCS provisions are applicable only if the turnover of the seller exceeds INR 100m in the preceding tax year;
 - ▶ Threshold of INR 5m is calculated qua each buyer for a seller;
 - ▶ TCS is to be collected only on receipt of sale consideration on or after 1 October 2020;
 - ▶ The amounts received from 1 April 2020 on sale of goods are to be included for the limited purposes of computing the threshold limit of INR 5m for tax year 2020-21;
 - ▶ TCS collected by the seller from the buyer is akin to advance tax/withholding tax for the buyer and is available as a credit to the buyer against their income tax liability.

For details, refer our alerts dated [30 September 2020](#) and [1 October 2020](#)

C] Direct Tax Vivad Se Vishwas Scheme - FAQs, enactment of VSV Bill along with Rules and procedural clarification / extensions

- ▶ VSV Scheme provides an opportunity to taxpayers to settle direct tax disputes by making an application in the prescribed form to the designated authority and by paying the prescribed amount before a specified date. Once litigation is settled under the VSV scheme, a taxpayer is entitled to waiver from interest levied and immunity from penalty and prosecution.
- ▶ CBDT also notified the Direct Tax Vivad Se Vishwas Rules, 2020 (VSV Rules) as well as Forms prescribed under such Rules.
- ▶ VSV Rules, inter-alia, prescribe: (i) The computation of the losses, unabsorbed depreciation, Minimum Alternate Tax (MAT) credit and Alternative Minimum Tax (AMT) credit that can be carried forward when the dispute settled under VSV Act pertains to such losses, unabsorbed depreciation and MAT/AMT credit. (ii) The computation of disputed taxes when some of the issues in appeal are covered in favor of the taxpayer. (iii) Forms in which declaration, waiver of right to appeal and intimation of payment are required to be made by the taxpayer. (iv) The forms in which the certificate and order are to be issued by the Designated Authority (DA) under VSV Act.
- ▶ Prior to enactment of the Direct Tax Vivad Se Vishwas Bill, 2020 (VSV Bill), CBDT issued a Circular on 4 March 2020 in the form of 55 FAQs to clarify issues of the eligibility of a taxpayer to settle its case under VSV in different situations, the manner of computing the quantum of disputed tax payable, consequences under VSV and certain procedural aspects.
- ▶ Post enactment and notification of the Rules/forms, and with a view to give legal effect to clarifications issued earlier, the CBDT issued Circular dated 22 April 2020 (April Circular) reiterating 55 FAQs with certain modifications to the old Circular.
- ▶ The April circular now clarifies that the disqualification from VSV applies only in case where prosecution has been instituted and not in case where mere notice of prosecution has been issued. In cases where prosecution has been instituted with respect to an assessment year, a taxpayer is not eligible to file declaration for such assessment year unless the prosecution is compounded before filing the declaration.
- ▶ Further, the CBDT has vide circular dated 4 December 2020 issued more 34 Frequently Asked Questions (FAQs) to address the issues raised by stakeholders relating to the operation of VSV Scheme.
- ▶ Currently, time period for making declaration without payment of additional tax under VSV was extended to 31 March 2021; and time period for payment of 100% of disputed tax (without an additional amount) is extended to 30 April 2021. Consequently, payment made on or after 1 May 2021 but before a notified date would require payment of additional 10% of disputed tax.

For details, refer our alerts dated [20 March 2020](#); [22 April 2020](#); [13 May 2020](#); [28 October 2020](#); [29 October 2020](#); [5 December 2020](#); [31 December 2020](#); [1 January 2021](#) and [1 March 2021](#)

D] Other key developments during the year

► Capital gains exemption for notified securities in the IFSC

- Currently, income earned by a non-resident from the transfer of any bond, global depository receipt, rupee denominated bond of an Indian company or derivative transacted on a recognized stock exchange located in an International Financial Services Centre (IFSC) in foreign currency, is exempt from capital gains tax. Thereafter, the Central Government was empowered to notify other securities for the purpose of capital gain exemption under the above provisions.
- CBDT, vide a Notification dated 5 March 2020, specified the following list of securities for the purpose of capital gains exemption, provided that the transaction is executed in foreign currency and the above securities are listed on a recognized stock exchange located in any IFSC:
 - (i) Foreign currency denominated bond
 - (ii) Units of a Mutual Fund
 - (iii) Units of a Business Trust
 - (iv) Foreign currency denominated equity share of a company
 - (v) Unit of Alternative Investment Fund

For details, refer alert dated [11 March 2020](#)

► CBDT defers reporting of GAAR and GST particulars in the Tax Audit Report (TAR) till 31 March 2021

- CBDT vide Notification dated 20 July 2018 introduced following two additional reporting requirements in TAR to enhance the reporting requirements in TAR to be furnished on or after 20 August 2018:
 - **General Anti Avoidance Rule (GAAR)** - Where a taxpayer has entered into an impermissible avoidance arrangement, TAR requires to report the nature of such impermissible avoidance arrangement and the amount of tax benefit in the tax year arising, in aggregate, to all the parties to the arrangement;
 - **Details relating to Goods and Service Tax (GST)** - TAR requires reporting of details of GST viz. break-up of total expenditure with GST registered and non-registered entities and for the former, it further requires the break-up of expenditure relating to exempt supply covered under the composition scheme and other registered entities.
- Stakeholders perceived the above reporting requirements to be highly subjective and/or onerous. Hence, various representations were made to CBDT for deferring GAAR and GST reporting obligations. In wake of various representations made before CBDT for difficulty in reporting compliances in relation to aforesaid clauses in view of the global pandemic due to COVID-19, CBDT has deferred the reporting obligation in respect of GAAR and GST law till 31 March 2021.
- Thus, TAR issued till 31 March 2021 for any tax year (including tax year 2019-20) need not contain GAAR and GST particulars, reducing compliance burden on taxpayers and tax auditors.

For more details, refer our alert dated [28 April 2020](#)

► CBDT notifies the rules prescribing the minimum remuneration to be paid to Indian fund managers under the safe harbor regime

- Section 9A in the ITL provides a safe harbor (from permanent establishment and place of effective management) for offshore funds managed by an onshore fund manager, subject to certain conditions.
- Basis several industry representations, the Finance Act, 2019 had replaced one of the conditions requiring an arm's length remuneration to be paid to the eligible fund manager (EFM) for performing fund management activities, with a minimum remuneration to be paid in accordance with a prescribed methodology.
- In this context, pursuant to industry consultations, CBDT vide Notification has issued Rules prescribing the minimum remuneration to be paid by the eligible investment fund (EIF) to the EFM as well as providing for related compliances to be undertaken by the EFM, effective from 1 April 2019.
- The Rules, while providing the minimum thresholds, take into consideration different remuneration models generally prevalent in the asset management industry and also provide a window for applicants to seek an approval for receipt of remuneration lower than that prescribed, having regard to the facts and circumstances of the case.

For more details, refer our alert dated [29 May 2020](#)

- ▶ **Exemption from requirement of obtaining PAN** - CBDT provides exemption from obtaining PAN to non-resident investors / unit holders of Category I and Category II AIFs set up in IFSCs, subject to fulfilment of prescribed conditions.

For more details, refer our alert dated [13 August 2020](#)

- ▶ **Prime Minister of India unveils “Transparent Taxation - Honouring the Honest” platform and issued guidelines for effective implementation of Faceless Assessment Scheme 2019**
 - ▶ The “Transparent Taxation - Honouring the Honest” platform launched on 13 August 2020 aims at providing transparent, effective and efficient tax system; and includes the following three areas; viz i) faceless assessment; ii) faceless appeals; and iii) Taxpayers’ Charter (TC). The TC unveiled on the platform provides for various rights and duties of the taxpayer and holding Tax Authorities accountable for all actions.
 - ▶ Post unveiling of the aforementioned platform, CBDT made further announcements, such as migration of ongoing assessment proceedings to Faceless Assessment Scheme, 2019 (Scheme), key modifications to the Scheme, introduction of a scheme for conducting faceless appeals and centralization of powers to carry out survey proceedings in the hands of the specified Tax Authority.
 - ▶ Consistent with the Government’s intention to expand the scope of faceless assessment and its nation-wide smooth implementation, the CBDT, vide a letter dated 14 August 2020 (CBDT Guidelines) to Tax Authorities, issued guidelines for effective implementation of the Faceless Assessment Scheme.
 - ▶ The Government notified and implemented a scheme called the “Faceless Appeal Scheme, 2020” (FAS), for conducting appeal proceedings in a faceless manner before the Commissioner of Income Tax (Appeals) [CIT(A)] under the ITL. FAS involves a step-wise process to conduct appeal proceedings. It harnesses the use of technology to allow communication between taxpayers / the tax authority and CIT(A) and a team-based appeal process in lieu of the existing manual interface and single officer-based proceedings.
 - ▶ Further, CBDT issued Notifications on 17 February 2021 to amend the Faceless Assessment Scheme and integrate proceedings before the Dispute Resolution Panel (DRP) with team-based assessment proceedings conducted in a faceless manner under the ITL.

