India is one of the fastest-growing economies globally and is well on track to emerge as the world’s fifth largest economy in 2019, according to the International Monetary Fund. India’s economic success has also spurred growth in its domestic private equity & venture capital landscape.

Since the previous elections in 2014, India’s economy has grown steadily at an average of 7% each year. 2019 will usher in a new era with the Indian general elections slated to be held. Amid the prevailing anticipation, the players in the industry remain largely optimistic.

Coupled with insights shared by the Indian Private Equity & Venture Capital Association (IVCA), CDPQ India and ICICI Venture, this report explores the details of the Indian private equity & venture capital industry. We extend our sincere thanks to our fellow Preqin colleagues and external contributors.

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4 Facts and Figures

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7 India’s Biggest Adventure Yet

9 India’s Alternative Assets Market: Version 3.0 – ICICI Venture

11 Key Trends to Watch
India is currently the fastest-growing major economy in the world, with the IMF and others expecting it to maintain that ranking. With a GDP of $2.6tn, it is likely to surpass the UK within this year to become the fifth largest world economy in terms of GDP. The implementation of Goods & Services Tax (GST), improvements to the Indian Bankruptcy Code (IBC), establishment of Real Estate Regulatory Authority (RERA) and the pervasive rollout of JAM (bank accounts linked to mobile and biometric ID) are steps taken to formalize and digitize the economy, thus adding to the number of investible sectors and businesses in India. Additionally, entrepreneurs and professional managers in India are significantly more attuned today to partnering with private equity (PE) and venture capital (VC) funds and are open to both minority as well as control positions for these funds.

PE/VC funds provide long-term and large investments in Indian companies. Over c.$150bn has been invested by the PE/VC industry in the past 15 years, reaching a current run rate of over $20bn/year. Companies backed by PE/VC funds have shown better performance vis-à-vis other companies, in terms of high-quality governance, consistent performance and growth, job creation and taxes. According to some estimates, approximately two-thirds of the companies that went for an IPO in 2017 were backed by PE/VC funds. Investment managers have learned from experience and are choosing to focus on sectors and companies with strong governance and prospects. Exit run rates have accordingly grown c.10x over the last decade and are well balanced between public market exits, sales to strategic and sales to financial sponsors.

The Indian Government recognizes the benefits of sticky PE/VC capital, and through policy reforms has supported the growth of Alternative Investment Funds (AIFs) onshore in India as the preferred vehicle for private capital pooling. Important reforms made in policies regulating AIFs include:

- exempting them from IPO lock-ups;
- clarity of tax classification for AIFs, minimizing discretion;
- allowing AIFs with foreign capital to be classified as domestic capital (completely removing FDI and pricing regulations), provided the fund manager is domestic owned and controlled.

The recent issuance of the operating guidelines for AIFs in International Financial Services Centre (IFSC) by the securities regulator, and the government’s announcement to set up a unified regulator for the IFSC, are steps that could help AIFs in IFSCs:

- by reducing tax friction from GST on management fees, when capital is raised from overseas sources;
- by allowing these AIFs to freely invest in companies incorporated outside India.

In order to expand the base of AIFs, IVCA is advocating for:

- exemption of foreign capital managed by AIFs even outside the IFSCs from GST;
- allowing for tax deductibility of management fees and expenses when computing capital gains (like with mutual funds in India);
- opening IFSCs in PE hubs such as Mumbai.

An expanding set of investment opportunities, a stable and favourable regulatory framework and experienced and sophisticated investment managers should together spell good prospects in India for LPs, investment managers, investee companies and the broader Indian economy.
$28bn
Assets under management (AUM) of the Indian private equity & venture capital industry as at June 2018.

$23bn
Total capital raised by India-based private equity & venture capital vehicles closed since 2009.

$103bn
Aggregate value of private equity-backed buyout and venture capital deals completed in India since 2009.

Fig. 1: Location of Asia-Based Private Equity & Venture Capital Fund Managers and Institutional Investors

**FACTS AND FIGURES**

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Stay informed about the latest data-led research and trends in the alternative assets industry with insightful industry reports, publications, conferences, blogs and more on Preqin Insights.

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* Due to Preqin's additional research efforts to strengthen our alternative assets data in China, fund manager figures have increased significantly as we aim to be more reflective of the industry.
INDIA: A COUNTRY OF FOCUS

CDPQ has been one of the early pioneer investors in India’s institutional private equity market. How have your private equity investments in India performed over the past five years?

