PE/VC Agenda

India Trend Book 2020

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Contents

Foreword

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Despite headwinds originating from global trade, geo-political factors and significant domestic concerns over credit availability and slowdown in growth, the Indian PE/VC industry has continued to repose its faith in the '*India story*', investing a record high for the third year in a row. At US$48 billion (in aggregate including infrastructure, real estate, PIPE and credit investments), Indian PE/VC investments grew by 28% y-o-y in 2019.

As the Indian PE/VC sector moves towards global norms, its growth has been deep and spread across most asset classes and deal types. Some of the highlights are:

- Buyouts grew by ~56% to notch up over US$16 billion of PE/VC investments in 2019
- Start-up investments grew by 22% to US$7.9 billion
- Growth capital deals grew by 9% to US$15.5 billion
- PIPE deals and credit investments grew in value by 43% and 19%, respectively
- Infrastructure investments grew 3.2x y-o-y to US$14.5 billion
- Real estate investments were up 33% y-o-y to US$6.1 billion

Importantly, exit activity is also picking up with exits over the decade aggregating to ~40% of the investments over the same period.

PE/VC investors have deployed record amounts in each of the last three years with a significant portion (exceeding 80%) of this being of foreign origin. PE/VC is today the single largest source of FDI to the country, exceeding all other sources put together.

The PE/VC industry contributes very significantly to productive capital formation, very aptly highlighted in the Spotlight section of this report, with productive capital formation being more than 3/4th of aggregate PE/VC investment (data over the last three years). The PE/VC industry is thus a pillar of strength in the Indian economy and is leading the charge towards 'democratization of entrepreneurship'. It is playing a meaningful role in helping solve some of the problems facing the country today and is providing the right momentum to the Indian economy where the companies backed by them are championing innovation, creating new jobs, mentoring new entrepreneurs and bringing the right solutions to help promote financial inclusion, build better infrastructure, increase renewable energy and promote capital efficiency in the Indian economy.

As I look ahead, I believe two factors will be critical in seeing a continued growth in the sector and its ability to power the Indian economy to its US$5 trillion target. The first relates to the government staying focused on improving the 'ease of doing business' and providing a globally competitive, stable and predictable policy and tax regime. This is important as global capital is highly mobile and eventually targets those countries where the track record of post-tax returns is strong. The second involves building local LP pools (including pension funds) that can invest into Indian PE/VC funds, thus broad-basing the current pools that are predominantly foreign sourced.

I congratulate the EY team for putting together this excellent report and for their detailed work.

I thank you for your support and hope all of you will continue to participate in IVCA initiatives to further strengthen the private equity and venture capital ecosystem.

Preface

PE/VC in India: third consecutive year of outperformance

After two consecutive record-setting years, Indian PE/VC investments have notched another new all-time high in 2019, crossing US$48 billion. Over the past three years, PE/VC investments in India have grown at a CAGR of 44%. Cumulative PE/VC investments received during this period are almost equal to the investments received in the preceding 10-year period between 2007 to 2016. To put the numbers in context, post the 2008 global financial crisis (GFC), India received PE/VC investments worth ~US$198 billion between 2009-2019, of which the last three years, from 2017 to 2019, have accounted for 56%.

Similarly, PE/VC exits too have had a good run over the past three years. In each of the last three years, PE/VC funds have clocked exits of over US$10 billion. From 2009 to 2019, Indian PE/VC exits aggregated ~US$82 billion, of which 63% have come in the last three years. Even after adjusting for the one-off Flipkart-Walmart deal which saw its early investors notch up a US$16 billion exit, exits over the last three years have accounted for 43% of the aggregate value of all PE/VC exits between 2009 to 2019.

Fund raising by PE/VCs too increased significantly, by 45% to US$11.7 billion in 2019 compared to US$8.1 billion in 2018, further adding to the existing high levels of dry powder available with PE/VC funds for deployment in India.

Exhibit 1

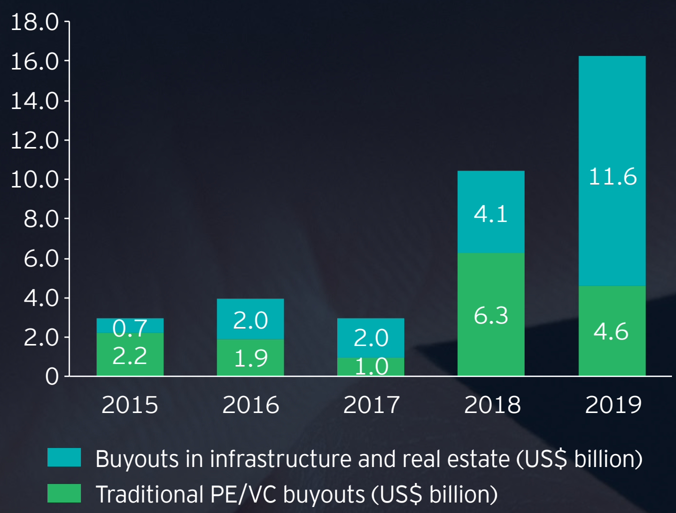
	2019	2018	2017
Investments			
Value (US$m)	48,018	37,416	26,174
Number	1,037	769	595
Funds raised			
Value (US$m)	11,687	8,092	5,774
Number	56	51	44
Exits			
Value (US$m)	11,108	27,048	13,052
Number	155	177	260

Source: EY analysis of VCCEdge data

The Global Limited Partners Survey[1] conducted every year by EMPEA has consistently ranked India among the top three most-attractive emerging market destinations for LPs globally to make GP investments in the last four years. This correlates well with the consistent increase in sums raised by India-focused funds. On a y-o-y basis, in 2019, Indian PE/VC investments grew by 28% and 35% in terms of value and volume, respectively. However, unlike the previous years, the growth drivers in 2019 were different.

While the consistent growth in buyout deals has been a major driver of the overall growth of PE/VC investments since the past three years, in 2019, there was a slight difference in the nature of these deals. Unlike in 2017 and 2018, where the growth in buyout activity was in the traditional PE/VC asset class, 2019 saw growth in the buyout activity in the infrastructure and real estate asset classes. Due to the large deals in the infrastructure and real estate asset classes, buyouts in 2019 emerged as the largest type of PE/VC investment by value for the first time in India, moving closer with similar trends globally.

Exhibit 2: Trend in buyout deals across asset classes between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

Another major standout trend that emerged in 2019 was the rise of PE/VC interest in the infrastructure sector which accounted for 30% of all PE/VC investments during the year and grew approximately three times over the previous year. Of this US$14.5 billion invested in the infrastructure asset class in 2019, ~US$7.1 billion came by way of investment into InvITs, the tax efficient structure that seems to have won the acceptance of global pension funds and sovereign wealth funds, that continue to hunt for predictable, long-term yield.

PE/VC exits: taking a breather after a stellar 2018

In 2019, PE/VC exits were comparatively muted, climbing down ~59% from last year. By volume, the number of deals have also gone down by 12% on a y-o-y basis. Adjusting for the one-off US$16 billion Walmart-Flipkart deal, India's largest ever PE/VC exit, PE/VC exits in 2019 were at par with 2018.

Rise in uncertainty and business risk premium on account of global factors like friction in global trade, Brexit as well as domestic concerns like slowing growth, liquidity and credit expansion weighed on the valuation expectations, dampening

[1] Global Limited Partners Survey: Investors' Views of Private Equity in Emerging Markets 2019

the velocity of both secondary and strategic deals which were the primary drivers of the good performance recorded last year.

While improvement in capital markets helped the pickup in open market exits, IPO activity remained lackluster with just eight PE-backed IPOs hitting the bourses compared to 13 last year. Nonetheless, 2019 saw India's maiden REIT IPO offering, backed by the Embassy/Blackstone consortium. This was a lighthouse event for the Indian real estate private equity sector, which, over the past three-to-four years, has seen significant amounts of PE investment into portfolios of rent generating commercial properties such as office, retail malls and industrial warehousing. We remain confident that India's first successful REIT listing will pave the way for corporates, investors and even government-controlled entities with portfolios of quality yield generating assets to follow with new REIT listings.

Outlook

The last three years have been impressive for India in both investments as well as exits. However, we are projecting some moderation in the growth of investments from about 44% in 2017-2019 to about 15%-20% in 2020 as investors have become a little circumspect and also because of the large base effect of US$48 billion invested in 2019. Notwithstanding the decline in GDP growth estimates by various sources, in the global context, India is expected to remain an important destination for PE/VC investments and as yields in OECD countries continue to decline, asset managers are expected to increase allocation to emerging markets. India is likely to be an important beneficiary of this shift. As per the estimates published by Preqin[2], globally PE/VC funds are sitting on dry powder of almost US$2.5 trillion. With India forming a major part of the investment strategy for many global funds, we are likely to see a meaningful share of the incremental dry powder for emerging markets allocation being deployed in India.

The momentum in buyout deals is expected to continue due to three factors: succession planning by family-owned businesses, divestment of divisions by conglomerates, and venture capital-backed portfolio companies where the VCs have more than 51% stake and are looking to exit. We expect most private equity investors to continue going into the same five sectors: financial services, IT, e-commerce, retail consumer finance, and healthcare. Infrastructure and real estate should continue to attract strong interest from real asset economy investors.

Spurred by the dislocation in the credit markets, we expect most fast-growing private companies to be open to doing growth equity trades with PE/VC investors. Valuations are expected to remain stable in 2020, especially for start-ups and small- to mid-cap companies.

We also expect 2020 to be a good year for exits because of the buildup of a huge stock of small- and mid-cap companies over the past 18 months, where private equity has a substantial stake. Whether or not an IPO window opens, we expect to see more secondary deals in 2020.

We believe 2020 is going to be another big year for infrastructure and real estate sectors, which accounted for almost one-third of all the private capital invested into India in 2019. More money has entered into the infrastructure sector this year than the previous seven years combined, largely because of the new InvIT structures, which allow investors seeking yield to hold assets with minimum tax leakage. We hope that international yield seekers will come to India to invest in highly-rated asset-backed cash flow opportunities as corporates, investors and even government-controlled entities owning infrastructure asset portfolios look to monetize their assets via InvITs.

Thanks to direct and indirect pressure created by India's new insolvency and bankruptcy laws, we also project an increase in credit investments, including structured credit for corporates and in portfolios of loans that have gone bad or are stressed. Until now, this has involved large assets that have mostly attracted strategic players. Going forward, as the average size becomes more granular, we expect to see more interest from PE firms, which are sensing the opportunity and are setting up credit teams in India.

On the downside, substantial uncertainty on account of global factors like US-China trade issues, pandemic concerns around China-origin Coronavirus and its potential impact on global supply of goods and services are expected to act as significant headwinds. Domestic issues like slowdown in growth, lack of liquidity and credit expansion are projected to continue well into 2020. The response of the PE/VC investor community in the wake of these downside risks is likely to be influenced by pro-active steps that our government will take to ensure policy stability and continuing reforms.

We hope you find this report to be a useful read.

Warm Regards

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[2] https://www.ft.com/content/2f777656-9854-11e9-9573-ee5cbb98ed36

Section

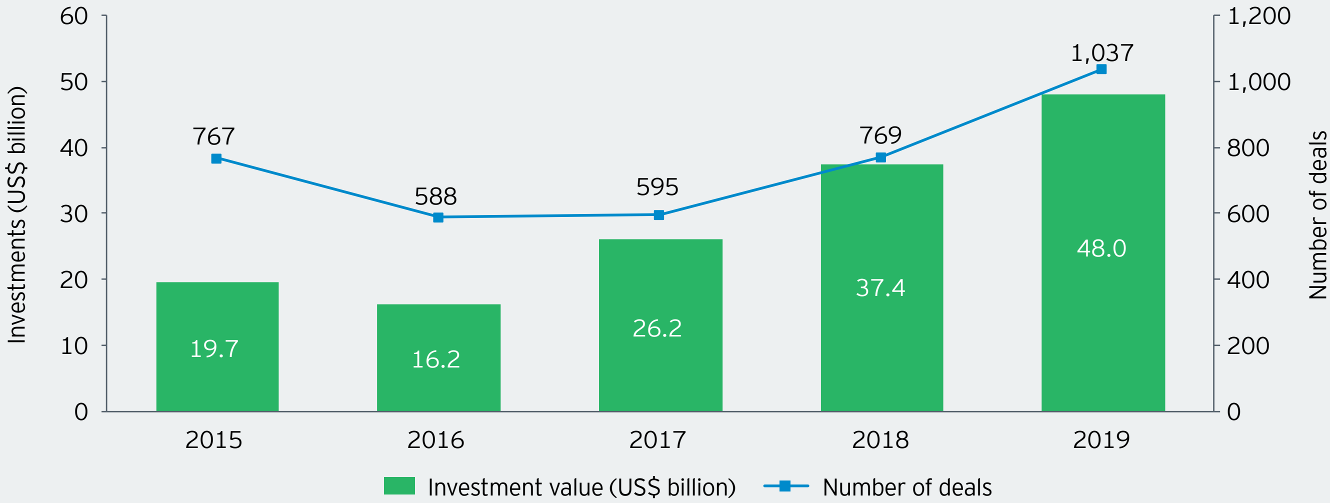
01

Investment activity: highlights and trends

PE/VC investments in India at an all-time high of US$48 billion in 2019

In 2019, Indian private equity/venture capital (PE/VC) investments recorded an all-time high of US$48 billion. This is the third consecutive year that the PE/VC sector has outperformed. In terms of value, PE/VC investments increased by 28% compared to 2018, while the deal volume increased by 35%. This growth was primarily driven by a significant increase in investments in the infrastructure sector, which grew over three times compared to 2018. The growth in infrastructure sector more than compensated for the decline in traditional PE/VC investments (in sectors excluding infrastructure and real estate) that recorded a decline of 3% on a year-on-year (y-o-y) basis in terms of value.

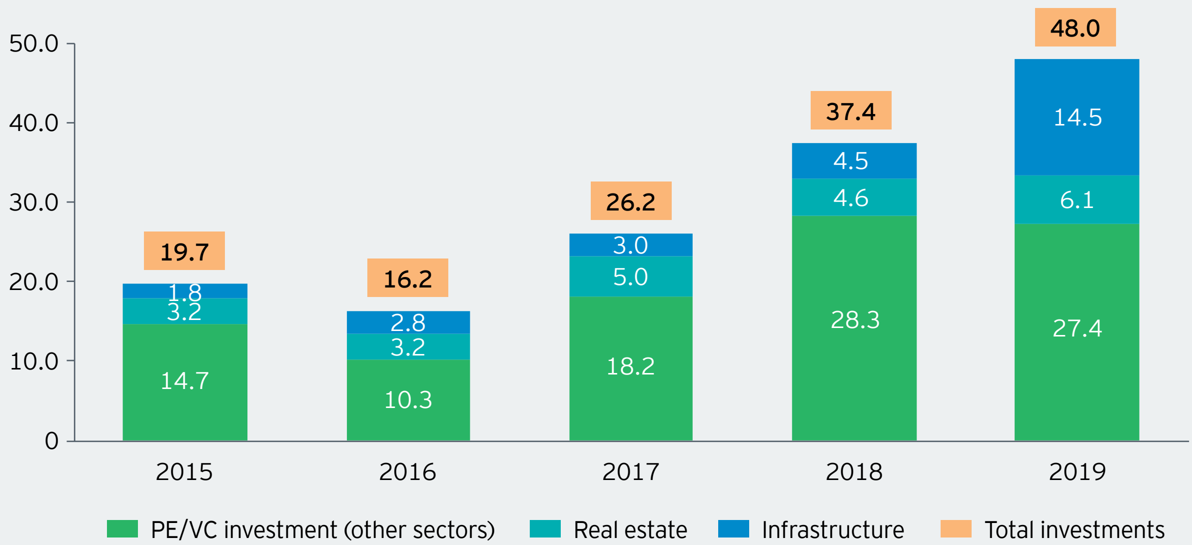
Exhibit 3: Total PE/VC investments between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

Note: The data includes deals that were announced but are awaiting closure like Abu Dhabi Investment Authority (ADIA), Public Sector Pension Investment Board (PSP), Caisse de dépôt et placement du Québec (CDPQ) and National Investment and Infrastructure Fund's (NIIF's) investment in GVK.

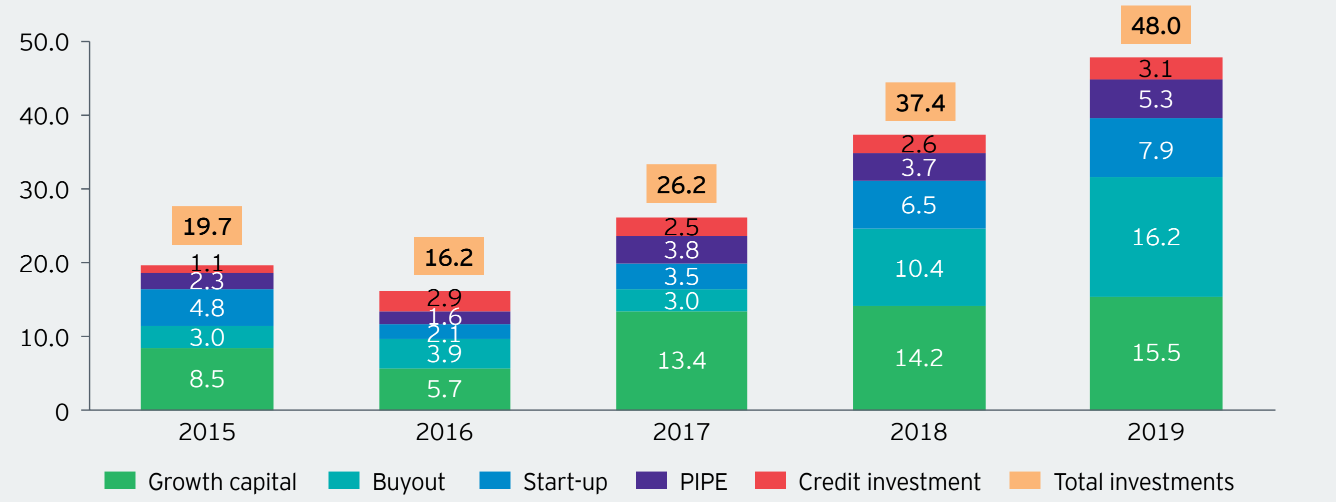
Exhibit 4: PE/VC investments split across asset classes between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

Real estate includes investment in hospitality (hotels) and construction, infrastructure includes investments in roads, ports, power and utilities and EPC contractors, and life sciences includes investment in healthcare and pharmaceuticals.

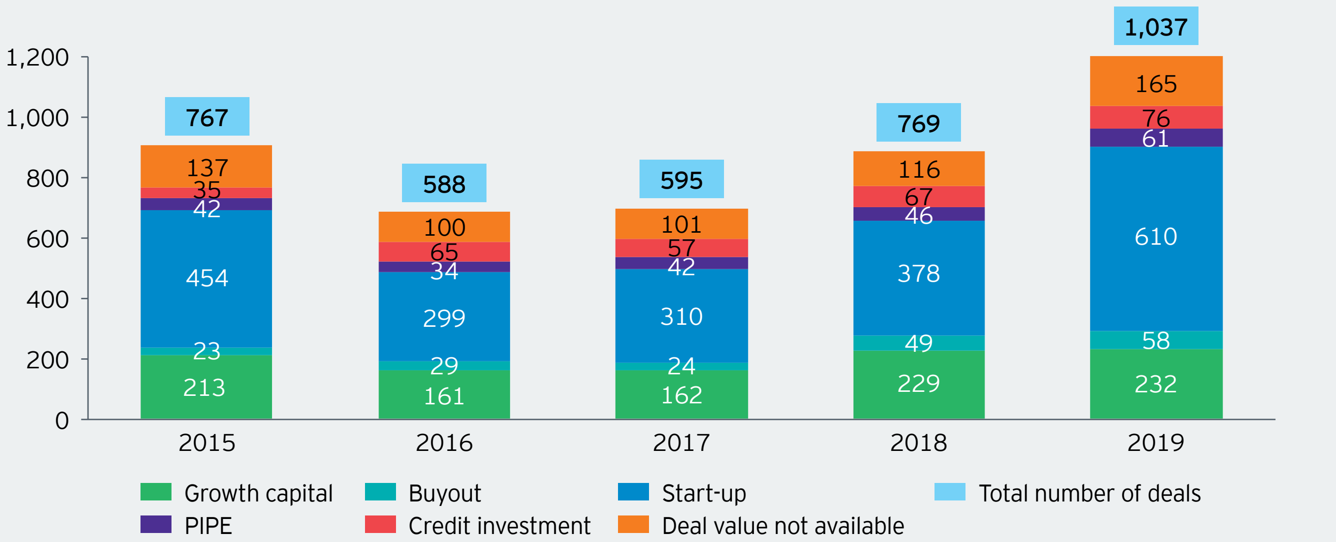
Exhibit 5: PE/VC investments split across deal types (by value) between 2015-2019 (US$ billion)



Note: see footnote for definition of deal types

Source: EY analysis of VCCEdge data

Exhibit 6: PE/VC investments split across deal types (by volume) between 2015-2019



Source: EY analysis of VCCEdge data

In 2017 and 2018, pure play, traditional PE/VC investments (excluding infrastructure and real estate asset classes) had recorded a strong growth, growing from US$10.3 billion in 2016 to US$28.3 billion in 2018. This growth in traditional PE/VC investments was the primary driver for the record high PE/VC investments in India. In 2019, while growth in traditional PE/VC investments dipped marginally, the growth in overall PE/VC investments was driven by investments in the infrastructure asset class. Investments in infrastructure sector accounted for 30% of all PE/VC investments by value compared to 12% in 2018.

The largest deals in 2019 were also in the infrastructure sector including Brookfield's US$3.7 billion buyout of Reliance Jio's tower assets and US$1.9 billion investment in Reliance Industries Limited 's East-West Pipeline. The largest deal in the traditional PE/VC asset class was Alibaba and Softbank's US$1 billion investment in Paytm.

Growth capital: investment in companies older than seven years

Start-up: companies set-up in past seven years

Buyout: acquisition of more than 50% stake

PIPE: private investment in public equity

Credit investment: investment in the form of debt capital

The overall growth in PE/VC investments was witnessed across deal types with growth, buyout, private investment in public equity (PIPE), start-up and credit investments recording their highest-ever value of investments in over 10 years.

While investments in infrastructure was the standout theme for the year, other PE/VC investment trends like buyouts becoming more prevalent, deals becoming larger and more complex and credit investments emerging as a new class of PE/VC investments, continue to grow from strength-to-strength.

India's improving attractiveness in the eyes of global LP's and the bullishness of India focused funds is reiterated by strong fund-raising activity in 2019, which saw US$11.7 billion being raised across 56 fund raises by India focused PE/VC funds. This is a 45% increase over 2018 levels and the highest-ever annual raise by India-dedicated funds. The cumulative fund raise plans announced in 2019 stood at US$18.3 billion.

The largest fund raise during the year saw Government of India sponsor a US$1.5 billion fund for providing last-mile funding to real estate developers for completion of stalled housing projects, followed by Edelweiss Alternative Asset Advisors and Kotak Special Situations Fund raising US$1.3 billion and US$1 billion, respectively, to invest in stressed assets.

Exhibit 7: Top fund raises in 2019

Fund	Amount (US$ m)	Strategy
Special Window for Affordable and Mid-Income Housing Fund (SWAMIH): Investment Fund I	1,465	mid-income housing-stalled projects
Edelweiss' alternative investment arm	1,295	stressed assets
Kotak Special Situations Fund	1,000	non-performing assets
ChrysCapital	850	sector agnostic
India Resurgence Fund	750	structured debt
Multiples Fund III	560	financial services, consumer, healthcare and IT services
Accel	550	early stage
B Capital	406	sector agnostic
Nexus Venture Partners	354	early stage
A91 Partners	350	consumer, healthcare, financial services and technology

Source: EY analysis of VCCEdge data

Exhibit 8: Value of funds raised and announced (US$ billion)

Source: EY analysis of VCCEdge data

Key investment trends in PE/VC in 2019

1. Infrastructure sector is the fastest growing asset class for PE/VC investments

Earlier, infrastructure sector used to be a small part of the overall Indian PE/VC investments. However, since the past two years, its share as a percentage of the overall PE/VC investments by value has increased considerably. On a y-o-y basis, investments in infrastructure have increased by 225%. In 2019, PE/VC investments in infrastructure space were at US$14.5 billion, which were higher than the cumulative PE/VC infrastructure investments received in the previous seven years.

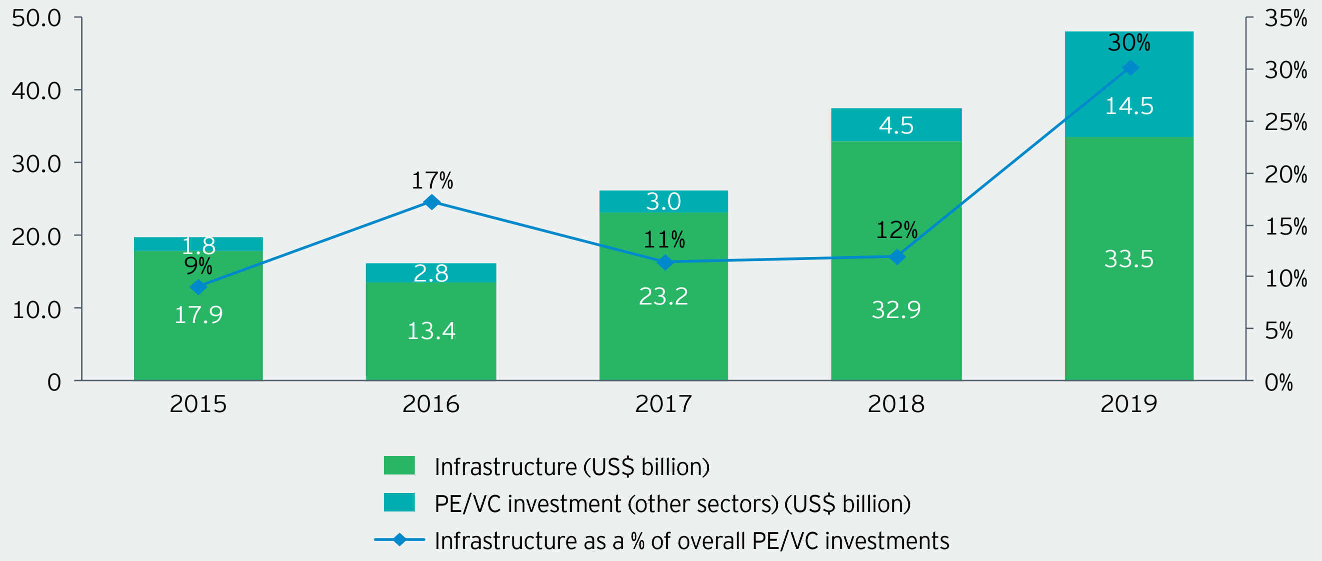
This spurt in infrastructure PE/VC investments has been driven by:

a) Government's initiative of introducing new structures like InvITs has attracted a new class of investors. These structures enable investors to benefit from steady cashflows from quality infrastructure assets in a tax-efficient manner with most operational risks and costs carved out or priced in. At the same time, these structures enable asset owners to rotate capital by monetizing ready, yield generating assets without ceding control. Almost 49% of all PE/VC investments in infrastructure in 2019 have been through the InvIT structure.

b) With yields on a declining trend globally, large pools of global capital are hungry for long-term investments in stable yield generating assets. Consequently, we are seeing large global pension funds like CPPIB, CDPQ, PSP, OTPP and OMERS, as well as sovereign wealth funds like GIC and ADIA making large investments in the Indian infrastructure sector.

c) 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.