For more details, refer our alerts dated [14 August 2020](#), [14 August 2020](#), [26 September 2020](#) and [19 February 2021](#)

E] COVID - 19 pandemic related tax measures

- ▶ With a view to relieving various compliance burdens of taxpayers who are going through an unprecedented health and economic crisis due to the onset of the COVID-19 pandemic, the Parliament had enacted The Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020 (Relaxation Act) to relax various compliances under specified laws, including the Income Tax Laws (ITL) and Prohibition of Benami Property Transactions Act, 1988 (Benami Law), such as extension of due date for furnishing tax returns, audit report and filing of appeals.
- ▶ The Relaxation Act (along with a press release issued by CBDT) also granted similar extensions to authorities / commissions / tribunals (Tax Authority) for completion of any proceeding or passing of any order or issuance of any notice, intimation, notification, sanction or approval or any other action under the specified laws, including ITL and Benami Law, which is due between 20 March 2020 and 30 March 2021 (disruption period). The Relaxation Act provided that such action/compliance falling under the disruption period can be completed on or before 31 March 2021 and the same shall be considered as valid compliance.

For more details, refer our alerts dated [1 April 2020](#); [26 June 2020](#); and [2 March 2021](#)

F] Key case laws

Supreme Court (SC) rules on application of tax treaty provisions for withholding taxes

- ▶ In the case of PILCOM¹⁰ (Taxpayer), the SC ruled on the obligation to withhold taxes on certain payments in the nature of guarantee fees paid to various non-resident (NR) sports associations related to cricket matches played in India, Sri Lanka and Pakistan under a tournament. The taxpayer made such payments without deduction of TDS.
- ▶ The Tax Authority contended that the payments are covered under the special provisions of the ITL, whereby any amount guaranteed to be paid or payable to such association or institution in relation to any game or sport played in India, is liable to withholding tax @ 10% in India.
- ▶ On the applicability of the provisions of the Double Taxation Avoidance Agreement (DTAA or tax treaty), the SC held that the obligation to withhold taxes under the special provision providing for specific rate of withholding is not affected by the DTAA. The benefit of the DTAA can be considered by the payee and if found valid the taxes withheld can be claimed as a refund with interest. However, such a treatment does not absolve the payer from carrying out withholding obligations under the ITL.

For more details, refer our alert dated [30 April 2020](#)

Authority for Advance Rulings (AAR) rules that investment of a Mauritius company in a Singapore company, deriving substantial value from assets in India, is prima facie designed for avoidance of tax not eligible for treaty benefits and rejects the application filed by Mauritius company

- ▶ In the case of Tiger Global International II Holdings¹¹ (together with other applicants referred to as the Taxpayers), the Taxpayers, Mauritian companies, transferred the shares of a Singapore company (SingCo) which derived substantial value from assets in India.
- ▶ The AAR having held that the control and management of the Taxpayers was located outside Mauritius, ruled that the Taxpayers were see-through entities whose ultimate owner and beneficiary was a US resident. Given this, the AAR rejected the admission of application of the Taxpayers on the grounds that the entire arrangement was designed prima facie to avail only the benefits of India-Mauritius Tax Treaty and, hence, for avoidance of tax.
- ▶ The AAR also clarified that at the stage of admission of application, the requirement is not to conclusively establish that there was tax avoidance; rather it has to be demonstrated that prima facie the transaction was designed for avoidance of tax which was legally correct but was not intended by the lawmakers.
- ▶ Additionally, the AAR also pointed out that in the facts of the case, the gains have been derived from transfer of SingCo shares and not Indian company shares. The protocol amending India-Mauritius Tax Treaty in 2016 as well as Circular No. 682 dated 30 March 1994 suggests that the intent of the treaty is only to protect transfer of an Indian company shares and not the transfer of Singapore company shares which is the subject matter under this application. Even if SingCo derived its value substantially from assets located in India, the fact remains that what transferred was the shares of a Singapore company and not the transfer of Indian company shares and hence the exemption provided under the treaty in respect of indirect transfer is not available in the facts of the case.

For more details, please refer our alert dated [5 June 2020](#)

¹⁰ TS-219-SC-2020

¹¹ [2020] 116 taxmann.com 878 (AAR - New Delhi)

Regulatory section:

A] Key policy announcements introduced vide Finance Bill, 2021

1. *Setup of Development Financial Institution (DFI)* - It is proposed to set-up a DFI, which will act as a provider, enabler and catalyst in financing infrastructure related projects. A sum of INR 200 billion has been allotted to capitalize the institution with an ambition to have a lending portfolio of at least INR 5,000 billion in a time span of three years.
2. *Debt financing of InVITs and REITs* by FPIs will be enabled (by making suitable amendments in the relevant legislations) to further ease access of finance to these vehicles. This will augment funds for infrastructure and real estate sectors.
3. *Development of a world class Fin-Tech hub at IFSC*
4. *Securities Markets Code* - Securities and Exchange Board of India (SEBI) Act, 1992, Depositories Act, 1996, Securities Contracts (Regulation) Act, 1956 and Government Securities Act, 2007 to be consolidated into a single Securities Markets Code.
5. *Insurance sector reforms* - The permissible limit for foreign direct investment (FDI) in insurance companies to be increased from 49% to 74%, with additional controls and safeguards. IPO of Life Insurance Corporation of India scheduled to take place in FY 2021-22.
6. *Stressed assets resolution*
 - ▶ An Asset Reconstruction Company and Asset Management Company to be set up to consolidate and take over the existing stressed debt and then manage and dispose off the assets to Alternative Investment Funds and other investors.
 - ▶ To ensure faster resolution of cases, National Company Law Tribunal framework will be strengthened, e-Courts system shall be implemented and alternate methods of debt resolution and special framework for MSMEs shall be introduced.
 - ▶ To improve credit discipline while continuing to protect the interest of small borrowers, for NBFCs with minimum asset size of INR 1000 million, the minimum loan size eligible for debt recovery is proposed to be reduced from the existing level of INR 5 million to INR 2 million.

For details, refer our alert dated [1 February 2021](#)

B] Foreign Direct Investment (FDI) from neighboring countries brought under the approval route

- ▶ Department for Promotion of Industry and Internal Trade (DPIIT) has amended FDI policy by prescribing a requirement for prior government approval for any investment from India's neighboring countries, i.e., China, Bangladesh, Bhutan, Afghanistan, Myanmar, Nepal and Pakistan (Specified Investors).
- ▶ In terms of the extant FDI policy, foreign investments only by a citizen or entity incorporated in Bangladesh and Pakistan are under the government approval route. In addition to that, any foreign investments from Pakistan are prohibited in sectors such as defense, space, atomic energy and other sectors prohibited for foreign investment in India.
- ▶ Considering the challenging business environment for Indian entities due to the outbreak of COVID-19, Government in order to curb any crisis-driven takeover / acquisitions of any Indian entity has amended the extant FDI policy by restricting foreign investments from the Specified Investors with effect from 22 April 2020. Pursuant to the amendment -
 - ▶ FDI from any of the Specified Investors shall be under the government approval route; and
 - ▶ FDI, wherein, beneficial ownership is vested with an entity or citizen of such countries, will also be covered under the government approval route.
- ▶ Above restrictions to apply also in case of transfer of ownership of existing or future FDI, directly or indirectly in Indian entity, resulting in beneficial ownership in favor of the Specified Investors.

For details, refer our alerts dated [20 April 2020](#)

C] Amendments to Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 (NDI Rules)

RBI issued the amendment to NDI Rules on 27 April 2020, wherein the following key changes have been introduced:

Acquisition of equity instruments pursuant to renunciation of rights

- ▶ Earlier, investment by a person resident outside India in equity instruments issued by an Indian company as rights issue that were renounced by a person resident in India, was not subject to the specified pricing guidelines.
- ▶ Pursuant to amendment, such investments in equity instruments issued as rights issue that were renounced by an Indian resident to non-resident will now be subject to specified pricing guidelines as prescribed under the NDI Rules.
- ▶ Hitherto, the pricing guidelines applicable for equity instruments acquired on renunciation was the price determined by the Indian company in case of equity instruments of the listed Indian company and such price which is not less than the price offered to persons resident in India in case of equity instruments of an unlisted Indian company.

Amendment to sourcing norms for Single Brand Product Retail Trading

- ▶ One of the conditions in case of foreign direct investment beyond 51% in Single Brand Product Retail Trading is the requirement to source 30% of the value of goods purchased from India, preferably from MSMEs, village and cottage industries, artisans and craftsmen, in all sectors.
- ▶ Hitherto, these sourcing norms were not applicable up to three years from commencement of the business, i.e., opening of the first store for entities undertaking single brand retail trading of products having 'state-of-art' and 'cutting-edge' technology and where local sourcing is not possible.
- ▶ This condition has now been amended to provide that local sourcing norms shall not apply up to three years from opening of the first store or start of online retail, whichever is earlier.

Amendment in relation to FPI investments

- ▶ FPIs investing in breach of the prescribed limits shall have the option of divesting their holdings within five trading days from the date of settlement of the trades causing the breach. In case the FPI chooses not to divest, the entire investment in the company by such FPI and its investor group shall be considered as investment under FDI and the FPI and its investor group shall not make further portfolio investment in the company concerned.
- ▶ In addition to these provisions, the Amendment Rules provide that the divestment of holdings by the FPI and the reclassification of FPI investment as FDI shall be subject to further conditions, if any, specified by SEBI and RBI in this regard.

