



# Private Equity review - H1 2016

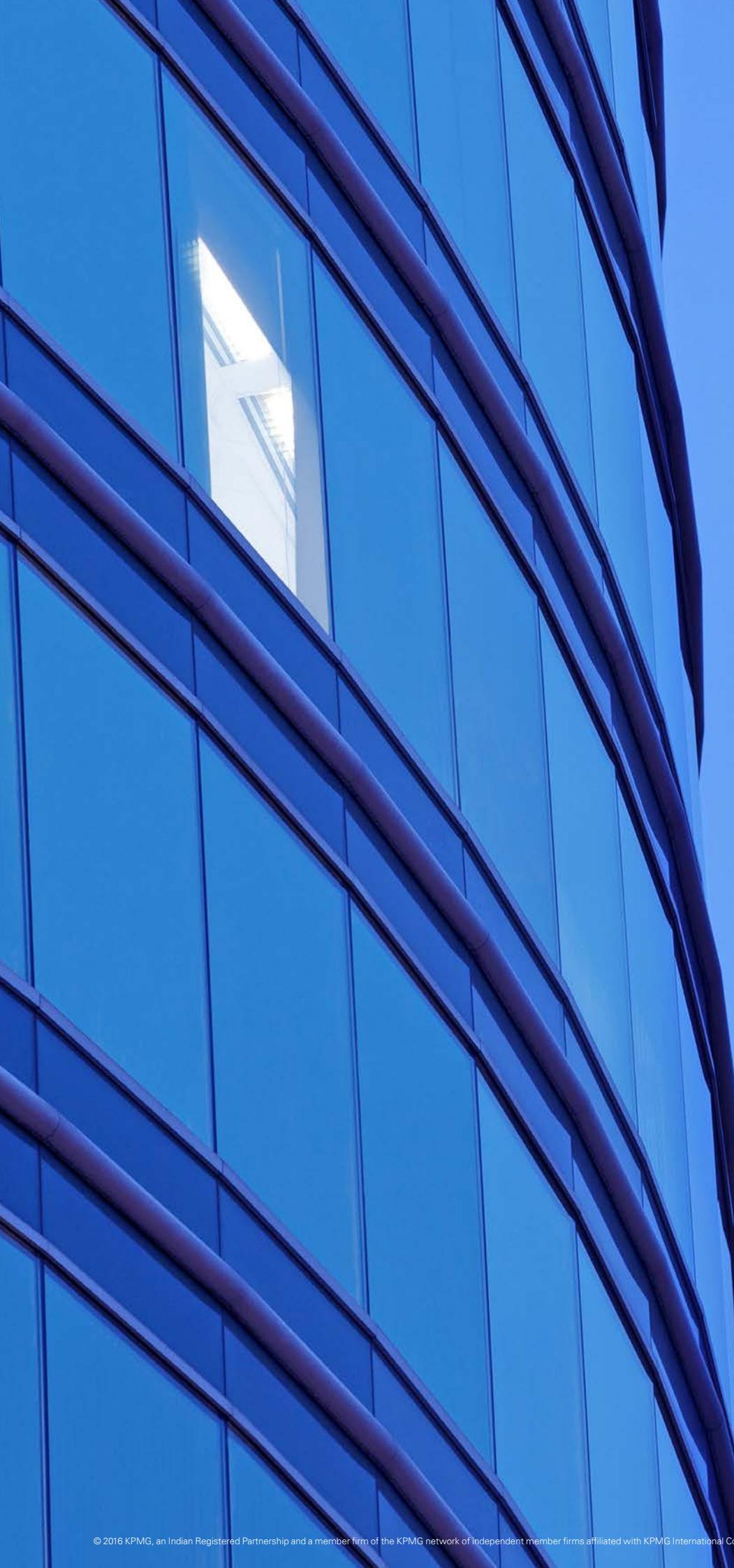
**A review of the Indian private  
equity sector and developments**

October 2016

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# Foreword

The Private Equity Group at KPMG in India is happy to share with you the 'Private Equity Review – H1 2016'. This publication seeks to encapsulate the key investments, exits and trends seen in the Indian private equity (PE) and venture capital (VC) space during the first half of 2016. We hope you find this review to be an interesting read.

The momentum in PE exits seen in H1 2016 appears to be building up in Q3 2016. Buoyed by the strengthening equity capital markets, PE exits (by deal value) in the July to September, 2016 period have already eclipsed the value of cumulative exits in H1 2016 by more than 48 per cent.<sup>1</sup> By all accounts, it's been a stellar quarter for PE exits. Noteworthy exit deal announcements being KKR's sale of its stake in Gland Pharma to the diversified Chinese giant Fosun Group, the sale of Minacs Pvt Limited by Capital Square Partners and CX Capital Management to Synnex Corporation and Apax Partners' sale of its stake in Cholamandalam Investment and Finance Company Limited in the open market.<sup>1</sup>

With equity capital markets remaining buoyant on the back of positive news, like the passing of the GST legislation and a good monsoon after three years, focus on exits is expected to continue for PE/VC firms for the rest of the year.

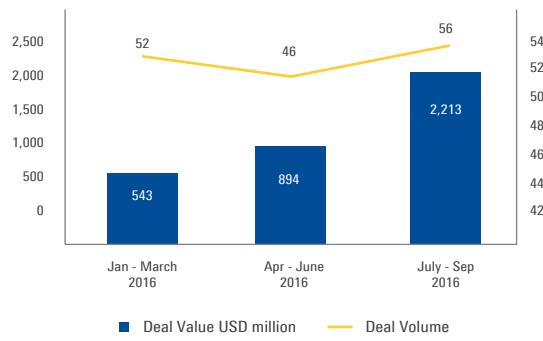
As per figure 2, the decline in PE investments seen in H1 2016 is continuing in Q3 2016.

Cumulative PE/VC investments during the period July to September, 2016 are at par with those announced in Q2 2016, but about 33 per cent lower as compared to Q1 2016.<sup>1</sup> Clearly, the rise in valuations of publicly-traded companies is impacting expectations of sellers, raising the valuation bar and hence making PE deal closures more protracted and difficult. Another factor that has led to the yoy decline in PE/VC investments has been the slowdown of later stage deals in the e-commerce/consumer internet space, which has continued from H1 2016.