Exhibit 9: PE/VC investments - share of infrastructure sector (US$ billion)



Source: EY analysis of VCCEdge data

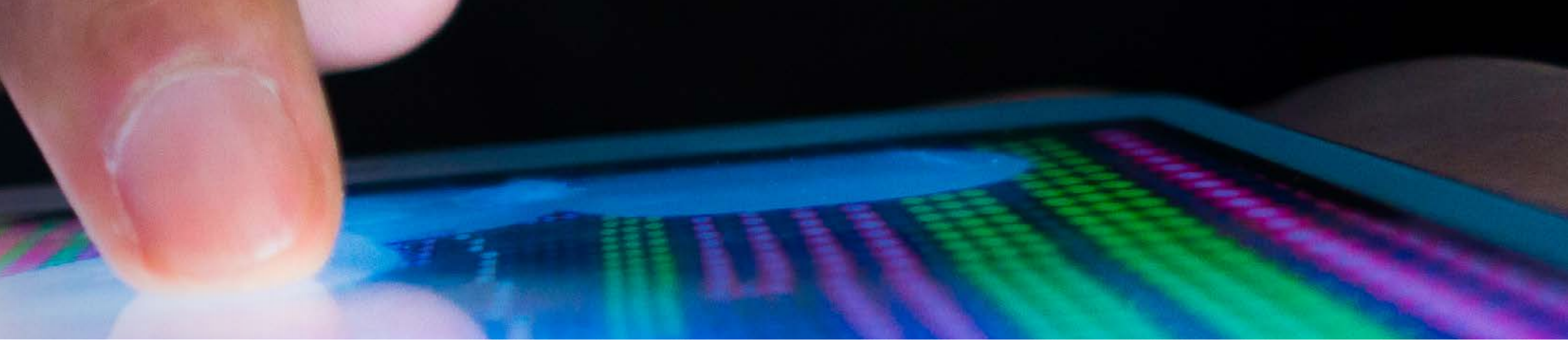
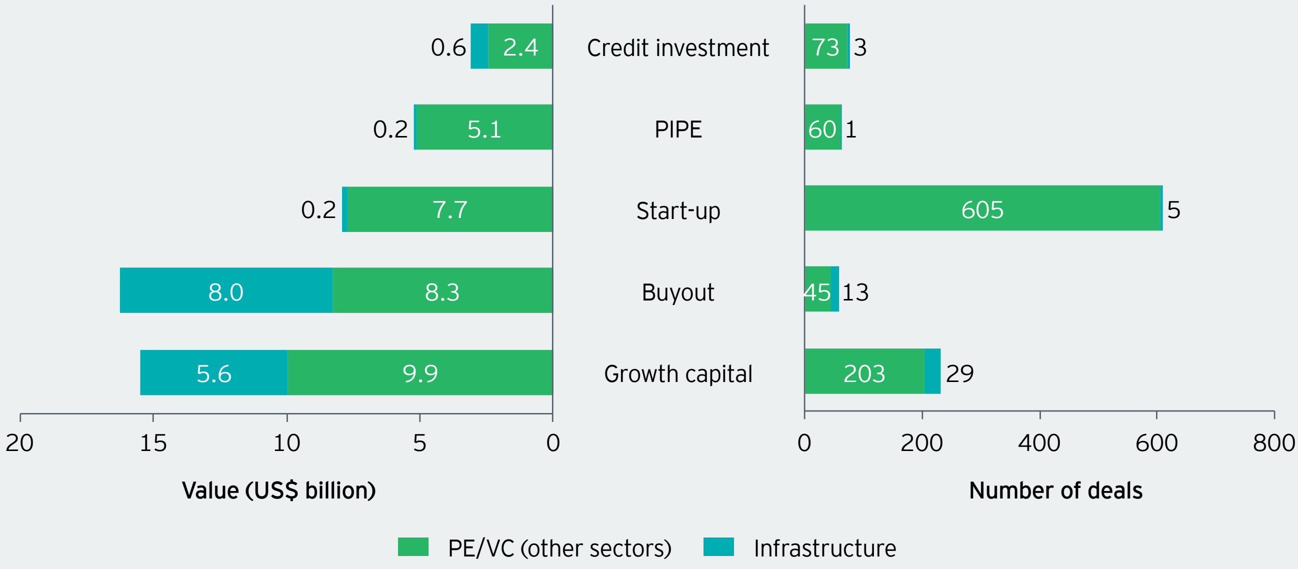


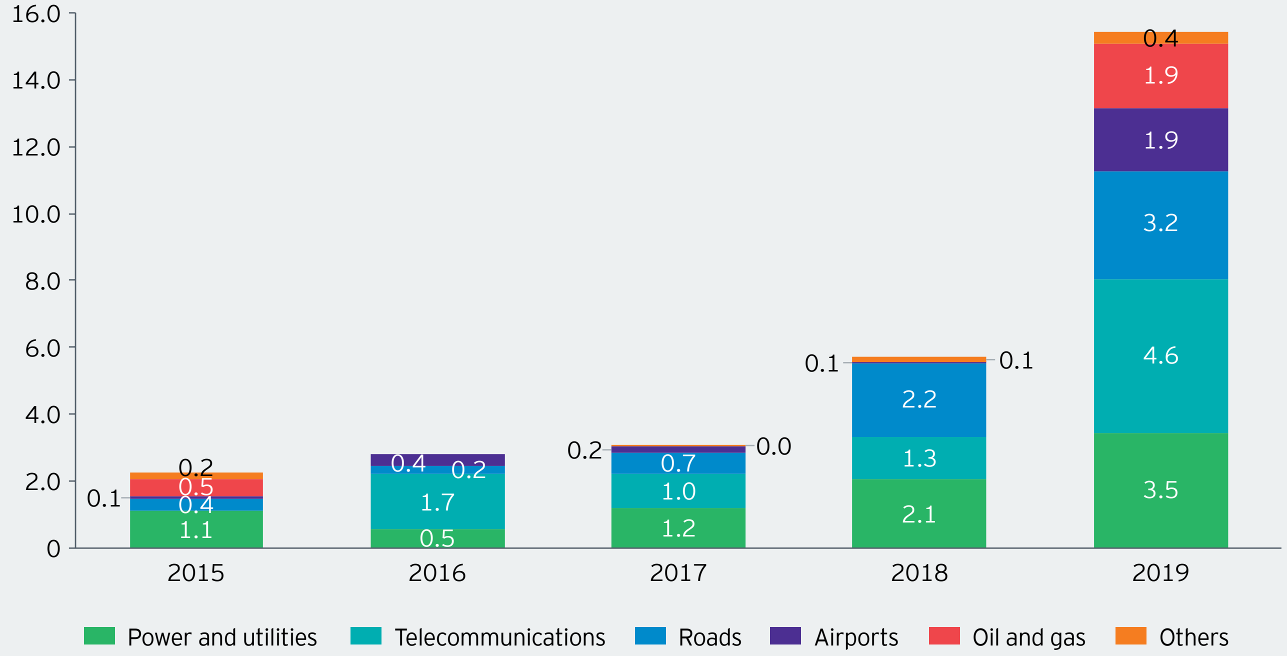
Exhibit 10: Investment by deal type



Source: EY analysis of VCCEdge data

While power and utilities (renewables and transmission assets) and telecom have received maximum investments, there have been some large deals in transportation infrastructure like roads and airports in the recent years.

Exhibit 11: Top infrastructure sub-sectors that drove PE/VC investments between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

Others include EPC contractors and other ancillary infra companies

Five out of the top 10 PE/VC investment deals in 2019 have been in the infrastructure sector. Brookfield's US$3.7 billion investment in Reliance Jio's tower assets is not only the largest investment by a PE/VC fund in the Indian infrastructure sector but also the largest deal ever in the Indian PE/VC industry.

Investments by sovereign wealth funds (SWFs), pension funds and multilateral agencies have accounted for US$13.4 billion in the infrastructure sector in India. This is almost 42% of the total PE/VC investments worth US$26.5 billion received by the infrastructure sector in India over the past five years. GIC, Temasek, CPPIB, CDPQ, ADIA, NIIF and QIA are among the leading pension and SWF investors in the infrastructure sector in India.

PE funds (excluding SWFs, pension funds and DFIs) have invested close to US$15.4 billion in the Indian infrastructure sector over the last five years. These investments have been dominated by a few large American and Canadian funds like Brookfield, KKR, Goldman Sachs, and Fairfax.

Exhibit 12: Top PE/VC investment deals in the infrastructure sector in 2019

Target	Investors	Sub-sector	Stage	US$m	Stake (%)
Tower arm of Reliance Jio Infocomm Limited	Brookfield	Telecom	Buyout	3,660	>50
RIL's East-West Pipeline	Brookfield	Oil and gas	Buyout	1,888	90
GVK Airport Holdings Limited*	ADIA, PSP, NIIF	Airport	Growth capital	1,076	49
Greenko Energy Holdings	GIC, ADIA	Power and utilities	Growth capital	887	NA
Nine TOT projects of NHAI	Cube Highways	Roads	Buyout	716	100
GMR Airports Limited	GIC, SSG Capital	Airport	Growth capital	651	25
Roads platform of IRB Infrastructure Developers Limited	GIC	Roads	Growth capital	631	NA
Essel Infraprojects Limited (three road assets)	CDPQ	Roads	Buyout	500	100
Adani Electricity Mumbai Limited	Qatar Investment Authority	Power and utilities	Growth capital	450	25
India Grid Trust	GIC, KKR	Power and utilities	Buyout	400	57

Source: EY analysis of VCCEdge data

**Deal is announced but not yet concluded*

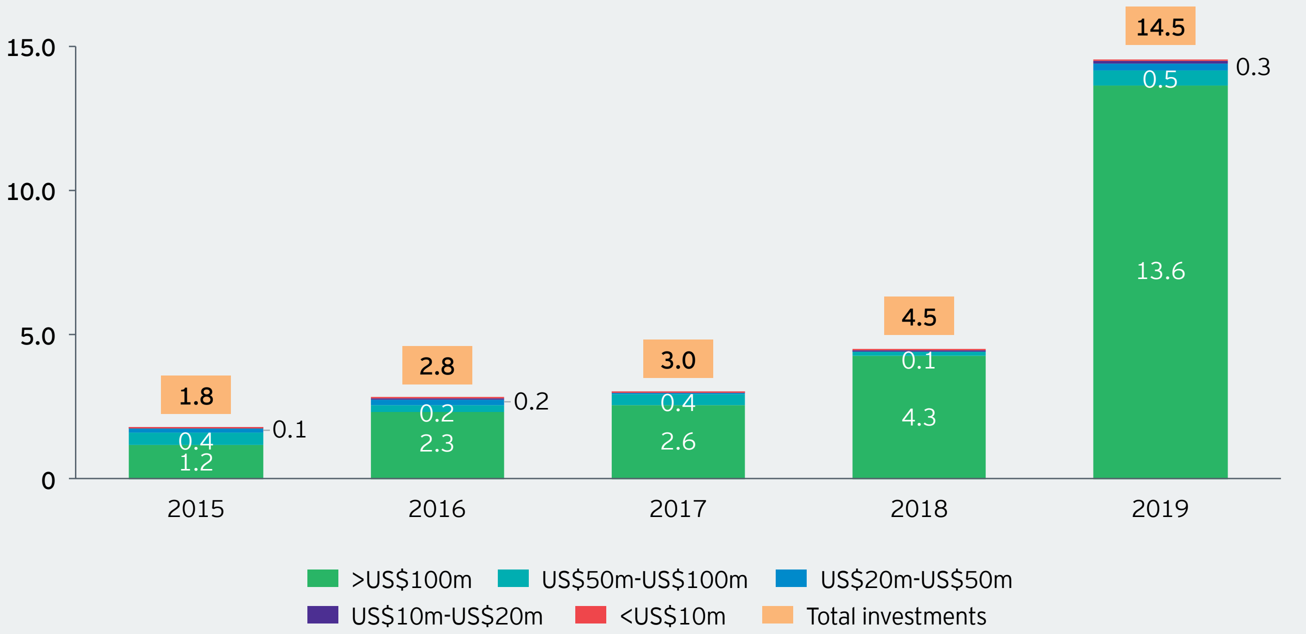
Exhibit 13: Top InvIT deals in 2019

Target	Investors	Sub-sector	Stage	US$m	Stake (%)
Tower arm of Reliance Jio Infocomm Limited	Brookfield	Telecom	Buyout	3,660	>50
RIL's East-West Pipeline	Brookfield	Oil and gas	Buyout	1,888	90
Roads platform of IRB Infrastructure Developers Limited	GIC	Roads	Growth capital	631	NA
India Grid Trust	GIC, KKR	Power and utilities	Buyout	400	57
Oriental Structure's Infra Investment Trust	AIIB, DEG, IFC and HEG	Roads	Growth capital	331	NA
L&T IndInfravit Trust - Sadbhav Infrastructure Project Limited	CPPIB	Roads	Growth capital	200	NA

Source: EY analysis of VCCEdge data

On account of risk/return expectations of investors backing PE/VC investments in infrastructure, these deals tend to be large as they involve exchange of significant share of ownership of mature, income generating pools of real assets.

Exhibit 14: Infrastructure sector PE/VC investment trend by deal size between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

2. Mimicking global trends, buyouts are becoming more prominent

For the first time in India, buyouts have emerged as the largest PE/VC investment deal type, overtaking the growth capital deals and accounting for 34% of all PE/VC investments by value in 2019. Buyouts have been on an uptrend over the past four-to-five years, growing more than five times in value since 2016, which had then recorded buyouts worth US$3 billion.

While most PE/VC investors started their journey in India as growth investors, with growing confidence and availability of good managerial talent, PE/VC funds are now willing to take a controlling stake in quality businesses. The Indian entrepreneur community, over the years, has grown more receptive to PE/VC investors and are now willing to cede control to incoming investors as they now realize the benefits that a PE/VC partner brings with itself.

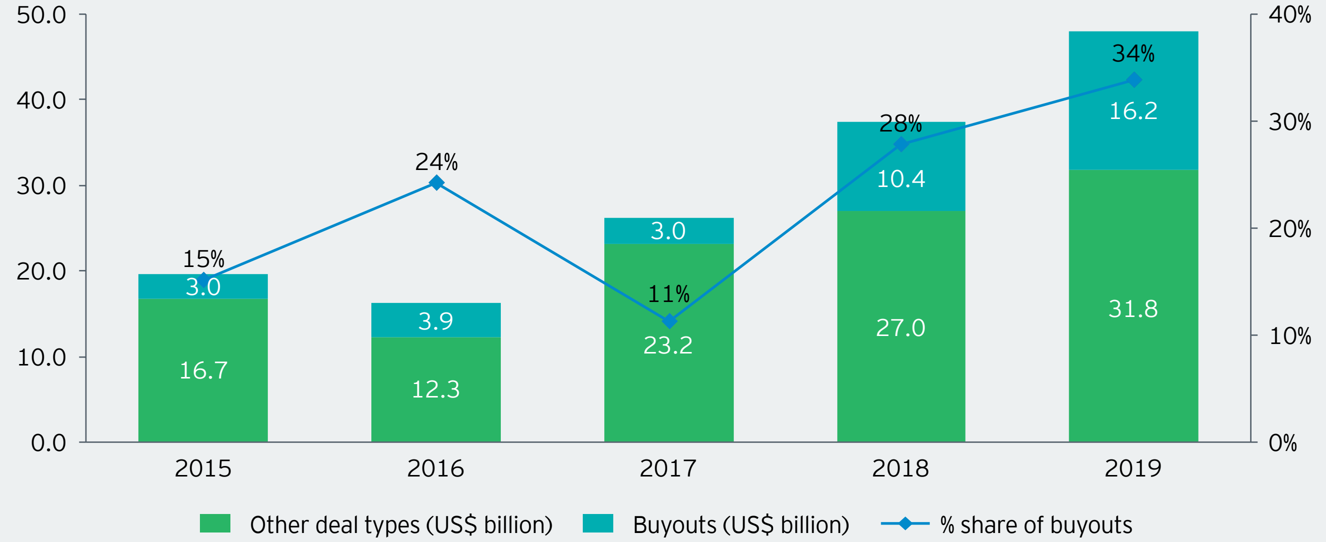
There are several other factors that are contributing to this rise in buyout deals which include:

- Promoter succession-related issues and willingness to mentor the business while keeping minority investment.
- Companies hiving off non-core businesses or monetizing assets to pare debt.
- Significant increase in the number of VC-backed companies in which financial investors together hold more than 51% after four-to-five rounds of raising capital.

It appears that India is moving towards global norms wherein buyouts are usually the largest deal type of PE/VC investment.

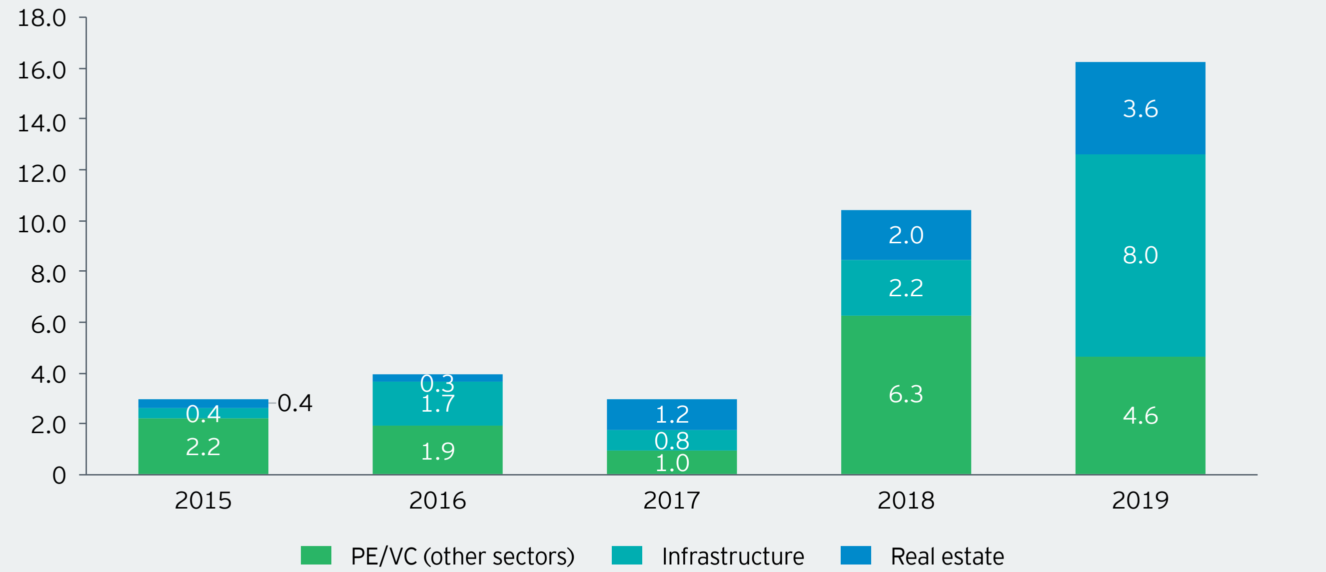
When compared across deal types, buyouts have recorded the largest increase of 56% in terms of value (US$16.2 billion in 2019 vs. US$10.4 billion in 2018). In the past two years, buyouts clocked US$26.7 billion in deal value, which is more than the value of buyouts in the preceding 12 years combined. Their numbers have also been the highest ever in 2019 with 58 deals. This has been driven by significant increase in the value (180% increase y-o-y) and number (123% increase y-o-y) of buyouts in the infrastructure and real estate sectors. Buyouts in the traditional PE/VC space, however, recorded decline in both value (26% decline y-o-y) as well as volume (19% decline y-o-y) in 2019.

Exhibit 15: Trend in buyout deals as a share of overall PE/VC investments between 2015-2019 (US$ billion)



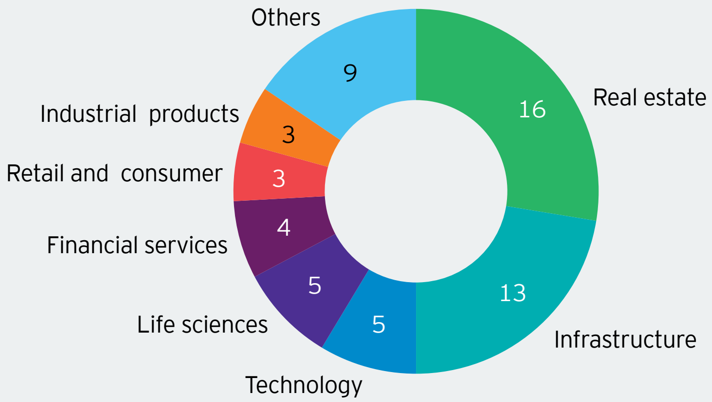
Source: EY analysis of VCCEdge data

Exhibit 16: Buyout deals split across asset classes between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

Exhibit 17: Number of buyout deals in 2019 split by sector



Source: EY analysis of VCCEdge data

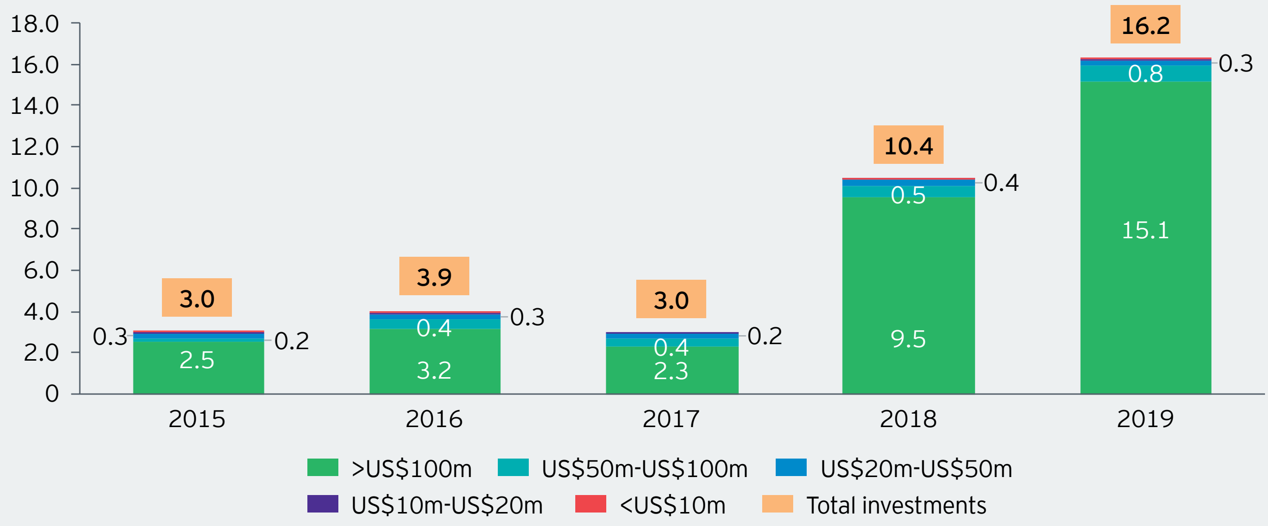
Exhibit 18: Top buyout deals in 2019

Target	Investors	Sector	US$m	Stake (%)
Tower arm of Reliance Jio Infocomm Limited	Brookfield	Infrastructure	3,660	>50
RIL's East-West Pipeline	Brookfield	Infrastructure	1,888	90
CitiusTech Healthcare Technology Private Limited	Baring PE Asia	Technology	800	80
Nine TOT projects of NHAI	Cube Highways	Infrastructure	716	100
Indiabulls Real Estate's commercial properties	Blackstone	Real estate	624	50
Four hotels of Hotel Leela Venture Limited	Brookfield	Real estate	572	100
Two existing malls and an upcoming retail development project	Virtuous Retail, a APG Management - Xander JV	Real estate	550	100
Essel Propack Limited	Blackstone	Industrial products	540	75
Kyowa Pharmaceutical Industry Company Limited (Lupin's Japan business)	Unison Capital Partners	Pharmaceuticals	525	100
Essel Infraprojects Limited (three road assets)	CDPQ	Infrastructure	500	100

Source: EY analysis of VCCEdge data

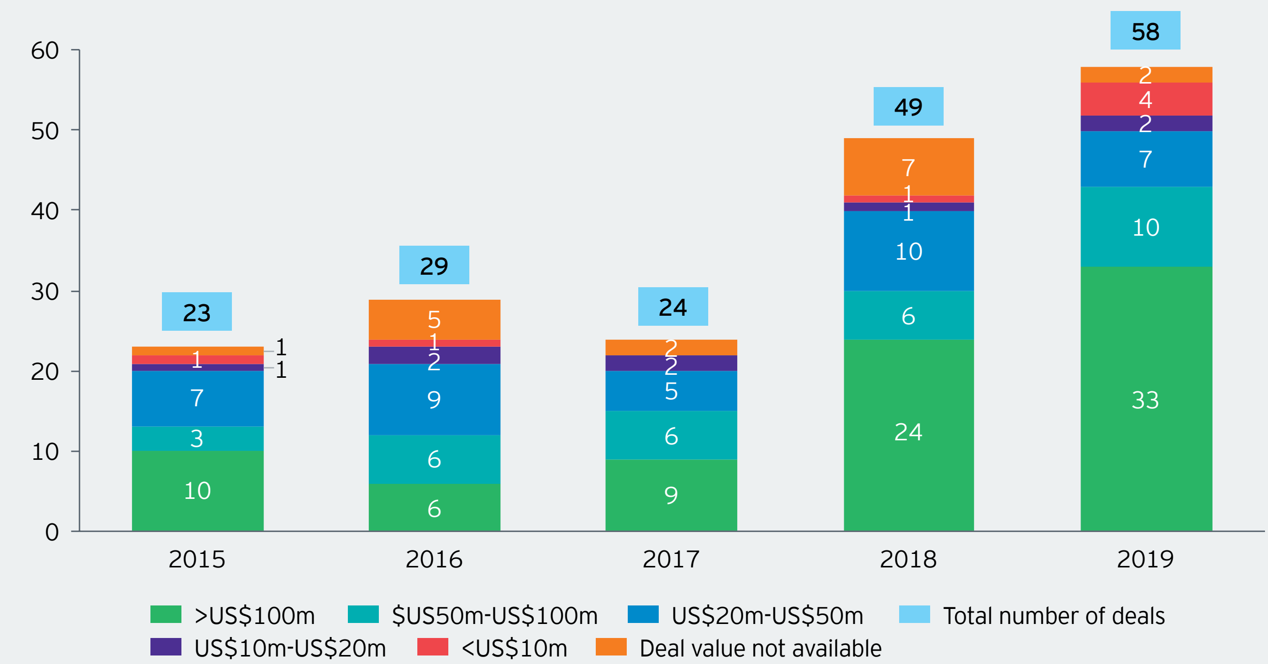
Since buyout deals often involve exchange of ownership of controlling stakes in mature and evolved businesses, they tend to concentrate towards the upper end of the deal size spectrum.