D] Changes introduced in the foreign investment policy sector by the Department for Promotion of Industry and Internal Trade (DPIIT)

Insurance Intermediaries through Press Note 01 of 2020 (PN1 of 2020)

- ▶ FDI up to 100% allowed under automatic route in intermediaries or insurance intermediaries, including, inter alia, insurance brokers, re-insurance brokers, insurance consultants, corporate agents, third party administrator, surveyors and loss assessors and such other entities, as may be notified by the Insurance Regulatory and Development Authority of India (IRDA) from time to time, subject to compliance with certain other conditions.

Civil aviation sector through Press Note 02 of 2020 dated 19 March 2020 (PN2 of 2020)

- ▶ Earlier, Overseas Citizens of India (OCIs) were allowed to invest in Indian companies engaged in scheduled air transport service / domestic scheduled passenger airline or regional air transport service up to 100% under the automatic route. Pursuant to this amendment, OCIs would be permitted to invest only up to 49% in such entities under the automatic route and will require prior approval of the Central Government for investment beyond 49%, subject to compliance with other specified conditions.
- ▶ Further, air operator certificate to operate scheduled air transport services (including domestic service) can also now be granted to a body corporate in addition to a company subject to compliance with other specified conditions regarding registration and principal place of business; composition of directors; and its substantial ownership and effective control.
- ▶ It has been clarified in the amended NDI Rules that, in relation to investment by a foreign airline, the cap of 49% of foreign investment into an Indian company (operating scheduled and non-scheduled air transport services), shall include investments by foreign institutional investors (FIIs) and FPIs.

Defense sector through Press Note 04 of 2020 (PN4 of 2020)

- ▶ Earlier, for an entity requiring new industrial license, FDI up to 49% is permitted under the automatic route. Pursuant to the revised FDI policy, the limit of FDI in such entities has been enhanced from 49% to 74% under the automatic route.
- ▶ Further, pursuant to the revised FDI Policy, proposals for receipt of FDI in cases that are likely to result in access to modern technology or for other reasons to be recorded, beyond 74% (earlier 49%), required prior government approval.
- ▶ Earlier, FDI up to 49% in a company not seeking industrial license resulting in (i) change in the ownership pattern or (ii) transfer of stake by existing investor to new foreign investor, requires government approval. As per the revised FDI Policy, FDI up to 49% in an entity not seeking industrial license or which already has government approval for FDI in defense will mandatorily require a declaration to be submitted by such entity with the Ministry of Defense in case of (i) change in equity/shareholding pattern; or (ii) transfer of stake by existing investor to new foreign investor for FDI up to 49%, within 30 days of such change. For FDI beyond 49% in such entities, government approval will be required.
- ▶ In terms of the revised FDI Policy, FDI in the defense sector would be subject to scrutiny on the grounds of national security. Further, the government reserves the right to review any foreign investment in the sector that affects or may affect national security.

E] Other key developments

Reserve Bank of India related:

I. RBI relaxes FPI debt investment norms and has re-opened the Voluntary Retention Route

On 23 January 2020, RBI issued a Press Release providing relaxations on certain aspects of the Voluntary Retention Route (VRR) scheme for investments by Foreign Portfolio Investors (FPIs) in Indian debt securities.

Criteria	Existing VRR Scheme	Relaxations in VRR Scheme
Eligible securities for investment under VRR-Corp	FPIs were not allowed to invest in units of domestic mutual funds	FPIs are now permitted to invest in units of domestic Exchange Traded Funds investing only in debt instruments. Additionally, investment in municipal bonds is now permitted
Investment Limits	INR 750 billion or higher	INR 1,500 billion or higher
Transfer of investments	Transfer of investments from General Category to VRR not permitted	FPIs may, at their discretion, transfer their investments made under the General Investment Limit, if any, to the VRR scheme

The current investment window for VRR shall be open for allotment from 24 January 2020 and shall be kept open till the limits are exhausted.

Given that as on 31 December 2019, approximately, INR543 billion has been invested under the VRR scheme, the investment limit available for fresh allotment shall be INR 903.6 billion for VRR-Combined category.

Minimum retention period shall be three years. Investment limits shall be available on tap and shall be allotted by the Clearing Corporation of India Limited (CCIL) on 'first come first served' basis. The application to CCIL should be made by FPIs through their respective custodians.

Additionally, the RBI issued a circular modifying certain conditions for debt investments (other than VRR scheme) for FPIs.

Existing Framework	Relaxations
Investments in bonds by FPI maturing within one year should not exceed 20% of its total investment in the respective category of bonds (e.g. government securities, corporate bonds)	20% threshold now increased to 30%
FPI investments in security receipts are not subject to certain restrictions applicable to corporate debt investments (such as minimum residual maturity of at least one year, limit on investments in securities maturing within one year, limit on investment by a single FPI or a group of related FPIs)	The said exemptions would also apply to investments in debt instruments issued by Asset Reconstruction Companies and an entity under the Corporate Insolvency Resolution Process as per the resolution plan approved under the Insolvency and Bankruptcy Code, 2016

II. Common Application Form (CAF) for FPIs

In order to enhance operational flexibility and ease of access to Indian capital markets, the Central Government vide the Department of Economic Affairs and the SEBI have notified the CAF, a consolidated single application form for FPIs to enable them to seek registration as a FPI, obtain PAN from the Indian tax authorities and undertake KYC for opening bank and Demat accounts.

Securities and Exchange Board of India ('SEBI') related:

Circular amending certain provisions related to scheme of arrangement by listed entities

On 03 November 2020, SEBI issued a circular amending certain provisions relating to scheme of arrangement involving listed entities. Key highlights of the amendment are as under:

Existing provisions	New provisions
Submission of Documents by Listed Entities: c) Report from the Audit Committee recommending the Draft Scheme, taking into consideration, inter alia, the Valuation Report. The Valuation Report is required to be placed before the Audit Committee of the listed entity;	The Audit Committee report shall also comment on the following: ► Need for the merger / demerger / amalgamation / arrangement ► Rationale of the scheme ► Synergies of business of the entities involved in the scheme ► Impact of the scheme on shareholders ► Cost benefit analysis of the scheme New insertion - Report from the Committee of Independent Directors recommending the draft scheme, taking into consideration, inter-alia, that the scheme is not detrimental to the shareholders of a listed entity
All listed entities are required to submit a valuation report from an Independent Chartered Accountant	All listed entities are required to submit a valuation report from a Registered Valuer
The listed entity had a time of 45 days from order of NCLT to ensure the commencement of trading of securities	The time period for ensuring trading in securities by the listed entity has been increased from 45 days to 60 days from receipt of order

Initiatives for funds located in IFSC

Based on the asks of the industry, the International Financial Services Centres Authority (IFSCA), has issued a circular dated 9 December 2020 (Circular) amending some of the norms applicable to AIFs based in IFSC.

Leverage

Under the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 (AIF Regulations), Category I and Category II AIFs are not permitted to take leverage other than for meeting temporary funding requirements and Category III AIF can take leverage up to two times the net assets value. However, a fund located in an offshore jurisdiction does not have any such restrictions and could leverage their investments.

Given that IFSCs are considered as a door to relocate offshore funds in India, the Circular issued by IFSCA states that an AIF in IFSC may borrow funds or engage in leveraging activities subject to the following:

- Maximum leverage by the AIF along with the methodology for calculation of leverage shall be disclosed in the private placement memorandum (PPM);
- The leverage shall be exercised subject to consent of the investors;
- AIF employing leverage shall have a comprehensive risk management framework appropriate to the size, complexity and risk profile of the fund.

Investments

Recently, there have been instances where the Securities and Exchange Board of India (SEBI) has questioned separate classes of units being issued by AIFs for the purposes of co-investments. The offshore funds have full flexibility to offer co-investment opportunities to investors.

In this regard, the Circular states that an AIF in IFSC would be permitted to co-invest in a portfolio company through a segregated portfolio by issuing separate class of units subject to ensuring:

- such investments shall not be on terms more favorable than those offered to the common portfolio of the AIF; and
- appropriate disclosures have been made in the PPM regarding creation of segregated portfolio.

Further, AIFs in IFSC would be permitted to invest in an AIF registered with SEBI in India alongside other permissible investments.

Investment limits

Currently, Category I and Category II AIFs shall not invest more than 25% of investable funds in one investee company and Category III AIFs shall not invest more than 10% of investable funds in one investee company, respectively.

As per the Circular, these limits would not be applicable to AIFs in IFSC subject to the conditions that appropriate disclosures have been made in the PPM and the investments made by AIFs are in line with the risk appetite of investors.

The aforesaid amendments are a step further in making IFSC an attractive destination for Indian managers to set-up/ relocate their offshore funds and would go a long way in developing the fund market in India.