Noteworthy PE investments announced during the period July to September, 2016 are those made by Bharti Softbank Holdings into instant messaging app Hike Messenger, investment by CDC Group into financial services firm India Infoline Finance Ltd and sale by Matrix Partners of their stake in TCNS Clothing Company to TA Associates.<sup>1</sup>

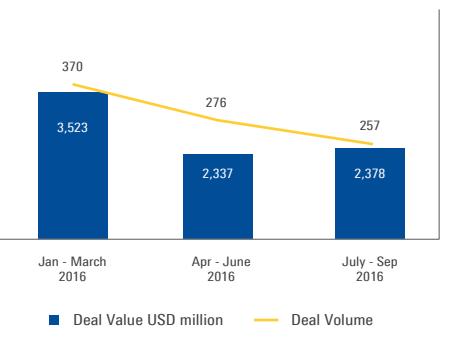
Sectoral trends seen in H1 2016 continue in the period July to September, 2016, with Information Technology continuing its leadership status as the sector attracting the maximum PE investments (26 per cent of the total deal value and 61 per cent of deal volume), followed by Financials (27 per cent of the total deal value and 5 per cent of deal volume) and Consumer Discretionary (21 per cent of the total deal value and 18 per cent of deal volume).<sup>1</sup>

**Figure 1: PE exits (2016 YTD)**



Source: VCCedge database

**Figure 2: PE investments (2016 YTD)**



1. VCCedge database, accessed on 30 September 2016

Though the pace of PE investments in the period July to September, 2016 appears to have slowed down from H1 2016 levels, we remain hopeful of a pick-up in the same in Q4 2016 and Q1 2017. The large amount of funds raised by India-focussed PE/VC fund managers in 2015 (USD5,335 million)<sup>1</sup> and YTD 2016 (USD3,396 million)<sup>1</sup> clearly indicates stockpiling of dry powder for investments. Furthermore, confidence boosters like the Goods and Services Tax Bill, a good monsoon and a record FDI investment of USD7 billion announced by Vodafone Plc into its Indian subsidiary<sup>2</sup> are expected to keep long-term investor sentiments positive on the India story.

Overall, the Indian economy seems to have performed exceedingly well compared to the other large economies of the world. KPMG International's CEO Outlook 2016 reads a lot of optimism for India.<sup>3</sup> Backed by views of over 1,250 CEO's from Europe, Asia Pacific and the U.S., this Survey reflects their confidence about the country's strong performance in the near future, with several vying for a share of its thriving industries. Going forward, we expect this to result in more PE/ VC backed M&A exits than ever before, with an increase in share of inbound investment into India.

And if the equity capital markets continue to march upwards, we can expect to see more PE-backed IPO exits in Q4 2016 and Q1 2017.

Happy investing!



**Vivek Soni**

**Partner, Sector Leader**

Private Equity  
KPMG in India

1. VCCedge database, accessed on 30 September 2016

2. Vodafone Plc invests \$7 billion in India unit ahead of spectrum sale, <http://www.thehindu.com/todays-paper/tp-business/vodafone-plc-invests-7-billion-in-india-unit-ahead-of-spectrum-sale/article9138123.ece>, accessed on 18 October 2016

3. India CEO Outlook 2016: Now or never, <https://home.kpmg.com/in/en/home/insights/2016/08/india-ceo-outlook.html>, accessed of 18 October 2016



# India grows the fastest among developing markets



A stable government, economic reforms and a continuous flow of foreign investments registered strong macro-economic growth for India since January this year. India grew by 7.6 per cent for the financial year 2015 and is estimated to grow at 7.4 per cent for FY16 and FY17, based on the latest report 'World Economic Outlook Update' by International Monetary Fund (IMF) published in July 2016.<sup>4</sup>

The economy had previously benefitted from the falling prices of crude oil and the rise in income levels had led to increased spending for personal consumption.<sup>5</sup>

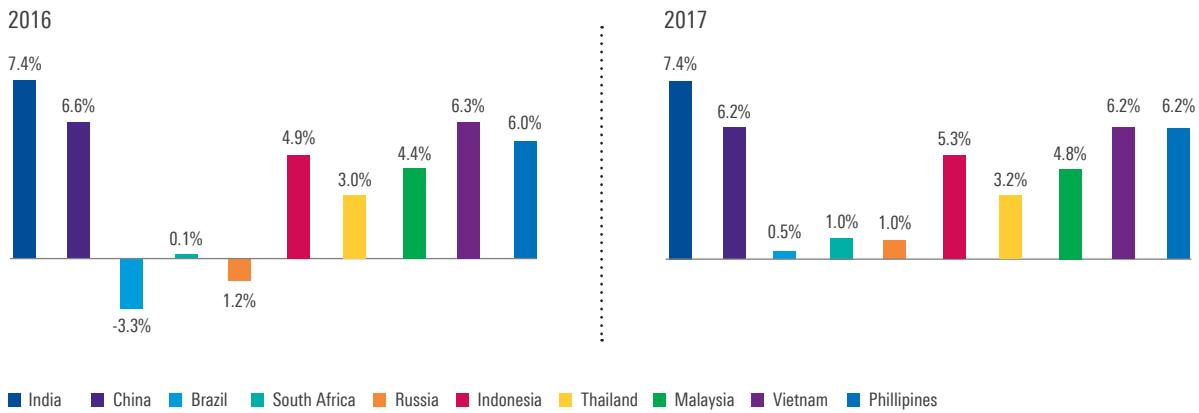
The IMF report estimated a higher growth for India as compared to China making it the fastest growing market among developing nations. To continue in the top league, India needs to remain focussed on fiscal consolidation and subsidy reduction.

Other economies such as Brazil and Russia have disappointed investors with negative growth for 2016.

World Bank has downgraded the global growth for 2016 and 2017 to 3.1 per cent and 3.4 per cent, respectively, as compared to 3.2 per cent and 3.5 per cent in its previous estimates in April.<sup>6</sup>



**Figure 3: Forecasted growth rate for 2016 and 2017**



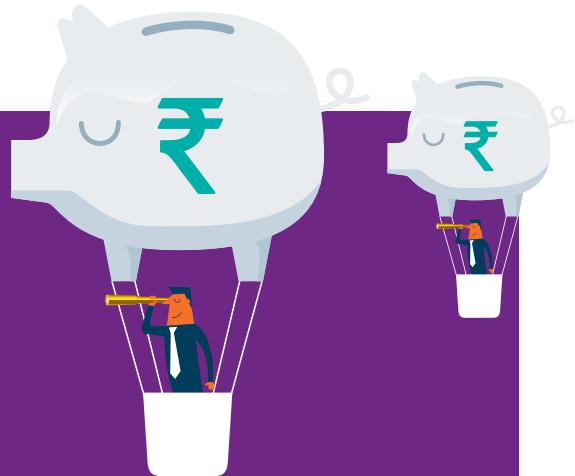
Source: IMF World Economic Outlook, April 2016; IMF World Economic Outlook Update, July 2016, IMF

4. World Economic Outlook – Too Slow for Too Long, International Monetary Fund, <http://www.imf.org/external/pubs/ft/weo/2016/01/pdf/text.pdf>, accessed on 1 July 2016