Exhibit 19: PE/VC buyout trend by deal size (US$ billion)



Source: EY analysis of VCCEdge data

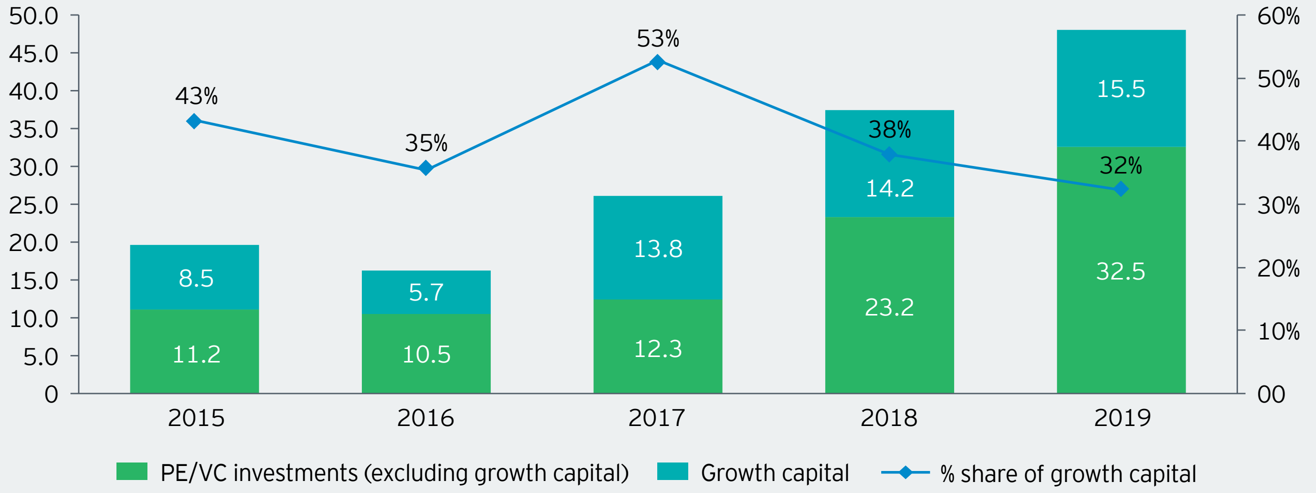
Exhibit 20: PE/VC buyout trend by deal size (number of deals) between 2015-2019



Source: EY analysis of VCCEdge data

With buyouts witnessing increased traction, the share of growth deals has been declining y-o-y, to 32% in 2019 from over 50% share for a major part of the previous decade. Also, for the first time, growth capital investments have moved to the second spot in terms of deal type, with buyouts in the leading spot. Growth capital investments in 2019 also recorded lowest share of overall PE/VC investments. However, they continue to remain an important part of PE/VC funds' investment strategy in India. The decline in the share of growth deals is on account of other investment strategies like buyouts, credit investments and start-up funding gaining momentum.

Exhibit 21: Trend in growth capital investments as a share of overall PE/VC investments between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

Exhibit 22: Top growth capital investment deals in 2019

Target	Investors	Sector	US$m	Stake (%)
GVK Airport Holdings Limited*	ADIA, PSP, NIIF	Infrastructure	1,076	49
One 97 Communications Limited	Alibaba Group, Softbank	Financial services	1,000	NA
Greenko Energy Holdings	GIC, ADIA	Infrastructure	887	NA
GMR Airports Limited	GIC, SSG Capital	Infrastructure	651	25
Roads platform of IRB Infrastructure Developers Limited	GIC	Infrastructure	631	NA
Adani Electricity Mumbai Limited	The Qatar Investment Authority	Infrastructure	450	25
SBI General Insurance Co. Limited	PI Opportunities Fund I, Warburg Pincus	Financial services	433	26
Delhivery Private Limited	SoftBank, Carlyle, Fosun International	Infrastructure	415	38
DivyaSree Developers Private Limited (Hub6)	ADIA - Kotak	Real estate	400	NA
BrainBees Solutions Private Limited (First Cry)	SoftBank	Retail and consumer	397	48

Source: EY analysis of VCCEdge data

**Deal is announced but not yet concluded*

3. Emergence of pension and sovereign wealth funds as important players

Direct investments done by sovereign wealth funds (SWFs) and pension funds has been a significant contributor to the India PE/VC investment story. Over the past five years, these funds have directly invested around US$32.8 billion in India, accounting for 22% of the dollar value of investments made during this period.

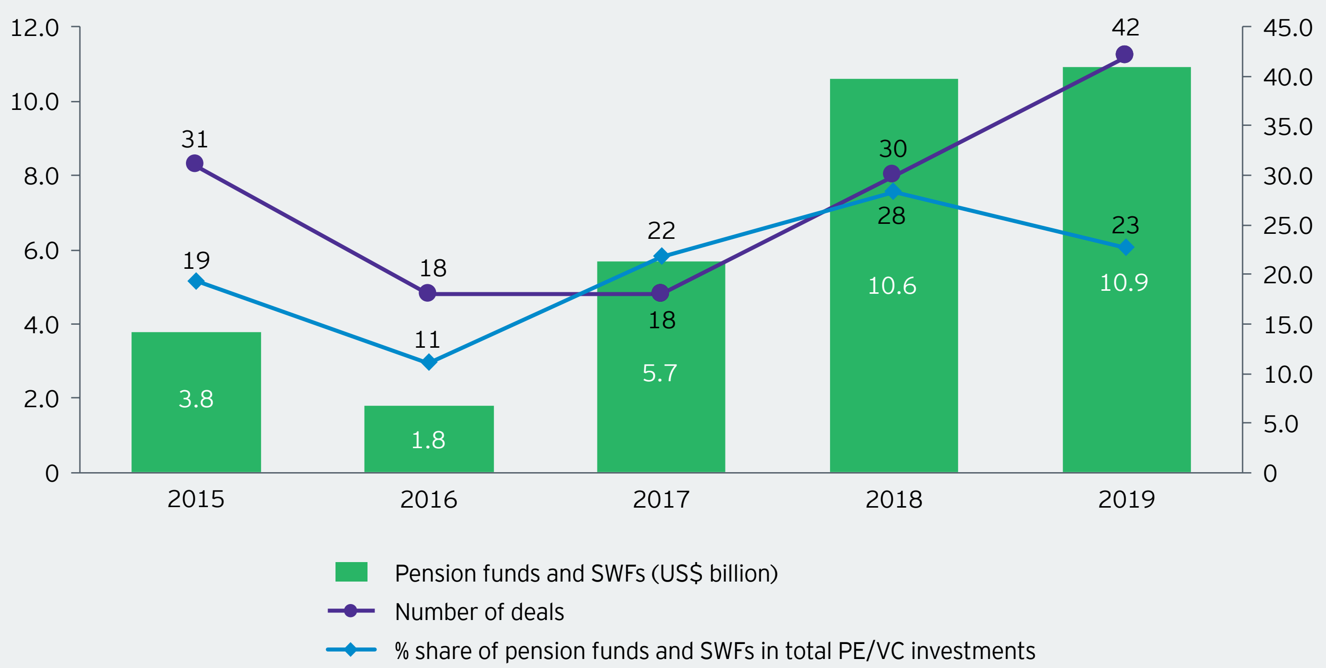
As global markets continue to see a declining trend in yields, many large pools of capital are re-evaluating India as they look to increase capital allocations to the emerging markets. Earlier, many of these funds took the limited partner (LP) route but they are now increasingly seeking direct and co-investing 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 in India.

Canadian funds like CPPIB, CDPQ, OMERS and OTPP have been the largest pension funds investing directly in India. Amongst sovereign wealth funds, GIC, Temasek and ADIA have been the largest investors.

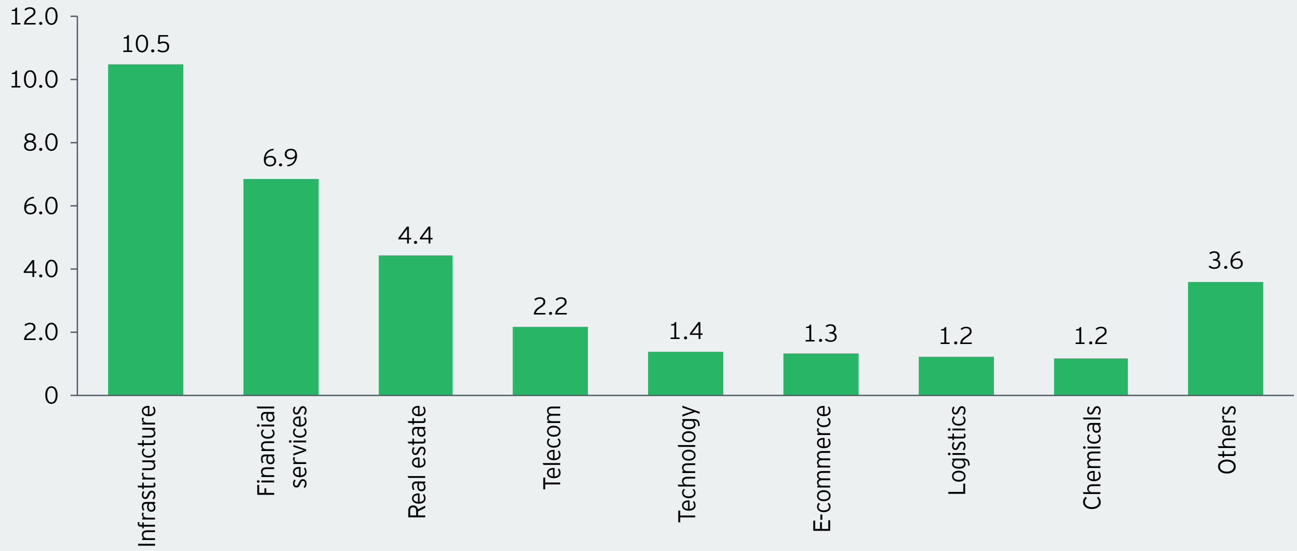
The success achieved by these funds in making marquee investments as well as evolution of new investments structures like InvITs and REITs is attracting new class of investors to the Indian market. After the US and Canada, Australian pension funds have become the third-largest pool of pension capital in the world with US$1.9 trillion in AUM. They are now evaluating their entry into India. Other sovereign investors from Saudi Arabia, Middle East and superannuation funds domiciled in Korea, Japan, and HongKong are also evaluating India as an investment destination. We expect these new entrants to first invest as LPs with the existing general partners (GPs) that have a good India investment track record rather than beginning with direct investments into Indian companies/assets. India has also launched its own sovereign fund called the National Investment and Infrastructure Fund (NIIF).

Exhibit 23: SWFs and pension funds: investments in India between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

Exhibit 24: Investments by SWFs and pension funds split across sectors between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

Exhibit 25: Top deals involving pension funds and sovereign wealth funds in 2019

Target	Investors	Sector	Stage	US$m	Stake (%)
GVK Airport Holdings Limited*	ADIA, PSP, NIIF	Infrastructure	Growth capital	1,076	49
Greenko Energy Holdings	GIC, ADIA	Infrastructure	Growth capital	887	NA
SBI Life Insurance Company Limited	Carlyle, CPPIB	Financial services	PIPE	817	11
Bharti Airtel Limited	GIC	Telecommunications	PIPE	726	NA
GMR Airports Limited	GIC, SSG Capital	Infrastructure	Growth capital	651	25
Roads platform of IRB Infrastructure Developers Limited	GIC	Infrastructure	Growth capital	631	NA
Essel Infraprojects Limited (three road assets)	CDPQ	Infrastructure	Buyout	500	100
Adani Electricity Mumbai Limited	The Qatar Investment Authority	Infrastructure	Growth capital	450	NA
DivyaSree Developers Private Limited (Hub6)	ADIA - Kotak	Real estate	Growth capital	400	NA
India Grid Trust	GIC, KKR	Infrastructure	Buyout	400	57

Source: EY analysis of VCCEdge data

**Deal is announced but not yet concluded*

4. Deals continue to get larger and more complex

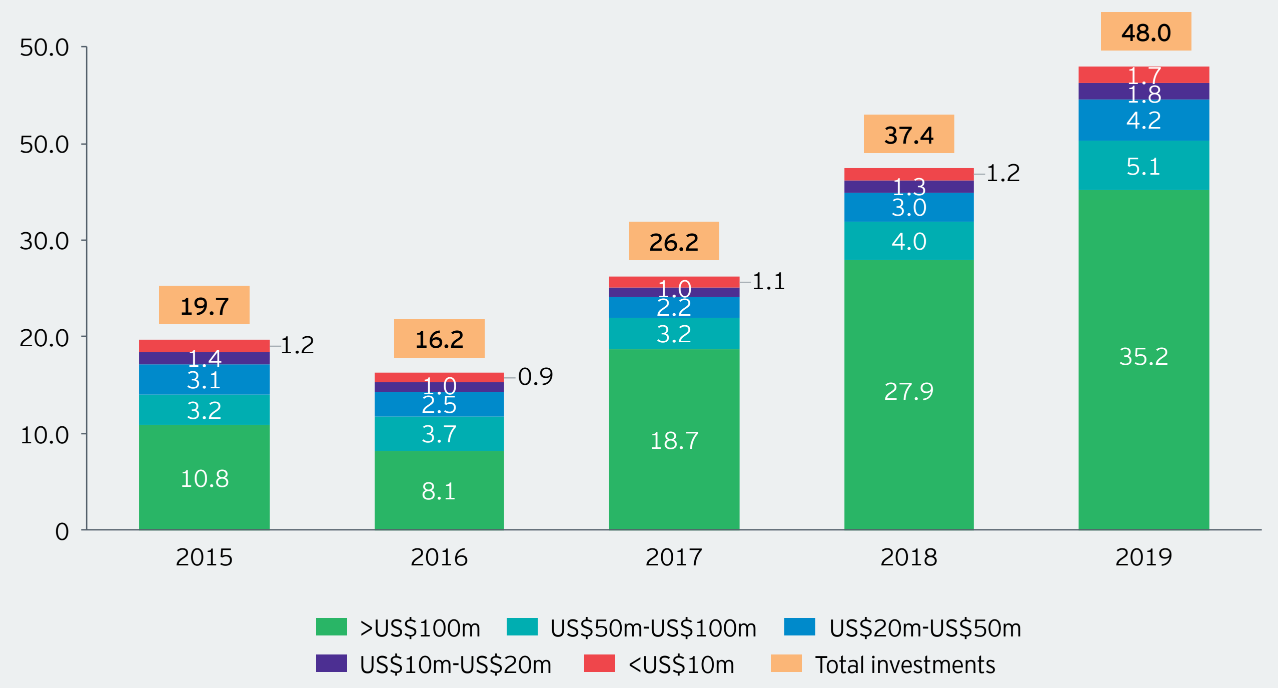
As the Indian PE/VC sector matures, deals are becoming larger and more complex with funds willing to take bigger bets. With global funds aggressively increasing their allocation towards India and large pension funds making direct investments in India, the investment appetite in the recent years has increased significantly. The increasing number of buyouts is also one of the major factors contributing to this trend.

There has been a progressive increase in the share of large deals (value greater than US$100 million) in the total PE/VC investments in India and they now account for more than two-thirds of all investments by value. In addition to this, the number of large deals has also increased. Large deals account for 11% of total deals by volume in 2019 compared to just 2% in 2009.

Due to increase in the number of large deals, the average size of deals has also increased. Deals have become three times as large as what they were 10 years ago across deal types. The biggest increase has been in the size of buyouts and PIPE investments that have increased five-fold over the same period.

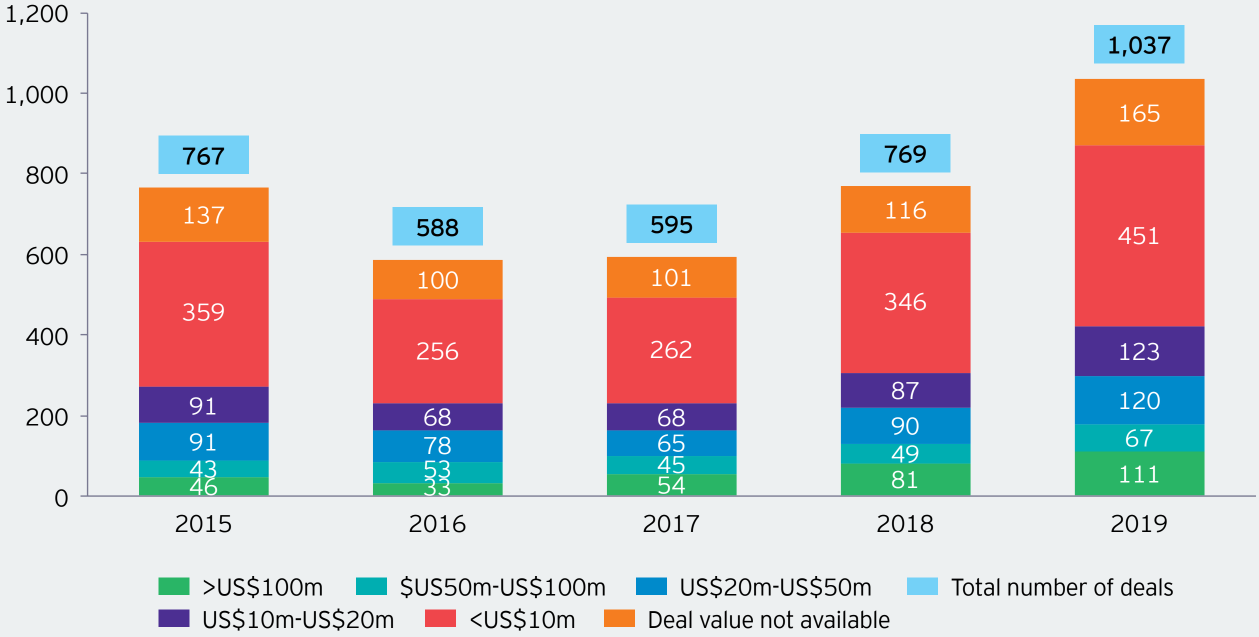
In 2019, there were 111 deals of value greater than US$100 million that aggregated to US$35.2 billion and accounted for 73% of total PE/VC investments made in 2019. This is the highest ever number of large deals in a year and 37% higher than the previous high recorded last year.

Exhibit 26: PE/VC investment trend by deal size between 2015-2019 (US$ billion)



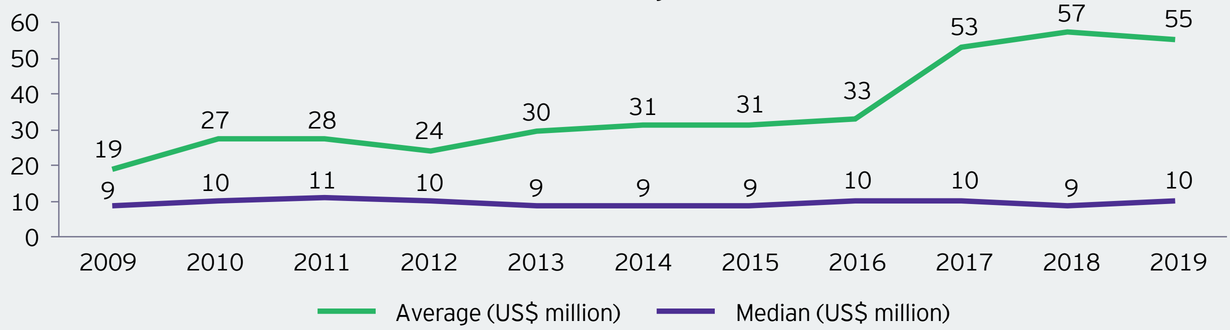
Source: EY analysis of VCCEdge data

Exhibit 27: PE/VC investment trend by deal size (number of deals) between 2015-2019



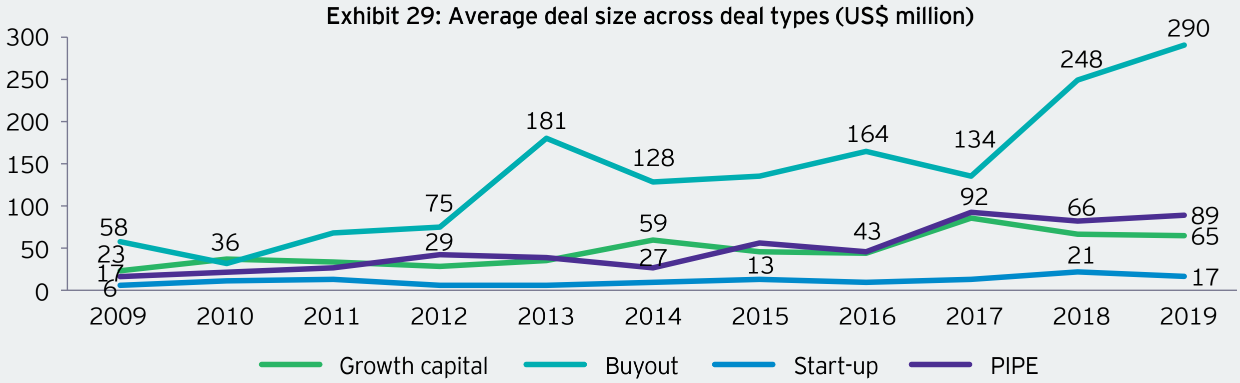
Source: EY analysis of VCCEdge data

Exhibit 28: Trend of average and median deal size



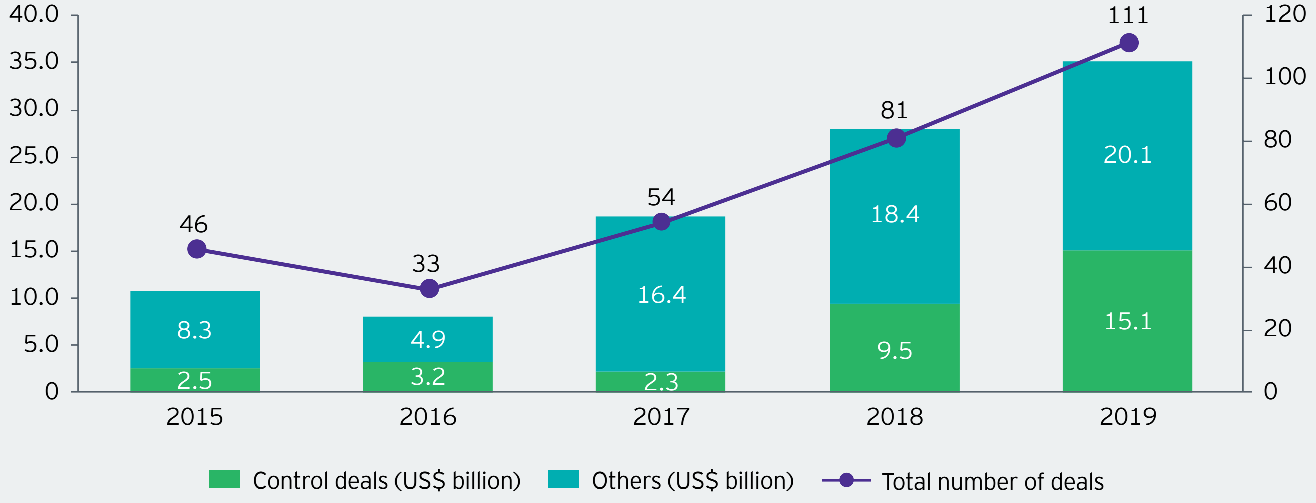
Source: EY analysis of VCCEdge data

Exhibit 29: Average deal size across deal types (US$ million)



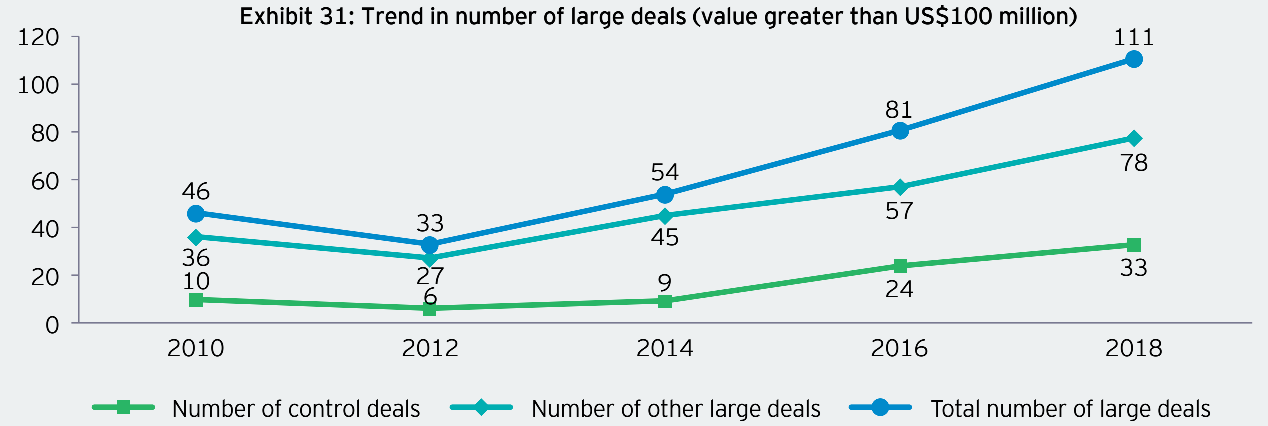
Source: EY analysis of VCCEdge data

Exhibit 30: Cumulative value of deals greater than US$100 million



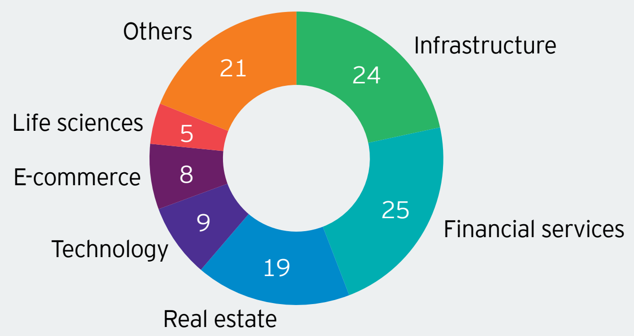
Source: EY analysis of VCCEdge data

Exhibit 31: Trend in number of large deals (value greater than US$100 million)



Source: EY analysis of VCCEdge data

Exhibit 32: Number of large deals in 2019 split by sector



Source: EY analysis of VCCEdge data

Exhibit 33: Top large deals in 2019

Target	Investors	Sector	Stage	US$m	Stake (%)
Tower arm of Reliance Jio Infocomm Limited	Brookfield	Infrastructure	Buyout	3,660	>50
RIL's East-West Pipeline	Brookfield	Infrastructure	Buyout	1,888	90
GVK Airport Holdings Limited*	ADIA, PSP, NIIF	Infrastructure	Growth capital	1,076	49
One 97 Communications Limited	Alibaba Group, Softbank	Financial services	Growth capital	1,000	NA
Greenko Energy Holdings	GIC, ADIA	Infrastructure	Growth capital	887	NA
SBI Life Insurance Company Limited	Carlyle, CPPIB	Financial services	PIPE	817	11
Oravel Stays Private Limited (OYO)	SoftBank	E-commerce	Start-up	810	NA
CitiusTech Healthcare Technology Private Limited	Baring PE Asia	Technology	Buyout	800	80
Bharti Airtel Limited	GIC	Telecommunications	PIPE	726	NA
Nine TOT projects of NHAI	Cube Highways	Infrastructure	Buyout	716	100
GMR Airports Limited	GIC, SSG Capital	Infrastructure	Growth capital	651	25

Source: EY analysis of VCCEdge data

**Deal is announced but not yet concluded*

5. Start-up funding continues on an uptrend

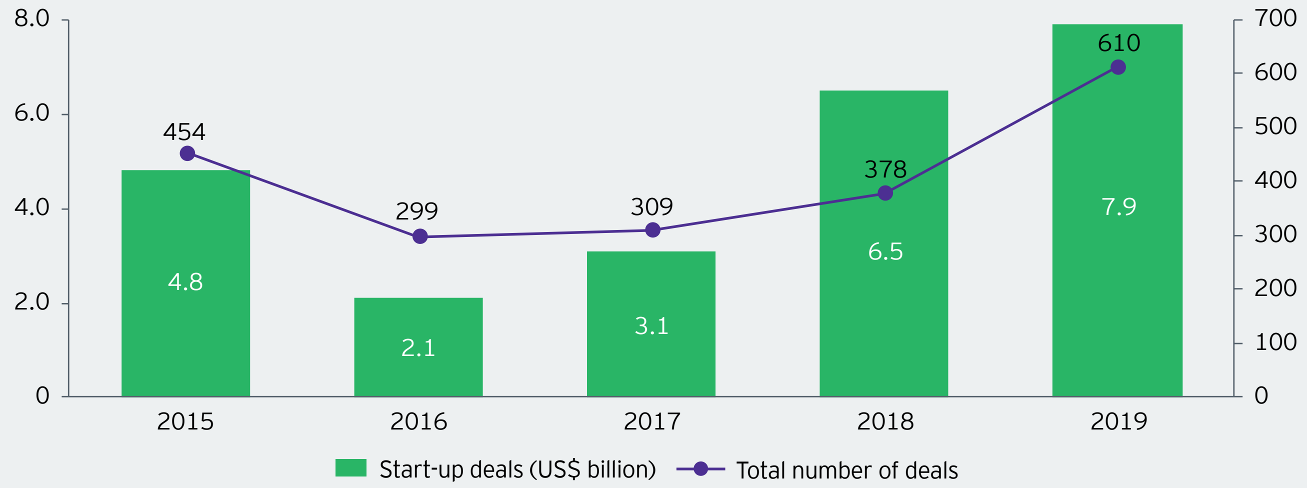
While 2018 marked the revival in start-up funding following sub-par start-up investment activity consecutively in 2016 and 2017, 2019 has recorded a strong growth in the start-up deal activity. 2019 has been a record year for start-up investments both in terms of value as well as volume. While the overall investments in start-ups increased by 22% (US$7.9 billion in 2019 vs. US$6.5 billion in 2018) in terms of value, the number of deals increased by 61% (610 deals in 2019 vs. 378 deals in 2018).

