

Flashback 2014: Beginnings of “Achche Din”?



Presentation, 12 March 2015

Presented at:

APEX'15
SUMMIT

INDIA'S PREMIER
INVESTOR/ENTREPRENEUR
INTERFACE.



This document presents an overview of the PE/VC investment and exit scenario in India based on analysis of data from Venture Intelligence and inputs from industry participants. The data we have analysed excludes Real Estate deals.

The IRR computations presented in the slides are an aggregate view based on available data for about 60% of the deals. The IRR calculations also do not take into account the interim pay-outs such as dividends and refer only to the initial investment and exit value.

We thank Venture Intelligence for the data support without which this analysis would not have been possible.

Executive Summary

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- Underpinning this sectoral shift in investment is the euphoria following the election results coupled with favorable macro-economic developments like the drop in oil prices, lower inflation and better exchange rate management rather than any fundamental improvements on the ground

PE Exits Situation: The “Logjam” is for Real

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- Hence, 2015 has started with an increase in the un-exited 6+ years old investments from Rs. 84,000 Cr. in 2014 to Rs. 94,400 Cr. - the “Logjam” is Real and Rising
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What’s the Way Out?

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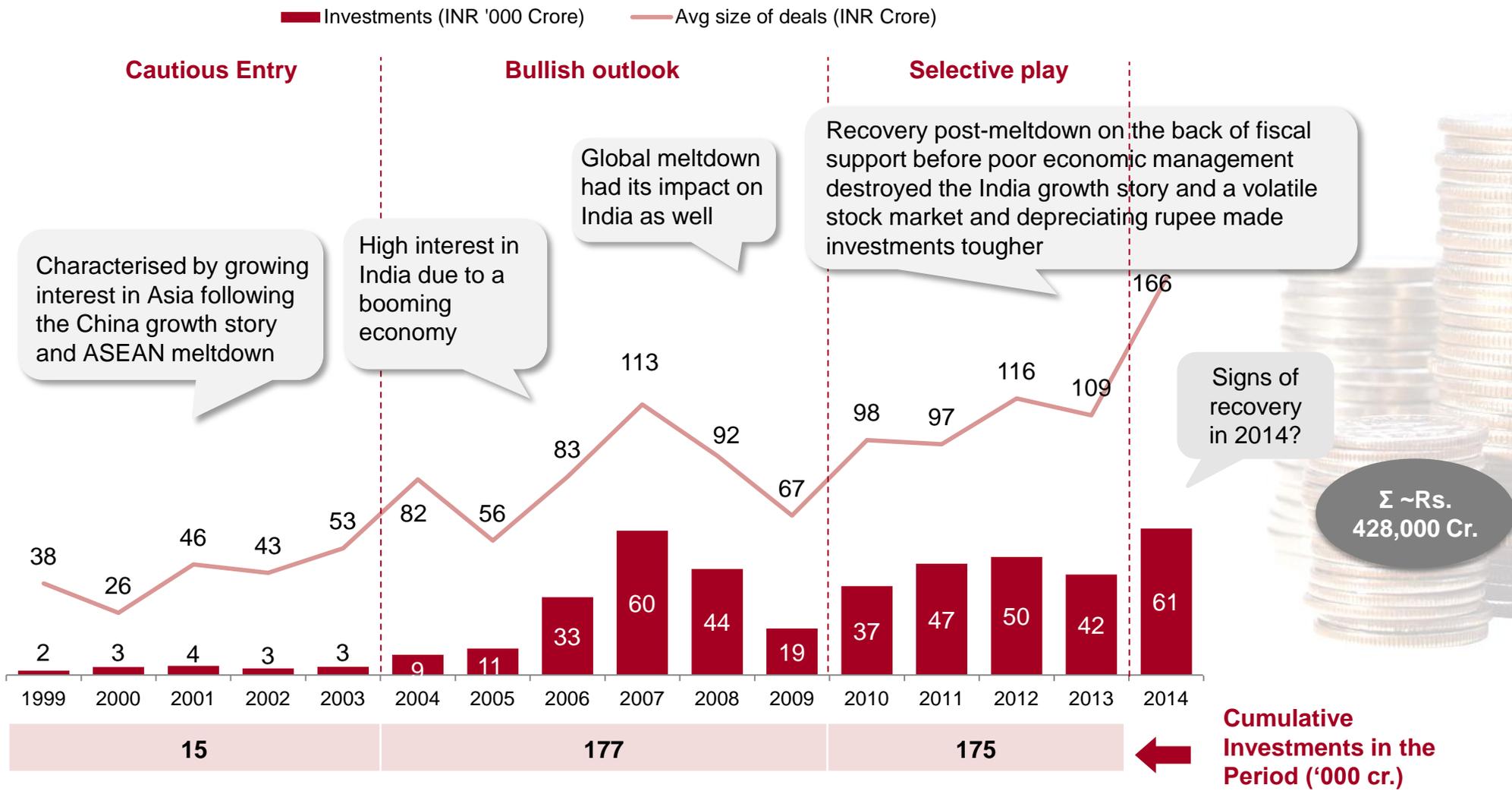
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After years of tentative movements, PE investments in India witnessed a sharp increase in 2014 with average deal size at historic highs; is this a sign of recovery?

VC/PE Investments in India (Rs. '000 Cr.)



Characterised by growing interest in Asia following the China growth story and ASEAN meltdown

High interest in India due to a booming economy

Global meltdown had its impact on India as well

Recovery post-meltdown on the back of fiscal support before poor economic management destroyed the India growth story and a volatile stock market and depreciating rupee made investments tougher