Investment in NBFCs from FATF non-compliant jurisdictions

RBI has, in the recent past, returned a number of applications for obtaining Certificate of Registration (COR) to carry out NBFC activities, where the investors inter alia are from jurisdictions identified as a non-compliant jurisdiction by the Financial Action Task Force (FATF), in absence of being able to carry out satisfactory due diligence.

On 12 February 2021, RBI issued a Notification with respect to investment in NBFCs [including Housing Finance Companies (HFCs)] and Asset Reconstruction Companies (ARCs) from FATF non-compliant jurisdictions as under:

- ▶ **Periodic identification of jurisdictions** by FATF with weak measures to combat money laundering and terrorist financing in its following publications:
 - (i) High-Risk Jurisdictions subject to a Call for Action; and
 - (ii) Jurisdictions under Increased Monitoring.

A FATF compliant jurisdiction is one whose name does not appear in any of the above-mentioned lists.

- ▶ **Investments from FATF compliant jurisdiction:** Investments in NBFCs or ARCs from FATF non-compliant jurisdiction would not be treated at par with that from the FATF compliant jurisdiction.
- ▶ **Investments from non-compliant FATF jurisdiction:**

Existing investments in NBFCs or ARCs	Investments prior to the classification of the source or intermediate jurisdiction(s) as FATF non-compliant jurisdiction, may <ul style="list-style-type: none"> (i) continue with the investments; or (ii) bring in additional investments as per extant regulations to support continuity of business in India.
New investments in NBFCs or ARCs; or application for new registration	New investors from or through FATF non-compliant jurisdictions, whether in existing NBFCs, ARCs or in companies seeking COR, should NOT be allowed to directly or indirectly acquire 'significant influence' in the investee , as defined in the applicable accounting standards. In other words, fresh investors (directly or indirectly) from FATF non-compliant jurisdictions in aggregate should be less than the threshold of 20% of the voting power (including potential voting power*) of the NBFC or ARCs.

** Potential voting power could arise from instruments that are convertible into equity, other instruments with contingent voting rights, contractual arrangements, etc. that grant investors voting rights (including contingent voting rights) in the future. In such cases, it should be ensured that new investments from FATF non-compliant jurisdictions are less than both (a) 20% of the existing voting powers; and (b) 20% of existing and potential voting powers assuming those potential voting rights have materialized.*

The RBI has now laid down the principles with respect to investments from FATF non-compliant jurisdiction in NBFCs and ARCs. Investments already made by the investors in NBFCs/ ARCs are grandfathered and follow-on investments in the said entities have been permitted to ensure that there is no disruption of the businesses.

However, fresh investments in existing NBFCs or for companies seeking registration, from any investor in a FATF non-compliant jurisdiction will have to be within the thresholds prescribed. The use of words 'directly and indirectly' may possibly create issues for structures even where one of the intermediate entity(ies) is located in a FATF non-compliant jurisdiction, unless clarifications are issued in this regard or a specific clarification is sought from RBI.



Glossary

Glossary of acronyms

1.	ADIA - Abu Dhabi Investment Authority
2.	AI - Artificial Intelligence
3.	AIIB - Asian Infrastructure Investment Bank
4.	AIFs - Alternate Investment Funds
5.	AMT - Alternative Minimum Tax
6.	ARC - Asset Reconstruction Company
7.	AUM - Assets under management
8.	AY - Assessment Year
9.	B2B - Business-to-Business
10.	B2C - Business-to-Consumer
11.	CAGR - Compounded annual growth rate
12.	CBDT - Central Board of Direct Taxes
13.	CDPQ - Caisse de dépôt et placement du Québec
14.	CPPIB - Canada Pension Plan Investment Board
15.	CRAMS - Contract research and manufacturing services
16.	DFID - Department for International Development
17.	DIPP - Department of Industrial Policy and Promotion
18.	DPIIT - Department for Promotion of Industry and Internal Trade
19.	DRHP - Draft Red Herring Prospectus
20.	DTAA - Double Taxation Avoidance Agreement
21.	EBITDA - Earning before interest tax depreciation and amortization
22.	EMPEA - Emerging Markets Private Equity Association
23.	EPC - Engineering, procurement and construction
24.	FDI - Foreign Direct Investment
25.	ESG - Environmental, Social, and Corporate Governance
26.	EV - Electric vehicles
27.	FAQ - Frequently asked questions
28.	FEMA - Foreign Exchange Management Act, 1999
29.	FDI - Foreign Direct Investment
30.	FII - Foreign Institutional Investment
31.	FPI - Foreign Portfolio Investment
32.	GAAR - General anti avoidance rule
33.	GFC - Global financial crisis
34.	GIC - GIC Private Limited
35.	GIP - Global Infrastructure Partners
36.	Gol - Government of India
37.	GP - General partner
38.	GST - Goods and services tax
39.	IDBI - Industrial Development Bank of India
40.	IFC - International Finance Corporation
41.	IFCI - Industrial Finance Corporation of India

42.	IFSC - International Financial Services Centre
43.	InvIT - Infrastructure investment trust
44.	IPO - Initial public offering
45.	IT/ITES - Information Technology / Information Technology Enabled Services
46.	IRDA - Insurance Regulatory and Development Authority of India
47.	KKR - Kohlberg Kravis Roberts & Co
48.	LPs - Limited Partners
49.	M&A - Mergers and Acquisitions
50.	MAT - Minimum Alternate Tax
51.	MFI - Micro Finance Institution
52.	MOPE - Motilal Oswal Private Equity
53.	MSME - Micro, Small and Medium Enterprises
54.	NASSCOM - National Association of Software and Service Companies
55.	NBFC - Non Banking Financial Company
56.	NCLT - National Company Law Tribunal
57.	NHAI - National Highway Authority of India
58.	NIIF - National Investment and Infrastructure Fund
59.	NPA - Non-performing Asset
60.	NRI - Non Resident Indian
61.	OCI - Overseas Citizen of India
62.	OMERS - Ontario Municipal Employees Retirement System
63.	OTPP - Ontario Teachers' Pension Plan
64.	PAN - Permanent Account Number
65.	PE/VC - Private Equity/Venture Capital
66.	PIF - Public Investment Fund of Saudi Arabia
67.	PIPE - Private investment in public equity
68.	PLI - Production-linked incentive
69.	PSP - Public Sector Pension Investment Board
70.	QIP - Qualified Institutional Placement
71.	RBI - Reserve Bank of India
72.	RE - Real estate
73.	REIT - Real estate investment trust
74.	RCP - Retail and Consumer Products
75.	RERA - Real Estate Regulatory and Development Act
76.	ROIC - Return on invested capital
77.	SaaS - Software as a service
78.	SBI - State Bank of India
79.	SEBI - Securities and Exchange Board of India
80.	SPAC - Special purpose acquisition company
81.	SWF - Sovereign wealth fund
82.	TCS - Tax collected at source
83.	TDICI - Technology Development and Information Company of India
84.	TDS - Tax deducted at source
85.	ToT - Toll operate transfer
86.	VSV - Vivad Se Vishwas
87.	WHT - withholding tax

Appendices

About EY's Private Equity Services

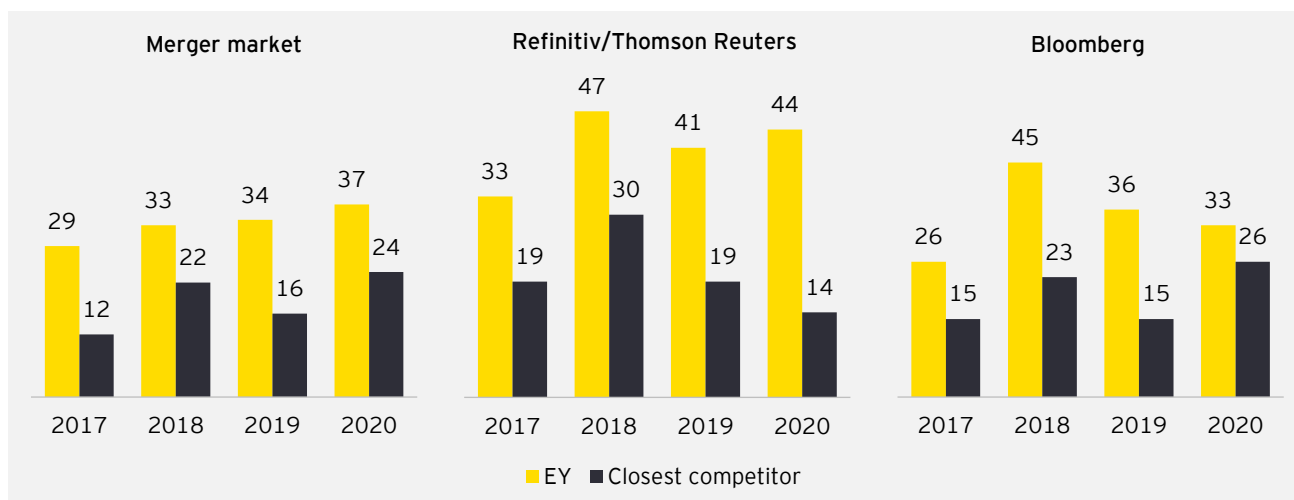
EY has been working with the private equity industry for more than 25 years, with approximately 25,000 seasoned professionals worldwide dedicated to the industry and its business issues. EY serves 74% of the top 300 PE firms included in the Global PEI 300 firms list. Private equity firms, portfolio companies and investment funds face complex challenges. They are under pressure to deploy capital amid geopolitical uncertainty, increased competition, higher valuations and rising stakeholder expectations. Successful deals depend on the ability to move faster, drive rapid and strategic growth and create greater value throughout the transaction life cycle. EY taps its global network to help source deal opportunities and combines deep sector insights with the proven, innovative strategies that have guided the world's fastest growing companies.