Due to SoftBank, Tencent and Naspers funding very large rounds for fast growing but loss-making technology driven start-ups like OYO, Ola Cabs, Swiggy, Byju's, etc. the lines between PE and VC are getting blurred. The successful exit of SoftBank from Flipkart last year further created the environment for start-up investing to gain momentum and drew interest of several PEs as well towards investing in start-ups.

While five years ago, deal activity in the start-up investment space was predominantly occupied by technology and e-commerce, there has been a democratization of start-up investing to cover a wider range of sectors. These include financials services, media and entertainment, healthcare and consumer sectors. In terms of number of deals, the share of e-commerce and technology in the start-up investment space has declined from 62% in 2015 to 35% in 2019. On the other hand, the share of financial services in the total number of start-up deals has increased from 7% in 2015 to 16% in 2019. The disruption of traditional sectors owing to changes in technology and consumer behavior is the main reason for this shift in investment behavior.

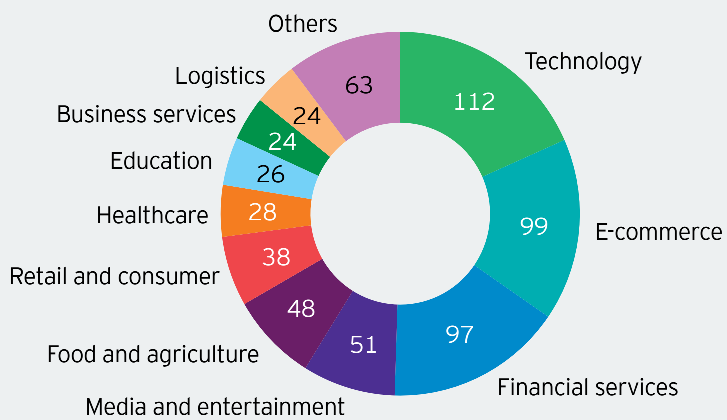
One of the biggest beneficiary/targets of this shift has been the financial services sector that has seen various facets of business ranging across payments, lending, insurance, operations, and analytics being transformed by the adoption of technology. Similarly, the changing consumer behavior in consumption of media/ entertainment has resulted in the evolution of plethora of start-ups in the fields of media streaming, content creation, gaming, infotainment, etc. which have attracted PE/VC funding. Likewise, a significant change has been brought about in the delivery of healthcare, inviting funding from PE/VC funds.

Exhibit 34: Trend in start-up investment deals between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

Exhibit 35: Number of start-up deals in 2019 split by sector



Source: EY analysis of VCCEdge data

Exhibit 36: Top start-up investment deals in 2019

Target	Investors	Sector	Stage	US$m	Stake (%)
Oravel Stays Private Limited (OYO)	SoftBank	E-commerce	810	NA	>50
Hiveloop Technology Private Limited (Udaan)	GGV Capital, Altimeter Capital, Hillhouse Capital, DST Global and others	E-commerce	585	NA	90
91Streets Media Technologies Private Limited (PharmEasy)	Temasek, Bessemer Venture Partners, Orios Venture Partners, Eight Roads and others	Healthcare	226	NA	49
Locodel Solutions Private Limited (Grofers.com)	SoftBank, KTB Ventures, Tiger Global and Sequoia Capital	E-commerce	220	NA	NA
Appnomic Systems, Elastic Run, Zenoti, CRMNext, Manthan System, and Capillary Technologies	Avataar Ventures' backed by Harbourvest	Technology	200	NA	NA
Branch International Inc.	B Capital, Foundation Capital, IFC and others	Financial services	170	NA	11
Better Mortgage Corporation	Goldman Sachs, Ontario Pension Plan and others	Financial services	160	NA	NA
Wickedride Adventure Services Private Limited	B Capital, Accel	E-commerce	150	NA	80
Hero Future Energies Private Limited	IFC	Infrastructure	125	NA	NA
Dreamplug Technologies Private Limited (CRED)	Sequoia Capital, Tiger Global and others	Financial services	120	NA	100

Source: EY analysis of VCCEdge data

6. Credit investments by PE/VC emerges as a new asset class

In recent years, private credit funds have emerged as an alternative source of debt for Indian companies. The NPA burden on banking credit growth, the asset-liability management mismatch and liquidity issues faced by the NBFC sector have opened up opportunities for PE-backed credit funds. This has led to increasing interest from LPs to invest in funds with a credit strategy in India.

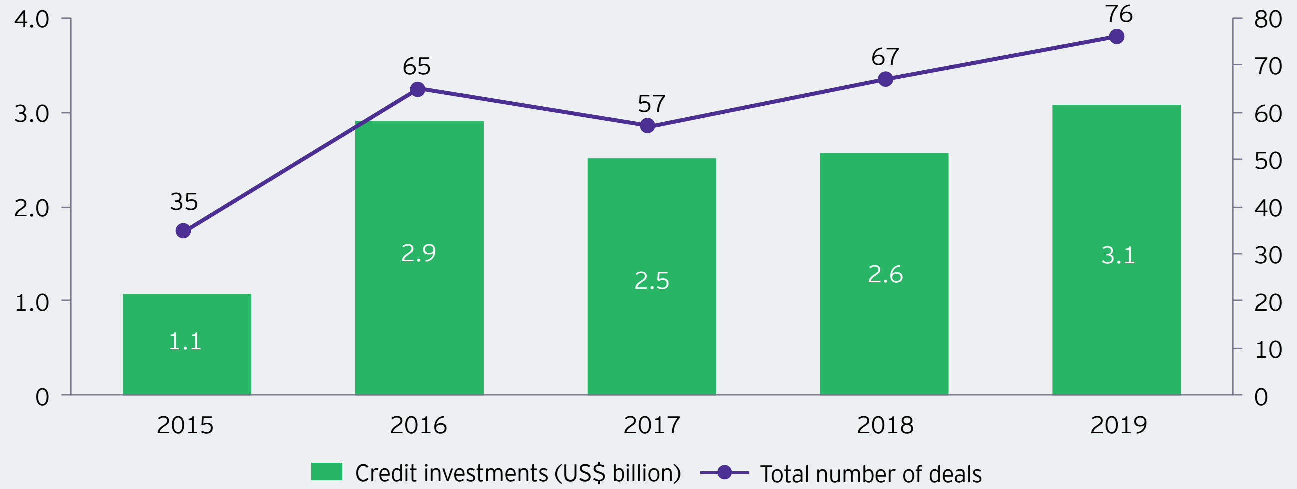
Some of the key factors driving this trend include:

- *Diversification*: most of the credit is structured in nature which gives opportunity to earn good returns on a risk-adjusted basis and compensates for any potential underperformance in the equity portfolio. This is a replication of the asset allocation strategy followed by large multi-strategy funds globally.
- *Search for yield*: globally, there are few instruments providing yields and as such India proves to be an attractive market where credit yields are still relatively higher.
- *Better flexibility in structuring investments*: unlike banks and NBFCs which have regulatory constraints, PE funds can structure bespoke solutions to suit company-specific situations. The AIF platform (Indian credit funds are structured under SEBI's AIF-II category) offers greater flexibility to the lenders as well as borrowers.
- *Promoters seeking PE funds for special situations*: promoters have realized that credit funds can be tapped for specific situations like acquisition financing, buybacks and growth financing. Though these avenues are relatively more expensive than bank credits, they are more flexible than traditional credit sources. This also helps them to diversify their sources of capital.

An extension of the credit investment strategy is the evolution of distressed asset investing that is taking shape in India. As a result of the above factors and a creditor-friendly environment created by the IBC, there is an increase in the supply of special situations that has attracted the interest of the PE community. Many funds are investing in stressed assets and have shown interest in the various NCLT resolution processes. Going forward, it is likey that more multi-strategy PE funds will set up credit teams in India to evaluate and invest in stressed assets opportunities.

In 2019, funds worth US$4.7 billion were raised with credit/stressed asset investment strategy and fund raise plans worth US$4.5 billion announced.

Exhibit 37: Trend in PE/VC credit investments between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

Exhibit 38: Top fund raises in 2019 with credit/stressed asset investment strategy

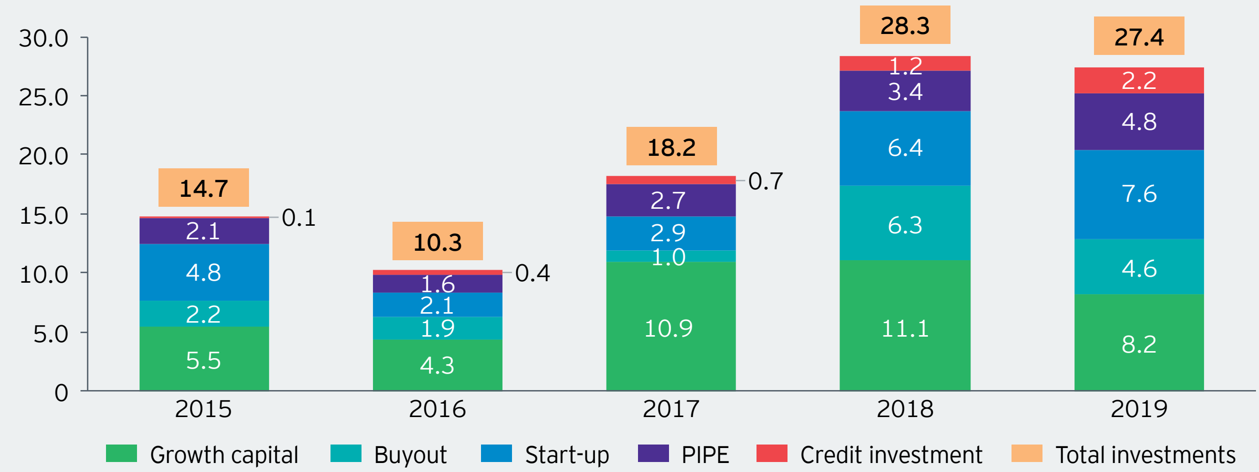
Fund	Amount (US$ m)	Strategy
Special Window for Affordable and Mid-Income Housing Fund (SWAMIH): Investment Fund I	1,465	mid-income housing-stalled projects
Edelweiss' alternative investment arm	1,295	stressed assets
Kotak Special Situations Fund	1,000	non-performing assets
India Resurgence Fund	750	structured debt

Source: EY analysis of VCCEdge data

7. Investment activity in pure play, traditional PE/VC has shown some divergence from macro PE/VC trends

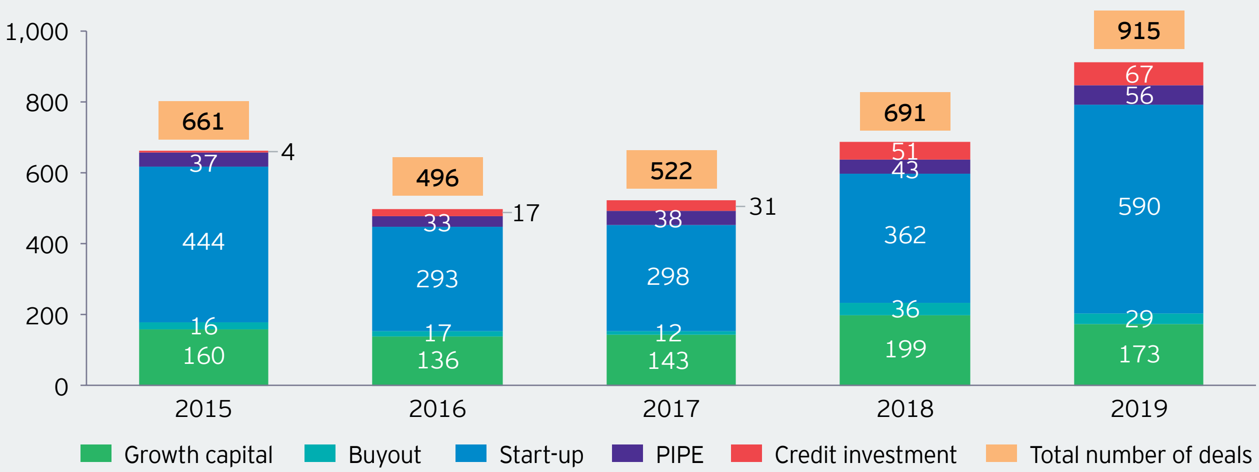
In 2019, traditional PE/VC investments (excluding infrastructure and real estate asset classes) decreased by 3%, from US$28.3 billion invested in 2018 to US$27.4 billion in 2019.

Exhibit 39: Traditional PE/VC investments split across deal types by value between 2015-2019 (US$ billion)



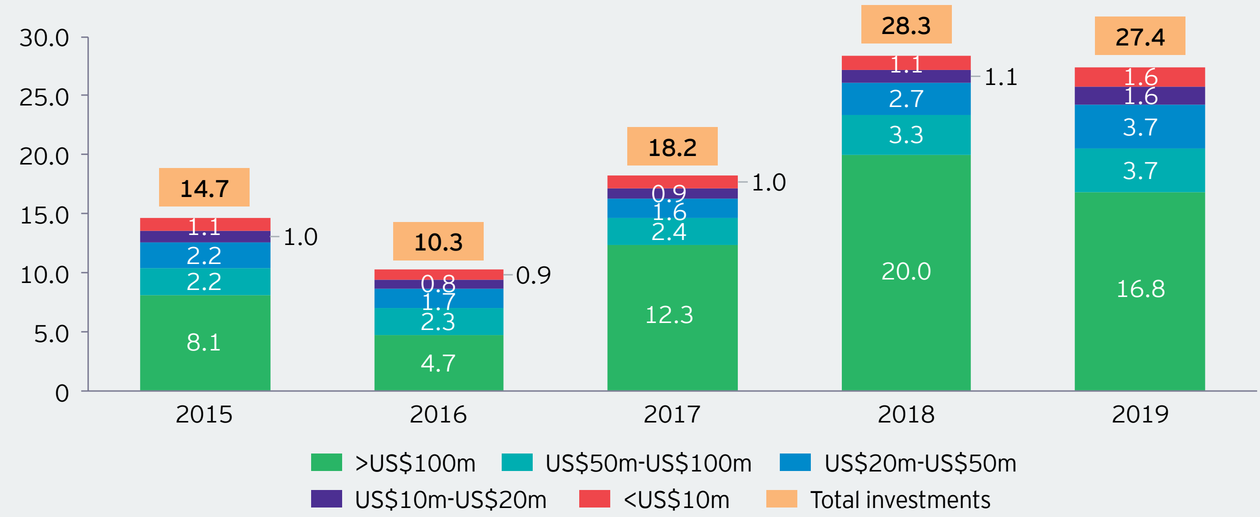
Source: EY analysis of VCCEdge data

Exhibit 40: Traditional PE/VC investments split across deal types by volume between 2015-2019



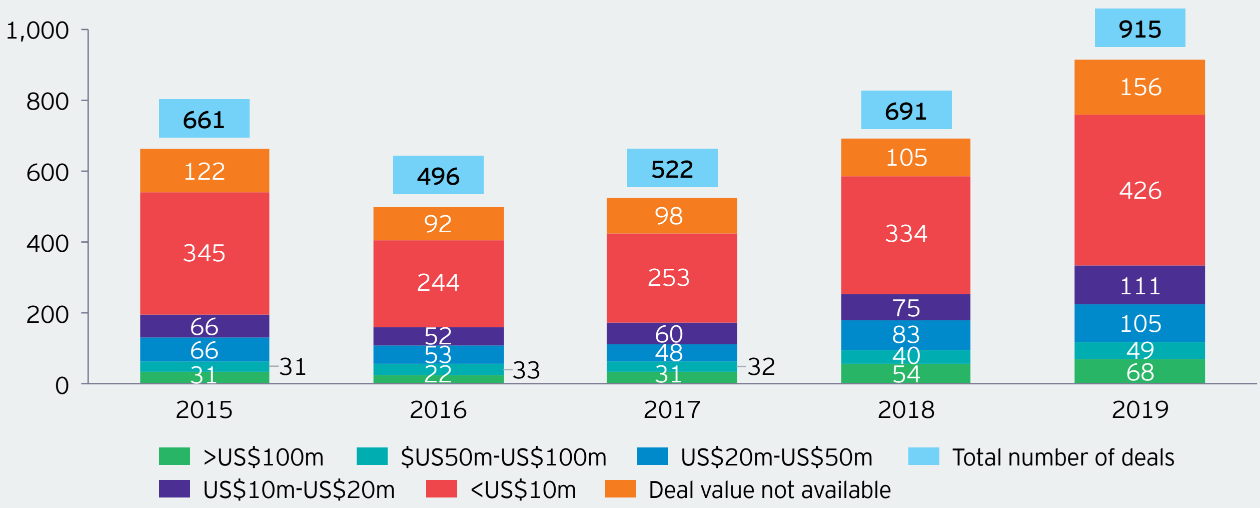
Source: EY analysis of VCCEdge data

Exhibit 41: Traditional PE/VC investment trend by deal size between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

Exhibit 42: Traditional PE/VC investment trend by deal size (number of deals) between 2015-2019



Source: EY analysis of VCCEdge data

This flatlining of traditional PE/VC investments last happened in 2016, when cumulative deal value dipped from US$14.7 billion in 2015 to US$10.3 billion in 2016. While this marginal dip may or may not be indicative of a future trend, the underlying data for traditional PE/VC investments indicate that:

a) Buyouts in traditional PE/VC investments in 2019 declined by 26% in value and 19% in number of deals.

b) Growth capital investments recorded a decline of 26% in value and 13% in number of deals.

c) Start-up investments grew by 19% in value and 63% in number of deals.

d) PIPE investments, at US$4.8 billion, increased by 40% in value while credit investments, at US$2.2 billion, increased by 80%.

e) PE/VC investment value is getting largely concentrated at the top-end of the deal size spectrum.

Exhibit 43: Top deals in 2019 in traditional PE/VC sectors (excluding infrastructure and real estate)

Target	Investors	Sector	Stage	US$m	Stake (%)
One 97 Communications Limited (Paytm)	Alibaba Group, Softbank	Financial services	Growth capital	1,000	NA
SBI Life Insurance Company Limited	Carlyle, CPPIB	Financial services	PIPE	817	11
Oravel Stays Private Limited (OYO)	SoftBank	E-commerce	Start-up	810	NA
CitiusTech Healthcare Technology Private Limited	Baring PE Asia	Technology	Buyout	800	80
Bharti Airtel Limited	GIC	Telecommunications	PIPE	726	NA
Hiveloop Technology Private Limited (Udaan)	GGV Capital, Altimeter Capital, Lightspeed and others	E-commerce	Start-up	585	NA
Essel Propack Limited	Blackstone	Industrial products	Buyout	540	75
Kyowa Pharmaceutical Industry Co. Limited (Lupin's Japan business)	Unison Capital Partners	Pharmaceuticals	Buyout	525	100
SBI General Insurance Co. Limited	PremjiInvest, Warburg Pincus	Financial services	Growth capital	433	26
Delhivery Private Limited	SoftBank, Carlyle and others	Financial services	Growth capital	415	38
BrainBees Solutions Private Limited (First Cry)	SoftBank	E-commerce	Growth capital	397	48
NIIT Technologies Limited	Baring PE Asia	Technology	PIPE	381	30
AGS Health Private Limited	Baring PE Asia	Technology	Buyout	339	>50
Bajaj Finance Limited	GIC	Financial services	PIPE	339	1
Lenskart Solutions Private Limited	SoftBank and others	E-commerce	Growth capital	275	NA

Source: EY analysis of VCCEdge data

Section 02

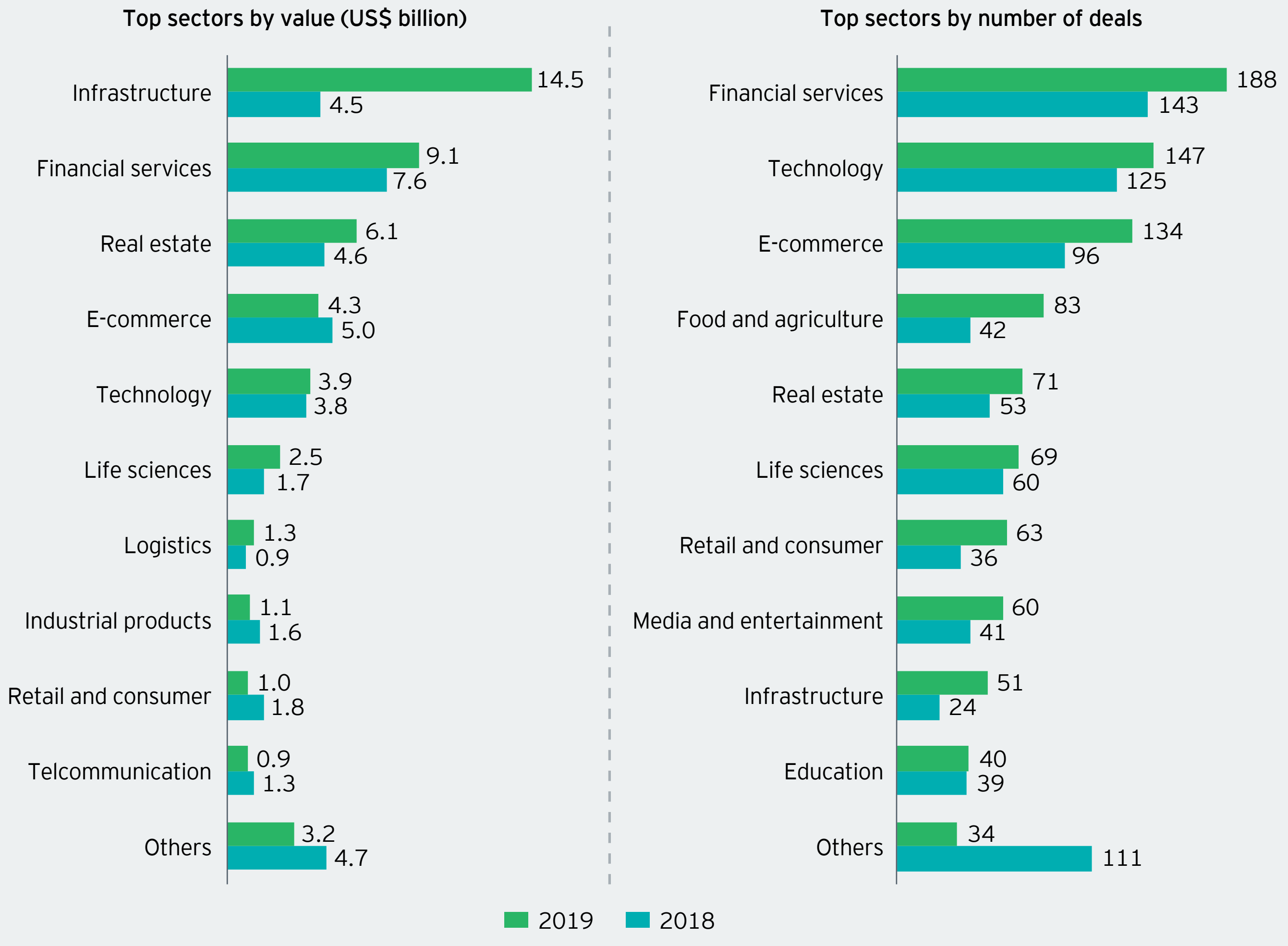
Sector insights

In 2019, most of the sectors recorded significant increase in value invested. Ten sectors recorded over US$1 billion in investments compared to nine in 2018. Infrastructure sector recorded the highest value of investments at US$14.5 billion (US$4.5 billion in 2018).

Notwithstanding recent headwinds faced by the Non-Banking Financial Company (NBFC) sector, PE/VC investment activity in the financial services sector has recorded healthy growth. In 2019, at US$9.1 billion, PE/VC investments in the financial services sector was up by 20% compared to last year. This was followed by real estate sector (US$6.1 billion across 71 deals) which saw a 33% y-o-y increase and e-commerce sector (US$4.3 billion across 134 deals), which declined by 13% y-o-y. These four sectors account for 71% of all PE/VC investments in 2019.

Other sectors that recorded increase in investments are technology (US$3.9 billion across 147 deals in 2019 vs. US$3.8 billion across 125 deals in 2018), life sciences (US$2.5 billion across 69 deals in 2019 vs. US$1.7 billion across 60 deals in 2018), food and agriculture (US$881 million across 83 deals in 2019 vs. US$647 million across 42 deals in 2018), and media and entertainment (US$686 million across 60 deals in 2019 vs. US$591 million across 41 deals in 2018).