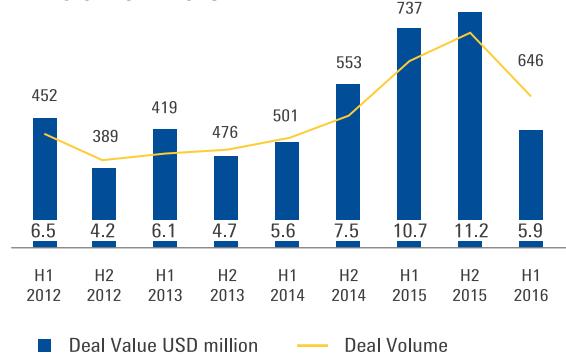
5. IMF retains India growth forecast at 7.5% for 2016-17, [http://articles.economictimes.indiatimes.com/2016-05-04/news/72832025\\_1\\_gdp-growth-growth-forecast-regional-economic-outlook](http://articles.economictimes.indiatimes.com/2016-05-04/news/72832025_1_gdp-growth-growth-forecast-regional-economic-outlook), accessed on 6 July 2016

6. World Economic Outlook – Too Slow for Too Long, International Monetary Fund, <http://www.imf.org/external/pubs/ft/weo/2016/01/pdf/text.pdf>, accessed on 1 July 2016

# Big ticket investments in H1 2016



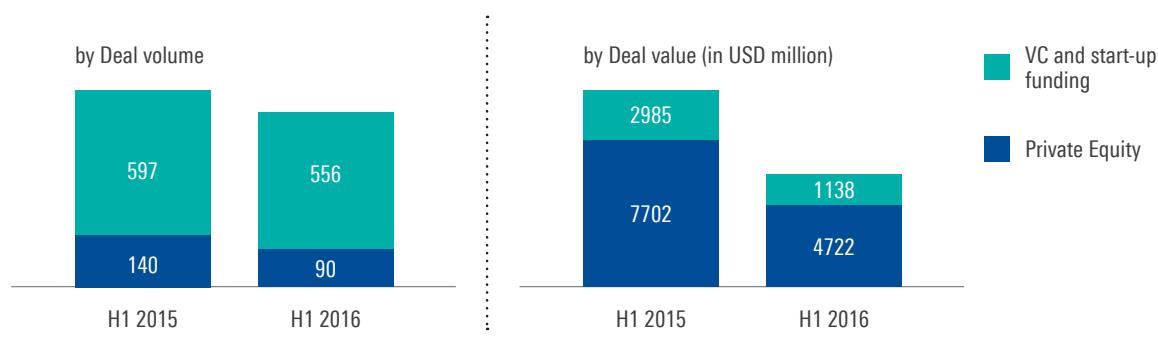
**Figure 4: PE/VC investments in India: 2012-2016**



Source: "VCCEdge half-yearly report - 2016", VCCEdge, accessed on 20 July 2016

Large deal flows continue as a spillover from 2015 for India Inc. The first half of the year saw 23 big ticket investments with deal value higher than USD50 million. The significant rise in private equity deals in 2015 was a culmination of positive macro-economic trends, along with the 2006-2007 vintage funds nearing the end of their investment cycle and looking for exits through secondary deals. That said, the Private Equity/Venture Capital (PE/VC) deal flow has seen a significant slowdown compared to CY2015. The political and economic turmoil in Europe, including the Brexit and volatile oil prices are affecting the sentiments of foreign investors who form the lion's share of PE/VC investors in the country.

**Figure 5: Deal type analysis of PE/VC investment in H1 2016 and H1 2015**



Source: "VCCEdge half-yearly report - 2016", VCCEdge, accessed on 20 July 2016

Private equity investments accounted for over 80 per cent of the total PE/VC deal value in H1 2016, as compared to 72 per cent in the same period last year. Globally, VC and start-up funding have witnessed a slowdown and that has reflected in the fresh investment figures for India. In terms of both deal count and deal value, PE/VC investments in H1 2016 have fallen compared to H1 2015.

This year's biggest deal so far was done by private equity major Blackstone, which invested USD1.2 billion in Bangalore-based IT services company, Mphasis. In India, this was the largest investment by a PE firm since Qatar Foundation's USD1.26 billion investment in Bharti Airtel back in 2013 and also the biggest commitment made by the Blackstone Group in India in a single deal.

**Table 1: Key PE investments in January-June, 2016**

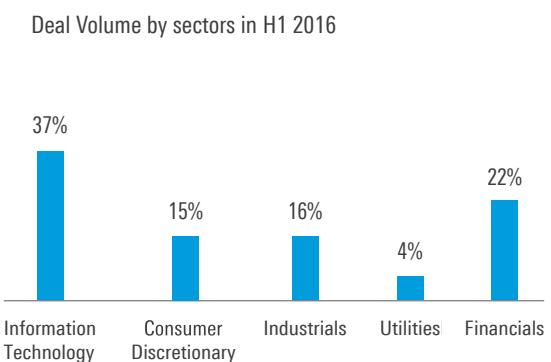
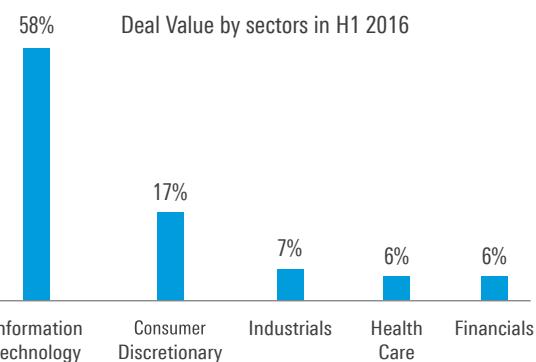
Target	Buyer / Lender	Deal Value (USD million)	Sector	Stake
Mphasis Ltd.	Blackstone Advisors India	1,200	Technology	86%
Bangalore International Airport Ltd.*	Fairfax India, Fairfax Financial	369	Industrials	38%
GE Capital Services India	AION India	300	Financials	100%
Greenko Energy Holdings	Abu Dhabi Investment, GIC	230	Utilities	-
Janalakshmi Financial Services	GIC, QRG Enterprises, Morgan Stanley PE, TPG, Havells India	210	Financials	20%

Source: VCCEdge database, accessed on 6 July 2016

\* Announced deal yet to be closed

**Sectoral recap**

Information technology companies, backed by a number of tech-oriented start-ups, dominated PE deal statistics, accounting for 58 per cent of deal volumes and 37 per cent of deal values in H1 2016. Apart from IT, financial services companies also gained traction, with companies such as GE Capital, Janalakshmi Financial Services, Kotak Mahindra Bank, AU Housing Finance and Max Financial Services witnessing investments during the period. E-commerce companies such as Jasper Infotech (Snapdeal.com), within the consumer durables sector, also accounted for a significant share of the number of deals during H1 2016.

