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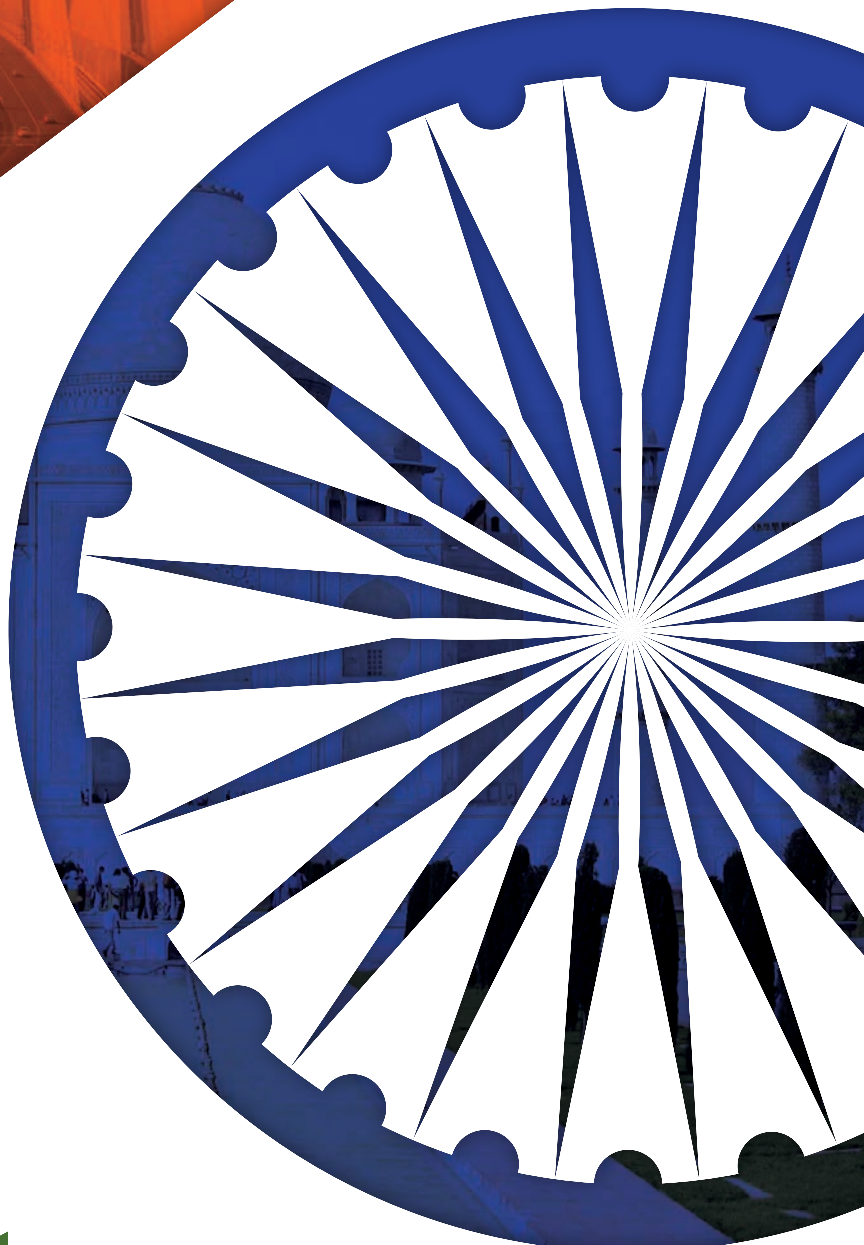

SPECIAL REPORT:

Private Equity in INDIA

EMPEA

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A Letter from EMPEA Consulting Services

Dear Reader,

It is our distinct pleasure to present this *Special Report: Private Equity in India*, EMPEA's first dedicated, in-depth examination of developments in India's private equity ecosystem since 2010. Suffice it to say that much has changed in the last five years.

In the intervening period, investor sentiment toward India has been on a bit of a rollercoaster, starting as one of the most attractive markets for GP investment in 2010 and plunging to the bottom of the league tables in EMPEA's 2013 and 2014 *Global Limited Partners Surveys*. To be fair, global institutional investors had good reason to express their dismay after a concatenation of industry and macroeconomic factors, including a sharp depreciation in the rupee, hammered private equity performance. Private equity in India appeared to be in terminal decline.

Of course, as any reader of the ancient Indian classics would appreciate, the cycle would turn. The election of Narendra Modi as Prime Minister in May 2014 served as a catalyst, revivifying global investor interest in the market. Amidst the clarion calls for economic reforms, capital flows accelerated into Indian bonds and public equities. Investors in private markets, however, exhibited a bit more circumspection—perhaps a function of having their fingers singed in the previous cycle—with fundraising figures remaining relatively flat until this year.

For their part, the fund managers that have survived the recent shakeout amongst GPs are emerging in a stronger position. Having reflected deeply on the sources of poor performance in recent years, India's crop of private equity fund managers have a wealth of lessons learned that are informing new strategies and approaches to sector selection, deal structuring, capital deployment and value creation. The past is important and it must be dredged for lessons learned; but it mustn't prevent one from looking forward. In this spirit, the case for measured optimism is a sound one.

More generally, GPs are operating in a transformed landscape. There is now a more developed and stratified ecosystem of entrepreneurial finance, and a much deeper pool of entrepreneurs who are both familiar with private capital and ready to partner with institutional-quality investors. The scarcity of financial and human capital required to scale businesses has not gone away, and private equity remains one of the few sources of these assets.

As general investor sentiment comes off its euphoric post-election highs and the IPO window opens—providing a much-needed dose of liquidity—we think it is time to take a fresh look at India. All of the key players in India's private capital ecosystem—the LPs, GPs, service providers and entrepreneurs—have a more sophisticated understanding of, and appreciation for, the strengths and limitations of the asset class; and, the government shows encouraging signs of adopting reforms that are conducive to foreign investment generally, and to private equity specifically.

Over the course of several months, we had the privilege to meet with numerous industry stakeholders and interview a number of the leading participants in Indian private equity today. We would particularly like to thank our report sponsors and the Indian Private Equity and Venture Capital Association (IVCA), all of whom were valuable partners in helping to build up our data set. We also appreciate their qualitative insights, which put the dramatic transformation in India's private equity landscape in starker relief.

Reliable data on private equity in India remain difficult to obtain, and the multiplicity of data providers using different methodologies compounds the challenge of delivering a consistent narrative. We encourage readers to review our methodological notes on page 48.

We hope that you enjoy this publication and that it inspires you to evaluate India with a fresh perspective. As always, we welcome any feedback you may have at consulting@empea.net.

With our sincere thanks and best wishes,

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An Introduction to Private Equity in India

India's reputation as an assault on the senses is well deserved. Visit any of the country's 29 states, nearly 8,000 cities and towns, or over 600,000 villages, and one is typically confronted by an onslaught of vibrant colors, musical sounds, rich smells, diverse languages, and, quite frequently, utter chaos. Navigating this chaos has become a way of life in India, and by extension for its business and finance community.

Private equity in India has had a bumpy ride over the past two decades as fund managers have learned the hard way how to access India's promise amidst the turmoil. However, today's crop of GPs have successfully endured a number of cycles and now carry a robust tool chest of lessons learned, which may help them pave the way toward a new, more favorable era for the industry ahead.

A Brief History

India's earliest private equity pioneers launched their initial funds in the late 1990s. Facing the dual challenge of convincing both prospective limited partners and entrepreneurs—most of whom had never heard of the asset class—that the private equity model could work in India, these forerunners nonetheless enjoyed relative prosperity amidst limited competition.

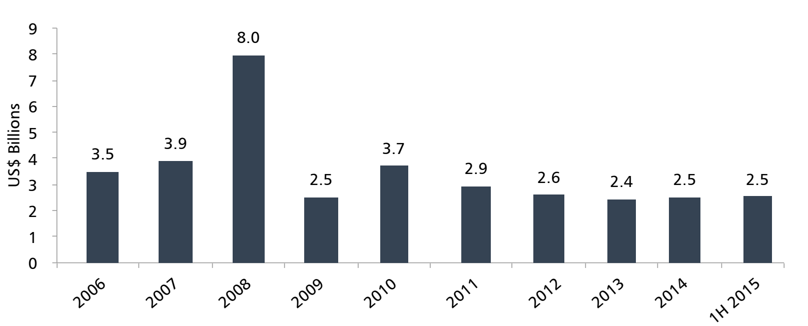
Between 2000 and 2005, however, the landscape dramatically changed as India began to take its place on the world stage. Economic liberalization policies implemented in the 1980s and 1990s were beginning to take effect—the GDP growth rate was rising, inflation was dropping, and new markets were opening up for investment. Then in 2001, Jim O'Neill, formerly with Goldman Sachs, famously identified India as one of the BRICs—a group of countries that promised to eventually overtake the developed world in leading the new global economy. The world wanted to grab a piece of the action and private equity investors were no exception.

Money began to pour into the Indian private equity market. Dr. Archana Hingorani, CEO and Executive Director of IL&FS Investment Managers Limited, one of the oldest private equity fund managers in India, notes, "Fundraising pre-2005 was difficult because India was an unknown entity. We raised four to five funds of small magnitudes, raised every three to five years, where LPs kept changing over each fund, so you always started from scratch. It's only from 2005 onwards when the investment committees of LPs approved an allocation to India that you saw an ease of raising capital. Certainly in the euphoric years that followed, there were periods when it took less than a year to raise a fund, even though the due diligence process was as rigorous as before."

Indeed fundraising for India-focused private equity funds reached an all-time high by 2008 with US$8 billion in commitments raised (see Exhibit 1). As EMPEA's statistics exclude funds allocated to India via pan-Asian or global vehicles, this number understates the total amount of capital that was flowing into the subcontinent. Alongside this increase in capital came an explosion in the number of GPs operating in the market—all within a relatively short period of time. Many of the global firms had already made forays into India, including Blackstone, The Carlyle Group, KKR and Warburg Pincus, while several new entrants, including Apax Partners, Apollo Management and Bain Capital, which established its local office in 2008, took interest. Numerous country-dedicated funds were raised by both local and global firms in the years leading up to the global financial crisis, including many first-time funds that were able to close on vehicles over US$150 million in size. According to EMPEA's database, over 100 firms launched new private equity vehicles specifically targeting India between 2006 and 2009.

Firms in the market continued to perform well. "Private equity firms enjoyed healthy returns in India from investments made between 2004 to 2006, or the Golden Era," recalls Ashley Menezes, Managing Director of ChrysCapital. "You could invest in companies at cheaper valuations because there was less competition, and these companies benefited from intrinsic growth within the system. Even if you made bad investments, you could still do well." CX Partners' Jayanta Kumar Basu, Partner, echoes this sentiment, "Prior to 2007, the markets were friendly and it was a relatively simple business. You could identify companies early, get a reasonable multiple and then effectively ride some part of the market beta. Multiple expansion was the primary driver of value."

Exhibit 1: India Private Equity Fundraising, 2006-1H 2015



Source: EMPEA. Data as of 30 June 2015.

By 2009, however, the party came to grinding halt as the aftermath of the global financial crisis hit India. Dry powder became an enormous issue for the market as firms struggled to invest the funds they had already raised, particularly as valuations had become—and remained—quite high. Furthermore, the slowdown exposed several cracks in the foundation of India's private equity model beyond the mismatch in buyer and seller expectations. A failure to create value in portfolio companies, the lack of exits and macro challenges, including government inaction, currency depreciation and weakness in the public markets, all added up to a comedy of errors, with the end result being that India's private equity performance did not meet expectations and both GPs and LPs lost money.

Not surprisingly, a consolidation was about to take place across the Indian private equity industry. Numerous GPs that had raised their first funds in 2007 and 2008 found themselves with minimal track records and were unable to raise follow-on funds. Several funds did not survive the upcoming years; those that did had to pause for introspection and reflect upon what went wrong during the last cycle.

The Lessons Learned

While each fund manager faced its own unique challenges during the most recent private equity cycle, a handful of common lessons learned seem to resonate throughout India's private equity community. In particular, GPs operating in the market are increasingly focused on being more hands-on with their portfolio companies; achieving alignment with their entrepreneurs; and, exploring multiple exit options at the beginning of a transaction (see Exhibit 2).

Take a hands-on approach: Private equity in India has historically been a minority growth equity story. While the same can be said for many emerging markets, one key problem in India was that many fund managers often had little to no influence over a portfolio company. Rather than trying to create value in an underlying business, they simply sought to passively ride a growth wave. In fact, by not having enough of a stake in a company and corresponding sway over management, some fund managers had little choice but to rely on multiple expansion as the main driver of returns.

In the current environment, GPs in India are increasingly seeking either significant minority stakes or, in some cases, control transactions in order to create value through actions such as being on the Board, influencing management hires, or implementing operational improvements. Vishal Nevatia, Managing Partner of India Value Fund Advisors (IVFA), observes, "It is still early days—and it is coming off of a low base—but one trend we are certainly seeing is a rise in control transactions. In the past, entrepreneurs in India were not as open to selling; they believed that you would only give up a controlling stake in a business if you were in trouble. But over the last eight years, it has become fashionable to sell a business. People are seeing some very successful large companies being bought and are congratulating one another on being smart to sell."

Exhibit 2: Sampling of Lessons Learned Post-GFC

- Be hands-on with portfolio companies in terms of creating value
- Pick the right entrpreneurs / management teams and reach alignment
- Explore multiple exit options at the begining of a transaction

Pick the right partner and achieve alignment: Hand-in-hand with being able to exert influence over a portfolio company is picking the right management team or entrepreneur to work with, particularly as numerous fund managers agree that poor selection in the past has been a significant contributor to lackluster performance. Niten Malhan, Managing Director at Warburg Pincus, notes, "Valuations for good businesses have always been rich in India. But the real problem was more than this; the companies that GPs invested into were a combination of good quality businesses and mediocre businesses that just had a good run on the back of a great market cycle. Not distinguishing between good underlying businesses and some that just had good tailwinds was a bitter lesson learned coming out of that cycle." India's fund managers are spending a greater amount of time kicking the tires on potential investee companies to ensure not only that the business fundamentals are strong, but also that they are aligned with the company's leadership on the value creation initiatives to take place and, perhaps more importantly, the path to exit.

In the prior cycle, a number of fund managers tried to rely on structures to compensate for any potential deficiencies in management, for instance, through the use of convertibles, puts, etc. should the company not perform as planned. However, enforcing such mechanisms proved to be difficult. Warburg Pincus's Malhan adds, "A bunch of disputes have occurred as a result of trying to make a less interesting situation more interesting through structures or contractual protections. In other words, it's hard to make something that is a mismatch from the beginning work just because you have some contractual protections. I think many fund managers didn't have the benefit of being in India long enough to fully understand the local situation and fell into that trap."

Explore multiple exit options: Perhaps the greatest struggle over the last private equity cycle in India has been the lack of exits. As numerous investments made in the mid- to late-2000s failed to perform well just as the IPO markets began to shut, many fund managers discovered that they were not in a position—particularly given the prevalence of minority stakes—to force an exit. "In the past, everyone wanted to do an IPO," states IVFA's Nevatia.

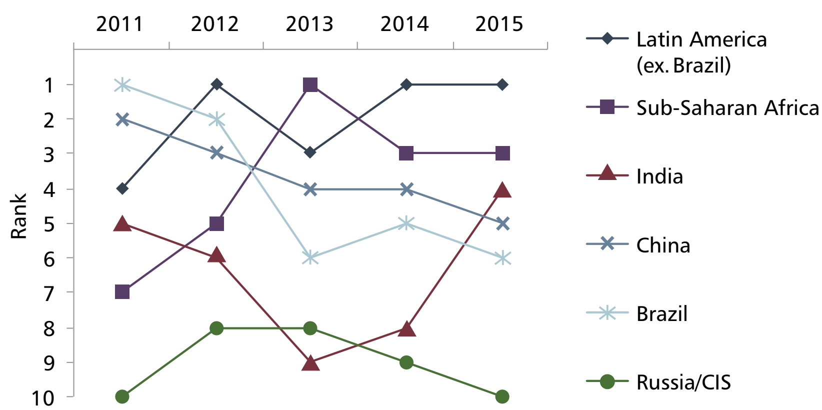
"They thought that an IPO was the only way to exit, not realizing that IPOs go through cycles and there can be long periods of time when the window is closed. This is a challenge we have all suffered in the last five years."

Most fund managers focused on India are currently exploring several exit options at the beginning of a deal, and fortunately, the exit environment is now one where multiple avenues are available to private equity firms in the market. Bharat Bakhshi, Partner at Jacob Ballas Capital, declares, "Exits have been a tough spot, but it's getting better. The IPO markets have opened up, while secondary activity—whereby one fund buys from another—has begun to take off. A lot more conversations are also taking place around management buybacks."

In truth, both GPs and LPs have made mistakes in India. "India is similar to China in that it was a market that everyone wanted to jump into once it opened up," notes Harjit Bhatia, Executive Chairman and Founding Partner of Asia Growth Capital Advisors. "Some global private equity firms were interested in investing US$1 billion plus quickly to make India exposure meaningful in their global portfolios but the Indian market and available opportunities weren't ready for that. The rush was also partly driven by some LPs' desires to accelerate India exposure and so they rushed through several large investments that didn't work well. They also ended up backing a lot of first-time fund managers that didn't have sufficient track record and operational experience in India, who ended up raising much bigger funds than they could reasonably invest and manage in a disciplined way." The rush of capital flowing into unseasoned hands at the height of a global economic downturn was inevitably going to take a toll.

It is a smaller and smarter private equity pool of fund managers that has emerged from the crisis. In general, the GPs operating in India today are more cautious on picking the right entrepreneur, more focused on value creation and more fixated on achieving an exit, all of which bodes well for the future of the industry.

Exhibit 3: Attractiveness of Select Emerging Markets for GP Investment Over the Next 12 Months - LP Views



Source: EMPEA 2015 *Global Limited Partners Survey*; n=141 LPs.

> Today there is a window for the market in India—at the macro level and at the private equity level—that makes it appealing. The political situation is improving with a pro-business government in place; the growth rate is strong; inflation is coming down; and, while valuations are still high, there is less competition in the market. With the fundamentals in place, this positive momentum could last for a much longer period than it did ten years ago."
>
> —Alain Berdugo,
> *IFC Asset Management Company*

A Time for Optimism?

Conversations with both India-focused fund managers and institutional investors suggest that raising money for the market today is much more difficult than it used to be as LPs take a more cautious approach to allocating capital (which, in turn, is contributing to discipline across the local private equity community). Nonetheless, several LPs have indicated an interest in giving India a second look. The subcontinent surged to 4th place out of 10 in EMPEA's latest *Global Limited Partners Survey* in terms of attractiveness for GP investment over the next 12 months, up from 9th place in 2013 (see Exhibit 3). In addition, 30% of surveyed institutional investors noted plans to either begin or expand investing in India over the next one to two years.

Alain Berdugo, a Principal at IFC Asset Management Company, offers his views on why LPs are reconsidering India: "Today there is a window for the market in India—at the macro level and at the private equity level—that makes it appealing. The political situation is improving with a pro-business government in place; the growth rate is strong; inflation is coming down; and, while valuations are still high, there is less competition in the market. The GPs who have survived the crisis and succeeded in raising new funds have proven that they are successful. With the fundamentals in place, this positive momentum could last for a much longer period than it did ten years ago."

India remains chaotic yet full of promise. As one industry veteran notes, "If you're looking for growth and an entrepreneurial culture, where else are you going to go? India is a great opportunity but it has disappointed everyone in the last 10 years. We will see a different outcome in the next 10 years; it will still not have developed to its potential but it will do a better job."

Untying the Red Tape to Unleash India's Economic Promise

Dr. Mukesh Aghi, President of the U.S.-India Business Council

This piece would have had a very different tone if written about two years ago—but what a difference 15 months and an election can make. The resounding mandate from the Indian electorate in the 2014 Parliamentary elections was one for a more prosperous India. The primary focus for Prime Minister Narendra Modi's first year in office was developing the groundwork for bold economic reforms that can usher in another iteration of India serving as an engine for growth in a time of global economic uncertainty.

Since the historic election of 2014, which ended 30 years of successive coalition-led governments in New Delhi, there have been countless examples that provide reason to be optimistic about India's economic future. The two Union Budgets that the Modi government has presented to the Parliament since assuming office have resulted in reforms to help resolve the gridlock in transfer pricing disputes and to implement a more streamlined and predictable tax regime. The central government has also decided to devolve an extraordinary 42% of its revenues to Indian states, and has managed to expedite settlements of commercial disputes, consolidate skill development initiatives and provide increased funding for small entrepreneurs. Furthermore, it has ensured passage of long-pending reforms such as the Coal Mines Bill and the Mines and Mineral Amendment Bill, and has raised the foreign direct investment limit in the insurance and pension sectors.

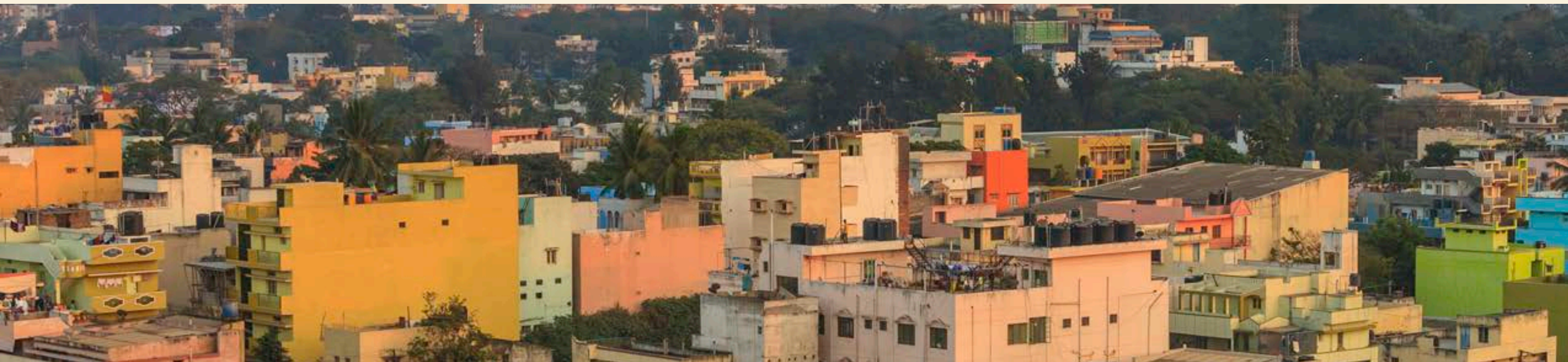
The two Union Budgets have provided the platform for the Prime Minister to effectively articulate his vision of unleashing the full potential of India's economic promise. This vision includes successful implementation of signature initiatives that encourage trade and investment from across the globe, such as Make in India, Digital India, Smart Cities and Jan Dhan Yogna (India's national financial inclusion plan).

To successfully ensure that these proposals are translated into action, the first challenge in front of Prime Minister Modi is to reduce the bureaucratic red tape through his overarching theme of "ease of doing business," particularly at the state level as Indian states account for a significant amount of the regulatory hurdles that companies have to navigate. Improving the "ease of doing business" involves administrative steps that focus on "maximum governance" and "minimum government" such as simplifying the process of acquiring land for construction, relaxing environmental procedures and labor regulations, streamlining the process for obtaining infrastructure-related utilities, improving the ability of the judiciary to enforce contracts and, finally, increasing tax certainty.

In an effort to hold Indian states accountable and ensure investor-friendly processes are being implemented to create competitive and cooperative federalism, the Department of Industrial Policy and Promotion (DIPP) issued its first ever report card on the "ease of doing business" on each state in September 2015. This year, the western state of Gujarat topped the list, which is based on criteria from the World Bank's annual Ease of Doing Business index. Prime Minister Modi's goal is to eventually advance India's ranking by over 100 spots and into the top 30 worldwide over the next several years.

The second challenge to the Prime Minister's vision comes from the political side. In robust democracies such as the United States and India, consensus-building is an arduous task. Changes to entrenched political systems are often met with resistance and vested interests. This point is best exemplified by the current struggle to pass the Goods and Services Tax (GST) bill. Since GST legislation was first introduced in 2006 by the now-opposition Congress Party when it was in power, it has been widely accepted across the political spectrum in New Delhi and state capitals that the implementation of a GST regime would be one of the most momentous transformations of the economy since independence. A GST regime would increase India's global competitiveness as an investment destination by streamlining supply chains, allowing for more predictable operational and planning costs for businesses, and lowering overall tax rates. Yet, almost a decade later progress remains piecemeal.

The speediness of economic reforms and avoidance of politically driven distractions will determine the success of the Modi government and ultimately whether the Indian economy can achieve double-digit growth over the next several years. Few political leaders have been so closely watched during their first 15 months of coming to power. This close scrutiny has been for obvious reasons—the expectations of 1.3 billion citizens who gave Prime Minister Modi the mandate to lead the nation to economic prosperity rest on his shoulders.