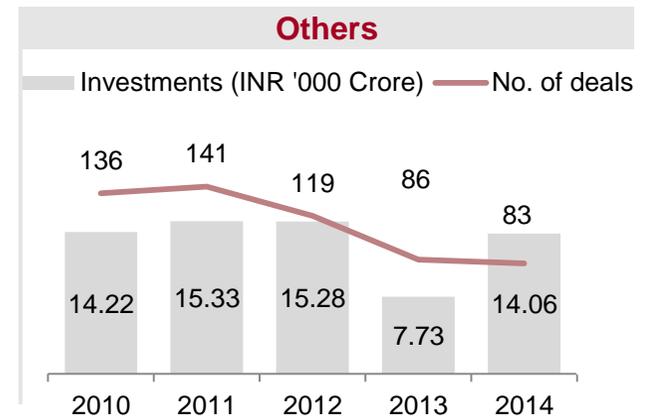
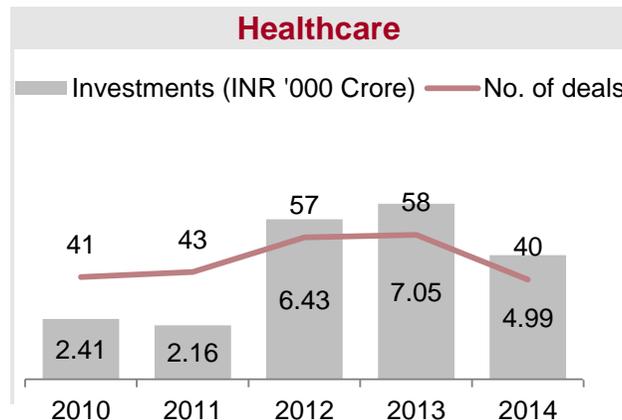
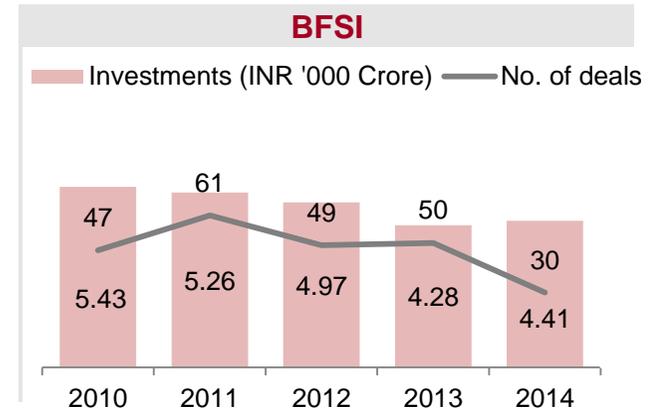
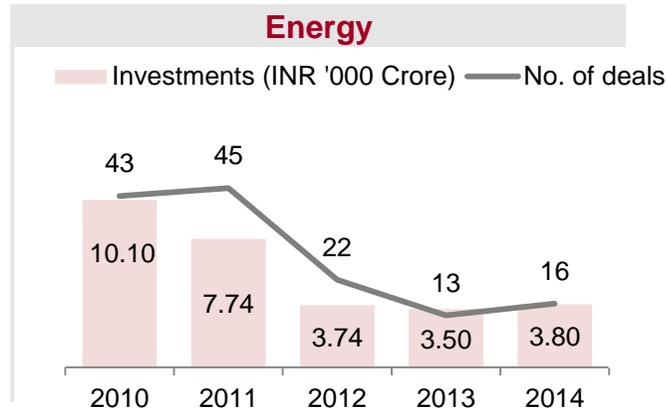
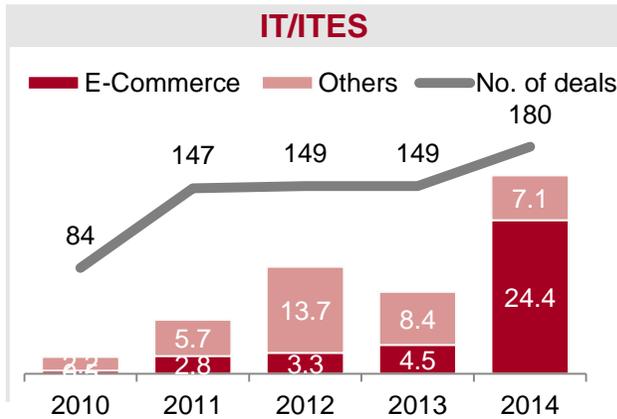
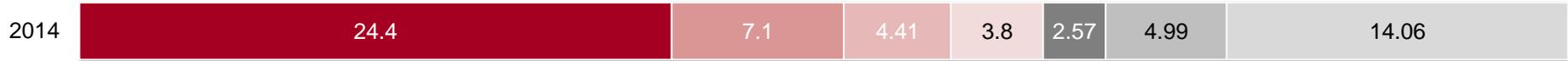
Signs of recovery in 2014?

Source: Venture Intelligence Data, Avalon Consulting Analysis

However, bulk of these investments was in the E-commerce space, followed by Energy and BFSI; excluding these sectors, 2014 was not a significant improvement over 2013 with key sectors like Healthcare and Manufacturing actually declining

VC/PE Sector inflows – 2010 to 2014 ('000 Crore)

■ E-Commerce ■ Other IT/ITES ■ BFSI ■ Energy ■ Manufacturing ■ Healthcare ■ Others

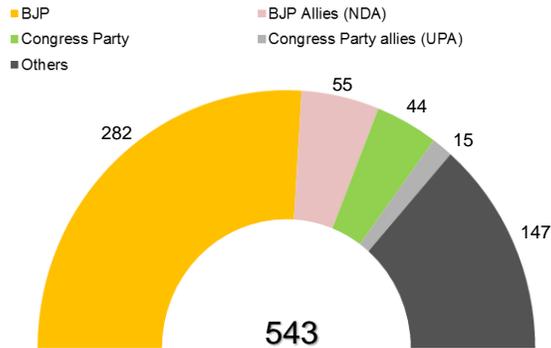


Source: Venture Intelligence Data, Avalon Consulting Analysis

Underpinning this sectoral shift in investment is the euphoria from the election results coupled with favorable macro-economic developments rather than any fundamental improvements on the ground

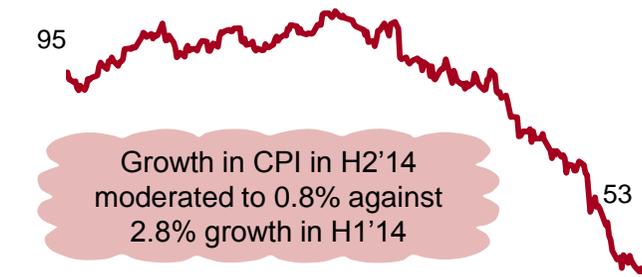
Macro Economic factors

The promise of a stable Government for 5 years with simple majority for Narendra Modi led BJP set off a euphoria...



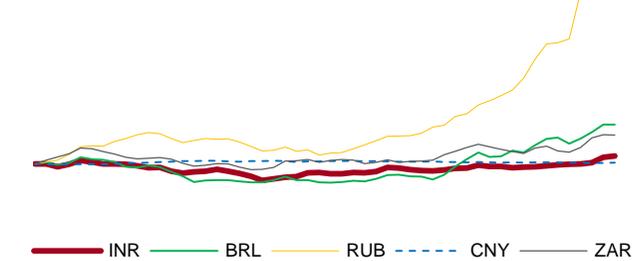
Drop in oil prices, lower inflation and better exchange rate management – favorable macro-economic environment....