In India, EY is among the leading providers of advisory, tax, transactions and assurance services. The organization was ranked as the number one professional services brand for TAS services in India in 2017*, which is a testimony to our relentless commitment to deliver exceptional client service and create a better working world. EY has offices spread across 11 cities in India. Worldwide, our 270,000+ people across 150+ countries and 700+ cities are united by our shared values and their unwavering commitment to quality.

- ▶ EY's India Private Equity Services Practice has been among the top advisors for private equity deals over the past ten years. EY has been awarded the "Most Active Transaction Advisor" award by Venture Intelligence for 2009-2013 and also the "Investment Bank of the Year, Private Equity" award by VC Circle in 2012 and 2017 as well as for M&A in 2018.
- ▶ EY's India Private Equity Services Practice provides value to PE funds and their portfolio companies through its deep sector and service expertise. EY India is organized around key industry verticals in a matrix structure that enables us to offer an unparalleled blend of industry expertise and functional skills. We actively track about 15 sectors with sector leads driving our penetration in each of those sectors.

Exhibit 92

EY has been ranked as #1 Financial Advisor for over a decade across Mergermarket, Thomson Reuters and Bloomberg. Our position as the foremost M&A advisor in the Indian mid-market enables us to create a robust deal origination pipeline for our PE/VC clients, acting as the tip of the spear of what is India's dominant PE Services practice.**



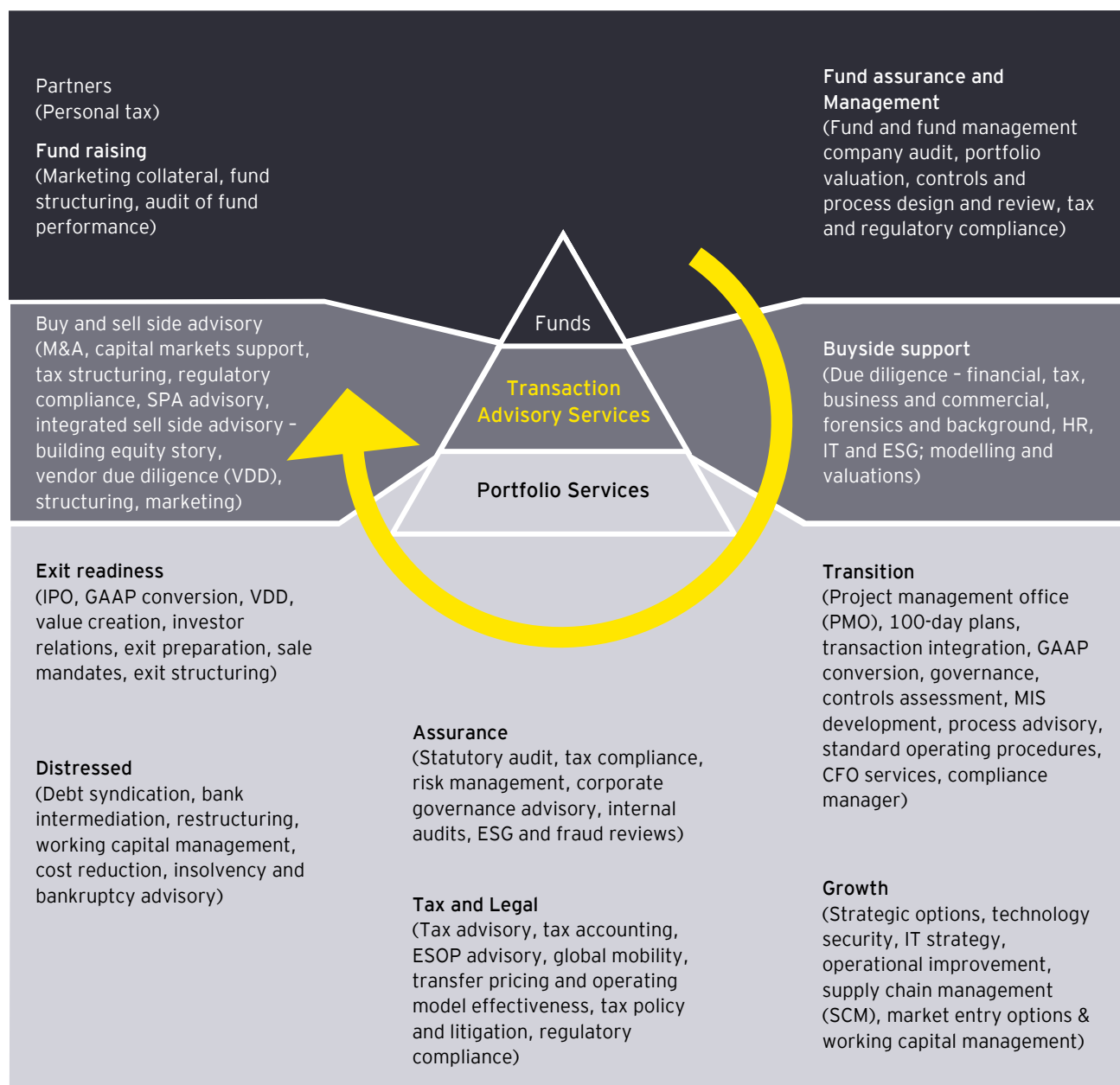
* as per Global Brand Survey, conducted by an independent research agency commissioned by EY

** for most number of deals

- ▶ # 1 advisor on deal count in Financial advisory league tables across databases
- ▶ Consistently maintaining a significant lead from closest compete
- ▶ Adjudged as the Investment Bank of the Year - PE, 2020 by VCCircle

We offer an array of services to Private Equity funds and their portfolio/investee companies through our various service lines.

Exhibit 93



Delivering issue-based solutions to the entire PE enterprise

EY has established six distinct solutions reflecting the holistic set of challenges that PE firms face across all levels of the organization - the management company, the funds, and their portfolio companies.

Exhibit 94

Operating model and automation	Global compliance and reporting	Deal origination
Alternative asset managers need to drive efficiency through multi-year target operating models and infrastructure strategies to remain competitive. These align with strategic growth plans by leveraging vendor and service provider activities. EY defines and monitors data analytics and key performance indicators to annually assess data governance and risk against these target models.	Large asset managers have hundreds of non-US legal entities in multiple countries, and continually create new ones - all with different compliance obligations. Many are outsourced and require local knowledge. EY gathers the data, leverages local EY teams familiar with accounting and tax laws, performs data analytics to identify trends, risks and opportunities and monitors filing requirements.	The intense competition for a limited number of deals raises stakes to win for private equity firms. A proprietary investment approach, driven by sector insights, enables firms to confidently place winning bids that generate appropriate returns. EY's global origination team turns opportunities into actionable strategies. Our proprietary knowledge and advanced analytics help develop strategic capital options to help firms achieve success.
Integrated due diligence	Value creation	Exit readiness and IPO
Private equity firms conduct diligence on assets across strategic, financial, tax, operational and HR issues. Firms historically used issue-based advisors, managing different parties and consolidating findings at the end of the process. Employing EY's integrated diligence approach at the early stages of a transaction provides more effective, comprehensive diligence on an asset, giving firms a distinct competitive advantage.	Private equity firms face increasing pressure to attract fresh capital. This requires generating greater investment returns and demonstrating a consistent track record in creating value in their portfolio. EY's value creation solution addresses these challenges across all five stages of the deal life cycle, including deal origination, diligence, inception, optimization and exit strategy.	Private equity firms must plan exits rigorously in order to successfully monetize their investment during the exit process in today's challenging environment. Executives must identify key short- and long-term priorities prior to undertaking an IPO or alternative transaction. EY can advise deal teams and portfolio companies on exit alternatives, assess exit readiness, prepare a business for exit/IPO and create a value story for targeted buyers.

