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PricewaterhouseCoopers India Pvt Ltd

MoneyTree™ India Report
Q3 2016

Data provided by Venture Intelligence

Technology Institute

This special report provides summary results of Q3 '15, Q2 '16, and Q3 '16.

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1. Overview

The first nine months of 2016 witnessed 12.7 billion USD worth of private equity investments across 473 deals, as compared to 15.9 billion USD across 628 deals in the first nine months of 2015, indicating a 20% decline in deal value and a 25% decline in deal volume.

As compared to the second quarter of 2016, despite a slight decline in the number of deals, deal values were up by 4%, with investments worth 4.3 billion USD across 131 deals as compared to 4.2 billion USD across 156 deals in Q3. Late and Growth stage investments accounted for the majority of funding this quarter, contributing 84% in terms of value.

Investments in this quarter were dominated by the Banking, financial services & insurance (BFSI) sector which accounted for 45% of the total investment value, with 1.9 billion USD across 20 deals. The Information technology & IT-enabled services (IT & ITeS) sector was the second largest sector in terms of value with 1.2 billion USD invested across 68 deals. Healthcare & life sciences and Engineering & construction were other sectors that witnessed increased activity and could attract further investment in the last quarter of the year.

Exit activity picked up considerably as compared to the previous quarter, with 2.3 billion USD across 63 exits. Strategic sales accounted for 62% of the total exit value; an almost four-fold increase as compared to the previous quarter. This quarter also witnessed four private-equity-backed IPOs.

The IT & ITeS sector witnessed significant consolidation, with exits valued at 0.8 billion USD, the majority being strategic sales. This was closely followed by the Healthcare & life sciences sector with 0.7 billion USD across 10 exits.

We expect some volatility in the near future as investors assess the implications of the recently concluded US Presidential elections, US Federal Bank stance on rates, and the possibility of the Trans Pacific Partnership being implemented. Having said so, private equity firms continue to express interest in India on account of government reforms and strong macroeconomic indicators. The long-term story for India remains strong with rapid reforms being introduced by the current government. There may be a pause created by the demonetisation scheme introduced by the government. Investors will be in wait-and-watch mode to digest the sectoral impact of the scheme and thereafter we expect capital inflows to be strong.

Sanjeev Krishan
Leader, Private Equity and Transaction Services
PwC India

2. Analysis of PE investments

Total equity investments in PE-backed companies

The third quarter of 2016 has given a strong push to the Indian private equity (PE) investment space.

Q3 '16 has seen investments worth 4.3 billion USD in 131 deals, a 4% increase in value, but a 16% decrease in deal volume as compared to the previous quarter. In Q2 '16, investments worth 4.2 billion USD were made in 156 deals. As compared to Q3 '15, the value of deals in this quarter has dropped by 35% and volume has fallen by 43%. In Q3 '15, PE investments stood at 6.7 billion USD in 231 deals. The average deal size for this quarter was 33 million USD.