CDPQ is a recent direct investor in the private equity market in India. Since setting up office in India in 2016, CDPQ has committed around $5.5bn to India and of this, deployed around $3.8bn across asset classes. Our private equity investments include both direct and through funds such as in TVS Logistics, Edelweiss Stressed Assets Venture, Edelweiss Special Opportunities Fund, Kedaara Capital, Fundamentum and Chrys Capital. CDPQ is a long-term investor with patient capital and no time-bound pressure on exits. We are still building our portfolio in India and hence cannot yet comment on performance.

What are some challenges you faced and how did you overcome them?

We have learnt that business cycles and crises will happen and there will be periodic bouts of volatility. What we have learnt as an industry is that we need to ask more questions, be more diligent and look at fundamental risks more carefully. The way we insure ourselves is by considering three components while investing: the right partner, the right diligence and potential disruptions, which can come in the form of technology or other kinds of competition. Additionally, we invest in large ticket sizes and the universe of available opportunity is fairly limited in India, resulting in high competition for these opportunities; however, companies have opted to partner with CDPQ because they see the value of having a long-term partner whose interests are closely aligned with theirs.

Do you foresee these challenges evolving in the future?

Indian private equity is on the upswing. From a macro perspective, the total dry powder in India is estimated at c.$9bn, which indicates no dearth of capital for good-quality deals.

The volume of private equity activity – fundraising, investments and exits – has grown in the past three years and is expected to grow further, helped by global liquidity and the demand created by the inability of other domestic sources of capital to keep pace with a growing economy.

ANITA M. GEORGE
Executive Vice President, CDPQ India

The industry has seen a greater range of participants and a wider spectrum of deal types and investment strategies. Deals greater than $100mn have grown in the past three years.

Firms are learning from experience and shifting into buyouts and control deals, where they have more influence over their investments.

What opportunities do you think global institutional investors should be considering when evaluating an investment in India’s private equity space?

India is one of the fastest-growing economies in the world. Its young labour force is growing at a rapid pace, driving strong demographic trends. There is significant ongoing progress regarding governance and structural reforms increasing India’s competitiveness and attractiveness to international financiers. Recently introduced structural reforms, including the passage of the Goods & Services Tax (GST) Bill and the Bankruptcy Code, have been game-changers. This has made India an attractive investment destination and is the reason why permanent capital in the form of FDI (foreign direct investment) is moving in from all parts of the world.

A new generation of business owners and professional managers has emerged that is more open to alternative investments and partnership models with private equity funds. Also, the factors mentioned above have led to a new pool of restructuring opportunities, as banks unwind stressed loan portfolios.
Compared to the rest of the world, how are portfolio company valuations in India right now?
In general, valuations in India look expensive, especially relative to other markets. For instance, India's median deal multiples in 2017 were higher than the median in Asia-Pacific. Valuation is a challenge in India because everyone is investing for high growth. However, CDPQ investment decisions are based on fundamental values and long-term returns.

I would say valuations in India are high, but I hesitate to say overheated as it depends on many things. For example, if you look at the banking sector in India, you have banks that are highly valued in comparison with their counterparts in the West or even in other growth markets. Yet, when you consider the fact that 47% of the population is still unbanked, and even the other 53% is touching the surface of what banking services can do for individuals, we feel this is a market with opportunity for consistently high growth.

What are the competitive advantages you feel India-based GPs have to offer, as compared to global managers?
India has a set of well-established local private equity firms with deep sector expertise, strong operational teams to create value for their portfolio companies and existing, well-entrenched relationships with the Indian business ecosystem, enabling them to deliver competitive returns. When identifying local Indian GPs, CDPQ takes a close look at their India portfolio and seeks those that can bridge the gaps in the CDPQ private equity portfolio.

What are some new developments CDPQ is pursuing in the private equity space in India?
CDPQ's mantra is to work in partnership with local firms. We have tied up with high-quality Indian partners as mentioned above. In 2019, we really want to build the private equity portfolio further with our existing and new partners, and possibly in new sectors such as healthcare and technology investments, and more in the financial sector – all are big on our agenda.

ABOUT CDPQ INDIA

Anita M. George is Executive Vice-President, Strategic Partnerships – Growth Markets. Her mandate is to implement a key pillar of CDPQ’s strategy, which aims to increase its international exposure in targeted growth markets by sourcing the best investment opportunities and developing the organization’s network of sustainable and high-quality local partnerships. She is responsible for growth markets partnerships, and sits on CDPQ’s Executive and Investment-Risk Committees.