Focused advisory solutions for private equity backed portfolio companies

IPO readiness: The first step in the IPO value journey	<p>EY's IPO readiness service is the first step in what we describe as the "IPO value journey" and is designed to guide the client through a successful transformation from private to public status. Achieving readiness will ensure a strong debut in the capital markets. Getting IPO readiness right means implementing change throughout the business, organization and the corporate culture. As a public company, the client will be subject to increased filing requirements, transparency, compliance, scrutiny by investors and analysts and overall accountability for delivering on promises. Successful businesses start to prepare typically 12 to 24 months before the IPO – in many cases with an IPO readiness assessment.</p>
Performance improvement	<p>Depending on objectives and business context, EY helps the client develop a combination of short-term and long-term strategies to reduce costs, optimize process and bring in efficiency and effectiveness across all layers of business to deliver positive impact on EBITDA by ensuring optimal utilization of both tangible and intangible resources.</p>
Analytics: Generate insights to make smarter, faster decisions	<p>EY helps clients build data and information strategies using various analytics tools to deal with big data to address various areas of business, ranging from opportunity sizing and feasibility, operations and customer modelling, executive decision making, merger acquisition and valuation. EY helps across the capability value chain ranging from strategy, implementation, hosting and running the analytics functions.</p>
Growth Navigator: Achieving your growth ambitions	<p>Having a broader perspective on the drivers of growth in your business and finding innovative ways to accelerate and sustain that growth can give you a competitive advantage. That's why we've developed EY Growth Navigator™, an interactive experience that uses the EY 7 Drivers of Growth to help you and your leadership team assess your business's current and aspirational position, and create a strategic road map to help you get there.</p>
Route to Market (RTM): Deliver a successful strategy for your business	<p>EY identifies focused opportunities for optimizing cost and growth after full assessment; designs new RTM, including different approaches for different segments (customers, regions, seasonal demand); identifies the optimal concessionaires' model taking into account different distribution approaches; and supports the implementation of the RTM by providing IT specs and additional services (e.g., stock management options).</p>
Cyber security	<p>EY assists internal teams to build cyber awareness and conduct company-wide training, as well as training of board of directors. EY supports in building regulations and compliance requirements with audit and readiness services. EY helps transform the security program and integrate information security and IT risk across the enterprise as well as help implement globalized data protection strategies to protect information that matters, while considering regulatory and industry compliances.</p>

ESG Integration

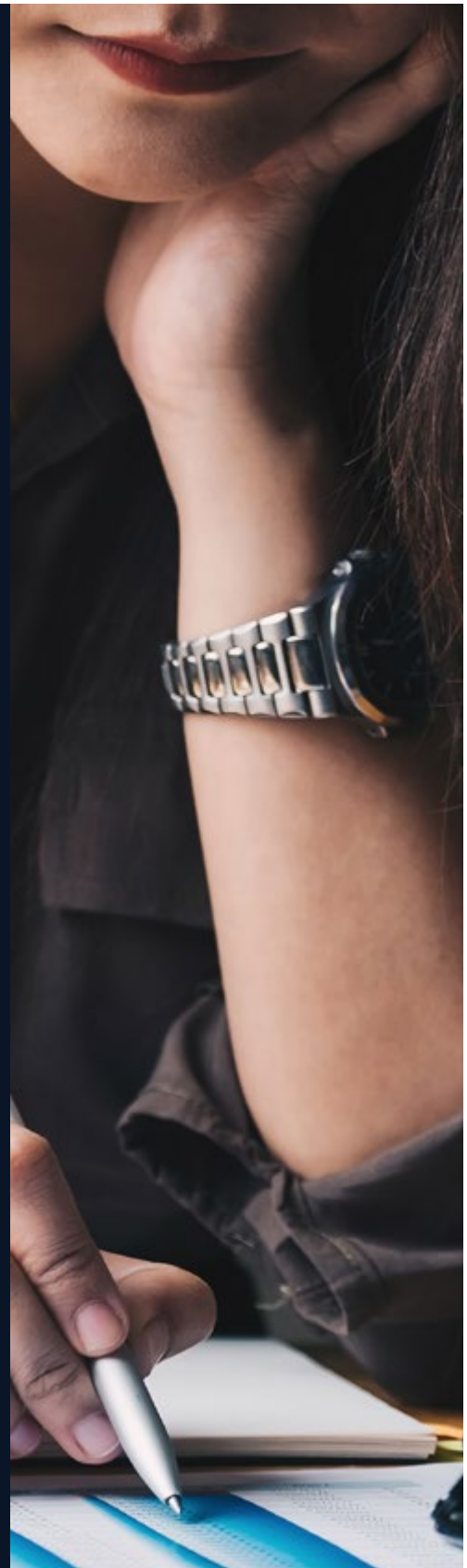
The Next Big
Imperative for Private
Equity Firms

Background

The past year has been a landmark year in the history of mankind with the COVID-19 pandemic overpowering the might of multi-trillion economies and years of science and research. The pandemic also exposed the fragility and vulnerabilities of our current business and economic systems. In India, the pandemic pushed the country into recession for the first time with a steep contraction of about 24%. It has also made us rethink our current models of growth and the need to build in greater resilience and sustainability.

While we continue to battle the pandemic, there are greater challenges of biodiversity loss and climate change, waiting in the wings, which would not only paralyze our economies but pose existential threat to businesses. To prepare for these larger challenges we not only need to adapt to the new normal but also build back better at an unprecedented speed.

Currently, the world is at the cusp of a fundamental shift which will reshape financing. UN Principles of Responsible Investment now has 3,805¹ signatories varying from asset owners, investment managers and service providers with total Assets Under Management (AUM) of US\$ 100 trillion². This includes 9 Indian signatories with 6 of them joining in 2020³. The climate risk and opportunity guidelines promoted by Task Force for Climate Related Disclosures now has 1,800+ supporters across 78 countries⁴. This includes 36 supporters from India out of which 24 joined in 2020 and 2021⁵. The growth and adoption of such investor led initiatives on self-regulation around ESG practices is fast becoming the new norm required by General Partners (GPs), Limited Partners (LPs), peers, and the industry to stay competitive.



1. <https://www.unpri.org/signatories/signatory-resources/signatory-directory>
2. <https://www.unpri.org/annual-report-2020/how-we-work/building-our-effectiveness/enhance-our-global-footprint#:~:text=The%20collective%20AUM%20represented%20by,investors%20and%20337%20service%20providers.>
3. <https://www.unpri.org/signatories/signatory-resources/signatory-directory>
4. <https://www.fsb-tcfd.org/support-tcfd/>
5. <https://www.fsb-tcfd.org/supporters/>

Building Back Better In The New Normal

ESG Building Blocks

How do you influence the environment and what ability do you have to mitigate risks that could cause it harm?

Environmental

- Climate change
- Pollution
- Resource Management
- Water Usage
- Energy Efficiency
- Clean Energy Technologies
- Biodiversity

What relationships do you have with other businesses and communities and what is your attitude towards equality, diversity and human rights?

Social

- Equality & diversity
- Human rights
- Supply Chain Management
- Community Relations
- Data Protection and Privacy
- Product Safety and Liability

How do you manage your internal affairs to ensure accurate and transparent accounting method and the avoidance of conflicts of interests and illegal practices?

Governance

- Management structure & Compensation
- Accounting and Auditing Standards
- Board Leadership, Diversity and Independence
- Succession Management
- Shareholders rights
- Corruption & Bribery
- Risk Tolerance

ESG investing is fast emerging as a tool to build resilience and mitigate risks across investments. Coupled with non-financial reporting, it has helped investors unearth hidden risks in environmental and social aspects which were earlier not considered through conventional mechanisms.

1 Improved risk management and better performance

Investments in non-ESG funds are increasingly perceived as riskier. According to CDP (earlier known as the Carbon Disclosure Project), a global sustainability disclosure platform, **60 Indian companies disclosed that climate risks would have a financial impact of US\$ 98 billion⁶**. On the other hand, ESG indices (such as S&P BSE 100 ESG India Index and MSCI India ESG Leaders Index) and ESG funds have been outperforming most of the conventional peers.

6. CDP India Annual Report 2020 (1 USD = INR 72.57 on 17th March 2021)

2 Syncing with Investor Interests

General Partners (GP) and Limited Partners (LP) are increasingly considering ESG factors. In certain cases, investors work with the investees to create sustainable value for the company. A case in point is the investment of Leading Global PE fund in one of the largest Chinese infant formula manufacturer, a year after the manufacturer faced the melamine milk scandal. This **ESG focused approach** of the PE, to create social value, enabled it to generate **2.3x returns** on its 5-year investment.⁷

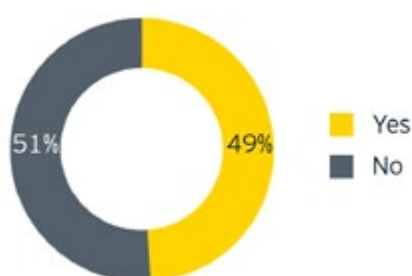
3 Growing ESG Urgency

According to EY's Global Private Equity Survey 2021, over two-thirds of investors point towards looking at ESG risks and opportunities very seriously for their investment decisions. This comes as a result of growing stakeholder focus on ESG.

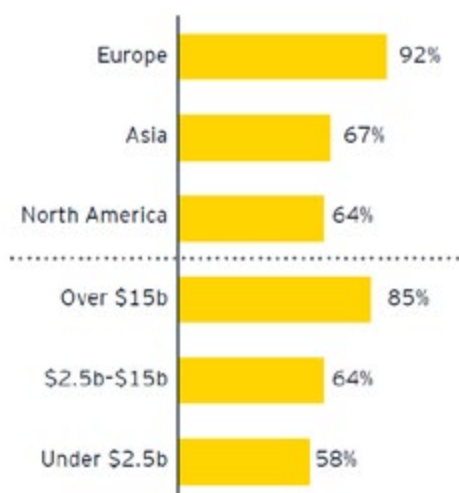
4 Increased regulations

In 2020, EU recently released the EU Taxonomy for Sustainable Finance which was followed up with the UK Government mandating TCFD aligned disclosures. Recently, the **Indian Government also joined the International Platform for Sustainable Finance (ISPF)** which promotes development of sustainable finance regulations to encourage private capital mobilization for environmentally sustainable investments.