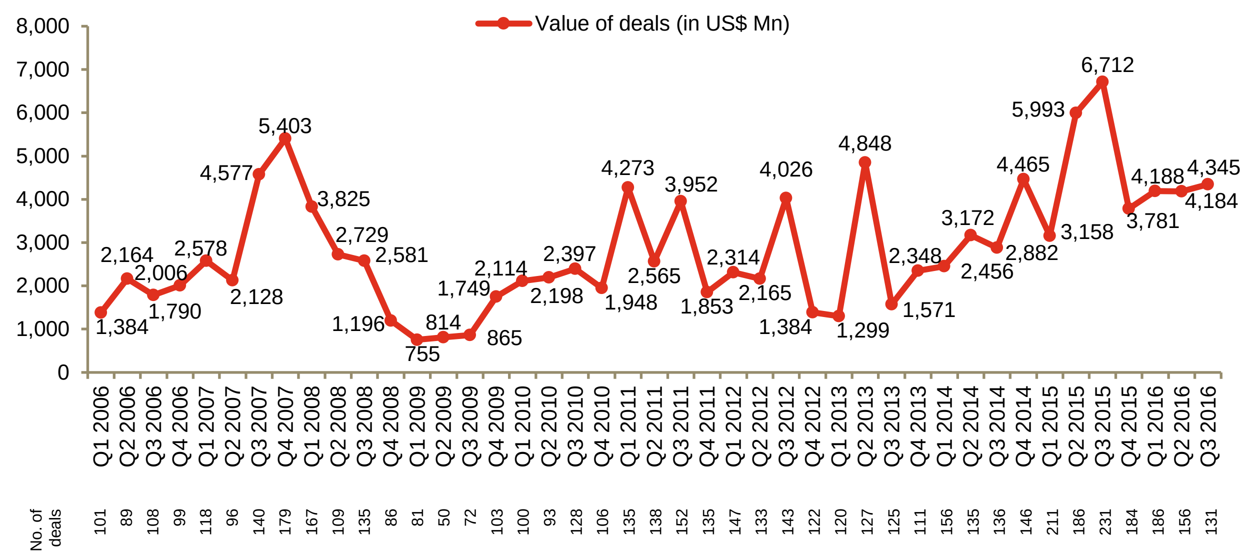
The banking, financial services & insurance sector (BFSI) secured the number one position after being in second place for two consecutive quarters. It attracted 1.95 billion USD from 20 deals, 4.5 times higher as compared to the previous quarter and a more than six times surge as compared to the year-ago period.

The information technology & IT-enabled services (IT & ITeS) sector continued to ride high, albeit in second position this quarter, despite a weak show by e-commerce investments. The investment flow of 1.16 billion USD in 68 deals was 28% lower than Q2 in terms of value, and represented a 26% drop in terms of volume. The total value reflects a whopping 69% drop as compared to the year-ago period.

With just two deals, the Engineering & construction sector attracted 271 million USD. This quarter has seen six buyouts worth 249 million USD; the PE appetite continued to be strong, with growth-stage investments worth 2.17 billion USD in 35 deals, followed by late-stage investments with 1.5 billion USD in 21 deals. The drought in early-stage investments continued in this quarter, with 250 million USD in 60 deals.

Regionally, Mumbai led with 2.45 billion USD, while the National Capital Region (NCR) stood at number two with investments of 972 million USD. Bengaluru stood third with around half the investments that NCR witnessed in this quarter.

Total private equity investments



Data provided by Venture Intelligence

Investments by industry
Q3 ’15, Q2 ’16 and Q3 ’16

The BFSI sector dominated this quarter, a change from the dominance of the IT & ITeS sector in the second quarter of the year. In just 20 deals, this sector attracted 1.94 billion USD, which is 4.5 times higher than the 440 million USD in 13 deals it attracted in the previous quarter and more than six times higher than the 317 million USD in nine deals it received in Q3 ’15.

The IT & ITeS sector occupied the number two position and witnessed a reasonably good deal flow in this quarter, with 68 deals worth 1.16 billion USD compared to 92 deals worth 1.6 billion USD in the previous quarter, but much lower than the 3.72 billion USD in 135 deals seen in Q3 '15.

“BFSI has seen significantly higher investment quarter on quarter even as overall investment flow is lower. We expect that distressed asset players, fintechs, real estate funds and even non-banking financial companies (NBFCs) may see continuing investment despite global and domestic head winds for Indian deals in the next few quarters.”