Crude oil price trend (WTI USD/barrel)



Jan -14 Jul -14 Dec -14

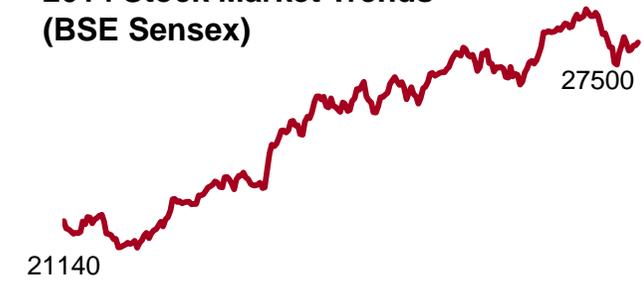
INR Vs Other Currencies (Index of Exchange Rate vis a vis Dollar)



Jan -14 Dec -14

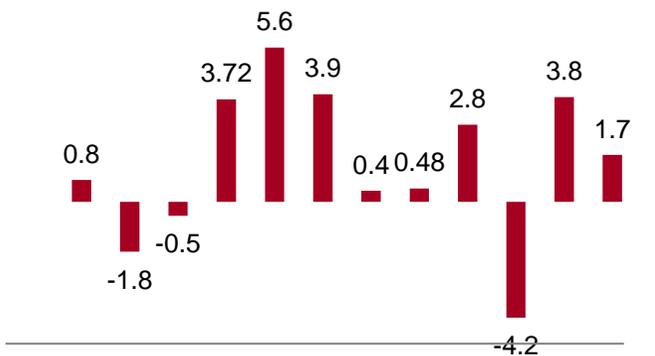
... Resulted in positive market sentiments despite few fundamental changes in the underlying economy

2014 Stock Market Trends (BSE Sensex)



Jan -14 Dec -14

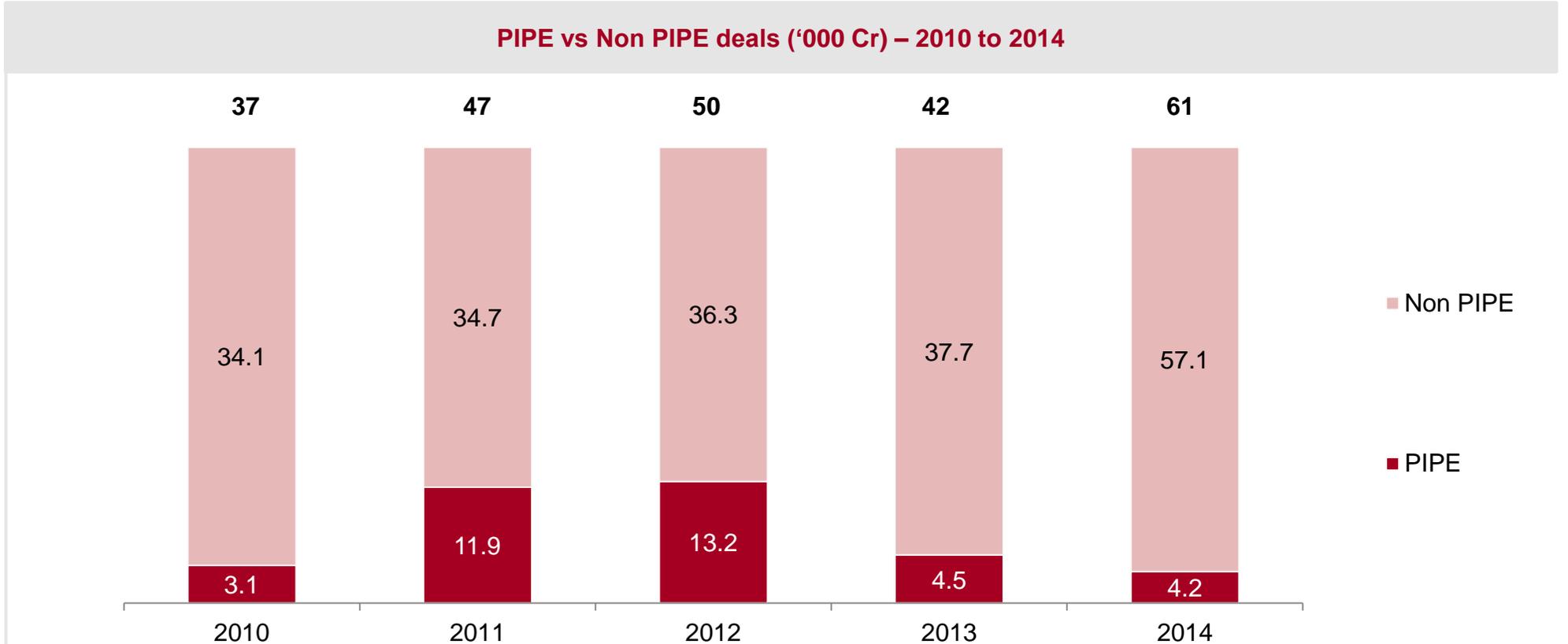
2014 IIP growth YoY



Jan -14 Dec -14

Like the previous years, non-PIPE investments had a dominant share in 2014

PIPE vs Non PIPE deals – 2010 to 2014 ('000 Crore)



Source: Venture Intelligence Data, Avalon Consulting Analysis

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PE Exits Situation: The “Logjam” is for Real