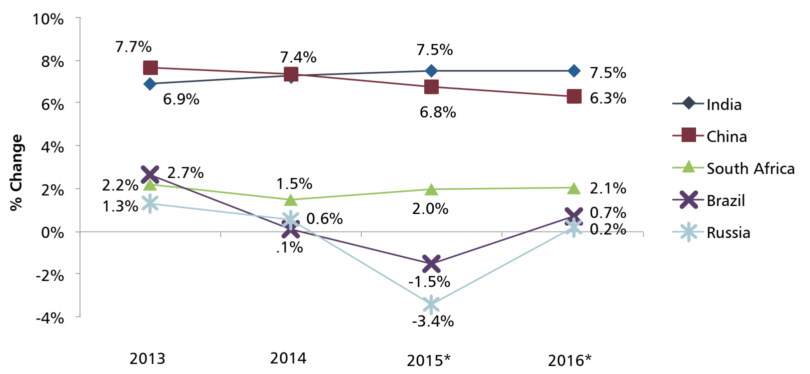


India's Macroeconomic Environment—A Step in the Right Direction

With a reputation for bloated bureaucracy, corruption and inadequate infrastructure, India presents a number of chronic challenges for private equity investors. The country's global ranking for ease of doing business is in the bottom quartile of 198 countries—scoring below both the South Asian regional average and its BRIC counterparts[1]—while it ranks near the lower half (85 out of 175 countries) in Transparency International's 2014 Corruption Perceptions Index. Many of India's sectors have been closed or limited to foreign investors, while high inflation and currency volatility have historically placed a drag on returns.

Yet the allure of India's young and growing 1.3 billion population[2] and diversified US$2.1 trillion economy[3] have enticed many limited partners and private equity fund managers to brave the risks. Perhaps more importantly, the promise of reforms following the landslide 2014 election of the Bharatiya Janata Party-led government under Prime Minister Narendra Modi, who is the first premier to be born after independence and is largely recognized as a pro-business politician, has resulted in renewed optimism in the market. Investors have also welcomed the 2013 appointment of the Governor of the Reserve Bank of India, Raghuram Rajan, formerly the IMF's youngest-ever chief economist. While only time will tell whether India's potential for reform translates to reality, the hope of an improved investment climate amongst the private equity community is palpable.

Exhibit 4: India boasts the highest projected GDP growth rates among its peers
% change in GDP growth



*Forecast.
Source: IMF World Economic Outlook, July 2015.

Key Drivers of the Private Equity Opportunity in India

"I believe the optimism surrounding India at the moment is justified—there is no country in the world like it in the emerging markets universe," observes Mukul Gulati, Co-founder and Managing Director of Zephyr Peacock Management India. "Let's just take a look at the other big emerging markets: Brazil is a commodity-based country and it is going through a recession due in part to poor economic management; China has done tremendously well for its population but not necessarily for its investors; and, in Russia you can stop with President Vladimir Putin. There is true potential in India—particularly if you have a 10-year investment horizon."

Indeed, there are a number of factors positioning India as an attractive place to invest, including strong economic growth, a favorable external environment and the fact that it is home to one of the largest and fastest-growing populations in the world. Furthermore, early indications suggest that the government is beginning to address several of the key obstacles confronting both global and local private equity investors.

Real and Diversified Economic Strength

Despite the global slowdown across the emerging markets, India's economy is on track to turn in the strongest growth among its BRIC peers over the next two years. The country is anticipating GDP growth of 7.5% for both 2015 and 2016,[4] according to the IMF—far higher than the projected emerging markets average of 4.2% and 4.7% during the same time period.[5] This expansion will outpace China's—forecasted at 6.8% (2015) and 6.3% (2016)—and stands in stark contrast to the contractions expected in Russia and Brazil in 2015 (see Exhibit 4).

1. 2015 World Bank Group's *"Doing Business"* rankings. See: http://www.doingbusiness.org/rankings.
2. United Nations Department of Economic and Social Affairs, *World Population Prospects, the 2015 Revision,* as of July 2015. See: http://esa.un.org/unpd/wpp/.
3. The World Bank's *World Development Indicators,* as of December 2014. See: http://data.worldbank.org/country/india#cp_wdi.
4. India's forecasts are presented on a fiscal year basis; the country's fiscal year runs from 1 April to 31 March.
5. International Monetary Fund, World Economic Update, July 2015. See: http://www.imf.org/external/pubs/ft/weo/2015/update/02/index.htm.

One of the key drivers of India's strong growth forecasts is the fact that it boasts a diverse economy. Unlike many other major emerging economies—particularly those in Asia, which rely on export-oriented manufacturing—India is fueled by an increasingly varied and domestically focused economic base. The economy is led by services, which accounts for 58% of output, with industry and agriculture representing 24% and 18% of the pie, respectively.[6] While agriculture is less than one-fifth of output, roughly half of the population makes its living through farming. In contrast, services—which is currently benefitting from a fall in oil prices that has boosted consumers' purchasing power—account for almost two-thirds of output but less than one-third of the labor force.[7] Because of its diversity and inward focus, India is widely seen as more resilient to a potential slowdown in China and other parts of the globe than most emerging markets.

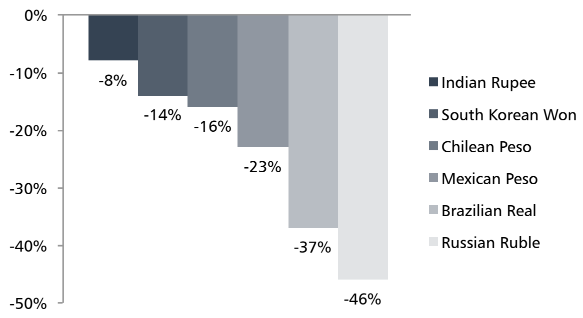
An Improving External Position

India's strong projected growth rates are buttressed by an increasingly favorable external environment. A number of dynamics have converged in India's favor:

- **India's inflation rate has declined**—Inflation, which bounced between 9% and 11% annually between 2008 and 2013, fell to 5.9% in 2014, with a further projected fall to 5.4% in 2015, according to the IMF.
- **The current account deficit has narrowed**—India's previously high current account deficit has been tamed due to strong portfolio and foreign direct investment, as well as the fall in commodity and global oil prices. India's current account deficit, which reached 4.2% and 4.8% of GDP in 2011 and 2012, respectively, came in at 1.3% in 2014, and is projected to be 1.4% in 2015.[8]
- **Foreign exchange reserves have increased**—India's foreign exchange reserves are running near an all-time high at over US$350 billion, and cover nine months of imports, as the Reserve Bank has built solid buffers that can better insulate the country and the rupee in the event of a severe global downturn.[9]
- **The Indian rupee is experiencing greater stability**—Currency volatility has, and will continue to be, a major area of concern for private equity investors;[10] however, the rupee has recently held up better than its BRIC peers, as well as many other large emerging market currencies. In the twelve months through August 2015, the rupee has dropped only 8% against the U.S. dollar, while the Russian ruble has dropped 46%, and the Brazilian real is down 37% (see Exhibit 5).

Exhibit 5: The Indian rupee has demonstrated lower volatility levels than most emerging market peers

Emerging market currencies vs. USD; one-year change through August 2015



Source: Bloomberg.

These factors are contributing to a boost in foreign direct investment, which rose from US$24 billion in 2012 to US$34 billion in 2014, according to the World Bank. At the same time, foreign portfolio investment is surging. Despite the global sell-off in stock markets in the summer of 2015, through mid-September, foreign mutual funds bought net US$9.8 billion in Indian equities—despite record monthly sales of net US$2.5 billion in August—while inflows into local bonds totaled US$6.1 billion, according to EPFR Global data.

Portfolio inflows into India as of mid-September 2015 stand in stark contrast to the other BRIC economies and many other emerging markets. Global emerging market equity funds tracked by EPFR Global have recorded outflows of US$58 billion, following full-year outflows of US$28.5 billion in 2014, while bond funds saw outflows of US$15.7 billion.

An Attractive Demographic Profile

One of the primary draws of investing in India is its booming population. Standing at 1.3 billion, India is forecast to overtake China to become the world's most populous country by 2022 according to the United Nations.[11] In addition to being large, India's population is young, with half under the age of 27. By 2020, it is anticipated that the country will boast a median age of 28 as compared with China's projected median age of 39.[12] Furthermore, urbanization and a rapidly rising middle class (currently estimated at 250 million people) are fueling investment opportunities (see *Spotlight: The Indian Consumer*).[13] One-third of the population currently lives in cities, and the United Nations projects that half of the population will live in urban centers by 2050.[14]

6. CIA, *The World Factbook,* 2014 estimate.
7. CIA, *The World Factbook,* 2014 estimate, and The Word Bank *World Development Indicators*. See: http://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS.
8. International Monetary Fund, World Economic Outlook, October 2015. See: http://www.imf.org/external/pubs/ft/weo/2015/02/pdf/text.pdf.
9. Reserves as of 18 September 2015 as reported in the Reserve Bank of India's Statistical Bulletin.
10. During the 2013 U.S. Federal Reserve-induced "taper tantrum," the rupee sold off sharply and India was identified on Wall Street as one of the "Fragile Five"—along with Brazil, Indonesia, Turkey and South Africa—due to its current account deficit and high inflation. With the deficit plummeting as a result of the sharp fall in oil prices, foreign reserves near an all-time high, and inflation halved since mid-2013, India is no longer on the "fragile" list, having been largely replaced by commodity exporters.
11. United Nations Department of Economic and Social Affairs, *World Population Prospects, the 2015 Revision,* as of July 2015. See: http://esa.un.org/unpd/wpp/.
12. Ibid.
13. McKinsey and Company, *The Rediscovery of India*, November 2013. See: http://www.mckinsey.com/insights/asia-pacific/the_rediscovery_of_india.
14. United Nations Department of Economic and Social Affairs, *World Urbanization Prospects, 2014 Revision*. See: http://esa.un.org/unpd/wup/Highlights/WUP2014-Highlights.pdf.

"There is huge scope for growth in India," declares Akhil Awasthi, Managing Partner of Tata Capital Growth Fund. "While there is certainly a fair amount of dispersion as far as income is concerned, because of the size of our population, even if only 8% is earning more than US$10,000 annually, that's still 100 million people. In many countries, this is a big enough market for investment." Awasthi continues, "In addition, more and more young people are getting educated and coming into the job market. With the services sector—which pays higher wages than the manufacturing sector—accounting for more than 50% of the economy, demand is rising for everything from housing, education and healthcare to transportation, food and beverage, and entertainment." To wit, in the decade through 2014, consumer spending in India surged by 245%, and grew another 3.4% in the first three months of 2015, while total disposable personal income grew 10% from 2013-14, according to Ministry of Statistics data.

Despite these favorable trends, India has one of the lowest per capita GDPs in the world—estimated at US$1,808 as compared to more than US$8,000 in Brazil, China and Russia.[15] Nonetheless, incomes have been on the rise and per capita GDP has subsequently grown by more than 26% since 2010. The IMF projects that per capita GDP in India will reach US$2,495 by 2020.[16]

The Government's Initial Steps

Recent government initiatives have demonstrated the potential for long-standing constraints on the private equity industry to be eased, albeit slowly. Upon taking office, the Modi government put economic bills covering mining, coal, insurance, taxes and land acquisition at the top of its list of priorities, and legislation opening the mining, coal and insurance industries to foreign investment has been passed. For example, the foreign investment ceiling in the insurance industry was raised from 26% to 49%, with US$185 billion in new foreign direct investment committed three months after the bill's approval.[17] Similarly, the foreign direct investment ceiling in railway infrastructure has been increased to 100%, while the new coal and mining bills allow the government to auction natural resources online, which has resulted in increased transparency. Rules for foreign direct investment have also been relaxed in the construction sector with both the minimum floor area and capital requirements reduced.

Looking forward, the Modi government has announced a number of plans and initiatives aimed at reducing bottlenecks in the system. For instance, the FY16 budget includes more than US$11 billion in new infrastructure spending to upgrade roads, rails, ports and power plants, and establishes a new national infrastructure fund. Plans for new tax-free infrastructure bonds have been revealed, and the Public-Private Partnership funding models were revised to shift the burden away from the private sector in a move welcomed by investors. In addition, Prime Minister Modi unveiled the "Make in India" initiative in 2014, which aims to facilitate investment, foster innovation, enhance skills development, protect intellectual property and build best-in-class manufacturing infrastructure in more than two dozen priority sectors. The government has also announced plans to lower the standard corporate tax rate from 30% to 25% over the next four years with the lost income to be covered from closing existing loopholes.

However, it is important to note that despite the government's ambitious development agenda and the progress that has been made to date in liberalizing several industries, much remains to be done. For instance, legislation on land reform, retail trade opening and tax rationalization remains stalled in parliament. The land bill, in particular, is seen as critical to reviving investment and overcoming inefficient power generation / distribution and inadequate transportation infrastructure in India. In 2014, an emergency ordinance was put in place to allow states to forcibly acquire private farmland for development, which was to remain in effect for six months unless approved by parliament. With the main opposition Congress Party calling it "anti-farmer," the land bill, if passed, would accelerate development in rural infrastructure (e.g., roads and electric power).

Jayanta Kumar Basu at CX Partners, points out, "Politics in India will forever be a bit of a drag because there is always someone who is disappointed. There have not yet been any 'big-bang' reforms to really write home about—let's pass the GST and land bills. But Prime Minister Modi has done a lot of small things that have actually helped efficiency at the ground level. We have seen a fair amount of improvement in terms of getting general, regular approvals; for anything that has been executive in nature, the responsiveness has been much quicker."

It is also important to remember that India is a complex democracy. Roopa Purushothaman, Managing Director and Head of Research at Everstone Capital Advisors, cautions, "The focus, rightfully, is on the political economy and structural reforms. However, everyone is paying attention to the central government when what happens within the state governments really matters. Anything to do with land, labor or capital is a state decision—so I find it interesting when investors say they've met with the Prime Minister when they don't even know the name of the Chief Minister where they operate. The good news is there is a lot of positive momentum in terms of getting projects done on the ground, at least in the larger states."

The Path Ahead for Private Equity

India's strong economic growth, improving external position, favorable demographics and recent government-led reforms all have the potential to streamline India's investment climate for the private equity community. However, it will likely take significant time—decades or perhaps more—for the subcontinent to overcome some of its greatest plagues, including corruption and endless red tape. Ensuring that a country of India's size and diversity stays competitive and fully meets its potential is surely not an easy task, yet the market is undeniably moving in the right direction.

15. International Monetary Fund, *World Economic Outlook Database* (in current USD) as of April 2015.
16. International Monetary Fund, *World Economic Outlook Database* (in current USD) as of October 2015.
17. Commerce and Industry Minister Report to Parliament (as reported in the Indian press).

A Legal & Regulatory Perspective

An Interview with Darshika Kothari, Partner, AZB & Partners

From a fund formation perspective, have you noticed any changes in how institutional investors are approaching India?

A lot of the LPs that traditionally invested indirectly in India through funds of funds are now investing in India by way of direct investments in growth and early-stage companies. The direct approach is an increasing trend, particularly among sovereign wealth funds, banks and insurance companies.

Are there any common mistakes from a legal perspective that you see GPs making, whether it be during the fundraising process, while executing deals or in managing exits?

Sometimes GPs drop the ball during the lifecycle of an investment. There are instances where GPs have painstakingly negotiated agreements, conditions and covenants but, subsequent to the deal, they may not always follow it through. Once a deal is done, is the GP tracking the deal's progress? GPs need to monitor the nature of governance rights, conditions subsequent, etc. that have been negotiated, and track the same appropriately. While investors shouldn't necessarily get acrimonious with the target—there is a very delicate balance one needs to achieve, after all—perhaps the GPs should work with the portfolio company in the initial stages itself to ensure that processes are in place to protect the investment.

Sometimes GPs may not read the Board pack (i.e., key information for non-executive directors). There are liabilities under the Companies Act, 2013 where you're deemed to have read the information that's provided to you as part of the Board pack, and you can be liable if you haven't read it. So are GPs being diligent enough?

Finally, as a general rule I think that exits are not well thought through. Are GPs planning their exits carefully and implementing their exit strategies? Having draconian clauses in term sheets or investment agreements doesn't always help. For example, sometimes GPs lay out a suite of clauses: they have an agreement to IPO the company, and if not an IPO then a buyback by the target, and if not a buyback then a put option on the promoter, and if not a put option then a convertible for a controlling stake, and if not then a drag right. But one needs to judiciously decide what works and how to enforce the same. Sometimes I've seen firms hang their hats on an IPO exit, but you never know when the IPO window closes and the markets turn, so you need fallback options. But do you need to have everything? Perhaps not—that's where you tick off the promoter. Exits remain a vexed issue because many people haven't handled their strategies well, be it behaviorally or sometimes even contractually.

As you look ahead, what changes to the legal and regulatory environment would enhance the prospects for the private equity industry in India?

Regulators have been evaluating whether to treat private equity as a separate asset class, and whether there need to be more conducive regulations surrounding it. Overall, I think regulators are open to engaging with the industry and discussing how the regulatory framework can improve. Should private equity be recognized as a distinct asset class—one that provides patient capital and is a valuable source for the company's growth—then the ramifications would cut across securities laws, exchange controls, tax and more. I think that recognition of private equity as a distinct asset class, and resultant changes to the regulatory landscape, could, among others, boost private equity investments in India.

Fundraising Trends

Emerging Asia has historically been—and remains today—the leading emerging market region capturing institutional investor interest, representing approximately 65% of all capital raised for emerging market private equity funds over the last five years (see Exhibit 6). Notwithstanding the amount of capital that will be invested in the Indian market through pan-Asian funds, India continues to trail China in the region in terms of total LP commitments. Nonetheless, a number of factors have converged, including optimism surrounding the results of the May 2014 elections, an improving macroeconomic environment and decreased competition amongst GPs, which have brought India back into the spotlight and may help reposition the market as a strong contender for commitments to the region.

In the first half of 2015 alone, India-focused fund managers raised US$2.5 billion—a figure that is not only equal to the amount raised in all of 2014 (see Exhibit 1), but also more than any first-half fundraising total since 2008. This growth has taken place in spite of the fact that commitments to emerging market private equity vehicles overall fell in annualized terms during this time period. After accounting for between 5% and 6% of emerging markets private capital fundraising in the years from 2011 to 2014, India-focused funds represented 14% of the total private capital committed to emerging markets in the first half of 2015. As such, India is capturing a larger share of emerging market private equity portfolios on both an absolute and relative basis.

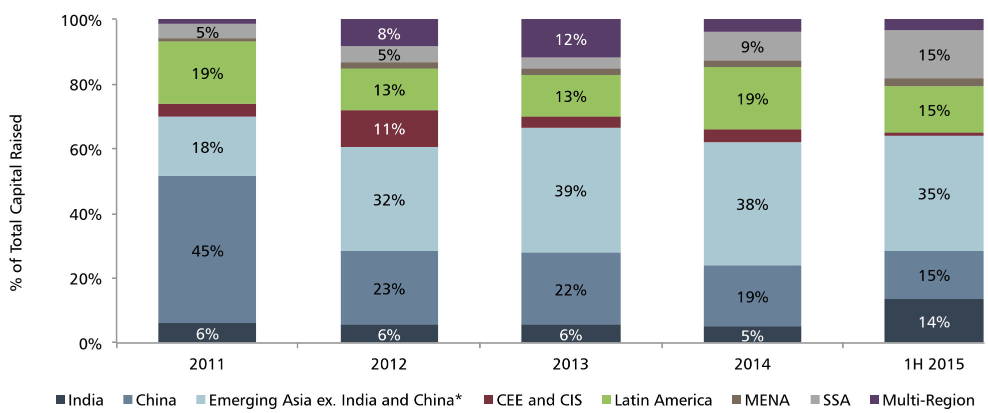
Hand in hand with an increase in total capital flowing into the market, India-focused funds are also being raised more quickly, further highlighting what appears to be growing LP interest—at least for certain managers. For example, the average gap between funds' first and final closes has fallen from 20 months for funds closing in 2012 to 13 and 15 months for funds closing in 2014 and 2015, respectively (see Exhibit 7).

While it is too early to say whether the recent uptick and acceleration in fundraising is a trend or a blip, it is safe to suggest that the market has changed meaningfully over the last decade. Perhaps the most important change is the distribution of capital flowing to experienced fund managers that have established their *bona fides* amongst global LPs. In addition, fund strategies have shifted away from growth equity toward venture capital, and the sources of LP capital have evolved in important ways.

More Capital, But Flowing to Fewer GPs

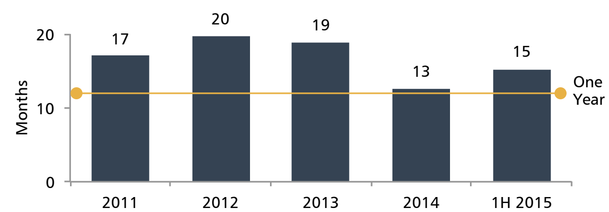
Mirroring developments across the emerging markets, capital is becoming more concentrated in fewer funds. Having burned their fingers with commitments in previous vintage years, a number of LPs are becoming more discriminating when it comes to manager selection. "India ticks all the right boxes for international investors given the demographics, but many people have been emotional investors in this country," notes one local GP. "They come here for business or vacation, and they fall in love with its history, culture and the tremendous promise of opportunity. But that led to an oversupply of capital in the hands of GPs who were not capable of investing it and it warped the landscape. Today, the smaller ecosystem of experienced GPs are seeing a steady flow of commitments from global institutional LPs." Increasingly, LPs are committing to more experienced fund managers with a demonstrated ability to manage the full cycle of capital deployment, value creation and distribution of cash to global LP requirements.

Exhibit 6: Emerging Markets Fundraising by Country and Region, 2011-1H 2015



Source: EMPEA. Data as of 30 June 2015.
*Includes regional funds that may invest in India and China.

Exhibit 7: Average Time Between First and Final Close by Final Close Year

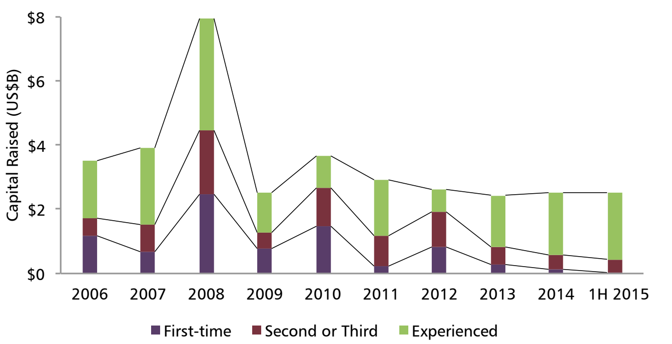


Source: EMPEA. Data as of 30 June 2015.

Data from EMPEA's recently released *First-time Funds in Emerging Markets Brief* bear this out. A number of upstart fund managers that have come to market in the past have delivered insufficient and / or inconsistent returns to LPs—and many have since been shaken out of the market. To illustrate, in 2008, fund managers closed 25 funds, a high for the market. By 2014, fund managers closed just 14 India-focused funds, and in the first half of 2015, the figure came in at seven, despite the relatively large amount of capital raised.

Perhaps more interesting is how GPs with less experience have declined in absolute terms (see Exhibit 8). After the euphoria of 2008, when first-time funds closed on approximately US$2.5 billion (31% of total capital raised), GPs raising funds I-III have found it tough going, indeed. Experienced GPs—defined as those on fund IV or later—have risen to dominance, capturing roughly 80% of capital commitments in the 18 months to July 2015. Notably, the composition of experienced managers active in India has changed over the past decade: the vast majority of experienced GPs closing funds in 2006 and 2007 were global players raising India-focused vehicles, whereas the majority of experienced managers closing funds in India today are homegrown.

Exhibit 8: India Fundraising By Fund Manager Experience, 2006-1H 2015



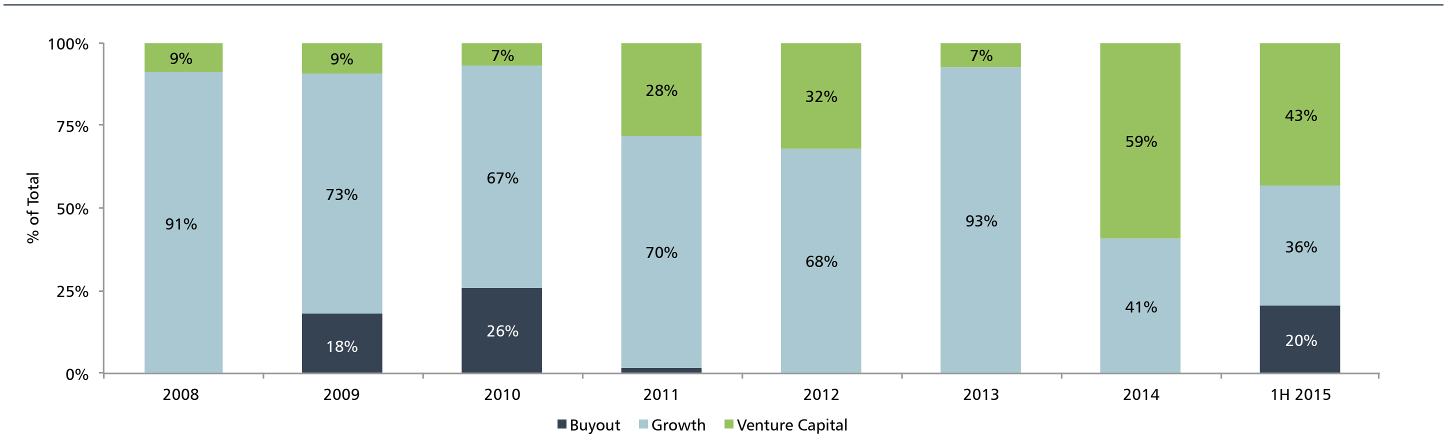
Source: EMPEA. Data as of 30 June 2015.

