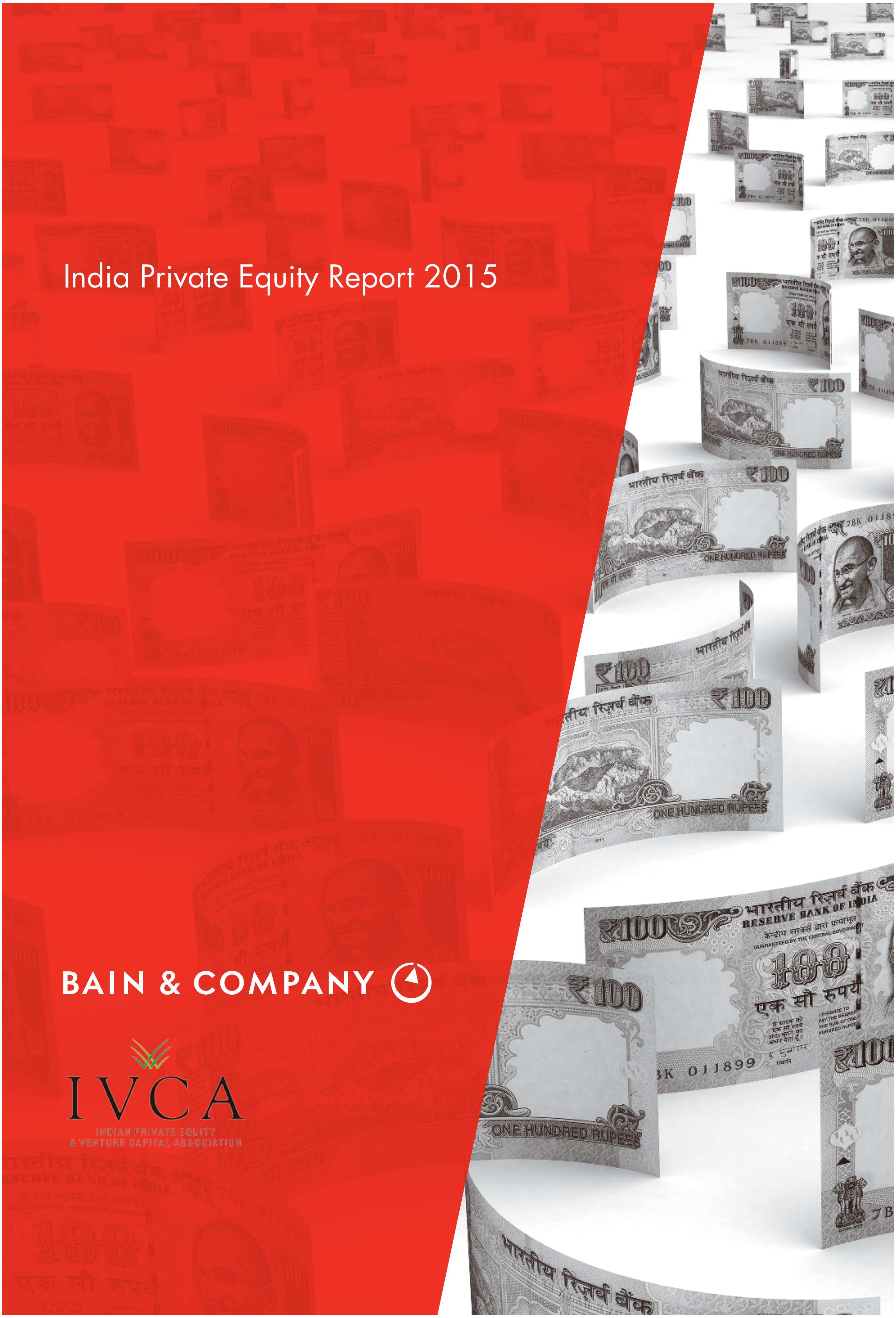
India Private Equity Report 2015



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INDIAN PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION

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About this report

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

Our *India Private Equity Report 2015* contains in-depth analysis of India's PE landscape, a close look at the currently booming consumer technology sector and our perspectives on the industry's future. Our conclusions were informed by interviews with stakeholders such as GPs at PE funds, LPs, entrepreneurs and regulators. We also drew from Bain's proprietary deal and exit databases, and an extensive survey of GPs across various PE funds.

Section 1 presents a broad overview of the changes in the macroeconomic environment and the global PE industry. We touch upon the evolution of India's business environment and where it stands in relation to competing markets. We also look at the macroeconomic factors that brought about a boom in deal activity in 2014.

In Section 2, we focus on the Indian PE industry and identify the key trends of the past year. Through the lens of the wider political and economic context, we examine the challenges the industry faces and the changing attitudes of industry players. We also provide an overview of each aspect of PE investing: fund-raising, deal making, portfolio management and exits. We look at how the different elements of the investment process have changed in the past year and outline perspectives from industry practitioners for the year ahead. We also look at the investors' and founders' points of view on key challenges within the investor-founder relationship, their respective expectations and how best to address the gaps.

In Section 3, we take a comprehensive look at the consumer technology sector, which is attracting significantly more investment than other sectors, and examine the role that PE plays in its fast growth. We also share our perspectives on growth, catalysts, challenges and the investment outlook for this fast-growing sector.

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

Executive summary

Overview of the current conditions

The global economy moved back on a path towards slow but stable growth in 2014, as evidenced by a 2.4% increase in global GDP. US GDP growth increased slightly, to 2.3%, driven in part by lower oil prices which spurred overall increased consumption; a number of other factors, including higher exports and increased non-federal government spending, also contributed to the rise. Europe witnessed signs of recovery, with overall GDP growth of approximately 1%. Here too, declining oil prices led to improved spending. The weakening euro also helped, making exports from countries like Germany more competitive in the world market. In addition, large European economies such as the UK and Germany saw strengthening growth.

In contrast, growth in top emerging economies slowed over the past year. The economies of BRICS (Brazil, Russia, India, China and South Africa) and MINT (Mexico, Indonesia, Nigeria and Turkey) grew at 5.2% and 3.4%, respectively, marking a decrease from 2013 levels of 5.6% and 3.5%. Combined growth for BRICS and MINT fell below 5% in 2014, a departure from the recent 6% annual growth trend which lasted from 2010 to 2013. Within BRICS, all economies but India experienced slower growth than in 2013.

The acute drop in oil prices was a key contributor to economic growth for some and decline for others. The Russian ruble lost ground versus the US dollar, falling nearly 40% in 2014. Brazil was able to reduce subsidies in oil and gas, but its export business was challenged as a result of the declining oil prices, and its economy remained flat. Even South Africa, which benefitted from reduced inflation, suffered from the resulting impact to commodity prices. Meanwhile, the price drop is expected to help the growth of oil-importing nations, including India.

Also in 2014, global buyout value dropped 2%. North America saw an 18% decrease from the prior year, due largely to a spike during 2013 from the Dell and Heinz deals. Meanwhile the Asia-Pacific PE market set a new all-time high at $81 billion, 63% higher than in 2013.

It was a year of rising optimism, expectations and aspirations for India, especially in light of its first single-party majority government in 30 years. The Indian stock market gave phenomenal returns of more than 30% over the year, compared with less than 10% in 2013. Backed by the stronger macroeconomic landscape, PE activity continued to play a pivotal role in the country's capital needs, accounting for 53% of foreign direct investment inflows. According to CEIC Data, India's GDP grew by 6.6% from 2013 to 2014, compared with 4.9% from 2012 to 2013. The services sector experienced particularly strong growth, and its contribution to GDP climbed to 51% in 2014. Notably, trade, hotels, transport, communication and related services grew by nearly 11%, leading the sector's overall growth.

Not surprisingly, PE investments in India saw a robust increase over 2013. Deal value, including real estate, infrastructure and venture capital (VC) deals, increased by 28% to $15.2 billion—inching closer to 2007 peak levels of $17.1 billion. Overall deal volume in India grew by 14%, with early- and growth-stage deals accounting for 80% of total deals in 2014. Deal value also rose as a result of a few megadeals. The consumer technology sector led in both deal value and volume, constituting 31% of overall deal value and 35% of overall deal volume.

Looking at the year ahead, GPs in India expect a further increase in deal activity, propelled by macroeconomic conditions, positive investor sentiment and an improved exit environment. However, GPs remain concerned about a mismatch in valuation expectations and the tough competitive environment for good-quality deals. India needs to continue to improve the ease of doing business in the country, a large part of which involves a regulatory environment that is more conducive to business growth to attract investment. With "Make in India" as one of its top agendas, the new government has already taken steps in this direction, including reforms in labour laws and plans to introduce a goods and services tax (GST).

In terms of attracting foreign investments, India continues to face competition from other emerging economies with prospects for strong growth, including South Africa and Nigeria. That said, India boasts strong GDP growth, a vibrant entrepreneurship ecosystem and a positive future outlook, making it one of the most attractive of the emerging economies for PE investments in 2015.

Fund-raising

Funds allocated to Asia-Pacific on a regional level grew by 11% in 2014 to $43 billion, whilst the overall global numbers fell 7% to $375 billion (excluding real estate and infrastructure), a clear testament of LPs' commitment to the region. In absolute terms, funds focused solely on India amounted to twice that of the prior year. Many PE firms are planning or have announced their next round of fund-raising; these firms include Everstone, Baring and Carlyle. One trend that hasn't changed is that there continues to be enough capital chasing good deals, especially because a significant amount of capital is also drawn into India via allocations from Asia-Pacific and global funds. In addition to this, several sovereign wealth funds have made large direct investments already—for example, the $376 million PIPE into Kotak Mahindra Bank by Canada Pension Plan Investment Board (CPPIB).

In 2015, PE firms plan to increase their focus on fund-raising, and they cite track record, team expertise and exit success as the most important factors in this regard. Yet, when it comes to raising India-focused funds, PE firms remain challenged by the regulatory environment, macroeconomic uncertainties such as currency and inflation, and the longer gestation period for investments. However, the majority still expect more fruitful fund-raising in 2015 than in past years.

Deal making

Deal volume in India grew by 14%, fuelled predominantly by the consumer technology sector. Deal value rose 28% from the prior year, driven by the consumer technology sector; the banking, financial services and insurance (BFSI) sector; and the real estate sector.

Together, the top 25 deals excluding real estate represented 49% of total investments in 2014, or $6.4 billion, climbing 13% from $5.7 billion in 2013. The $1 billion investment into Flipkart by a series of funds represented the largest of the year's deals. Investments in early- and growth-stage deals continued to rise in 2014 and accounted for 80% of total deals, up from 71% in 2013. The average size of PE deals, excluding real estate and VC deals, increased from $41 million to $53 million. The majority of GPs we surveyed expect that average deal sizes will continue to rise over the next two to three years. And consumer technology, healthcare and financial services are expected to be the most attractive sectors in the next two years.

GPs perceive that valuations are tempering and becoming more fair; however, given the upward trajectory the Indian economy seems to be embarking on, they expect valuations to rise between 10% and 25% in 2015. Funds feel very positive about their potential to generate returns, and more than 60% expect the median Internal Rate of Return (IRR) to exceed 20% in the next three to five years.

Given the country's stable government—along with price declines for oil, strong GDP growth projections and low inflation—GPs are optimistic about the prospects of the Indian PE and VC industry. In fact, more than 50% expect to see growth on the order of 10% to 25% in 2015, and more than 25% across the next one to two years, in terms of investments made.

Portfolio management and exits

The number of reported exits in India grew 14% from 2013 to 2014, though the value of exited investments dropped by 22% to $5.3 billion compared with $6.8 billion in 2013. In 2014, the strong performance of capital markets drove up public market sales. These sales gained importance over the year, accounting for six of the top ten exits. Funds expect a further increase in the significance of IPOs, strategic sales and secondary sales. In contrast, they expect promoter buybacks to decline. Some funds have a short life, making other options infeasible.

India is going through significant exit overhang, and the pressure to exit is expected to rise. Funds continue to face challenges with pre-2008–vintage unexited deals; yet, the situation is improving compared with the past two to three years. If viable exits don't occur in the next two to three years, one could expect to see a shakeout in the industry as fund tenures come to expiry. In the meantime, PE funds aim to focus increasingly on developing and implementing value creation plans with portfolio companies to ensure that exit stories are tight and lucrative.

Sector in focus: Consumer technology

The consumer technology sector encompasses multiple segments. E-commerce—which includes e-tailers Flipkart and Snapdeal, online travel companies, as well as taxi and other providers who channel services via mobile phone and Internet—accounted for a significant chunk of investments in the sector in 2014. Social connectivity services represented the second-largest segment. Becoming increasingly popular on a daily basis, Facebook, Twitter, LinkedIn and similar services, along with online classifieds, all fall into this bucket. Content-generating and -sharing companies, including entertainment and data-generating companies, are also a part of the consumer technology sector. The new but fast-growing wearable technology segment, which includes smart access devices and fitness devices, also falls in the consumer technology sector. The last portion comprises the enablers, which aid the functioning of a part (or parts) of the operating model for other companies in this space; examples include providers of payment media, e/m-advertisers, application developers, analytics services and logistics and delivery services.

As far as the Indian market is concerned, 2014 has been a very good year for the consumer technology sector. The continued rise of Internet penetration was a key factor in the sector's growth, and e-commerce has experienced tremendous growth. From booking a taxi to buying groceries to purchasing furniture, Indians are rapidly turning to mobile phones and computers for their transactions. With mobile Internet driving a significant portion of the Internet penetration, application development is also witnessing high growth. As mobile companies continue to focus on mobile Internet, and as logistics and payment services become even more robust, this sector is well poised for further growth.

The belief in the sector's growth potential was reflected in investments: Consumer technology was the largest sector in terms of PE and VC investments in 2014, contributing approximately 31% to overall deal value and accounting for approximately 35% of overall deal volume. Investments in the sector almost quadrupled over the past year, from $1.2 billion to $4.7 billion, and the number of deals grew by 18% to 280. Average deal size ballooned from $5 million to $17 million; the increase was driven primarily by the top three deals, which accounted for 50% of the total deployed capital in the sector.

Large consumer technology companies, including Flipkart, Snapdeal and Housing.com, raised multiple rounds of funding and saw a steep surge in valuation. Flipkart, for instance, saw its valuation grow more than fivefold in 2014, from approximately $2 billion in May to $11 billion in December, while Snapdeal's valuation tripled, rising from about $700 million in February to $2 billion in November. GPs expect consumer technology valuations to remain high.

Some 80% of the PE funds we surveyed said that though current consumer technology sector valuations are high, they are expected to rise further in the next one to two years. Overall, the sector is well set on a high growth trajectory.

Note: Our India Private Equity Report includes deal and exit data across sizes and sectors including real estate and infrastructure, whereas our Asia-Pacific Private Equity Report excludes real estate and infrastructure sectors as well as deals smaller than $10 million; any difference in deal and exit counts or values are driven by the above-stated assumptions unless otherwise stated.

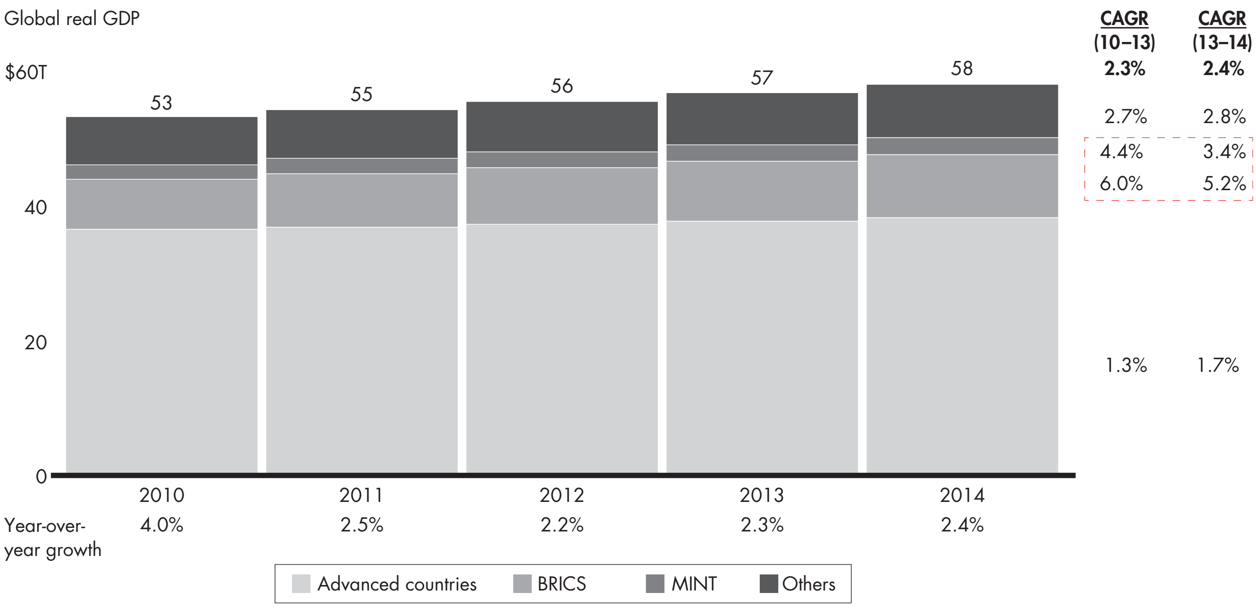
1.

Global economic trends: Slow but stable growth

- The global economy continued its moderate expansion, growing approximately 2.5% in 2014, even as declining oil prices altered the course.
- While the emerging economies of BRICS and MINT grew 5% and 3%, respectively, both experienced a decline in their rate of growth. In contrast, developed economies picked up the pace, growing by slightly more than 1.5%.
- Global buyout activity was mostly flat compared with 2013, with value declining 2% and volume growing 2%. Asia-Pacific showed strong growth.
- Investment deal value rose 63% in Asia-Pacific* as each country in the region, except Japan, saw an increase. Spurred by a number of $1 billion-plus megadeals, Greater China increased its deal value by 180% over 2013. Korea, ANZ and India followed, with growth rates of 34%, 18% and 10%, respectively.
- India's PE market (including real estate, infrastructure and deals of less than $10 million) also experienced strong growth in deal value, at 28%—an even stronger indicator of market health.
- The Indian macroeconomic environment received a big boost, riding the wave of a new government at the helm. GDP grew 6.6% in 2014, while inflationary pressures reached lows of 5%.
- Improved global macroeconomic conditions, coupled with growing investor confidence in India, led the Foreign Direct Investment (FDI) inflow to reach nearly $29 billion, the highest amount in the last five years. PE continued to play a major role, accounting for 53% of the inflow.
- With the new government working towards improving the country's business environment, the future outlook for India is strongly positive.