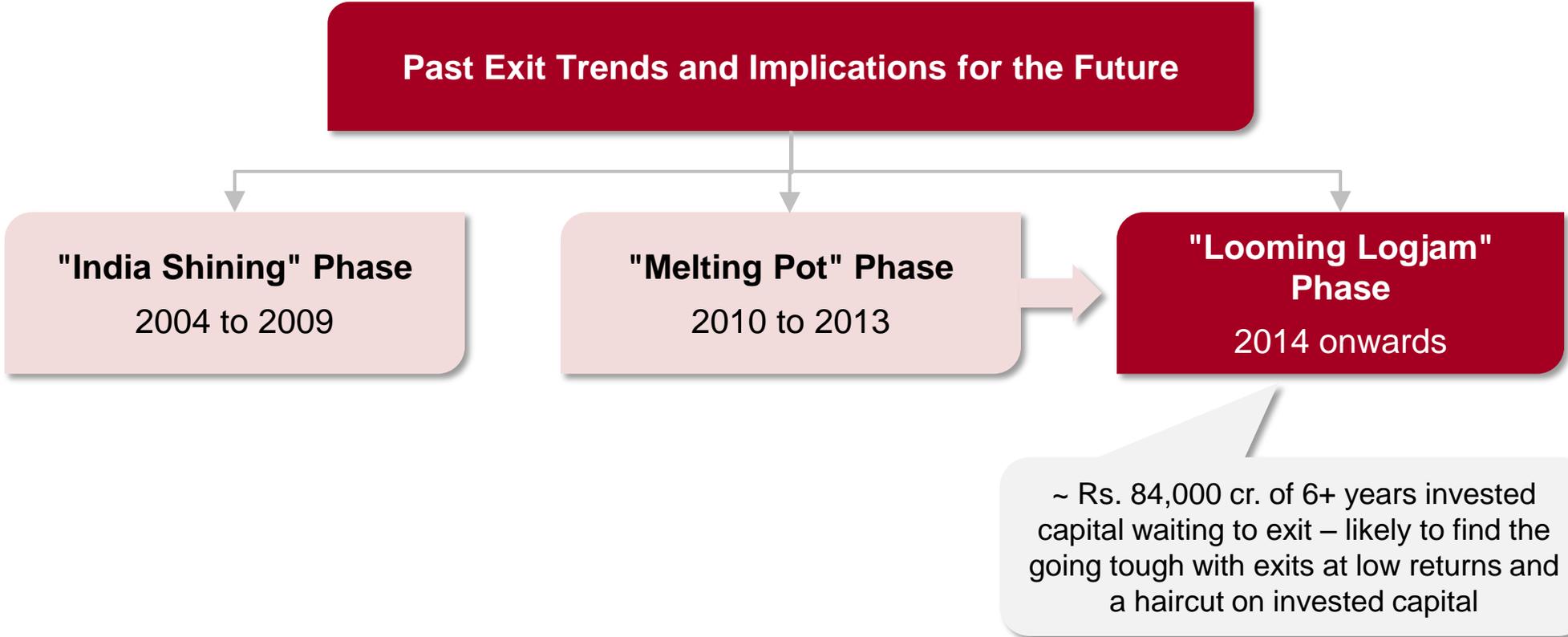
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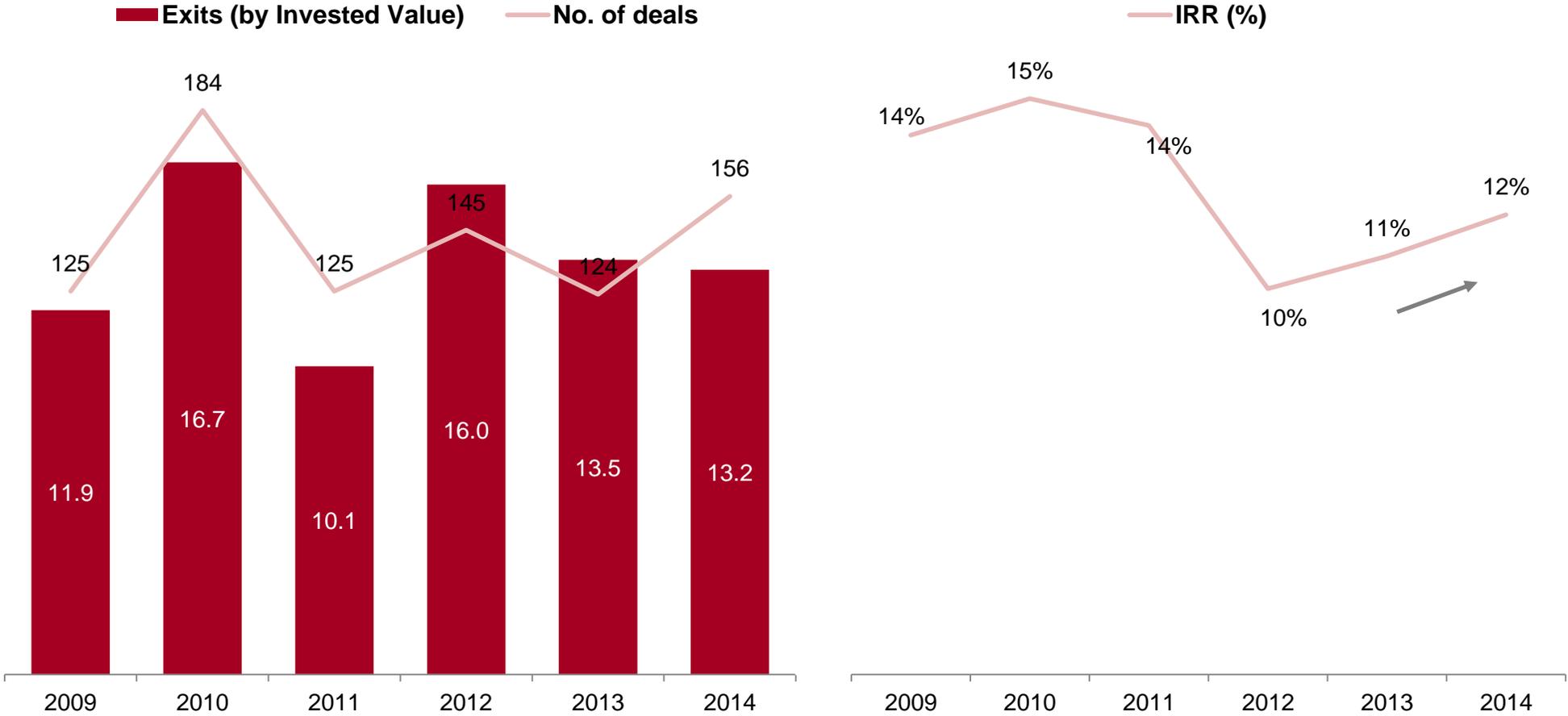
In Apex 2014, we spoke about India being in a “Looming Logjam” Phase with over Rs. 84,000 Cr. Of 6+ years old invested capital - where are we today?

Past Exit Trends and Implications for the Future



About Rs. 13,200 cr. of invested capital exited in 2014, slightly lower than the Rs. 13,500 Cr. of 2013; however, IRR has increased moderately to 12% in 2014

VC/PE Exits at Invested Value ('000 Cr., % IRR)



Source: Venture Intelligence Data, Avalon Consulting Analysis

The higher IRRs and even the lower quantum of invested capital which exited have been driven by recent pedigree investments on the back of rising stock markets

Exits and IRR (Rs. '000 Cr. / %)

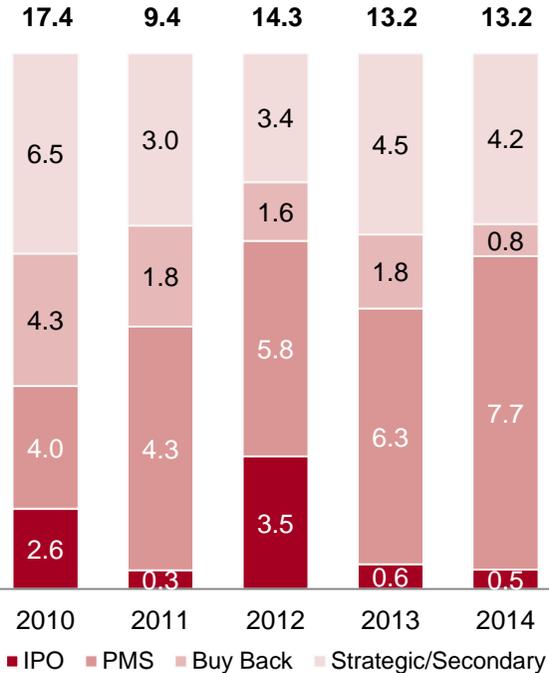
Exits from <=3 years invested capital have jumped in 2014...