**Figure 6 Sectoral PE/VC investment trends in H1 2016**

Source: "VCCEdge half-yearly report - 2016"; VCCEdge, accessed on 20 July 2016

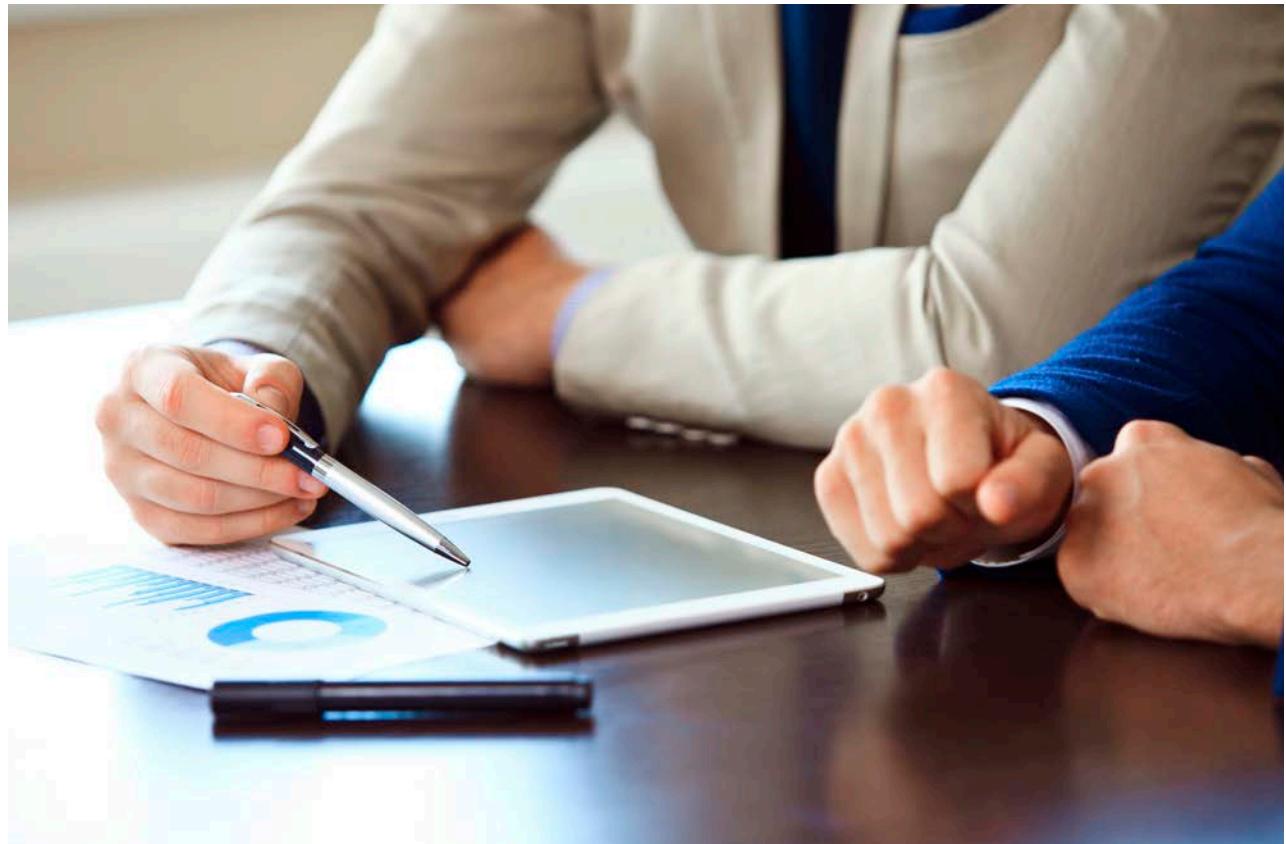
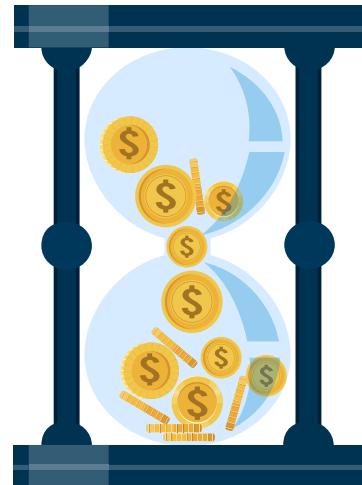
The year 2015 had also witnessed fundraising to the tune of USD5.13 billion across 39 funds, as compared to USD3.9 billion in 2014. These funds are likely to be invested in 2016 and drive up PE investments. Most of

the large ticket size funds are now ready to deploy capital and are in talks with potential targets. Table 2 highlights the list of the top five funds raised in 2015.

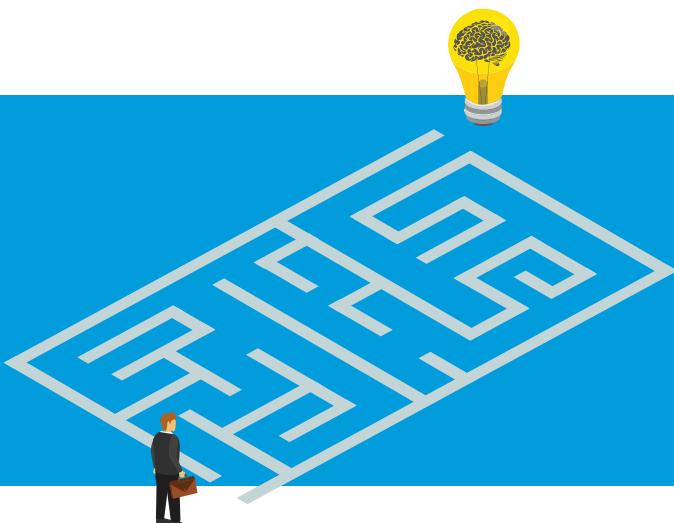
**Table 2: List of the top five PE/VC funds in terms of size in 2015**

Fund name	Fund size (USD million)	Amount raised (USD million)
Westbridge Crossover Fund LLC	1,400	575
Everstone Capital Partners III LP	700	428
Indium Fund V (IVFA)	700	700
Multiples Private Equity Fund II LLP	600	400
Sequoia Capital India IV Ltd.	530	210

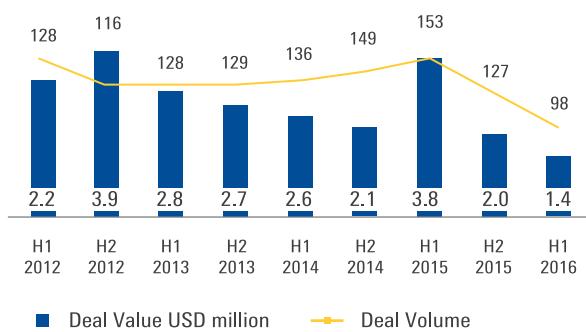
Source: "2016 Annual Deal Report, VCCEdge"; VCCEdge, accessed on 20 July 2016



# Exits gain traction



**Figure 7: PE/VC exits in India: 2012-2016**



Source: "VCCEdge half-yearly report - 2016," VCCEdge, accessed on 20 July 2016

Last year witnessed a strong exit performance for PE/VC funds with a churn of USD 5.8 billion across 280 deals. Buoyed by a strong capital market, open market exits led the way, accounting for over 40 per cent in terms of volume and over 50 per cent in terms of value. Financials, consumer discretionary, information technology and industrials accounted for the lion's share of exits. The PE/VC industry, which has struggled with exits since the 2008 economic downturn, finally turned a corner to register a stellar year.