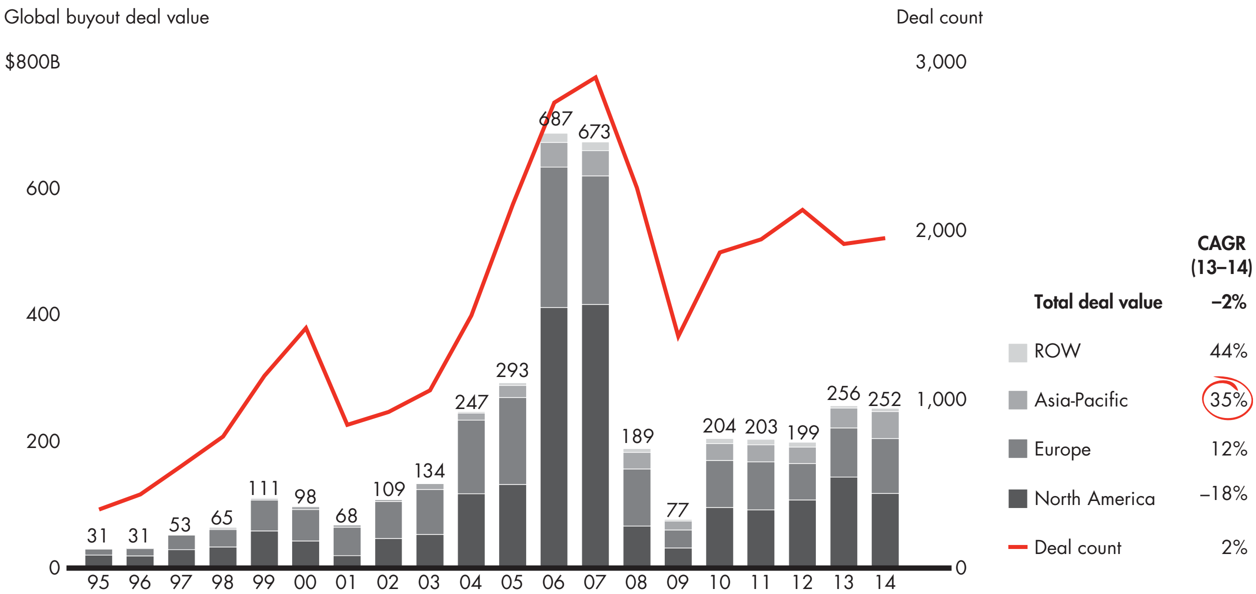
*Excluding real estate, infrastructure and <$10M deals

Figure 1.1: Global economy remained stable in 2014, growth slowed for BRICS and MINT compared with previous years; however, BRICS continued to propel global growth



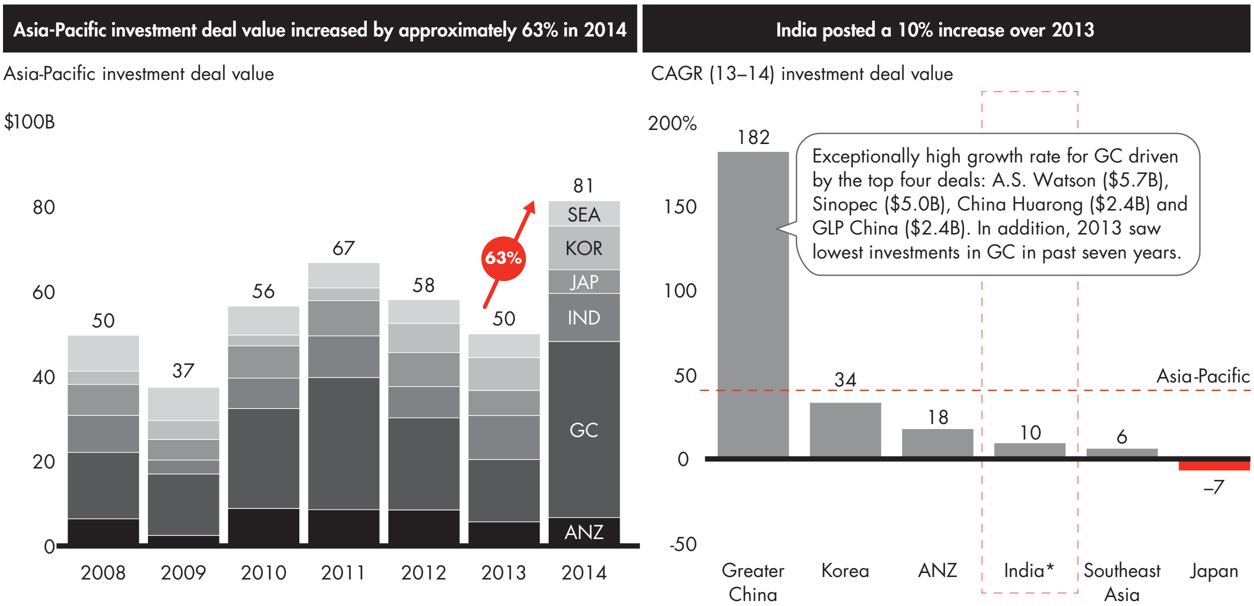
Notes: GDP adjusted for inflation and represented at constant 2005 USD prices; "advanced countries" refers to 34 countries classified as "advanced economies" by the IMF; BRICS refers to Brazil, Russia, India, China and South Africa; MINT refers to Mexico, Indonesia, Nigeria and Turkey
Source: Economist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

Figure 1.2: Global buyout activity has been remarkably flat since the latest expansion cycle began in 2010; Asia-Pacific showed strong growth at 35% in 2014



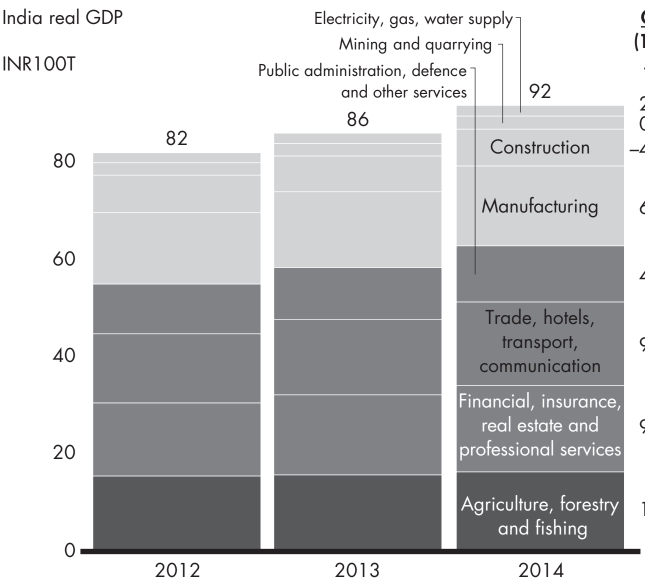
Notes: Excludes add-ons, loan-to-own transactions and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change; geography based on the location of targets; ROW stands for rest of the world
Sources: Dealogic; Bain Global PE Report 2015

Figure 1.3: Looking at the Asia-Pacific PE market, investment deal value increased across the region; Japan is the exception



*For Indian PE market, when including real estate, infrastructure and deals of more than $10 million, the value growth for 2014 over 2013 comes out to 28%
Notes: Analysis based on deals less than $10 million value; excludes real estate and infrastructure; ANZ stands for Australia and New Zealand
Source: *Asia Venture Capital Journal*

Figure 1.4: Indian macro environment strengthened in 2014, growing at 6.6% over 2013; services sector grew fastest and now contributes more than 50% to GDP

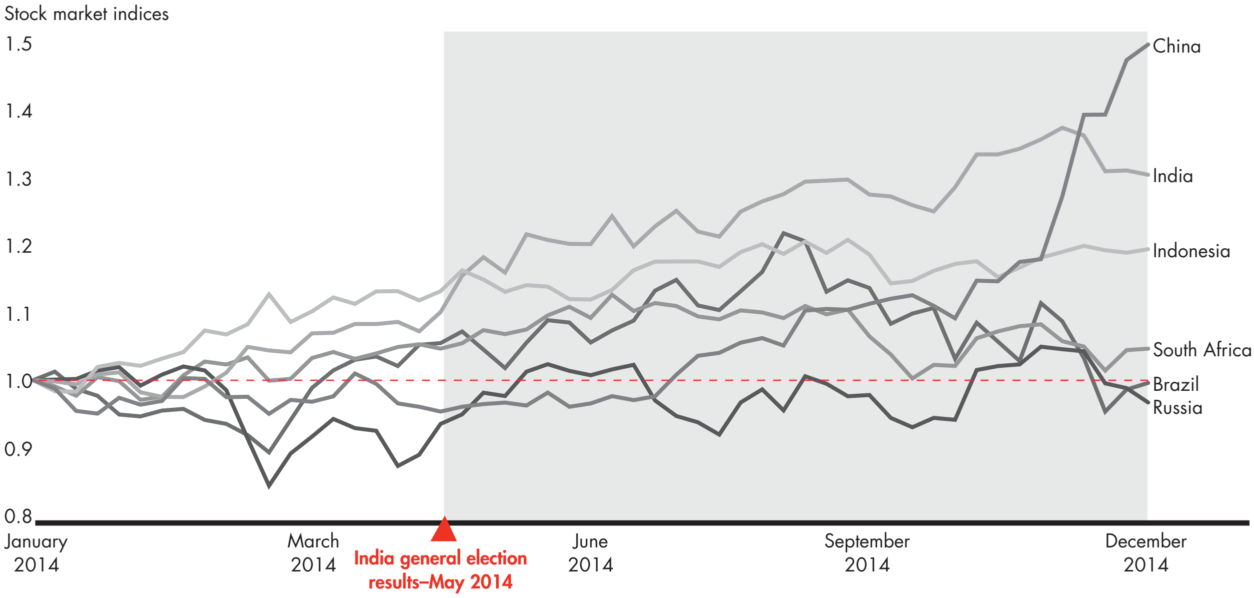


	CAGR (12–13) 4.9%	CAGR (13–14) 6.6%
Electricity, gas, water supply	2.3%	2.9%
Mining and quarrying	0.5%	5.5%
Construction	–4.4%	2.5%
Manufacturing	6.1%	5.3%
Public administration, defence and other services	4.7%	8.0%
Trade, hotels, transport, communication	9.2%	10.9%
Financial, insurance, real estate and professional services	9.0%	8.0%
Agriculture, forestry and fishing	1.7%	3.8%

	Contribution to GDP 2012	Contribution to GDP 2014	CAGR CY 2012–14
Industry*	19%	18%	2.8%
Services**	48%	51%	8.5%
Agriculture	33%	31%	3.3%

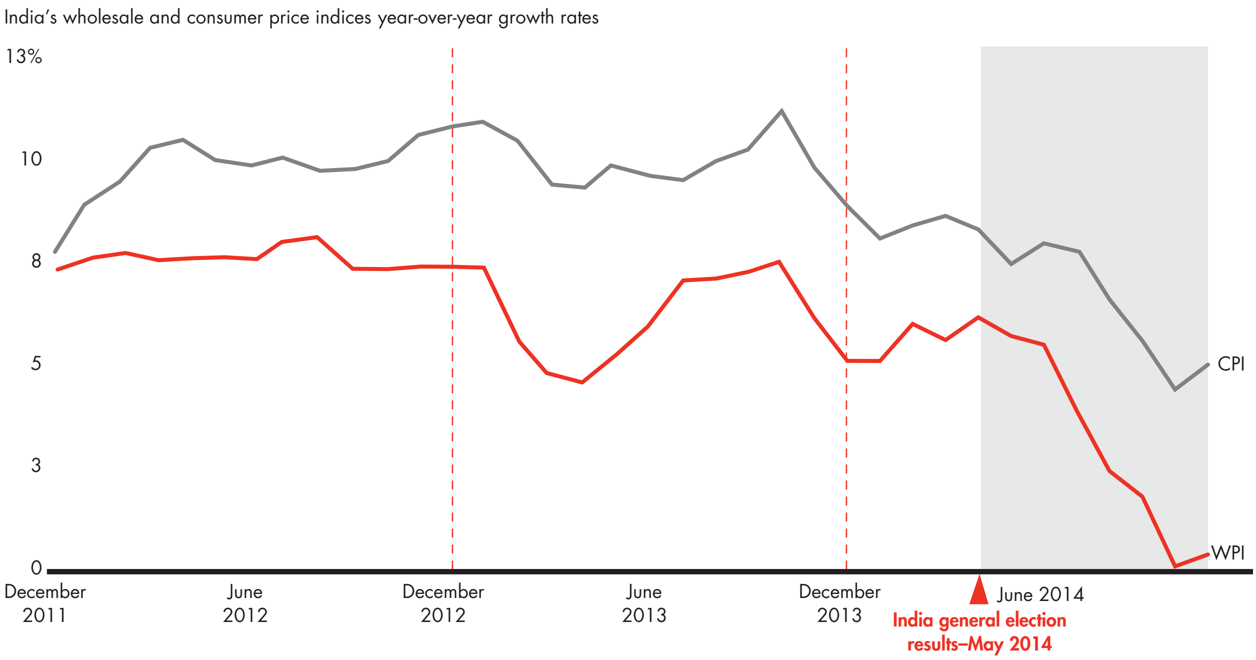
*Industry includes manufacturing, construction, mining and quarrying, electricity, gas, water supply and other utility services
**Services includes trade, hotels, transport, communication, financial, insurance, real estate and professional services, and public administration, defence and other services
Note: GDP represented at constant 2011–12 prices
Source: CEIC Data

Figure 1.5: Indian stock market yielded about 30% returns after general elections in 2014, among the highest in emerging economies, second only to China



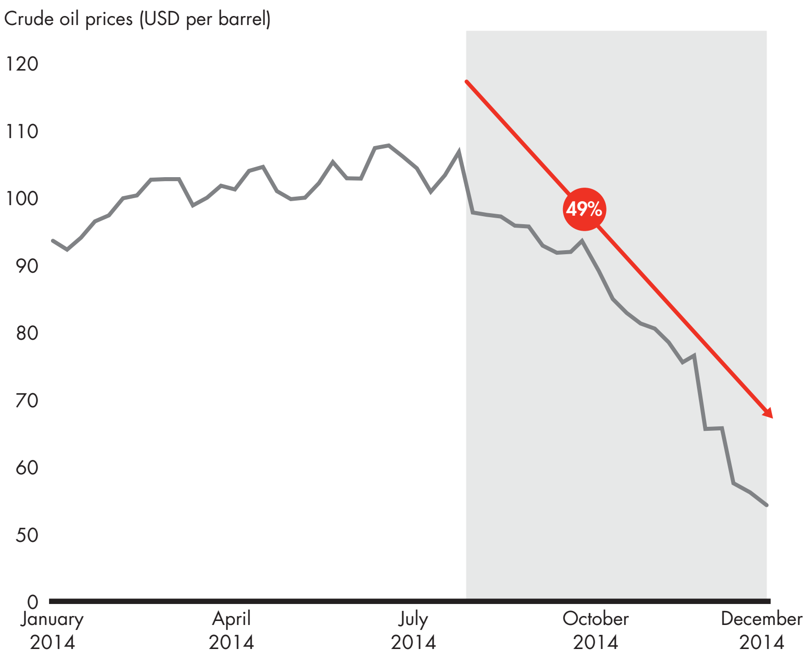
Notes: Stock market indices adjusted to common base at start of 2013; indices used are China-Shanghai Stock Exchange Composite, Indonesia-Jakarta Stock Exchange Composite, India-S&P BSE SENSEX, Russia-MICEX, South Africa-FTSE/JSE, Africa Top 40 Tradable, Ibovespa Brazil São Paulo Stock Exchange
Sources: Bloomberg; CEIC Data; Bain India PE deals database

Figure 1.6: The tide also turned post-elections for other economic indicators; inflationary pressures eased substantially during 2014



Source: CEIC Data

Figure 1.7: Crude oil prices fell by about 50% during the last five months of 2014



Sources: Bloomberg; Guardian; Economic Times; Business Standard; BBC

India, compared with other emerging economies, will significantly benefit from the fall in oil prices

India

- India imports the majority of its oil; lower oil import bill will help reduce the country's current account deficit.
- With oil companies making larger profits due to lower costs, government will be able to cut subsidies, facilitating investments in other areas.
- Cheaper energy is likely to moderate already falling inflation; this should lead to lower interest rates and more spending power, thereby boosting investment.

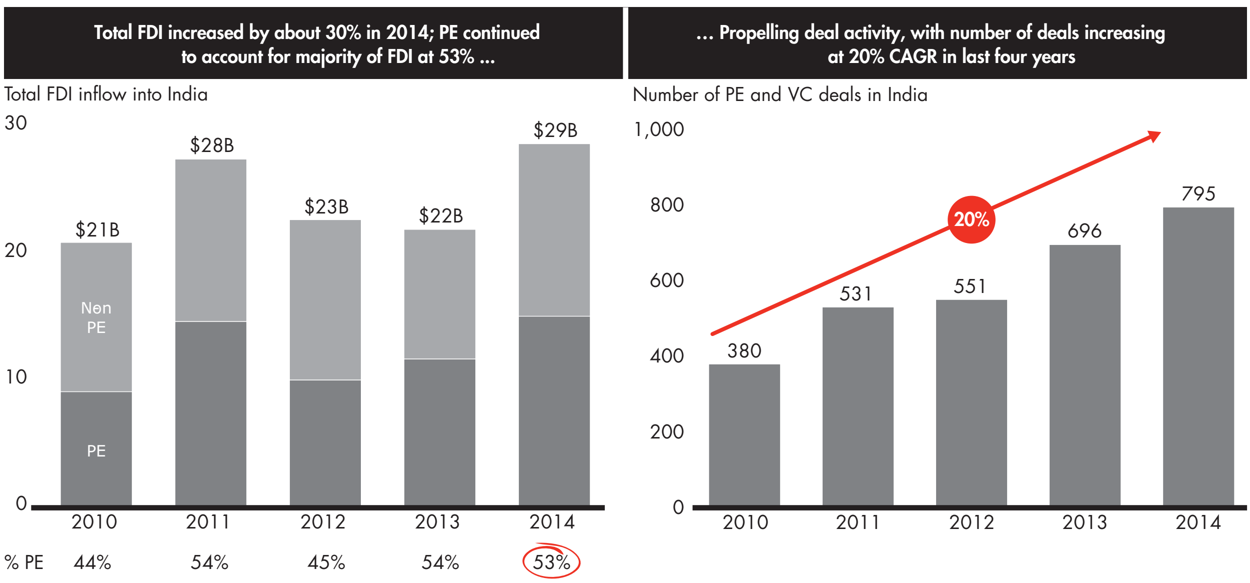
Russia

- Oil and gas accounts for about 70% of the export income for Russia. The Russian economy is expected to shrink in 2015 if oil prices don't recover.

Brazil

- While Brazil will be able to reduce subsidies in oil and gas, its export business will be challenged by falling prices; falling iron ore prices are also likely to hurt Brazil.

Figure 1.8: Global macroeconomic conditions, combined with growing investor confidence, led to increased FDI in India in 2014



Notes: PE as percent of FDI calculated by dividing total deal value in the respective year by the total FDI inflow; FDI refers to an investment made by a company or entity based in one country into a company or entity based in another country. FDI differs from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange.
Sources: CEIC; Bain India PE deals database


ASTANA
KAZAKHSTAN
UZBEKISTAN
TURKMENISTAN
AFGHA
NISTAN
IRAN
PAKISTAN
NEPAL
NEW DELHI
INDIA
Chennai
BAY OF
BENGAL
SRI LANKA

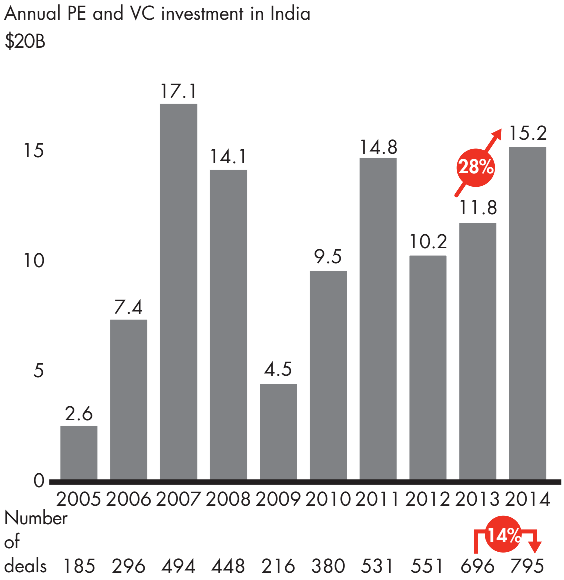
2.

Overview of India's PE landscape:

On the recovery path

- Indian PE and VC deal value, including deals across sizes and sectors, increased 28% to $15.2 billion in 2014, the highest in the past five years. Meanwhile, deal volume rose by 14% over 2013.
- The number of funds investing in India grew at a phenomenal rate, rising nearly 30% over 2013. Of the approximately 440 funds that invested, close to 50% were doing so for the first time in the past three years.
- The share of early- and growth-stage deals continued to rise as both PEs and VCs looked to invest via these routes.
- Deal activity is expected to surge, and GPs point to a strong macroeconomic environment, changes in the exit environment and evolving investor sentiment as the top drivers.
- Rising competition and a mismatch in valuation expectations are the likely near-term challenges in the PE space.