2010-14 Exits at Investment Value (Rs. '000 Cr.)



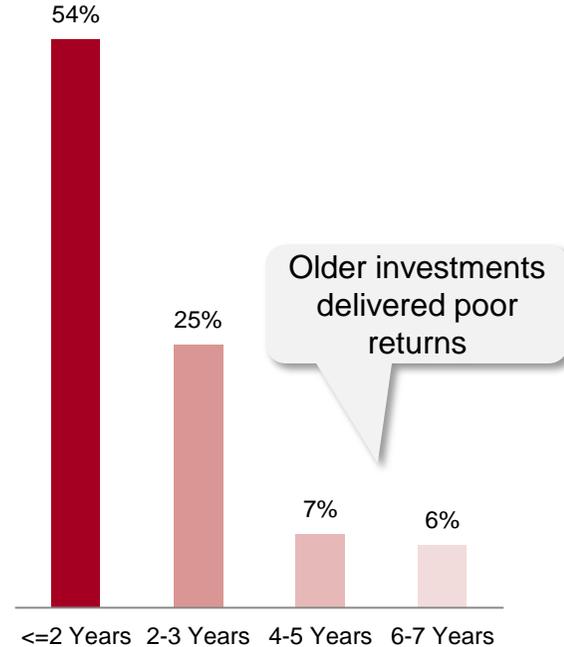
...mainly through PMS aided by a rising stock market..

2010-14 Exits by Transaction Type (Rs. '000 Cr.)



...delivering exceptional returns

2014 IRR by Age at Exit (%)



Source: Venture Intelligence Data, Avalon Consulting Analysis

There are many such examples of successful exits which delivered high returns with a shorter holding period in 2014

Examples of Successful Exits in 2014 with Shorter Holding Period

Investee Name	Investor Name	Sector	Investment Year	Return Multiple	Exit Value (Cr.)
Cyberoam	Carlyle	IT/ITES	Sep-12	6.0	427
Snapdeal	Bessemer	IT/ITES	Jul-11	5.5	1366
Laurus Labs	Fidelity Growth	Healthcare	Feb-12	2.9	150
PVR Cinemas	Multiple PEs	Media & Entertainment	Nov-12	2.7	108
IndusInd Bank	General Atlantic	BFSI	Mar-11	2.7	401
Ramakrishna Forgings	Wayzata Investment Partners	Manufacturing	Feb-13	2	14
Hero Motor Corp	GIC	Manufacturing	Mar-11	2	488
Hero Motor Corp	Bain Capital	Manufacturing	Mar-11	2	2433
Repcos Home Finance	Wolfensohn & CO.	BFSI	Feb-13	2	204
Newgen Imaging	Eplanet Ventures, Franklin Templeton	IT/ITES	Jun-11	2	536
Lovable Lingerie	Sequoia Capital	Textiles & Garments	Feb-11	1.7	9
Syngene International	GE capital	Healthcare	Oct-12	1.7	215
Monte Carlo Fashions	Samara Capital	Textiles & Garments	Jun-12	1.5	128
South Indian Bank	Multiple PEs	BFSI	Sep-12	1.5	80

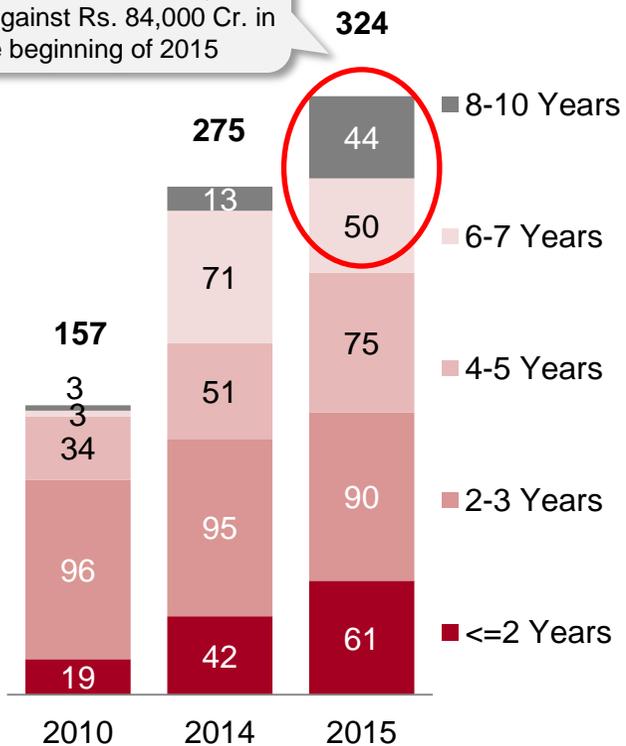
Source: Venture Intelligence Data, Avalon Consulting Analysis

Hence, 2015 has started with an increase in the un-exited 6+ years old investments from Rs. 84,000 Cr. in 2014 to Rs. 94,400 Cr. - the “Logjam” is Real and Rising and will take a long time to unwind

Net (Un-exited) PE/VC Investments at the Beginning of the Year (‘000 Cr.)