Bharti Gupta Ramola
Leader, Financial Services
PwC India

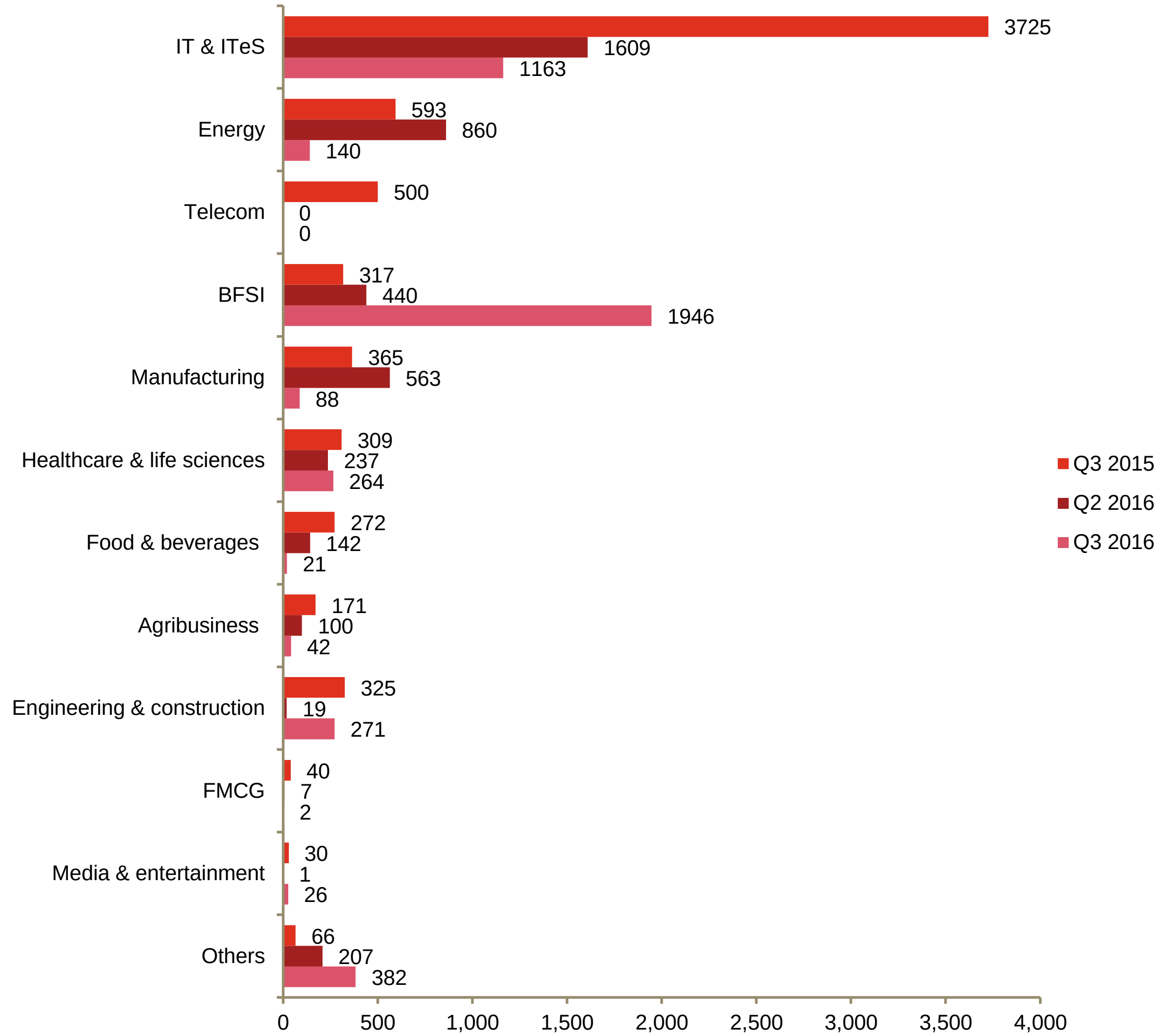
“This quarter saw two major developments, the US Elections and the demonetisation scheme by the Indian government, which might have significant long-term impact on the Technology and eCommerce industry. In terms of activity in the IT & ITeS space, deals continue to happen, albeit at a slower pace. This year has seen the startup market undergoing a valuation correction, and several startups have begun controlling their burn rate and are focusing on strong unit economics. The Fintech space saw several marquee investments this quarter and we saw the addition of another Indian company in the list of Unicorn startups, when Hike Messenger raised USD 175 million, at a valuation of 1.4 billion USD.”