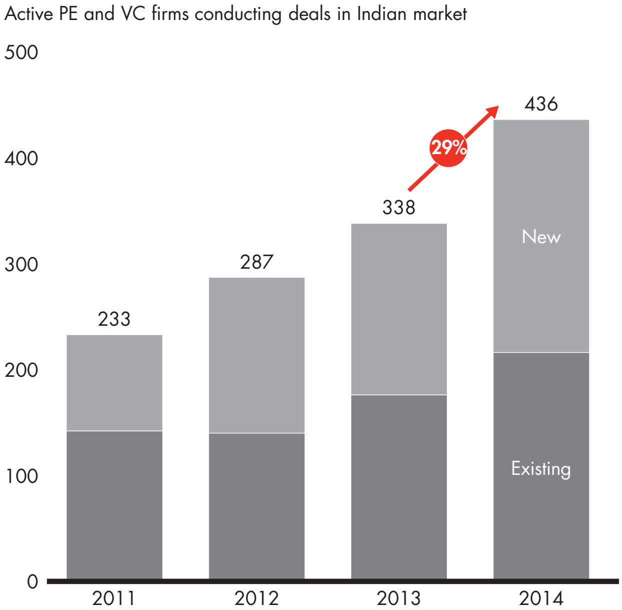
Figure 2.1: Total PE deal value in 2014 grew 28% to $15.2 billion, inching closer to 2007 peak levels; number of deals grew by 14% to 795



Company	Top deals in 2014 Fund(s)	Value ($M)
Flipkart	Naspers, Tiger Global Mgmt, Accel Partners, Morgan Stanley Investment Mgmt, DST Advisors, GIC, Sofina, Iconiq Capital	1,000
Flipkart	Qatar Investment Authority, DST Advisors, Greenoaks Ventures, GIC, Iconiq Capital, Tiger Global, Steadview Capital, T. Rowe Price, Baillie Gifford & Co.	700
Snapdeal.com	BlackRock, Tybourne Capital Mgmt., Temasek, SoftBank, PI Opportunities Fund I, Myriad Asset Mgmt.	636
Unitech Corporate Parks	Brookfield	581
Kotak Mahindra Bank	Canada Pension Plan Investment Board (CPPIB)	376
Shriram Capital	Piramal Enterprises	334
L&T IDPL	CDPQ, CPPIB, State General Reserve Fund (SGRF)	323
Jaiprakash Power Ventures	IDFC Private Equity, PSP Investments	316
Sutherland Global Services	TPG Capital	300
Minacs	CX Partners, others	260
	Total	**4,826**

Note: Includes all deals, including real estate, infrastructure and small deals
Source: Bain India PE deals database

Figure 2.2: Number of active funds grew by about 30% in 2014, led by about 220 new funds investing in India

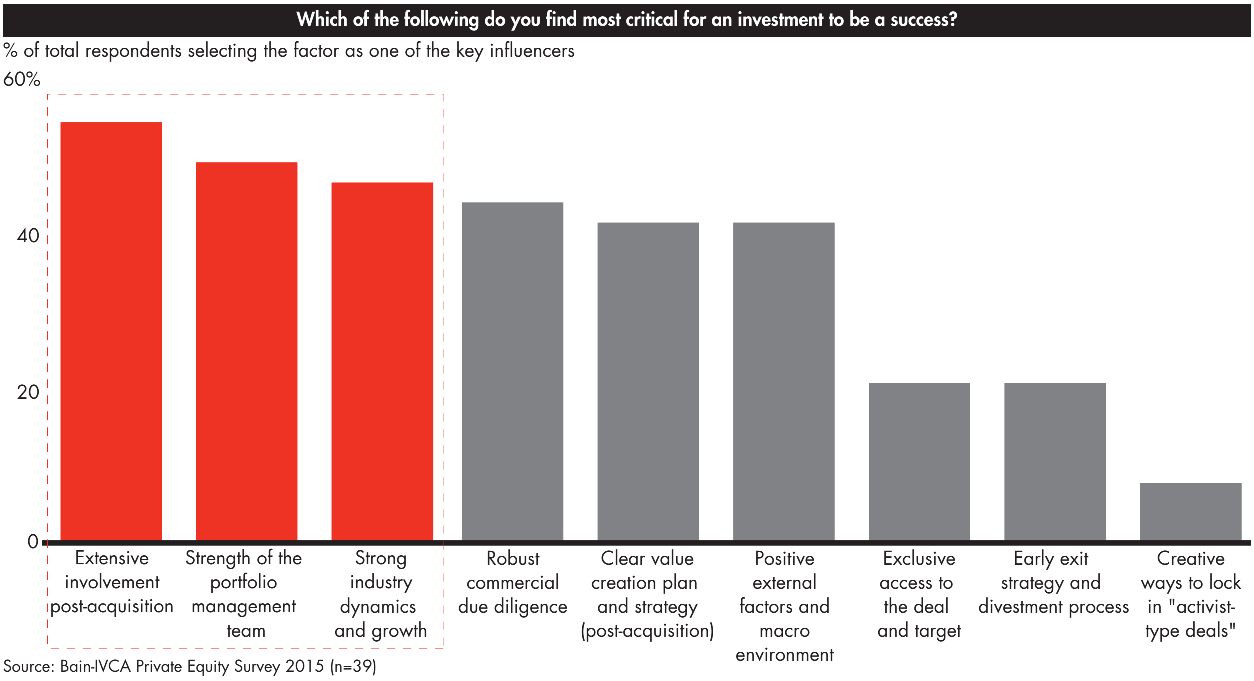


Top deals in 2014 involving funds investing for the first time* in India

Fund(s)	Investment	Deal size ($M)
DST Advisors	Flipkart	1,000
DST Advisors, Qatar IA, Greenoaks Ventures, Steadview Capital, Baillie Gifford & Co.	Flipkart	700
Tybourne Capital, Myriad Asset Management	Snapdeal.com	636
Brookfield	Unitech Corporate Parks	581
Piramal Enterprises	Shriram Capital	334
CDPQ, SGRF	L&T IDPL	323
PSP Investments	Jaiprakash Power Ventures	316
Steadview Capital	Olacabs	210
DST Advisors	Flipkart	210
Saama Capital	Snapdeal.com	134

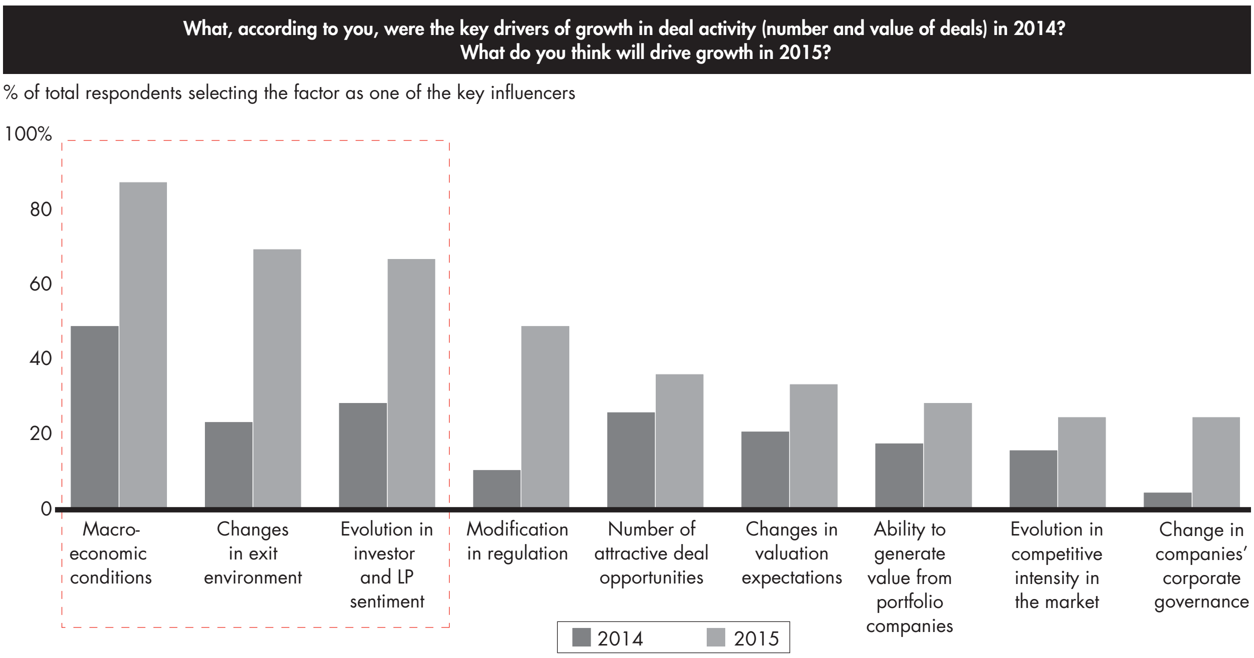
*Only new funds investing for the first time in India in last two years and participating in the deal are listed
Note: A fund is classified as new if it has not done any deal in the preceding two years, i.e., new funds include funds that did a deal in the current year but were inactive last year
Source: Bain India PE deals database

Figure 2.3: Funds consider post-deal involvement, portfolio team's strength and strong industry dynamics to be key factors for investment success



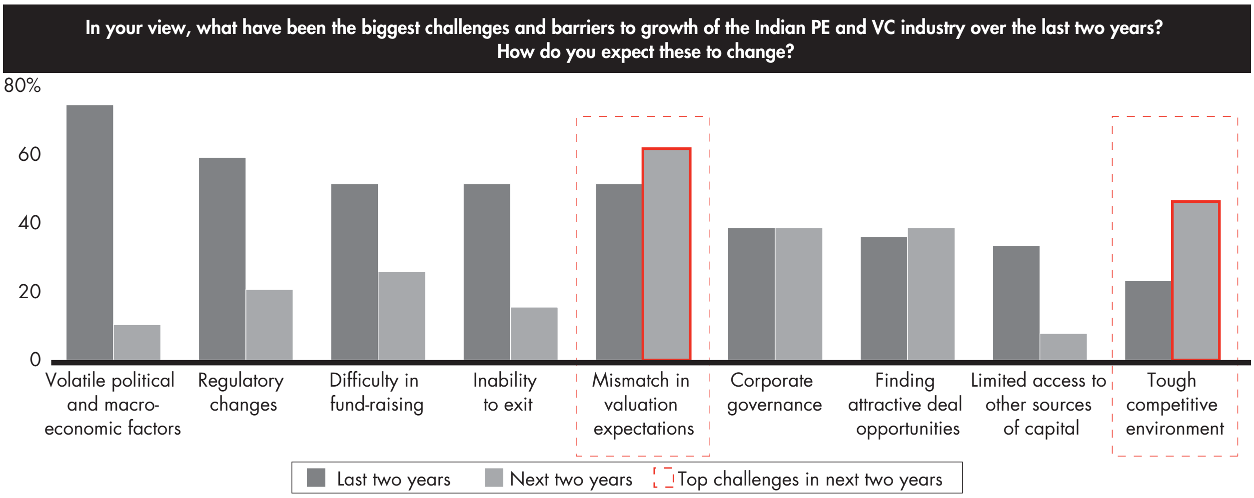
Source: Bain-IVCA Private Equity Survey 2015 (n=39)

Figure 2.4: Macroeconomic conditions, exit environment and investor sentiment are expected to remain the top three growth influencers in 2015



Source: Bain-IVCA Private Equity Survey 2015 (n=39)

Figure 2.5: However, the biggest challenges are expected to be mismatched valuation expectations and tough competitive environment



"2015 is going to be tough as valuations are very high, and from a PE point of view, returns might be questionable as compared with the value of the investment made."
—Fund manager

"Competition has increased, especially for sectors like consumer technology, as a lot of hedge funds, etc. are also trying to invest in the sector."
—Fund manager

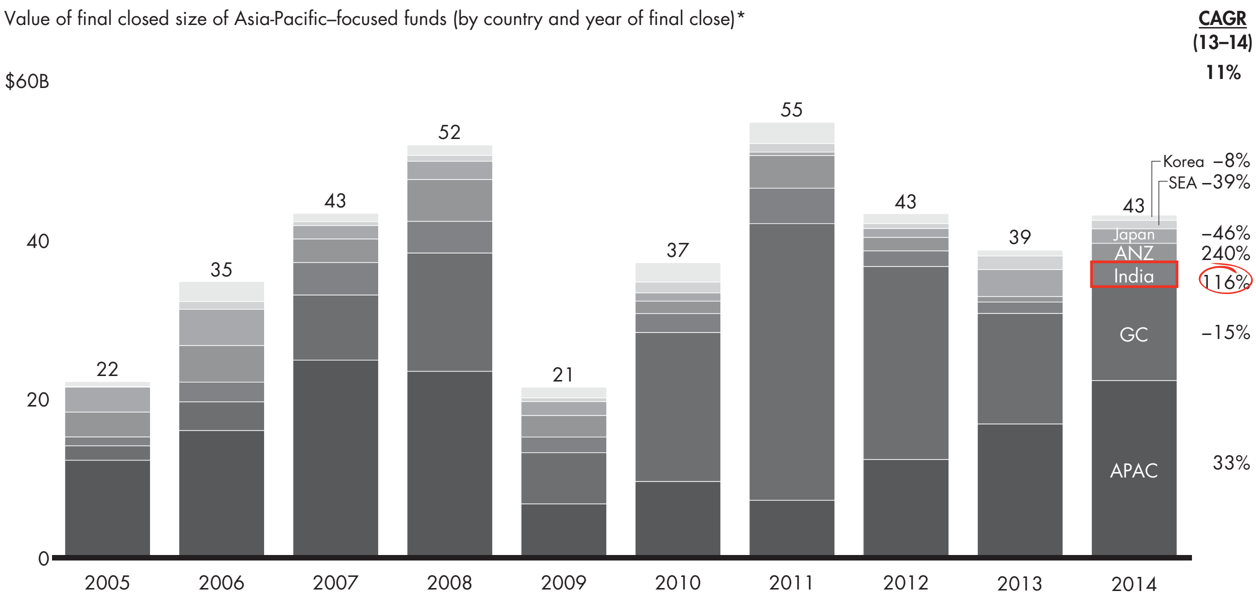
Source: Bain-IVCA Private Equity Survey 2015 (n=39)

2a.

Fund-raising

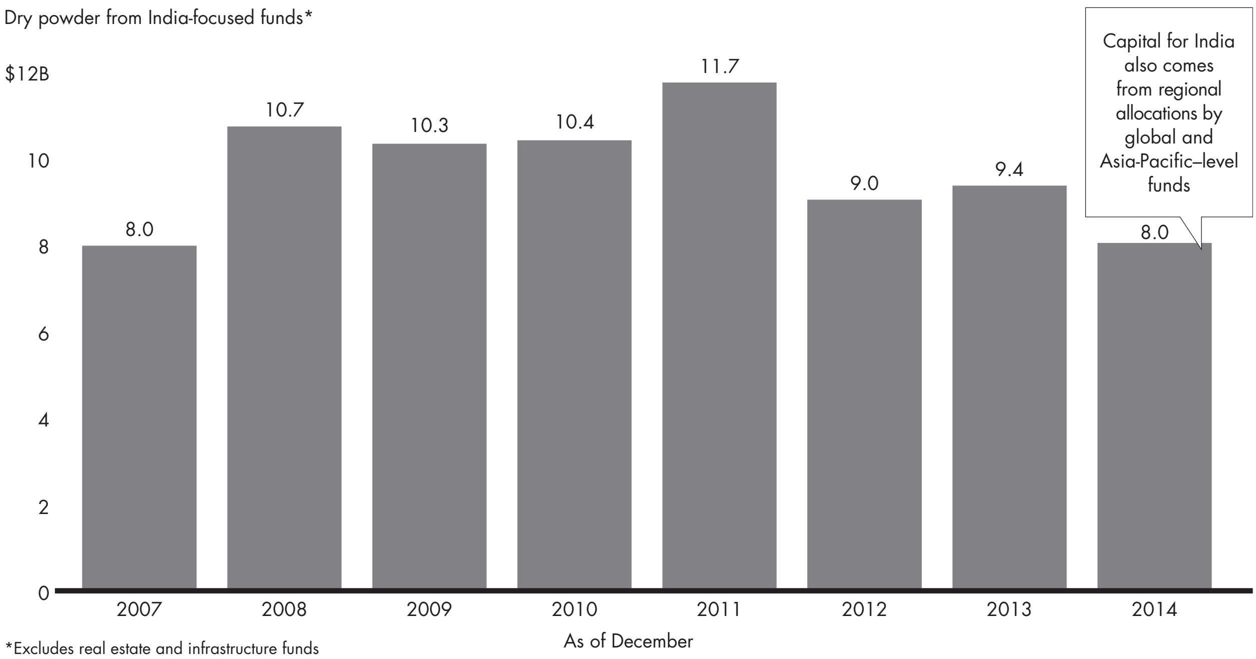
- Asia-Pacific–focused capital increased in 2014. Specifically, the value from India-focused funds more than doubled compared with 2013. Further increases are expected in 2015.
- India's dry powder from India-focused funds dropped to $8 billion due to the significant deployment of investments in 2014.
- 70% of the GPs surveyed believe that fund-raising is likely to become easier in 2015, despite the regulatory challenges and macroeconomic uncertainties which were cited as the most common challenges in this area. Indian investments need to build further credibility via successful exits.
- Survey respondents pointed to track record and team expertise as the most critical factors for PE fund allocation decisions. As a result, GPs continue to focus on building strong teams.

Figure 2.6: Fund-raising in Asia-Pacific increased by 11% in 2014; India-focused funds grew by more than 110%



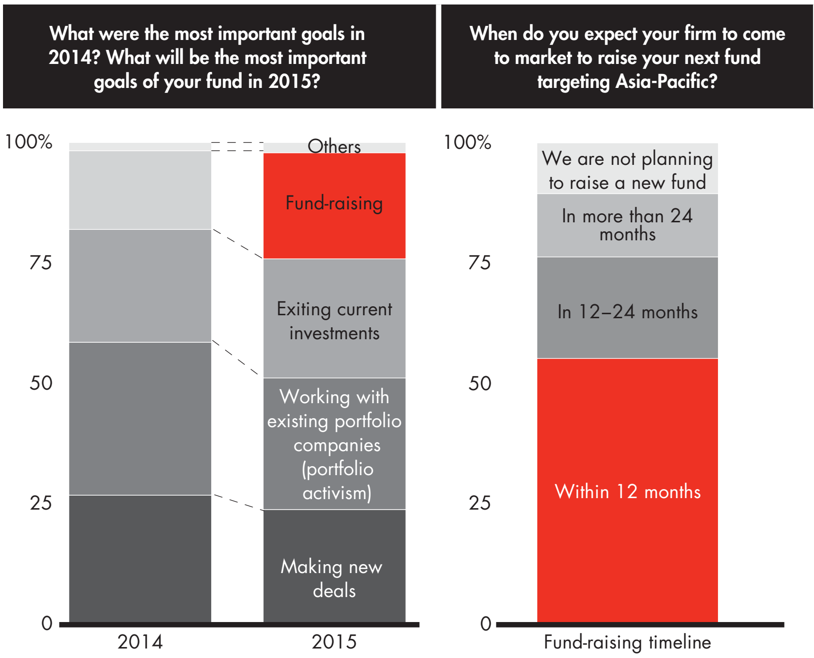
*Excludes real estate and infrastructure
Notes: GC is Greater China; APAC is Asia-Pacific; ANZ is Australia and New Zealand; SEA is Southeast Asia
Source: Preqin

Figure 2.7: India-focused dry powder shrank to $8 billion due to reduction in focused fund-raising, but good-quality deals are not lacking capital



*Excludes real estate and infrastructure funds
Source: Preqin

Figure 2.8: Fund-raising activity for India is expected to increase further in 2015; many funds are looking to raise next round of funding in the coming year