H1 2016 witnessed slightly muted activity compared to the previous year. However, the year is expected to finish strongly with a number of PE/VC exits and PE/VC-backed IPOs lined up. Japan's Yokohama completed its buyout of KKR-backed tire manufacturer Alliance Tire Group (ATG). Yokohama agreed to buy ATG from KKR for USD1.2 billion, valuing the company at 2.2 times its revenue and more than 12 times its operating profit for 2015<sup>7</sup>. This is the largest private equity exit in India, announced in the past decade. In 2013, KKR had acquired a 90 per cent stake in Alliance Tire Group from Warburg Pincus for an estimated USD470



million, giving Warburg Pincus a return of over 9 times its investment<sup>8</sup>. This deal has given KKR a return of over two times return in less than three years<sup>9</sup>. This deal is an example of the rise in exits for PE firms via sale to strategic players, which serves the purpose of continued professional support for the portfolio company.

7. "KKR's \$1.2-billion Alliance deal marks largest PE exit in a decade", Business Standard, [http://www.business-standard.com/article/companies/kkr-s-1-2-billion-alliance-deal-marks-largest-pe-exit-in-a-decade-116032600419\\_1.html](http://www.business-standard.com/article/companies/kkr-s-1-2-billion-alliance-deal-marks-largest-pe-exit-in-a-decade-116032600419_1.html), accessed on 6 July 2016

8. "Yokohama Rubber Co to buy Alliance Tire Group for \$1.2 billion", The Economic Times, <http://economictimes.indiatimes.com/industry/auto/news/tyres/yokohama-rubber-co-to-buy-alliance-tire-group-for-1-2-billion/articleshow/51556169.cms>, accessed on 6 July 2016

9. <http://www.livemint.com/Companies/TQSLF1qQl9gWFQTlxicW4J/Private-equity-take-two.html>

**Table 3: Key PE/VC-backed M&A exits in H1 2016**

Target	Buyer	Seller	Deal Value (USD million)	Sector	Type of M&A
Alliance Tire Group B.V.	Yokohama Rubber Co. Ltd.	KKR India	1,179	Automotive	Inbound
Dalmia Cement Bharat Ltd.*	Dalmia Bharat Ltd.	KKR India	181	Materials	Domestic
Neptune Group, Swarajya	NA	Milestone Fund	41	Real Estate	Domestic
ATS Realworth Pvt. Ltd.	NA	ASK Real Estate	40	Real Estate	Domestic
Scrips N Scroll India Pvt. Ltd., E-City Park II Bangalore	NA	IL&FS Milestone Fund	22	Real Estate	Domestic

Source: VCCEdge database, accessed on 6 July 2016

\* Announced deal yet to be closed

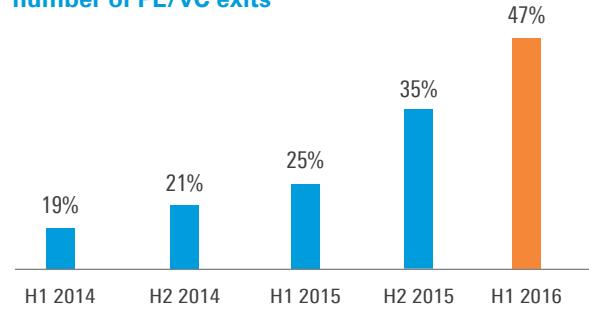
The year 2016 has seen a spike in the mergers and acquisitions (M&A) space. M&A deals spiked in H1 2016 witnessing USD14.5 billion investment, as compared to USD8.3 billion in the same period last year. A stable currency, favourable M&A norms and easing of FDI caps, have led to higher M&A activity with the first half of 2016 seeing almost 75 per cent more deal values as compared to the same period last year<sup>10</sup>. The M&A activity reflects foreign players' interest in the country and the rise of inorganic expansion.<sup>11</sup> Besides the Yokohama/Alliance Tire deal discussed earlier, in another inbound M&A deal, Singapore Technologies Telemedia (STT)\* agreed to buy 74 per cent stake in the data-centre business owned by Tata Communications, valuing the company at USD640 million<sup>12</sup>. In outbound deals, Indian Oil Corp, Oil India and Bharat Petroleum agreed to buy a 29.9 per cent stake in Russia's Taas-Yuriakh oil field in East Siberia for USD1.3 billion<sup>13</sup>, and Wipro Ltd.\* acquired, a U.S.-based technology firm, HealthPlan Services for USD460 million<sup>14</sup>.

The graph alongside shows M&A accounting for the higher percentage of PE/VC exits in recent times. In the first half of 2016, almost half of the exits have been through sales to strategic players.

The primary market has also seen a surge in IPOs this year. There have been 12 IPOs in H1 2016 and an equal number of companies have already filed a Draft Red Herring Prospectus (DRHP) document with the Securities and Exchange Board of India (Sebi). Eight of these proposed IPOs are backed by PE/VC firms.

Compared to H1 2015, the overall number of IPOs increased from eight to 12 this year. The number of PE/VC-backed IPOs almost doubled from four to seven during the same period<sup>15</sup>. The following table lists down the performance of PE/VC-backed IPOs so far in 2016. These IPOs reflect a strong exit route for private equity funds through the primary market.