Ms. George joined CDPQ in April 2016 as Managing Director, South Asia. In August 2017, she took on the role of Executive Vice-President, Growth Markets. She brings to the organization her in-depth knowledge of several growth markets and has extensive experience in managing global infrastructure investment portfolios. Prior to joining CDPQ, she was Senior Director of the World Bank’s Energy and Extractive Industries Global Practice. She also held the positions of Director, Infrastructure and Natural Resources of the International Finance Corporation, a member of the World Bank Group and Head of Siemens Financial Services in India. Her various roles have led her to work in several regions of the world, including Europe, Asia, the Middle East and Africa.

Ms. George holds a BA in Economics and Spanish from Smith College, in Massachusetts, and a Masters in Economics and an MBA in Finance from Boston University.

www.cdq.com
INDIA’S BIGGEST ADVENTURE YET

2018 was a year of anticipation in the lead up to the 2019 Indian general election, with a mixture of optimism and caution in the air. The year ended with 26 private equity funds having reached a final close, securing aggregate capital commitments of $3.3bn, compared to $3.6bn in the previous year (Fig. 2).

While concerns over valuations adversely impacted the number of angel/seed financings in the year, later stages of the venture capital spectrum gained traction and represented a larger proportion of deals compared to 2017 (Fig. 3). Despite the slight dip in fundraising and deals, sentiments from the ground indicate that there is confidence in the overall fundraising landscape. As echoed in a recent conversation Preqin had with an India-based private equity fund manager, the fundraising ecosystem has been robust due to the success of government initiatives. In 2018, average fund size increased by 20% from 2017 as managers raised larger vehicles, and a larger proportion of funds met or exceeded their original fundraising targets (78% vs. 45% respectively), demonstrating high investor confidence and a buoyant fundraising environment.

Following 11 consecutive years from 2002 to 2013 in which managers called up more capital than they distributed, this trend reversed in 2014. Notably, 2016 was a stand-out year: India-based managers distributed $6.2bn to investors, more than double what they called up ($2.9bn) over the same period (Fig. 4). This trend has sustained and in H1 2018 net cash flows were still in positive territory, with the momentum of distributions likely to continue given the present positivity surrounding the industry.

**Fig. 2: Annual India-Based Private Equity & Venture Capital Fundraising, 2009 - 2018**

<table>
<thead>
<tr>
<th>Year of Final Close</th>
<th>No. of Funds Closed</th>
<th>Aggregate Capital Raised ($bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>15</td>
<td>2.1</td>
</tr>
<tr>
<td>2010</td>
<td>15</td>
<td>1.5</td>
</tr>
<tr>
<td>2011</td>
<td>22</td>
<td>2.6</td>
</tr>
<tr>
<td>2012</td>
<td>20</td>
<td>1.9</td>
</tr>
<tr>
<td>2013</td>
<td>18</td>
<td>2.0</td>
</tr>
<tr>
<td>2014</td>
<td>18</td>
<td>1.0</td>
</tr>
<tr>
<td>2015</td>
<td>21</td>
<td>2.7</td>
</tr>
<tr>
<td>2016</td>
<td>20</td>
<td>2.0</td>
</tr>
<tr>
<td>2017</td>
<td>35</td>
<td>3.6</td>
</tr>
<tr>
<td>2018</td>
<td>26</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Source: Preqin Pro

**Fig. 3: Venture Capital Deals in India by Stage, 2017 vs. 2018**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Deals</th>
<th>Aggregate Deal Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>2018</td>
</tr>
</tbody>
</table>

Source: Preqin Pro
Within fundraising, this enthusiasm is magnified in one area: start-ups. In 2018, two-thirds of India-based private equity funds raised were venture capital vehicles. Based on conversations with India-based GPs, the success is attributed to government-backed programs such as Startup India and Make In India. A fund manager based in a Tier II city in India noted that with an increasing number of start-ups established in Tier II and III cities, the government has decided to shift its focus to them; he remarked that it was only a matter of time before these cities reach the apex of their Tier I counterparts, the likes of Delhi, Hyderabad and Mumbai.

Capitalizing on these government initiatives, industry players latched on to the idea of ‘entrepreneurship’ – a key factor contributing to the rise of venture capital in India. A Chennai-based fund manager told us it is common for seasoned professionals with 10-15 years of experience to jump on the entrepreneurship bandwagon and start their own venture capital firms. Similarly, private equity investors hold the same view. Veterans of family offices leverage their experience to invest in sectors they are most familiar with and that relate to their core businesses where they first made their fortune.