Sandeep Ladda
Leader, Technology
PwC India

With just two deals, the Engineering & construction sector attracted 271 million USD, a 14 times jump from the previous quarter, which also witnessed just two deals. Healthcare & life sciences followed, with 14 deals worth 264 million USD.

Note: Others include Education, Shipping & logistics, Textile & garments, and Travel & transport.

Investments by industry



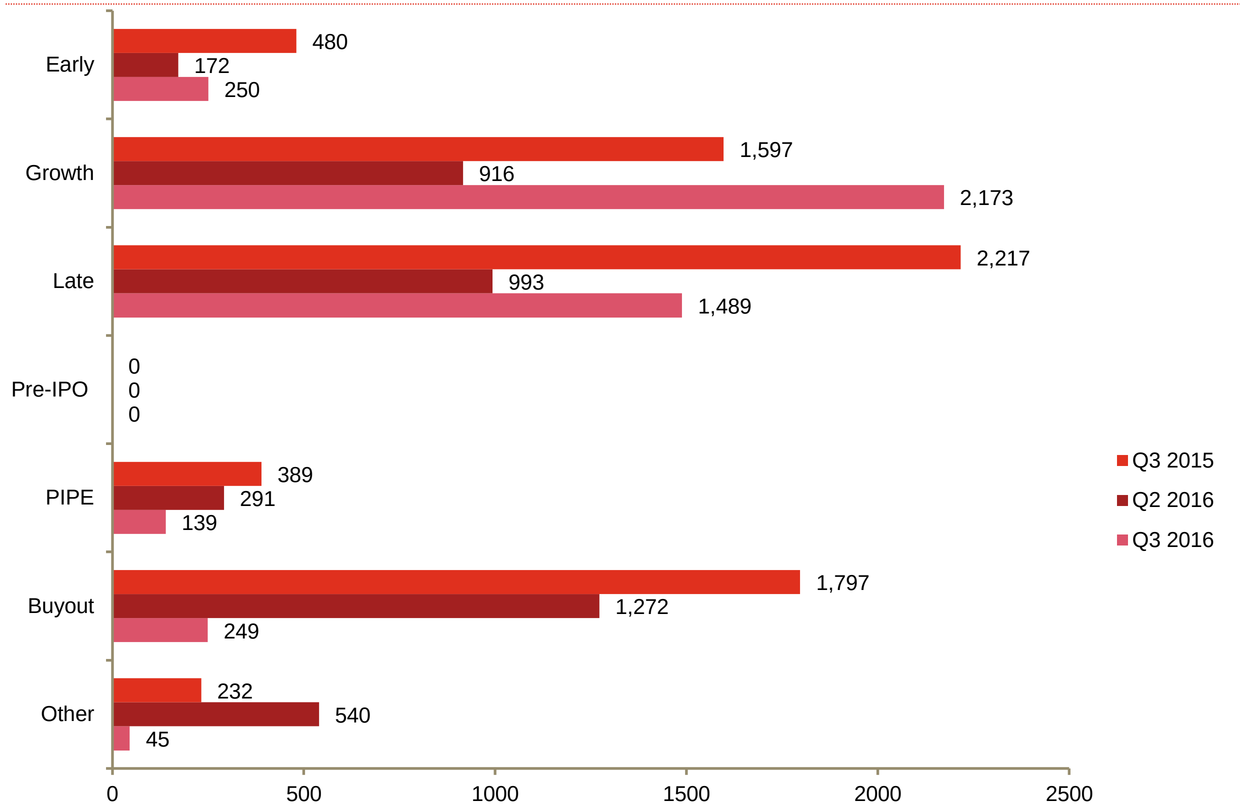
Data provided by Venture Intelligence

Investments by stage of development
Q3 '15, Q2 '16 and Q3 '16

The growth stage led the PE investment inflow in the third quarter of the year with 2.17 billion USD in 35 deals, followed by late-stage investments with 1.48 billion USD in 21 deals. The early stage attracted 250 million USD in 60 deals, whereas buyout deals saw 249 million investment in six deals.