\* Announced deal yet to be closed

**Figure 8: M&As accounting for number of PE/VC exits**

Source: VCCEdge database, accessed on 6 July 2016

10. VCCEdge half-yearly report - 2016", VCCEdge, accessed on 20 July 2016

11. "Yokohama Rubber Co to buy Alliance Tire Group for \$1.2 billion", The Economic Times, <http://economictimes.indiatimes.com/industry/auto/news/tyres/yokohama-rubber-co-to-buy-alliance-tire-group-for-1-2-billion/articleshow/51556169.cms>, accessed on 1 July 201612. "ST Telemedia to Buy Majority Stake in Tata Communications' India, Singapore Data-Center Business", The Wall Street Journal, <http://www.wsj.com/articles/st-telemedia-to-buy-majority-stake-in-tata-communications-india-singapore-data-center-business-1463634022>, accessed on 1 July 201613. "Indian Oil Corporation, Oil India and Bharat Petroleum to buy 29.9% in Rosneft field for \$1.3 billion", The Economic Times, <http://economictimes.indiatimes.com/industry/energy/oil-gas/indian-oil-corporation->

oil-india-and-bharat-petroleum-to-buy-29-9-in-rosneft-field-for-1-3-billion/articleshow/51424034.cms, accessed on 1 July 2016

14. "Wipro buys US-based HealthPlan Services for \$460 million", The Economic Times, <http://economictimes.indiatimes.com/tech/tes/wipro-buys-us-based-healthplan-services-for-460-million/articleshow/50946961.cms>, accessed on 1 July 201615. "List of Upcoming IPO's, Current IPO's and Recently Closed IPO's in India", Chittorgarh.com, [http://www.chittorgarh.com/ipo/ipo\\_list.asp](http://www.chittorgarh.com/ipo/ipo_list.asp), accessed on 9 August 2016, VCCEdge database accessed on 1 July 2016

**Table 4: List of PE/VC-backed IPOs in H1 2016**

Issuer Company	Offer Price (INR per share)	Issue Size (INR Crore)	Listing Price (INR per share)	CMP (INR per share as on 30 June 2016)	PE/VC investors
Equitas Holdings Limited	110	2,175	144	178	Aavishkaar, India Financial Inclusion Fund, MicroVentures SPA, ARIA, Sequoia, WestBridgeC, Aquarius, Helion, IFC, Creation Investments, Sarva Capital
Ujjivan Financial Services Ltd	210	888	227	400	India Financial Inclusion Fund, Unitus Equity, Wolfensohn Capital, Sarva Capital, IFC, Elevar Advisors
Parag Milk Foods Ltd	215	752	216	277	IDFC Private Equity Fund III, India Business Excellence Fund-I
Thyrocare Technologies	446	479	662	572	CX Partners Fund I
Quick Heal Technologies	321	451	305	270	Sequoia Capital
TeamLease Services Ltd	850	424	860	1088	India Advantage Fund, Gaja Capital
Healthcare Global Enterprises	218	357	210	183	PremjilInvest, India Build-Out Fund-I, Temasek

Source: VCCEdge database, BSEIndia.com, chittorgarh.com accessed on 6 July 2016

**Table 5: Top five PE/VC-backed IPOs in the pipeline as of 30 June, 2016 filed with SEBI in 2016 in terms of issue size**

Company Name	PE/VC investors	Issue Size
Aster DM Healthcare	India Value Fund, Olympus Capital	INR 609-812 crore <sup>16</sup>
Hinduja Leyland Finance	Everstone Capital	INR 500 crore <sup>17</sup>
Dilip Buildcon Limited	BanyanTree Growth Capital	INR 430 crore <sup>18</sup>
Advanced Enzyme Technologies Limited	Kotak India Venture Fund I	INR 412 crore <sup>19</sup>
Seaways Shipping & Logistics	IDFC Private Equity Fund II	INR 80 crore <sup>20</sup>

Source: VCCedge database, VCCircle, The Economic Times, Livemint news articles

16."Aster DM Healthcare files for \$300 mn IPO; Olympus, IVFA to part-exit", VCCircle, <http://www.vccircle.com/news/healthcare-services/2016/06/25/aster-dm-healthcare-files-300-mn-ipos-olympus-ivfa-part-exit>, accessed on 9 August 2016

17. "Hinduja Leyland Finance files IPO papers to mop-up Rs 500 crore", The Economic Times, <http://economictimes.indiatimes.com/markets/ipo/fpos/hinduja-leyland-finance-files-ipos-papers-to-mop-up-rs-500-crore/articleshow/51620446.cms>, accessed on 9 August 2016

18. "Dilip Buildcon IPO oversubscribed around 20 times", VCCircle, <http://www.vccircle.com/news/construction/2016/08/03/dilip-buildcon-ipo-oversubscribed-around-20-times>, accessed on 9 August 2016

19. "Advanced Enzyme coming with an IPO to raise around Rs 412 crore", Livemint, <http://money.livemint.com/news/ipo/advanced-enzyme-coming-with-an-ipo-to-raise-around-rs-412-crore-472204.aspx>, accessed on 9 August 2016

20. "Seaways Shipping files for IPO; IDFC PE to exit", VCCircle, <http://www.vccircle.com/news/transportation/2016/03/29/seaways-shipping-files-ipo-idfc-pe-exit>, accessed on 9 August 2016

In order to provide an exit avenue to PE/VC firms and angel investors, the Securities and Exchange Board of India (SEBI) has planned to relax start-up listing norms. Last year, SEBI allowed the stock exchanges' institutional trading platform to be used for capital raising by start-ups. However, the platform failed

to attract a single start-up for listing. Hence, the stock market regulator is currently looking to tweak the regulations to make them more attractive after implementing suggestions from the industry and other investors.



# Certain sectors are expected to witness a rise in activity due to economic reforms



In a positive development for investors, the Indian government relaxed Foreign Direct Investment (FDI) norms across a number of sectors including aviation, defence and pharmaceuticals by allowing higher investments under the automatic route<sup>21</sup>. In a major boost, 100 per cent FDI would be permitted in airlines, up to 49 per cent of which would be through the automatic route. The government also decided to increase the automatic FDI limit to 74 per cent for existing pharmaceutical companies. Investments over 74 per cent, would still continue through approvals. This is expected to facilitate a lot of M&A activity and PE/VC investments in the pharmaceutical sector.

India being an underserved market in healthcare and pharmaceuticals, the move to ease FDI will make foreign giants relook at their investment strategy. The healthcare-focussed investors are already backing discovery research despite long gestation periods where they see drug licencing possibilities. The healthcare sector is also bound for consolidation where PE/VC firms will play a major role this year.

Among other sectors, FDI norms were relaxed in animal husbandry, e-commerce in food products, private security agencies and broadcasting carriage services<sup>22</sup>. With an aim to boost foreign investment in e-commerce space, the government permitted 100 per cent FDI in the market place format of e-commerce retailing under the automatic route. Although, FDI is not allowed in the inventory-based

model of e-commerce, the definition of 'marketplace' has been expanded to include support services to sellers with respect to warehousing, logistics, order fulfillment, call center, payment collection and other services<sup>23</sup>.