Private wealth investors, such as family offices and wealth managers, make up the largest proportion (36%) of private equity investors (Fig. 5). Family offices have greater autonomy in making decisions and typically hold longer-term views of their investments, which makes them a critical source of funding for early-stage companies. In addition, government initiatives have gradually institutionalized the venture capital space, providing assurance for investors to participate.

Steady government support and an ecosystem of upbeat stakeholders remain catalysts of growth for the private equity & venture capital landscape in India. Nevertheless, there is uncertainty stemming from the upcoming elections and interest rate volatility that loom over the future of the industry. Investors and fund managers that Preqin spoke to were of the opinion that growth in the private equity & venture capital environment will be slow, but is likely to pick up after the 2019 elections.
ICICI Venture has been a pioneer in the Indian alternative assets industry since its establishment in 1988. What has changed over these years in the private equity business?

ICICI Venture is one of India’s oldest, largest and most diversified alternative asset managers with a historical AUM/AUA of about $5bn. We currently invest across four verticals: private equity (through IAF4 – our fourth private equity fund), real estate (through iREIF – our third real estate fund), special situations (through AION in a strategic partnership with Apollo Global, US) and infrastructure (through Resurgent in a strategic partnership with Tata Power, India). Our diversification over the past few years into real assets and special situations is symptomatic of the Indian alternative assets opportunity. On the one hand, private equity thrives, and on the other, there are these large, new, hitherto untapped areas with immense potential for value investors. We see each of our verticals becoming multibillion-dollar verticals going forward. We have not been averse to strategic partnerships in areas that require specific additional domain expertise, be it in special situations with Apollo or in Resurgent with Tata Power for operating and managing power plants.

How is the fundraising environment in India? Have the recent SEBI regulations helped to attract more private equity investments?

The fundraising environment has improved significantly in the period after 2014 in comparison with 2009-2013. Macro factors such as currency, reforms momentum and buoyancy in capital markets coupled with greater deal momentum – on the investments side as well as exits – have all been helpful. On an overall basis, aggregate Indian alternative investments and exits are estimated at $117bn and $66bn in the 2014-2018 period in comparison with $50bn and $26bn in the 2009-2013 period.

SEBI AIF regulations of 2012 and related tax reforms of 2014 and 2015 have also provided good impetus. Most GPs (Indian and non-Indian), including ICICI Venture, have gravitated towards Alternative Investment Funds (AIFs). Aggregate fundraising under AIFs is estimated at $25bn in the 2014-2018 period, the bulk of it from foreign investors. SEBI has recently published guidelines for setting up offshore AIFs in GIFT City, India. From a domestic capital perspective, insurance companies have emerged as an important new source of capital after the changes made in 2013 to the insurance regulatory framework provided greater clarity for insurers to invest in AIFs. Indian pension fund regulations have recently been amended to enable certain types of pension funds to invest in AIFs for the first time ever.

What trends are you seeing in foreign capital in the domestic private equity market?

Foreign capital remains important for the Indian alternative assets industry. There is greater diversity in the types of foreign investors that are active in India. Canadian investors, especially the large pensions and financial groups, have been very active in the past 5-7 years having invested over $20bn during this period. Traditional Asian and Middle Eastern investors, especially the large sovereign wealth funds, have increased their India play having invested an estimated $15bn in the same period. Global private equity funds, both the bulge-bracket players as well as niche and specialized ones, and internet investors have invested over $30bn in the past five years alone. Bulge-bracket private equity funds can today speak about Indian investments of $5-10bn, which used to be a fraction thereof even until 2010.
Being on the verge of completing one of the largest exit deals (Star Health and Allied Insurance Company Limited), what do you think contributes to a successful exit?

ICICI Venture is very proud to have been the first private equity investor in Star Health Insurance in 2010 (in our third private equity fund – IAF3) and thereafter also in IAF4. We have seen the company grow 15x during this period and it has emerged as India's largest monoline health insurer. Our exit to a consortium of financial investors at an EV of about $1bn is a testament to the business created by the team at the company.