Exhibit 44



Source: EY analysis of VCCEdge data

Real estate includes investment in hospitality (hotels) and construction, infrastructure includes investments in roads, ports, power and utilities and EPC contractors, and life sciences includes investment in healthcare and pharmaceuticals.

The following section covers key highlights of some of the prominent sectors, apart from the infrastructure sector, which we have already covered earlier as part of the key trends for 2019.

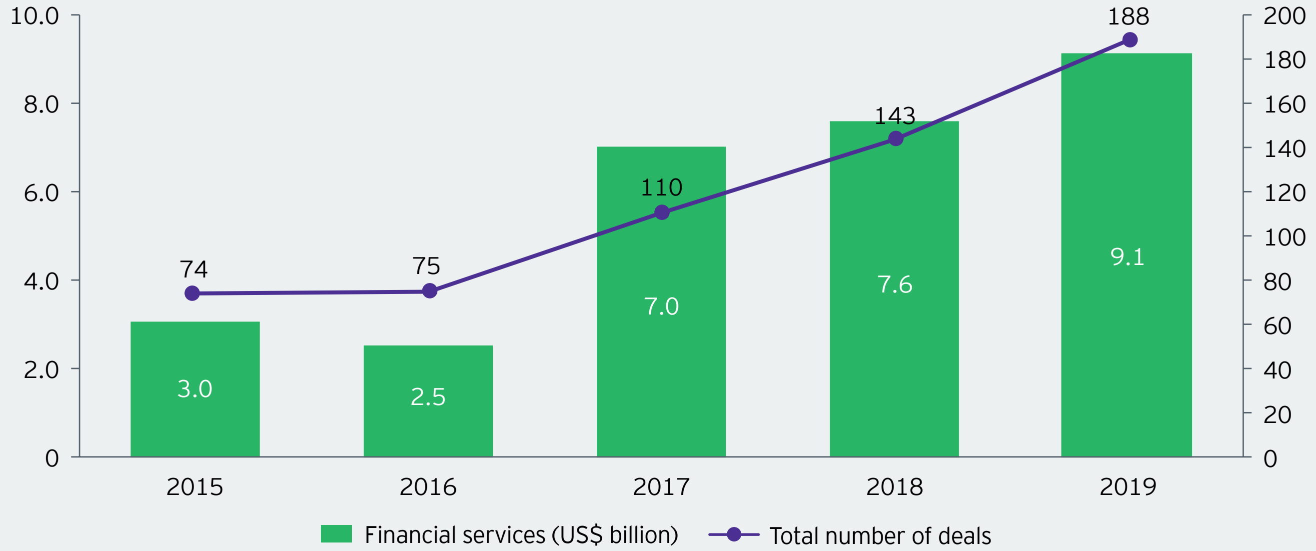
Analysis of key sectors

Financial services

Since 2017, financial services has emerged as a key sector of interest for PE/VC investments. These investments have been made across the varied business models ranging from pure play banks to specialized NBFCs, small finance banks, online credit platforms, insurance companies, and payment solution companies. PE/VC investments in financial services grew by 20% in 2019 compared to 2018. The number of PE/VC deals in this sector (188 deals) in 2019 were the highest number of deals recorded by any sector, topping the previous high of 184 deals recorded by the e-commerce sector in 2015.

There has been an exponential rise in both the value and number of deals in the financial services sector. The value of PE/VC investments in financial services sector has increased at a CAGR of 51% over the past five years from a base of ~US$1.2 billion in 2014, while the number of deals has grown at a CAGR of 33% over the same period.

Exhibit 45: Trend in PE/VC investments in financial services sector between 2015-2019 (US$ billion)



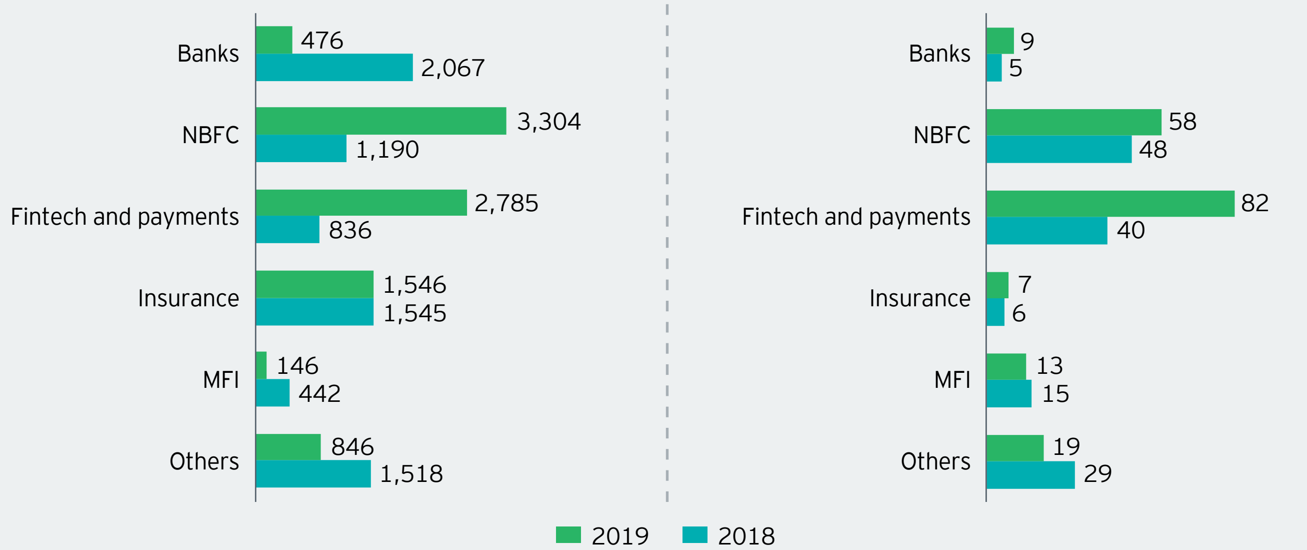
Source: EY analysis of VCCEdge data

NBFC and fintech were the largest sub-sectors to receive PE/VC investments, both in terms of value and volume. From number of deals perspective, fintech and payments accounted for 43% of deals in the financial services sector. As more PE/VC funds continue to back the financial services companies, which leverage technology to do business, this trend is expected to get stronger.

Exhibit 46

Top financial services sub-sectors by value (US$ million)

Top financial services sub-sectors by number of deals



Source: EY analysis of VCCEdge data

Exhibit 47: Top investment deals in financial services sector in 2019

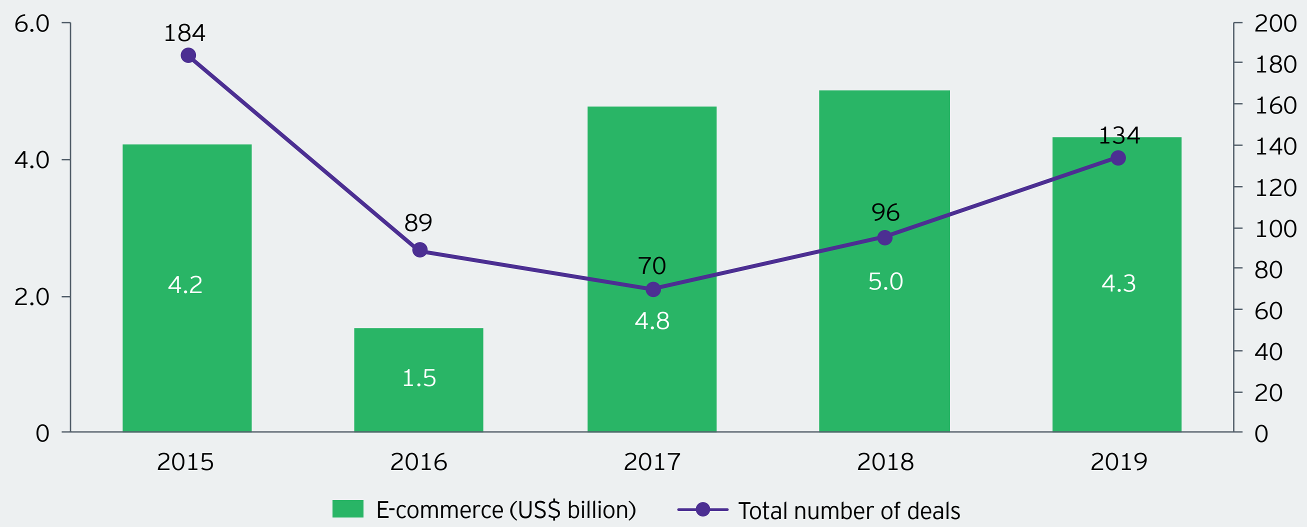
Target	Investors	Sub-sector	US$m	Stake (%)
One 97 Communications Limited (Paytm)	Alibaba Group, Softbank	Fintech and payments	1,000	NA
SBI Life Insurance Company Limited	Carlyle, CPPIB	Insurance	817	11
SBI General Insurance Co. Limited	PI Opportunities Fund I, Warburg Pincus	Insurance	433	26
Bajaj Finance Limited	GIC	NBFC	339	1
Piramal Enterprises Limited	CDPQ	NBFC	247	2
DMI Finance Private Limited	New Investment Solutions Liechtenstein	NBFC	230	NA
ECL Finance Limited	CDPQ	NBFC	200	NA
Dewan Housing Finance Corporation Limited	Oaktree Capital	Housing finance	194	NA
Cholamandalam Investment and Finance Company Limited	OPIC	NBFC	185	NA
Branch International Inc.	B Capital Fund, Foundation Capital, IFC and others	Fintech and payments	170	NA

Source: EY analysis of VCCEdge data

E-commerce

While 2018 was a record year for PE/VC investments in the e-commerce sector, the sector recorded a decline of 13% (on a y-o-y basis) in 2019. This was mainly due to fewer large deals (value greater than US$100 million) in 2019 compared to last year. In 2019, the e-commerce sector recorded eight large deals worth US$2.6 billion viz-a-viz 10 worth US$3.9 billion in 2018. In terms of number of deals, 2019 has recorded an increase of 40% (134 deals in 2019 vs. 96 deals in 2018).

Exhibit 48: Trend in PE/VC investments in e-commerce sector between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

Exhibit 49: Top investment deals in e-commerce sector in 2019

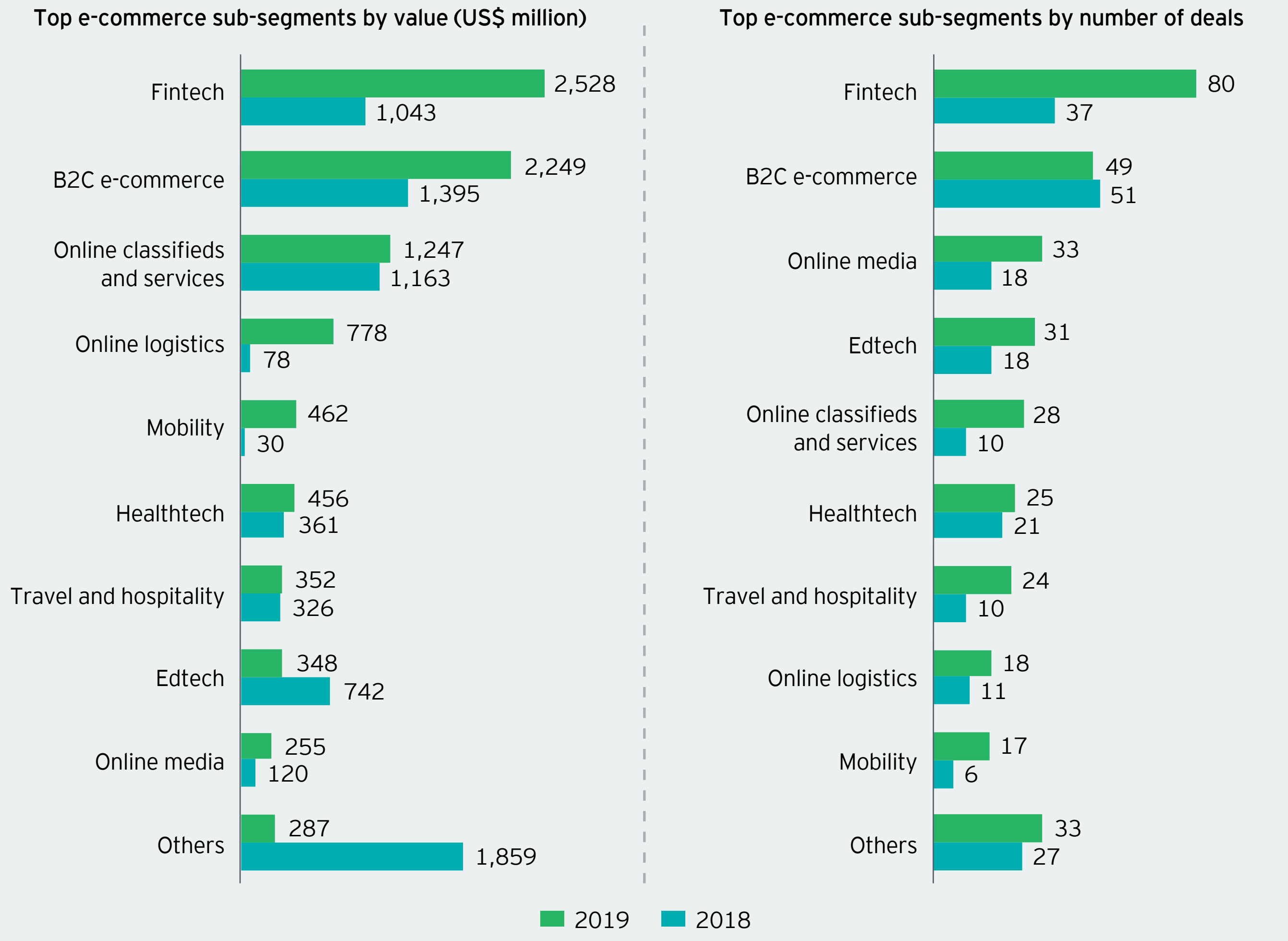
Target	Investors	Sub-sector	US$m	Stake (%)
Oravel Stays Private Limited (OYO)	SoftBank	Travel and hospitality	810	NA
Hiveloop Technology Private Limited (Udaan)	GGV Capital, Altimeter Capital, DST Global and others	B2C	585	NA
BrainBees Solutions Private Limited (First Cry)	SoftBank	B2C	397	48
Lenskart Solutions Private Limited	SoftBank	B2C	275	NA
Locodel Solutions Private Limited (Grofers.com)	Softbank, Tiger Global, and Sequoia Capital	B2C	220	NA
Wickedride Adventure Services Private Limited	B Capital, Accel	B2C	150	NA
Supermarket Grocery Supplies Private Limited (BigBasket)	Alibaba, CDC Group and others	B2C	150	13
Global Car Group Pte. Limited	Moore Capital, Sequoia Capital, DST Global and others	Online classifieds and services	100	NA
Hangzhou Jiayun Data Technology Co. Limited (Club Factory)	Qiming Venture Partners, Chiratae Ventures and others	B2C	100	NA
63Ideas Infolabs Private Limited (Ninjacart)	Tiger Global Management	B2C	89	26

Source: EY analysis of VCCEdge data

A further analysis of the deal data shows that one of the primary reasons for the decline in e-commerce investments is the shift in e-commerce activity to different business models, from traditional B2C retail e-commerce platforms like Flipkart, Pepperfry, BigBasket, etc. to segments like fintech, healthtech, logistics and hyperlocal delivery, edtech, travel and hospitality, etc.

Considering the broader definition including PE/VC investments in companies that have a significant e-commerce component in their business model but are otherwise included in the core sector they belong to (for e.g., Paytm from financial services, Byju's from education sector, Netmeds from pharma/healthcare sector) to be part of e-commerce sector, e-commerce sector would aggregate US$9 billion in PE/VC investments in 2019, a 26% increase over 2018 (US$7.1 billion – reclassified total for e-commerce) mainly on the back of large investments in the fintech sector. Fintech sector recorded US$2.5 billion in investments in 2019, a growth of around 2.5 times compared to 2018.

Exhibit 50: Investment activity across sub-segments in the e-commerce sector in 2019



Source: EY analysis of VCCEdge data

Others include hyperlocal deliver, online professional services and B2B e-commerce

Real estate

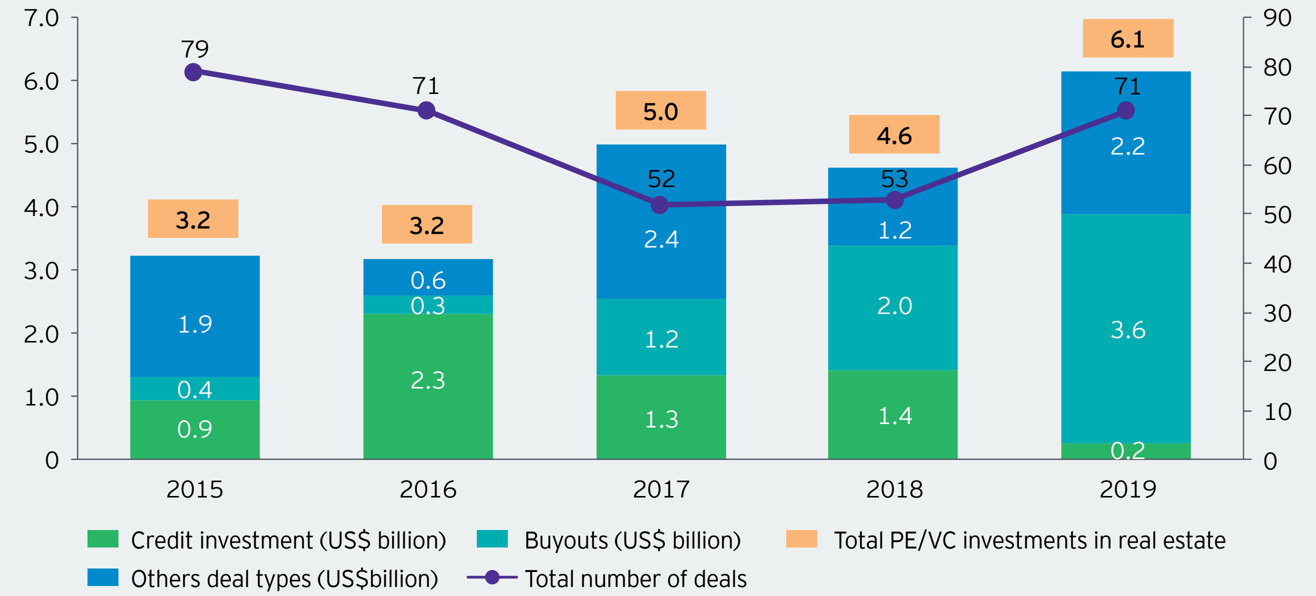
PE/VC investments in the real estate sector have recorded a significant growth over the past five years driven by large investments in yield generating assets by global buyout funds as well as pension and sovereign wealth funds. Nine out of the top ten investments in the real estate sector in 2019 were into commercial real estate.

The Government's focus on introducing reforms such as RERA has bolstered the confidence of both consumers and investors alike. The introduction of new investments structures like REITs has opened up a new avenue for investment, providing fund starved companies more options to monetize their assets while also attracting new class of investors. India saw its first REIT backed by Blackstone list on the Indian stock exchanges in 2019. Its success has prompted many other investors/corporates with good portfolio of commercial assets to draw up plans for REIT listings.

At US$6.1 billion, investments in the real estate sector increased by 33% in 2019 compared to last year. A large portion of them were buyout deals (59% of the total value of investments in real estate) which is a significant divergence from the earlier trend, where a larger proportion of investments in the real estate sector were credit investments.

In 2016, 2017 and a major part of 2018, a large number of investments in the real estate sector were driven by credit platforms funding development of residential and commercial projects, capitalizing on the lack of traditional modes of funding for the real estate sector which was a fallout of the rising bank NPAs and liquidity constraints in the NBFC sector. However, this trend started shifting towards buyouts in 2018 and became a dominant trend in 2019 with the likes of Brookfield, Blackstone and other large buyout funds lapping up portfolios of premium yield generating assets across commercial, retail, warehousing and industrial real estate segments.

Exhibit 51: Trend in PE/VC investments in the real estate sector between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

Exhibit 52: Top investment deals in the real estate sector in 2019

Target	Investors	Sub-sector	US$m	Stake (%)
Commercial properties of Indiabulls Real Estate	Blackstone	Commercial real estate	624	50
Four hotels of Hotel Leela Venture Limited	Brookfield	Hospitality	572	100
Two existing malls and an upcoming retail development project	Virtuous Retail, an APG Management-Xander JV	Retail	550	NA
DivyaSree Developers Private Limited (Hub6)	ADIA - Kotak	Commercial real estate	400	NA
Coffee Day's Global Village Tech Park	Blackstone	Commercial real estate	400	100
Radius Infra Holdings Private Limited (One BKC)	Blackstone	Commercial real estate	357	100
TSI Business Parks Hyderabad Private Limited (WaveRock Hyderabad office complex)	SPREF II	Commercial real estate	250	100
Shopping mall platform in India	Warburg Pincus (JV with Runwal Group)	Retail	200	50
Adarsh Developers Private Limited	HDFC Realty Fund, JM Financial, Kotak Realty Fund and Piramal Fund Management	Real estate developers	186	NA
Lodha Group's office building in Mumbai	Varde Capital Partners	Commercial real estate	155	81

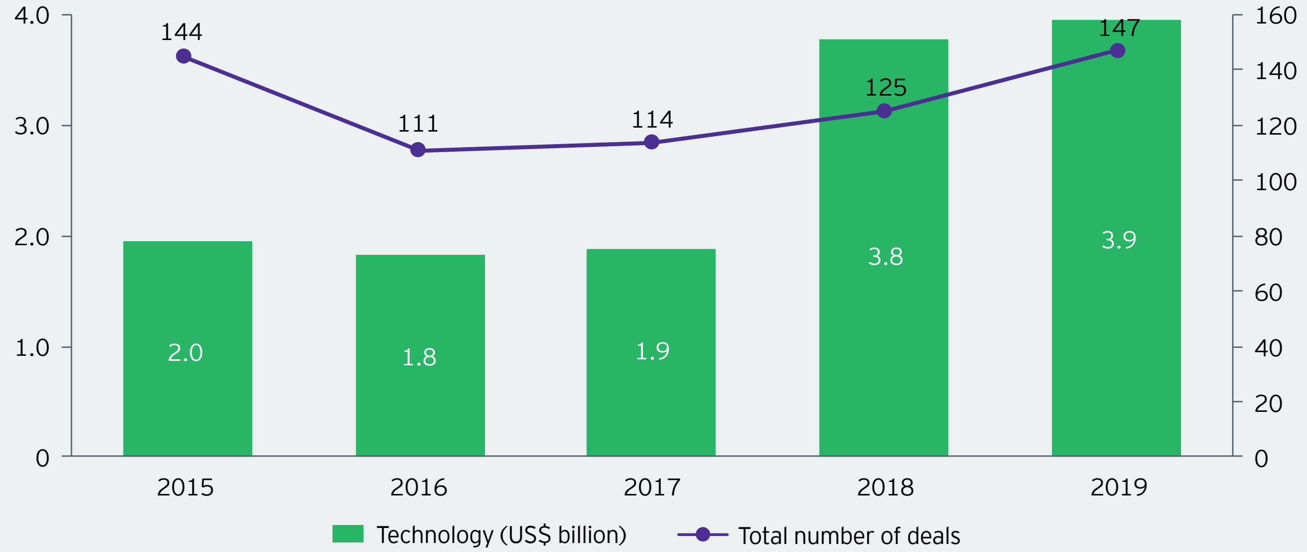
Source: EY analysis of VCCEdge data

Technology

After financial services, technology has been one of the top sectors in terms of number of deals. In the early days of PE/VC investments in India, this sector used to receive maximum investments from PE/VC funds. However, off late, investments in this sector have grown at a modest pace. While investments in new-age tech platforms like analytics, SAAS, Big Data, etc. are increasing, a majority of deals have happened in the traditional IT/ITES space.

In 2019, the technology sector recorded US$3.9 billion in investments, a modest 5% increase over 2018. However, the number of deals increased by 18% (at 147 deals), the highest in a year recorded by the sector.

Exhibit 53: Trend in PE/VC investments in the technology sector between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

Exhibit 54: Top investment deals in technology sector in 2019

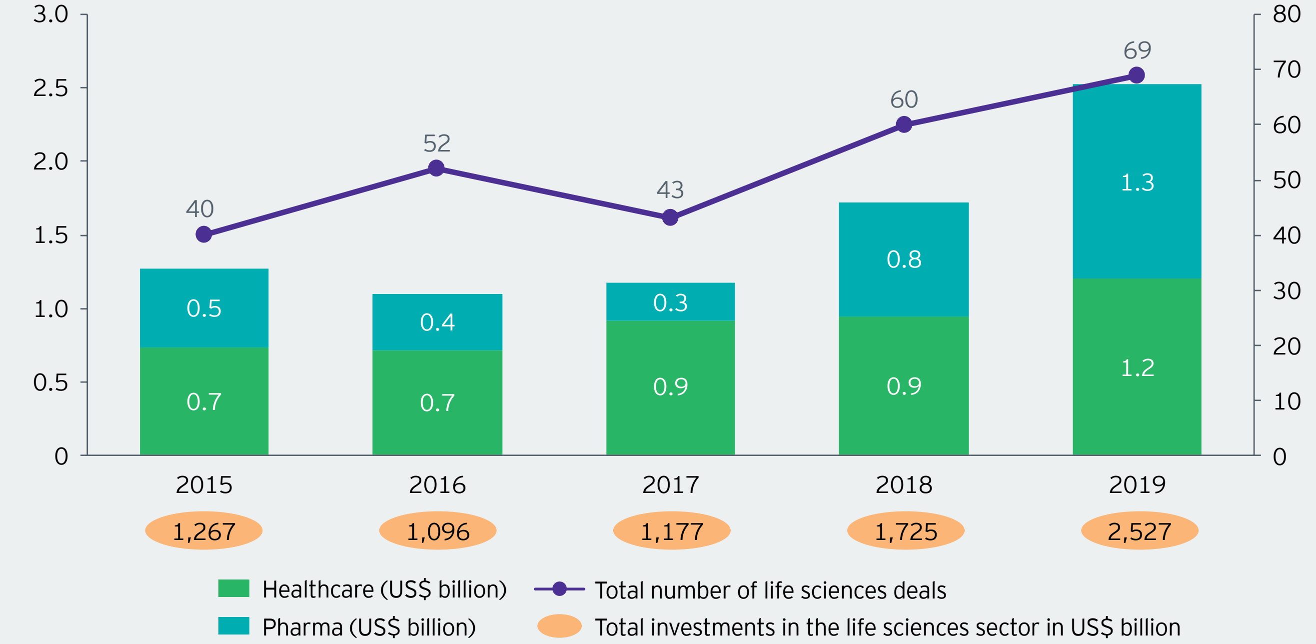
Target	Investors	Sub-sector	US$m	Stake (%)
CitiusTech Healthcare Technology Private Limited	Baring PE Asia	Healthcare technology	800	80
NIIT Technologies Ltd.	Baring PE Asia	IT/ITES	383	32
AGS Health Private Limited	Baring PE Asia	Healthcare technology	339	>50
Interglobe Technologies Private Limited	AION	IT/ITES	230	100
Fractal Analytics Private Limited	Apax Partners	Data analytics	200	45
Indecomm Digital Services Inc.	Warburg Pincus	IT/ITES	200	100
Appnomic Systems, ElasticRun, Zenoti, CRMNext, Manthan System, and Capillary Technologies	Avataar Ventures backed by HarbourVest	Data analytics	200	NA
Freshworks Inc.	Accel, CapitalG and Sequoia Capital	IT/ITES	150	4
Druva Inc.	Tenaya Capital, Nexus India Capital, Riverwood Capital and others	IT/ITES	130	NA
Near Pte. Limited	Greater Pacific Capital	Data analytics	100	NA

Source: EY analysis of VCCEdge data

Life sciences

India has recorded US$7.8 billion worth of PE/VC investments in the life sciences sector in the previous five years, with 2019 being the best year, both in terms of value and number of deals. During the same year, the sector received US$2.5 billion in investments across 69 deals. Over past five years, 60% of all investments in the life sciences sector have gone into the healthcare segment, over 70% of which were in hospitals and other provider services.