The renewable energy sector, which has a strong governmental focus under its 'Make in India' campaign, has witnessed a rise in investment activity. Last year, the government had announced an ambitious target of 100 GW of solar power capacity by 2022 and seeks investments for the same, highlighting the huge potential for growth in the country. FDI in the sector is permitted up to 100 per cent through the automatic route<sup>24</sup>. The sector witnessed a billion dollar deal recently, with Tata Power acquiring Welspun Energy's renewable assets for USD1.4 billion. In the largest solar M&A deal in India, and one of the largest in Asia, Tata Power Renewable Energy agreed to purchase Welspun Renewables Energy's 1.1 GW renewable portfolio, comprising about 990 MW of solar power projects and 150 MW of Wind Power projects<sup>25</sup>.

21."Govt relaxes FDI norms, allows 100% in aviation, greenfield pharma", Business Standard, [http://www.business-standard.com/article/economy-policy/govt-relaxes-more-fdi-norms-allows-100-in-defence-aviation-116062000417\\_1.html](http://www.business-standard.com/article/economy-policy/govt-relaxes-more-fdi-norms-allows-100-in-defence-aviation-116062000417_1.html), accessed on 9 August 2016

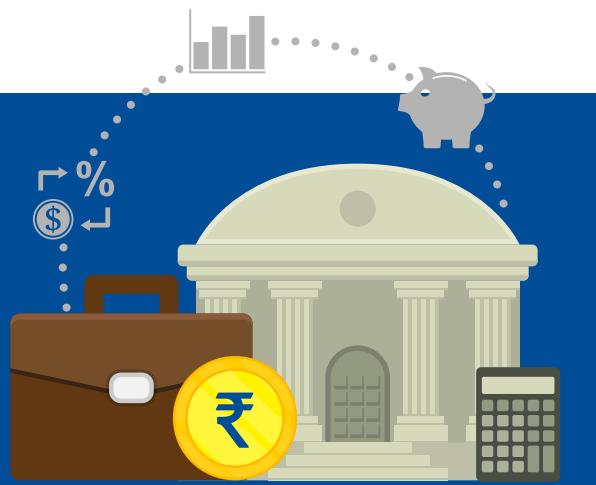
22. "Govt approves 100% FDI in aviation, defence, e-commerce", Rediff, <http://www.rediff.com/business/report/india-announces-sweeping-reforms-to-fdi-rules/20160620.htm>, accessed on 20 July 2016

23. "Boost for e-commerce as Centre permits 100 per cent FDI in online market places", Indian express, <http://indianexpress.com/article/business/economy/govt-allows-100-per-cent-fdi-in-e-commerce/>, accessed on 20 July 2016

24. "Renewable energy", Make in India, <http://www.makeinindia.com/sector/renewable-energy>, accessed on 7 July 2016

25. "Tata Power acquires Welspun Energy's renewable assets for Rs 10,000 crore", The Economic Times, <http://economictimes.indiatimes.com/industry/energy/power/tata-power-acquires-welspun-energys-renewable-assets-for-rs-10000-crore/articleshow/52718618.cms>, accessed on 9 August 2016

# Policy step up likely to lead to more investments



The government has taken significant positive steps to ensure a better investment environment. In this year's budgetary announcement, the Hon. Finance Minister has clarified that retrospective taxation will not be levied on past investments. The Insolvency and Bankruptcy Code 2016, an important reform to make it easier to do business in India, was passed this year. With this, investors will find it simpler to wind up non-performing businesses quickly and easily<sup>26</sup>.

Recently, the India-Mauritius double tax avoidance arrangement (DTAA) treaty was modified, giving India a source-based right to tax capital gains, rising out of the alienation of shares of an Indian company acquired by a tax resident from Mauritius. However, the amendment also institutionalised the grandfathering of investments made before 31 March 2017. Thus, all current investments up to 31 March 2017 will be treated as grandfathered, and hence exit transfers beyond this date will not attract capital gains tax in India<sup>27</sup>.

With its 'Start up India, Stand up India' mission, the government has backed start-ups with a number of financial initiatives, including 100 per cent deduction of profits for income tax computation for three consecutive years out of five years from their incorporation. Such initiatives are likely to please PE and VC investors, who have invested heavily in these companies<sup>28</sup>.

To promote growth, in April 2016, the Reserve Bank of India (RBI) cut the repo rate by 25 basis points, following the 50 basis points cut in September 2015. Currently the repo rate stands at 6.25 per cent. With robust growth, India would be an attractive market for foreign investors. This is likely to lead to rising capital markets and a stronger rupee, leading to a better investment environment.

Additionally, the government has now passed the Goods and Service Tax (GST) Bill. This new indirect tax regime

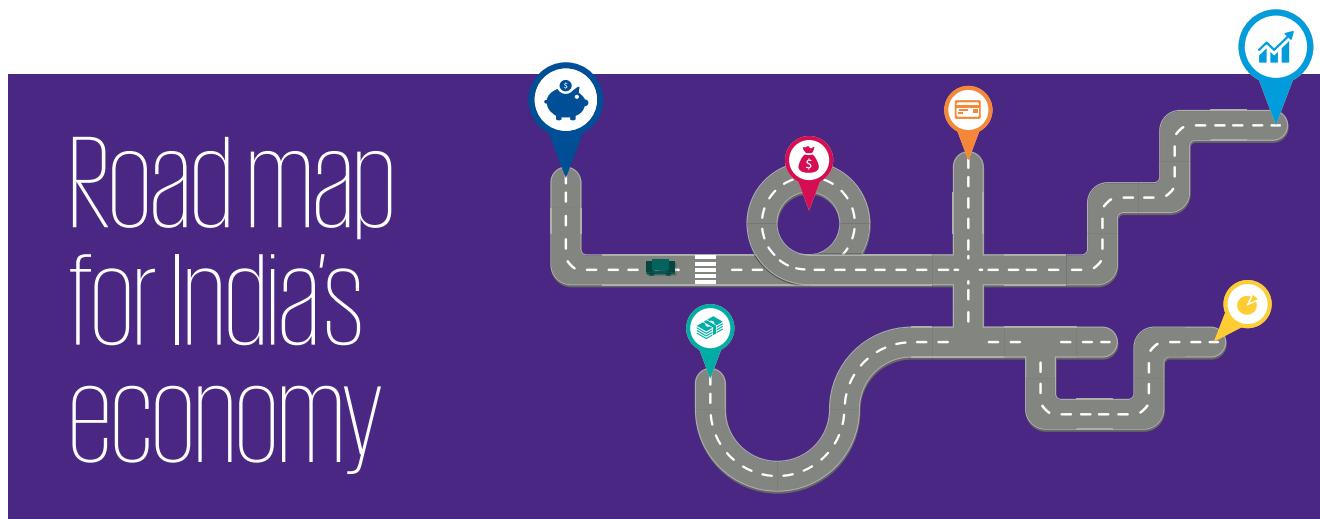
is aimed at simplifying the tax structure and facilitating the smooth inter-state movement of goods. The GST Bill is likely to be a key component in improving the ease of doing business.



