

Reflections: Indian Private Equity in 2016



2016 Overview

Private Equity (PE) investments in 2016 amounted to 16.3 billion USD* across 652 deals. Compared to 2015, that spelt an 18% decline in terms of value and 23% decline in terms of volume. India recorded USD 19.8 billion USD of PE investments across 852 deals in 2015.

Technology & E-commerce together accounted for c.31% of the PE investments in 2016, despite a 51% decline in E-commerce. Technology start-ups, however, continued to receive funding in 2016 and garnered USD 300 million in investments during the year. Financial Services attracted USD 2.7 billion worth of PE investments in 2016, with a 7% increase in deal volume as compared to 2015; majority of the investments were in the NBFC/MFI space.

In 2016, Energy, Manufacturing and Telecom sectors also witnessed increased activity. The Energy sector received funding of USD 2 billion, a 41% increase over the previous year; this was driven by an increased interest in the Renewables space, specifically in the wind and solar segments. The Manufacturing sector too received USD 1.2 billion

funding, a 25% increase over last year. The Telecom sector reported the largest deal this year with the Reliance Communications' agreement to sell majority stake in its tower assets housed under Reliance Infratel to Brookfield Asset Management for around USD 1.7 billion.

Healthcare^ witnessed a 16% decline in value with USD 0.6 billion invested across 24 deals. While the sector generated interest right through the year, not many deals were consummated. Activity in the Consumer & Retail sector too picked up marginally with PE investments worth USD 0.7 billion in 2016, an 18% increase over 2015.

In terms of stage of funding, Late growth and Buyouts together accounted for over 56% of the investment value in 2016 with a combined value of USD 9.2 billion across 116 deals. This was partly due to the higher levels of activity from sovereign wealth and pension funds, in particular in the second half of the year. Not surprisingly, early stage and growth investments witnessed a decline with USD 1 billion and USD 4 billion worth of investments respectively.

2016 saw exits worth USD 7.2 billion across 198 deals, which was around 25% decline in value compared to USD 9.5 billion in the previous year.

Volume of exits also declined by 27% between 2015 and 2016. In terms of sectors, Manufacturing witnessed maximum exit activity (USD 2 billion), closely followed by Technology & E-commerce (USD 1.5 billion) and Financial Services (USD 1.1 billion). Over 42% of the exit value was contributed by strategic sales, and this could be a precursor to higher corporate buyer activity in 2017.

**Figures as on December 15, 2016 and exclude real estate deals.*

^Excludes Life sciences, Pharmaceuticals and Medical Devices & Apps

Source: Venture Intelligence



Outlook for 2017

Even though 2016 saw lower levels of PE investments, it is noticeable that PE investments across 2015 and 2016 broke through the USD 9 – 11 billion levels of the previous 3 – 4 years; likewise the exit levels across the two years have been significantly higher than previous years. **2017 is expected to see some volatility** owing to a host of domestic and global factors and this could make it an interesting year for Private Equity investors in India.

- a. The impact of demonetisation on businesses is now surfacing gradually. Certain businesses have been impacted by it, and would need to re-align their business strategies, in particular their short term goals. The Goods and Services Act is also expected to come into force in 2017. Both of these could impact India's growth trajectory, and investors need to watch out for the impact there-of which is expected to go beyond the traditional consumer centric businesses.
- b. Availability of debt financing is likely to be higher in 2017 as banks attempt to increase the size of their loan book with available funding. In doing so, they are quite likely to challenge various non-banking finance channels.

- c. The Bankruptcy and Insolvency code has been enacted. However, all the enabling regulations are not in place; it could be a path-breaking legislation and could trigger significant levels of activity that equity investors would keenly watch out for.

- d. Global political and economic volatility may impact certain industry segments – technology outsourcing and pharmaceutical sectors are the obvious ones. Brexit and some other global political changes hinge on nationalist fervor and could have an impact on flow of funds into India in 2017. The much-anticipated interest rate hikes in the US will perhaps be the biggest trigger for flow of funds back to the US and potentially result in a depreciation of emerging market currencies, including the INR.

- e. Global investors have also looked at yield play in Indian investments through 2015 and 2016. Owing to various changes expected, it would be interesting to see to what extent this continues in 2017.

- f. With OPEC reaching a consensus on cutting back production, the Middle East economies should see bounce-back and will potentially compete with other emerging markets to attract flow of investments into the region from both ME SWFs and other global investors.

The above factors would impact both public and private markets; how the public markets react to the changes would also influence the opportunity for private investors.

From a sector standpoint, technology-enabled businesses continue to find favour with

early stage private investors. This is a clear trend that one sees continuing in 2017. Health services including diagnostics, renewables and infrastructure services together with certain consumer derivative sectors seem to be well positioned.

Continued deleveraging by conglomerates of non-core business, succession issues in families and secondary PE deals are other expected triggers. The pension funds have been particularly active in India and sewed up a number of deals in the second half of 2016. We expect this to continue in 2017, with numerous opportunities to support deleveraging of Indian balance sheets and sector consolidation.

The Foreign Direct Investment Policy has witnessed significant liberalisation and reforms in various sectors including defence, insurance that could result in more activities in these sectors. Finally, the tax and regulatory framework for the Real Estate Investment Trust (REIT) and Infrastructure Investment Trust (InvIT) regimes have been enabled. So 2017 is likely to see some public offers in the infrastructure space, and possibly allow exit to some existing private investors.

We do expect the momentum at the end of 2016 to continue in the first quarter of 2017, spurred by the tax exemption available on investments made until 31 March 2017 from Mauritius. Whether the rest of the year would keep up the pace and indeed show greater levels of activity would be dependent on how the Indian economy in general and businesses in specific respond to the expected volatility to follow.

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Data Classification: DC0

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KS/Sep2017-10553