Exhibit 55: Trend in PE/VC investments in the life sciences sector between 2015-2019 (US$ billion)



Source: EY analysis of VCCEdge data

According to data published by the Association of Healthcare Providers, globally, India ranks among the lowest in terms of number of beds per 1,000 population, with 0.9 beds per 1,000 population - far below the global average of 2.9 beds. The growing ageing population and rise in costly chronic care needs are exerting considerable demand pressures on our healthcare system. Access to capital has been one of the biggest roadblocks to the growth of the Indian healthcare sector. According to the National Health Profile data, the Indian government spends just over 1% of its GDP on healthcare, which is among the lowest spent by any country globally.

Owing to these capacity constraints, the healthcare industry provides an attractive investment opportunity for PE/VC funds. Apart from the traditional formats like primary, secondary and tertiary care hospitals, new formats like diagnostics, mother and child hospitals, infertility clinics, etc. that require relatively low amounts of capital, are growing fast and attracting investor interest.

A significant share of the PE/VC investments in the life sciences sector has been in the form of growth capital, accounting for 45% of all dollar value of investments made in the past five years.

Another major trend witnessed in 2019 is the growing prominence of buyouts. There were five buyouts in the life sciences sector in 2019 aggregating to US$1.1 billion which is greater than the value of buyouts that this sector has seen in the preceding six years combined.

Exhibit 56: Top investment deals in the life sciences sector in 2019

Target	Investors	Sub-sector	US$m	Stake (%)
Kyowa Pharmaceutical Industry Co. Limited (Lupin's Japan business)	Unison Capital Partners	Pharmaceuticals	525	100
Bharat Serums and Vaccines Limited	Advent International	Pharmaceuticals	250	60
91Streets Media Technologies Private Limited (PharmEasy)	Temasek, Bessemer Ventures, Eight Roads and others	Healthtech	226	NA
Panacea Biotec Limited	India Resurgence Fund and others	Pharmaceuticals	142	NA
Sahyadri Hospitals Limited	Everstone Capital	Provide care	105	80
Rubicon Research Private Limited	General Atlantic	Pharmaceuticals	100	70
Indira IVF Hospital Private Limited	TA Associates	Provide care	100	15
Nova IVI Fertility Private Limited	Asia Healthcare Holdings (a TPG platform)	Provide care	100	100
CureFit Healthcare Private Limited	Epiq Capital Fund, IDG Ventures, Kalaari Capital, Accel and others	Healthtech	75	NA

Source: EY analysis of VCCEdge data

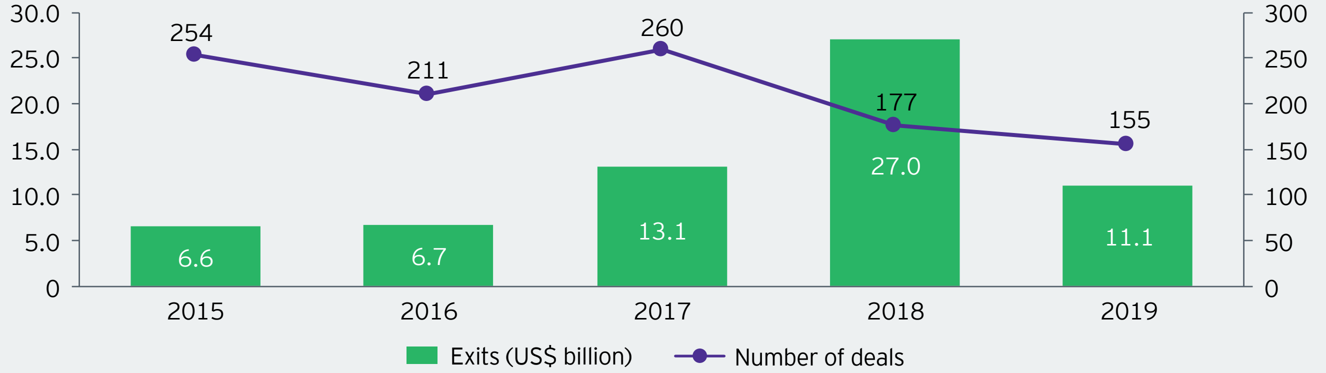

89%
53.00
50.00
47.00
44.00
41.00
2019-06-09
38.00
1.31
0.65
0.00
-0.65

Section 03

Exits show a lukewarm performance

2019 recorded US$11.1 billion in exits. There was a sharp decline of 59% compared to last year. In 2018, PE/VC exits included the US$16 billion Walmart-Flipkart deal, India's largest ever PE/VC exit. Adjusting for this one-off deal, PE/VC exits in 2019 were just about at par with 2018 and well below 2017.

Exhibit 57: Exits - annual trend (US$ billion)



Source: EY analysis of VCCEdge data

With some rebound in capital markets, open market exits have recorded an increase of 171% in 2019 compared to last year. Secondary and strategic exits were next in line with deals worth US$2.5 billion and US$1.9 billion, respectively. These are, however, significantly lower compared to secondary and strategic exits worth US$5 billion and US$18.4 billion, respectively, recorded in 2018.

PE-backed IPOs recorded a significant decline with eight IPOs worth US$247 million in 2019 compared to 13 worth US$876 million in 2019.

The largest exit in 2019 saw OYO's founder undertake a partial buyback of stakes worth approximately US$1.5 billion from Sequoia and Lightspeed, followed by Fairfax selling its 10% stake in ICICI Lombard General Insurance Company Limited for US$732 million.

From a sector perspective, financial services (US$2.9 billion across 24 exits), e-commerce (US$1.9 billion across 10 exits), and technology (US$1.7 billion across 19 exits) were the top sectors for PE/VC exits in 2019.

Exhibit 58: Top PE/VC exits in 2019

Target	Sector	Sellers	Buyers	Exit type	US$m	Stake (%)
Oravel Stays Private Limited (OYO)	E-commerce	Lightspeed, Sequoia	Ritesh Agarwal	Buyback	1,500	23.7
ICICI Lombard General Insurance Company Limited	Financial services	Fairfax	NA	Open market	732	10
Genpact Limited	Technology	Bain Capital, GIC	NA	Open market	625	15
SBI Life Insurance Co. Limited	Financial services	Carlyle	NA	Open market	393	3
CitiusTech Healthcare Technology Private Limited	Healthcare	General Atlantic	Baring PE Asia	Secondary	389	32
ICICI Lombard General Insurance Company Limited	Financial services	Fairfax	NA	Open market	362	5
Genpact Limited	Technology	Bain Capital, GIC	NA	Open market	324	5
Cancer Treatment Services Private Limited	Healthcare	TPG	Varian Medical Systems Inc.	Strategic	283	NA
Lenskart Solutions Private Limited	E-commerce	IFC, TPG and PremjiInvest	Softbank	Secondary	275	NA
Housing Development Finance Corporation Limited	Financial services	KKR	NA	Open market	270	1
2.5 million sq. ft IT SEZ property, Waverock	Real estate	GIC, Tishman Speyer	Allianz-Shapoorji JV	Strategic	250	100

Source: EY analysis of VCCEdge data

Key trends in PE/VC exits

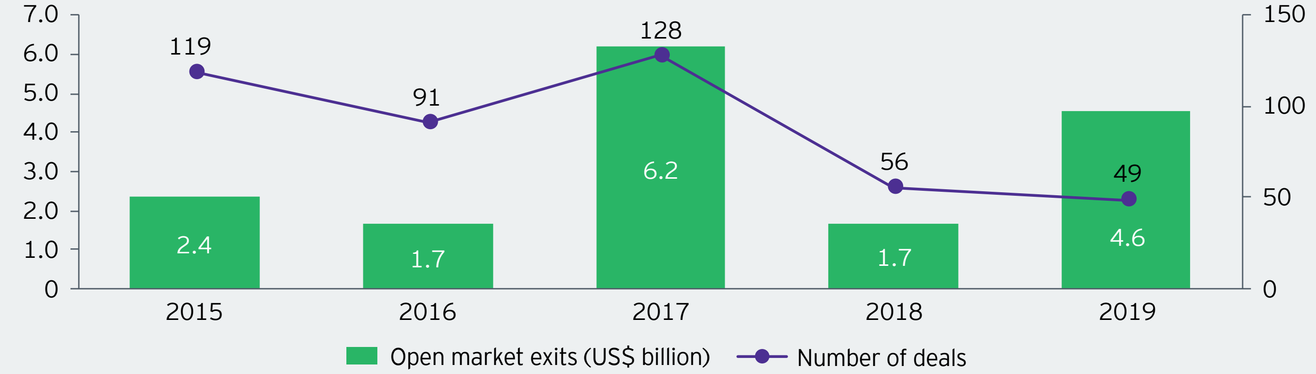
1. Open market exits rebound

Exits via open market increased by 171% on a y-o-y basis to US$4.6 billion in 2019. Open market was the top mode of exit in 2019 in terms of value accounting for 41% of all exits by value. These exists were the second highest in the last decade after US$6.2 billion recorded in 2017. However, 2019 recorded larger deals with average deal size of US$93 million, which was twice the average deal size in 2017.

Exists in the financial services sector accounted for 54% of all open market exits, out of which US$2 billion was accounted for by exits in just two counters - ICICI Lombard General Insurance Company Limited and SBI Life Insurance Company Limited, by a group of marquee investors, including Warburg Pincus, Fairfax, KKR and Carlyle.

The largest open market exit in 2019 saw Fairfax sell its 10% stake in ICICI Lombard General Insurance Company Limited for US$732 million.

Exhibit 59: Exits via open market: annual trend (US$ billion)



Source: EY analysis of VCCEdge data

Exhibit 60: Top open market exits in 2019

Target	Sellers	Sector	US$m	Stake (%)
ICICI Lombard General Insurance Company Limited	Fairfax	Financial services	732	10
Genpact Limited	Bain Capital, GIC	Technology	625	15
SBI Life Insurance Company Limited	Carlyle	Financial services	393	3
ICICI Lombard General Insurance Company Limited	Fairfax	Financial services	362	5
Genpact Limited	Bain Capital, GIC	Technology	324	5
Housing Development Finance Corporation Limited	KKR	Financial services	270	1
ICICI Lombard General Insurance Company Limited	Warburg Pincus	Financial services	226	3
ICICI Lombard General Insurance Company Limited	Warburg Pincus	Financial services	194	3
DLF Limited	GIC	Real estate	187	4
Crompton Greaves Consumer Electricals Limited	Temasek, Advent International	Retail and consumer	178	8

Source: EY analysis of VCCEdge data

2. PE-backed IPOs lose momentum

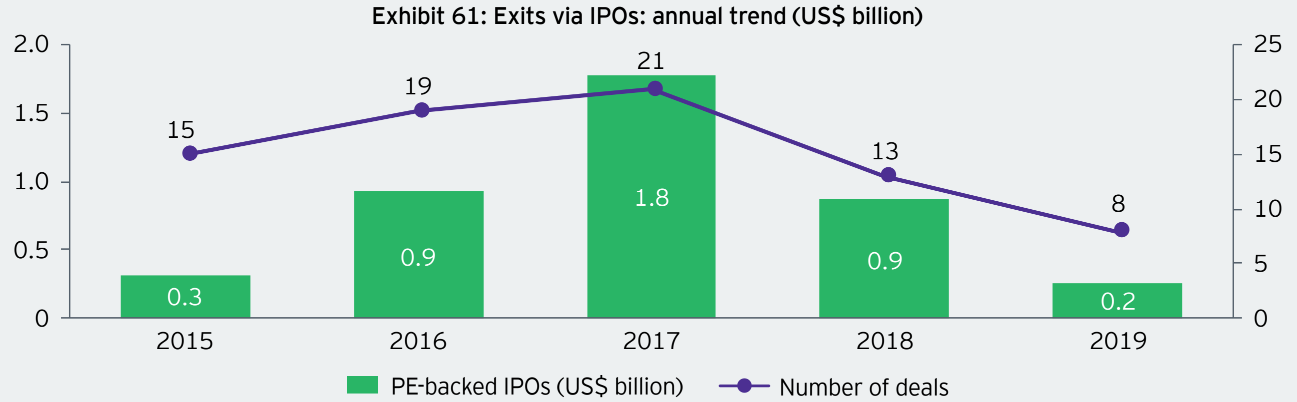
PE-backed IPOs were on an uptrend till the first half of 2018. However, in 2019, exit via IPOs recorded a decline of 72% in value and 38% in volume due to capital markets remaining non-conducive for listing of mid-caps/small-caps for a major part of 2019.

At the beginning of 2018, there were 15 PE-backed companies that had filed DRHPs while another 15 were in the process of filing them. However, by the end of the year, only 13 PE-backed companies successfully managed to list their IPOs which then declined further to eight in 2019. 2019 also recorded the lowest number of PE-backed IPOs in the past six years, largely on account of the decline in valuations and appetite for mid-cap/small-cap paper.

The decline in PE-backed IPOs is in line with the overall trend in IPO listings in 2019. In 2017, the IPO proceeds had hit a record high of US$11.7 billion. Funds raised by Indian IPOs fell to just U$2.8 billion this year, the lowest in four years.

Many of the IPOs listed in 2019 have performed well, boosting the outlook for more issues next year. Shares of Indian Railway Catering and Tourism Corporation Limited, marketing and advertising firm Affle (India), and e-commerce company Indiamart Intermesh have doubled in value from their issue prices. The S&P BSE IPO Index (BSEIPO), which measures the performance of companies listed at the Bombay Stock Exchange after the completion of their IPOs, has surged around 40% in 2019, outperforming the broader indexes such as Nifty 50 and Sensex.

Exhibit 61: Exits via IPOs: annual trend (US$ billion)



Source: EY analysis of VCCEdge data

Exhibit 62: Top PE-backed IPO exits in 2019

Target	Sellers	Sector	US$m	Stake (%)
Metropolis Healthcare Limited	Carlyle	Healthcare	90	15
Spandana Sphoorty Financial Limited	Kedaara Capital, Helion Ventures Partner and Valiant Capital	Financial services	88	2
Indiamart Intermesh Limited (Indiamart.com)	Intel Capital India Technology Fund, Accion Frontier Inclusion Fund LP, Amadeus Capital Partners Ltd.	E-commerce	69	12
Chalet Hotels Limited	No offer for sale by PE/VC investor	Real estate	NA	NA
Embassy REIT	No offer for sale by PE/VC investor	Real estate	NA	NA
Polycab India Limited	No offer for sale by PE/VC investor	Industrial products	NA	NA
Affle India Limited	No offer for sale by PE/VC investor	Technology	NA	NA
Ujjivan Small Finance Bank Limited	No offer for sale by PE/VC investor	Financial services	NA	NA

Source: EY analysis of VCCEdge data

3. Secondary and strategic exits record sharp declines

In 2019, there was a decline of 51% in secondary exits and 90% in strategic exits in terms of value on a y-o-y basis. 2018 was the best year for both secondary and strategic exits, recording US$5 billion and US$18.4 billion in deal value, respectively.

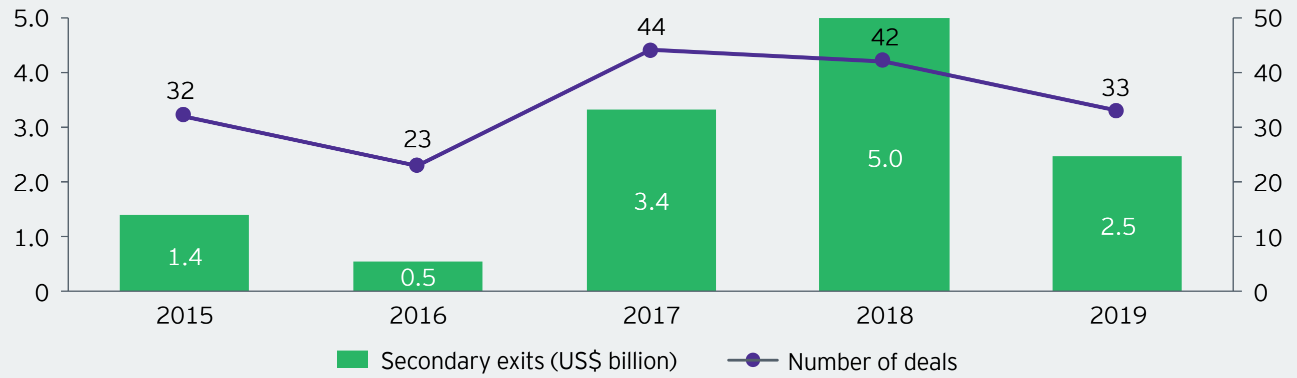
The decline in secondary exits in 2019 was primarily driven by decline in deal activity, with number of secondary exits declining by 21% on a y-o-y basis. Macro headwinds like decline in growth rate, slippage in fiscal deficit and impact of global trade wars have dampened the investor sentiment and growth outlook of many companies. As a result, many PE/VC investors were unable to get the desired valuations on their holdings, thus reducing the velocity of secondary transactions in the market.

Strategic exits, on the other hand, did not fare as badly. The marked decline in the value of strategic exits in 2019 was mainly due to the large US$16 billion Flipkart-Walmart deal recorded in 2018. Adjusting for this deal, strategic exits have been almost at par with last year.

In terms of sectors, healthcare sector was the most active sector for secondary exits with seven deals worth US$516 million, while real estate was the most active sector for strategic exits with five deals worth US$347 million.

With large-scale investments in mid- and small-sized companies happening over the past five years, we expect to see a good pipeline of targets lining up for secondary and strategic exits in the coming years.

Exhibit 63: Exits via secondary sale: annual trend (US$ billion)



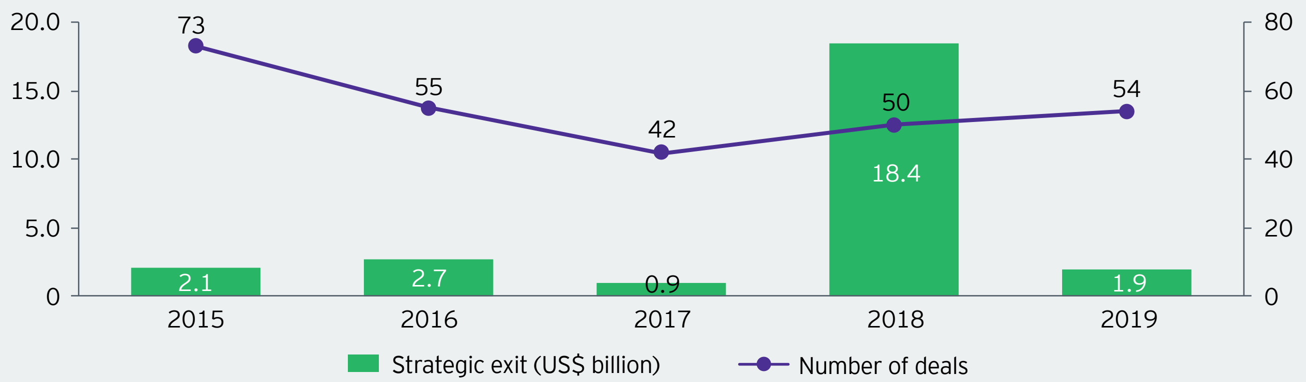
Source: EY analysis of VCCEdge data

Exhibit 64: Top secondary exits in 2019

Target	Sellers	Buyers	Sector	US$m	Stake (%)
CitiusTech Healthcare Technology Private Limited	General Atlantic	Baring PE Asia	Healthcare	389	32
Lenskart Solutions Private Limited	IFC, PI Opportunities Fund II, TPG and others	SoftBank	E-commerce	275	NA
Appnomic Systems, ElasticRun, Zenoti, CRMNext, Manthan System, and Capillary Technologies	Norwest	Avataar Venture Partners backed by HarbourVest	Technology	200	NA
Fractal Analytics Private Limited	TA Associates	Apax Partners	Technology	178	~40
DFM Foods Limited	Westbridge Crossover Fund and others	Advent International	Food and agriculture	164	25
EuroKids International Private Limited	Gaja Capital and Partners Group	KKR	Education	150	75
Delhivery	Multiples	CPPIB	Logistics	150	8
PolicyBazaar	Tiger Global	Tencent	E-commerce	150	10
GMR Airports Limited	Jacob Ballas Capital, JM Financial, Macquarie-SBI Infrastructure Fund, Standard Chartered Private Equity Advisory and others	GIC, SSG Capital Management	Infrastructure	131	5
Indecomm Digital Services	Capital Square Partners	Warburg Pincus	Business and professional services	110	55

Source: EY analysis of VCCEdge data

Exhibit 65: Exits via strategic sale/M&A: annual trend (US$ billion)



Source: EY analysis of VCCEdge data

Exhibit 66: Top strategic exits in 2019

Target	Sellers	Buyers	Sector	US$m	Stake (%)
Cancer Treatment Services International Inc.	TPG Growth	Varian Medical Systems Inc.	Healthcare	283	NA
2.5 million sq. ft IT SEZ property, Waverock	GIC, Tishman Speyer	Allianz-Shapoorji JV	Real estate	250	100
Mindtree Limited	Nalanda India Fund I	Larsen and Toubro Limited	Technology	247	11
Madura Micro Finance Limited	Elevar Advisors and others	CreditAccess Grameen Limited	Financial services	123	NA
Qwikcilver Solutions Private Limited	Accel India, Helion Venture Partners, Sistema Asia Fund and others	Pine Labs Private Limited	Media and entertainment	110	NA
Consul Neowatt Power Solutions Private Limited	Peepul Capital	Fuji Electric Co. Limited	Infrastructure	104	84
VKL Seasoning Private Limited	True North	Firmenich S.A.	Food and agriculture	98	86
Born Group Inc.	True North and Zodius Capital Advisors	Tech Mahindra Limited	Technology	95	NA

Source: EY analysis of VCCEdge data


1217.72 1211.96 1193.89
EMA5 EMA10 EMA50
1208.71

Section

04

Spotlight: importance of PE/VC investments as a source of FDI

Over the past four to five years, PE/VC investments have emerged as an important source of capital for the Indian economy and are now almost equal to ~1.7% of the Indian GDP. This is the level China was at in 2018. As the Indian PE/VC industry moves towards global averages, it is mimicking some of the global trends, such as buyouts gaining prominence, deals becoming larger and more complex, and LPs increasingly making direct investments. The contribution of PE/VC capital to the overall Indian economy has also increased significantly from levels of around 0.7% of GDP in 2016 to its current level of around 1.7%.

Exhibit 67: PE/VC investments as a % of GDP

	2016	2017	2018	2019*
Global	**1.7%**	**1.7%**	**1.8%**	**1.7%**
United States	3.3%	3.2%	3.6%	3.2%
China	2.0%	1.5%	1.7%	0.7%
Europe	1.8%	2.1%	2.2%	2.2%
UK and Ireland	3.5%	5.5%	4.1%	4.5%
DACH (Germany, Austria, Switzerland)	1.2%	0.9%	0.8%	1.7%
France and Benelux	2.7%	2.3%	2.4%	2.6%
India	0.7%	1.0%	1.4%	1.7%

Note: PE/VC investment data for China are estimates based on 11 months data. China recorded a significant drop in PE/VC deal activity in 2019 due to investor concerns around performance of Chinese tech companies. Also 2018, had recorded large funding rounds like the US$14 billion raised by Ant Financial

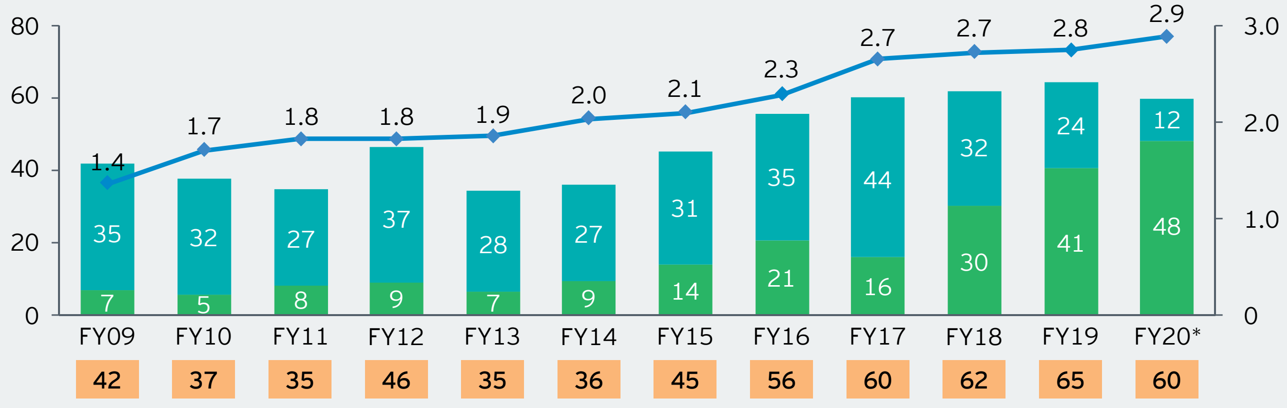
**GDP data used for 2019 are estimates published by IMF*

Source: IMF, DIPP, the Ministry of Commerce, Preqin, Pitchbook and VCCEdge

A significant portion (over 80% approximately) of this PE/VC capital being invested in India is of foreign origin, either in the form of foreign global GPs investing from their global/regional funds or in the form of foreign global LPs contributing capital to various GPs active in India/investing directly in India. With many of these large global LPs increasing their direct investments and deploying larger sums of money in each round of funding that they participate in, the flow of foreign capital is expected to accelerate.

Unlike the short-term nature of foreign portfolio investments, PE/VC capital is long term and can be characterized as FDI. The share of PE/VC investments as a percentage of overall FDI coming into India has increased significantly over the past three years. This is not surprising considering India's ranking amongst the top three most attractive emerging market destinations for LP investments from 2016 to 2019.