This represents the 70th exit transaction across funds/verticals at ICICI Venture in the post-GFC period, which we believe is the highest exit tally for the Indian market in this period and takes our aggregate realizations to over $2bn. Our exit run rate has been consistently at 5-10 transactions per year since 2009, both in bad and thereafter good exit conditions. Our secret sauce lies in the diversity of exit strategies across these deals. Capital markets (IPOs/FPOs/secondaries) have accounted for only one-third of our exits. Sales to strategics (including cross-border deals), sales to other private equity funds, buybacks and redemptions have constituted the bulk of our exit track record. We believe this has helped us insulate our funds and investors from the vagaries of capital markets.

In your opinion, which industries and strategies do you see presenting the best opportunities for the Indian private equity space?

From ICICI Venture's vantage point, it varies across our four verticals. In private equity, we are currently focused on growth capital opportunities in the mid-market space in specialty manufacturing, financials, consumption, healthcare etc. In real estate, it is private debt for affordable housing projects in major urban centres.

In 2018, we are pleased to have concluded the first ever and to date the largest fund-backed distressed-for-control transaction in India in AION (Monnet Ispat, a top 10 integrated steel player in India) and Resurgent (Prayagraj Power, a 1,980 MW power company). Monnet, which is to date the largest fund-backed stressed asset resolution under the new IBC/NCLT framework, involved negotiating and settling claims of $1.6bn with a consortium of 38 lenders. Prayagraj, which is to date the largest stressed asset resolution in the Indian power sector and is currently at advanced stages of regulatory approvals, involved negotiating and settling claims of $2bn with a consortium of 18 lenders. In AION and Resurgent, we see very interesting opportunities in the special situations market in India.

ABOUT ICICI VENTURE

ICICI Venture is one of India's oldest, largest and most diversified alternative asset managers with a historical AUM/AUA of about $5bn. ICICI Venture currently invest across four verticals: private equity (through IAF4 – our fourth private equity fund), real estate (through iREIF – our third real estate fund), special situations (through AION in a strategic partnership with Apollo Global, US) and infrastructure (through Resurgent in a strategic partnership with Tata Power, India). ICICI Venture is a wholly owned subsidiary of ICICI Bank Limited which is the largest non-government bank in India.

Mr. Purker is the Managing Director & CEO of ICICI Venture and has over 29 years of experience in financial markets. He has a deep and varied experience in Indian capital markets, across both equity (including listed as well as unlisted equities) and debt capital products.

www.iciciventure.com
KEY TRENDS TO WATCH

FUNDS IN MARKET RIDING ON A HIGH

- As at January 2019, 125 India-based private equity & venture capital funds are in market, targeting an aggregate $18bn. This is the highest number of funds and amount of capital ever targeted, suggesting 2019 will be promising for private equity & venture capital fundraising in India.
- Venture capital remains the most favoured strategy among India-based fund managers. Sixty-four percent of funds currently in market are venture capital vehicles, seeking $7.1bn in capital commitments.

SUCCESSFUL CAPITAL DISTRIBUTIONS – WHAT’S NEXT?

- The vast majority of India-based private equity AUM is held in growth ($12bn) and venture capital ($13bn) opportunities as at June 2018.
- Due to successful capital distribution by India-based private equity fund managers, we may see LP allocations to India-based funds increase. Investors are likely to deploy capital because of the high liquidity, in order to reach or maintain their target allocations.
- A build up of dry powder in India could cause a correction in these high distributions, as increased competition would lead to a rise in valuations of opportunities in India, which could compress returns.

GROWING SECTORS: BUSINESS SERVICES & INTERNET

Private Equity-Backed Buyout Deals

- Business services is the key area of interest in recent years. It topped the list in 2018 with 37 deals valued at a total of $5.4bn, accounting for 37% of aggregate deal value in India.

Venture Capital Deals

- The internet sector has dominated the venture capital market in India for the past 10 years, reflecting India’s strong inclination towards the industry. In 2018, 309 internet deals were recorded, worth $6.4bn, or 67% of aggregate deal value.

DRIVING FORCES BEHIND PRIVATE EQUITY & VENTURE CAPITAL

- With strong government backing and more frameworks being established, the venture capital space is becoming more institutionalized. Investors have greater clarity in the structure, process and due diligence of investments in start-ups.
- Less restricted by regulations as compared to institutional investors, private wealth investors, such as family offices and wealth managers, with their longer-term investment horizons remain a vital component of the private equity ecosystem.

DATA CONTRIBUTION

Cut through in a crowded marketplace by keeping the data on your firm up to date. Show the industry what makes your offering unique and take ownership of your information.

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