Trends in Strategy: A New Game in Town?

While India has historically been a growth equity play, the market has begun to diversify and LPs are increasingly committing to a broader set of fund strategies. While funds focused on growth equity accounted for 78% of private equity capital raised from 2008 to 2013; the figure dropped to 38% between 2014 and 1H 2015, as commitments to venture capital funds have hastily grown (see Exhibit 9). In 2014, 12 of the 20 funds to hold a close had a venture capital focus, including Sequoia Capital's India IV, which closed on US$530 million in 2014 and went on to reach a final close of US$740 million in 2015—making it the largest venture capital fund raised for India since EMPEA began tracking fundraising in 2006. To put this shift in starker relief, more capital was raised for India-dedicated venture capital funds in just the first six months of 2015 than was raised in any single year between 2006-2013, and nearly as much as in all of 2014.

The first half of 2015 saw the successful return of buyout funds to the market, with the first close achieved for the strategy since 2011. While a number of fund managers have executed buyout transactions over the years, it remains rare for firms to employ buyouts as a cornerstone of their strategy—only five of the 153 India-dedicated funds that have reached a final close from 2006 to 1H 2015 have had a buyout strategy—and there is little indication that a new trend is developing. One outlier in this regard is IVFA, which achieved a final close on its fifth fund (Indium V) at US$700 million in the third quarter of 2015. IVFA's Vishal Nevatia notes "70% to 80% of the investments we make are in control transactions, and today, our operating team is two times the size of our investment team. There is nothing wrong with minority, growth capital deals, but you have to be extremely careful of the entrepreneur that you are backing in terms of governance, value, capability to scale and ability to attract talent."

Exhibit 9: India Fundraising By Fund Type, 2008-1H 2015 (% of Total)



Source: EMPEA. Data as of 30 June 2015.

Private credit strategies offering predictable income at comparatively lower risk have piqued investor interest as well. After raising just US$563 million in the seven years from 2006 to 2012, fund managers focused on Indian credit strategies raised US$1.6 billion in the 2.5 years from 2013 to 1H2015. Credit funds have raised capital though a diverse set of sub-strategies as well. While the largest credit funds have been raised for special situations investments, fund managers have successfully raised capital for mezzanine, distressed debt, infrastructure debt and venture debt sub-strategies in recent years.

Notable examples of private credit funds include KKR India's Alternative Credit Opportunities Fund I, and ICICI Venture Funds Management's US$825 million AION Capital Partners fund, a special situations-oriented joint venture with Apollo Global Management. Discussing the latter fund vehicle's strategy, Kundan Saran, Head of Corporate and Strategic Initiatives with ICICI Venture, relays, "Special situations in the Indian context is less about asset stripping or turn-arounds. We are seeking to invest in interesting assets and good promoters that find themselves in an over-levered situation. The good news is that investors now have a way to play these opportunities in India."

There is another angle to shifts in strategy, and it is tied to the dynamic of capital becoming concentrated in fewer, larger funds: GPs deciding to move away from the 10-year, closed-end fund model. Aspada Investment Advisors provides a ready example. Following its first fund, a US$17 million corpus seeded by three investors—the Soros Economic Development Fund, Omidyar Network and Google—the firm opted to raise its second fund (US$50 million) exclusively from Soros. Kartik Srivatsa, Managing Partner and Co-Founder of Aspada, explains, "This is a holding company in the sense that we don't have formal closes, so we can keep investing and raising more money with the same vehicle. So US$50 million is just where the fund is now, not necessarily the final size of the fund. The fund operates as a blind pool, but we decided that it was important to find smarter ways to secure capital for investment, so that we're not fundraising for 36 months—which has happened in this market."

This more permanent approach to capital embeds flexibility within the firm's mandate, such that it is not pressured to sell assets before they actualize value. Srivatsa continues, "Most fund managers have found ways to roll their stake over into the next fund and extend it, but if you talk to most people, they'll say they need 10 to 12 years to develop good businesses in this country. With growth like we're seeing, if you hold for an extra three years, your net IRR can almost double, just because of the last three years, and people have lost out on that. In my opinion, India is a lot less risky if you take a 20-year view on the market. Investors come in assuming India is very risky, and they demand 25% to 30% IRRs over a five-year holding period. The better option is to invest over 20 years and target 15% to 20%."

Exhibit 10: Sampling of LPs with Disclosed Past Commitments to India-focused Funds (by LP type)

Development Finance Institutions	No. Disclosed Commitments
International Finance Corporation (IFC)	27
Small Industries Development Bank of India	27
CDC Group plc	25
Netherlands Development Finance Company (FMO)	13
Overseas Private Investment Corporation (OPIC)	8
Asian Development Bank (ADB)	6
DEG	5
KfW Group	5
National Bank for Agriculture and Rural Development (NABARD)	5
IFCI	2
Japan Bank for International Cooperation (JBIC)	2
Swiss Investment Fund for Emerging Markets (SIFEM)	2
Proparco	2
Norfund	1
Swedfund	1

Sources: EMPEA, Preqin. Data as of 4 August 2015.

Banks and Insurance Companies	
AMP Life	New India Assurance
Andhra Bank	Oriental Bank of Commerce
Bank Leumi	Oriental Insurance
Bank of Baroda	Punjab National Bank
Central Bank of India	Rabobank International
Dena Bank	RBL Bank
General Insurance Corporation of India	State Bank of India (SBI)
Goldman Sachs	Swiss Re
HDFC Bank	Syndicate Bank
ICICI Bank	Taib Bank of Bahrain
Indian Overseas Bank	Triodos Bank
Industrial Development Bank of India (IDBI)	UBS
ING Private Banking	Uco Bank
Life Insurance Company of India	Union Bank of India
National Insurance	United India Insurance

Source: EMPEA. Data as of 4 August 2015.

Pension Funds
Australian Reward Investment Alliance (ARIA)
California Public Employees' Retirement System (CalPERS)
Canada Pension Plan Investment Board (CPPIB)
International Monetary Fund Retirement Plan
Kumpulan Wang Persaraan (KWAP)
London Borough of Hillingdon Pension Fund
Maryland State Retirement and Pension System
Ontario Teachers' Pension Plan (OTPP)
Pennsylvania State Employees' Retirement System
PGGM
Royal County of Berkshire Pension Fund
State of Delaware Board of Pension Trustees
State of Wisconsin Investment Board

Source: EMPEA. Data as of 4 August 2015.

This innovative approach to adapting global private equity practices to local conditions is not for everyone, but it presents one solution for LPs that don't wish to sell stakes in high-growth, cash-generating assets by a fixed deadline. Nevertheless, the tried-and-true, 10-year, blind-pool structure remains LPs' preferred vehicle of private capital, so it's worth examining the investor base in closer detail.

Who Invests in India? A Look at Sources of Capital

Development finance institutions (DFIs)—both global and local—have been core supporters of private equity's development in India (see Exhibit 10). International Finance Corporation and CDC Group plc—the United Kingdom's DFI—have been the most active international DFIs, with 27 and 25 disclosed commitments, respectively, over the past 20 years. Locally, the Small Industries Development Bank of India (SIDBI) has backed 27 funds—some of which are managed by its own venture capital fund manager, SIDBI Venture Capital—though other local development banks such as IFCI and the National Bank for Agriculture and Rural Development have committed to private equity as well.

Apart from the DFIs, an array of commercially oriented institutional investors, such as pension funds, funds of funds and endowments, have been targets for GPs on the fundraising trail. Many large developed market pension funds have some degree of exposure to Indian private equity, but the extent of such exposure varies widely. The Canada Pension Plan Investment Board (CPPIB), which had US$269 billion in AUM as of 30 June 2015, made its first commitment to an India-based GP (Multiples Alternate Asset Management) in 2010, and appears to be ramping up its India exposure—the pension fund made commitments to both Multiples' second fund and IVFA's fifth fund in 2015, and recently opened a permanent office in Mumbai. Caisse de Dépôt et Placement du Québec, another Canadian pension fund, reportedly plans to follow CPPIB and open its own Mumbai office in 2016. CalPERS, the largest public pension fund in the United States, with US$286 billion in AUM as of October 2015, developed direct exposure to Indian private equity between 2005 and 2012 through a series of commitments to funds managed by Baring Private Equity Partners India, ChrysCapital, IVFA and Samara Capital, according to data from EMPEA and Preqin. However, the fund has not disclosed any new commitments to India-focused funds in the past three years.

Fund of funds managers such as 57 Stars, Asia Alternatives and Siguler Guff have been active in India for several cycles, and provide large investors—those out of reach of India's relatively small funds—with exposure to India's local mid-market managers. According to CX Partners' Jayanta Kumar Basu, "Funds of funds continue to be extremely relevant in India. India remains a small part of large investors' portfolios, so investing directly in India might not currently be worth the time spent. For these investors, it makes sense to go through a fund of funds, as they are already embedded in the market and are able to spend a lot of time here building manager relationships."

International endowments had been active investors in the market prior to the global financial crisis, but some have been slow to make fresh commitments. For example, according to Preqin, Stanford Management Company committed to 2004- and 2008-vintage funds from ChrysCapital and Helion Venture Partners, respectively, but has yet to return to the market through country-dedicated vehicles. Other large endowments appear to have settled upon key manager relationships that have scaled: to wit, Harvard Management Company has backed ChrysCapital's four latest funds, while the University of Texas Investment Management Company (UTIMCO) has backed Everstone's past two funds—most recently investing US$75 million in Everstone Capital Partners III.

Local institutional investors remain a largely untapped source of capital in India. India's pension funds are barred from investing in private equity, while local financial institutions are beginning to gain limited exposure to the asset class. State-owned banks and insurance companies have occasionally backed state-sponsored investment funds. Government-sponsored fund manager GVFL's Golden Gujarat Growth Fund Series 1, for example, is backed by the Government of Gujarat and a number of public sector banks and insurance companies, while a series of funds managed by SIDBI Venture Capital are supported by various Indian government agencies, public sector banks and insurance companies.

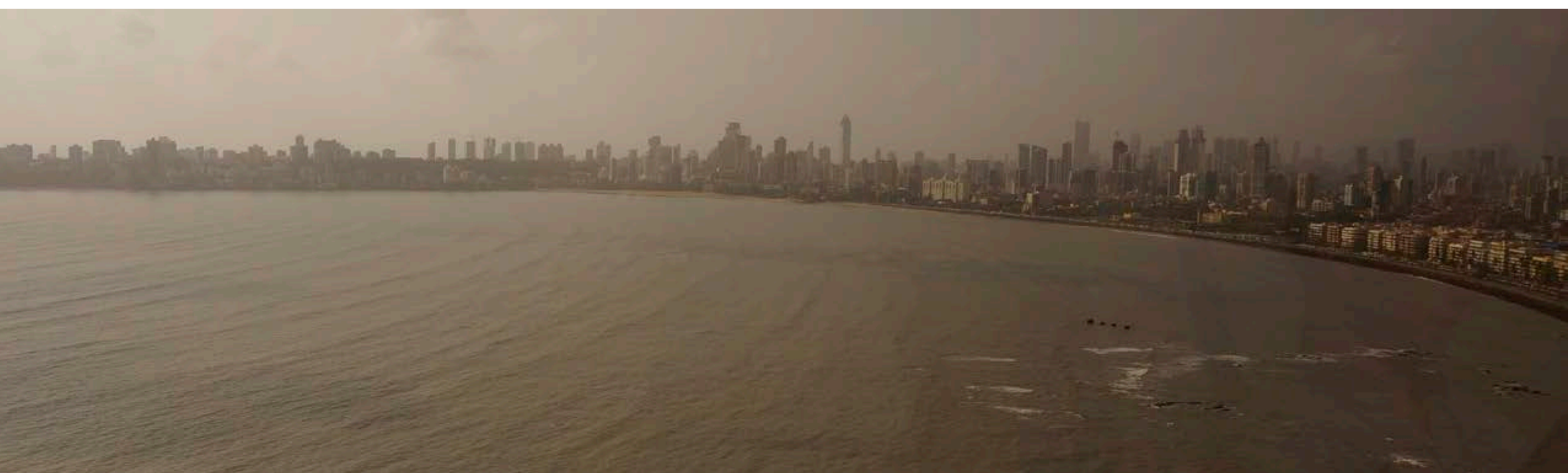
> "In my opinion, India is a lot less risky if you take a 20-year view on the market. Investors come in assuming India is very risky, and they demand 25% to 30% IRRs over a five-year holding period. The better option is to invest over 20 years and target 15% to 20%."
>
> —Kartik Srivatsa,
> *Aspada*

Public banks and insurance companies also occasionally invest alongside their private counterparts in a commercial capacity. India Alternatives, for example, raised its 2011-vintage fund exclusively from Indian banks, insurance companies and institutions, while Indian financial services companies have been investors in recent fundraising campaigns from Reliance Equity Advisors, ICICI Venture, IL&FS and Aditya Birla Private Equity.

The most prominent new source of local capital, however, has come from the family offices of India's business magnates and last wave of successful entrepreneurs. The executives behind homegrown technology powerhouses such as Infosys and Wipro, as well as conglomerates such as Tata Sons, have begun to seek exposure to India's technology sector through commitments to venture capital funds and even direct angel investments (see *High Net-Worths: A New Breed of Indian Venture Investors* on page 22).

Inhibitors to Greater Capital Flows

More capital is coming in, fund strategies are diversifying and new LPs are coming online; however some hurdles still remain. According to EMPEA's 2015 *Global Limited Partners Survey,* currency risk, and regulatory and tax issues are the two most prominent factors deterring LPs from greater investment in India, followed by a perceived weak exit environment and India's historical performance. While these challenges certainly persist, local GPs argue that with a keen focus on manager selection and rigorous due diligence, institutional investors can still find good investment opportunities. Perhaps investors have become receptive to such advice. The fundraising figures for 2015 so far suggest that LPs are reassessing the opportunity set that India's GPs have on offer. However, as the commentary in our LP Roundtable suggests, negative and / or cautious sentiment toward the market may take time to reverse.



"LPs Should Be More Bold on India"

A Conversation with Mounir Guen, CEO of MVision Private Equity Advisers

Perhaps we could start with your 30,000-foot view on how the Indian market has evolved over the last decade. Are there any key developments or trends that stand out to you?

The change within India has been quite difficult to grasp. There are so many moving parts—government policies, regulation, capital markets development, entrepreneurialism, middle class creation, etc.—and they're moving at such high speeds. Within this story, though, the key word is "entrepreneur." India's entrepreneurs are astounding. They are remarkable.

The first cycle—the first 12 years of private equity in India—really was one of trying to figure out how to understand and capitalize on the richness of the growth and the talent of the entrepreneurs in the market. Over the first cycle you saw two types of investment: one was following these entrepreneurial families or individuals in the public market, either directly or through PIPEs; the second was a minority growth position in companies.

The experience in India, because of the lack of control, has been mixed. However, there's a real change now in Indian private equity with a control mindset, an operating perspective and a demonstrable ability to contribute. This has enabled GPs to both differentiate themselves and demonstrate to entrepreneurs their ability to bring discipline to the balance sheet, finance growth, assist with expansion to other regions, and put in place proper governance, reporting and accounting.

How are international LPs currently viewing the India opportunity vis-à-vis other markets?

Some of the large investors are targeting 12% to 15% net returns. Since interest rates in India are close to those numbers, why incur equity risk if you've got safety through debt structures? There are some macro risk factors as well, such as currency volatility and inflation. Then you have GPs with checkered historical backgrounds in terms of their fund performance and attribution—all of which can present challenges for investors.

In my view, international investors are trickling into India. Global LPs want to do more, but they are struggling to feel comfortable putting more capital to work because, first, they do not quite grasp that India is a "must-have," as they do with China; and second, many of the general partners have not been able to scale yet. So the large investors that tend to drive private equity in today's environment have limited access—they're not going to commit US$300 million to a US$500 million fund.

What should LPs be looking for in management teams targeting deals in the country?

I think that the managers are excellent, and that they've adapted and evolved quickly. The problem is that investors are looking at 12 years of history that are irrelevant. Investors have review processes, so they go back to Fund I and ask why there were losses, why there was volatility, why they made minority investments, etc. Who cares?

What is most relevant is the governance and transparency, clarity of communications and reporting, the pipeline, the deployment velocity of this pipeline, and a clear understanding from today's general partner of how they will be driving value and performing.

There is an evolution toward excellence among India's fund managers. They're operating in this fantastic, energetic environment, and they are trying, in a way, to adapt themselves to international investors' frameworks and processes, which the LPs have used successfully in other markets. The truth of the matter is that maybe private equity should structure itself more creatively, so that it's not in a cycle where a GP has to sell phenomenal assets within a five-year holding period because they're coming back to market to raise money.

This raises a question over whether private equity is the right model for India. What is the solution, and what role—if any—can local capital play?

The question is how can we create vehicles that allow for more of a perpetual nature or more of a long-term orientation? And this requires the regulators to think very carefully about how the financial community is structured. More importantly, there must be a real effort to propel the local investor community into the asset class. We've seen this in Mexico, where the government has been exceptional in putting together structures and vehicles to create balanced pension portfolios, and to mitigate risk exposure from the nascency of their marketplace. If we can get the right structures in place to entice local investor support, and continue the current government's push forward of the economic positioning and growth of the country, India could very quickly become recognized as a "must-have," which will then bring more capital, growth and development.

What parting advice would you give to LPs considering capital commitments to India and to GPs looking to raise an India-focused fund?

Investors are getting stuck on historical track records, but those are almost irrelevant—tomorrow's another day and will be much better. LPs should be more bold; they need to think bigger and take risks—and they will be rewarded for doing so.

As for the GPs, one thing that this industry needs to remember is that humbleness is the key to success. Work hard, stay honest, and be humble; but really go for it. The success of the private equity industry in India can contribute exponentially to positive change in this great country.

LP Perspectives: A Roundtable on India

EMPEA interviewed a diverse group of institutional investors to better understand LP sentiment toward the private equity asset class in India. In this LP roundtable, the participants candidly share their views on the most promising opportunities within the market, discuss the greatest challenges to investing in India, analyze whether performance has met expectations, and more. The participants—who asked to remain anonymous—include senior professionals from a pension fund, a university endowment, a sovereign wealth fund and a global fund of funds.

How does Indian private equity currently fit within each of your institution's portfolios and what are some of the factors driving this view?

Fund of Funds: We have been an active investor in India for many years and we will continue to be so; having said that, from a top-down perspective we are not looking to aggressively deploy additional capital in India. Instead, we are making sure that we are not missing out on promising opportunities. In general, our limited partners remained optimistic on India until 2009-2010 but since that time confidence has consistently receded year-on-year as return expectations were not met. By 2010, most investors were resigned to the fact that India would not be China in terms of both size and return opportunities. However, the relative interest in India today—and the openness to even talk about India—is definitely higher than it was two years back.

Endowment: We haven't found many GPs in India that we're really excited about in terms of their ability to create value. However, we did recently re-up with an existing manager for a number of reasons. We were motivated by the fact that there is still top-line growth of 30% plus in the portfolio. In addition, the ability to compound capital is somewhere between 25% and 30%, and while you are definitely paying up a little bit on the valuations, the quality of that growth is better, so you are still hopefully able to compound that capital over time. The third leg is the promise of meaningful reforms that can lead to long-term, sustainable growth under Prime Minister Modi and Raghuram Rajan, the Governor of the Reserve Bank of India. The government doesn't even have to get it perfectly right; they just have to stop screwing it up so badly. And if you have a government that can lead a little better than India has experienced historically, you have the makings of a really interesting environment. Now all of a sudden India versus a country like Malaysia or even China looks a lot more attractive because you are beginning to see some real improvements in the fundamentals.

Pension Fund: We have some exposure to India but not a large amount. A while ago, we thought it would potentially grow to be a more robust private equity market than it has. We have not had the greatest results in the investments that we have made in India, and in general have found the market to be a challenging place to invest.

Let's pick up on that last comment. What are the primary challenges to investing in India?

Pension Fund: In the India-focused opportunity set, there are not many funds that are of the quality and scale that we can invest in given our size. For large institutions that are trying to run a more concentrated portfolio—and that may have different liability issues than a sovereign wealth fund or a fully funded pension—investing in emerging markets generally is becoming more challenging because of the lack of scalability.

Fund of Funds: The distributions are not coming and, at the same time, pricing is absolutely unreal. It's quite scary that nearly three-quarters of the private equity activity in India focuses on the consumer / retail sector, pharmaceuticals, healthcare and IT services. Valuations in consumer and pharmaceuticals have consistently gone up over the last 18 months—so when you look at valuations overall in India, they are a little bit expensive, but when you look at the segments on which private equity focuses, they have become extremely expensive. Clearly growth is coming back as are the margins in the underlying businesses in our portfolio, which is encouraging, but pricing is definitely running faster than some of these revenue margins.

We find that some people argue in favor of being contrarian on India. But this is tough because to be contrarian you have to go back to the simple rules: when all the chips are down you go in because you can at least get the pricing right. That is difficult to do in India. If you are going to be contrarian and you can't get the pricing right, I'm not sure what type of contrarian you are being.

Endowment: My biggest concern is current valuations as well. Similar to what is going on in Silicon Valley, there is a lot of nonsense on the tech side, particularly in the private markets. It worries me that we are priced to a point where if there is a hiccup it will be really painful for everybody—and I fully expect there to be hiccups. I'm also concerned that there is key man risk around Modi and Rajan.

Sovereign Wealth Fund: In all honesty, India is a difficult territory in which to do well. The reason is partly because of currency and partly due to the fact that many entrepreneurs are not keen to give away a large portion of their companies to private equity when they take external money. But at the same time, things are changing. Some of the next-generation entrepreneurs are not particularly interested in their businesses so they are looking to sell to private equity. There is quite a lot of deal flow at the moment, so it is an opportune time if you are very careful about which managers you select.

(Continued on page 20)

The DFI Perspective in India

An Interview with CDC Group's Alagappan ("Muru") Murugappan, Managing Director

How does India fit within the framework of CDC's priorities?

CDC's idea of development is focused on channeling capital to regions and sectors that are starved of capital to stimulate job creation. In practice this means we split India into four regions based on how difficult it is for each area to attract capital, and have decided to broadly focus our efforts on the northern and eastern states. These states account for approximately 50% of the country's population and 35% of its GDP, yet foreign direct investment into these states is less than 5% of the total. Per capita GDP is also lower in the northern and eastern states than the rest of India, while levels of infrastructure, healthcare and education lag behind the more advanced areas of the west and south.

From a sector perspective, we target sectors that have high job creation potential, including manufacturing, healthcare, infrastructure, education, agriculture and some aspects of financial services. These are the sectors where we intend to invest more—and where there is a need.

For example, annual per capita spend on healthcare in India is only US$91 whereas China spends US$277. With the government share of healthcare expenditures at about 4% of GDP, it is essential to lure the private sector into spending more. On the infrastructure side, investment in the road sector has huge benefits, but India accounts for 12% of the world's road accidents despite only having 1% of its vehicles, so that shows you how woefully inadequate India's roads are. In terms of financial services, approximately 65% of India's population still does not have access to formal financial services.

Are there any qualities that you look for in a GP that are unique to the Indian market?

CDC has dual objectives. Development impact is very important to us, but we also expect to generate a financial return on the investments that we make. We look for GPs that have a good track record; that have a strategy to create value in their portfolio companies; that have strong equity and mezzanine structuring experience; and, that are able to deliver exits. We want to be strongly aligned with the fund so we expect our GPs to have reasonable skin in the game depending upon their net worth.

In addition, we are very focused on GPs' environmental, social and governance (ESG) systems and their approach to improving standards in their portfolio companies. We will only invest with fund managers that share our commitment to good governance and achieving positive environmental and social outcomes at underlying investee companies. We have a strong in-house ESG team, which assists our GPs and their portfolio companies in achieving these goals, but it is essential that partners share our mindset and believe in this philosophy.

As an investor that has been in India for a long time, have there been any changes in your strategy in terms of GP selection over the last few cycles?