Many funds are already looking to raise capital

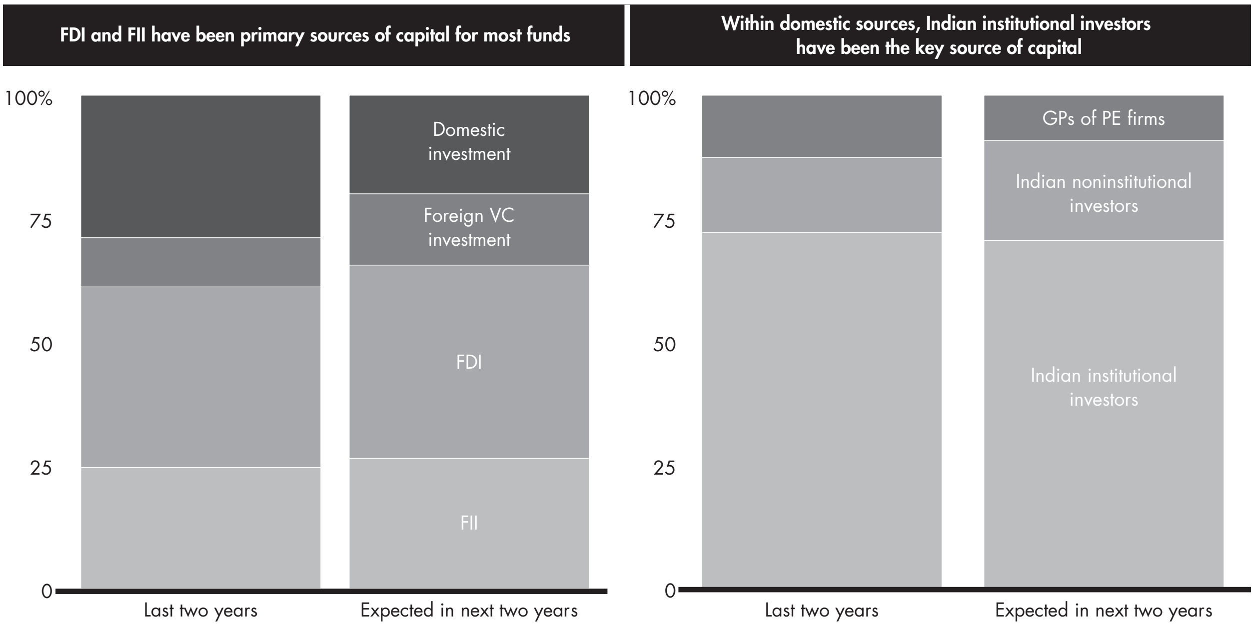
"The Singapore-based fund manager (Everstone) is targeting $650 million to invest in companies that have significant operations in the Indian subcontinent. The new, third fund, Everstone Capital Partners III LP, will have a $700 million hard cap."
—International Finance Corporation (October 2014)

"Baring Private Equity Asia (Baring Asia), which has lately become quite active in India, has raised $3.98 billion in its new flagship fund, taking its total assets under management to around $9 billion."
—VCCircle (February 2015)

"Carlyle Group, one of the world's largest private equity firms, has closed its fourth Asia fund at $3.9 billion, the second-largest private equity fund ever raised for Asia investments."
—Reuters (September 2014)

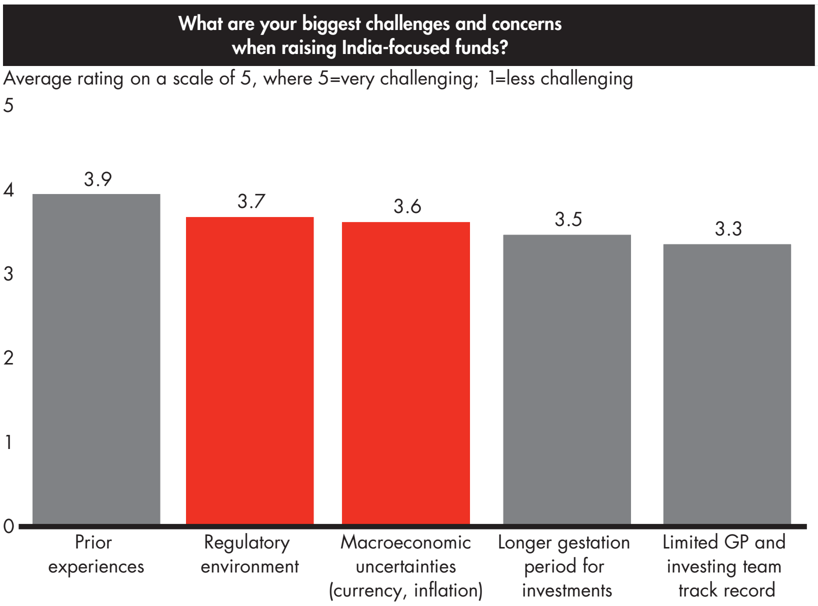
Sources: Bain-IVCA Private Equity Survey 2015 (n=39); Reuters; VCCircle; WSJ

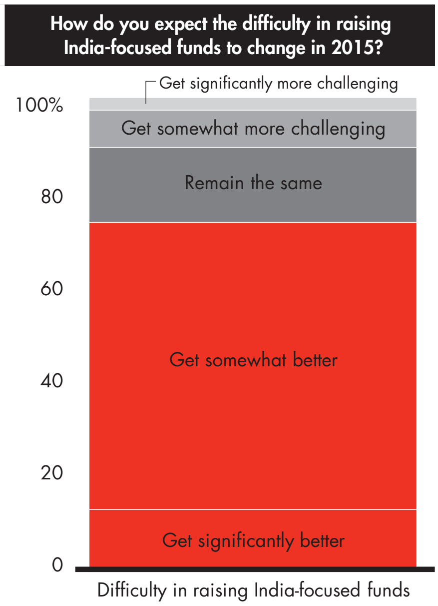
Figure 2.9: Foreign investments have been the primary source of capital for most funds and are expected to grow further in the next two years



Notes: FII stands for foreign institutional investment; FDI stands for foreign direct investment
Source: Bain-IVCA Private Equity Survey 2015 (n=39)

Figure 2.10: Despite concerns around regulatory environment and uncertainties around currency and inflation, more than 70% of respondents expect fund-raising to become easier

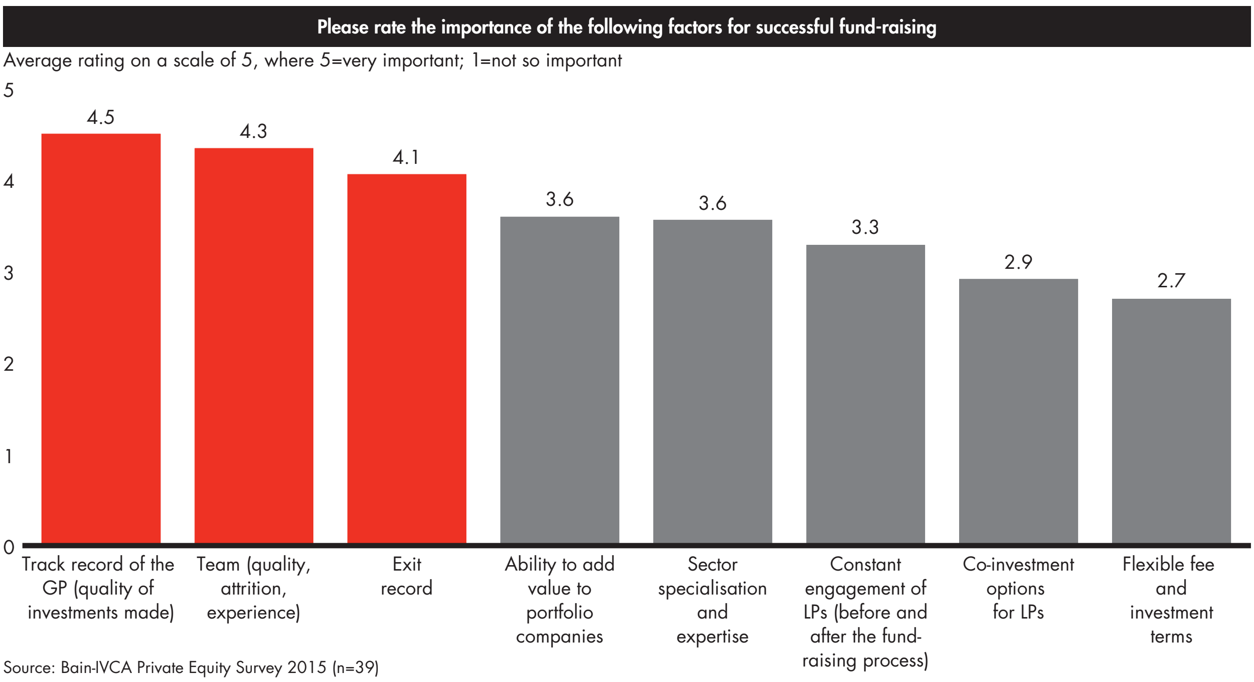




"Fund-raising for India-focused funds is still not easy. India has still not returned capital and has yet to prove itself as an asset class."—PE fund manager, India

Source: Bain-IVCA Private Equity Survey 2015 (n=39)

Figure 2.11: Funds consider their track record, team and exit record to be the most important factors for successful fund-raising



Source: Bain-IVCA Private Equity Survey 2015 (n=39)

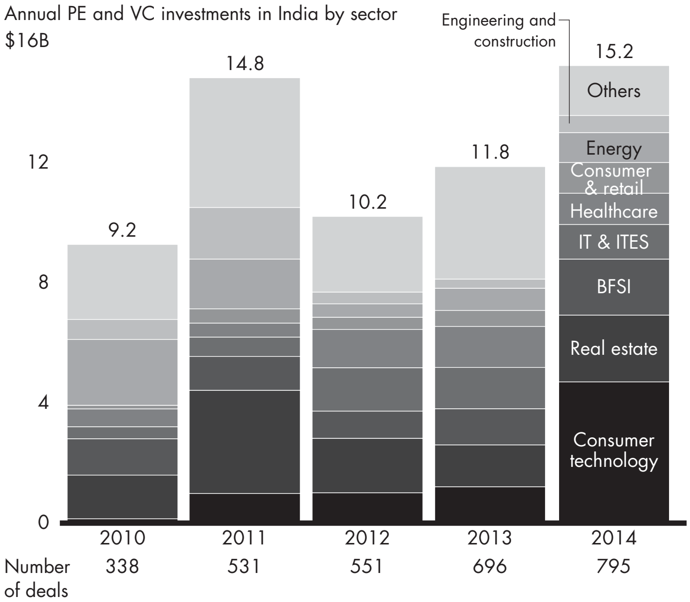
2b.

Deal making

- Deal activity was robust in 2014 as deal value and volume grew at approximately 28% and 14%, respectively. Consumer technology, real estate and BFSI were the key drivers of the increase in total deal value.
- The average deal size of PE investments rose by 28% over 2013, reaching $53 million in 2014. Moreover, nearly 50% of survey respondents expect this trend to continue.
- With an increase in the number of deals over $100 million, the top 25* deals accounted for $6.4 billion of the capital deployed, constituting 49% of the total PE deal activity in 2014.
- Minority stake deals accounted for more than 90% of the total deals, and this figure is expected to rise as competition for deals intensifies.
- GPs surveyed expect early- and growth-stage deals to continue to account for more than 80% of investments.
- While valuations in 2014 are perceived to be fair, nearly 60% of GPs expect them to increase further in the near future.
- GPs surveyed identified consumer technology, healthcare and financial services as the primary growth sectors for the next two years.
- Looking ahead, GPs are optimistic about return expectations, even as horizons of investments are likely to remain stable.

*Excluding real estate deals

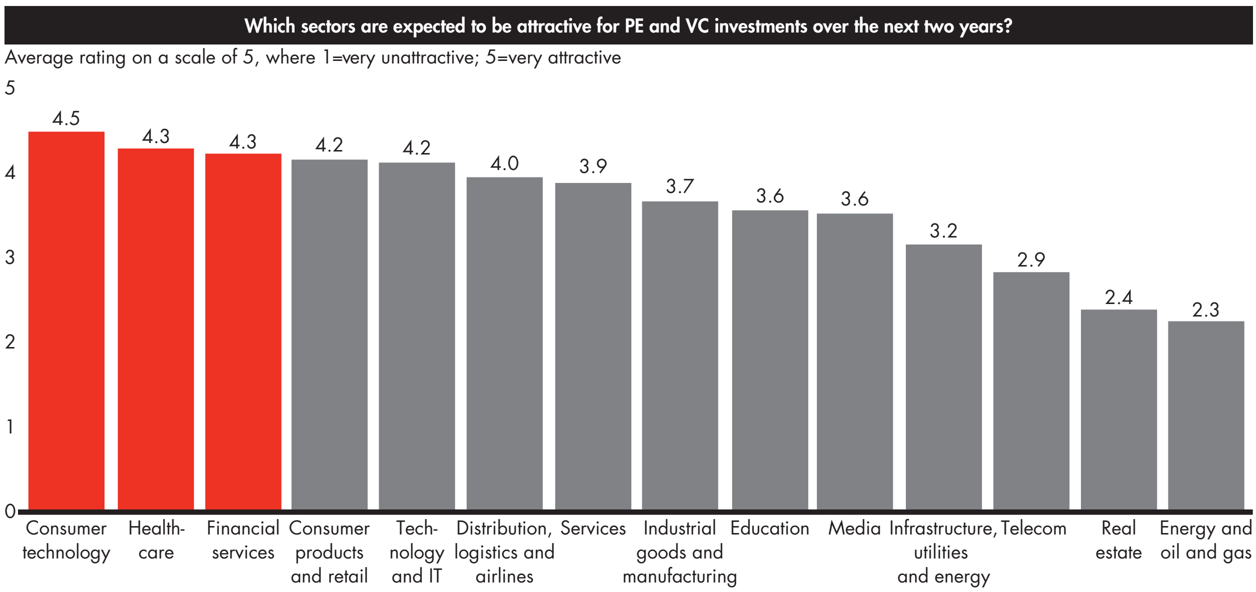
Figure 2.12: Total deal value in 2014 surged to $15.2 billion, with highest investments in consumer technology, real estate and BFSI



Sector	CAGR 10–13	CAGR 13–14	CAGR 10–14
Others	14%	–56%	–10%
Engineering and construction	–23%	90%	–3%
Energy	–31%	35%	–18%
Consumer & retail	61%	92%	68%
Healthcare	33%	–23%	16%
IT & ITES	50%	–17%	29%
BFSI	0%	55%	12%
Real estate	–1%	60%	11%
Consumer technology	101%	287%	137%
Total	**9%**	**28%**	**13%**

Notes: Others includes hotels and resorts, retail, shipping and logistics, textiles, education, telecom, media and entertainment, manufacturing and other services; BFSI refers to banking, financial services and insurance
Source: Bain India PE deals database

Figure 2.13: Funds expect that consumer technology, healthcare and financial services will see maximum investment activity

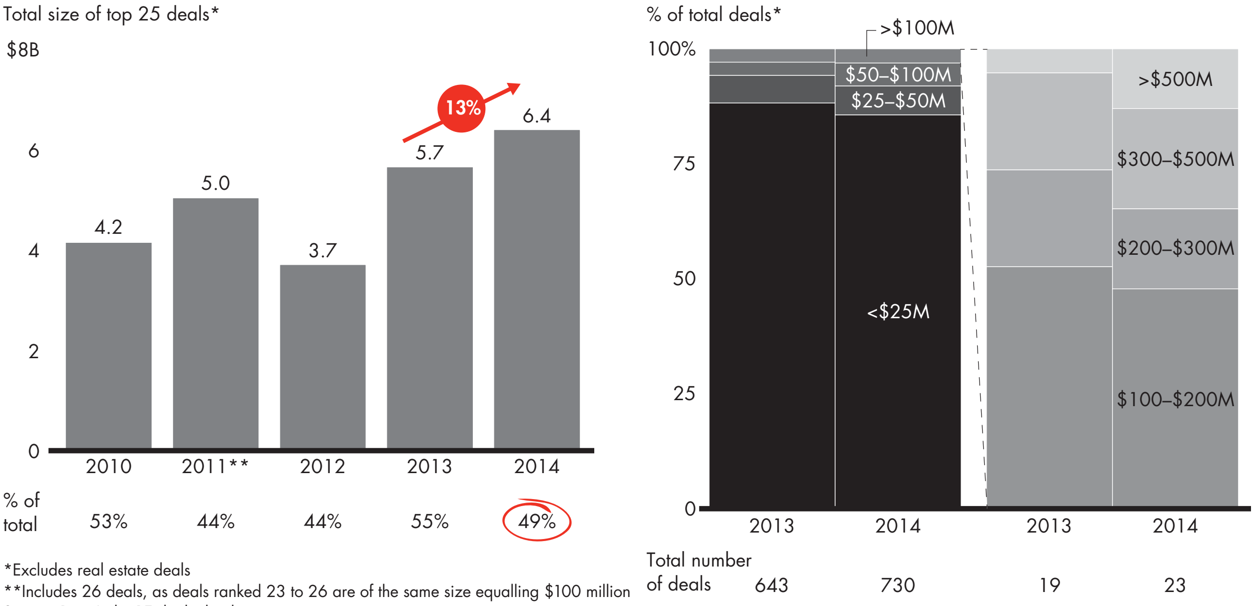


"In India, financial services has been one of the most attractive sectors, even more than IT, and it has some new emerging interesting themes. E-commerce is another one, though currently more VCs are present as compared with PEs." —India PE fund manager

Source: Bain-IVCA Private Equity Survey 2015 (n=39)

Figure 2.14: Top 25 deals comprised 49% of total investments in 2014

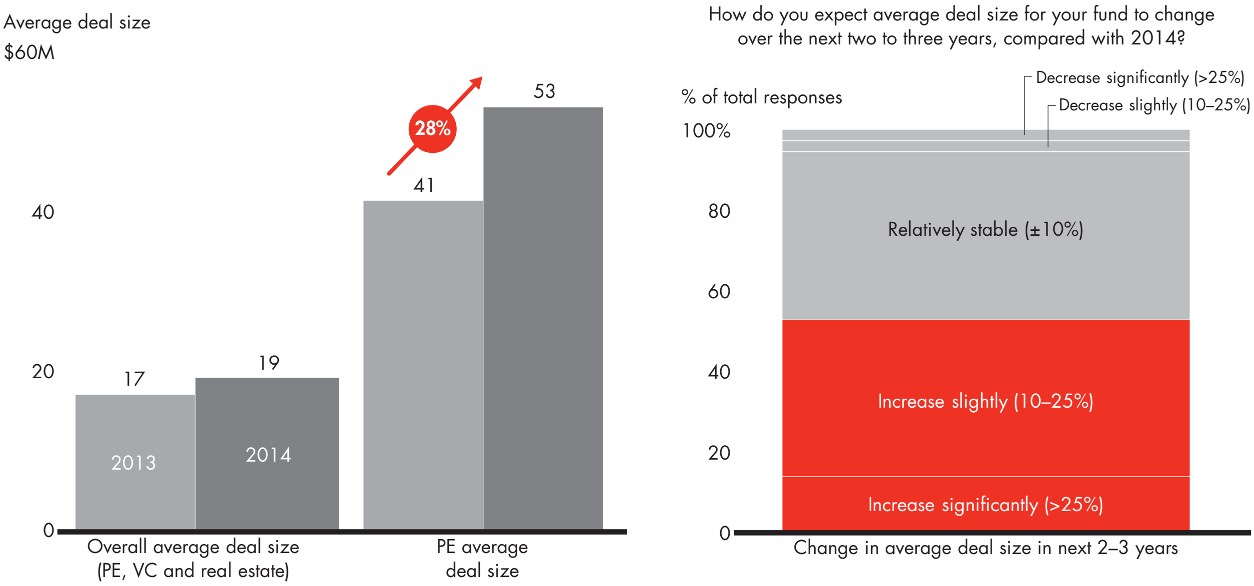
Top 25 deals contributed $6.4 billion, an increase of 13% over last year	Increase in deals with ticket sizes of more than $100 million



*Excludes real estate deals
**Includes 26 deals, as deals ranked 23 to 26 are of the same size equalling $100 million
Source: Bain India PE deals database