PIPE deals, however, sank by 52% to 139 million USD in six deals.

Investments by stage development



Data provided by Venture Intelligence

Note: Definitions for the stage of development categories can be found in the 'definitions' section of this report.

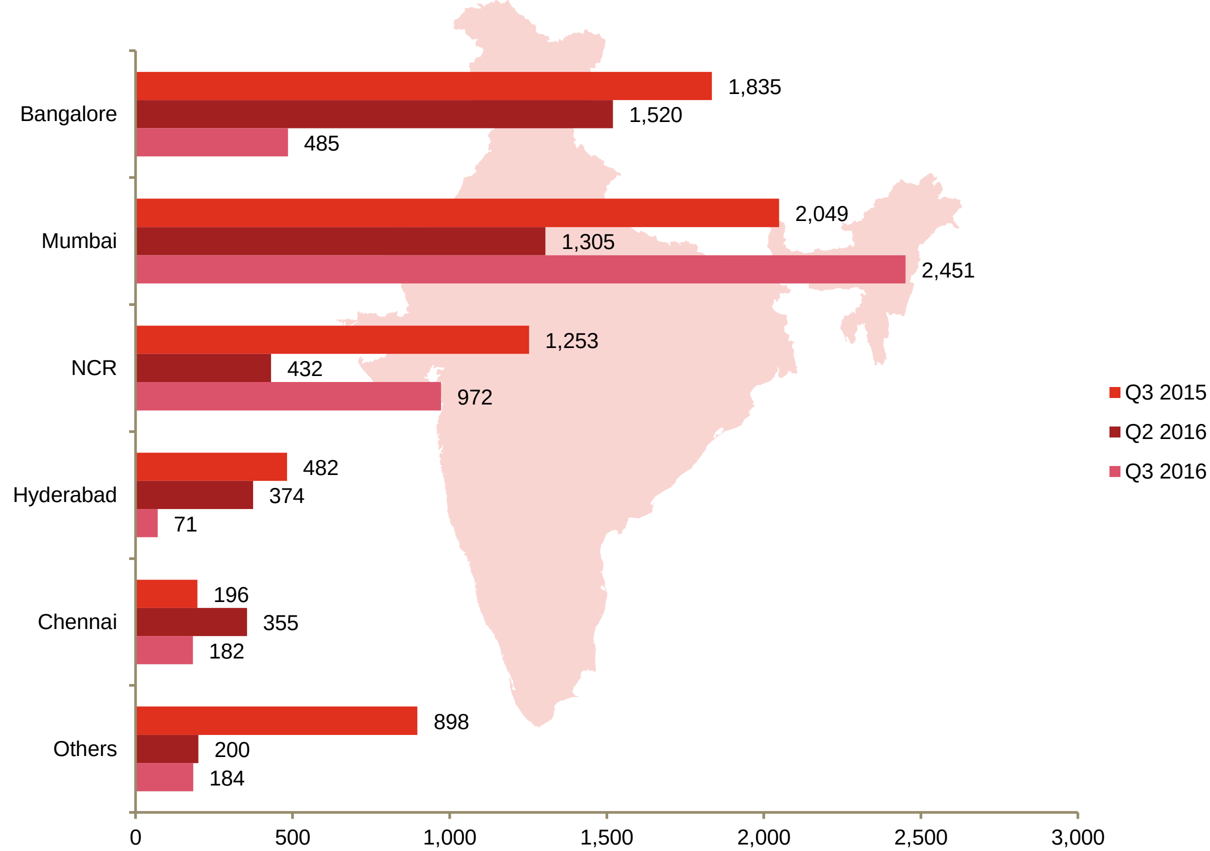
Growth stage in the above graph includes both growth and growth-PE stages.