Exhibit 68: PE/VC investments/FDI split vs. GDP trend

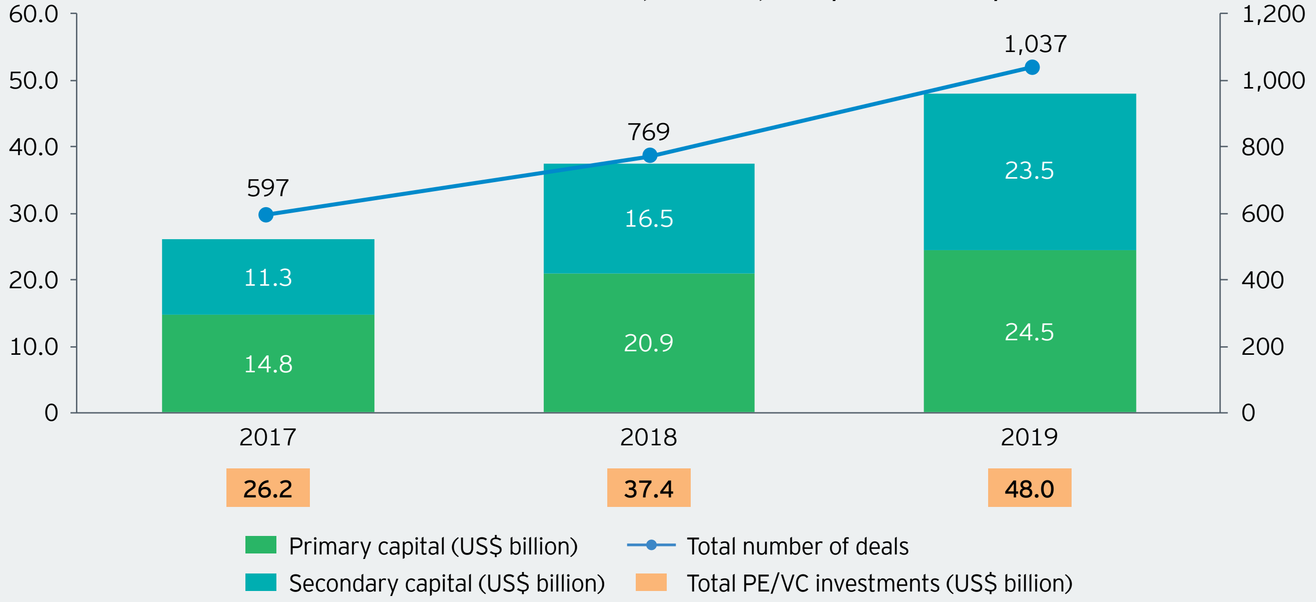


** FY20 numbers are estimates*

Source: RBI, DIPP and VCCEdge

A break-up of the PE/VC investments flow over the past three years indicates that approximately 54% of all PE/VC capital that came into India during 2017-2019 (US$111.6 billion) was in the form of primary investments made into companies, helping them to build incremental capacities, create jobs, etc.

Exhibit 69: PE/VC investments split across primary and secondary*



Source: EY analysis of VCCEdge data

** When PE/VC investment flows into a company, it is categorized as primary capital, whereas when these investments are made towards buying stakes from existing shareholders, they are categorized as secondary capital along with buyout investments and PIPE deals.*

Majority of this primary capital is in the form of start-up, growth capital and credit funding and contributes directly to fresh capital formation. Majority of the secondary capital, on the other hand, is in the form of buyouts and PIPE investments.

After analyzing the PE/VC investment data thoroughly, it was found that even in buyout deals, a large proportion of the PE/VC capital invested goes into corporates which are going concerns. These sellers either sell their non-core businesses or monetize other assets to fund their core businesses/deleverage their balance sheets. Our analysis also indicated that a very small proportion of PE/VC buyout capital actually results in a cash-out by the sellers (other than when the seller is a financial investor, or the deal is a pure secondary transaction).

Some of the large buyout transactions in the infrastructure sector like the Brookfield-Reliance Jio deal, various investments in infrastructure InvITs as well as investments in holding companies/subsidiaries of airport developers/operators are effectively foreign capital raised by sellers to either re-invest in their respective core businesses or to deleverage balance sheets and/or a combination of both. Similarly, a deeper analysis of the PIPE investments data indicated that some amount of capital is invested in the businesses of listed corporates through QIPs, rights issues, IPOs, etc.

On adjusting the base level primary and secondary PE/VC investment data for 2017-2019 for these factors, it was found that the proportion of PE/VC investments attributable to productive capital formation (adjusted primary capital) increased from 54% to almost 77%.

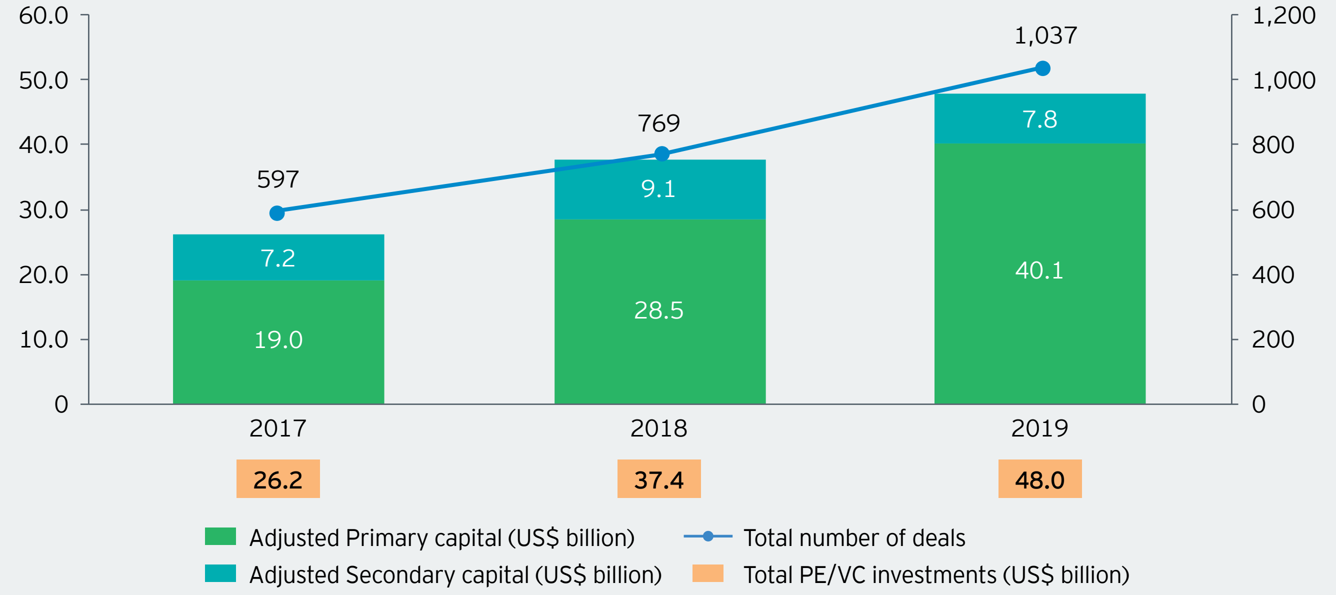
This translates to an estimated US$87.5 billion of funding between 2017-2019 towards creation of new jobs, capacities, technologies, infrastructure, credit, etc. which has a material collateral impact on affordability of better health services, education, development of human capital and increase in the attractiveness of India as an investment destination.

PE/VC sector as a pillar of the Indian economy

Over the past few years, the rising PE/VC investments into India has positively impacted the country in many ways. Some of them are:

- Since its early days, PE/VC investments have acted as a tailwind to the Indian entrepreneurship culture providing the much-needed growth capital across industries. PE/VC funds have invested in over 5,000 companies providing capital at various stages from seed to growth.

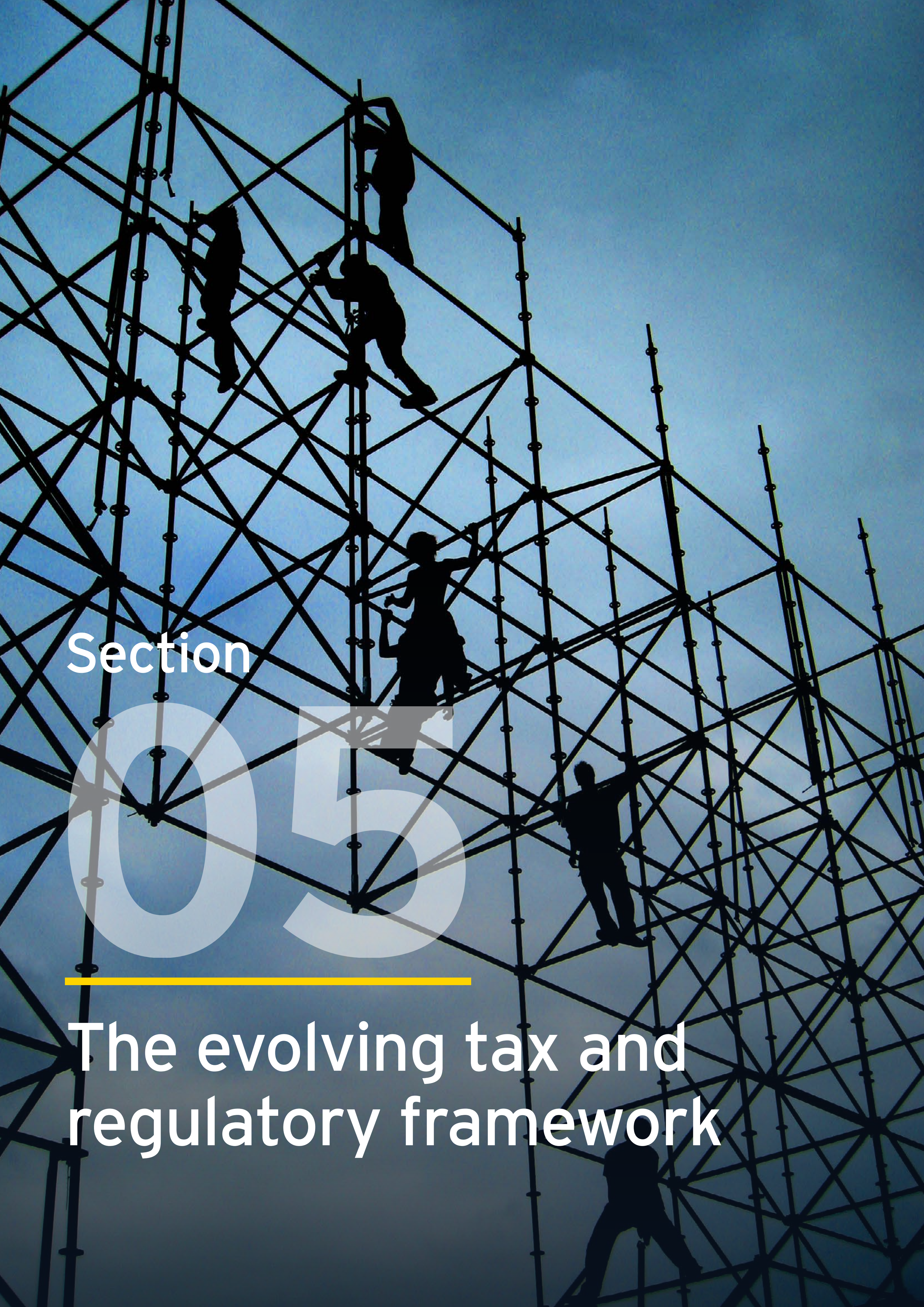
Exhibit 70: PE/VC investments split across primary and secondary, after adjustments



Source: EY analysis of VCCEdge data

- These investments have supported capital intensive industries like wireless telecom and renewables right from their early years. These sectors owe a large part of their current size and scale to timely investments made by the PE/VC sector.
- PE funds, with their *platform strategy*, and VC funds, with their early-stage bets in start-ups, have *democratized entrepreneurship* in India, bringing in a much-needed cultural change and rise in risk appetite. The last five years have seen many professionals taking the entrepreneurial plunge, founding new businesses to address some of the needs of the country.
- Thanks to PE/VC, there is no shortage of capital for the right idea, the right team and the right business. The new businesses funded by PE/VC investments are in turn creating new jobs avenues and are playing a meaningful role in the growth and development of the country.
- The risk appetite of private equity investors has helped shape the development of some of the critical industries.
- Off late, PE/VC has been one of the main catalysts behind the growth of new-age tech-enabled businesses in India ranging from e-commerce, fintech, healthtech, and edtech, to online streaming media and delivery and logistics platforms that have created several jobs and helped develop a new ecosystem. A large part of the boom in sectors like e-commerce, payments, hyperlocal delivery, etc. can be attributed to the PE/VC sector that helped these early-stage companies with their cash burn while they focused on changing consumer behavior and driving rapid consumer adoption.
- In addition to the new-age sectors, PE/VC funds have also invested much needed growth capital in some of the core sectors of the economy like financial services and real estate. PE/VC funds have invested close to US$23.7 billion into financial services companies between 2017 to 2019. In addition, they have done direct credit investments of US$8.2 billion over the same period.
- Similarly, capital starved real estate sector found support from the PE/VC industry that has invested US$15.8 billion between 2017 to 2019.
- Another major sector of the economy that the PE/VCs have heavily invested is the infrastructure sector that has received over US$22 billion as investments between 2017 to 2019.

The relationship between PE/VC investors and India is a symbiotic one which we expect to only grow over time. India is one of the few large economies that has the potential to deliver 'above normal growth' for the sustainable future. PE/VC funding in India is expected to continue to be overweight towards fresh capital formation and have a multiplier effect on the economy.



Section

05

The evolving tax and regulatory framework

The year 2019 till the recently announced Budget 2020-2021 has been an eventful period from a tax and regulatory perspective for the alternative investments' ecosystem. From a tax standpoint, the Government of India (GoI) continued its efforts to provide tax certainty, simplicity and incentives to foreign investors. On the regulatory front, the government has endeavored to strengthen relationships with these investors with the underlying objective of encouraging foreign investments and ease of doing business in India.

We have summarized below some of the key tax and regulatory changes introduced in 2019 and in the recently announced Budget 2020-2021 that are likely to impact the alternative investments ecosystem:

Tax section

Key tax proposals introduced in the Finance Bill, 2020

1. Abolition of Dividend Distribution Tax (DDT)

The Finance Bill, 2020 has proposed to remove DDT and re-introduce the classical system of taxing dividend in hands of the recipient. Earlier DDT was levied at an effective rate of 20.56% on dividends distributed by domestic companies and correspondingly, such income was exempt from tax in the hands of the shareholders (except certain specified Indian resident shareholders). Consequently, from financial year 2020-21 onwards any distribution of dividend income on shares by domestic companies shall be taxable in the hands of shareholders at applicable tax rates (i.e., as per the provisions of the tax treaty or slab rates or corporate tax rates, as the case may be). The provisions shall also apply to investors who have invested in investment vehicles such as Alternative Investment Funds (AIFs), Real Estate Investment Trust (REITs) and Infrastructure Investment Trust (InvITs) that are eligible for a pass-through tax treatment.

Additionally, where dividend is taxable in the hands of the shareholders on a net income basis, it has been proposed that only interest expense will be allowable as a deduction against dividend income earned, which is however subject to a cap of 20% of the dividend income.

The cascading effect of taxation of dividend in the case of multi-layered Indian corporate structure has been partially addressed by providing that any dividends, received by an Indian company, that are in turn distributed by the recipient Indian company to its shareholders by a specified date, after the end of the financial year, shall be available as a deduction and only the net dividend income shall be taxable. The aforesaid deduction shall be available irrespective of the level of shareholding the recipient Indian company has in the lower tier company that has distributed the dividend.

As per the new ruling, the dividend income shall now be taxable as under:

Exhibit 71

Particulars	Tax rate*
Non-resident shareholders	20% (subject to tax treaty relief)
Non-resident shareholder receiving dividend on Global Depository Receipts (GDRs)	10%
Resident individual shareholders	Applicable slab rates
Limited Liability Partnership	30%
Indian companies	15%/22%/25%/30%

** to be increased by surcharge and health and education cess*

Tax withholding provisions have also been introduced to provide tax deduction at source on dividends. These are as follows:

- At 10% for resident shareholders where dividend paid exceeds INR5,000
- At 20% for non-resident shareholders being foreign institutional investors
- At 10% for non-resident shareholders on dividends paid on GDRs
- At rates prescribed under the Finance Act, subject to tax treaty, if any, for non-resident shareholders (other than the above)

The proposed removal of DDT and restoring dividend taxation in the hands of the shareholder is likely to have a favorable impact on shareholders, investing from jurisdictions having lower tax rate, under India's tax treaties with foreign countries/territories. Illustratively, the applicable tax rate on dividend income under the India-Singapore tax treaty is 10%/15% and under the India-Mauritius tax treaty is 5%/10%, on a gross basis depending upon the stake owned by the Singaporean/Mauritian shareholder in the Indian company. The availability of the tax treaty rate will however be subject to the Indian anti-avoidance rules and, where applicable, to the provisions of the Multilateral Instrument.

The proposal to remove DDT, however, shall have a negative impact on the Indian resident shareholders as the dividend income shall now be taxable at the applicable slab rates and increased by surcharge and health and education cess, which could potentially be as high as 42.744%.

Further, in case of REITs and InvITs, the special purpose vehicles owned by the said shareholders were exempt from the provisions of DDT. With the removal of DDT, the dividend income shall now be taxable in the hands of investors of REITs and InvITs

2. **Exemptions to Sovereign Wealth Funds (SWFs) and wholly-owned subsidiary of Abu Dhabi Investment Authority (ADIA)**

With an intent to incentivize investment by SWFs of foreign governments in an infrastructure facility in India, it is proposed to provide an exemption to income in the form of dividend, interest or long-term capital gains arising from investments made in India by the following specified SWFs:

- A wholly-owned subsidiary of ADIA, which is a resident of the United Arab Emirates (UAE) and makes investments directly or indirectly, out of the funds owned by the Government of the UAE.
- A SWF which satisfies specified conditions and is notified by the Government of India.

The investment, whether in the form of debt or equity, should fulfil the following conditions:

- Investment should be made on or before 31 March 2024
- It should be held for three years
- It should be in a company or enterprise carrying on the business of developing or operating and maintaining, or developing, operating and maintaining an infrastructure facility[3]

3. **Concessional withholding tax rate on borrowings from outside India**

- Earlier, withholding tax rate at 5% (as increased by applicable surcharge and health and education cess) was applicable on interest paid/payable on borrowings made before 1 July 2020 from a source outside India in (a) foreign currency under a loan agreement or by issue of long-term bonds or (b) by way of issue of rupee denominated bonds (RDBs). The applicability of concessional withholding tax rate has now been extended to such borrowings made from a source outside India on or before 1 July 2023.
- Withholding tax rate at 4% (as increased by surcharge and health and education cess) shall apply on interest paid/payable to a non-resident, in respect of money borrowed in foreign currency from a source outside India, by way of issue of any long-term bond or RDB on or after 1 April 2020 but before 1 July 2023 and which is listed only on a recognized stock exchange located in any IFSC.
- Earlier, withholding tax rate at 5% (as increased by applicable surcharge and health and education cess) was applicable on interest paid/payable before 1 July 2020 to foreign institutional investors (FIIs) on government securities or RDBs issued by an Indian company. The applicability of concessional withholding tax has been extended to interest paid/payable on such securities before 1 July 2023. Further, the benefit has also been extended to interest paid/payable on or after 1 April 2020 but before 1 July 2023 to FIIs and QFIs on investments made in municipal debt securities.

4. **Relaxation on application of indirect transfer provisions to investors in Category I FPIs only**

The Finance Act, 2012, inter alia, had introduced indirect transfer provisions. Further, these provisions were amended to provide that the said provisions shall not apply to an asset or capital asset, which is held by a non-resident by way of investment, directly or indirectly, in Category-I or Category-II Foreign Portfolio Investor under the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014.

On 23 September 2019, the Securities and Exchange Board of India (SEBI) had notified SEBI (Foreign Portfolio Investors) Regulations, 2019 and repealed the SEBI (FPI) Regulations, 2014.

Through the introduction of the new regulations, SEBI has, inter alia, reduced the categories of FPI from three to two.

In order to align the Indian tax law with the new regulations, the Finance Bill, 2020 proposes that effective financial year 2019-2020, an exemption is to be granted in respect of only investment in Category-I FPI under the SEBI (FPI) Regulations, 2019. However, the exemption from indirect transfer to a non-resident in case of investments already made under the erstwhile Category I and II FPIs under the SEBI (FPI) Regulations, 2014, are proposed to be grandfathered.

[3] Infrastructure facility means a road including toll road, bridge or rail system, a highway project including housing and other activities being integral part of the project, water supply/water treatment system, irrigation, sanitation, sewage or solid waste management system, port, airport, inland waterway, inland port and navigation channel in the sea.

5. **Change in residency provision**

The residency provision in connection with an individual is proposed to be amended to provide that an Indian citizen would be considered a resident in India in any year if he is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of a similar nature.

It has been clarified[4] that the intention of the proposed amendment is not to include in the tax net those Indian citizens that are bonafide workers in other countries. A person who becomes a resident of India under this proposed provision should not be taxed on income earned by him outside India, unless it is derived from business and profession in India.

Further, the residency threshold for an Indian citizen or a person of Indian origin who comes on a visit to India in any year has been reduced from 182 days to 120 days.

6. **Relaxation for eligible start-ups**

- It is proposed that eligible start-ups be allowed to avail 100% deduction of profits and gains derived from an eligible business for a period of three consecutive years out of 10 years (earlier seven years) beginning from the year in which it is incorporated. For the purpose of claiming benefit of tax deduction of profits, the total turnover threshold to qualify as an eligible start-up is proposed to be increased from INR250 million to INR1 billion.
- The perquisite tax on ESOPs granted to employees (which is presently taxable on allotment of shares) of an eligible start-up is proposed to be deferred to within 14 days after the earliest of (a) an expiry of five years from the end of the year in which ESOP is exercised, or (b) the date of the sale of such share/ security, or (c) the date on which the employee ceases employment with the start-up.
- Both the above benefits are only available to start-ups that have been approved by the Inter- Ministerial Board of Certification as notified in the official gazette by the Government.

7. **Definition of business trust amended to align with definition under SEBI Regulations**

The Indian tax laws provide for a partial pass-through regime in respect of income earned by business trusts. Business trust is defined as SEBI-registered InvITs or REITs, the units of which are required to be listed on a recognized stock exchange. Subsequently, private unlisted InvITs were also allowed to be registered under the SEBI regulations.

The definition of business trust has, therefore, been amended so as to do away with the requirement of the units of business trust to be listed on a recognized stock exchange. This ensures that even private unlisted InvITs are granted partial flow through treatment under the Indian tax laws.

8. **Vivad se Vishwas Scheme**

The Finance Minister had proposed *Vivad Se Vishwas Scheme* in the Budget 2020-2021 for providing an avenue for settling the pending litigation in direct taxes. The Direct Tax Vivad Se Vishwas Bill, 2020 (Scheme) has been announced on 5 February 2020 and is proposed to be introduced in the Parliament.

The Scheme can be availed to settle the appeals relating to tax arrears (which includes disputed tax and interest and penalty levied in respect, thereof), that are pending as of 31 January 2020 before the Supreme Court or the High Court or the Income-tax Appellate Tribunal or the Commissioner (Appeals) level. It grants complete immunity to the firms from prosecution and substantial relief from payment of interest and penalty.

Exhibit 72

Types of matters	Amount payable under the Scheme on or before 31 March 2020	Amount payable under the Scheme after 1 April 2020 till the last date (yet to be notified)
Matters involving disputed tax, interest and penalty, thereon	Entire amount of disputed tax only (complete waiver of interest and penalty levied/ leviable)	Entire amount of disputed tax plus 10% of disputed tax (10% being subject to aggregate amount of interest and penalty levied or leviable)
Matters involving disputed penalty, interest and fees	25% of disputed penalty/interest/ fee	30% of disputed penalty/interest/ fees

[4]Press Release dated 2 February 2020

Key amendments introduced vide introduction of the Taxation Laws (Amendment), 2019 (TLA 2019)

1. **Corporate tax rates**

On 20 September 2019, the Government of India had introduced an ordinance, which has since then been enacted into law, to inter-alia provide that from financial year 2019-20 onwards, all domestic companies shall have an option (lower rate regime), which cannot be reversed to be taxed at the rate of 22% (plus applicable surcharge as well as health and education cess), provided such companies do not avail specified exemptions/incentives. Further, where this option is selected, such companies shall not be required to pay Minimum Alternate Tax (MAT) at 15% (plus applicable surcharge and health and education cess) of book profits. Companies who do not wish to avail this concessional rate immediately, can opt for the same after the expiry of their exemptions/ incentives. This option, once exercised, cannot be withdrawn by the company.

Further, new manufacturing companies incorporated on or after 1 October 2019 and which have commenced manufacturing on or before 31 March 2023, can opt for concessional tax rate of 15% (plus applicable surcharge and health and education cess). Further, the provisions of MAT are not applicable to such companies. This option, once exercised, cannot be withdrawn by the company.

Effective tax rates

With amendments under the TLA 2019 and the Finance Bill, 2020, the effective tax rates (including applicable surcharge and health and education cess) for domestic companies are tabulated hereunder:

Exhibit 73

Total income (INR)	Lower rate regime	Where turnover in fiscal year 2018-19 does not exceed	Manufacturing/ production companies set-up and registered on or after 1 October 2019[5]	Company not covered by (2), (3) and (4)
Base rate	22%	25%	15%	30%
(1)	(2)	(3)	(4)	(5)
Up to 10m	25.168%	26.00%	17.16%	31.20%
10m-100m	25.168%	27.82%	17.16%	33.384%
Above 100m	25.168%	29.12%	17.16%	34.944%
Applicability of MAT	No	Yes	No	Yes

2. **Roll-back of increased surcharge rate on capital gains arising on listed securities**

The Finance (No 2) Act 2019, introduced increased surcharge at 25% and 37% of income tax, on individuals, HUFs, AOPs/BOIs and artificial juridical person if their total income exceeds INR20m and INR50m, respectively. The TLA 2019 provides relief from the increased surcharge, in respect of capital gains, whether long-term or short-term, arising on sale of securities on which STT has been paid.

3. **AIFs**

- Earlier, any loss incurred at the AIF level was not allowed to be passed on to the investors and was available for set-off at the AIF level. The provisions have now been amended to provide that only business losses arising at AIF's level would not be allowed to be passed through to the investors but would be carried over at the AIF level to be set-off against business income of the subsequent/next year(s).

  Any loss, other than a business loss, is allowed to be passed on to the investors only where such loss has arisen in respect of a unit which has been held for a minimum period of 12 months by the investor. Further, such loss cannot be carried forward at the AIF level even if the loss is not passed onto the investors on account of non-fulfilment of the condition of holding the units for at least 12 months.

- Central Board of Direct Taxes (CBDT) has clarified that income earned by non-resident investors from offshore investments routed through Category I or II AIFs (Cat I or II AIF) shall not be taxable in India. Correspondingly, losses arising from the offshore investment relating to the non-resident investor in Cat I or II AIF, are not allowed for set-off or be carried forward for set-off against the income of such AIFs.