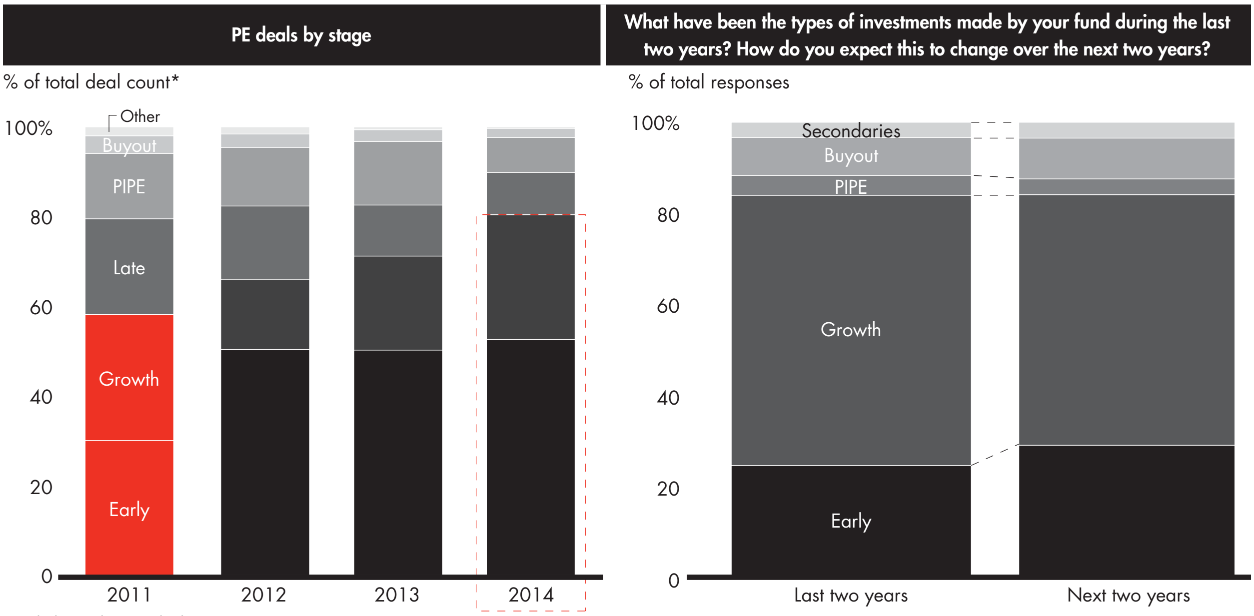
Figure 2.15: Average deal size increased by 28% in 2014; majority of respondents expect it to increase further in the next three years

The average deal size increased from $41 million to $53 million for PE deals ...	... With further increase expected in the coming years



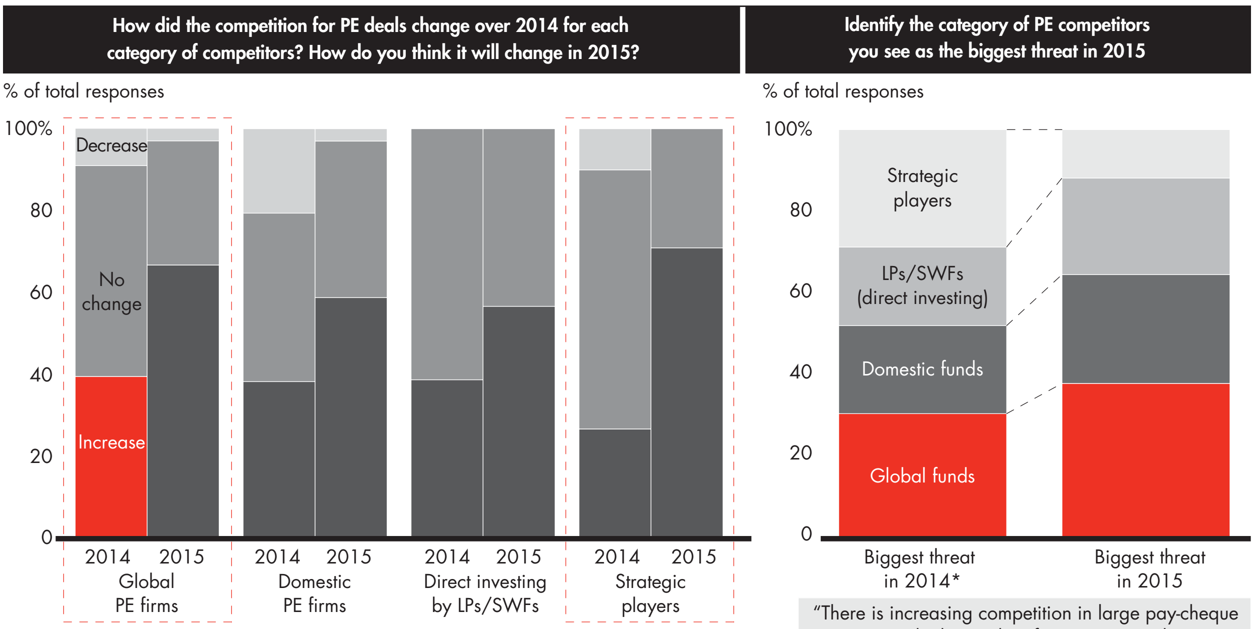
Notes: PE deals exclude VC and real estate deals; VC deals defined as early- and growth-stage deals with value less than $20 million
Sources: Bain India PE deals database; Bain-IVCA Private Equity Survey 2015 (n=39)

Figure 2.16: Activity in early- and growth-stage investments increased from 71% in 2013 to 80% in 2014; trend expected to continue



*Excludes real estate deals
Notes: Growth stage includes pre-IPO deals; PIPE stands for private investment in public equity
Sources: Bain India PE deals database; Bain-IVCA Private Equity Survey 2015 (n=39)

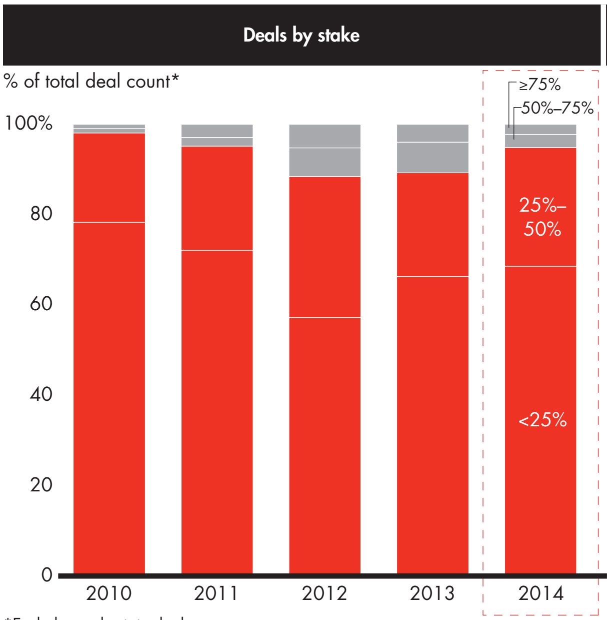
Figure 2.17: Majority of funds believe competition for deals will increase in 2015; expect competition to be highest from global funds

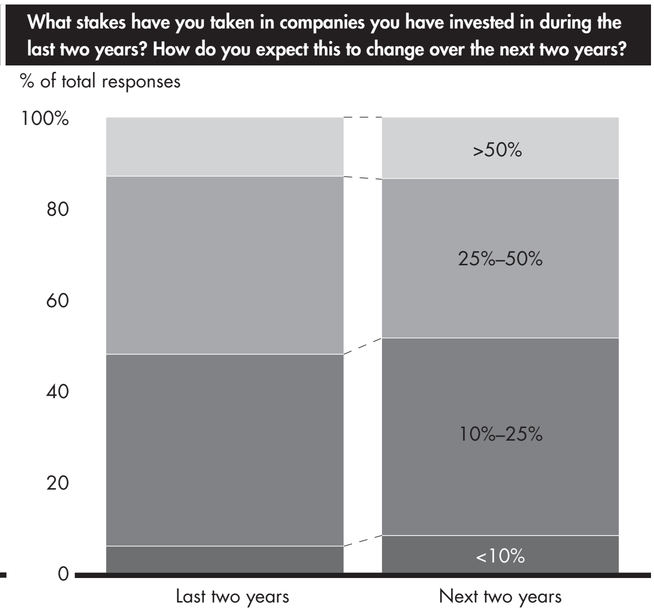


"There is increasing competition in large pay-cheque minority deals as a lot of sovereigns and LPs are choosing to go direct." —India PE fund manager

*Data from Bain-IVCA Private Equity Survey 2014 (n=53)
Source: Bain-IVCA Private Equity Survey 2015 (n=39)

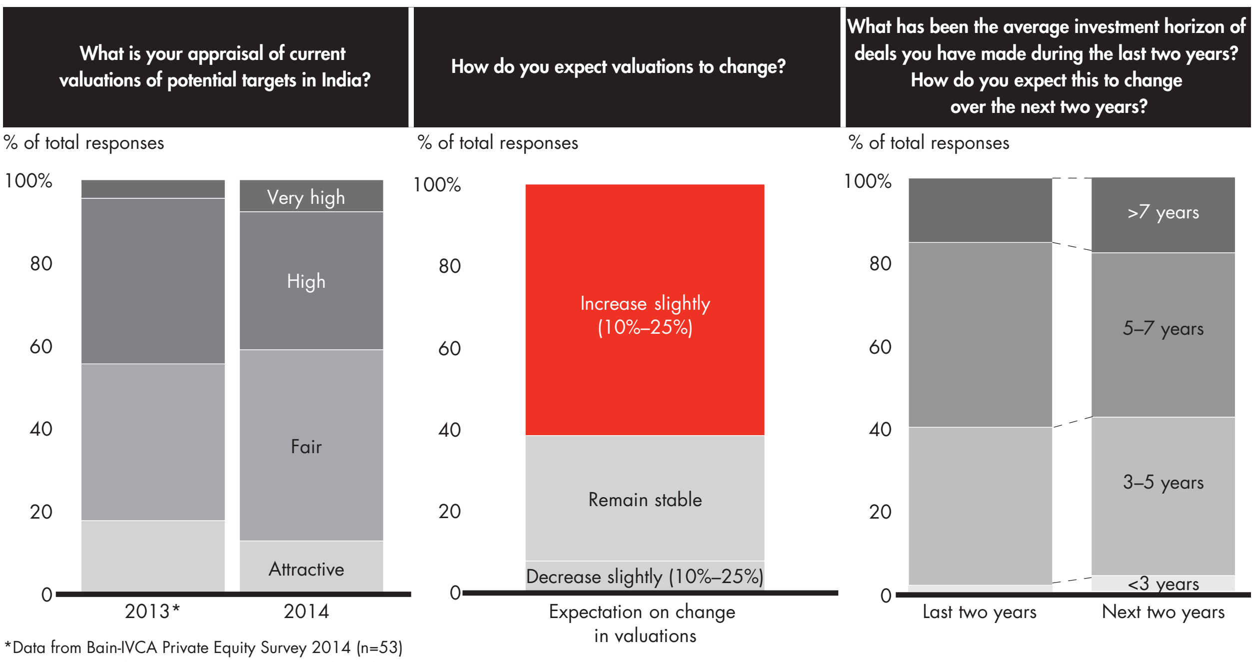
Figure 2.18: Minority stake deals continue to dominate with more than 90% of the share of total deals; more GPs are inclined to minority stake deals even in the future





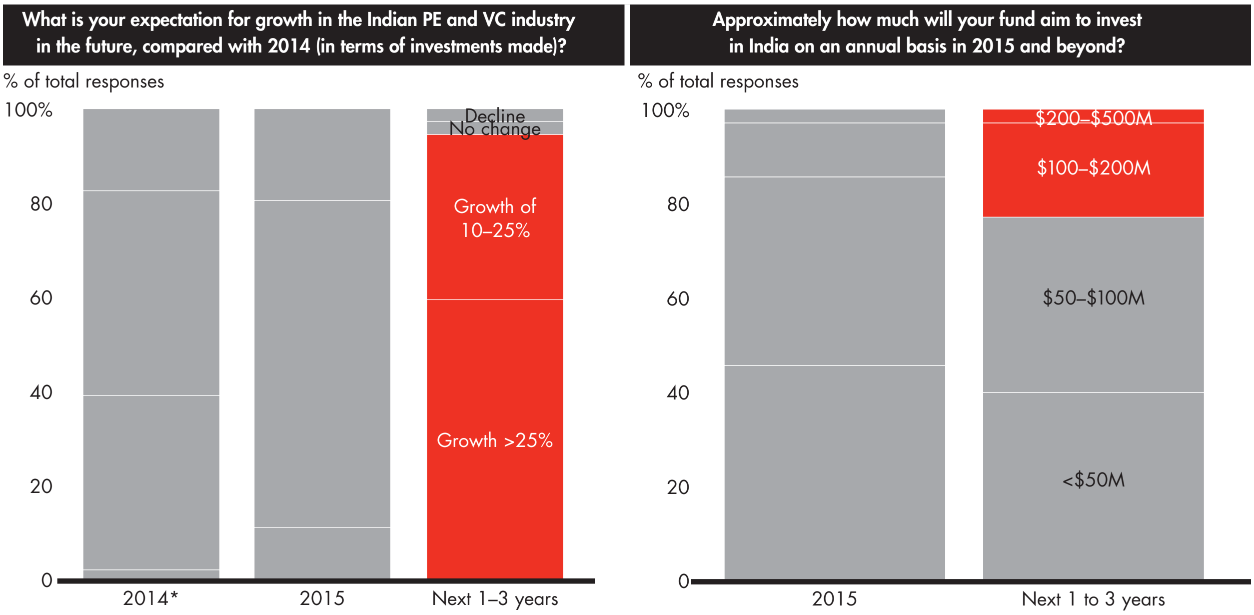
*Excludes real estate deals
Note: Includes only those deals where stake size is known
Sources: Bain India PE deals database; Bain-IVCA Private Equity Survey 2015 (n=39)

Figure 2.19: Funds believe that valuations are fair and expect them to increase further in future



*Data from Bain-IVCA Private Equity Survey 2014 (n=53)
Source: Bain-IVCA Private Equity Survey 2015 (n=39)

Figure 2.20: Given strong forecasts for 2015 growth, investment outlook in next one to three years is highly positive with expected increase in growth and investment targets



*Data from Bain-IVCA Private Equity Survey 2014 (n=53)
Source: Bain-IVCA Private Equity Survey 2015 (n=39)

2c.

Portfolio management with exits

- GPs point out that a larger number of Indian promoters now better understand the PE funding proposition. Valuations, sector expertise and brand are the most important criteria for entrepreneurs who are looking for PE funding.

- Promoters continue to seek PE support for decisions around international financing, expansion and customer access. From a promoter point of view, operational freedom and transparency in communication are considered essential to good partnerships with PE funds throughout the deal-making process.

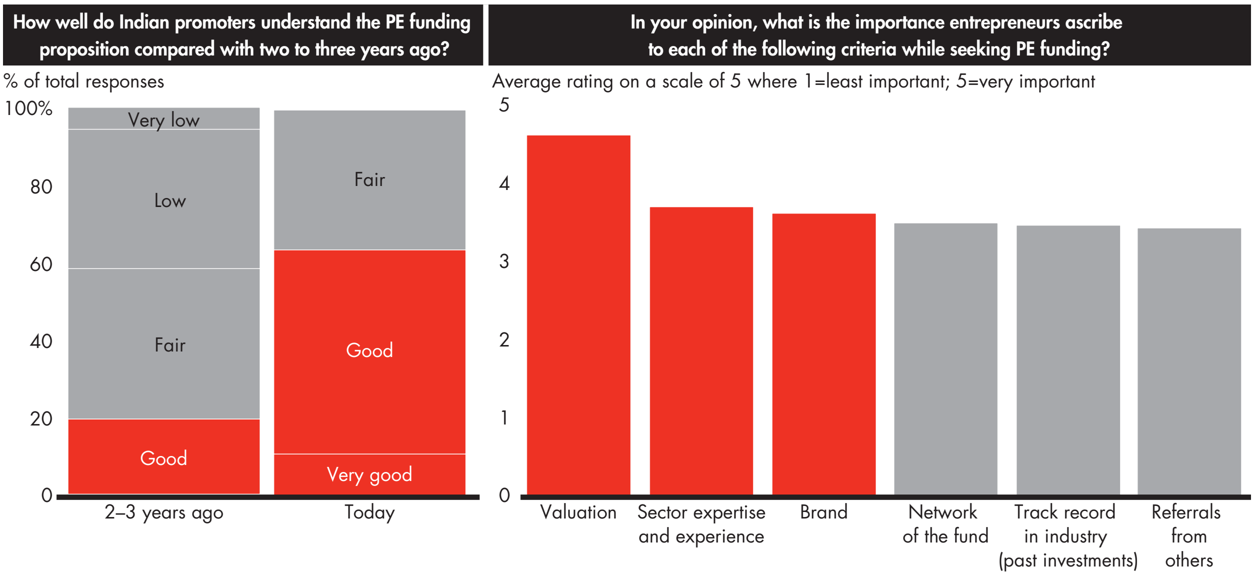
- Funds are also considering expanding their operating teams to unlock higher value in their portfolio companies.

- Exit volume grew by 14% in 2014, even as total reported exit value dropped. Exit volumes are expected to rise sharply in coming years in response to continued pressures to return capital.

- Public-market sales accounted for a sharply growing share of exits as Indian public markets continued to reach new heights. GPs surveyed pointed to IPO and strategic sales as the most attractive exit routes in the near future.

- Even as pre-2008–vintage unexited deals continue to face challenges, the situation has improved from 2013.

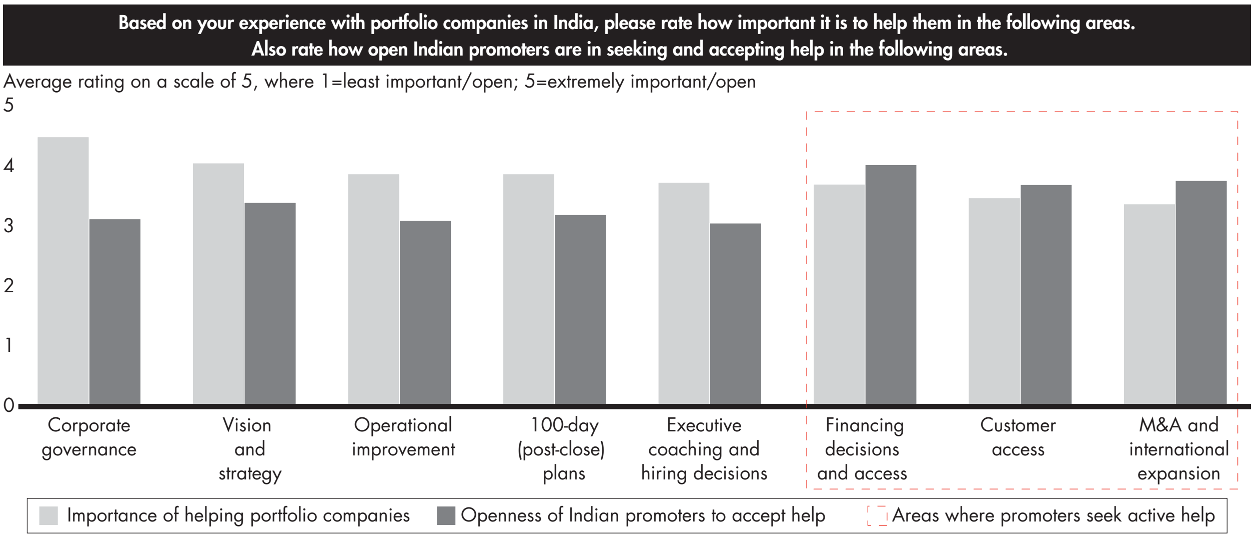
Figure 2.21: GPs agree that more entrepreneurs are accepting PE; in addition to valuation, expertise and brand are becoming important when seeking funding



"We wanted a partner who would give us complete freedom. Good PE with the right characteristics is more important than valuations in the long run. We wanted a PE investor who will help us reach the next level."—Promoter, PE-funded Indian firm

*From Bain-IVCA Private Equity Survey 2015 (n=39)
Source: Bain-IVCA Private Equity Survey 2015 (n=39)

Figure 2.22: While corporate governance is top of mind for investors, entrepreneurs seek PE support for international financing decisions, expansion and customer access