Investments by region
Q3 ’15, Q2 ’16 and Q3 ’16

Mumbai—with 2.45 billion USD in investments and 35 deals—was the clear winner in terms of investments by region, i.e., two and a half times higher than the number two region—NCR with 30 deals. Bengaluru, which led last quarter, stood at 485 million USD in 36 deals. Chennai and Hyderabad received investments worth 182 and 71 million USD, respectively.

Note: NCR includes Delhi, Gurgaon and Noida.

Investments by region



Data provided by Venture Intelligence

Top 20 PE deals
Q3 '16

The top 20 deals comprised 72% of the total deal value in Q3 '16. The top five deals together accounted for 44% of the total deal value. The average deal value for this quarter was 33 million USD.

Top 20 PE deals in Q3 2016

Company	Industry	Investors	Amount (US$M)
SBI ARC*	BFSI	Brookfield	1045
One97 Communications	IT & ITeS	SAIF, Alibaba, MediaTek	300
Essel Highways	Engg. & construction	Goldman Sachs	250
Hike	IT & ITeS	Tiger Global, Tencent, Foxconn	175
India Infoline Finance	BFSI	CDC Group	149
TCNS Clothing Company	Textiles & garments	TA Associates	140
National Stock Exchange	BFSI	ChrysCapital	135
Hero Future Energies	Energy	IFC	125
Stellar Value Chain	Shipping & logistics	Warburg Pincus	125
Hero FinCorp	BFSI	ChrysCapital, Credit Suisse	105
Indecomm Global Services	IT & ITeS	Capital Square Partners	90
Bookmyshow	IT & ITeS	SAIF, Accel India, Capital18, Accel USA, Stripes Group	82
InCred Finance	BFSI	IDFC PE, Alpha Capital, Others	75
Privi Organics	Manufacturing	Fairbridge Capital	55
Ratnakar Bank	BFSI	ChrysCapital, Others	54
Druva Software	IT & ITeS	Sequoia Capital India, Nexus Venture Partners, Tenaya Capital, Others	51
Mobikwik	IT & ITeS	Sequoia Capital India, Tree Line Asia Master Fund, MediaTek, GMO Venture Partners, Others	50
Byjus Classes	Education	Sequoia Capital India, Lightspeed Ventures, Sofina, Others	50
Star Health and Allied Insurance Company	BFSI	ICICI Venture, Apis Partners	47
Encube Ethicals	Healthcare & life sciences	Multiples PE	45

*SBI and Brookfield Asset Management Inc. propose to launch a joint venture fund to which Brookfield has agreed to commit 1 billion USD to purchase distressed assets.