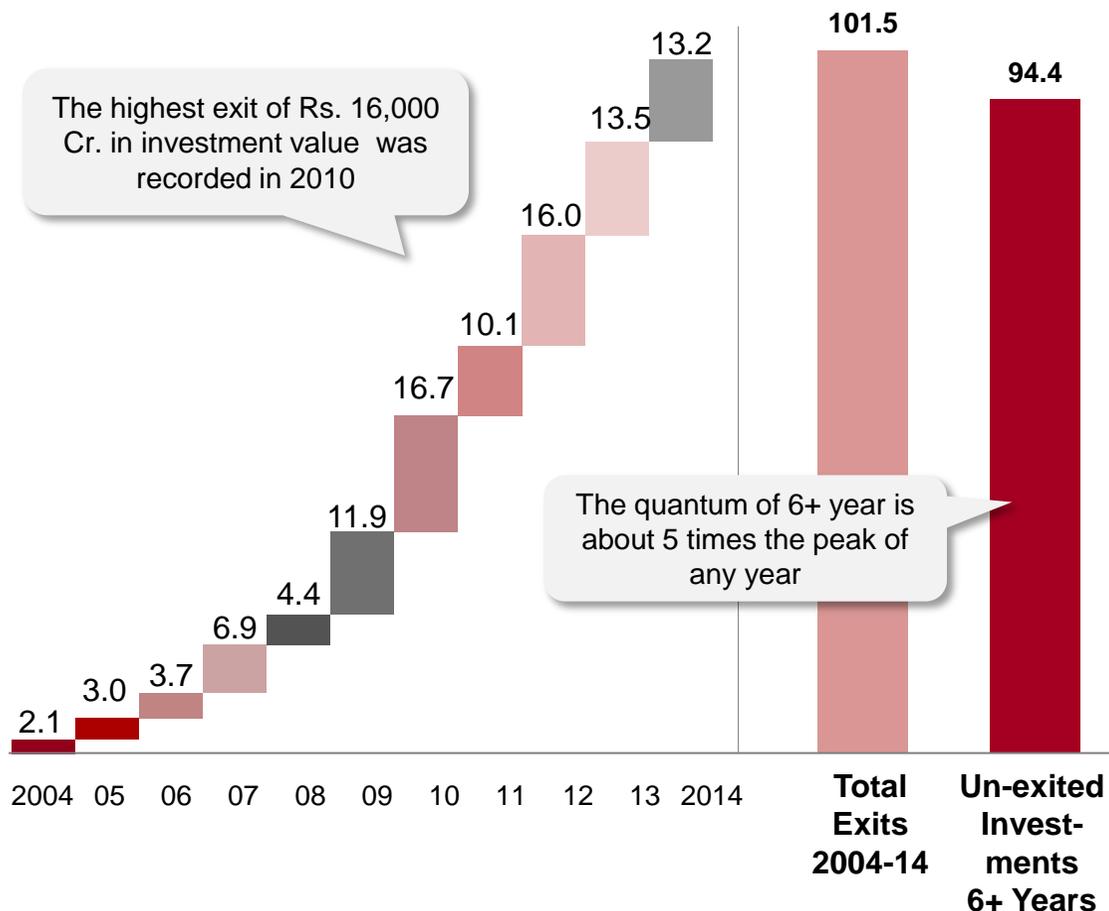
Un Exited PE Investments (‘000 Cr.)

About Rs. 94,400 Cr. of un-exited investments is 6+ years old as against Rs. 84,000 Cr. in the beginning of 2015



VC/PE Exits in Investment Value (‘Rs. 000 Cr.)

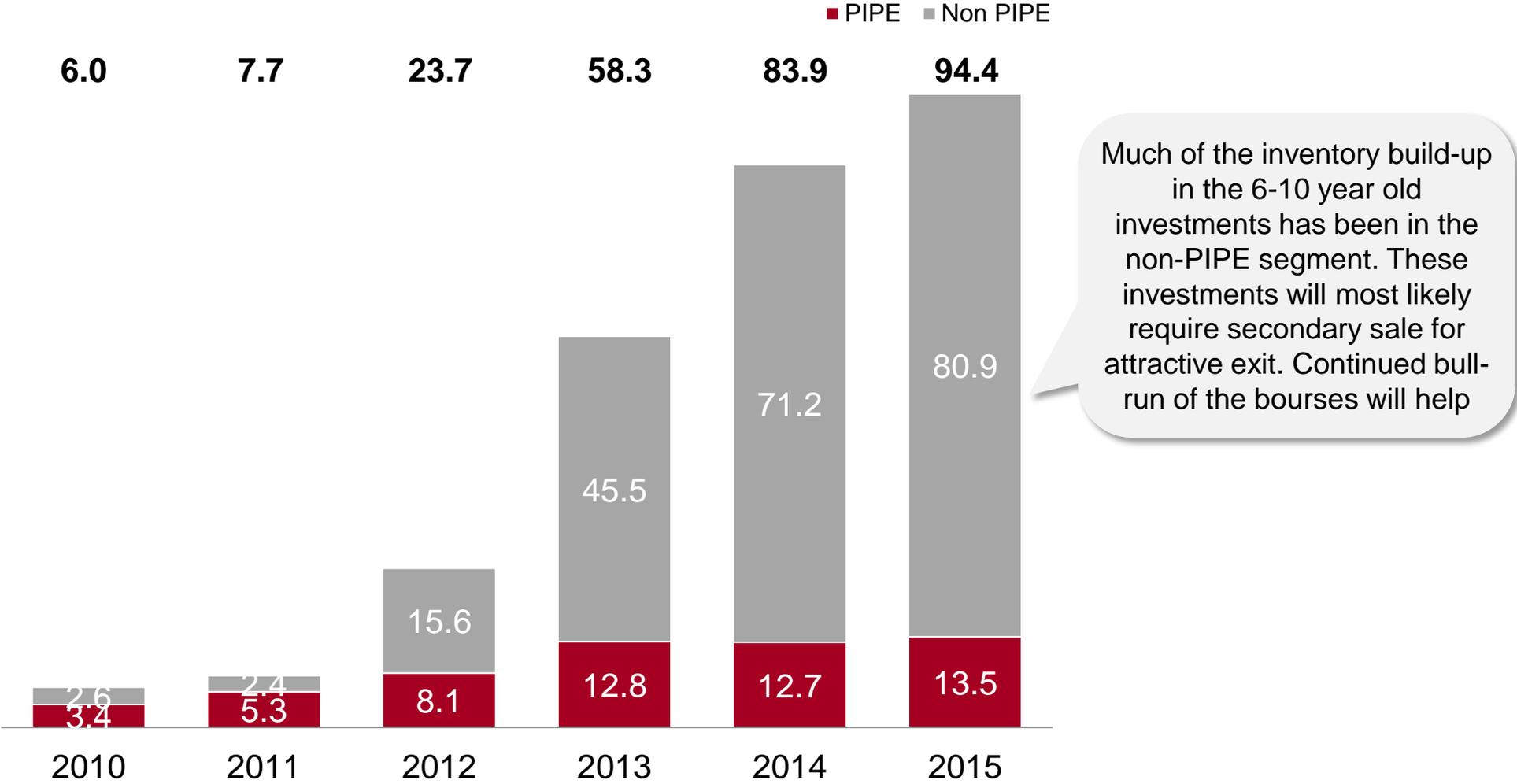
The highest exit of Rs. 16,000 Cr. in investment value was recorded in 2010



The quantum of 6+ year is about 5 times the peak of any year

A large share of the 6+ years old invested capital waiting to exit is in non-PIPE transactions, most likely requiring a secondary sale to exit