Do you invest in ESG products?



Who has an ESG policy?

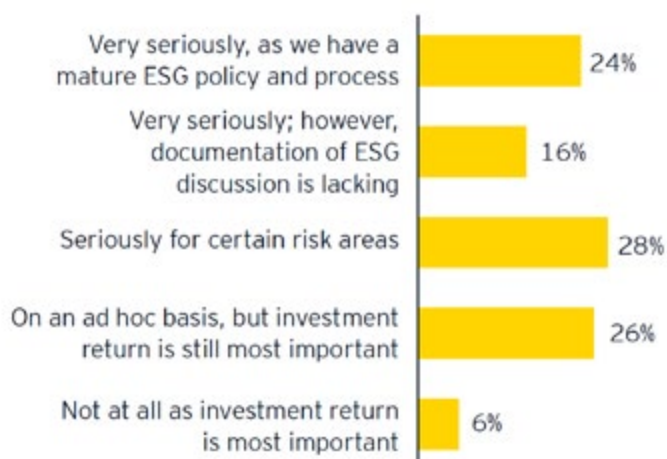


7. <https://www.blackpeakgroup.com/2020/06/private-equity-and-esg/>

What are the components of an ESG Policy?



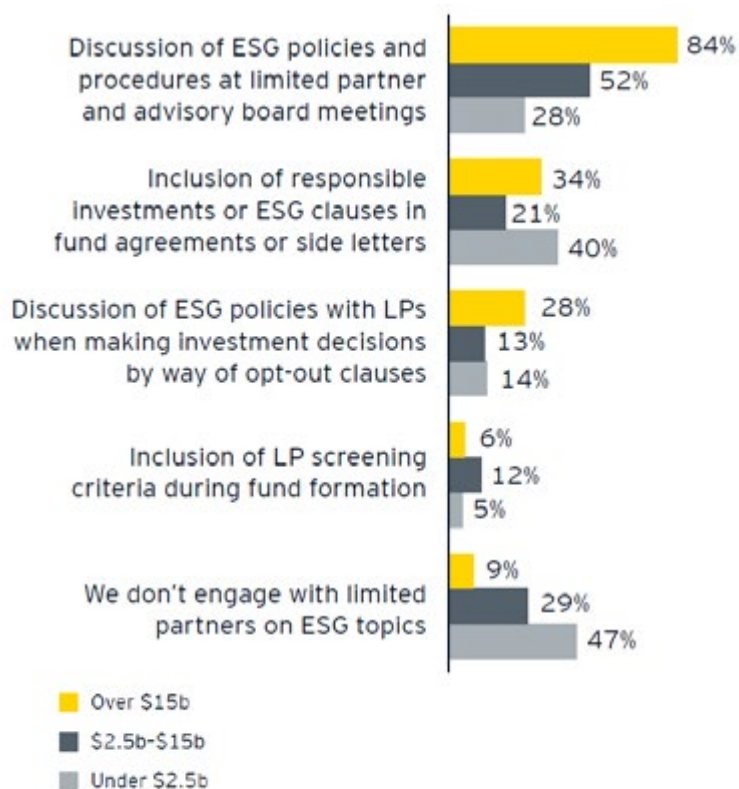
How seriously are ESG risks and opportunities contemplated in the investment decision making process?



What are the top ESG risks you include in your decision making?



How are you engaging with limited partners on ESG topics?



Source: EY 2021 Global Private Equity Survey



ESG focused investing also brings with it the advantage of greater access to investors who look at ESG as a **strategic opportunity**. Sound ESG practices have also led to lower cost of capital in certain cases. It also allows investors to look at scenarios through a sustainability lens and make profits while creating positive impact. For example, an International Finance Corporation (IFC) report suggests that India has a US\$ 3.1 trillion climate investment opportunity by 2030.



Source: Climate Investment Opportunities in South Asia, IFC

Working Towards ESG

The business case for sustainable finance has materialized at an extremely crucial time when the costs of inaction have proved to be far more. The pull of opportunity and push of risk are converging to force the sector into action, yet there is still a lot to be done, not only to address climate change but also promote wider sustainable growth.



Risk

The financial sector must understand sustainability risks, which are risks arising from the failure to embrace any of the SDGs, and/or the risks arising in the transition to achieving them and thus a sustainable future (for climate risk these would be physical and transition risk). This is so that capital can be allocated to manage the risks, and to pursue the opportunities and returns brought along by the transition to a sustainable future.



Returns

Financial services will have a critical role to play in accelerating the transition to a sustainable future, which will create commercial opportunities for firms well placed to take advantage of structural shifts. It will be important for companies to position themselves relative to their peers to identify opportunities and assess the readiness for transition.



Reporting

To understand the risks and investment opportunities stemming from transition pathways, the financial sector will need to improve the quality and quantity of reporting. This will require investment in data, information and mechanisms needed for sustainability-related financial and non-financial disclosures as well as promoting global alignment of disclosures through the use of common frameworks (such as the TCFD framework in the case of climate change).



Global Coordination

The transition to a sustainable future cannot be addressed in isolation and globally coordinated efforts will be required to overcome the barriers to investment in both developed and emerging economies. Policy and regulation will be important coordinators of these efforts enabling capital flows to finance the transition and for commercial opportunities are to be realised on a global scale.



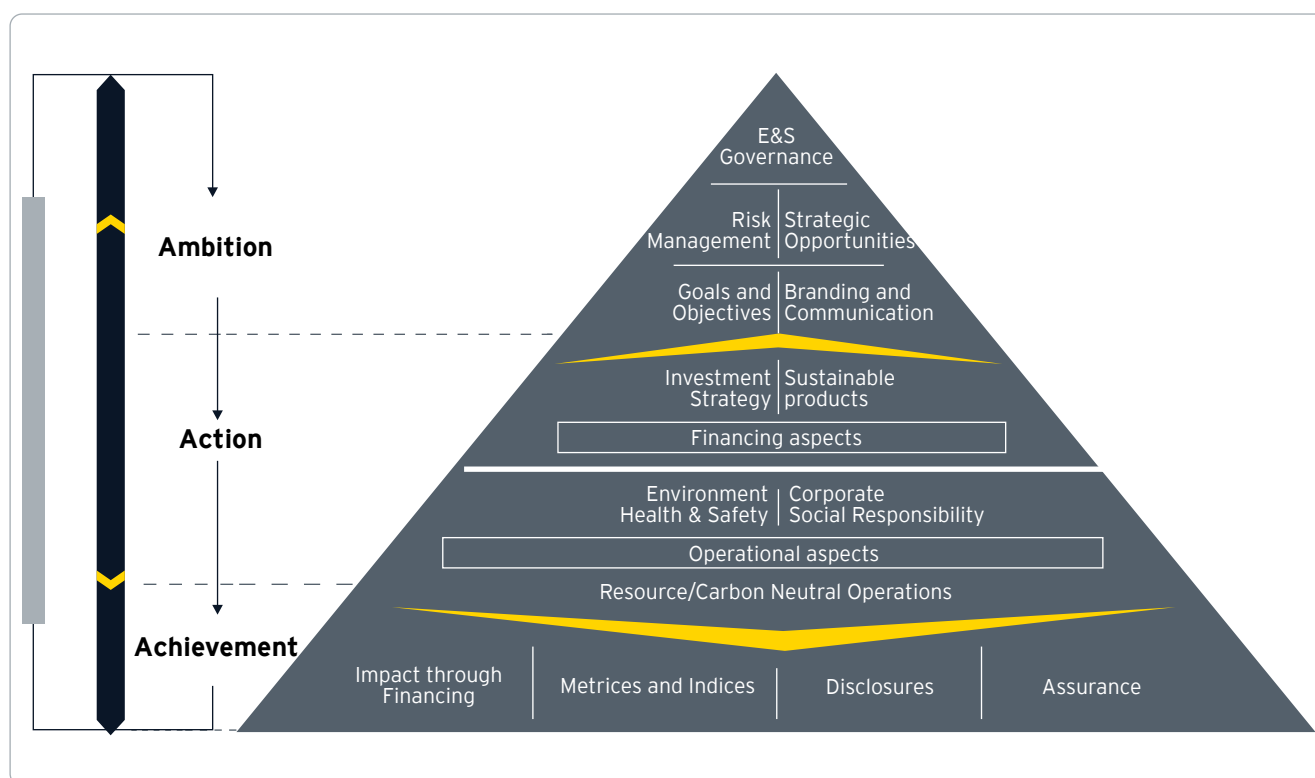
Products & Services

Opportunities for institutions exist primarily in the introduction of new products and services and the improvement of reputation through the focus on purpose and long term value. To harness these opportunities, key stakeholders need to take account of growing sustainability demands and requirements.

How Can EY Help?