Data provided by Venture Intelligence

3. Analysis of PE exits

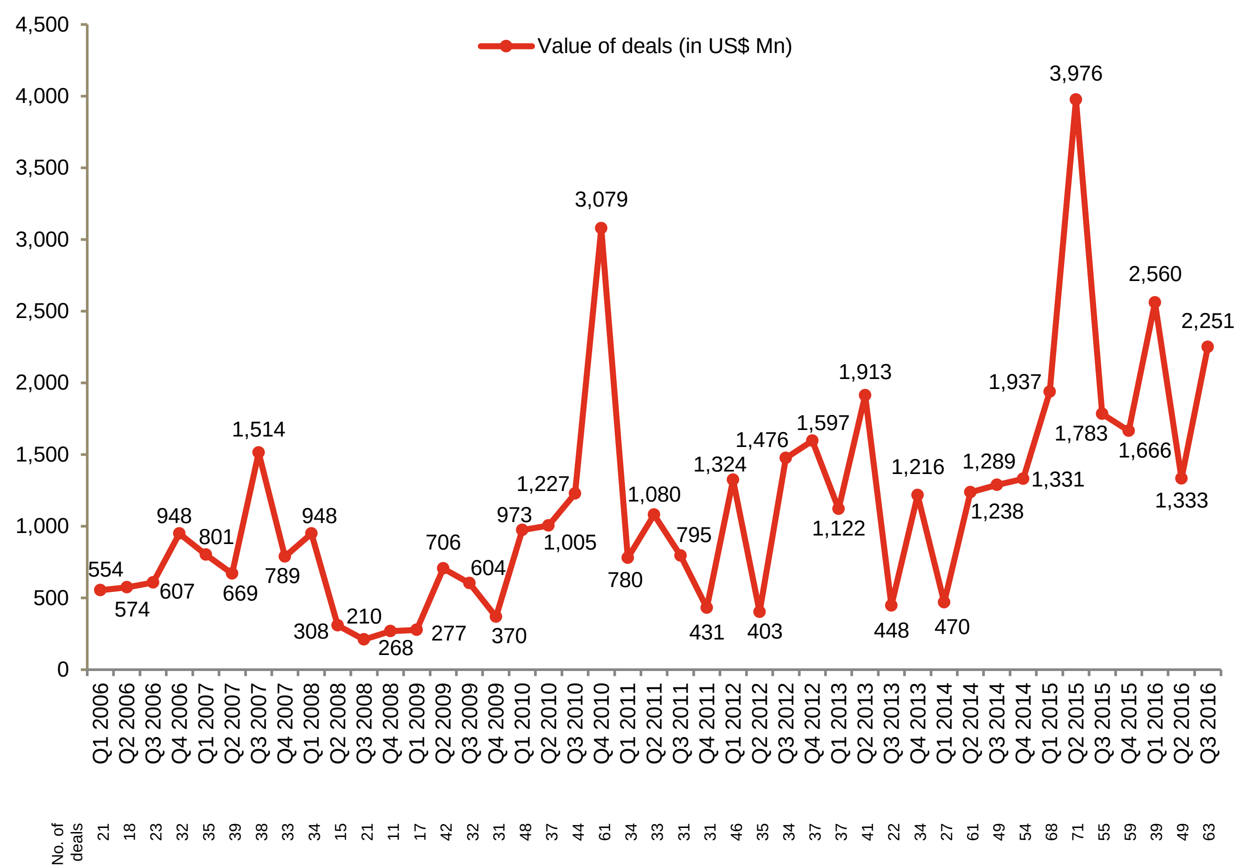
Total PE exits
Q3 ’16

PE exits in the third quarter of 2016 were 69% higher in value than the previous quarter, with 2.25 billion USD in 63 deals. In Q2 ’16, total exits were worth 1.33 billion USD in 49 deals. Further, this was a 26% jump from Q3 ’15 (1.78 billion USD in 55 deals).

With 16 exits worth 764 million USD, the IT & ITeS sector has emerged at the top, followed by Healthcare & life sciences with 730 million USD in 10 deals. BFSI—which was at the top last quarter—saw exits worth 258 million USD in 12 deals.

Strategic sale has become the most preferred route for exits this quarter, with a total exit value of 1.4 billion USD in 22 deals. Public market sale followed with a total exit value of 590 million USD in 32 deals while secondaries saw exits worth 263 million USD in nine deals.