[5] Manufacturing to commence by 31 March 2023

4. **Key tax incentives/clarifications relating to entities set-up in International Financial Services Centre (IFSC)**
   - 100 % profit-linked deduction available to units located in IFSC is now extended for 10 years instead of five years.
   - Income by way of interest payable to a non-resident by a unit located in IFSC in respect of borrowings on or after 1 September 2019 shall be exempt from tax.
   - Capital gains earned on stock exchange in IFSC by a Category III Alternative Investment Funds (AIF) from investments in specified securities (bonds, GDRs, RDBs of an Indian company, derivatives and other securities notified by the Central Government) is exempt from tax, provided that the income is derived solely in a foreign currency and all units of AIF are held by non-residents (NRs), other than the units held by a sponsor and manager to the AIF.
   - Non-resident investors investing in an AIF located in IFSC shall not be required to file a return of income in India provided appropriate taxes have been withheld on income earned from such AIF and the non-resident investor does not earn any other income during the year which makes him liable to file a return of income in India.

5. **Multilateral Instrument (MLI)**
   - The Government of India has deposited the ratified MLI to implement tax treaty related measures to prevent Base Erosion and Profit Shifting (BEPS) with Organisation for Economic Co-operation and Development (OECD).
   - Once MLI is effective, its provisions will need to be read along with the existing tax treaty text by matching the MLI positions of the respective contracting countries. India has notified 93 tax treaties so far, excluding China. Further, Mauritius and Germany have not notified their tax treaties with India to be subject to the MLI provisions. Accordingly, these treaties would not be subject to any amendment through the MLI.
   - Singapore, Luxembourg, the UK, France, Japan, the Netherlands and Australia are part of the final list of countries and accordingly, India's tax treaties with such countries will be subject to MLI provisions with effect from 1 April 2020.
   - India deposited its final MLI positions with OECD; wherein, India continues to adopt Principal Purpose Test (PPT) with an option to modify the same in future with Limitation of Benefits (LOB) clause to combat treaty shopping. Additionally, India has now opted to revise the foreign tax credit provisions for replacing the exemption method for elimination of double taxation with the credit method in respect of few of its treaties.
   - The MLI requires businesses to look at tax treaties through a new pair of lenses and it would be vital for PE/VCs to monitor and review their existing structure (especially inbound and outbound transactions) in the context of the proposed changes. PE/VCs will have to ensure that the transactions and investments meet the PPT and does not result in any tax avoidance opportunities, thereby carrying a risk of denial of tax treaty benefits.

Regulatory section

Foreign Direct Investment

The Central Government/Reserve Bank of India (RBI) in October 2019 issued the following regulations for foreign investment in India in supersession of the erstwhile Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2017 (FEMA 20R) and the Foreign Exchange Management (Acquisition and Transfer of Immovable Property in India) Regulations, 2018. These are:

- The Foreign Exchange Management (Debt Instruments) Regulations 2019 (*Debt Regulations*)
- The Foreign Exchange Management (Non-debt Instruments) Rules, 2019 (*Equity Regulations*)

While the aforesaid regulations issued on non-debt instruments and debt regulations are principally in line with the regulations issued earlier, some of the key changes are as follows:

- **Changes in the definitions**
    - "Capital instrument" has been re-named as "equity instrument".
    - "Hybrid securities" has been defined to mean optionally/partially convertible instruments. However, the policy in connection with hybrid securities is yet to be notified.
    - The FEMA 20R defined an e-commerce entity as an Indian company, foreign company, or an office, branch or an agency owned or controlled by a person resident outside India. In the definition of an e-commerce entity under the Equity Regulations, the reference to a foreign company or office, and branch agency owned or controlled by a person resident outside India has been deleted to clarify that e-commerce activities can be carried out only by an Indian company.
- **Investment by Foreign Portfolio Investors (FPIs)**
    - With effect from 1 April 2020, the aggregate limit of FPI investment will be to the extent of the sectoral cap prescribed for the Indian company. This aggregate limit cannot exceed 24% in sectors where FDI is prohibited.
    - Indian companies can increase (24%, 49% or 74%, as the case may be) or decrease the permissible aggregate FPI limit by passing a board resolution and shareholders' special resolution prior to 31 March 2020.
- **Relaxation in sectoral caps**

  With the intention of attracting higher FDI inflows and promoting ease of doing business in India, the FDI policy has been liberalized in the following sectors:

    - *Contract manufacturing*

      While manufacturing was allowed under 100% automatic route, contract manufacturing has now been specifically covered under manufacturing. These manufacturing activities can be undertaken either by the investee entity or through contract manufacturing in India under a legally tenable contract.

    - *Single brand retail trading*

      FDI in single brand retail trading (SBRT) is permitted up to 100% under automatic route, subject to, inter-alia, 30% sourcing conditions which need to be met as an average during the first five years and thereafter annually. The GoI has relaxed the following conditions in relation to local sourcing:

        - All procurements made from India by the SBRT entity for the brand shall be counted towards local sourcing, irrespective of whether the goods procured are sold in India or are exported. The cap of considering exports for sourcing purposes for five years was removed. Further, single-brand retailers will be allowed to adjust their entire procurement of goods from India (earlier it was on an incremental basis) for their global operations for meeting the local sourcing norms.
        - Sourcing of goods from India can be done directly by the entity undertaking SBRT or its group companies (resident or non-resident), or indirectly by involving a third-party under a legally tenable agreement.
        - SBRT stores would be permitted to sell products through e-commerce before setting up their brick and mortar stores subject to the condition that the entity opens brick and mortar stores within two years from the date of start of its online retail operations.

    - *Digital media*: FDI up to 26% has been permitted under the GoI approval route for uploading/streaming of news and current affairs through digital media.
    - *Coal mining*: FDI up to 100% has been permitted under the automatic route for sale of coal, coal mining activities, including associated processing, and permitting foreign players to mine and sell coal.

- **Changes in pricing guidelines**
  - Under the Equity Regulations, it has been provided that the pricing guidelines shall not apply to any transfer by way of sale done in accordance with Securities and Exchange Board of India (SEBI) regulations, where SEBI has specified the pricing guidelines.

New Foreign Portfolio Investor (FPI) regime

SEBI has introduced the SEBI (Foreign Portfolio Investors) Regulations, 2019 (New FPI Regulations), repealing the erstwhile SEBI (Foreign Portfolio Investors) Regulations, 2014. The New FPI Regulations aim to ease and rationalize foreign investments made in India by FPIs. Some of the key changes that are made to New FPI Regulations are in the following areas:

- **Re-categorization of FPIs**

  The New FPI Regulations has reduced the number of FPI categories from three to two. The key highlight is the categorization of the funds is based upon funds or the fund manager's existence in a FATF member country's jurisdiction[6]. Significantly, under the new categorization, certain entities from the list of 37 FATF compliant member countries will be eligible for Category I registration instead of Category II earlier.

- **Eligibility criteria for FPIs**

  The number of eligibility conditions for FPIs has been reduced from 13 to 8. The requirement to satisfy broad-based eligibility criteria has been eliminated. Further, it has been clarified that while resident Indians (except if the applicant is incorporated or established in an IFSC), non-resident Indians and overseas citizens cannot apply for registration as an FPI, they can be stakeholders of an FPI applicant subject to fulfilment of certain conditions.

- **Registration of FPIs**

  The Know-Your-Client (KYC) requirements to be satisfied by the custodian for FPI registration have been streamlined. It now provides that a custodian can place reliance on KYC by global custodian for group entities.

  Recently, the government has notified a Common Application Form (CAF) where details for obtaining FPI registration, PAN and KYC for opening of a bank and demat account are merged so that an applicant can furnish these details in a single form.

- **Changes made to investment conditions and restrictions for FPIs**
  - Where the investment in equity shares of a company by an FPI and/or its investor group is 10% or higher than the total paid-up equity capital (on a fully diluted basis of such company), the investment, if not divested within the prescribed time, would be reclassified as an FDI and no further portfolio investments would be permissible in such companies.
  - Off-market sale of unlisted securities, received by FPIs on account of involuntary corporate actions, is permitted.
  - Off-market purchase/sale of illiquid, suspended or delisted securities by FPIs permitted.
  - The short-term investment limit (i.e., with residual maturity up to one year) in G-secs (including T-bills), state development loans and corporate bonds for an FPI have been increased from 20% to 30% of the total investments.

- **Offshore derivative instruments (ODIs)**

  The definition of ODIs has been widened to mean any instrument, irrespective of its name, issued overseas by an FPI against securities held by it in India. ODIs can be issued only by Category I FPIs.

From an overall perspective, the New FPI Regulations read with the operational guidelines issued by SEBI, should significantly aid in easing the entry for FPIs in India and enhance the overall ease of doing business in India for FPIs.

[6] FATF member countries *inter alia* include the US, Canada, the UK, Singapore, Luxembourg, France, Germany, the Netherlands, etc. Countries such as Mauritius, the UAE, Cayman Islands, etc. are not a part of FATF member countries.

Introduction of voluntary retention route (VRR) to allow FPIs to invest in Indian debt market

On 1 March 2019, RBI had released the Voluntary Retention Route (VRR) scheme to encourage FPIs to invest in Indian debt securities. This route is in addition to the investment made by FPIs under the existing route. The key features of VRR scheme are as under:

Exhibit 74

Key features	Particulars
Overall investment limit	INR1,500 billion or higher allocated among VRR Government (VRR Govt); VRR-Corporate (VRR-Corp) and VRR-Combined categories.
Eligible instruments	▶ VRR-Govt: G-secs, T-bills as well as state development loans ▶ VRR-Corp: NCDs, CPs, security receipts, pass through certificates, domestic ETFs investing only in debt instruments, etc. ▶ VRR-Combined: securities eligible for VRR-Govt and VRR-Corp ▶ Repo and reverse repo transactions
Mode of allotment	▶ *On tap* and allotment by the Clearing Corporation of India Limited (CCIL) on *first come first served* basis. The application to CCIL is to be made online by FPIs through their respective custodians. No FPI (including its related FPIs) shall be allotted an investment limit greater than 50% of the amount offered for each allotment by tap or auction in case there is a demand for more than 100% of the amount offered.
Minimum retention period	▶ Three years or as decided by RBI for each allotment. ▶ The minimum investment of an FPI during retention period shall be 75% of the amount allotted to that FPI. Cash holdings in the rupee account used for VRR is to be considered as amount retained in India for VRR by FPI.
Investment condition	▶ 25% of the allotted amount to be invested within one month and remaining within three months. ▶ Exemption from minimum residual maturity, concentration limits and limits for single/group investor, as applicable to corporate bonds.
Exit	▶ At the end of the retention period, an FPI may either: a) Exit by liquidating its portfolio b) Shift its investments to the general investment, subject to availability of limits c) Hold investments until the date of maturity or date of sale, whichever is earlier ▶ An FPI is permitted to sell its investments to other FPIs prior to the end of retention period (subject to conditions). ▶ FPIs may, at their discretion, transfer investments made under the general investment limit, if any, to the VRR scheme.
Taxation	Taxation is as applicable in case of FPIs.
Current investment window	The enhanced investment window with cap of INR1,500 billion is open for allotment from 24 January 2020 till the time such limit is exhausted.

Overall the scheme and the measures introduced by RBI are positive steps to deepen and encourage the flow of long term/stable capital into Indian debt markets.

Rationalization of External Commercial Borrowings (ECBs) regulations[5]

The RBI had revised the ECB framework substantially relaxing the regime for ECBs. The new framework had removed almost all restrictions on recognized lenders (except foreign branches/ overseas subsidiaries of Indian banks) as well as eligible borrowers and substantially expanded the scope of end-use restrictions. The restrictions relaxed on recognized lenders are as under:

- ECBs with a minimum average maturity period of 10 years can be used for working capital and general corporate purposes. Borrowing by NBFCs for the above maturity for on-lending for the above purposes is also permitted.
- ECBs with a minimum average maturity period of seven years can be availed by eligible borrowers for repayment of rupee loans availed domestically for capital expenditure as also by NBFCs for on-lending for the same purpose. For repayment of rupee loans availed domestically for purposes other than capital expenditure and for on-lending by NBFCs for the same, the minimum average maturity period of the ECB is should be 10 years.
- Eligible corporate borrowers are permitted to avail ECB for repayment of rupee loans availed domestically for capital expenditure in manufacturing and infrastructure sector, if the borrowers are classified as Special Mention Account-2 or NPAs, under any one-time settlement with lenders. Lender banks are also permitted to sell, through assignment, such loans to eligible ECB lenders, except the foreign branches/overseas subsidiaries of Indian banks, provided that the resultant ECB complies with all-in-cost, minimum average maturity period and other relevant norms of the ECB framework.

Amendments/clarifications to the Insolvency and Bankruptcy Code, 2016

The Insolvency and Bankruptcy Code, 2016 (IBC) is a key structural reform to address India's NPAs conundrum. While the IBC has faced several challenges, the central government has been proactive in addressing them.

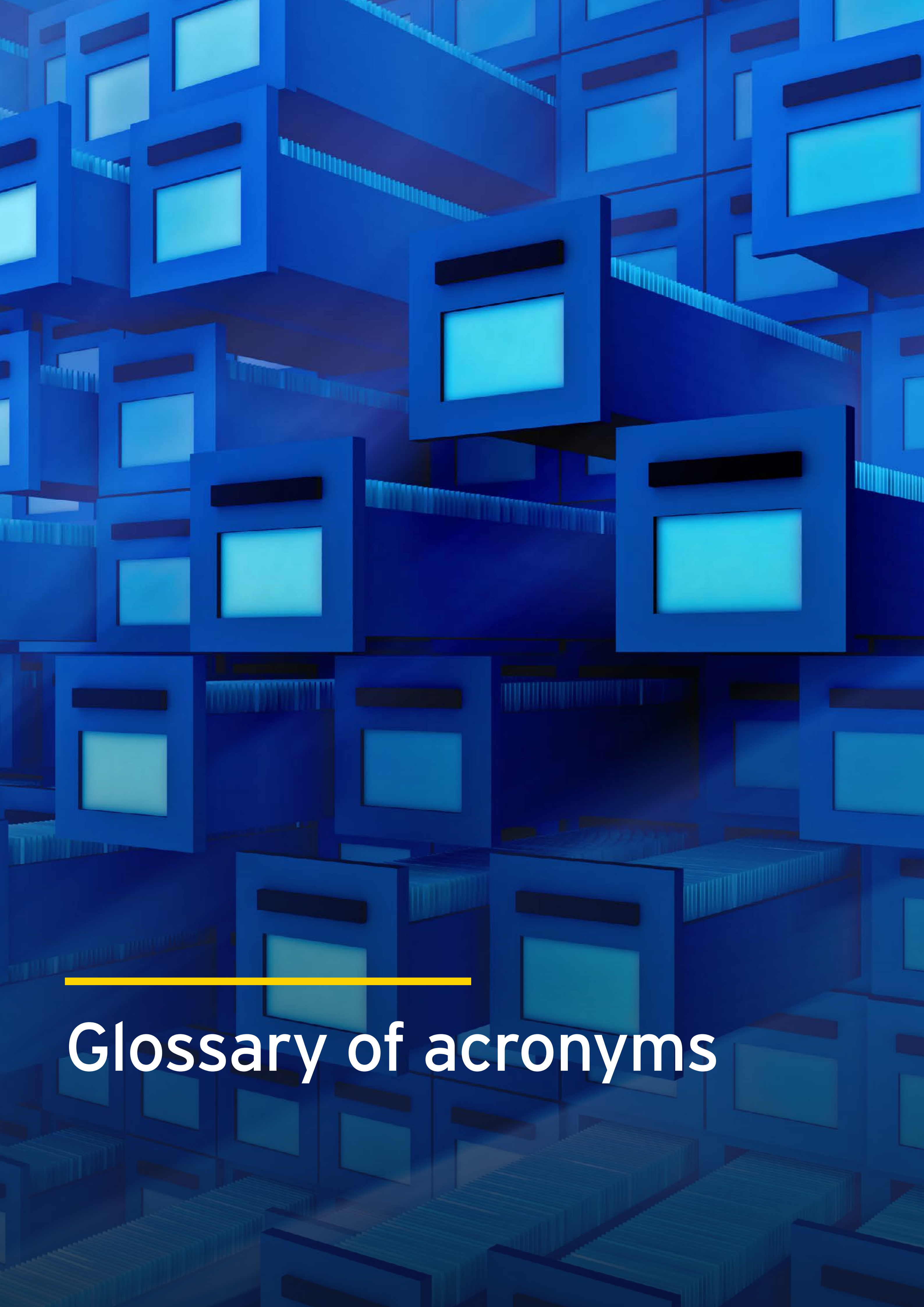
The IBC did not provide a mechanism for insolvency resolution of financial service providers (FSPs) such as NBFCs, insurance companies, pension funds and mutual funds. The GoI has notified certain rules governing the insolvency resolution of a sub-set of FSPs (Rules). Few of the other recent changes include broadening the definition of interim finance (which is expected to include last mile financing), whitewashing the liability of the debtor for any offence committed prior to insolvency, so long as there is a change of control under the resolution; prescribing a minimum threshold for initiation of IBC against real estate developers, and prohibition on termination/ suspension of any critical goods and services of the corporate debtor during the period of moratorium.

The Insolvency and Bankruptcy Board of India (Liquidation Process) (Amendment) Regulations, 2020 (Amendment Regulations), that came into effect from 6 January 2020), has proposed to link the Companies Act, 2013, by clarifying that a person cannot be party to any compromise or arrangement under the Companies Act, 2013, if he is not eligible under the IBC to submit a resolution plan. Similarly, a secured creditor cannot sell or transfer an asset to such person. Further, certain clarifications were issued in connection with secured creditor who proceed to realize their security interest without relinquishing such interest to the liquidation estate. Such secured creditors are required to pay liquidation related expenses and any excess realized value of the asset over the amount of its claims admitted.

Stamp duty

Presently, stamp duty at the rate applicable (currently at 0.25%), on the value of the shares being transferred, is payable with respect to a transfer of an Indian company's shares that are in physical form. Typically, stamp duty is payable by the purchaser, although the parties may agree otherwise. The Finance Act, 2019, however, has amended the above law to provide that stamp duty shall be levied uniformly throughout the country on transfer of securities in physical as well as dematerialized form at 0.015%. This amendment is applicable from 1 April 2020. Further, the Finance Bill, 2020 proposes that stamp duty shall not be applicable in respect of instruments of transaction in stock exchanges and depositaries established in the IFSC.

[5] *Source - RBI/2019-20/20 A.P. (DIR Series) Circular No. 04 dated 30 July 2019*



Glossary of acronyms

ADIA: Abu Dhabi Investment Authority

AIIB: Asian Infrastructure Investment Bank

AIFs: Alternate Investment Funds

ALM: asset liability management

AOP: Association of Persons

ARC: asset reconstruction company

AUM: assets under management

B2B: business-to-business

B2C: business-to-consumer

BEPS: Base Erosion and Profit Shifting

BO: beneficial owners

BOIs: body of individuals

CAF: common application form

CAGR: Compounded Annual Growth Rate

CBDT: Central Board of Direct Taxes

CCIL: Clearing Corporation of India Limited

CDPQ: Caisse de dépôt et placement du Québec

CP: commercial paper

CPPIB: Canada Pension Plan Investment Board

DDT: Dividend Distribution Tax

DIPP: Department of Industrial Policy and Promotion

DRHP: Draft Red Herring Prospectus

ECB: External Commercial Borrowing

ESOP: employee stock option plan

EMPEA: Emerging Markets Private Equity Association

FATF: Financial Action Task Force

FDI: Foreign Direct Investment

FEMA: Foreign Exchange Management Act, 1999

FII: foreign institutional investor

FPI: Foreign Portfolio Investment

GDR: Global Depository Receipts

GIC: GIC Private Limited

GIP: Global Infrastructure Partners

GoI: Government of India

G-secs: government securities

HUF: Hindu undivided family

IBC: The Insolvency and Bankruptcy Code, 2016

IFC: International Finance Corporation

IFSC: International Financial Services Centre

InvIT: Infrastructure Investment Trust

IMB: Inter-Ministerial Board of Certification

IPO: Initial Public Offering

IT/ITES: Information Technology/Information Technology-enabled Services

JV: joint venture

KKR: Kohlberg Kravis Roberts & Co

KYC: Know Your Customer

LPs: limited partners

LOB: limitation of benefits

M&A: mergers and acquisitions

MAT: Minimum Alternate Tax

MFI: Micro Finance Institution

MLI: Multilateral Instrument

MSME: Micro, Small and Medium Enterprises

NBFC: Non Banking Financial Company

NCD: Non-Convertible Debenture

NCLT: National Company Law Tribunal

NHAI: National Highway Authority of India

NIIF: National Investment and Infrastructure Fund

NPA: non-performing asset

NRI: non-resident Indian

ODIs: offshore derivative instruments

OECD: Organization for Economic Co-operation and Development

OMERS: Ontario Municipal Employees Retirement System

OPIC: Overseas Private Investment Corporation

OTPP: Ontario Teachers' Pension Plan

PAN: Permanent Account Number

PE/VC: private equity/venture capital

PIPE: private investment in public equity

PPT: principal purpose test

PSP: Public Sector Pension Investment Board

QIP: Qualified institutional placement

QFI: qualified foreign investor

RBI: Reserve Bank of India

RDB: rupee denominated bond

REIT: Real estate investment trust

RCP: retail and consumer products

RERA: Real Estate Regulatory and Development Act

RI: resident Indian

SEBI: Securities and Exchange Board of India

SBRT: single brand retail trading

STT: Securities Transaction Tax

T-bills: treasury bills

TOT: toll-operate-transfer

UAE: United Arab Emirates

VRR: Voluntary Retention Route

VRR-Corp: VRR-Corporate

VRR-Gov: VRR-Government

Appendices

About EY's Private Equity Services

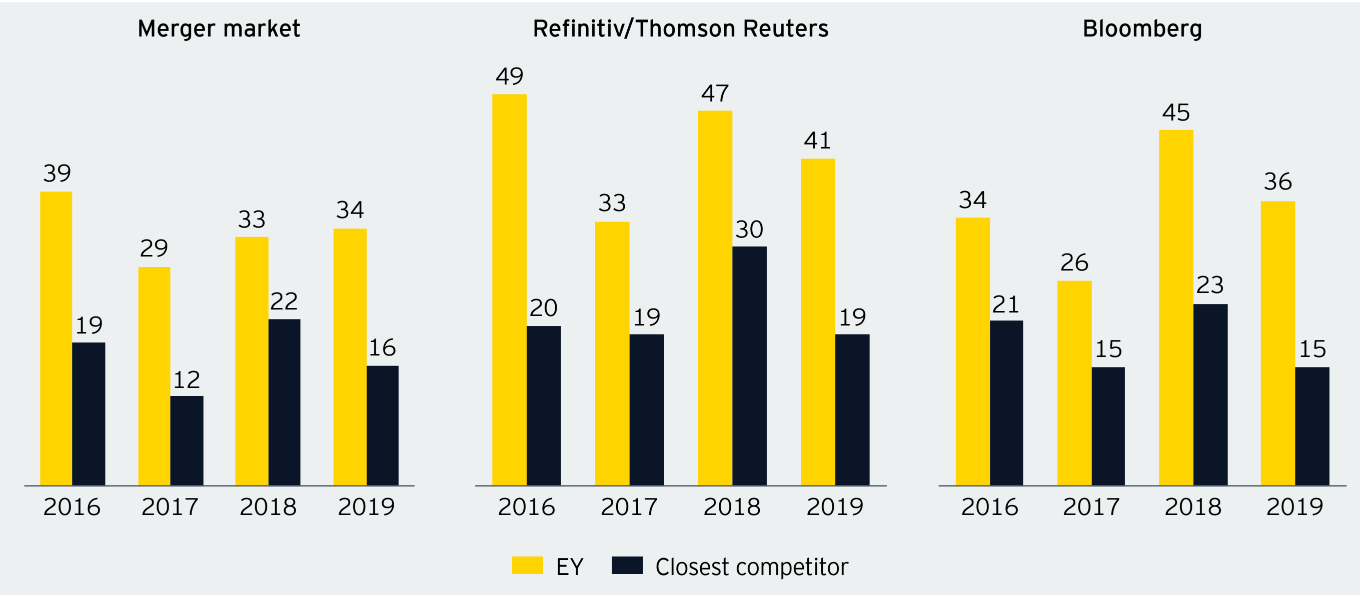
EY has been working with the private equity industry for more than 25 years, with approximately 25,000 seasoned professionals worldwide dedicated to the industry and its business issues. EY serves 74% of the top 300 PE firms included in the Global PEI 300 firms list. Private equity firms, portfolio companies 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 75

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 for M&A at the VC Circle Awards 2018

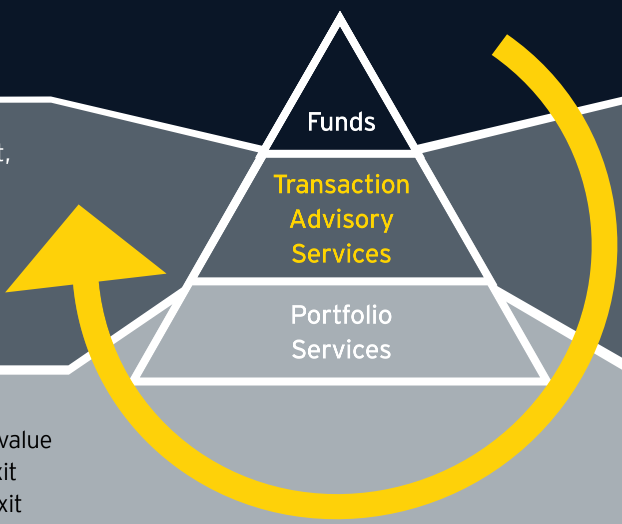
We offer an array of services to Private Equity funds and their portfolio/investee companies through our various service lines.

Exhibit 76

Partners
(Personal tax)

Fund raising
(Marketing collateral, fund structuring, audit of fund performance)

Fund assurance and Management
(Fund and fund management company audit, portfolio valuation, controls and process design and review, tax and regulatory compliance)



Buy and sell side advisory
(M&A, capital markets support, tax structuring, regulatory compliance, SPA advisory, integrated sell side advisory – building equity story, vendor due diligence (VDD), structuring, marketing)

Buyside support
(Due diligence – financial, tax, business and commercial, forensics and background, HR, IT and environmental; modelling and valuations)

Exit readiness
(IPO, GAAP conversion, VDD, value creation, investor relations, exit preparation, sale mandates, exit structuring)

Transition
(Project management office (PMO), 100 day plans, transaction integration, GAAP conversion, governance, controls assessment, MIS development, process advisory, standard operating procedures, CFO services, compliance manager)

Distressed
(Debt syndication, bank intermediation, restructuring, working capital management, cost reduction, insolvency and bankruptcy advisory)

Assurance
(Statutory audit, tax compliance, risk management, corporate governance advisory, internal audits and fraud reviews)

Tax and Legal
(Tax advisory, tax accounting, ESOP advisory, global mobility, transfer pricing and operating model effectiveness, tax policy and litigation, regulatory compliance)

Growth
(Strategic options, technology security, IT strategy, operational improvement, supply chain management (SCM), market entry options & working capital management)

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 77

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.

Exhibit 78

Focused advisory solutions for private equity backed portfolio companies

IPO readiness: The first step in the IPO value journey	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.
Performance improvement	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.
Analytics: Generate insights to make smarter, faster decisions	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.
Growth Navigator: Achieving your growth ambitions	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.
Route to Market (RTM): Deliver a successful strategy for your business	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).
Cyber security	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.

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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
IVC ASSOCIATION
THE INDIAN PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION
PROMOTING PRIVATE CAPITAL ECOSYSTEM

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About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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