We have the advantage of having backed a large number of GPs between 2004 and 2012 and with this perspective we have shifted our strategy. First, we have become much more selective about our GPs from a financial return perspective because we have clearer performance benchmarks. Second, we have a more explicit development impact outcome in terms of job creation and channeling capital to underserved areas. Finally, we have a stronger focus on finding fund managers that share our commitment to improving ESG standards.

We will not necessarily continue to back a significant number of first-time GPs as we did before 2012. Those first-time funds we do support will need to demonstrate a track record in their previous positions, as well as show strong alignment on ESG and development impact.

We will normally commit to between three and five funds in a year and this is probably where we will end up this year.

How satisfied or unsatisfied have you been with the performance of your Indian funds to date?

Generally, I think the Indian market lags behind other geographies such as China, Southeast Asia or indeed Africa. Certain vintages have performed better than others. For example, the vintages around the 2004-2005 eras have done well, mainly because there was limited dry powder. In contrast, the vintages between 2006 and 2008 have not done particularly well because the stock market was booming, valuations were very high and there was a lot of dry powder in the market. We believe that the 2009-2010 vintages—although they have not shown many exits—should do well. Since then, however, the stock markets have gone up significantly and it will be interesting to see how disciplined GPs are in making investments.

What is your outlook for India going forward?

I am optimistic for the Indian private equity market because it is still relatively young. Quite a few GPs seem to have learned from the mistakes of the past, so governance has improved, as has investment discipline and focus. The GPs are more aware of promoters and their inclinations, and therefore the structures they are using and the protections they are devising are significantly better.

LPs are now much more cautious and are only committing to GPs that have a good track record, even if not as a team. They are also taking a much more active role and enforcing rights against GPs.

Finally, the government is beginning to recognize that private equity is an important source of capital for corporates in India, and is rationalizing some of the rules that previously prevented the growth of the asset class, including providing some clarifications on taxation.

We conducted an exercise to see what impact our funds have had in terms of job creation and mobilization of capital. It has been an amazing experience and we have calculated that approximately 1.3 million jobs (direct and indirect) were created by our investments in Africa and South Asia in 2014, with 636,000 created in India alone. I believe that the DFIs as fund investors are here to stay because the ability to mobilize capital through the fund structure creates significant value-add to the countries in which we invest.

> "In the India-focused opportunity set, there are not many funds that are of the quality and scale that we can invest in given our size. For large institutions that are trying to run a more concentrated portfolio—and that may have different liability issues than a sovereign wealth fund or a fully funded pension—investing in emerging markets generally is becoming more challenging because of the lack of scalability.
>
> –Pension fund representative

(Continued from page 18)

When it comes to selecting fund managers, do you have a view on the best way to access the private equity opportunity in India?

Pension Fund: We haven't done an India-specific fund in quite some time; most of the exposure we currently have is through either a global or pan-Asian fund. In addition, we have some exposure to India through emerging market funds of funds.

Sovereign Wealth Fund: Our view is that it is not the best approach to use just funds of funds to cover a market like India because in doing so you will average out your performance to the mean. In India, there might be a handful of GPs who are top quartile but if you go through a fund of funds you automatically pick up some less interesting or poorer performing fund managers, and you may risk not getting some of the good ones. We believe that it is better to focus on two or three GPs that you can be close to and from which you expect to make a better return.

Are there any sectors or strategies that you find particularly attractive when it comes to the India opportunity?

Pension Fund: Looking at the macroeconomic environment, there are some areas where we think there will be good opportunities, such as consumer and financial services. That being said, we've had some positive experiences in those sectors but we have also had some very negative outcomes at the company level, including fraud and embezzlement. It has been hard for us to invest behind some of the themes that we think would be attractive in India.

Sovereign Wealth Fund: We are actively looking at infrastructure as well as real estate because there has been a big push from the government to develop these sectors over the next few years. Otherwise, we are sector agnostic. The one thing to note related to sectors is that both GPs and LPs need to be fairly flexible in order to allow for a certain amount of exposure to listed companies—within reason of course. But there are tons of companies that are technically listed but effectively run like private businesses. LPs that find GPs that wish to invest some of their money in listed entities should give a little bit of leeway.

Fund of Funds: We have also been open to a mix of public and private opportunities in India on a selective basis. There are some managers who have shown us that given the right freedom within the public and private spheres, they can perform well in terms of liquidity. We are largely maintaining a very selective view on growth capital, while we have a large venture portfolio in India that is doing well. Over the last three years, the venture ecosystem in India has developed tremendously. While venture has become much more competitive on a relative basis—in comparison to a few years ago the number of active players in the space has risen sharply—based on the size of the market and in comparison to competition in China, we still feel very good about India. The Indian opportunity for most investors is about domestic consumption. We think that this is best captured through venture because when you try to capture it through growth capital, the upside is limited and the risk on the valuations is higher.

Endowment: There is an element to venture capital that worries me a little bit. A lot of India's entrepreneurs and promoters are hesitant to sell the upside of their businesses and when you combine this with the fact that as inflation rates come down and alternative sources of capital become cheaper and more available, private equity and venture in particular becomes very expensive. The potential for adverse selection among those promoters and entrepreneurs that decide to take venture money will definitely increase.

Looking at the market broadly, I love when people go to India and then complain that it is hard to get around. I never hear anybody coming back from Beijing or Shanghai saying, 'I would never go back there.' But when people return from Mumbai, they claim they can't believe what a mess India is. This fundamentally misses the point—this mess is exactly why you love the country; it is that kind of activity level that you see in India that you don't see anywhere else that gets me excited.

Could you give us a sense of your experience with private equity in India to date? Has it performed to expectations?

Sovereign Wealth Fund: I would be curious to see if anybody has made good money in India beyond some of the smaller investors who were able to commit to the small 2002-2003 vintage funds, which were fantastic. The 2005 vintage was good but less so, and since then we continue to look for the golden goose. The returns have not been that great for the majority of the GPs' most recent funds. India is a challenging and competitive market and the currency has not helped. I think this is a hurdle that LPs need to balance and accept without penalizing some of the GPs.

Fund of Funds: Our experience has been similar to the overall market, particularly in mainstream growth capital where performance has been disappointing and we haven't been able to buck the trend. Where we have been able to do so is in our reallocation of capital within India; as we slowed down our investing in growth capital several years back, we ramped up in venture. If you look at our overall experience in dollars, it has been pretty steady. Looking at a mix of things in India has worked out very well for us.

Endowment: It occurs to me that unlike most other markets, India is viewed by a lot of LPs as a country where the value is in the beta and not in the ability to create alpha. It is much more of a market timing game and a bet on capital flows. The debate I have always had is whether it makes sense to go into a lock-up structure or to instead buy a mutual fund in which you have perfect liquidity. However, after collecting as much information as I could on the overall spectrum of opportunities—whether hedge funds, mutual funds or long-only managers—and doing the analysis, I found that although the market is beta driven, portfolio construction and manager selection can definitely make a difference.

What are your views on the outlook for private equity in India over the next three to five years?

Sovereign Wealth Fund: There is a lot of promise in India and a lot of opportunity. But the government has to get its act together. Prime Minister Modi and the current government have to deliver on what they are promising because if they don't, in a sense we will be back to square one. What we have been hearing over the last year or so from our Indian GPs is that they have been extremely surprised at the quick responses that they are getting from the government and the Reserve Bank on the points they are raising in terms of what improvements need to be implemented to make the country more business friendly. So the response time of the government seems to be improving but we still need to see how the Indian story plays out.

Fund of Funds: There is one big outstanding question in that a lot of private equity firms are shaping themselves to do control-oriented / buyout transactions in this current cycle. If they prove themselves capable of doing so, this dynamic could finally lead to a true private equity market in India. This could be the right way to play, but we are still very early in the cycle.

Endowment: I wouldn't be surprised if the capital commitments return. If you think about a natural cycle, there has probably been enough turnover in the people who were disappointed or got washed out in the 2005-2010 timeframe; institutional memories are such that five years on, the pain is largely forgotten. And you can combine this with the fact that performance has been good in the public markets and there will likely be some big headline numbers from some of the private investments that have been made, particularly in the tech sector. The next test will be to see realizations. But that being said, based on the overall level of interest, the amount of activity and the recent returns, it is natural to think that investors will be back looking at the private side.

High Net-Worths: A New Breed of Indian Venture Investors

Arvind Mathur, CFA, FRM, President, Indian Private Equity & Venture Capital Association (IVCA)

India's domestic supply of capital from traditional sources is limited for the private equity and venture capital industry. For example, further reforms are needed for local pension funds to be able to invest in the asset class. However, the good news is that the supply of non-conventional capital for early-stage angel and venture capital investing is growing rapidly in India. This article identifies these alternative funding sources and the reasons why they are important.

These new sources of capital are: high-profile Indian billionaires turned LPs and GPs; entrepreneurs turned angel, venture capital and private equity investors; senior executives turned angel investors; and, business groups that have launched PE arms. Each of these categories has, to an extent, reduced the shortage of risk capital in at least three regions—namely, Mumbai, Bengaluru and New Delhi's National Capital Region.

In terms of high-profile Indian billionaires who have recently acted as LPs and GPs, four high-profile domestic names, each with a track record of success in business, illustrate the point: Ratan Tata, N.R. Narayana Murthy, Ajay Piramal and Azim Premji.

- During the 12 months ending in September 2015, **Ratan Tata,** whose wealth was amassed from running the century-old Tata empire, made nearly a dozen equity investments in tech-oriented startup ventures. Most recently he became an LP in and Senior Advisor to IDG Ventures, an early-stage venture capital fund based out of Bengaluru, as well as an advisor to Kalaari Capital, a US$130 million venture capital fund. Tata is also investing in angel platforms.

- **N.R. Narayana Murthy** was the Founder of Infosys, a company that currently has a market capitalization of US$8.8 billion. He has allocated significant amounts of early-stage risk capital to ventures not only in India (including forming private investment office Catamaran Ventures) but also in Silicon Valley. Narayana Murthy is also helping the Indian government improve the regulatory framework for venture capital and private equity in India through his appointment as Chair of the Alternative Investment Policy Advisory Committee (AIPAC).

- **Ajay Piramal,** a management graduate, sold his company for US$4 billion. He then partnered with pension funds in North America and Europe, such as the Canada Pension Plan Investment Board and the Dutch pension fund APG Asset Management, to invest in real estate and infrastructure projects. The assets under management of Ajay Piramal's sponsored private equity funds exceed US$1 billion.

- The billionaire founder of Wipro, **Azim Premji,** has established Premji Invest, which has made nearly 60 venture capital investments.

In addition to the billionaires, several entrepreneurs who have sold their companies in large merger and acquisition transactions are financing new venture investments. Examples include Aprameya Radhakrishna and Raghunandan G, the new entrepreneurs and IIM Ahmedabad graduates who started TaxiForSure and sold it for US$200 million to Ola Cabs, a company partly funded by Softbank. The Burmans of the Dabur Group have been funding new ventures for over a decade, and have invested almost 50% of the capital committed to New Delhi-based private equity fund Asian Healthcare Fund.

The third category of new risk-capital investors is the corporate executives. An example is Rajan Anandan, the Managing Director of Google India. Anandan has made nearly 50 investments in startups. Executives like him are a source of high-quality mentorship to startup founders.

Finally, some business groups have begun private equity businesses as general partners. These include the well-respected Tata and TVS groups. Given their stature, they have been able to attract other LPs in their funds. Recently one of the Tata funds invested in Uber.

Across all categories, a number of factors have contributed to this growing appetite in venture from new limited partners in India. Facebook's acquisition of Little Eye Labs, a Bengaluru-based startup that develops software tools for analyzing the performance of Android apps, caused a lot of excitement. Similarly, successful exits, such as the Naspers acquisition of startup Redbus, have also attracted new interest in India's venture scene.

Importantly, these new investors not only bring capital but—through their prior experience—a tremendous amount of value addition to general partners and the underlying portfolio companies. As such, these non-traditional investors serve as great mentors. They are highly respected not only for their commitment to the highest standards of corporate governance but also for their business acumen. They have enormous networks both within India and abroad, and they have experience in scaling businesses using modern technology, which they can share with investees.

These investors are also important for another reason. Given that these are well-known and respected household names in India, they have a multiplier demonstration effect. When Ratan Tata invests in funds, he is attracting other tycoons to the early-stage venture capital space as limited partners. For new investors in this asset class, it will be important for them to embrace best practices, such as those favored by the Institutional Limited Partners Association (ILPA).

In conclusion, new sources of early-stage venture capital funding have emerged and are growing in India. What's more, these new investors are not your traditional passive limited partners; they are high-quality, active, value-adders. As India's LP market develops, the government should encourage more such investing by the hundreds of wealthy individuals who are its citizens. Other emerging markets, including India's neighbors, can also take a leaf from our experience.

The Emergence of Rupee Capital in the Technology Venture Capital Ecosystem

By Sudhir Sethi, Founder and Chairman, IDG Ventures India

Having backed Indian tech leaders like corporate IT solutions provider MindTree Consulting (NSE: MINDTREE) in the early days, and the online fashion retailer Myntra (acquired by Flipkart in 2014) more recently, it is hard not to notice that the Indian venture capital ecosystem has come a long way. Back in 2007, venture capital in India consisted of little more than a handful of active fund managers. While this story remains true in the early-stage venture capital space, where there are still only a few firms actively investing, the development of the surrounding environment has been huge.

In parallel with the development of fund managers active in the venture ecosystem, the landscape of LPs has evolved as well. While most of the investors in venture funds historically were from outside of India, today we see the emergence of domestic family offices and institutions that are looking to access the new age economy through direct investments in startups, and by taking LP positions in funds. This local funding base is an additional validation of the long-term potential of the alternative asset opportunity in the country.

Even with capital available across more stages, the number of startups seeking funding is still much greater than the supply of capital. The growth in available capital for startups has coincided with exponential acceleration in the creation of new startups. We at IDG Ventures India have seen a 10x growth in monthly dealflow since we opened our doors in 2007. This also implies that discovery of deals is no longer a challenge—it is the investment thesis coupled with deep industry experience and post-investment support that make a successful venture investor. This is evident from our thesis on e-commerce verticals that we built back in 2011 based on the success of Myntra. We subsequently backed companies including Lenskart, which is an online eyewear and optical store, FirstCry, a specialty e-tailer for baby and kid products, and the lingerie and intimate wear retailer Zivame—all of which are among the few successful e-commerce companies in the country, and category leaders within each of their verticals.

As the tech industry matures, we increasingly see companies not just employing "me too" models that replicate ideas from developed markets, they are innovating on existing models and even designing unique products for the global market. For example, today, Perfint Healthcare is the only medical device company in the image-guided interventional oncology space from India to have received a U.S. Food and Drug Administration approval. Forus Health, another medical device company in our portfolio, is an innovation leader in the ophthalmology space. Unbxd, a personalized product and search recommendation tool that enhances e-commerce businesses' ability to improve customer engagement, has a unique offering with customers in India, and is now scaling in the United States. This dynamic of local innovation capable of capturing global markets is energizing local investors' interest in the Indian venture story.

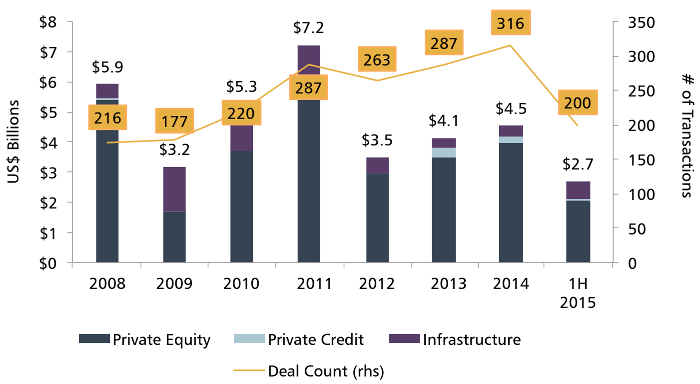
Finally, from an investor perspective, India's early-stage space is unique in that it appears relatively isolated from the country's macroeconomic and policy environment, which created challenges for private equity investors in previous years. The startup environment is highly talent-driven and ultimately less affected by the vagaries of the capital markets. With abundant scope in the market to innovate, improve efficiencies and offer better convenience and service to customers, tech entrepreneurs who decide to build new ventures will do so irrespective of what is happening in government or in the broader macro environment / capital markets.

Investment Trends

With US$27 billion raised for India-dedicated funds since 2008, the country has been a prime destination for emerging market private equity investment. Indeed, with 1,924 primary transactions[18] between 2008 and the first six months of 2015, India lags only China in total emerging market deal activity. Put another way, each year, nearly one in four emerging market private equity deals takes place in India.

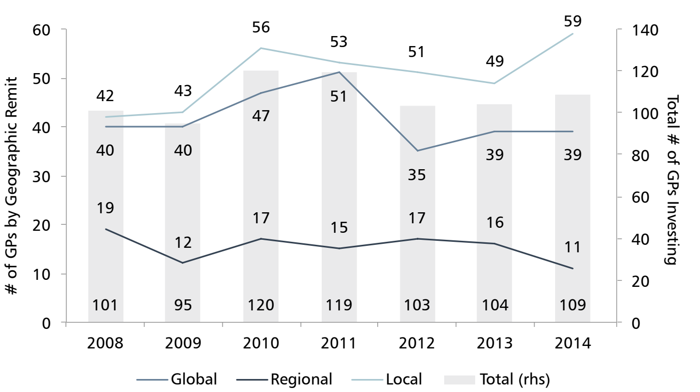
From its nadir of 177 transactions in 2009, dealmaking increased steadily, rising to 316 deals in 2014 and, if current trends continue, the market may host upwards of 400 deals in 2015 (see Exhibit 11). Given the growing deal count, the value of capital deployed seems relatively restrained, although an average of US$4 billion in disclosed capital has been invested annually since 2012.

Exhibit 11: Private investment by asset class, 2008-1H 2015
US$B, #



Source: EMPEA.Data as of 30 June 2015.

Exhibit 12: Fewer global and regional GPs are active in India today than between 2008-2011
# of unique fund managers investing in India by geographic remit



Note: Includes secondary transactions.
Source: EMPEA Consulting Services. Data as of 30 June 2015.

The discrepancy between the value of capital invested and growing deal volumes may be explained, in part, by three phenomena. First, nearly 20% of transactions have undisclosed ticket sizes, and a handful of large-cap deals can have a material impact on aggregate investment totals. Second, and perhaps related, is the decline in the number of global and regional GPs active in the market (see Exhibit 12). Given the larger fund sizes of these GPs, they have traditionally been responsible for the largest transactions in-market. Finally, at the lower end of the market, seed- and early-stage venture deals have been increasing at a torrid pace over the last 18 months, accounting for 153 deals over the period.

As with the country itself, the big picture hides a richness of detail in the evolution in India's private equity investment landscape. Why, for example, has traditional growth capital become less prevalent as compared to PIPEs and venture capital? How is this evolution impacting deal sizes? Where are GPs deploying capital and how are the lessons learned from the previous cycle manifesting themselves in their deals?

Whither Growth Capital?

Once the bread-and-butter of Indian private equity, growth equity deals have been declining on both an absolute and relative basis since 2009. For example, 107 growth equity transactions accounted for 72% of all private equity deals (by count) that year; by 2014, only 73 growth equity investments took place, capturing a mere 24% of deal flow. Although it had served as a ready source of expansion capital for Indian promoters, growth equity apparently seems less fit-for-purpose. What gives?

The reduction can be explained, in part, by macroeconomic and industry factors. From a macro perspective, India's economic slowdown between 2011 and 2013 led to a retrenchment in consumer spending. Facing a reduction in aggregate demand, Indian companies pumped the brakes on their expansion plans, and so corporate demand for non-bank finance contracted. As Bharat Bakhshi at Jacob Ballas Capital succinctly puts it, "Growth capital transactions dried up because a lot of companies did not feel the need to increase capacity or pursue cap ex—the demand was not there."

From an industry perspective, a shakeout within the GP base led to a reduction in the number of firms looking to deploy expansion capital. To wit, the number of GPs executing growth equity transactions in 2014 (50) was nearly 40% less than in 2010 and 2011 (86 each). Assuming that poor performers have exited the market, this culling of the GP rosters could be a constructive development for the asset class, and in theory better align the supply of growth capital with the demand for it.

18. Including secondary transactions, the figure is 1,970.

Yet despite its decline, some industry professionals believe growth capital remains the core private equity opportunity in India. For example, Swapneel Fernandes, Director of IDFC's Investor Management Group, notes that the middle market remains an attractive source of deal flow for growth capital transactions. "If you want to deploy capital efficiently, there are plenty of opportunities in the segment of companies generating revenues of US$200 million or below. If you can identify businesses with promoters who can grow them, and if you can come in early, you can take a 20% or 30% stake with a check size of US$20 million to US$35 million, and that is where the sweet spot really lies in India."

Moreover, in its analysis of the causes for Indian private equity's generally unsatisfying performance following the global financial crisis, Siguler Guff notes, "The best results we have seen have been in pure growth equity situations, where the existing management team has driven the same proven business model forward from what it was over the three years prior to investment."[19] It is quite the conundrum—ostensibly the best-performing strategy has gone from darling of the private equity community to relatively unloved.

Public in Name Only

India is unique among emerging markets for the depth of its equity capital markets. Home to Asia's oldest stock exchange—the Bombay Stock Exchange has been in operation for 140 years—India has more publicly listed domestic companies (5,191) than any country in the world (25% more than the United States) and a turnover ratio of 54, making it one of the 25 most liquid markets globally.[20] Unlike many emerging market countries, it *is* possible for small and medium-sized enterprises in India to access finance through capital markets.

Given the breadth of the public opportunity set, it's little surprise that private investments in public equity (PIPE) transactions have been a key feature in India—usually accounting for between 10% and 15% of annual deal flow since 2008. Indeed, PIPEs are one of the country's distinguishing characteristics vis-à-vis other emerging markets. India, for example, has accounted for 40% of all PIPE transactions in emerging markets since 2008 despite being home to a quarter of all deal activity.

While the PIPE stage of investment has its critics and detractors, its supporters note a number of inefficiencies within India's capital markets that create attractive risk-adjusted opportunities to invest in companies that remain relatively inaccessible to limited partners. These companies may be listed, but they are run like private companies—they are PINO, public in name only. According to Ashley Menezes, Managing Director with ChrysCapital, a lack of liquidity, analyst coverage and institutional ownership can affect stocks' prices and create opportunities to invest in promising companies at discounted valuations, while offering opportunities to create value. "We realized early on," notes Menezes, "that while we have a private equity mindset in terms of the kind of work we do, we needed to have the flexibility to invest in public companies and apply the private equity principles to such investments. Today, we also see a lot more of our peers seeking some flexibility around pursuing publicly listed firms." According to Sridhar Sankararaman, Principal at Multiples, a number of event-driven themes are suitable for PIPE strategies. "What are those events? One could be a change of management; another could be backing consolidation; and a third could be a de-merger. When you invest in event-driven stories and the market has not fully priced that event, you have an ability to generate alpha and re-rate its value."

Exhibit 13: Sampling of Largest Growth Investments in India, 2012-1H 2015

Fund Manager(s)	Company Name	Sector	Investment Amount (US$m)	Investment Date
Baring Private Equity Asia	Lafarge India	Construction & Materials	256	May-13
Everstone Capital	F&B Asia Ventures*	Food & Beverage	250	Dec-12
KKR	Gland Pharma	Pharmaceuticals & Biotechnology	200	May-14
Warburg Pincus	Kalyan Jewellers	General Retailers	196	Oct-14
The Carlyle Group	Global Health	Health Care Equipment & Services	152	Dec-13
TPG	Manipal Health Enterprises (Manipal Hospitals)	Health Care Equipment & Services	145	Feb-15
Warburg Pincus	Ecom Express	Industrial Transportation	133	Jun-15
KKR, India Value Fund Advisors (IVFA), LeapFrog Investments	Magma Fincorp (formerly Magma Leasing)	Financial Services	110	Mar-15
TPG	Katalyzers	Software & Computer Services	100	Apr-14
The Blackstone Group	International Tractors (Sonalika)	Industrial Engineering	100	Oct-12

*Platform that includes Burger King India, Domino's India, Burger King Indonesia, Harry's Singapore, Harry's India and Pind Balluchi.
Source: EMPEA. Data as of 30 June 2015.

19. Siguler Guff, *Indian Private Equity: Identifying the Issues and Navigating the Market Going Forward*.
20. World Bank, World Development Indicators 2015. Latest stock exchange data are as of 2012. Accessed September 2015. The turnover ratio is the value of shares traded as a percentage of market cap.