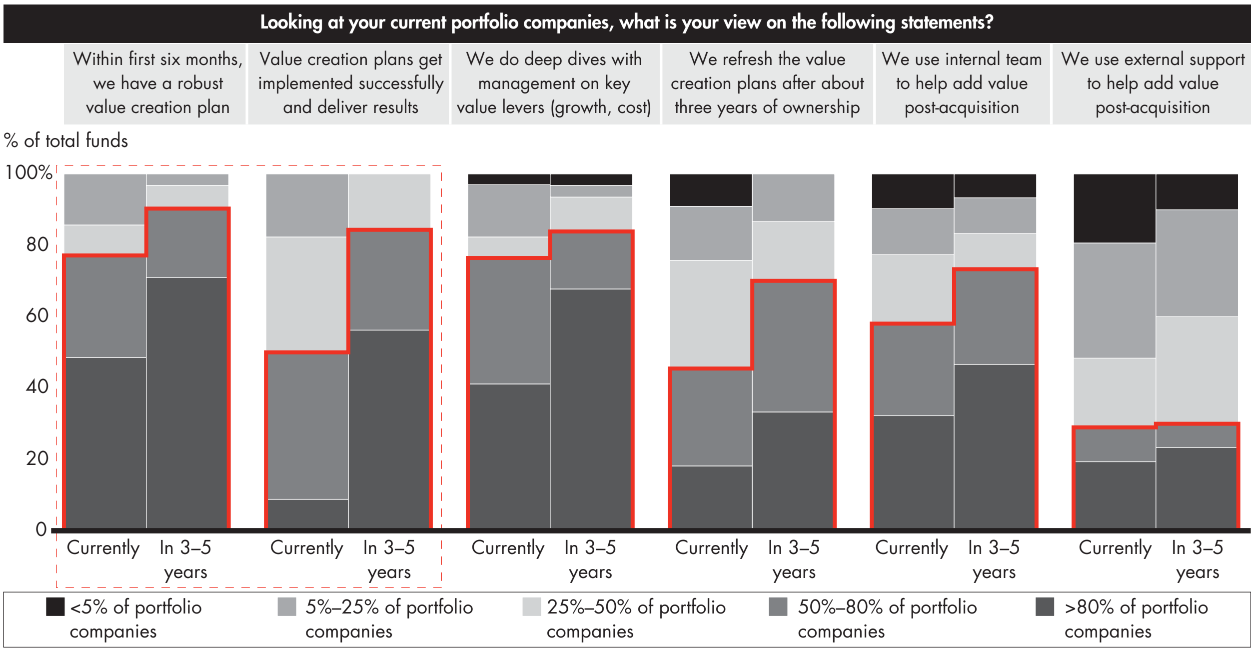


"The relationship had a lot to do with mindset change. A large part of the learnings was in areas like current situation of the market and our standing there."—Promoter, PE-funded Indian firm

"Our PE partners helped us through our bad times via their guidance. Even while on the board, it was very helpful."—Promoter, PE-Funded Indian firm

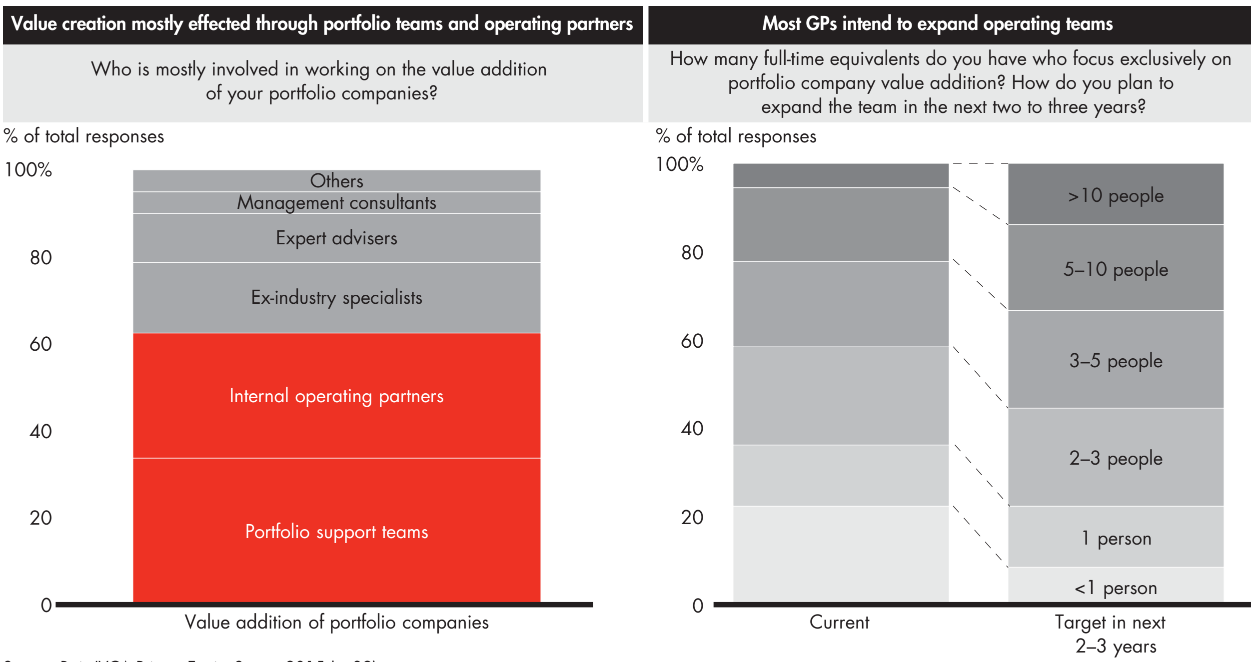
Source: Bain-IVCA Private Equity Survey 2015 (n=39)

Figure 2.23: Although about 80% of funds have a value creation plan for most portfolio companies, fewer than 50% are able to implement those plans and deliver results



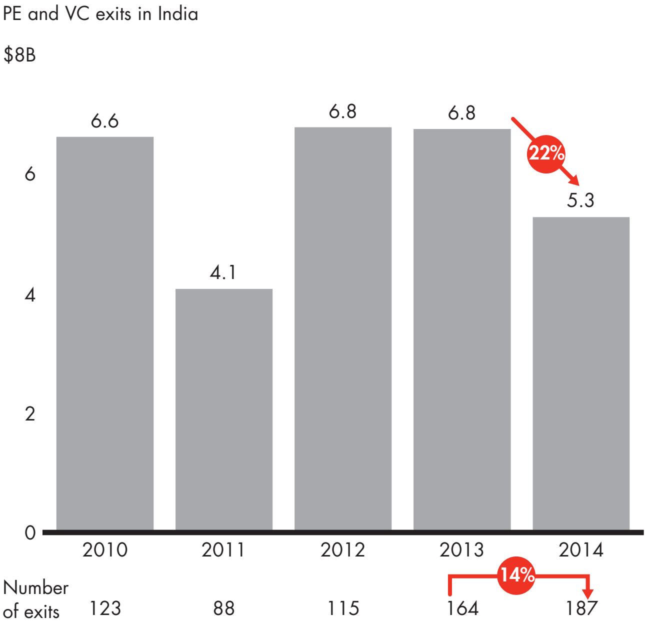
Source: Bain-IVCA Private Equity Survey 2015 (n=39)

Figure 2.24: Funds are strengthening their portfolio teams and are enroling operating partners to accelerate value creation



Source: Bain-IVCA Private Equity Survey 2015 (n=39)

Figure 2.25: In 2014, the number of exits increased by 14% while the exit value decreased by 22%; exits expected to increase sharply in the next one to two years



Note: Only includes exits that were publicly reported
Source: Bain India Private Equity exits database

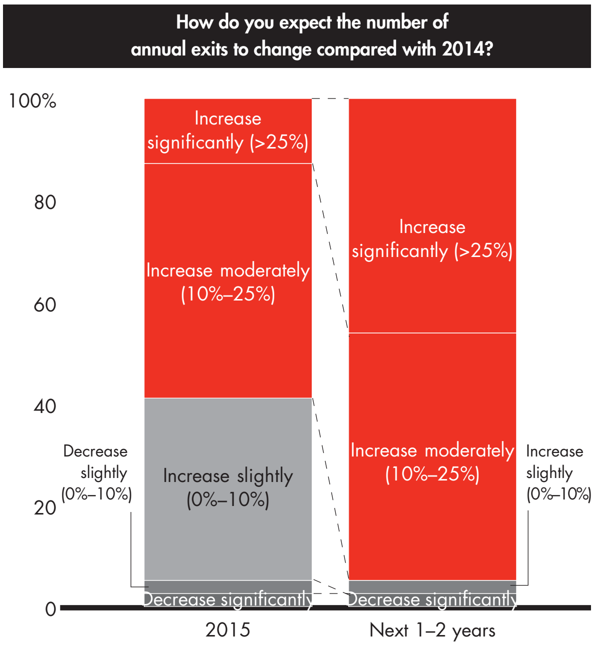
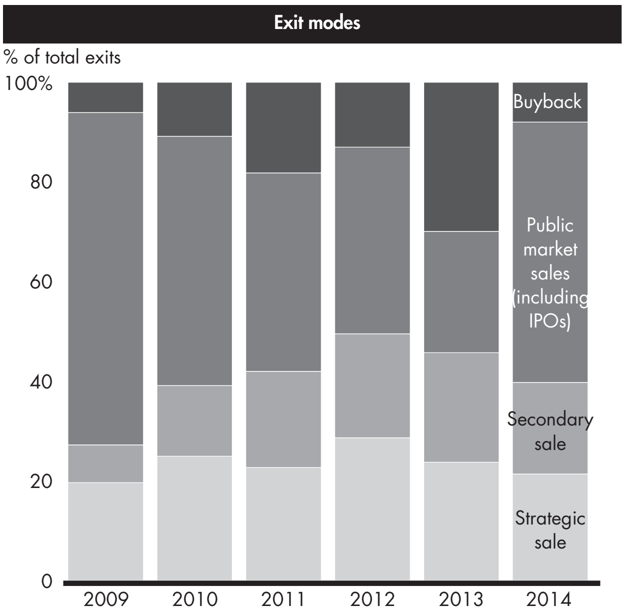


Figure 2.26: In exits, share of public market sales increased sharply in 2014

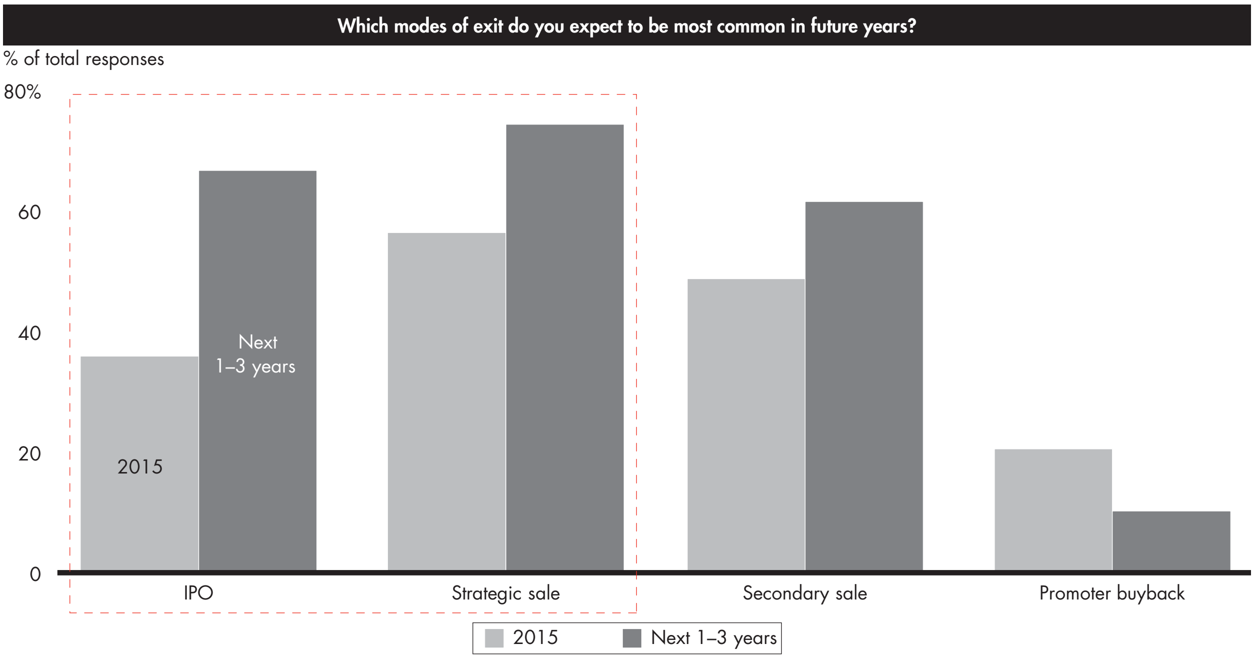


Top 2014 exits

Target	Firms exiting	Value ($M)	Route
Hero MotoCorp* (November 2014)	Bain Capital	400	Public market
Sutherland Global Services	StanChart PE, Oak Investment Partners	300	Secondary
Mahindra & Mahindra	Goldman Sachs	278	Public market
Hero MotoCorp (June 2014)	Bain Capital	250	Public market
Myntra	Kalaari Capital, IDG Ventures, Accel Partners, Tiger Global, Premjilnvest, others	240	Strategic
Idea Cellular	Providence	234	Public market
Galaxy Mercantiles and BlueRidge SEZ	IDFC PE	178	Secondary
Intas Pharmaceuticals	ChrysCapital	147	Secondary
Mahindra & Mahindra	Goldman Sachs	127	Public market
Petronet LN	Asian Development Bank	117	Public market

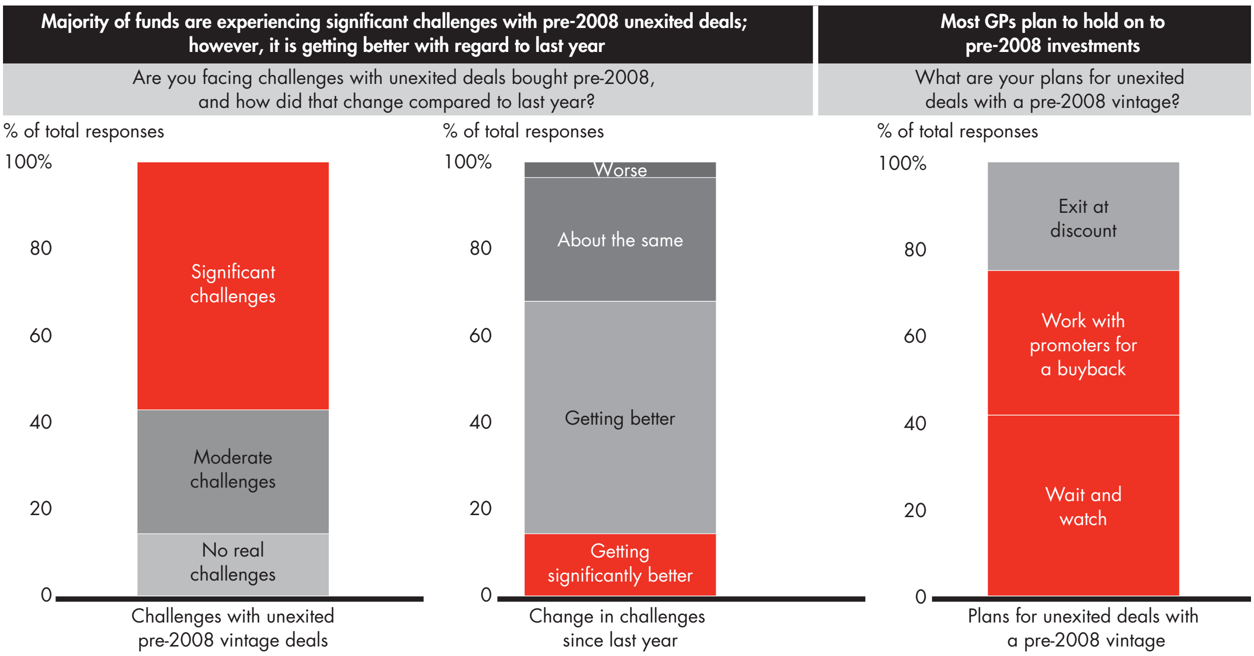
*Public market trade of stake
Notes: Includes only those exits where exit mode is known; top exits, out of exits with available data; public market sale includes trade in public markets and IPOs
Sources: Bain-IVCA Private Equity Survey 2015 (n=39); Bain PE exits database

Figure 2.27: Strategic and secondary sales seen as common exit routes; IPO and strategic sale expected to be the most attractive routes in next one to three years



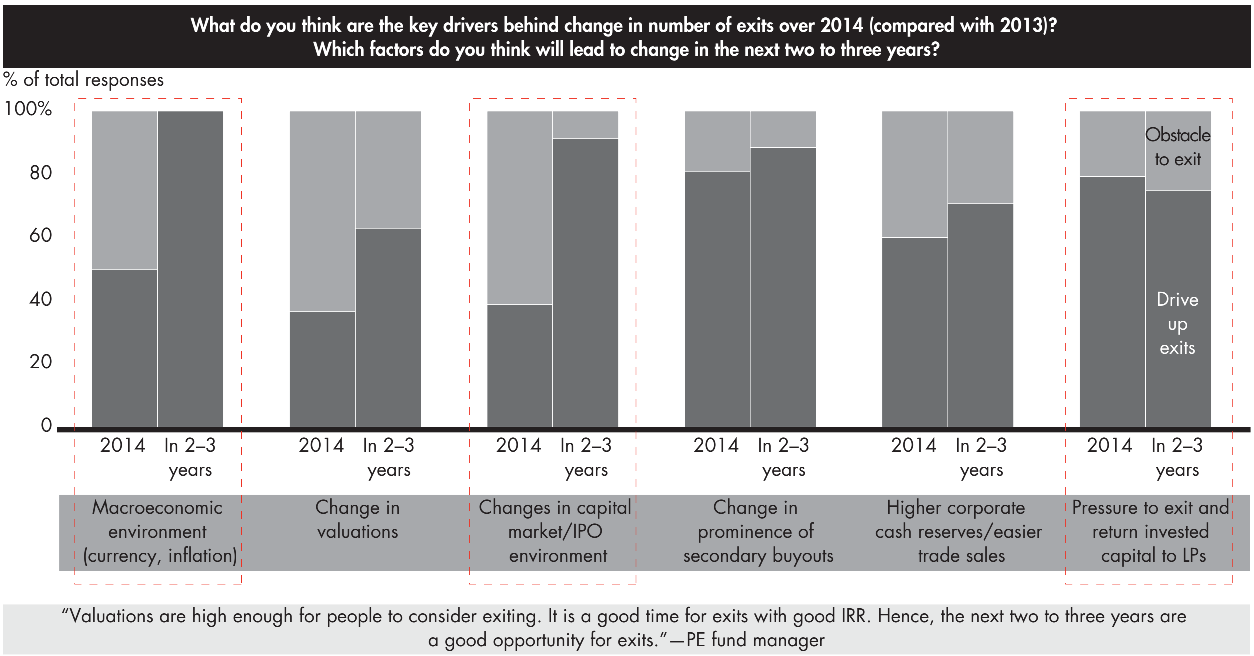
Source: Bain-IVCA Private Equity Survey 2015 (n=39)

Figure 2.28: Pre-2008, vintage unexited deals continue to face challenges; however, funds feel that the environment is improving



Source: Bain-IVCA Private Equity Survey 2015 (n=39)

Figure 2.29: Macroeconomic environment and potential IPO market turnaround could accelerate future exits; pressure to return capital is expected to continue to drive exits up



Source: Bain-IVCA Private Equity Survey 2015 (n=39)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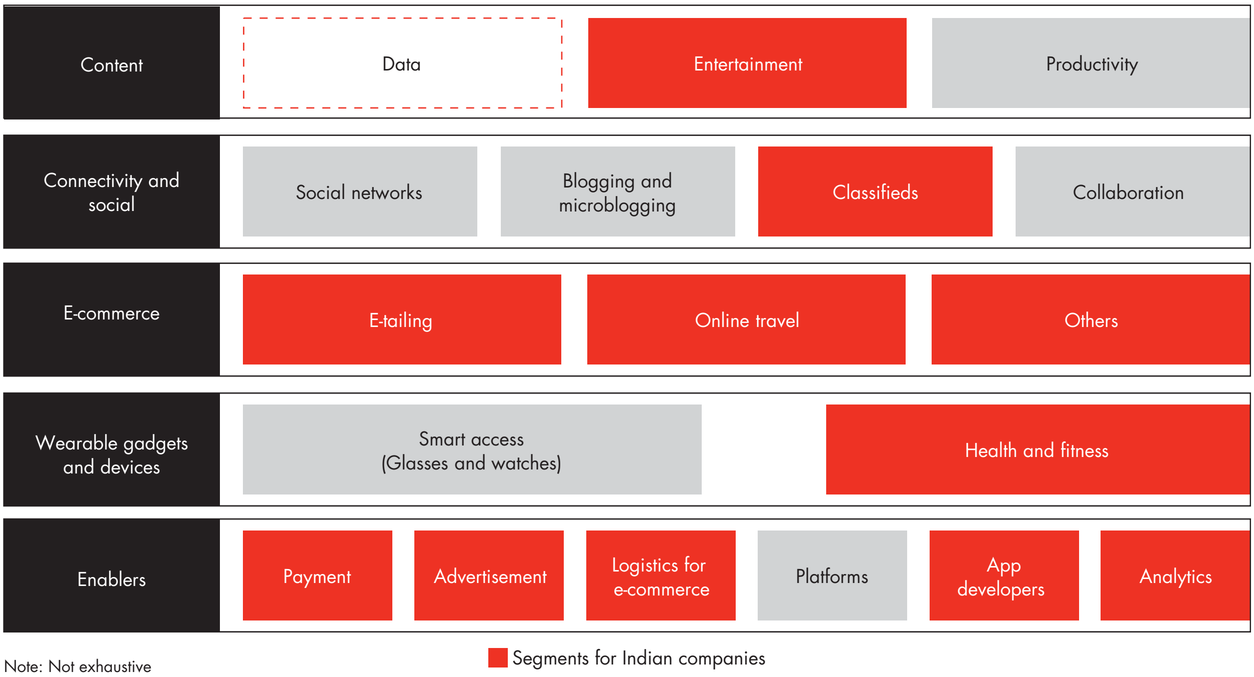
3.