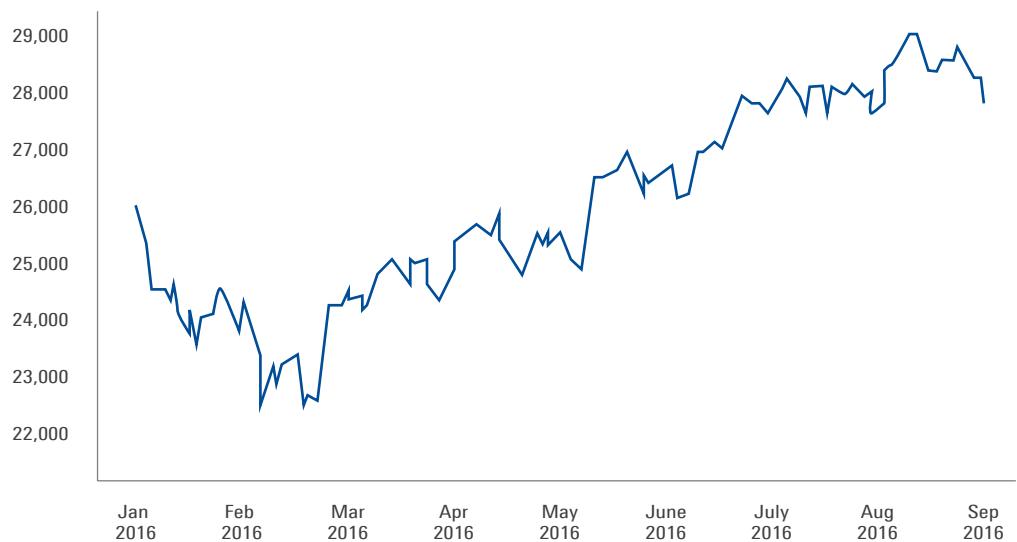
26."Private Equity: Union Budget 2016 - Post-Budget sectoral point of view", KPMG, <https://www.kpmg.com/IN/en/services/Tax/unionbudget2016/Documents/Private-Equity.pdf>, accessed on 9 August 2016

27. "India gets right to tax capital gains in amended Mauritius tax treaty", Livemint, <http://www.livemint.com/Politics/4vxPpBoP6hWB0tZPYUWSkN/India-gets-right-to-tax-capital-gains-in-amended-Mauritius-t.html>, accessed on 9 August 2016

28."Private Equity: Union Budget 2016 - Post-Budget sectoral point of view", KPMG, <https://www.kpmg.com/IN/en/services/Tax/unionbudget2016/Documents/Private-Equity.pdf>, accessed on 9 August 2016



**Figure 9: BSE Sensex (January 2016 – September 2016)**



Source: BSEIndia.com, accessed on 30 September 2016

A number of global events such as the rising crude oil prices, the global slowdown, concerns in the Chinese economy and deflation in Japan, had led to weak capital markets, with the country's benchmark index, the BSE Sensex, dropping to below 23,000 in February. The market has since recovered in the past quarter. Additionally, the anticipated referendum for the Brexit was a cause of concern for Foreign Institutional Investors (FIIs) in the first half of 2016. The Brexit referendum made FIIs cautious towards investing in public companies for fear of markets crashing due to opinion of the referendum.

The BSE Sensex plunged over 1,000 points, after British citizens voted to exit the Euro zone<sup>29</sup>. Now that the referendum results are out and Britain's exit from the Euro zone is confirmed, at present there is no further speculation. The Sensex has also recovered since then.

Globally, crude oil prices have shown signs of stabilising, and the Japanese and Chinese economies are also recovering. These factors could lead to FIIs coming back to the Indian market and investing in publicly-listed companies in the near term, resulting in stronger capital

29. "Brexit Impact: Sensex Tumbles Over 1,000 Points, Rupee Past 68/Dollar", NDTV Profit, <http://profit.ndtv.com/news/market/article-brexit-impact-sensex-plunges-950-points-rupee-past-68-dollar-1422810>, accessed on 20 July 2016

markets. Private equity firms would benefit from this as it would lead to a higher number of open market and IPO exits.

The private equity sector, which has been hit by a number of headwinds over the past few years, including weak currency and high valuations, has turned a corner and is on a strong path to recovery. A number of foreign funds have set up offices in the country over the past year, and there is a rise in the number of deals. Limited Partners (LPs) are doing directly or in collaboration with their General Partners (GPs). According to a recently concluded EMPEA survey<sup>30</sup>, India's ranking rose by two places to emerge as the second most preferred destination for global LPs in 2016. Recent funds raised by PE/VC firms are seeing significant co-investment opportunities along with the fund's investors. Abu Dhabi\* Investment Authority and GIC announced investment of USD230 million in clean energy company Greenko Energy Holdings<sup>31</sup>. The industry is expected to see more co-investment deals between PEs and LPs along with

direct investments by the latter. This would lead to a rise in large ticket deals.

The pressure from the Reserve Bank of India on non-performing assets (NPAs) has had a cascading effect on Indian corporate balance sheets and most corporates are now looking at ways to deleverage by either selling assets or by raising equity from private equity funds. This is expected to throw up more investment options / targets for PE funds in the remaining part of the year.

Additionally, a conducive exit environment in the near future is likely to free up capital and catalyse the PE/VC investment cycle, which could result in much higher investments from PE/VC players in the next few years and eclipse the highs of 2015.

\* Announced deal yet to be closed



30. "India second most preferred destination for global LPs: EMPEA survey", VCCircle, 19 May 2016

31. "GIC, ADIA Invest \$230 Million In Renewable Energy Firm Greenko", BusinessWorld, <http://businessworld.in/article/GIC-ADIA-Invest-230-Million-In-Renewable-Energy-Firm-Greenko/07-06-2016-98865/>, accessed on 9 August 2016

# KPMG in India contacts:

## **Nitin Atroley**

### **Partner and Head**

Sales and Markets

**T:** +91 124 307 4887

**E:** nitinatroley@kpmg.com

## **Vikram Hosangady**

### **Head – Deal Advisory & Private Equity**

**T:** +91 44 3914 5101

**E:** vhosangady@kpmg.com

## **Vivek Soni**

### **Partner, Sector Leader**

Private Equity

**T:** +91 22 3090 2137

**E:** viveksoni@kpmg.com

## **Sonalika Dhar**

### **Director, Corporate Finance**

Private Equity

**T:** +91 22 3090 1879

**E:** sonalikadhar@kpmg.com

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