Exhibit 14: Sampling of Largest PIPE Investments in India, 2012-1H 2015

Fund Manager(s)	Company Name	Sector	Investment Amount (US$m)	Investment Date
KKR	GMR Infrastructure	General Industrials	164	Sep-14
Apax Partners	Cholamandalam Investment & Finance	Financial Services	83	Jul-14
Warburg Pincus	Capital First	Financial Services	52	Oct-12
Baring Private Equity India	Dabur India	Personal Goods	45	Mar-13
Multiples Alternate Asset Management, L Capital Asia	PVR Leisure	Travel & Leisure	43	Nov-12
Multiples Alternate Asset Management, Creador	Cholamandalam Investment & Finance	Financial Services	42	Feb-12
Providence Equity Partners	Hathway Cable and Datacom	Media	42	Mar-12
ChrysCapital	Ipca Laboratories	Pharmaceuticals & Biotechnology	40	Mar-13
The Blackstone Group	Financial Technologies India (FTIL)	Software & Computer Services	40	Jul-12

Source: EMPEA. Data as of 30 June 2015.

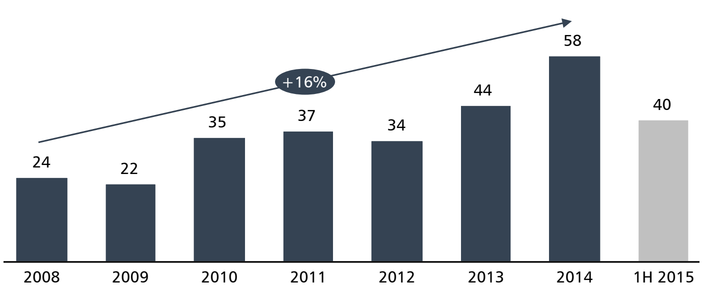
The Explosion in Venture

As growth equity has declined and PIPE deals have held relatively steady, venture capital activity in India has exploded, growing at a compound annual growth rate of 20% since 2008. While the market has long been home to venture capital activity, fully 62% of all deals executed in 2014 were venture—in a year with the largest number of Indian deals since EMPEA began tracking investment figures. Shifts in the supply and demand for capital within India's startup environment explain the flurry of venture activity.

From the supply side, the number of GPs investing in India's venture space has more than doubled from 24 in 2008 to 58 in 2014 (see Exhibit 15). In addition, a number of fund managers that have traditionally been focused on growth equity or buyout deals are participating in late-stage rounds for tech companies in need of sufficient capitalization to pursue scale.

Exhibit 15: The number of GPs targeting deals in the venture segment grew at a 16% CAGR between '08-'14

Fund managers executing a VC transaction per year (#)



Source: EMPEA Consulting Services. Data as of 30 June 2015.

On the demand side, a burgeoning crop of entrepreneurs and university graduates are shedding the fear of failure and embracing the risks of startups. Data from India's National Association of Software and Services Companies (NASSCOM), for example, show that India is the fourth-largest tech startup market in the world, with 3,100 tech startups in operation in 2014—73% of which have young founders (defined as less than 36 years old)—and more than 800 are being established each year.[21]

Commenting on the growth in India's entrepreneurial environment, Karthik Prabhakar, Vice President with IDG Ventures India, relays, "As a team, IDG was looking at 60 to 70 opportunities a quarter in 2007. Today, we look at 150 to 200 opportunities in a month—that's a 10x growth in terms of the opportunity set. Startups are emerging at an exponential rate—far exceeding the supply of capital—and discovery is becoming flatter."

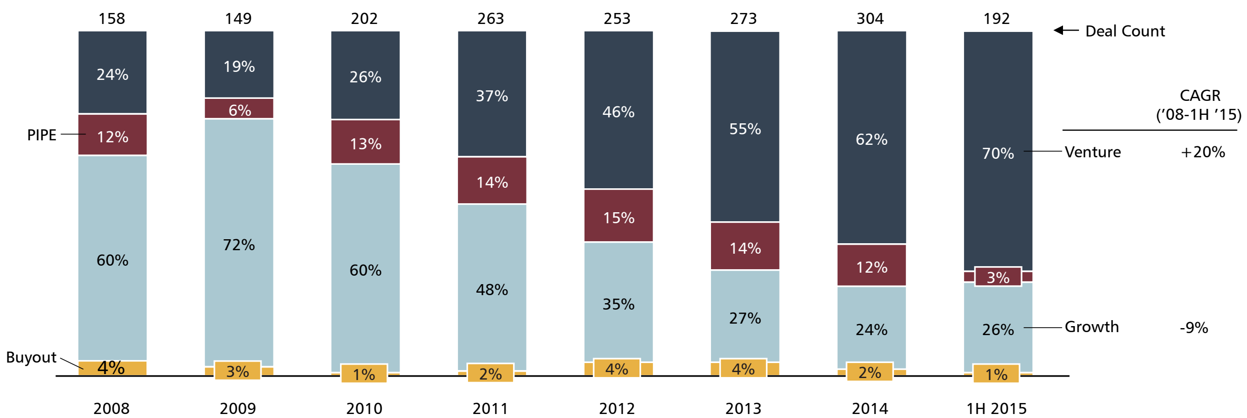
More generally, India is evolving from a market that serves as a home for outsourced development, to one that is moving up the value chain and driving corporate innovation, and this is having knock-on effects on entrepreneurs and venture capitalists alike. According to Ravi Narayan, a successful entrepreneur as well as Director and CEO in Residence of Microsoft Ventures in India, "Firms like Infosys and Wipro had been focusing on development, and they tried very hard to go up the value chain for the longest time. Despite bringing in product managers, it wasn't working out well because the corporate motherships decided what was going to be built, and they would outsource the development to India."

21. NASSCOM, "India Start-up Ecosystem" infographic available at http://www.nasscom.in/india-startup-ecosystem.

"What's happened within the last few years," Narayan continues, "is a growing awareness that it's possible to offload the entire product design and development process. More recently, a lot of large U.S. companies, such as Lowes, Target and Walmart, are setting up global innovation centers (GICs) in India; and they're sending their top requirements for either betterment or disruption and asking Indian engineers to solve them. In addition, these GICs are adding startups to the mix—alongside their own developers—and this is injecting an element of innovation into the broader ecosystem."

As EMPEA traveled through India in the summer of 2015, it was hard not to be bullish on the country's entrepreneurs and the energy fueling a burst of startup activity. Over a beer at one of Bengaluru's microbreweries, one felt that the future may very well be written here; but at daybreak, some sobering data over deal sizes gave one pause. Yes, the future may very well be amazing, but how much are venture capital firms paying to participate in it?

Exhibit 16: Venture capital has eclipsed growth equity as the predominant form of investment
Private equity deals by stage (% of Total, Count)



Source: EMPEA Consulting Services. Data as of 30 June 2015.

Exhibit 17: Sampling of Largest Venture Capital Investments in India, 2012-1H 2015

Fund Manager(s)	Company Name	Sector	Investment Amount (US$m)	Investment Date
DST Global, Accel Partners, Tiger Global Management	ANI Technologies (Ola) (Formerly Olacabs)	Travel & Leisure	252	Apr-15
DST Global, Tiger Global Management	Flipkart	General Retailers	210	May-14
Tiger Global Management, Accel Partners	Flipkart	General Retailers	200	Jul-13
Accel Partners, Tiger Global Management	Flipkart	General Retailers	150	Jan-12
Kalaari Capital, Bessemer Venture Partners, Nexus Venture Partners, Saama Capital	Snapdeal	General Retailers	134	Feb-14
Tiger Global Management, Helion Venture Partners, Nexus Venture Partners	Clues Network (ShopClues)	Support Services	100	Jan-15
Tiger Global Management, Multiples Alternate Asset Management, Nexus Venture Partners	SSN Logistics (Delhivery.com)	Industrial Transportation	85	May-15
Tiger Global Management	Hike	Software & Computer Services	65	Aug-14
Morgan Stanley Private Equity Asia (MSPEA), Caspian Advisors, Tata Capital Private Equity, The Rohatyn Group	Janalakshmi Financial Services	Financial Services	53	Aug-13
Sequoia Capital, Kalaari Capital, SAIF Partners	Urban Ladder Home Decor Solutions	General Retailers	50	Apr-15

Source: EMPEA. Data as of 30 June 2015.

Time Is a Flat Circle—Or, Do Deal Sizes Foretell a Repeat of Recent History

An interesting dynamic is taking shape with respect to deal sizes across private equity and venture capital strategies. Within private equity, the range of prices paid for the middle 50% of deals has been compressing, while the median transaction has declined from US$15 million in 2011 to US$8 million in 1H 2015 (see Exhibit 18). In contrast, the range of deal sizes for the middle 50% of transactions within the venture capital segment is expanding—from a range of US$6.5 million in 2010 to US$9.6 million in 1H 2015. Why might this be happening and what might it portend?

EMPEA began tracking venture capital funding stages in late 2014, so longitudinal data are sparse, but one explanation for the growing sizes of venture deals could be a greater number of late-stage rounds (at least 20 took place in 2014 and 23 in the first half of 2015). IDG Ventures India's Prabhakar notes that valuations for early-stage investments—on average—have been fairly stable; however, "it starts going completely out of control by Series B or Series C in some companies whose valuations just skyrocket." One experienced local fund manager expresses a similar sentiment, noting that Series B rounds, which historically consisted of check sizes between US$3 million to US$5 million, are now being priced at US$10 million.

With the expansion of venture activity in India, we are also seeing higher deal sizes for the largest transactions within the segment. For example, the largest reported venture investment in 2010 was a US$30 million consortium deal among Sequoia Capital, Canaan Partners and DFJ for the Gurgaon-based remote technical support firm iYogi. In April 2015, Accel Partners, DST Global and Tiger Global Management invested US$252 million in the personal transportation app company Ola—the largest deal of the year so far.[22] In fact—according to EMPEA data—the Ola deal eclipsed the size of the largest private equity transaction in India in 1H 2015 by nearly 75%.

This is not to suggest that venture capital will top the league table for largest deal in 2015—two US$500 million private equity transactions have been agreed upon but are yet to close—nor to argue that this divergence will continue. However, directionally, it says much about the state of venture in India. "History," the American author Mark Twain is purported to have said, "does not repeat itself but it does rhyme." The growing number of players in the venture segment, coupled with larger ticket sizes, does strike a resemblance to the previous cycle of private equity in India. The opportunities in the venture capital space appear to be astonishing, but discipline—and perhaps a touch of caution, particularly in late-stage deals—may be warranted.

Shifts in Sector Preference: Shirking Capital-Intensive Industries for the Indian Consumer

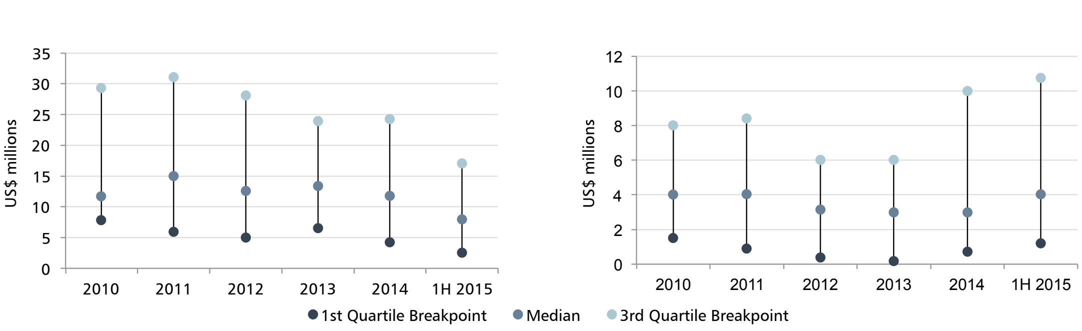
As GPs moved to put capital to work following the euphoric fundraising environment of 2005-2008, investments in infrastructure and affiliated capacity-expansion themes ruled the roost. McKinsey & Company, for example, notes that by 2013, each of the 25 largest private equity firms active in India had at least one infrastructure deal in its portfolio.[23]

There has, however, been a clear shift in the sectors GPs are targeting. For instance, in 2008, 40% of deals took place in capital-intensive industries, such as industrials, utilities and oil and gas; by 2014, only 20% did. Fund managers refocused their strategies in both relative and absolute terms toward capital-light, consumer-focused industries (see Exhibit 19). The strongest growth—as measured by deal count—has been within the consumer goods, healthcare, consumer services and tech segments, each of which grew in excess of 10% compound between 2008 and 2014.

As Archana Hingorani of IL&FS Investment Managers Limited, conceives it, "We're seeing a trend in investors looking for deals in sectors less prone to economic cycles. Certain sectors are more 'democratized' because they touch so many people. By definition they are less risky because the number of people you're servicing is much larger and they enable a greater ability for communities to rise to a higher level of earning or societal recognition."

Exhibit 18: Private equity deal prices are compressing in a tighter range, while VC's are expanding

India private equity investment by size (US$m) | India venture capital investment by size (US$m)



Source: EMPEA. Data as of 30 June 2015.

22. Note that Ola raised US$400 million in this round, with US$252 million coming from institutional-quality GPs (the portion that EMPEA tracks). The balance came from other investors.
23. McKinsey & Company, *Indian Private Equity: Route to Resurgence*, June 2015.

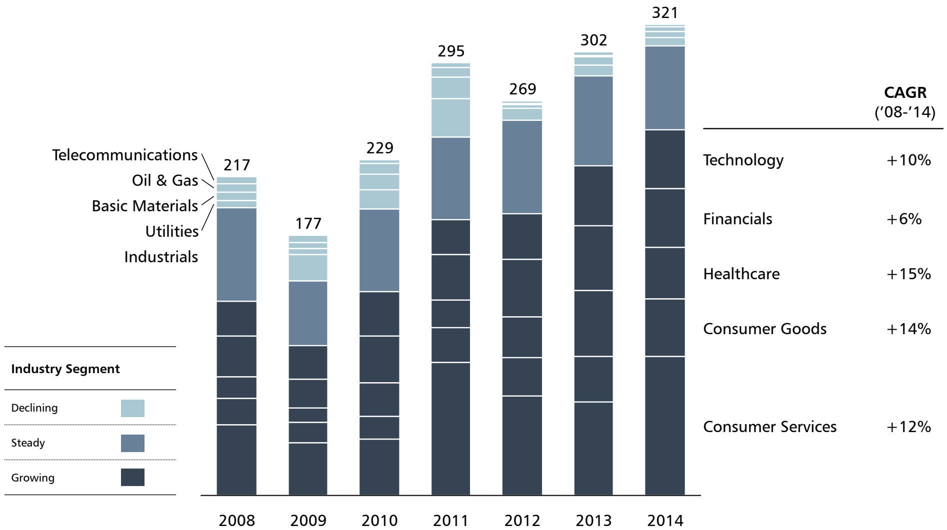
It's too early to say how this adjustment in sector preference will play out. The poor performance of some GPs' capital-intensive deals over the previous cycle may help to explain this shift in focus. However, it may very well be the case that the Indian economy is moving into a cycle in which capital-intensive businesses enjoy some tailwinds. Akhil Awasthi at Tata Capital Growth Fund, believes, "We are beginning a cycle similar to 2003-2004 in which you are seeing declining interest rates and lower inflation. These factors are resulting in a lot of free cash flow generation by businesses, which will likely be reinvested in capacity expansion. When the government trims spending and the fiscal deficit comes under control, good manufacturing businesses start to grow." Time will tell.

Non-Traditional Opportunities Emerging

The notion that India is a relatively shallow market for private equity is a common narrative. In its recent report on private equity in India, McKinsey & Company argues that India has the lowest number of investable, private growth-stage companies among the BRICs—fully 74% fewer than Brazil, 60% fewer than Russia and 54% fewer than China (see Exhibit 20).[24] Accordingly, as the narrative goes, underperformance in the previous cycle emerged in part as a matter of arithmetic: ballooning fundraising figures increased the numerator, and a purportedly shallow pool of investable companies led to a small denominator; as a result, valuations crept higher as too much capital chased too few deals.

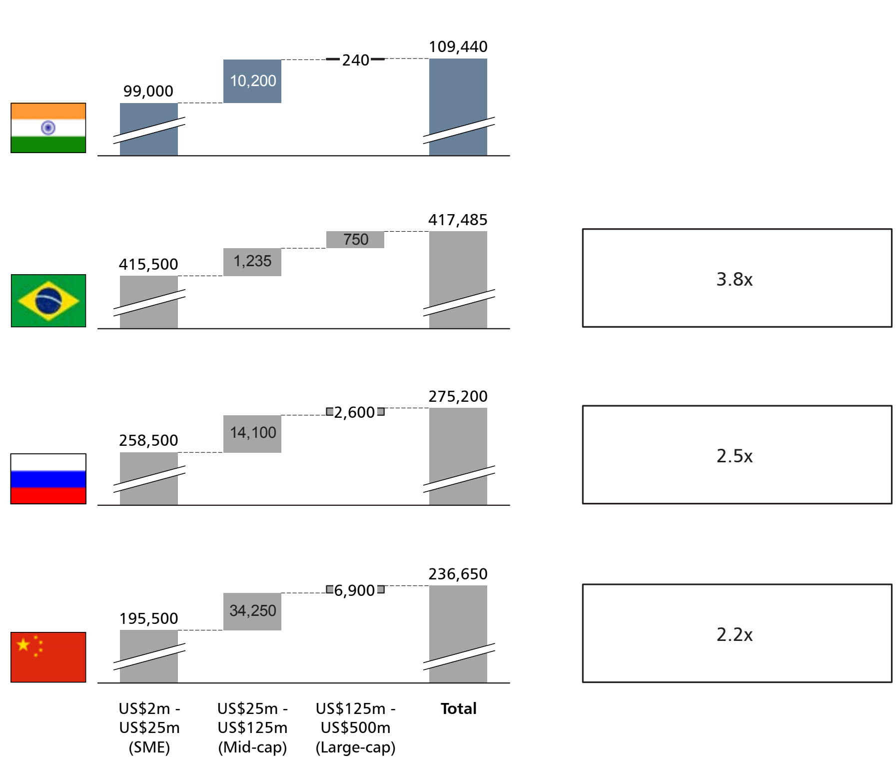
Shujaat Khan, Managing Director at Blue River Capital, agrees with this analysis when applied toward traditional, capital-intensive industries. "The larger firms in these industries had 70% to 80% market share, with upwards of 100 companies constituting the remainder; it was highly fragmented. What happened in the 2005-2008 period," notes Khan, "is that rather than just the top five receiving funding, we had a situation where even the bottom 10 received capital. As a result, today the investable universe is smaller."

Exhibit 19: Five industries are driving growth in deal activity, with consumer-oriented sectors leading the charge
Deal count by industry segment (2008-2014)



Note: Includes secondaries.
Source: EMPEA Consulting Services. Data as of 30 June 2015.

Exhibit 20: McKinsey estimates that India has the shallowest pool of investable companies among the BRICs
# of investable, private growth-stage companies | Multiple of India's investable co's



Source: McKinsey & Company.

24. McKinsey & Company, *Indian Private Equity: Route to Resurgence*, June 2015.

However, this conception of the investable market may be a misleading description of the private equity opportunities that GPs are finding, and in some cases creating, today in India. A variety of non-traditional opportunities are emerging that are expanding the investable universe of companies.

Strategies with Security: Credit and Control Transactions

As mentioned earlier in this report, insufficient attention to promoter selection and an overreliance on structure to compensate for a lack of alignment constrained GPs' ability to grow companies in India and exit them. GPs have responded to these issues in a variety of ways, but there are two strategies taking root that can ameliorate problems from the previous cycle: private credit, which can provide investors a blend of greater security and stable cash flows, and control transactions, which can align GP and management interests while enhancing the ability to engineer exits.

Private Credit

Though data are sparse—EMPEA began reporting on private credit this year—mezzanine and debt deals (e.g., direct lending) grew from two transactions totaling US$28 million in 2008 to four deals for US$309 million in 2013 and six deals for US$194 million in 2014. Notable recent debt transactions include ICICI Venture Funds Management and KKR's investments in the industrial conglomerate Avantha Holdings in December 2013 and February 2014, respectively; and, on the mezzanine side, KKR's US$22 million deal in the building materials and industrial chemicals firm Archean Group in May 2014, and its US$89 million financing of health care provider Apollo Hospitals in October 2013.

Control Transactions

GPs are increasingly pursuing control deals across buyout, growth and secondary strategies. Buyouts have grown in prevalence since the nadir of two deals in 2010, rising to a peak of 13 in 2013. More broadly, amongst transactions with disclosed equity stakes, control deals have grown from 11% of deal flow in 2009 to 35% in 2014, while pure minority transactions—defined as those with less than a 30% equity stake—have declined from 77% to 50% over the same period (see Exhibit 21).

Irrespective of whether a GP's strategy tilts toward control deals, some managers are developing innovative approaches to exert greater influence and control over the destiny of their deployed capital—incubation and platform companies.

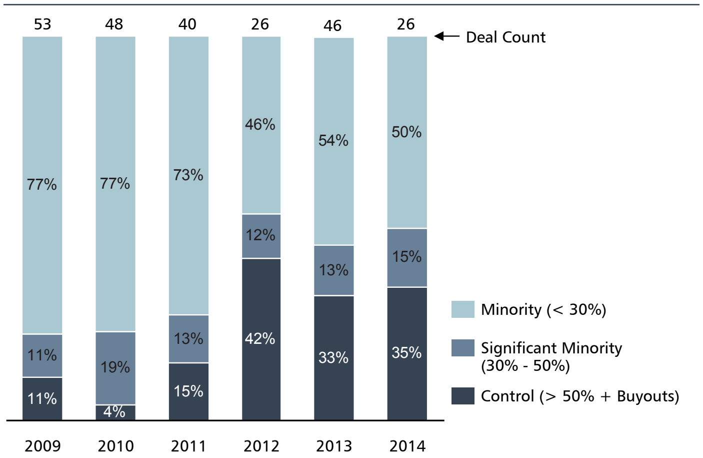
Innovative Approaches: Incubation and Platform Companies

Incubation

One way that GPs are adapting their approach to investment is to incubate management teams and businesses, effectively creating deal flow where none exists. Mukul Gulati of Zephyr Peacock India, explains, "We are not looking for perfect entrepreneurs because they don't exist; what we are looking for are ethics and coachability." *(Continued page 35)*

Exhibit 21: Control transactions have grown from 11% to 35% of deal flow since 2009

Deals with disclosed equity stakes



Notes: Control deals includes buyouts, as well as growth and secondary transactions for which equity stakes were both disclosed and greater than 50%. Only includes transactions for which equity stakes have been disclosed. Includes secondaries.
Source: EMPEA Consukting Services. Data as of 30 June 2015.

Exhibit 22: Sampling of Largest Buyout Investments in India, 2012-1H 2015

Fund Manager(s)	Company Name	Sector	Investment Amount (US$m)	Investment Date
Baring Private Equity Asia	Hexaware Technologies	Software & Computer Services	308	Nov-13
CX Partners	Aditya Birla Minacs	Support Services	260	May-14
The Blackstone Group	Sree Jayajothi Cements	Construction & Materials	100	Mar-13
Everstone Capital	Servion	IT Services	100	Dec-14
Warburg Pincus	Capital First	Financial Services	94	Jun-12
TA Associates	Omega Healthcare Management Services	Support Services	94	Jun-12
India Value Fund Advisors (IVFA)	National Bulk Handling Corporation	Agricultural Warehousing & Collateral Management	75	Apr-14
The Blackstone Group	Agile Electric Sub Assembly	Automobiles & Parts	56	Jul-13
Providence Equity Partners	STAR CJ Network India	General Retailers	51	Jun-14

Source: EMPEA. Data as of 30 June 2015.

The View on Infrastructure in India

An Interview with IL&FS Investment Managers Limited's Dr. Archana Hingorani, CEO and Executive Director

How large is the infrastructure deficit in India and why is private equity the right means for investing in this opportunity?

The size of the infrastructure deficit is so large that it's immaterial to bracket it in numbers; any access to capital would be welcome. The deficit was estimated at ~INR30 trillion (~US$470 billion) for the five years starting in 2012 but this number doesn't capture the latent demand, which is very difficult to measure. Take power for example—approximately 40% of households in India still don't have access to power.

In developed markets, infrastructure has historically been funded with government capital. It's only when the projects became mature—over the last 20 to 30 years—that they've been sold to the private sector. However, in emerging markets the lack of capital and the growth requirement is so huge that private equity becomes a natural source of funding for infrastructure. India is highly reliant on private capital for all sectors because there is no other long-term capital base available of Indian origin. Local pension money, with great difficulty, is just now being allowed to invest in the public bond markets, while investing in equity remains challenging.

Infrastructure spending was one of the key components of India's 2015 Budget—is this going to unlock deal flow?

Deal flow is not the issue. There have been enough transactions in power, roads, ports, waste and logistics over the last five years. What had not happened in the last couple of years was a process around timely approvals; instead we had bureaucratic lethargy.

The new government has been infusing a greater sense of urgency in tackling issues. The quick and transparent manner in which the coal mine auctions were completed is a case in point. This results in a lower degree of risk around thermal projects. Likewise, new tariff regimens in the power sector and new model concession agreements in the road sector have resulted in higher developer / investor interest. The significant focus on renewables, especially on solar power, has resulted in solar tariffs approaching grid parity, at which level there would be a "re-rating" of the quantum of investment going into this sector. In addition, smart cities and industrial corridors would spawn a whole range of new-format infrastructure PPPs.