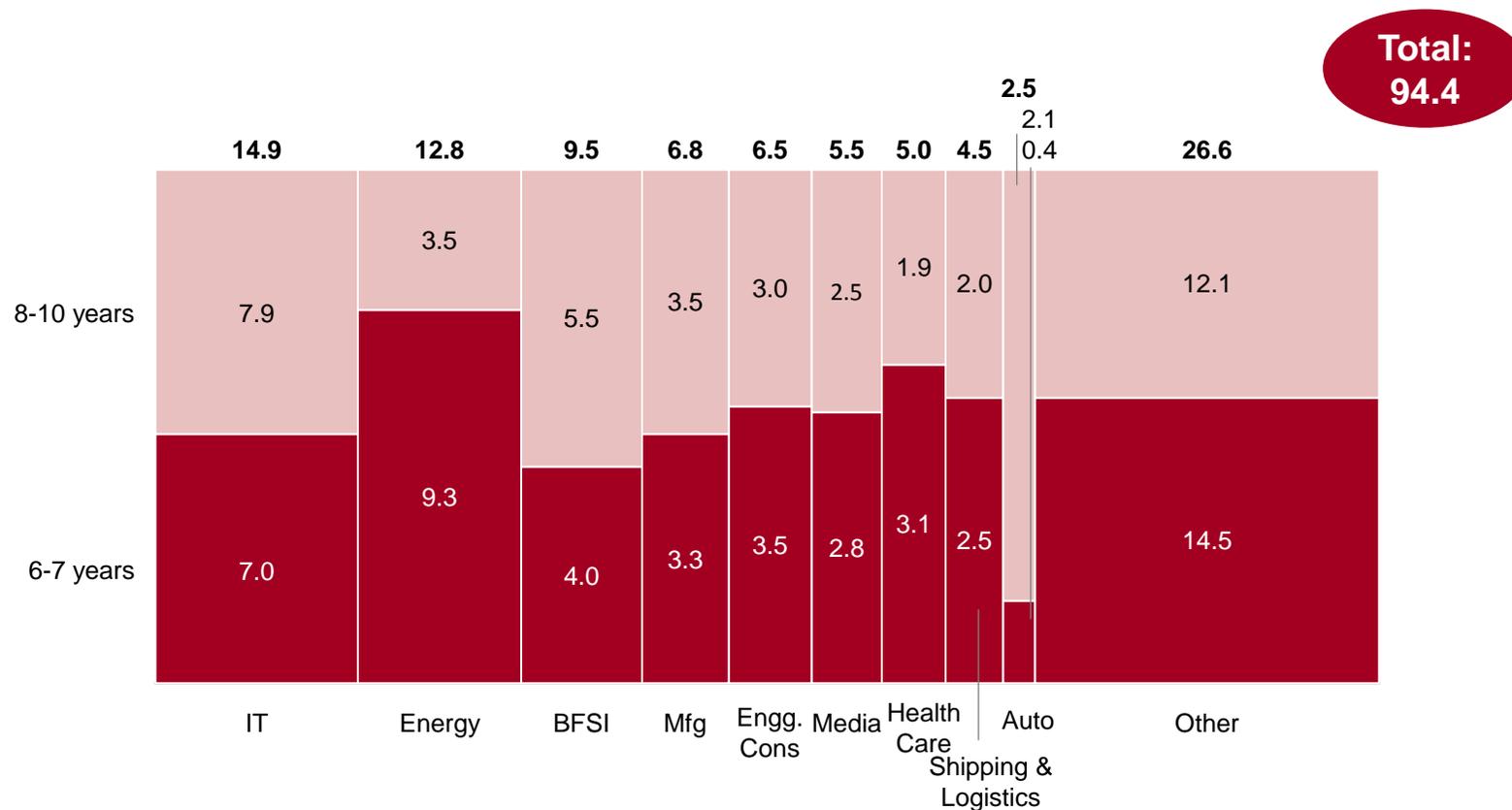
Breakdown of 6-10 Year Old Net (Un-Exited) Investments in 2015 by PIPE Vs. Non-PIPE ('000 Cr.)



Source: Venture Intelligence Data, Avalon Consulting Analysis

The un-exited investments are spread across a number of sectors; the key sectors that have to perform well for the exit scenario to improve are IT/ITES, Energy, Media, BFSI and Manufacturing

Net 6+ year old PE/VC Investments at the Beginning of 2015 by Sector ('000 Cr.)



Source: Venture Intelligence Data, Avalon Consulting Analysis

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With the logjam accelerating in 2015, the interventionist approach to driving Value Enhancement that we proposed in Apex 2014 becomes even more relevant

Avalon Consulting 5 Step Value Enhancement Framework

KEY IMPERATIVE	RATIONALE	TOOLS AND TACKLES
Stay Focused on Delivering A Growth Strategy	<ul style="list-style-type: none"> ▪ Growth creates all around value – to the promoter, existing investor and equally, for the secondary investors 	<ul style="list-style-type: none"> ▪ Product portfolio rationalisation and New Product Development ▪ Customer line profitability ▪ Pricing strategy ▪ Channel mix optimisation ▪ Geographic expansion and Synergistic diversification
Create Alignment – Promoters and Next Stage Buyers	<ul style="list-style-type: none"> ▪ Align with the Promoters on likely secondary investors – strategic or PE, create the buy-in and rationale. Will help to work towards the common goal 	<ul style="list-style-type: none"> ▪ Strategic Investor Search – broad buyer category and specific targets ▪ Align Strategy where required without compromising key elements ▪ Recalibrate and Iterate
Governance and Organisation Transformation	<ul style="list-style-type: none"> ▪ Improved Governance and Organisation aligned with Strategy with Key Personnel in place is a pre-requisite to Strategy Execution 	<ul style="list-style-type: none"> ▪ OT through Balanced Scorecard ▪ People capability enhancement ▪ Good governance and reporting ▪ Process / systems (governance, operations, supply chain, sales & marketing, finance, etc.)
Operational Efficiencies	<ul style="list-style-type: none"> ▪ Continuous Operational Improvements to Drive Short and Medium Term Profitability Improvements 	<ul style="list-style-type: none"> ▪ Strategic Cost Reduction and Sourcing ▪ Supply Chain Efficiency Improvements ▪ Cash to Cash Cycle Improvements ▪ Sales Force Effectiveness
Stress Test	<ul style="list-style-type: none"> ▪ Key Question – Would the Exiting Investor have invested in the business? 	<ul style="list-style-type: none"> ▪ Mini 'VDD' at regular intervals

Source: Avalon Consulting Research & Analysis

However, certain sectors will continue to fuel growth of VC/PE investments in India...