A focus on investments in consumer technology

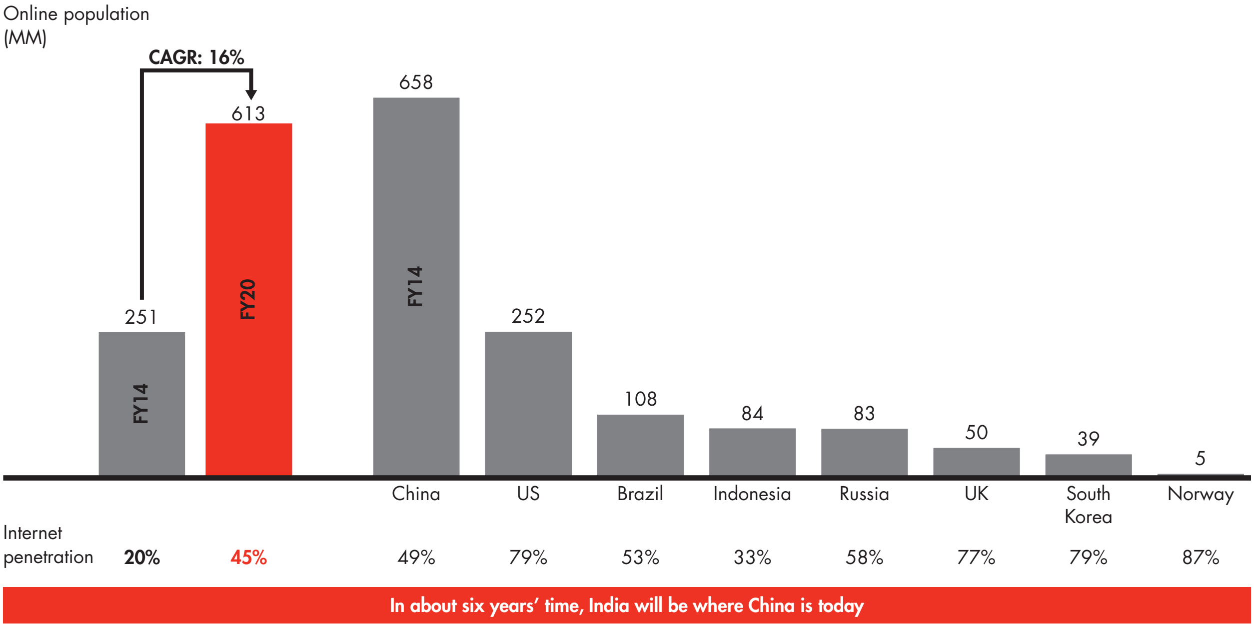
- The consumer technology sector includes companies focused on e-commerce, social connectivity, content generation & sharing, and wearable technology; it also includes the enabler companies which aid the operating models of others in the sector.
- Increasing Internet penetration translates to rapid growth in online transactions. Comparing India with other developed economies reveals significant headroom for continued e-commerce growth.
- As both working population and household incomes rise, India's demand for technology-enabled services is expected to rise sharply. With companies adopting unique, country-specific business models, these services are already seeing rapid adoption.
- Consumer technology was the most attractive sector for PE/VCs in 2014, deal values and volumes grew by 137% and 71%, respectively, compared with 2010.
- The promise of high growth translated into investment in 2014, as $4.7 billion was invested into the sector.
- Average deal size in the sector was approximately $17 million, a threefold increase over 2013. More than 30% of funds expect deal sizes of >$50 million in coming years.
- Consumer technology-focused companies experienced a rapid rise in valuations in 2014. Nearly 70% of survey respondents expect valuations to continue to rise, despite perceiving them to be overvalued already.
- Both PEs and VCs compete to invest. While early-stage deals account for most of the investment to date, growth-stage deals increased significantly in 2014.
- Attractive valuations, fund network and sector expertise are the most critical factors that promoters consider when seeking PE funding.
- Funds expect strong growth in the next three to five years. They expect to increase their funding in 2015 and beyond.

Figure 3.1: Consumer technology space can be divided into five broad segments



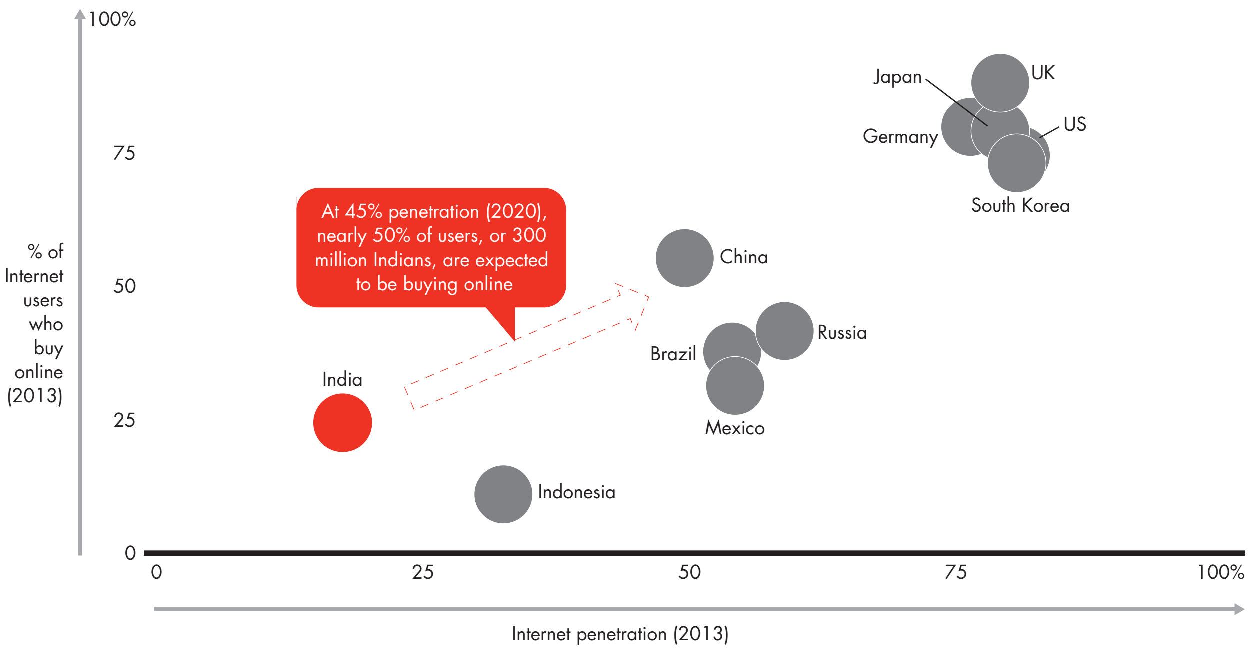
Note: Not exhaustive

Figure 3.2: Internet penetration in India is expected to grow to 45% by 2020, with about 610 million people online



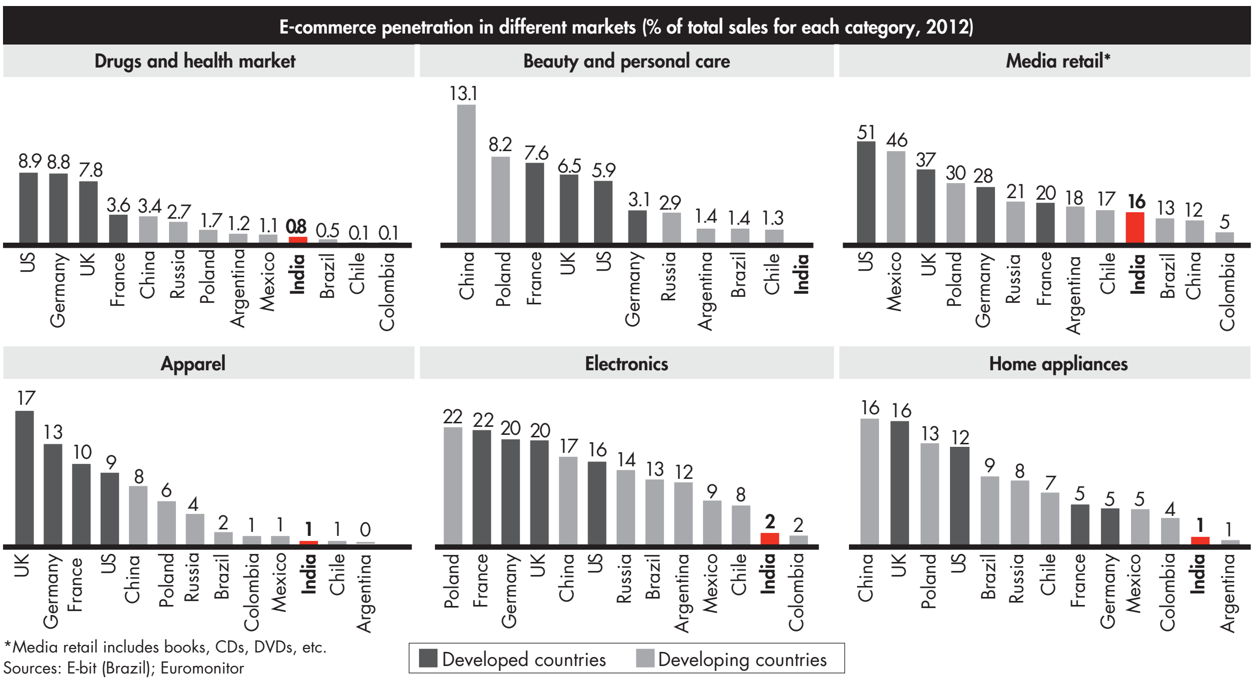
Notes: Q1 FY14 estimate; FY14-18 CAGR extrapolated to FY20
Sources: eMarketer; TRAI; Indiastat; Euromonitor

Figure 3.3: Increasing Internet penetration is expected to spur rapid growth in online consumption



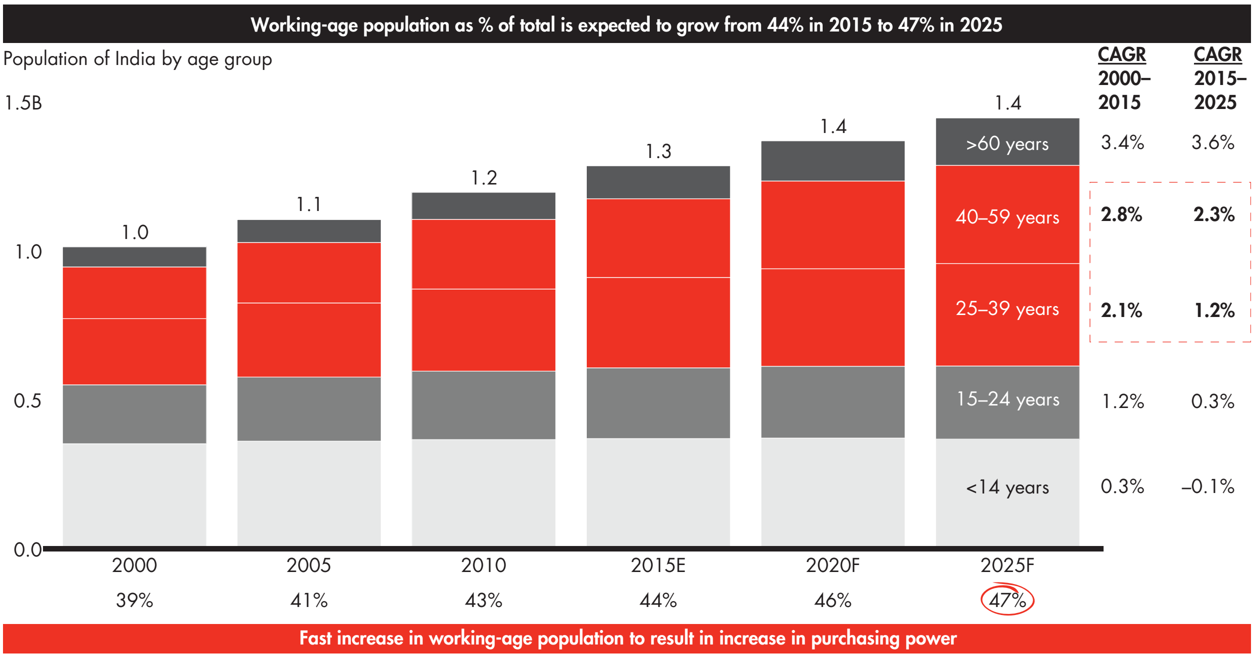
Sources: Euromonitor, Bain analysis, eMarketer (FY14 estimate)

Figure 3.4: There is significant headroom for e-commerce growth in India compared with developed countries



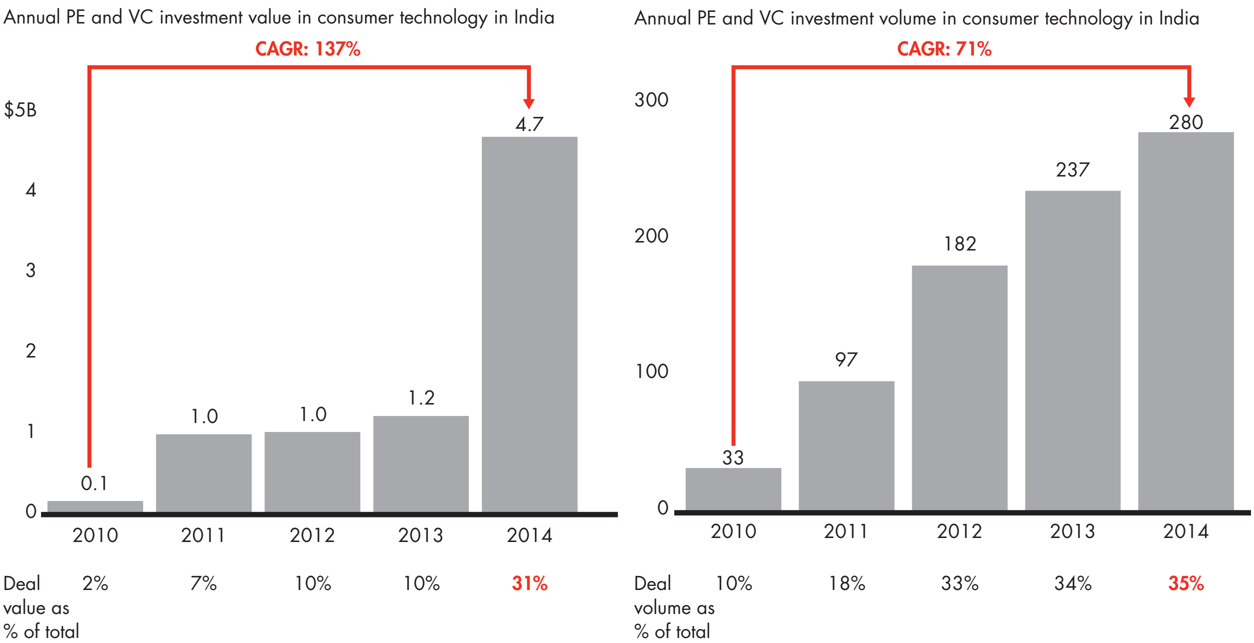
*Media retail includes books, CDs, DVDs, etc.
Sources: E-bit (Brazil); Euromonitor

Figure 3.5: Rapidly rising working population with higher spending power is fuelling the demand for technology-enabled services



Sources: Euromonitor; Bain analysis

Figure 3.6: In 2014, consumer technology emerged as the most attractive sector for PE and VC investments, with the most deals and highest deal value across sectors



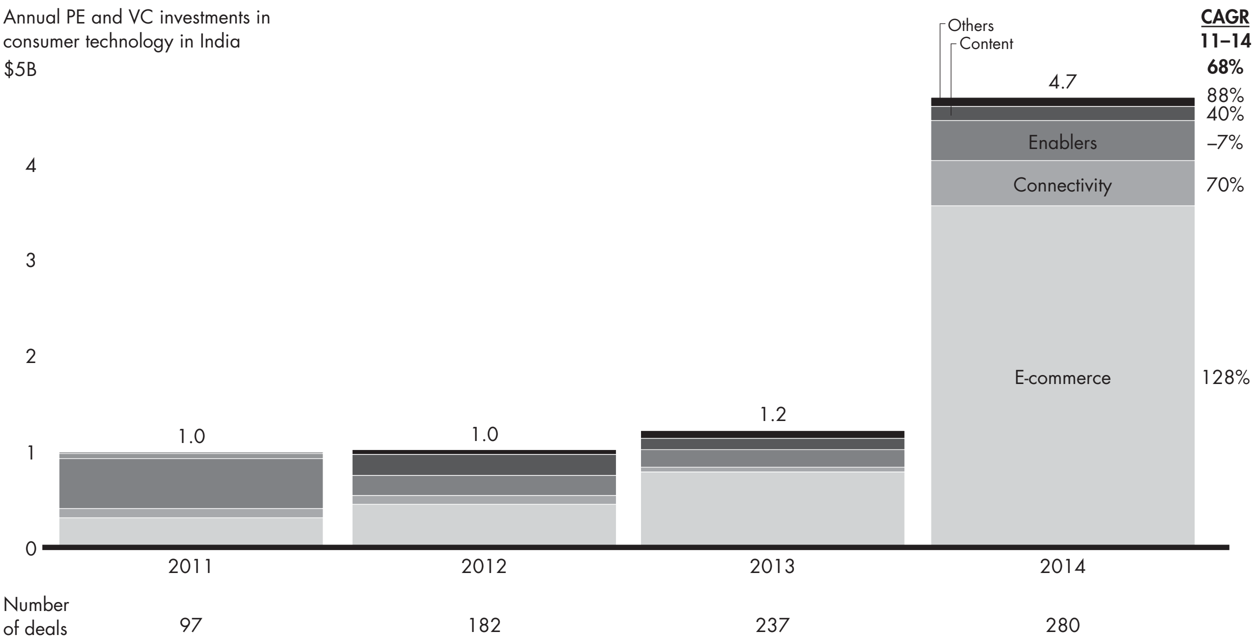
Source: Bain India PE deals database

Figure 3.7: Most funds expect growth to continue for the next two to three years, but funds also see potential challenges in high current valuations and average operations

Primary influencing factors of growth	Potential challenges
"E-commerce creates gross merchandise volume (GMV), and other segments are around supporting or enabling. In consumer technology, there is network effect, with many connections. Without having revenue, it is still very valuable business." —Fund manager	"Whether the investments are good or not is still a question. Current rounds of funding are more like bridges to the next capital raise. No one knows whether they will make money or not in the end." —Fund manager
	"Valuations of many companies are overrated, as operationally, businesses are doing just OK right now." —Fund manager
"More and more large funds are looking to invest in consumer technology in India." —Fund manager	"India needs to grow through one full Internet cycle of about four to five years. More interesting companies from a buyout perspective will be those that will actually survive after that." —Fund manager