In what ways is the Indian government supporting infrastructure development?

The government is increasing its allocation toward infrastructure, which is positively impacting private investment. A large part of that expenditure goes into roads, and when the government spends on roads, it gives out contracts to construction companies, most of which have evolved into project developers. As a result, these developers would have cash on hand to start bidding for BOT (build-operate-transfer) projects. By putting more money into the sector, the government is enabling these developers to take risk and make money, which ultimately gives an impetus to deal flow for the industry.

There's an interesting rebalancing of PPP structures happening across sectors. For instance, on the solar side, there are plans to develop 100GW by 2022—up from approximately 4GW today. In order to attain this, the government is now saying that it will set up the solar park for you in a joint venture with a private company, and give you the land and the grid connectivity. You just set up a plant. The same is happening in thermal, where coal prices have been a big issue for power developers. The government is now willing to take the fuel risk; you simply focus on producing the plant efficiently and if you exceed the production factors, you can keep the upside. So the PPP framework in India is getting rebalanced in the right direction and enabling private developers to take on certain risks in which they are conversant—for instance, on a particular technology—without taking on risks that are better managed by the government; for instance, having the land in place.

What are LPs looking for when they make a commitment to an India-focused infrastructure fund, and are you able to offer them opportunities that weren't present in previous cycles?

Against the backdrop of various issues that bedeviled infrastructure projects in the past, there is a fair degree of risk aversion amongst LPs. Therefore, LPs would perhaps prefer a strategy that allows for part of their portfolio to have stabilized cash flows, and part of it to be allocated to brand new assets that will potentially give them a big kicker. Ten years ago, this strategy wasn't possible as there were no privately held infrastructure assets available. But today we can offer a risk-mitigated model with a blend of stabilized and greenfield assets in the same portfolio.

How has infrastructure in India performed as an asset class to date?

Our experience has been very good. If you look at our infrastructure investments and exits, we have clocked a 24% IRR dollar return. This is a track record spanning two decades. Even if you look at just our 2008/09 vintage funds, which are Asia-focused with a 40% allocation to India, we would still generate a 14% IRR dollar return, despite significant currency depreciation. With the reversal of the interest rate cycle underway in India, we expect that this vintage of funds will end up with slightly higher returns. But a lot of investors have not fared as well. The new investors who came in 2005—the big guys who put money in electricity, roads and ports—have lost money. Most of the capital that came in from 2005 onwards was very richly valued and when you layer that with a global financial crisis, two economic cycles and a slower pace of development / approvals, you are going to get a different result than ours.

From our perspective, an infrastructure investor needs the skill set to pick the right investments, more often than not ahead of the curve, and the ability to invest across multiple vintages. For instance, we were the first ones to do telecom when it first opened up. We went into the first private sector roads project. We were the first to do city gas distribution and waste, and were ahead of the curve in logistics. We have been able to generate comparatively higher returns from such investments.

Spotlight: The Indian Consumer

With an adjusted net national income per capita of US$1,277 in 2013—a figure 23% the size of China's—India ranks as one of the poorest countries in the world; as CDC's Muru Murugappan notes, India has a greater number of poor people than the total for all of Sub-Saharan Africa.* The images of grinding poverty that this relatively paltry per capita income statistic evokes (it is 14% of the world average) may very well make any discussion about a consumer class seem downright Panglossian.

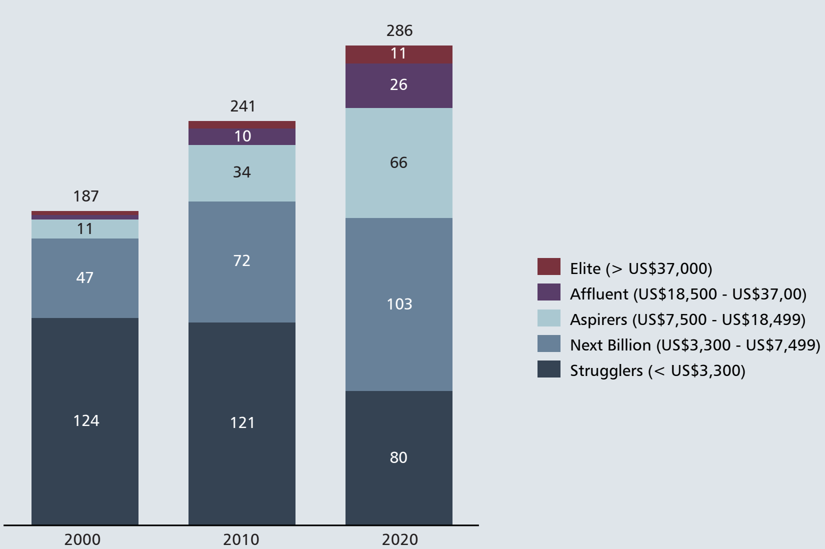
The bustling crowds circling their way around Connaught Place in New Delhi as they spy the latest fashions or pop in to a fast casual restaurant tell a different story. So to do the throngs of aspirational consumers window shopping the cornucopia of high-end luxury goods at UB City in Bengaluru. The contrast with the macroeconomic statistics is jarring. Even if proportionally small, in absolute terms there is a sizeable and energetic consumer class.

Boston Consulting Group estimates that the number of households earning more than US$7,500 in annual income will grow from 48 million in 2010 to 103 million in 2020, while "struggling" households—defined as those earning less than US$3,300 per year—will decline from 121 million (50% of total) to 80 million (28% of total; see exhibit below). This dramatic transformation in livelihoods is percolating through to end demand, and it is fueling consumption at a variety of price points across consumer segments, and in a diverse array of product categories. It is no surprise that investments targeting the Indian consumer have become a core strategy for GPs (see pages 28-29).

In a market as large as India, private equity investors can generally pick the segments they wish to target; however, there are some key characteristics about the Indian consumer that stand out:

- **Heterogeneous tastes**—with its richly diverse population, one of the defining characteristics of India's consumer market is the heterogeneity of demand. Even commodity products, such as rice, are prone to this dynamic. Retailers need to be cognizant of product mix and ensure product-market fit in the face of rapidly changing tastes. Jayanta Kumar Basu at CX Partners relays that this can be an acute challenge in quick-service restaurants, "Some brands take off very quickly initially, but then they tend to stagnate because consumer tastes demand that the menu be refreshed."
- **Branded products**—as a large number of India's workers shift to the organized sector of the economy, they are manifesting demand for branded products, notably in the consumer goods segment. This is creating opportunities for firms to differentiate their products and develop a modicum of pricing power through the addition of stockkeeping units (SKUs) at higher price points.
- **Price vs. value**—Though consumers are becoming more brand conscious, they remain price sensitive with high expectations for value. "An Indian customer," notes IDG Ventures India's Karthik Prabhakar, "will expect a Rolls Royce for the price of an entry-level car." In spite of the high elasticity of demand and low switching costs, some GPs believe that consumer companies do retain some pricing power, particularly through packaging innovations that enhance unit economics (e.g., reducing unit size while maintaining sticker prices).
- **Distribution and customer experience**—As new classes of consumers are coming online—both figuratively and literally—distribution and customer experience are becoming more important. In its Q2 2015 financial results, Amazon.com disclosed that India is the company's fastest growing geographic market by sales, and that the company is the largest store in India with over 25 million SKUs. Local e-commerce platforms such as Flipkart and Snapdeal are embracing cash-on-delivery and even scheduled delivery to enhance the customer experience and better adapt to their needs. These demand and supply factors could very well account for the ballooning interest in e-commerce companies (see page 36)—not only do these firms have a distribution edge, but with the greater adoption of smartphones and in-app purchases, granular data on customer preferences are easier to collect and operationalize.

Households with rising incomes are growing rapidly, while those in poverty are declining
Distribution of households (millions) by annual gross income (US$)



Source: Boston Consulting Group, *The Tiger Roars: Capturing India's Explosive Growth in Consumer Spending,* February 2012.

*World Bank, World Development Indicators. Adjusted net national income per capital is GNI minus consumption of fixed capital and natural resources depletion.

Industry Views on Talent Management

We recognized back in 1999 that attracting top-quality talent for our businesses would be a key to success. To do this, first and foremost, we make sure that each of our management teams thoroughly enjoys the journey of building a business with us, while creating wealth at the same time. When we talk to a new team, we advise them to talk to ten of our previous partners and ask about their experiences—most of the time, they will hear excellent feedback. Second, we have gotten into a cycle of recycling management teams. If we have excellent CEOs who have built businesses with us that have subsequently been sold, we want them to come back. Third, several years ago we set a target for ourselves: within five years of buying any business, that business should be recognized as the best place to work in the industry in which it operates. We are constantly building on our ability to attract talent.

—Vishal Nevatia, *Managing Partner at India Value Fund Advisors*

Talent management is a crucial component to achieving scale. One key aspect that goes into picking which companies to back is judging whether the management team has the leadership to attract the right talent to work for the business. In many cases, what we've seen is that the management teams themselves become the barrier to scaling. Further, if a business is completely dependent on one person, it's a single point of failure and a huge risk. As a result, we focus our attention on ensuring that our companies hire the right kind of people early. In addition, we also typically try to be as close to the entrepreneur as possible in order to understand what challenges they face. We have monthly meetings and encourage our entrepreneurs to get the Board involved when they are facing a roadblock rather than fearing that by doing so, the Board will start to doubt them. This is a comfort that they need to have in order to be open about any potential issues.

—Karthik Prabhakar, *Vice President at IDG Ventures India*

The talent management deficit in India has been changing—and changing for the better—drip by drip. But it may take generations to change in the way that we want it to change. In the entrepreneur community there's a dichotomy. For Indian technology entrepreneurs, their role models are not Flipkart; they're Amazon or Apple or Facebook, which for the most part is positive. These entrepreneurs may be ten years behind, but they are learning from their counterparts and are on their way. But for traditional, non-technology businesses, the change is glacial. Their fathers taught them how to run the business, and it's not their fault that they live in a bureaucratic system that constantly makes life difficult. Some give or take bribes; others won't share equity or profits with employees because when they last trusted an employee, that employee cheated them. So it's a big challenge for me to say, "Trust your employee; give him a raise; give him stock options; etc." Change will not happen overnight but little by little it's getting better.

—Mukul Gulati, *Co-founder and Managing Partner of Zephyr Peacock Management India*

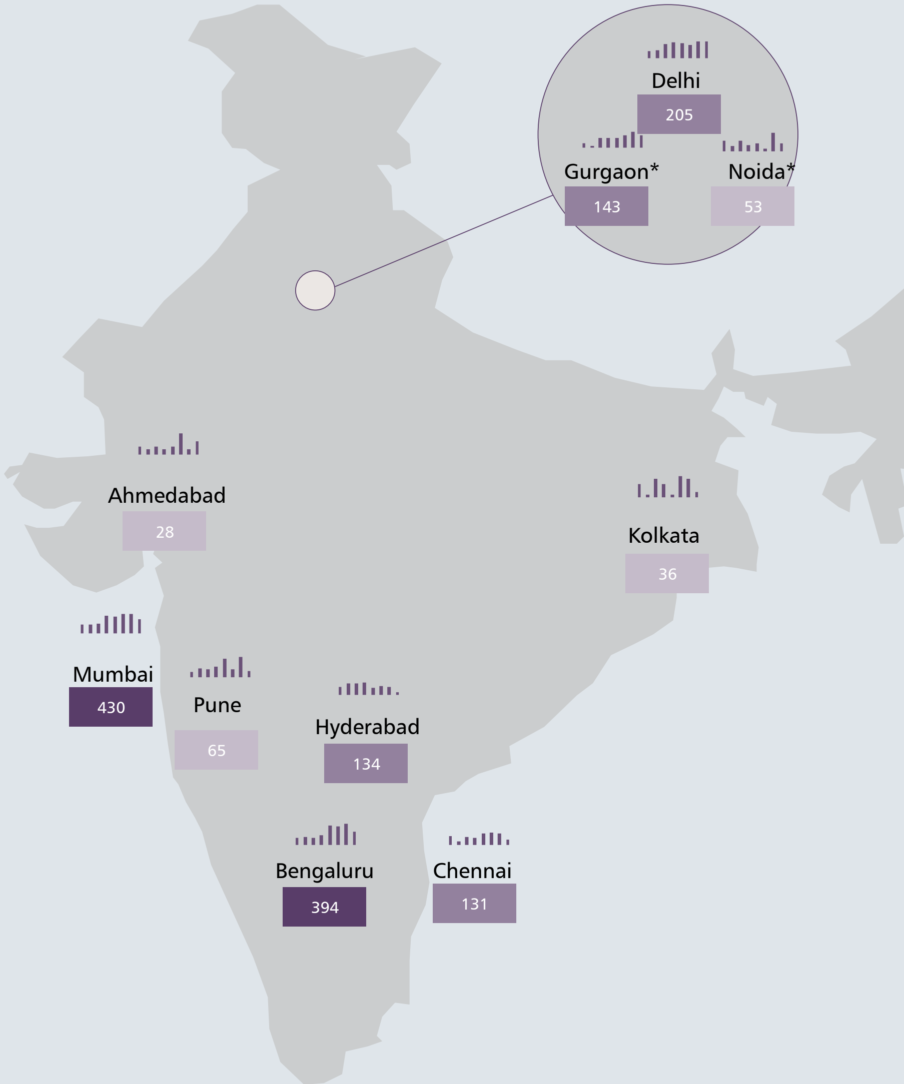
Spotlight: Still a Tier I Game

For all of India's urban agglomerations—53 cities have a population greater than one million*—private equity deal activity remains concentrated in the country's eight largest cities ("Tier I cities"), which have been home to 71% of transactions by number since 2008 (see exhibit at right). In fact, three Tier I cities—Mumbai, Bengaluru and New Delhi—account for 51% of all deals. Only two Tier II cities—Gurgaon and Noida, both of which are adjacent to New Delhi—have been strong sources of deal flow. Jaipur comes in third place on the Tier II league table with 14 transactions completed since 2008.

The concentration of transactions within Tier I cities is a trend that is not likely to change materially in the near term, though investors are beginning to look further afield for deals. According to Everstone's Roopa Purushothaman, "There is more conversation now about finding deals in places like Indore and other Tier II cities with large populations, particularly around looking for local or regional brands. The challenges revolve around building those relationships, and then identifying how to scale these businesses."

To be sure, expanding businesses across state lines is not without complications given the condition of India's infrastructure as well as the heterogeneity of state-level taxes and regulation. However, depending on the sector, some fund managers have worked with their portfolio companies to expand sales and operations to Tier II and III cities, and beyond. For example, ICICI Venture invested approximately US$22 million in payment gateway services provider BTI Payments in 2013. The company used the capital injection to enter the white label ATM segment, which it now operates under the brand india1. Kundan Saran from ICICI Venture relays the rapid growth the company is pursuing through its focus on Tier III, IV and V cities, "india1 has rolled out approximately 1,740 ATMs in the last 12 months; they will end up rolling out 3,600 by June of 2016, and 9,000 by 2018. To put that growth in perspective, ICICI Bank, which is the largest private sector bank in the country at the moment, has roughly 13,000 ATMs."

India's Tier I cities have accounted for 71% of deals since 2008
Deal count (2008–1H 2015) by portfolio company HQ city



Note: Gurgaon and Noida are classified as Tier II cities, but are included in this exhibit. Hyderabad includes Secunderabad. Includes secondaries. Map is for illustrative purposes only and should not be construed as a representation of India's borders or territorial claims.
Source: EMPEA Consulting Services. Data as of 30 June 2015.

*2011 Census of India.

(Continued from page 30)

"At the same time, there are so many white spaces in India that good ideas are available everywhere—having your own views is really important—and it almost always comes down to execution. As a result, sometimes, when we have strong conviction on a sub-sector or a thesis, we can't find entrepreneurs to execute on it. In those instances, we will either find a strong management team and nudge them toward the adjacent idea, or we will incubate the management."

One added benefit of the incubation strategy that Gulati sees is that it provides for a more efficient and potentially less risky deployment of capital. "Rather than investing US$7 million upfront in a growth capital deal, with an incubation strategy, I can stage it over a three-year period: US$2 million to start the business, a follow-on US$2 million once the business model is proven, and a final tranche of US$3 million to finance scaling up before selling the company."

Platform Companies

In addition to incubation, some fund managers are building control positions from the outset through the creation of platform companies that have a runway to scale, and that could be acquisition targets for multinational companies. These investments negate the need to negotiate with promoters; instead, management responsibilities are either retained by the fund manager, or by sourcing a management team with the skills to scale an institutional-quality business. This platform strategy has been relatively prevalent in capital-intensive sectors such as energy and telecommunications.

For example, global fund manager Actis invested US$230 million in February 2015 to create the wind energy platform company Ostro Energy—a strategy the firm is replicating from its renewable platform experience in Brazil, Chile, Mexico and Central America. Also in wind power, Morgan Stanley Infrastructure Partners (MSIP) financed the development of Continuum Wind Energy, which operates 242 MW of wind power plants (with an additional 1,170 MW under construction or development) and which MSIP agreed to sell to SunEdison in June 2015.

IDFC Alternatives has been an active employer of platform strategies in multiple sectors, including energy (Green Infra), telecoms (Viom Networks) and student living (Manipal Global Education Services). Prasad Gadkari, a Partner with IDFC Alternatives' Private Equity team, recalls his experience with Viom Networks, "When we invested in this company, it had 50 to 60 towers. We led multiple fundraising rounds and M&As, and today the company has 45,000 telecom towers and is one of the largest independent telecom tower operators in India."

New Sources of Deal Flow: New Economy Companies & Secondaries

Two additional themes meriting investor attention are new economy companies and the growing interest in secondaries as a source of deal flow.

New Economy Companies

In many of the interviews we conducted for this report, there was an admixture of excitement, confusion and incredulity around India's new economy companies. Fueled by rising disposable incomes and the rapid pace of mobile and smartphone adoption—cellular phone subscriptions grew from 347 million in 2008 to 944 million in 2014[25]—enthusiasm for new economy deals is palpable. This is particularly true for e-commerce businesses; within the 18 months to July 2015, 95 e-commerce deals took place across seven sectors (see Exhibit 23). Retailers captured the lion's share (56%) of transactions, though financials, consumer goods and even industrials are represented.

To be sure, a number of observers have raised concerns over valuations in the segment, but it's important not to underestimate how impressive some of these new business models are at capturing consumer spend. For example, IDG Ventures India's Prabhakar notes that local online eyewear company Lenskart is outselling Warby Parker on a unit volume basis.

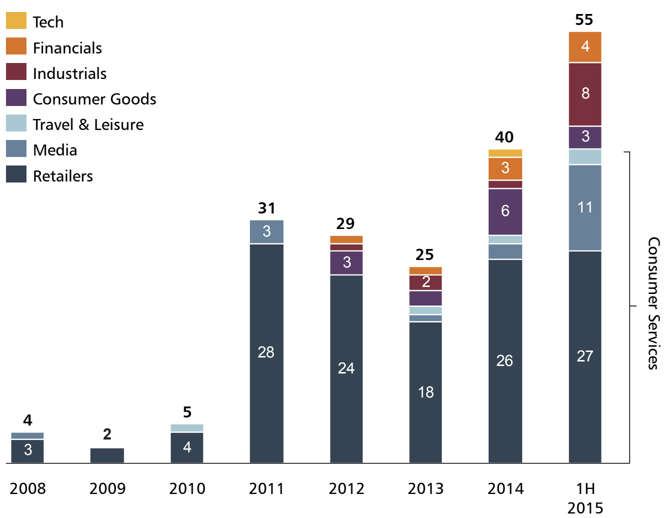
Perhaps more significantly, the emergence of new economy companies with fresh business models has the power to radically transform livelihoods, including in rural India. Reflecting on developments within this space, IL&FS's Archana Hingorani relays, "The rise of the new economy sectors is very similar to the infrastructure-led new business growth that happened in the 1990s. Flipkart and its equivalents are creating a greater and much broader market by allowing people in smaller towns access to new products and in the process creating newer models of distribution and outreach. In the past, entrepreneurs who had ideas never pursued them because it was too cost-prohibitive to create a whole system; today, newer, smaller businesses no longer need to create their own distribution networks."

To give a concrete example, IDG Ventures India's Prabhakar highlights AgroStar, a mobile commerce platform for farmers to purchase agricultural inputs, such as seeds and fertilizers: "A huge challenge for these farmers is they have to travel five to 10 kilometers to a shop to acquire these products, and oftentimes they're told that the product is out of stock and to come back tomorrow. It's a tremendous waste of time and inefficient for the farmer. AgroStar saw that with broader mobile adoption, farmers were now able to submit queries and place orders through SMS and WhatsApp, which is creating much larger and more efficient markets."

Secondaries

With the reduction in the number of global and regional GPs investing in India mentioned previously (see Exhibit 12), one would expect the frequency of secondaries to decline. EMPEA data bear this out, with the number of secondaries declining from nine in 2010 to five in 2014. However, the entrepreneurial finance ecosystem within the country is becoming more developed, and as a result, Indian entrepreneurs and promoters can partner with institutional quality fund managers at each stage of their growth—from venture, to mid-market on up to mega-cap. This stratification is healthy not just for GPs seeking an exit, but also for the companies themselves, as they search for appropriate partners to help them balance growth and profitability.

Exhibit 23: Growth in E-Commerce Transactions
Deal count by sub-sector (2008–1H 2015)



Note: Includes secondaries.
Source: EMPEA Consulting Services. Data as of 30 June 2015.

One experienced local fund manager notes that the development of the entrepreneurial finance ecosystem means secondaries have increased significantly as a source of prospective deal flow. "To give you an example," he says, "seven to 10 years ago, if we were looking at 10 deals, nine of them would have been primary investments. That pipeline now has four or five that include secondary components for existing investors." Similarly, Tata Capital Growth Fund's Akhil Awasthi notes that a number of funds raised in the 2007-2008 vintages are coming under pressure to exit their holdings. In fact, Awasthi says, "Now there is one person in my team whose job is to speak with other funds that may have something to sell, particularly for attractive companies in markets we want to enter. Ultimately the deal will go through an advisor, but it helps to know more about the business." In a market that has traditionally posed challenges for sourcing institutional investor-ready companies, secondary investments should be viewed as more than a game of pass-the-parcel. Of course, they also solve one of the most vexing challenges besetting Indian GPs for the last seven years: exits.

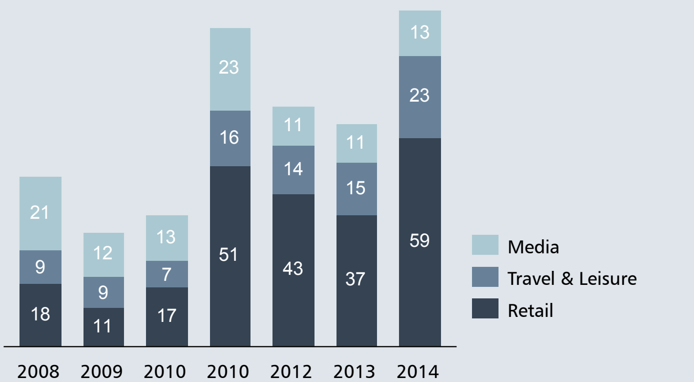
25. United Nations ITU, ICT Statistics available at http://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx.

Spotlight: Evolution of Deal Flow in Fastest-Growing Sectors

Four sectors are driving the growth in India's deal activity: consumer services, consumer goods, healthcare and technology. Within each of these core sectors, there is one segment that garners the greatest amount of deal flow.*

Consumer Services

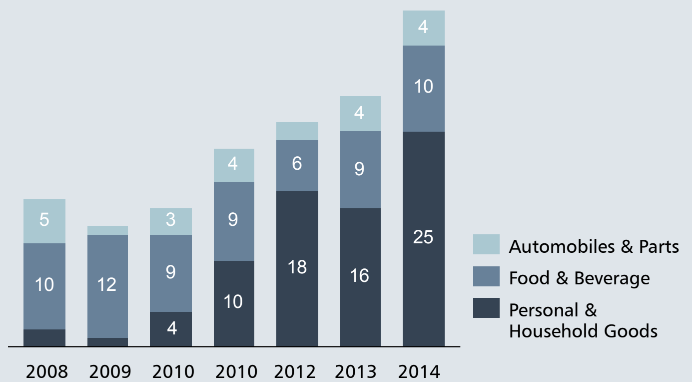
Retail is driving growth in consumer services, particularly in the specialized consumer services and specialty retailers sub-segments



Source: EMPEA Consulting Services. Data as of 30 June 2015.