Growing demand for food, consumer affluence, labor shortage and water scarcity will drive the growth of key sectors in Agribusiness

2015 & Beyond: Attractive Investment Opportunities

NOT EXHAUSTIVE

Agribusiness		
Opportunity	Rationale	Companies to Look Out For...
Agrochemicals	<ul style="list-style-type: none"> Growth in exports of off-patent generics Thrust on Farm Productivity Improvement for Food Security Increased awareness and usage of Fungicides Increased usage of Herbicides as a solution to labor shortage 	
Micro-irrigation	<ul style="list-style-type: none"> Decreasing Water Tables Govt. thrust on Water (Modi's "more crop for every drop") Increased Outlay of Government Subsidies Large-scale projects supported by Govt. (Eg. in Guj, Kar) 	
Dairy	<ul style="list-style-type: none"> Consumer affluence driving demand for value added products Growing demand for packaged milk Widening supply gap due to stagnating yields 	
Meat Products & Animal Feed	<ul style="list-style-type: none"> Rising income leading to demand for superior proteins Consumer affluence driving demand for value added products Growth in modern retail 	
Processed Food	<ul style="list-style-type: none"> Rising Income, affluence, indulgence Rise in working women population.... ... clubbed with growth in nuclear families 	

Source: Avalon Consulting Research & Analysis

... certain sectors will continue to fuel growth of VC/PE investments in India...

Cold Chains, 3PL and Agri Warehousing are emerging opportunities in the Warehousing / Logistics space

2015 & Beyond: Attractive Investment Opportunities

NOT EXHAUSTIVE

Warehousing / Logistics

Opportunity	Rationale	Companies to Look Out For...
Cold Chains	<ul style="list-style-type: none"> ▪ Growth in Modern Trade, Meat Demand, Dairy Demand ▪ Government subsidies for reducing food wastage ▪ Off-season Fruits & Vegetables Demand & Exports of F&V ▪ 100% FDI through automatic route ▪ Infrastructure status for industry ▪ Outlays for Food parks and Integrated Cold Chains 	
3PL	<ul style="list-style-type: none"> ▪ Growth in e-commerce ▪ Growth in organized retail ▪ Auto sector revival, and growth in exports ▪ Introduction of GST 	
Agri Warehousing	<ul style="list-style-type: none"> ▪ Capacity gap ▪ Government thrust on lowering food wastage ▪ Growth in processing industry ▪ Making warehousing receipts negotiable under Warehousing (Development and Regulation) ▪ Classification of agri-warehousing under priority sector ▪ Tax holiday for warehousing income under 80 (I) (B) 	

... certain sectors will continue to fuel growth of VC/PE investments in India...

There are many growth opportunities targeting the Indian and Global market in the Indian Healthcare Industry

2015 & Beyond: Attractive Investment Opportunities

NOT EXHAUSTIVE

Healthcare		
Opportunity	Rationale	Companies to Look Out For...
Healthcare Delivery - Hospitals	<ul style="list-style-type: none"> Widening supply gap in hospital beds – non super specialty Increased penetration of medical insurance Huge untapped opportunity in primary / preventive care – integrating it with existing models Untapped potential in Tier II/III locations 	
Medical Equipment	<ul style="list-style-type: none"> Growth in preventive diagnostics and molecular diagnostics based rapid testing alternatives Growth in export competitiveness with 'Make in India' support India specific innovation driving access and affordability Development of regulatory framework for devices / equipment 	
Diagnostic Centers	<ul style="list-style-type: none"> Increased awareness especially for chronic / lifestyle diseases Growth in preventive diagnostics and molecular diagnostics based rapid testing alternatives 	
Branded Generics	<ul style="list-style-type: none"> Strong experience and talent base for Process Chemistry skills, manufacturing expertise for generic drugs Regulatory experience in filing drug registrations in regulated markets 	

Source: Avalon Consulting Research & Analysis

... certain sectors will continue to fuel growth of VC/PE investments in India...

FMCG, Consumer Durables / Electronics and Entertainment are the sectors to look out for in the Consumer & Retail segment

2015 & Beyond: Attractive Investment Opportunities

NOT EXHAUSTIVE

Consumer & Retail

Opportunity	Rationale	Companies to Look Out For...
Consumer Durables & Electronics	<ul style="list-style-type: none"> Consumer affluence Rural penetration Growth in penetration of white goods & brown goods Growth in mobile telephony Growth in LED lighting 	
FMCG	<ul style="list-style-type: none"> Consumer affluence and aspirations Increased penetration in relatively new categories like deodorants Industry thrust on rural penetration 	
Entertainment	<ul style="list-style-type: none"> Entertainment consumption through mobiles Digital Platform growth – technology and content led business models Mobile ad platforms “Miniplexes” Growth in smaller towns 	

Source: Avalon Consulting Research & Analysis

... certain sectors will continue to fuel growth of VC/PE investments in India...

The growth trends in these 'mother' industries will drive the growth of manufacturing in various specialty chemical categories

2015 & Beyond: Attractive Investment Opportunities

NOT EXHAUSTIVE

Specialty Chemicals

Opportunity	Rationale	Companies to Look Out For...
<p>Agrochemical Intermediates</p>	<ul style="list-style-type: none"> ▪ Growth in exports of generics that require intermediates ▪ Exports of intermediates to other global generic producers ▪ Campaign runs for mid-size volumes more amenable in India ▪ Ability to reengineer processes using our qualified manpower 	 <p>AARTI INDUSTRIES LIMITED</p>
<p>Personal Care & Perfumery Fine Chemicals</p>	<ul style="list-style-type: none"> ▪ Growing domestic market ▪ Opportunity to supply to global formulators like IFF, Givaudan ▪ Campaign runs for small volume requirements ▪ Opportunity for global acquisitions / alliances with mid-size European players 	
<p>Pharma Intermediates</p>	<ul style="list-style-type: none"> ▪ Growth in exports of off-patent generics ▪ Capabilities to do a number of unit processes under one roof - Hydrogenation, Bromination, Nitration, Acetylation, sulfonation, isomerisation, fluorination. ▪ Units taking initiative to get CGMP clearances 	
<p>Surfactants</p>	<ul style="list-style-type: none"> ▪ Domestic growth in major enduse segments like agrochemicals, coatings food, construction chemicals, etc. ▪ Multiple competing products that could be offered ▪ Application & Development Knowledge 	

Focus Sectors

	Agri Business		Auto
Chemicals		Consumer Goods & Services	
	Education		Infrastructure & Capital Goods
Metals & Mining		Healthcare & Pharma	

Service Capabilities

- ▣ **Strategy**
 - Corporate Strategy
 - Business Unit Strategy
 - Functional Strategy
- ▣ **Transformation**
 - Strategy Articulation
 - Organisation Design and Alignment
 - Process Re-engineering
 - Change & Performance Management
 - Post Merger Integration
- ▣ **Transactions**
 - Deal Origination
 - M&A Support
 - Value Enhancement
 - Exit Strategy

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