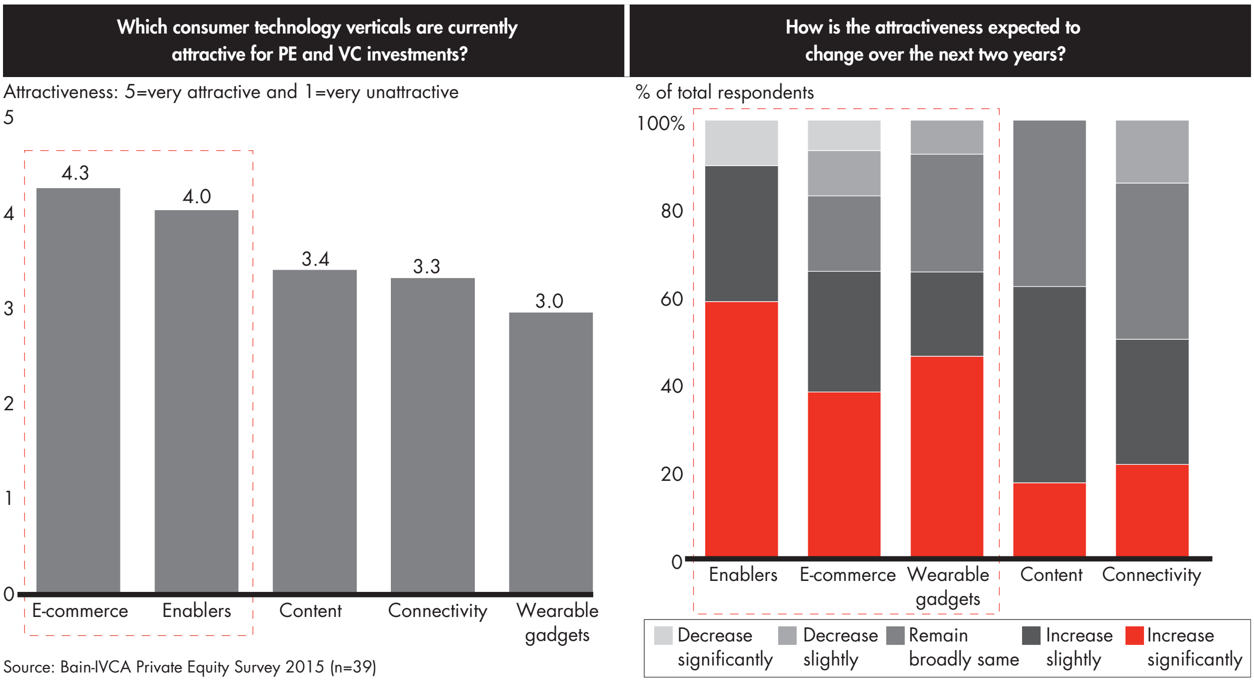
Source: Interviews with PE and VC managers

Figure 3.8: Investments in consumer technology quadrupled to $4.7 billion in 2014, with e-commerce and connectivity growing most



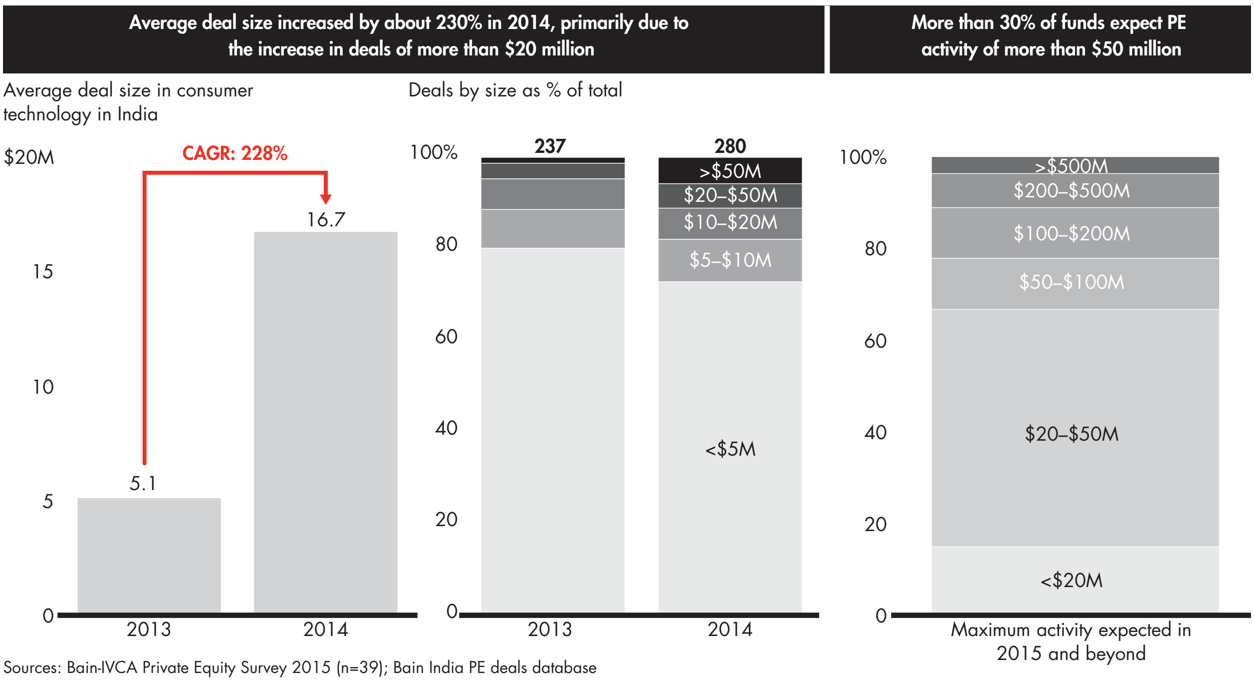
Sources: Bain India PE deals database; interviews with PE and VC managers

Figure 3.9: E-commerce, consumer technology enablers and wearables are likely to see significant investment over the next two years



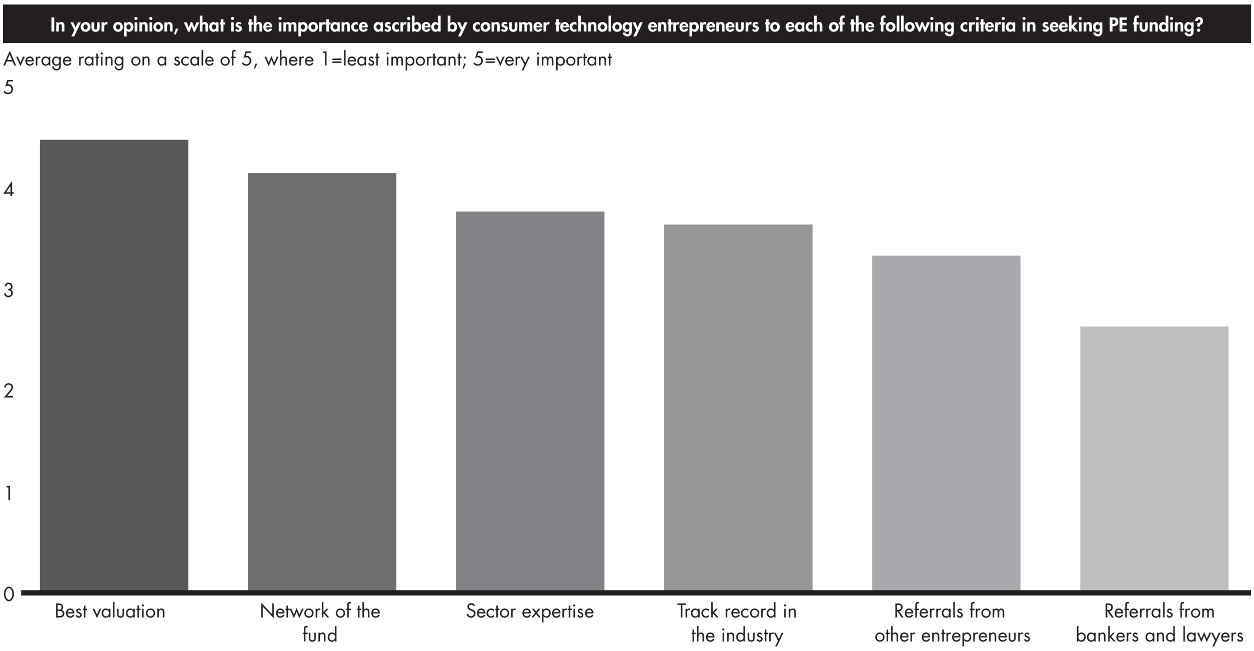
Source: Bain-IVCA Private Equity Survey 2015 (n=39)

Figure 3.10: Average deal size for consumer technology tripled in 2014, mostly as a result of a few large deals



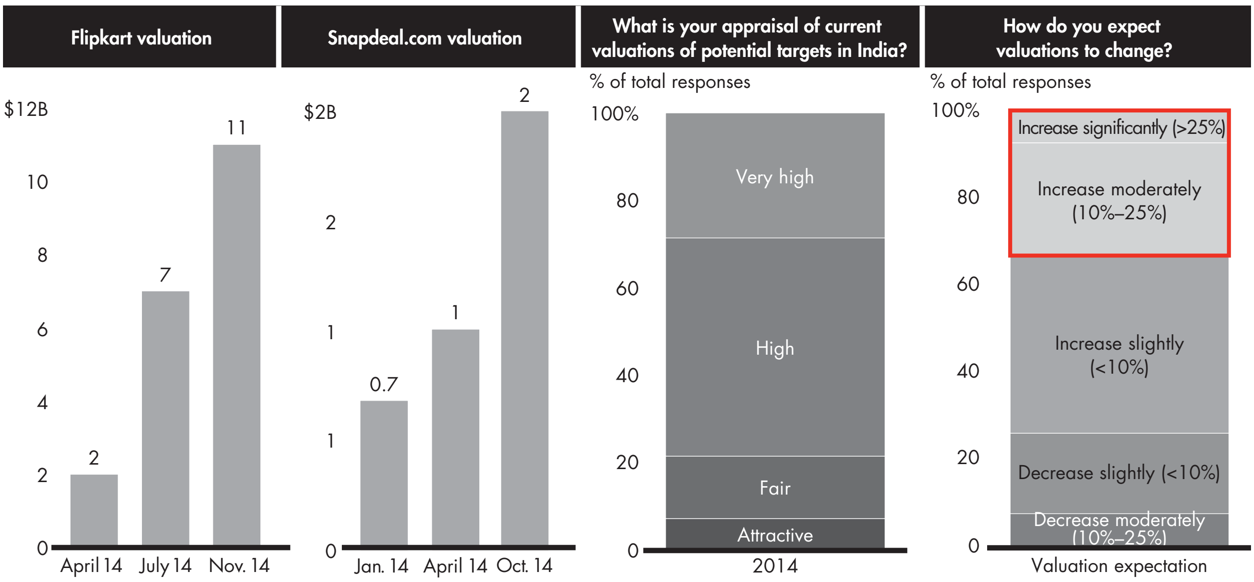
Sources: Bain-IVCA Private Equity Survey 2015 (n=39); Bain India PE deals database

Figure 3.11: Funds believe consumer technology entrepreneurs consider valuations, the fund's network and sector expertise to be the most important criteria for selecting a partner



Sources: Bain-IVCA Private Equity Survey 2015 (n=39); interviews with PE and VC managers

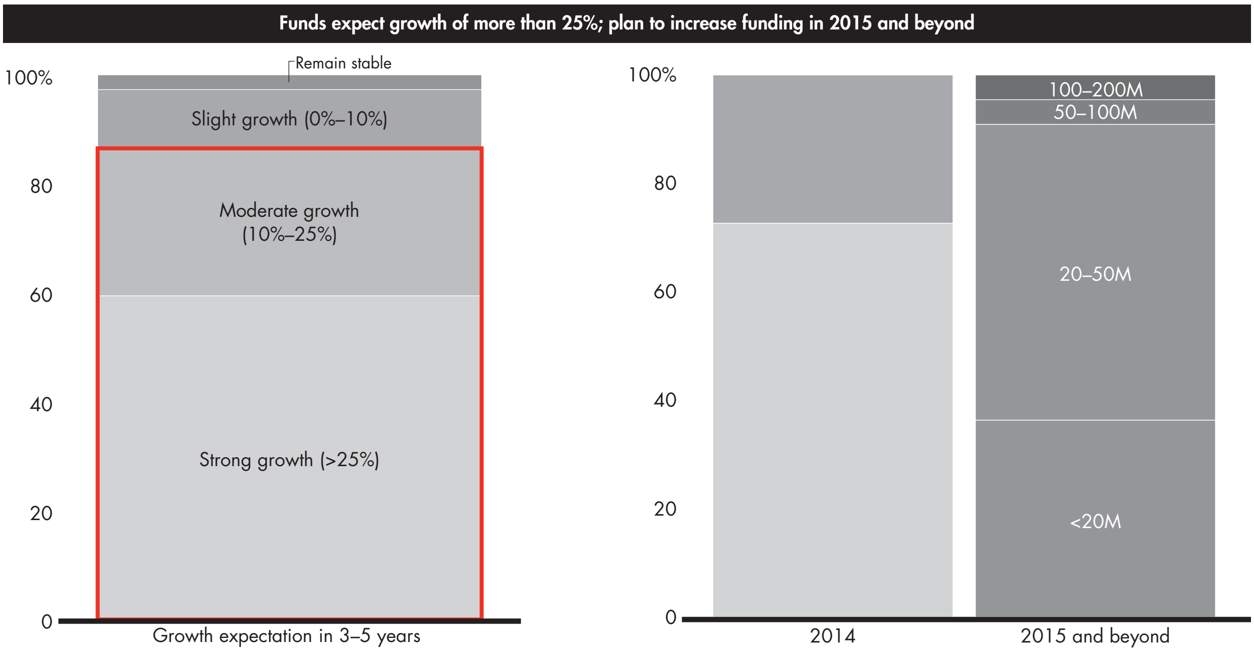
Figure 3.12: Valuations in consumer technology grew rapidly in 2014; most GPs perceive that consumer technology valuations are high and expect them to increase slightly



"There is untapped potential for Internet access and goods and services that are not accessible in Tier-2 and Tier-3 cities. I would expect valuations in the short term to go up, as it is the demand and supply mismatch that is pushing up these levels." —Founder, Lead Angels

Sources: Bain-IVCA Private Equity Survey 2015 (n=39); interviews with PE and VC managers

Figure 3.13: Given positive forecasts for 2015 growth, the investment outlook for consumer technology in the medium term is strong and positive



Sources: Bain-IVCA Private Equity Survey 2015 (n=39); interviews with PE and VC managers

4.

Implications

- GPs should focus on building a strong team with the right credentials to attract investors and promoters. Strong operational expertise is the key to success in an extremely competitive environment.

- India stands on the brink of a major growth revival, and with it comes a big investment opportunity. However, with the competition amongst firms, LPs must carefully scrutinise the firms they are considering.

- Entrepreneurs should view PE as not only a source of funding but also an opportunity for learning and adopting best practices. Rather than focusing solely on valuations, entrepreneurs should consider partnering with a fund with the right expertise.

- The new government has set high expectations amongst investors with its pro-business speak. Policy makers should look to ensure that these words translate into action, as this is critical to maintaining investor confidence. PE can be pivotal in setting India on its desired growth trajectory.

Implications

Overall, 2014 was a year of growth for PE in India, as deal activity, deal value and deal volumes all increased throughout the year. Both fund-raising and deal making moved in a positive direction, and this trajectory is expected to continue in coming years. Consumer technology turned out to be the most attractive sector for PE and VC in 2014. Funds are sharpening their focus on early- and growth-stage deals, with continued emphasis on improving operating teams to focus on value creation as a differentiator. The change of government led to a revival of investor confidence. Funds are optimistic that this will spur a series of new initiatives and policies and promote further investment across multiple sectors.

General Partners

First, GPs need to focus on building a strong team; this is critical not only to successful fund-raising but also to building a brand that promoters want to associate themselves with. Second, doubling down on efforts to build a strong relationship with the promoter management will be advantageous in securing deals at the right valuation, which is of great importance to promoters. Third, there are attractive deals in the consumer technology sector. GPs should explore the opportunity to invest here, as exit activity is expected only to rise in coming years. GPs should look to build a strong network and sector expertise to ride this wave. Lastly, with multiple funds looking to improve their operating teams, a solid value creation and implementation plan is likely to emerge as a strong differentiator for tapping quality deals.

Indian entrepreneurs

GPs point out that a growing number of Indian entrepreneurs have come to understand the value that PE funding brings, there are multiple success stories of firms establishing themselves with the help of PE funding. In such a scenario, recognizing the fact that PE is an activist capital opens up a multitude of opportunities for entrepreneurs, and they should look to leverage the expertise of PE and VC partners, including learning and adopting best practices in financing, expansion and customer access. Entrepreneurs should also look to leverage the firm's brand in the marketplace in order to recruit senior executives and build a strong network. Another important consideration is the fact that investors come in with a set exit time frame, and promoters should actively align with this roadmap in the early stages of the relationship.

Limited Partners

The Indian market is expected to be on the verge of a strong revival. It's important for LPs to understand this opportunity. However, while committing capital to India, they must fully understand the risks and opportunities in order to set realistic expectations. With rising competition amongst firms, promoters have the luxury of being more selective while choosing their investment partner, according importance to the investment team and their past track record. Valuations are not the sole consideration any longer. In such a scenario, LPs should be selective about the GPs they choose to work with by investing adequate time in the process.

Public policy makers

Foreign capital, of which PE accounts for more than 50%, has played a pivotal role to date in fuelling India's growth aspirations. India's new government has set ambitious targets for economic growth that require a great deal of capital across multiple sectors—including infrastructure, telecom and healthcare. Investors have displayed high confidence in the functioning of this new government given its pro-business plans, and they have high expectations as a result. Against such a backdrop, policy makers need to continue to frame more business-friendly policies and ensure that these come to pass. PE has a strong capability to bring in expertise and guidance for Indian entrepreneurs while simultaneously shouldering risk. Reshaping the regulatory frameworks around private investment in key sectors can help create an environment that's conducive to private investment to help put India on the growth trajectory the government envisions. Apart from this, policy makers should also consider opening up additional avenues for domestic investment to fund this growth story. This will only make it easier for new businesses to flourish.

Despite legacy issues in the Indian PE market, including exit overhang and currency fluctuations among others, 2014 was a boom year for the country. Funds expect that coming years hold even more promise with even better prospects for investments in India, and we believe that PE and VC investors should continue to be excited about it. It is important that all the stakeholders work together to create a healthy landscape, as India seems poised to move ahead and unlock its true potential.

About Bain & Company's Private Equity business

Bain & Company is the management consulting firm the world's business leaders come to when they want enduring results. Together, we find value across boundaries, develop insights to act on and energize teams to sustain success. We're passionate about always doing the right thing for our clients, our people and our communities, even if it isn't easy. Bain advises clients on strategy, operations, technology, organisation, private equity and mergers and acquisitions. We develop practical, customised insights that clients act on and transfer skills that make change stick. Founded in 1973, Bain has 51 offices in 33 countries, and our deep expertise and client roster cross every industry and economic sector. Our clients have outperformed the stock market 4 to 1.

Bain is also the leading consulting partner to the private equity (PE) industry and its stakeholders. Private equity consulting at Bain has grown 13-fold over the past 15 years and now represents about one-quarter of the firm's global business. We maintain a global network of more than 1,000 experienced professionals serving PE clients. In India, we have a leadership position in PE consulting and have reviewed a majority of the large PE deals that have come to the market. Our practice is more than triple the size of the next-largest consulting firm serving private equity firms both globally and within India.

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

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

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

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

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

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

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

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

About Indian Private Equity and Venture Capital Association

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

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

IVCA's purpose is to support the examination and discussion of management and investment issues in PE and VC in India. It aims to support entrepreneurial activity and innovation, as well as the development and maintenance of a PE and VC industry that provides long-term equity financing. It helps establish high standards of ethics, business conduct and professional competence. IVCA also serves as a powerful platform for investment funds to interact with one another.

IVCA stimulates the promotion, research and analysis of PE and VC in India, and facilitates contact with policy makers, research institutions, universities, trade associations and other relevant organisations.

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