Consumer Goods

Personal and household goods are driving deal flow, with clothing and accessories companies accounting for 46% of deals in the sector



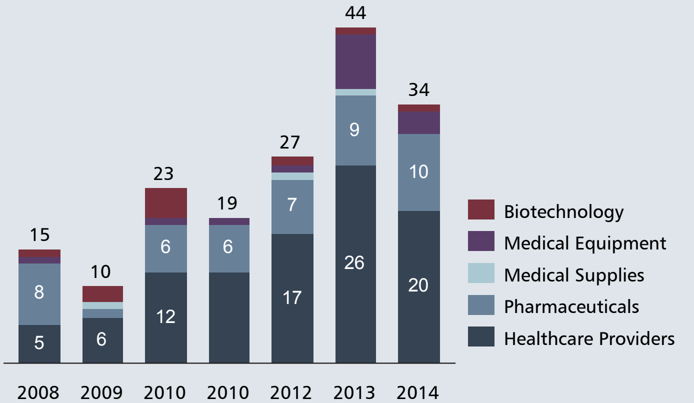
Source: EMPEA Consulting Services. Data as of 30 June 2015.

Within **consumer services,** which attracted the largest number of deals in each of the last four-and-a-half years, retail companies have been the targets for most investments, particularly those in the specialized consumer services and specialty retailer sub-segments. Venture capital investors targeting e-commerce and mobile app companies have been particularly active in these sub-segments.

In **consumer goods,** personal and household goods is the strongest segment, followed by food and beverage. Within personal and household goods, clothing and accessories represents the strongest source of deal flow, contributing between 38% and 60% of annual deals since 2010.

Healthcare

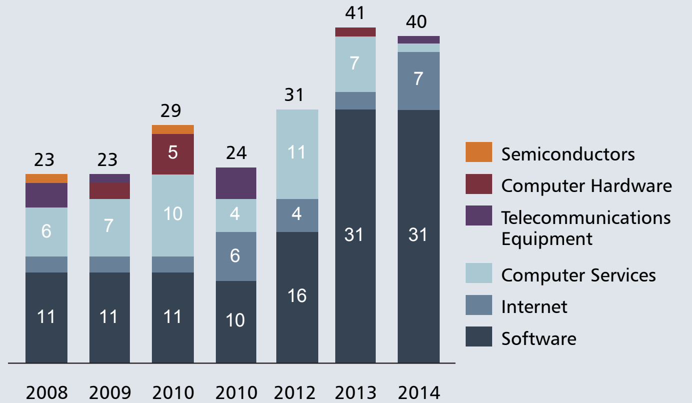
Healthcare providers have become the largest source of deal flow, growing at a 26% CAGR between 2008-2014



Source: EMPEA Consulting Services. Data as of 30 June 2015.

Technology

Tech investments have migrated away from hardware and toward software and internet deals



Note: E-commerce companies, such as Flipkart and Snapdeal are classified as General Retailers, not internet / software.
Source: EMPEA Consulting Services. Data as of 30 June 2015.

Within the **healthcare** sector, healthcare providers have been the largest targets for deals—growing at a 26% CAGR between 2008-2014—with a diverse array of local and global GPs representing a variety of fund strategies investing in the sub-segment. Pharmaceuticals also represent an attractive sector to a number of GPs, with 47 transactions executed between 2008-2014.

Transactions in the **technology** sector have nearly doubled, from roughly 20 deals in 2008 to 40 in 2014, with the growth coming exclusively from the software segment. Notably, this segment does not include e-commerce companies, such as Flipkart and Snapdeal (which are categorized as general retailers). Deal flow within the segment primarily focuses on B2B and / or software-as-a-service (SaaS) companies.

* Note: All exhibits include secondaries.

Early-stage Investing in India: Opportunities and Challenges

An Interview with Sudhir Sethi, Founder and Chairman, IDG Ventures India

India appears to have taken center stage in Asia when it comes to startup funding and purportedly lofty valuations—especially for digital consumer companies. How real is the growth in these companies?

India is going through a revolution of sorts. Just like we skipped the landline and leapfrogged directly to mobile phones, the country is now skipping the broadband age and leapfrogging to mobile internet. There are roughly 350 million internet users in the country, with over 30 million transacting online. Organized retail is less than 5% of the country's retail market with tremendous scope for improvement in service quality and access to products. With the number of users growing rapidly, companies that can adapt and scale without compromising on the quality of user experience, and while maintaining sound unit economics, will continue to grow and create value. The growth of these companies is very much real as they are solving acute consumer needs: convenience, product discovery and reliable quality.

Now that there are many companies—many of them funded—in most e-commerce categories, what's next?

As a tech-focused early-stage investor, we invest across consumer media and tech, software, health-tech and fin-tech. We continue to map these sectors for new opportunities on a regular basis. Shared economy, experiential online buying and niche content plays with a large base of engaged users are a few opportunities in the consumer media and tech space.

For example, we recently invested in a furniture rental business that aims to build a tech platform that enables easy access to quality furniture and other assets for migrant populations, while allowing asset owners to utilize spare capacity more profitably. In the software space, companies like Manthan Systems (business intelligence for retailers and consumer packaged goods companies), Fintellix (business intelligence for the banking, financial services and insurance industry), Unbxd (product discovery and search for online retailers) and Heckyl Technologies (real-time analytics for financial markets) are already selling to global markets from India. Analytics is an evergreen space—with more data available, business intelligence / analytics is an area to watch. In addition, financial technologies focused on payments (both consumer and enterprise) and ease of access to credit, as well as healthcare technologies offering faster access to care providers will be of interest.

There are a number of newcomers to the venture space, but you have been an active investor in the Indian venture capital ecosystem since 1998. How has the market evolved in your view?

A lot! Back in 1998, the market opportunity was mostly around software services and there was a bit of euphoria around the internet boom. It was a time when there were very limited opportunities where one could invest in the early stages. By 2007, we would evaluate 70 deals a quarter and even set up an entrepreneur-in-residence program to build companies in niche areas. We incubated two companies through this program. Fast forward to today, we evaluate close to 2,000 deals a year and the active venture capital players remain mostly the same.

That said, the other parts of the ecosystem have become built out extremely well, with many active incubators and accelerators seeding quality companies, and larger private equity investors now opening up their focus to tech startups and getting comfortable with the loss-making characteristic of high-growth companies. More broadly, there is an increased focus on entrepreneurship, which is good for the overall quality of the ecosystem; smartphone penetration is growing rapidly, offering unprecedented opportunities for new businesses; and, software made in India for global markets is a reality. Today, companies need to be competitive at a global level in order to excel, and as early-stage investors, we enjoy helping these companies on their journey.

Case Study: **KPR Mill Limited**

A number of criticisms have been levied against private equity in India, but the case of Blue River Capital's investment in KPR Mill Limited provides an interesting contrast with the common narrative of what went wrong during the last cycle. This is a story that seemingly ticks all the wrong boxes—a minority growth deal in a capital-intensive industry made just before the global financial crisis. And yet it's a clear demonstration of private equity's ability to create value: KPR Mill scaled its business in the face of low-cost competition from China and Bangladesh; adopted progressive gender, educational and environmental policies; and, its stock price recently hit all-time highs.

KPR Mill Limited's Story

Founded in 1984 by three brothers, KPR Mill began operations with four looms and four employees in a converted barn in Coimbatore, a town in southern India's textile belt. Over the following 22 years, the business grew in size and scope, expanding into exports in 1989 and later emerging as a vertically integrated textile manufacturer producing yarn, knitted fabric and ready-made garments.

By 2006, KPR's leadership had ambitious plans for expansion, but knew they would need to look beyond internally generated funds and debt financing to achieve their goals. KPR's founders engaged a consulting firm to explore possibilities for an equity infusion and through this process became acquainted with the private equity model. They opted to partner with Blue River Capital, a Mumbai-based private equity firm, based on their significant expertise in the textile industry as well as critical links to the global textile trade through one of its prominent U.S.-based LPs. Blue River Capital joined as a minority shareholder and built a relationship of mutual trust with KPR that gave it considerable sway over several key aspects of the business, thus setting the stage for a transformation in KPR's culture and stature amongst its peers.

The Company

Essentials

Company: KPR Mill Limited (www.kprmilllimited.com)

Sector: Textiles and apparel

Business focus: Vertically integrated apparel manufacturing

GP: Blue River Capital, an India-based private equity firm with approximately US$140 million under management (www.blueriverCapital.com)

Date of investment: November 2006

Investment amount: INR1.05 billion (US$23.6 million)

The Role Played by Private Equity

Following its investment, Blue River Capital urged KPR to purchase reliable, high-volume machinery to capture the economies of scale necessary to compete with low-cost producers such as those in China and Bangladesh. In parallel, the private equity firm encouraged a shift toward modern, high-end technology that commands higher margins, such as compact yarn spinning, as well as more automation in KPR's production process. Despite India's relatively cheap labor costs, Blue River Capital advised KPR to pursue savings through greater efficiency gains, which also acted as a buffer against fluctuations in cotton prices and exchange rates. Further value creation initiatives implemented by Blue River Capital included designing a business plan and budgeting process from scratch as well as leveraging the specialty experience of one of its LPs to bolster KPR's operational know-how and network.

Perhaps the most significant of Blue River Capital's contributions was a dramatic improvement in worker conditions. Under KPR's model, young women who are recruited from rural villages through referrals are provided with educational opportunities, offered housing on secure company compounds and given access to amenities such as swimming pools and yoga studios. Almost 40% of KPR's employees earn vocational training certificates, college degrees or business degrees. All workers are also guaranteed an eight-hour workday with no overtime permitted. As a result of these initiatives, yearly turnover is in the single digits, compared to estimates of 30% to 50% in the industry as a whole. Blue River Capital also catalyzed a shift toward environmental stewardship, for instance, through extensive investment in wind power. The company's wind power capacity now supplies 80% to 85% of its total power needs, reducing its carbon footprint and mitigating risks due to power outages.

With Blue River Capital's guidance, KPR successfully listed on the Bombay Stock Exchange in July 2007. Blue River Capital has since exited a portion of its investment yet remains actively involved with the company through Board representation. The company has continued to perform well—its stock price reached an all-time high in August 2015—and it is recognized as one of the leading integrated textile companies in India today.

Performance and Exit Trends

Much has changed since the "Golden Era" of private equity in India. In the years leading up to the global financial crisis, Indian private equity delivered stellar returns. McKinsey & Company analyses show average deal-level returns exceeded 40% gross IRRs in U.S. dollar terms prior to 2007.[26] Little wonder why LPs threw money at the market. However, the confluence of macroeconomic and industry trends outlined in this report created headwinds that brought down average gross IRRs to 7% between 2008 and 2013.[27]

This "tale of two markets" can be seen in Cambridge Associates' fund-level performance figures for funds raised between 2000 and 2009 (the most recent 10-year period for which funds have settled into their performance quartiles). The data show India's median fund delivered a net IRR of 8.5%—outperforming the median return for all emerging markets by 50 basis points—while the top quartile breakpoint for Indian funds chalked in at 13.7% net, lagging behind most of its emerging market peers and miles away from the gangbusters performance seen before the global economic downturn (see Exhibit 24).

India's reputation for poor performance and GPs' perceived inability to achieve exits has been a key constraint in raising funds. As CDC Group's Muru Murugappan puts it, "Exits in India have been disappointing; of the total amount invested in India of over US$100 billion in the last 10 years, only US$40 billion has been returned. But we expect this to improve in the near future." In EMPEA's 2015 *Global Limited Partners Survey*, 33% of respondents considered historical performance to be a factor deterring them from committing to India-dedicated funds in 2015-2016—far more than any other emerging market.

In the same publication, however, 51% of respondents expected returns of greater than 16% net from India's 2014-vintage funds, while a full 25% of respondents expected a net return greater than 21%—the largest share of respondents amongst all emerging markets. If India's reputation for past returns is poor, it seems that expectations for the market's prospective returns are not. Perhaps investors' high hopes are warranted: liquidity events are increasing in frequency across multiple exit channels, and India's IPO market is showing promise after a painfully prolonged dry spell.

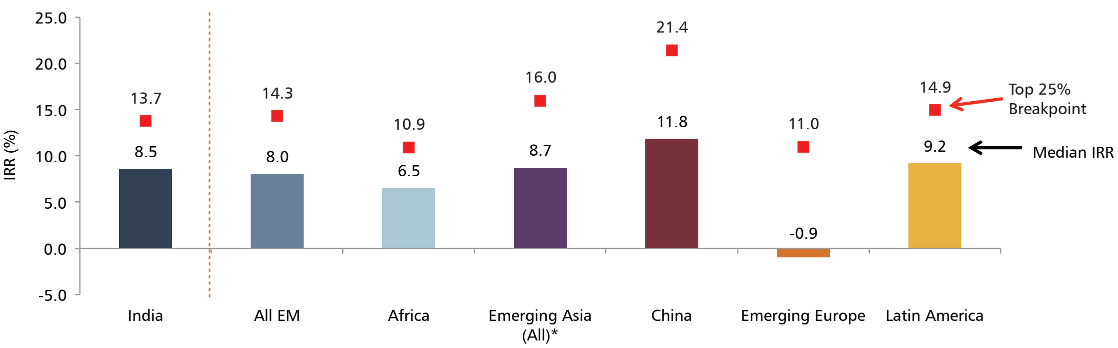
Getting Liquid

From the post-crisis nadir of 40 exits disclosed publicly or directly to EMPEA in 2012, liquidity events increased 2.5x to 99 in 2014; moreover, the number of exits in the first half of 2015 reached 81—more than double the figure for 2012 and approaching annual figures for 2013 and 2014 (see Exhibit 25).

GPs are finding routes to liquidity across multiple channels, capitalizing upon improved investor sentiment toward India. For example, exits via share sales, which tend to account for the plurality if not the majority of exits each year, rose from 19 in 2012 to 54 in 2014. Similarly, multinationals seeking a foothold in India have been a growing source of exit activity, helping to push strategic sales from six transactions in 2011 to 23 in 2014. In fact, some private equity fund managers are evolving their exit strategies around strategic sales. Multiples' Sankararaman shares, "Six out of our seven unlisted companies are currently being built for a trade sale. This allows us to keep away from the vagaries of the capital markets. If you are building companies for an IPO and God forbid the markets are not favorable when you wish to exit, you are stuck holding a company for longer than you may want."

(Continued on page 42)

Exhibit 24: Median and Top 25% Returns for Vintage Years 2000-2009



* Includes China and India-focused funds.
Source: Cambridge Associates Private Investments database, as of 31 March 2015.
All performance figures are net to limited partners.

26. McKinsey & Company, *Indian Private Equity: Route to Resurgence*, June 2015.
27. Ibid.

A View of India's Exit Landscape

An Interview with Vishakha Mulye, Managing Director and CEO, ICICI Venture

ICICI has a track record of exits under its belt. When you look at the deals you've done, what have been the most important factors for cultivating a firm for exit?

Across verticals and funds, we have concluded 48 exits (largely from unlisted companies) and realized over US$1.25 billion post-2008 through a variety of exit strategies, including strategic sales, secondaries (sales to other private equity funds), IPOs, capital markets deals, buybacks and redemptions (in the case of mezzanine investments). Our diversification of exit strategies and relatively lower dependence on capital markets / IPOs has been a big factor in our ability to conclude exits. Given tight liquidity conditions in the last few years, we have been able to successfully implement buybacks—about 25% of our exits have involved some manner of buyback by the promoter group or business family either through the trigger of contractual obligations or through mutual discussions. Our experience over the last few years makes us believe that it is useful to diversify exit strategies in a PE fund's portfolio, and to plan for multiple exit options with each portfolio company at the investment stage itself.

Whilst it is necessary to identify value creation levers in a company upfront and work on them during the life of an investment, it is equally important to discuss and codify exit options in the beginning with the business family or promoter of an investee company, as local companies are still largely family-owned and India largely remains a minority-style growth equity market. This helps to smooth the implementation of an exit once the investment has matured.

Have you noticed any distinguishing characteristics with respect to the portfolio companies or investment strategies that create opportunities to exit as compared to those that don't?

Based on our experience post-2008, equity- or mezzanine-style investments in sectors such as consumer spaces, healthcare, banking and financial services, logistics, vocational training and urban housing have been easier to exit in comparison with equity-style investments in sectors involving real assets—especially commercial realty and large greenfield projects—or capital-intensive plays. However, even in the case of the latter, our experience with mezzanine-style investments has been very positive.

How have approaches to exit changed as a result of the lack of liquidity events in previous cycles?

When I talk to friends in the Indian alternative assets community, I sense a clear change in mindset when it comes to exits. Most of us now believe that reducing dependence on capital markets is the mantra—a path I am glad ICICI Venture adopted early. Second, there is also a keen desire to be more hands-on with our investee companies. For instance, in eight of our last nine PE-style investments, we have been operationally involved with our companies. However, there continue to be some differences in approach between various GPs in India. Some seem to be adopting a model of widespread operational intervention in their investee companies, whereas our approach is to identify gaps in the current capability set of our investee groups and to plug those specific gaps in consonance with our portfolio companies. We are quite satisfied with this approach, especially as we spend a lot of time selecting our investee groups / promoters / management teams and achieving alignment with them.

We've seen growing interest amongst LPs for yield products. ICICI's AION fund fills this demand by offering LPs current income. To what degree, if at all, is India's exit environment a driver of LP interest in private credit opportunities?

AION is our maiden US$825 million special situations fund, in which we have partnered with Apollo Global. AION's thesis is relevant for LPs who are familiar with special situations in international markets, but were hitherto unable to access such an opportunity in the Indian context. This market segment is here to stay.

As for the drivers, yield is perhaps one element of this play. However, the key aspect is helping overleveraged companies correct their capital structures in a value accretive manner. Given the increase in overleveraged companies in India during the last few years, AION seems to be in the right place at the right time.

Is ICICI exploring non-traditional fund models (e.g., holding companies or evergreen funds) that might reduce the urgency to exit a high-growth or profitable company within a 3- to 5-year time frame?

Yes, that is a subject of current interest for us and we are exploring this idea with other strategic players. While we are still in the initial stages of this thesis, I believe it would be relevant for certain types of LPs that are interested in holding long-dated, de-risked, operating assets. The combined proposition of ICICI Venture as a financial investor and a strategic operating partner would enable acquisitions of assets. The opportunities are immense and the risks are reasonably well crystallized. This provides the right framework for exploring platform-type opportunities in the Indian context.

(Continued from page 40)

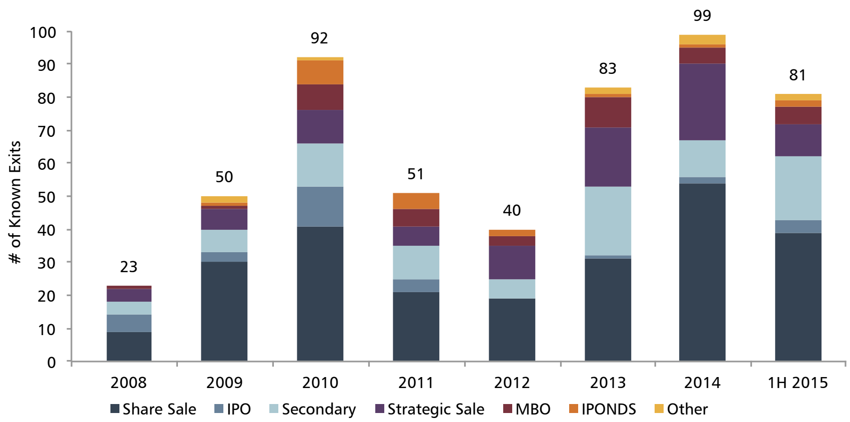
Sales to financial sponsors (i.e., secondaries) have also been growing in prominence with recent sizable transactions including TPG's sale of Shriram City Union Finance, a lender, to Apax Partners in May 2015, which generated US$383 million, while New Silk Route sold Destimoney, an online brokerage company, to The Carlyle Group for US$200 million in February 2015."Often times, the cleanest exits are to other financial investors," observes Tata Capital Growth Fund's Awasthi. "Any successful investment we do at the top end (around US$75 million to US$100 million) is just the right size for many of the global funds that want to do transactions into India. They don't see many deals of this size that have a future scope for growth and where the underlying governance is good. They can trust the accounts because we have already been there."

Another notable development is the decline in management buybacks, from an average of 9% of all exits between 2010 and 2013 to roughly 5.5% in the 18 months to July 2015. This is clearly a different environment for India's GPs, and there may be no better indicator than the country's IPO market.

The Worm Turns—India's IPO Window Opens

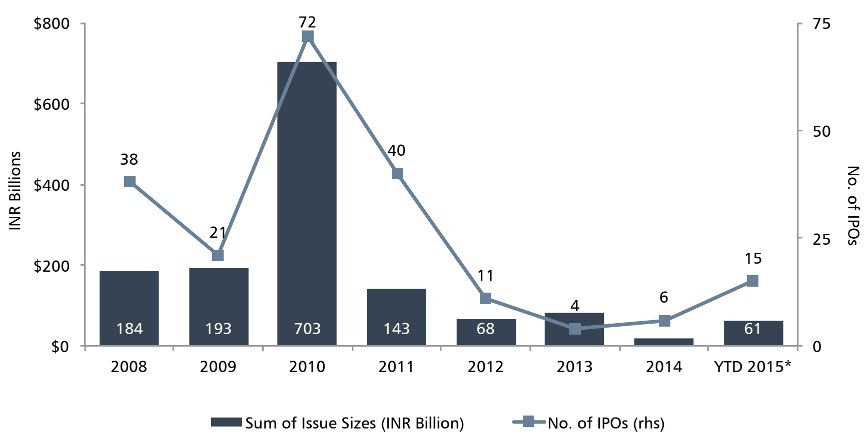
India's primary market is showing signs of recovery—albeit from a very low point. As of September 2015, there have been 15 successful IPOs on India's two main exchanges this year, with issue sizes totaling INR61.4 billion (approximately US$940 million; see Exhibit 26).[28] After three slow years—there were 11, four and six IPOs in 2012, 2013 and 2014, respectively—this year's uptick is welcome. However, it still pales in comparison to 2010, when 72 IPOs took place, with issue sizes totaling INR703 billion (approximately US$10.8 billion).[29]

Exhibit 25: Getting liquid—1H 2015 saw 2x the number of exits as all of 2012
# of Known Exits by Exit Type, 2008-1H 2015



Source: EMPEA. Data as of 30 June 2015.
Note: Only includes exits that are disclosed publicly or directly to EMPEA. MBO stands for management buyout; IPONDS stands for IPO no disposal of shares.

Exhibit 26: IPOs in India, 2008-YTD 2015



Sources: National Stock Exchange (NSE), Bombay Stock Exchange (BSE).
* As of 18 September 2015.
Note: Excludes listings on the BSE SME platform. Company IPOs are counted once even if dual listed on the NSE and BSE.

Nevertheless, private equity is enjoying the modest improvement in India's IPO market in an outsized way. Eleven of the 15 companies that completed an IPO this year were PE-backed—compared to only seven PE-backed IPOs in the previous three years. Moreover, the market appears to be gaining momentum through the second half of the year despite fairly turbulent movements in public markets globally. For example, Zephyr Peacock-backed Pennar Engineered Building Systems, Motilal Oswal Private Equity-backed Power Mech, Rabo Equity Advisors-backed Prabhat Dairy, Norwest Venture Partners- and Xander Group-backed Sadbhav Infrastructure and IVFA-backed Syngene International have all successfully listed in the period between the close of 1H 2015 and the publication of this report.

Despite the current challenges confronting public markets globally, including a potential U.S. interest rate hike, talk of the end of the commodity supercycle and slowing growth projections for emerging markets more broadly, India appears to be in relatively good shape. There is reason to be cautiously optimistic about the prospects for India's IPO markets going forward.