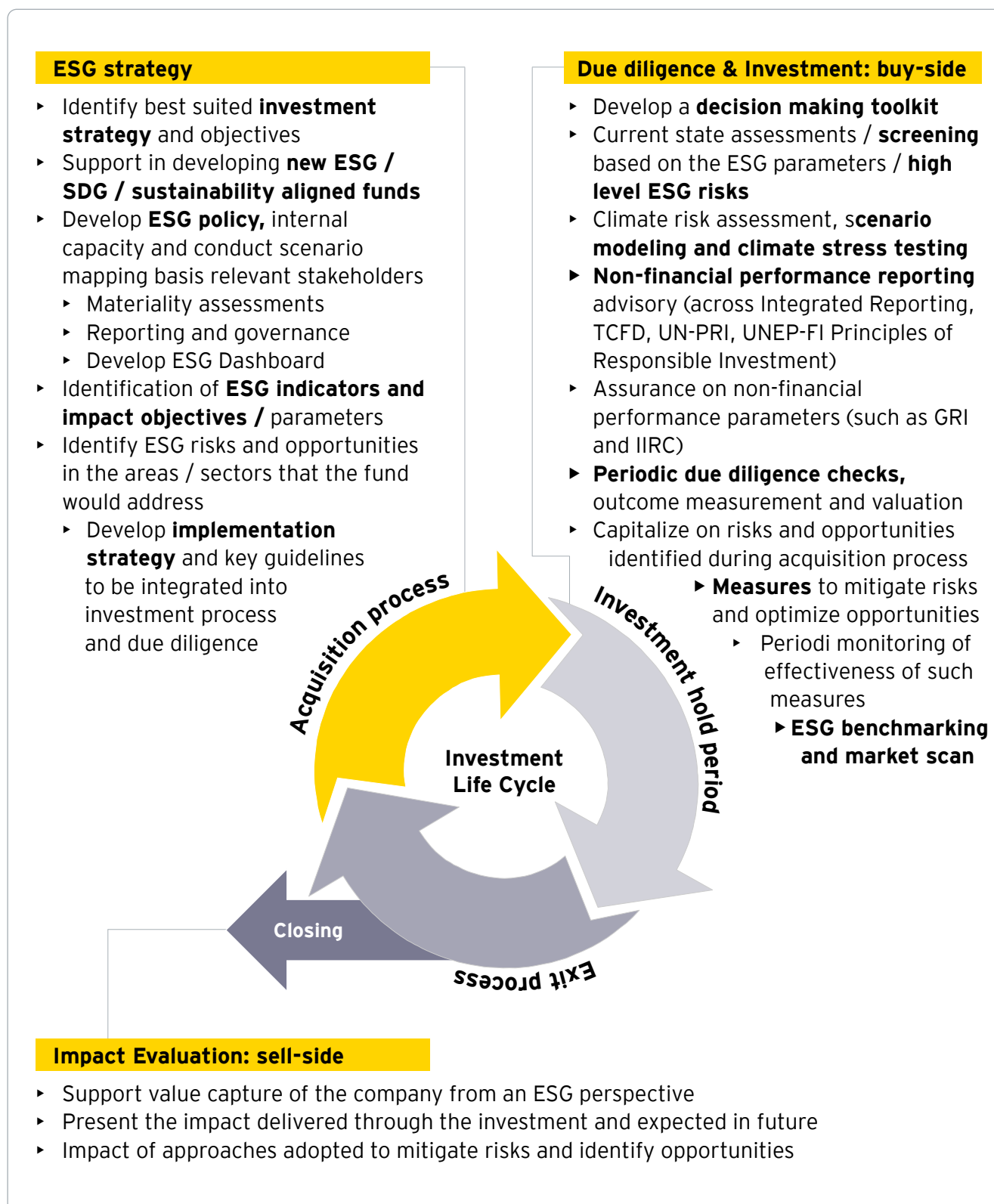
As private equity firms integrate ESG risks and opportunities into their decision-making, EY can provide support throughout the entire investment life cycle, capturing efficiencies and driving the most value for our clients. EY can advise private equity funds during acquisition and exit due diligence, which can be delivered alongside financial due diligence engagements. We tailor our ESG strategy services to the portfolio company as the fund seeks to generate a strong return to investors.

EY delivers value to its clients through the 'Sustainable by Design' Framework which has been adapted specifically for the finance sector in form of the '3A ESG Framework' which revolves around 14 core elements of **Ambition, Action and Achievement**.



Source: EY research

With EY's 3A ESG Framework as the foundation, we can support clients in the PE sector to deliver a range of services across the value chain.



Why EY?

EY Sustainable Finance

Leading Initiatives

EPIC: build out of non-financial metrics including innovation and human capital.

Long Term Value: Helping companies understand and articulate how they generate shareholder value.

WEF ESG 'scorecard' - IBC Long-term Prosperity Project: Proposal recommending a common set of universal ESG metrics / disclosures on non-financial factors.

UNEP FI: EY supports the working groups for Positive Impact Finance.

Thought Leadership



EY on Carbon Neutrality

“

Protecting the planet for future generations is an important issue for EY people and becoming carbon neutral this year is a real step forward on the EY sustainability journey. As an organization that spans more than 150 countries with varying views and ambitions on climate change, we recognize this is no easy feat. However, with over 284,000 EY people who are dedicated to our purpose of building a better working world, EY has a once-in-a-lifetime opportunity to take immediate action to create sustainable, inclusive growth for generations to come.

”

Carmine Di Sibio, EY Global Chairman and CEO, January 2020

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150+
countries



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Select Credentials - Financial Institutions

- Green Financing Strategy
- GHG emissions framework development
- ESG assessment of a fund
- ESG Due Diligences across sectors
- Climate Risk assessment of portfolio
- Sustainable Finance Disclosure Assurance
- Climate Change Due Diligence for investments in India
- ESG due diligence of potential investee (pre-investment)
- ESMS corporate roll-out program



ESG team



Chaitanya Kalia

Partner and National Leader,
Climate Change and Sustainability
Services (CCaSS), EY India
Chaitanya.Kalia@in.ey.com



Shailesh Tyagi

Partner,
Climate Change and Sustainability
Services (CCaSS), EY India
Shailesh.Tyagi@in.ey.com



Vivek Soni

Partner and National Leader - PE
Services, EY India
Vivek.Soni@in.ey.com



Chandan Bhavnani

Senior Manager, Climate Change and
Sustainability Services (CCaSS), EY India
Chandan.Bhavnani@in.ey.com

Contacts

» Private Equity Services Practice

Vivek Soni
Partner and National Leader
E: Vivek.Soni@in.ey.com

Narendra Rohira
Partner, Transaction Tax
E: Narendra.Rohira@in.ey.com

Subramaniam Krishnan
Partner, Tax & Regulatory Services
E: Subramaniam.Krishnan@in.ey.com

Rajan Satija
Director
E: Rajan.Satija@in.ey.com

Nachiket Deo
Partner, Transaction Tax
E: Nachiket.Deo@in.ey.com

Tejas Desai
Partner, Tax & Regulatory Services
E: Tejas.Desai@in.ey.com

» Strategy and Transactions (SaT)

Amit Khandelwal
Managing Partner
SaT
E: Amit.Khandelwal@in.ey.com

Ajay Arora
Partner and National Leader
Investment Banking Advisory
E: Ajay.Arora@in.ey.com

Navin Vohra
Partner, Valuation
Modelling and Economic Services
E: Navin.Vohra@in.ey.com

Kuldeep Tikkha
Partner and National Leader
Transaction Diligence
E: Kuldeep.Tikkha@in.ey.com

Sailesh Rao
Partner and National Leader
Corporate Finance Strategy
E: Sailesh.Rao@in.ey.com

» PE Value Creation and Operational Transaction Services

Naveen Tiwari
Partner and National Leader
Operational Transaction Services
E: Naveen1.Tiwari@in.ey.com

» Research and Insights

Allwyn D'Souza
Senior Manager
E: Allwyn.Dsouza@in.ey.com

» Brand, Marketing and Communications

Pooja Bhalla Mathur
Vice President
E: Pooja.Mathur@in.ey.com

Rohila Dhiman
Assistant Manager
E: Rohila.Dhiman@in.ey.com

Arif Jamaal
Assistant Manager
E: Arif.Jamaal@in.ey.com

IVCA

About IVCA

The Indian Private Equity & Venture Capital Association (IVCA), is the apex body promoting the Alternative Investment Funds (AIFs) in India and promotes stable, long-term capital flow (Private Equity (PE), Venture Capital (VC) and Angel Capital) in India.

With leading VC/ PE firms, institutional investors, banks, corporate advisers, accountants, lawyers and other service providers as members, it serves as a powerful platform for all stakeholders to interact with each other. Being the face of the Industry, it helps establish high standards of governance, ethics, business conduct and professional competence.

With a prime motive to support the ecosystem, it facilitates contact with policy makers, research institutions, universities, trade associations and other relevant organizations. Thus support entrepreneurial activity, innovation and job creation.

IVCA contacts

Rajat Tandon
President, IVCA
E: Rajat.Tandon@ivca.in

Aakriti Bamniyal
Vice President, IVCA
E: aakriti@ivca.in



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