28. Note that this excludes listings on the BSE's SME platform.
29. Exchange rates converted as of 6 October 2015.

Exhibit 27: Sampling of Recent Notable Exits and IPOs in India

Company Name	Fund Manager(s)	Sector	Year(s) of Investment	Capital Invested (US$m)	Transaction Date	Exit and Return Detail
Pennar Engineered Building Systems	Zephyr Peacock	Construction & Materials	2013	9.2	Sep-15	Partial exit via IPO on Bombay Stock Exchange and National Stock Exchange returned INR892m (US$14m)
Avantha Holdings	ICICI Venture Funds Management, Apollo Global Management	Diversified Conglomerate	2013	140	Aug-15	Management buyback returned US$230m; reported 35% gross IRR and 1.6x cash multiple
Shriram City Union Finance	TPG	Financial Services	2008, 2010	120	May-15	TPG exit of 20% stake via off-market sale to Apax Partners for INR25B (US$383m)
PNC Infratech	NYLIM Jacob Ballas AMCs, Mauritius	Construction & Materials	2011	33	May-15	Parital exit via IPO on Bombay Stock Exchange and National Stock Exchange returned INR537m (US$8.4m)
Claris Lifesciences	The Carlyle Group	Pharmaceuticals & Biotechnology	2006	20	Apr-15	Share sale of 11% stake on Bombay Stock Exchange returned INR1.7B (US$27m)
Adlabs Entertainment (Adlabs Imagica)	ICICI Venture Funds Management, NYLIM Jacob Ballas AMCs, Mauritius	Travel & Leisure	2013, 2014	31	Mar-15	IPO on Bombay Stock Exchange and National Stock Exchange raised INR3.8B (US$60m); no disposal of shares
Oricon Enterprises	Clearwater Capital Partners	General Industrials	2009	7	Mar-15	Partial exit of 2.9% stake for INR317.5m (US$5.1m) through share sale on Bombay Stock Exchange
Green Infra	IDFC Alternatives	Electricity	2008, 2009, 2011, 2013	117	Feb-15	Strategic sale of 60% stake to Sembcorp; IDFC Alternatives continues to hold 40% stake
Destimoney	New Silk Route Growth Capital	Financial Services	2008	24	Feb-15	Secondary sale of 100% stake to The Carlyle Group for reported US$200m
SFO Technologies	Darby Private Equity, Asia Mezzanine Capital Group, IL&FS Investment Managers	Technology Hardware & Equipment	2011	38	Feb-15	Exit through management buyback
Agile Electric Sub Assembly	The Blackstone Group	Automobiles & Parts	2013	56	Jan-15	Secondary sale of 98% stake to MAPE Advisory Group for US$106m; reported 2x return
Mahindra CIE Automotive	India Value Fund Advisors (IVFA)	Industrial Engineering	2007	24	Jan-15	Share sale on Bombay Stock Exchange and National Stock Exchange returned INR4.1B (US$67m); reported 19% gross IRR, 3.1x gross cash multiple
ING Vysya Bank	ChrysCapital	Banks	2011, 2014	N/A	Jan-15	Share sales on Bombay Stock Exchange and National Stock Exchange raised US$137m for 4.5% stake; reported 2x cash multiple and IRR of 29%
ING Vysya Bank	ICICI Venture Funds Management	Banks	2011	20	Jan-15	Partial exit via share sales on Bombay Stock Exchange and National Stock Exchange returned US$38m; reported 33% gross IRR and 2.85x cash multiple
Manthan Systems	IDG Ventures India	Software & Computer Services	2007	N/A	Dec-14	Secondary sale to Temasek Holdings
Myntra	IDG Ventures India	Internet	2008	N/A	Mar-14	Acquired by Flipkart

Source: EMPEA

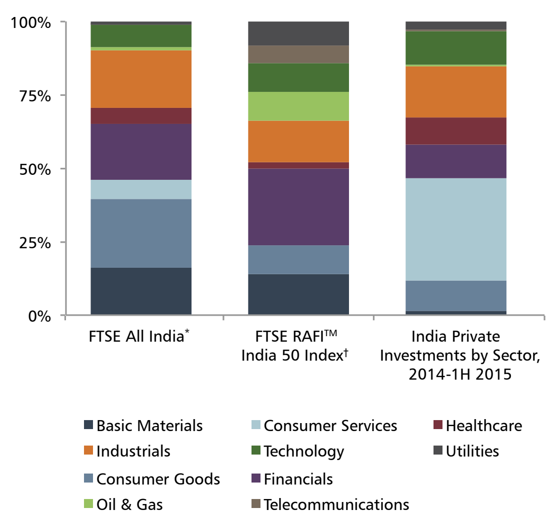
Conclusion

EMPEA Consulting Services has wanted to write a report on India's private equity environment for well over two years. Periodically, we would float the idea with a focus group of industry professionals, and each time, invariably, the response was: too soon. India was for many fund managers and limited partners a radioactive element, decaying portfolios. It's a rather curious phenomenon for so many long-term investors to be so fearful when others are fearful, and to lose the perspective that cycles turn.

In all candor, Indian private equity returns failed to deliver following the global financial crisis. For a number of reasons discussed in this report, the gulf between LP expectations and commercial realities proved too far to bridge. A surfeit of capital in the hands of a surplus of GPs eroded the economics of private equity deals, and so in a world of free capital flows, global capital subsequently flowed to where it could attain a higher prospective return. Alas, not to India.

Lost, perhaps, in the forensic examination of net IRRs and distributions to paid-in capital, was the role that billions of dollars and private equity expertise, deployed into thousands of companies, had on the country's economy. "Private equity in India," reflects Zephyr Peacock India's Mukul Gulati, "has done a great service to the Indian economy by providing capital in a capital-scarce country. That capital was sometimes used productively, sometimes wasted and sometimes misappropriated. But where it was used, it created jobs and scaled up businesses, and the Indian economy has benefited." To illustrate, McKinsey & Company finds that private equity-backed companies not only outpaced non-PE-backed companies in terms of revenue and earnings growth, but also grew direct employment 6% faster.[30] Moreover, private equity played a critical role in the creation of new sectors for the economy, such as telecommunications and information technology. In no small way, it helped to sow the seeds for today's economic rejuvenation.

Exhibit 28: India Investment by Sector—FTSE Public Market Comparison



Source: EMPEA. Data as of 30 June 2015.

* Includes companies domiciled in India; excludes listed equity and non-equity investment instruments.

† The FTSE RAFI™ India 50 Index comprises the 50 companies with the largest RAFI fundamental scores selected from the constituents of the FTSE India All Cap Index.

This sector dynamic is an underappreciated story, and it is an important reason for why private equity can be a meaningful complement to LPs' public market exposure in India. For example, investors buying the FTSE All India or RAFI™ India 50 indices confront a radically different sector composition than private equity investors do (see Exhibit 28). Whereas consumer services account for only 6% of the All India index (and zero of the RAFI™ India 50), the sector is home to 35% of the private equity deals that took place in the 18 months to July 2015. You can't publicly purchase the exposure that GPs can offer privately.

And yet, while fundraising for India-dedicated private equity funds has accelerated of late, a number of global macro issues threaten to forestall interest in India. A potential interest rate hike from the U.S. Federal Reserve could tighten global liquidity conditions precisely at a time when many emerging markets are suffering from the purported end of the commodity supercycle, non-financial corporates are overleveraged, and global growth forecasts are being revised downward. Though India's economic position shows relative strength, LP appetite for emerging market private equity may not be so discriminating. One worries that investors may shy away from India at a time when both the demand for expansion capital amongst growing enterprises and the quality of GPs operating in the market are at their highest levels in years.

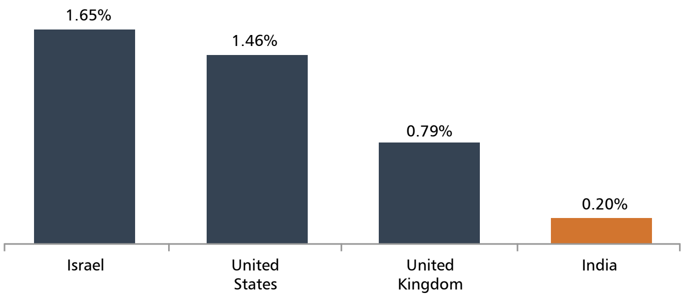
> "Private equity in India has done a great service to the Indian economy by providing capital in a capital-scarce country. That capital was sometimes used productively, sometimes wasted and sometimes misappropriated. But where it was used, it created jobs and scaled up businesses, and the Indian economy has benefited."
>
> —Mukul Gulati, *Zephyr Peacock*

30. McKinsey & Company, "Private equity and India's economic development," August 2015.

"Those who achieve eminence amongst men in this world," according to the Chandogya Upanishad, "have, in some sense, received their share of the fruits of deep reflection … so venerate deep reflection."[31] Of all the markets for private equity, few can match India for the depth of reflection amongst its participants for the shortcomings of its past performance vis-à-vis LP expectations—all zaniness in today's late-stage venture rounds notwithstanding.

A lot has changed since we first began scoping this report, but the enormity of India's investment opportunities remains. The value of private equity investment in 2014 measured up to only 0.2% of GDP, less than one-seventh the rate seen in the United States (see Exhibit 29)—the capacity for further development is huge. So, too, is private equity's ability to finance growth, enhance corporate governance and contribute to prosperity in developing economies such as India. We hope the intervening years of reflection lead to constructive action, and that this report contains insights that give all stakeholders a more nuanced understanding of the current state of play in Indian private equity.

Exhibit 29: Private Equity Penetration as Percent of GDP



Sources: Israel - Israel Venture Capital Research Center; United States - PitchBook; United Kingdom - Centre for Management Buy-Out Research; India - EMPEA; GDP data - International Monetary Fund. Data as of 30 June 2015.

31. Chandogya Upanishad 7.6.1 as quoted in Upanishads, translated by Patrick Olivelle (Oxford World's Classics: 2008).

Sampling of Firms Investing in India

Fund Manager	Funds (Final Close Year, Amount Raised)	Firm Type	Website
Aavishkaar Venture Management	Aavishkaar II (2013, US$94m), Aavishkaar India III (Fundraising)	VC	aavishkaar.in
Accel Partners	Accel India (2008, US$60m), Accel India III (2011, US$155m), Accel India IV (2015, US$305m)	Growth, VC	accel.com
Accion	Frontier Investments Group (Fundraising)	Growth, VC	accion.org
Actis	Actis Energy 3 (2013, US$1,150m), Actis Global 4 (2013, US$1,540m)	Multi-strategy	act.is
Aditya Birla Private Equity	Aditya Birla Private Equity Fund I (2010, US$193m), Aditya Birla Private Equity Sunrise Fund (2011, US$63m)	Growth	adityabirla-pe.com
Ascent Capital India	Ascent India Fund III (2010, US$350m)	Growth	ascentcapital.in
Asian Healthcare Fund	Asian Healthcare Fund (2013, US$40m)	VC	asianhealthcarefund.com
Aspada Investments	SONG Investment Advisers Fund (2008, US$17m)	VC	aspada.com
Avigo Capital Partners	Avigo SME Fund II (2007, US$125m), Avigo SME Fund III (2010, US$240m)	Growth	avigocorp.com
Axon Partners Group	India Opportunities Fund I (2013, US$40m)	VC	axonpartnersgroup.com
Bain Capital	Bain Capital Asia Fund II (2012, US$2,300m), Bain Capital Asia Fund III (Fundraising)	Buyout, VC	baincapital.com
BanyanTree Finance	BanyanTree Growth Capital Fund (2010, US$100m), BanyanTree Growth Capital Fund II (2013, US$175m)	Growth, Mezzanine	banyantreefinance.com
Baring Private Equity Asia	Baring Asia Private Equity Fund V (2011, US$2,460m), Baring Asia Private Equity Fund VI (2015, US$3,988m)	Buyout, Growth	bpeasia.com
Baring Private Equity India	Baring India Private Equity Fund III (2008, US$550m)	Growth	bpepindia.com
Bessemer Venture Partners	Bessemer Venture Partners VIII (2011, US$1,600m), Bessemer Venture Partners IX (2015, US$1,600m)	VC	bvp.com
Blue River Capital	Blue River Capital I (2006, US$135m)	Growth	bluerivercapital.com
Blume Ventures	Blume Ventures Fund I (2012, US$19m), Blume Ventures Fund II (Fundraising)	VC	blumeventures.com
Canbank Venture Capital	Emerging India Growth Fund (CVCF V) (2010, US$102m), Canbank Venture Capital Fund VI (Fundraising)	VC	canbankventure.com
Capital Group Private Markets	CIPEF V (2008, US$2,250m), CIPEF VI (2012, US$3,000m)	Buyout, Growth	capgroup.compe
ChrysCapital	ChrysCapital Fund V (2007, US$960m), ChrysCapital Fund VI (2012, US$510m)	Growth	chryscapital.com
Clearwater Capital Partners	Clearwater Capital Partners Fund IV (2012, US$309m)	Direct Lending, Special Situations	clearwatercp.com
Creador	Creador I (2013, US$132m), Creador II (2014, US$330m), Creador III (Fundraising)	Buyout, Growth	creador.com
CX Partners	CX Partners Fund I (2010, US$515m), CX Partners Intermediate Capital Fund (2014, US$136m), CX Partners Fund II (Fundraising)	Growth	cxpartners.in
Darby Private Equity	Darby Asia Mezzanine Fund II (2007, US$254m), Franklin Templeton Private Equity Strategy (FTPES) (2008, US$147m)	Growth, Mezzanine, Infrastructure	darbyoverseas.com
Edelweiss Alternative Asset Advisors	Edelweiss Special Opportunities Fund II (Fundraising, US$205m)	Special Situations, Distressed Debt	edelweissfin.com
Encourage Capital	Wolfensohn Capital Partners (2009, US$250m), Financial Inclusion Vehicle II (Fundraising)	Growth	encouragecapital.com
Equis Funds Group	Equis Asia Fund II (2015, US$1,000m)	Infrastructure	equisfg.com
Everstone Capital	Everstone Capital Partners II (2011, US$580m), Everstone Capital Partners III (2015, US$730m)	Growth, Buyout	everstonecapital.com
Exfinity Venture Partners	Exfinity Technology Fund - Series I (2014, US$21m)	VC	exfinityventures.com
Forum Synergies (India) PE Fund Managers	India Knowledge-Manufacturing Fund I (2013, US$50m), India Knowledge Manufacturing Fund II (IKMF-II) (Fundraising)	Growth	forumsynergies.com
Gaja Capital Partners	Gaja Capital I (2005, US$25m), Gaja Capital II (2008, US$200m), Gaja Capital III (Fundraising, US$180m)	Growth	gajacapital.com
Global Environment Fund (GEF)	Global Environment Emerging Markets Fund III (2008, US$327m), GEF South Asia Clean Energy Fund* (2012, US$128m)	Buyout, Growth, Real Assets	globalenvironmentfund.com
Helion Venture Partners	Helion Venture Partners I (2006, US$140m), Helion Venture Partners II (2008, US$210m), Helion Venture Partners III (2012, US$255m), Helion Venture Partners IV (Fundraising)	VC	helionvc.com
ICICI Venture Funds Management	India Advantage Fund Series 2 (2006, US$810m), India Advantage Fund Series 3 (2011, US$400m), AION Capital Partners (JV w/ Apollo Global Management) (2014, US$825m), India Infrastructure Advantage Fund (Fundraising, US$275m), India Advantage Fund Series 4 (Fundraising), Power Platform (Fundraising, US$500m)	Multi-strategy	iciciventure.com
IDFC Alternatives	IDFC Private Equity Fund II (2006, US$434m), IDFC Private Equity Fund III (2008, US$644m), India Infrastructure Fund (2009, US$927m), India Infrastructure Fund II (2014, US$895m)	Growth, Infrastructure	idfcpe.com
IDG Ventures India	IDG Ventures India Fund I (2007, US$150m), IDG Ventures India Fund II (2013, Unknown), IDG Ventures India Fund III (Fundraising, US$200m)	VC	idgvcindia.com
IFC Asset Management Company (AMC)	IFC Capitalization Fund (Equity) (2009, US$1,250m), IFC Global Infrastructure Fund (2013, US$1,200m)	Growth, Infrastructure	ifcamc.org
IL&FS Investment Managers / IL&FS Infra Asset Management (IIAML)	Standard Chartered IL&FS Asia Infrastructure Growth Fund (2009, US$658m), Tara India Fund IV (Fundraising, US$40m), IL&FS India Infrastructure Fund (Fundraising) / IL&FS Infrastructure Debt Fund (IIDF) (Fundraising, US$209m), SOUQ Infra Growth Fund (Fundraising, US$45m commitment from three sponsors)	Multi-strategy	iimlindia.com / ilfsinfrafund.com

*JV with Yes Bank

Fund Manager	Funds (Final Close Year, Amount Raised)	Firm Type	Website
India Alternatives Investment Advisors	India Alternatives Private Equity Fund (2013, US$47m)	Growth	india-alt.com
India Value Fund Advisors (IVFA)	India Value Fund III (2007, US$400m), India Value Fund IV (2010, US$600m), India Value Fund V (Indium V) (2015, US$700m)	Growth	ivfa.com
InvAscent	Evolvence India Life Sciences Fund (2008, US$84m), India Life Sciences Fund II (2014, US$146m)	Growth	invascent.com
NYLIM Jacob Ballas AMCs, Mauritius	New York Life Investment Management India Fund II (2006, US$127m), NYLIM Jacob Ballas India Fund III (2008, US$439m)	Growth	nylimjb.net
Kalaari Capital	IndoUS Venture Partners I (2007, US$189m), Kalaari Capital Partners II (2012, US$150m), Kalaari Capital Partners III (Fundraising)	VC	kalaaricapital.com
Kedaara Capital	Kedaara Capital I (2013, US$540m)	Growth	kedaara.com
KKR	KKR Asian Fund II (2013, US$6,000m), KKR India Alternative Credit Opportunities Fund I (Fundraising)	Multi-strategy	kkr.com
Kotak Private Equity Group / Kotak Investment Advisors	Kotak India Growth Fund II (2008, US$440m), Kotak India Private Equity Fund - III (Fundraising) / Kotak Core Infrastructure India Fund (Fundraising, US$90m), Kotak Special Situation Credit Opportunity Fund (Fundraising)	Multi-strategy	kotak.com
LeapFrog Investments	LeapFrog Financial Inclusion Fund (2010, US$135m), LeapFrog Financial Inclusion Fund II (2014, US$400m)	Growth	leapfroginvest.com
Lighthouse Funds	India 2020 Fund I (2009, US$104m), India 2020 Fund II (Fundraising, US$64m)	Growth	lhfunds.com
Lightspeed Venture Partners	Lightspeed India Partners I (Fundraising)	VC	lightspeedvp.com
Lok Capital	Lok Capital I (2008, US$20m), Lok Capital II (2012, US$65m), Lok Capital III (Fundraising)	Growth	lokcapital.com
Macquarie Infrastructure and Real Assets (MIRA)	Macquarie SBI Infrastructure Fund (MSIF) (2011, US$1,170m), Macquarie Asia Infrastructure Fund (Fundraising, US$1,100m)	Infrastructure, Real Assets, Real Estate	mirafunds.com
Matrix Partners	Matrix India (2007, US$300m), Matrix India II (2011, US$300m)	Growth, VC	matrixpartners.com
MicroVest Capital Management	Microvest II (2009, US$60m), MicroVest+Plus (Fundraising, US$48m)	Growth, Direct Lending, Mezzanine	microvestfund.com
Morgan Stanley Infrastructure / Morgan Stanley Private Equity Asia	Morgan Stanley Infrastructure Partners (2008, US$4,000m), Morgan Stanley Infrastructure Partners II (Fundraising, US$1,500m) / Morgan Stanley Private Equity Asia IV (2014, US$1,700m)	Infrastructure, Buyout, Growth	morganstanley.com
Motilal Oswal Private Equity	India Business Excellence Fund-I (2008, US$125m), India Business Excellence Fund-II (2013, US$155m)	Growth	pe.motilaloswal.com
Multiples Alternate Asset Management	Multiples I (2011, US$405m), Multiples II (Fundraising, US$500m)	Growth	multiplesequity.com
New Silk Route Growth Capital	New Silk Route PE Asia Fund (2008, US$1,340m)	Growth	nsrpartners.com
Nexus Venture Partners	Nexus Opportunity Fund II (2015, US$130m), Nexus India Capital IV (2015, US$304m)	VC	nexusvp.com
Rabo Equity Advisors	India Agri Business Fund (2010, US$120m), India Agri Business Fund II (Fundraising, US$80m)	Growth	raboequity.com
responsAbility Investments	responsAbility Ventures I (2012, US$17m), responsAbility Energy Access Fund (Fundraising, US$30m)	Growth, VC	responsability.com
SAIF Partners	SAIF Partners India Fund IV (2011, US$350m), SAIF Partners India Fund V (2015, US$350m)	Growth	saifpartners.com
Sequoia Capital	Sequoia India Growth Fund II (2008, US$725m), Sequoia Capital India IV (2015, US$740m)	Growth, VC	sequoiacap.com
Small Enterprise Assistance Funds (SEAF)	SEAF India Agribusiness Fund (2012, US$79m), SEAF India Fulcrum Technology Fund (Fundraising)	Growth	seaf.com
Tata Capital Growth Fund	Tata Capital Growth Fund I (2011, US$240m), Tata Capital Growth Fund II (2016, US$400m proposed)	Growth	tatacapital.com/Private_Equity/GF_Overview.htm
Templeton Asset Management (TAML)	Templeton Strategic Emerging Markets Fund III (2010, US$180m), Templeton Strategic Emerging Markets Fund IV (2014, US$220m)	Growth	franklintempleton.com
The Abraaj Group	Sabre Abraaj India Private Equity Fund (2007, US$300m), Abraaj Global Healthcare Fund (Fundraising)	Buyout, Growth, Real Estate	abraaj.com
The Blackstone Group	Blackstone Tactical Opportunities Fund (2012, US$1,500m), Blackstone Energy Partners II (2015, US$4,500m)	Buyout, Hedge, Real Estate	blackstone.com
The Carlyle Group	Carlyle Asia Partners III (2010, US$202m), Carlyle Asia Partners IV (2014, US$3,900m)	Multi-strategy	carlyle.com
The Rohatyn Group	TRG Growth Partnership II (2007, US$4,300m)	Multi-strategy	rohatyngroup.com
TPG	TPG Asia V (2008, US$3,841m), TPG Asia VI (2014, US$3,300m)	Buyout, Growth, Direct Lending	tpg.com
TVS Capital	TVS Shriram Growth Fund-1A (2008, US$115m), TVS Shriram Growth Fund-1B (2013, US$104m)	Growth	tvscapital.in
Unitus Seed Fund	Unitus Seed Fund (2015, US$23m)	VC	usf.vc
Ventureast	Tenet Fund II (2008, US$15m), Ventureast Proactive Fund (2008, US$108m), Life Fund III (2011, US$122m)	VC	ventureast.net
Warburg Pincus	Warburg Pincus Private Equity XI (2013, US$11,200m), Warburg Pincus Energy Partners (2014, US$4,000m)	Buyout, Growth	warburgpincus.com
Zephyr Peacock India	Zephyr Peacock India Fund II (2010, US$48m), Zephyr Peacock India Fund III (2013, US$66m)	Growth	zephyrpeacock.com

Source: EMPEA.

EMPEA Methodology

This report provides an overview of trends in fundraising, investment and exit activity among private alternative asset managers active in India. Unless stated otherwise, the information presented here is drawn from EMPEA's proprietary research database, FundLink, and is based on data obtained from surveys of industry participants, direct communications with fund managers, press releases, trade publications and exchanges with regional and local venture capital associations. Fundraising, investment and exit amounts in this report have been confirmed wherever possible directly by fund managers. EMPEA updates historical data on a quarterly basis as new data from fund managers and other sources is compiled in FundLink.

EMPEA's reporting covers activity by long-term, private, direct investment funds backed by institutional investors, across the following three asset classes: private equity, private infrastructure and real assets, and private credit—collectively "private funds" or "private capital." Data and statistics in this report exclude activity from real estate funds, funds of funds, traditional investment holding companies, corporate strategic investors, government-owned or -managed entities and captive investment vehicles, as well as funds investing primarily in publicly-traded equity or debt securities. Fundraising from secondaries funds is also excluded, as are secondary investments (both traditional and direct), except where otherwise specified. In addition, wherever possible, bank (acquisition) financing is excluded from reported investment values.

Reported fundraising totals reflect only official closes (interim and/or final) as reported in primary and secondary sources or directly by fund managers. Capital commitments accruing prior to or between official closes are not included in reporting.

EMPEA classifies investments into one of three asset classes—private equity, private infrastructure and real assets, or private credit—and into one of the following deal types: buyout, growth, venture capital, PIPE, mezzanine or debt. Venture capital includes seed, early-stage and late-stage investments. When determining how an investment should be classified, EMPEA takes into account the typical investment strategy of the fund manager(s) involved, the type of security acquired, the reported round number or type of transaction, the development stage of the company at the time of investment, the company's business model and the type of product or service that the company provides.

Data and statistics in this report are compiled based on the "market" approach. Fundraising activity is categorized based on the countries, sub-regions or regions in which fund managers intend to invest, while investment activity is categorized based on the country headquarters of investee companies. For companies registered in offshore financial centers or developed markets, but operating exclusively or predominately in emerging markets, investment activity is categorized based on the geographic footprint of the operations of investee companies. In the case of global or multi-regional funds, only those funds investing primarily in emerging markets are included in fundraising totals. India-specific fundraising data and statistics reflect only those funds with a single-country, India-specific strategy or mandate. Target allocations to India within a broader global or regional fund are not attributed to India fundraising totals.

EMPEA's fund and company sector classifications are based on the Industry Classification Benchmark (ICB), which is owned by FTSE International Limited (FTSE). FTSE® is a trademark of the London Stock Exchange Group companies and is used by FTSE under license. FTSE does not accept any liability to any person for any loss or damage arising out of any error or omission in the ICB.

Abbreviations commonly used in this report:

EM – Emerging markets

PE – Private equity

VC – Venture capital

GP – General partner (fund manager)

LP – Limited partner (fund investor)

In some exhibits, percentage labels may not sum to 100% due to rounding. In all tables in which it appears, "N/A" denotes a confidential or otherwise undisclosed value.

For more information on EMPEA's methodology, please contact research@empea.net.

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