Total PE exits



Data provided by Venture Intelligence

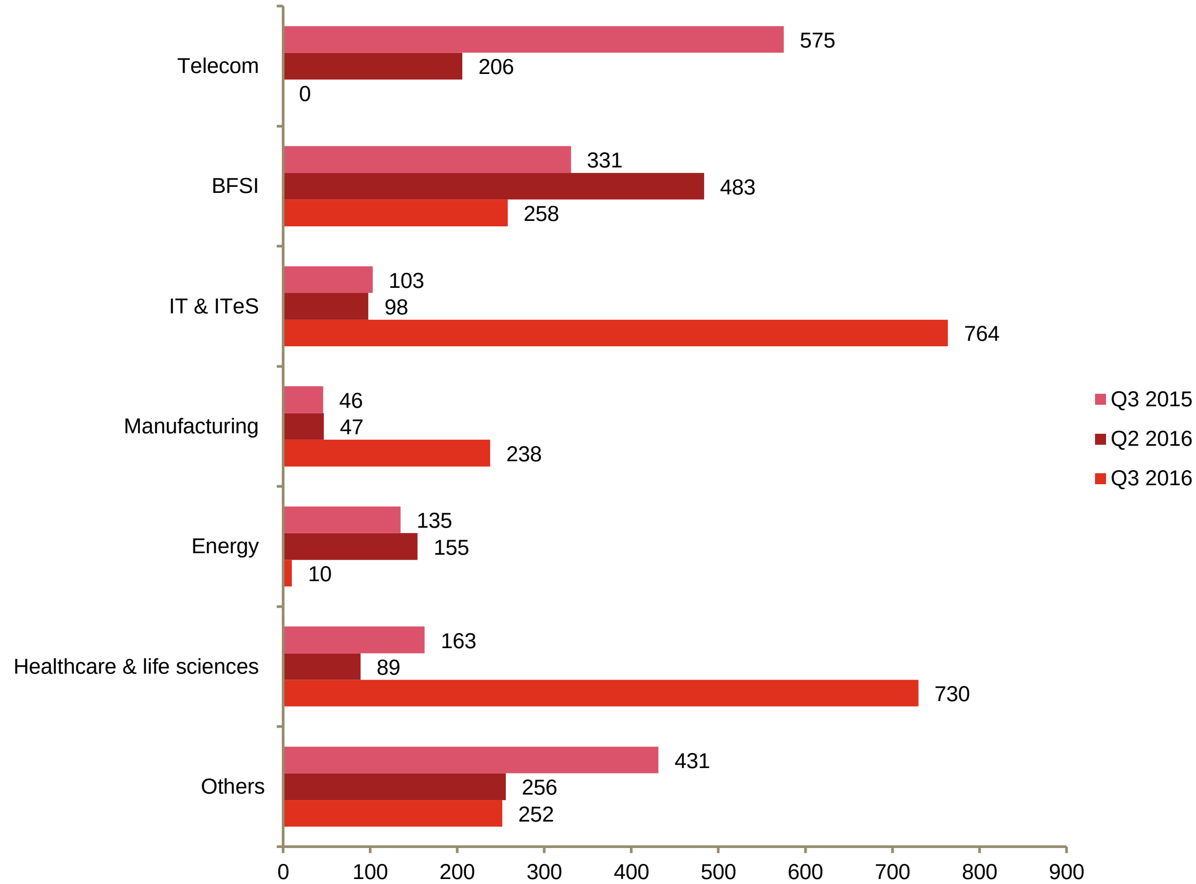
Exits by industry
Q3 '15, Q2 '16 and Q3 '16

Although IT & ITeS led in terms of number of exits, Healthcare & life sciences accounted higher for the top five exits this quarter with two big exits. This includes the exit of KKR from Gland Pharma and a group of investors from Indecomm Global Services. The total exit value of the IT & ITeS sector was 764 million USD in 16 deals, which is more than seven times higher than that of the previous quarter (98 million USD in 13 deals) and also seven times higher Q3 '15 (103 million USD in nine deals).

Healthcare & life sciences saw 10 exits worth 730 million USD, which made it the second largest sector for exits. In the previous quarter, the sector saw three exits worth 89 million USD. In Q3 '15, the sector saw seven exits worth 163 million USD. The BFSI sector saw exits worth 258 million USD in 12 deals, which is a 47% drop as compared to the previous quarter (483 million USD in nine deals).

Note: Others include shipping & logistics, agri-business, engineering & construction and media & entertainment.

Exits by industry



Data provided by Venture Intelligence

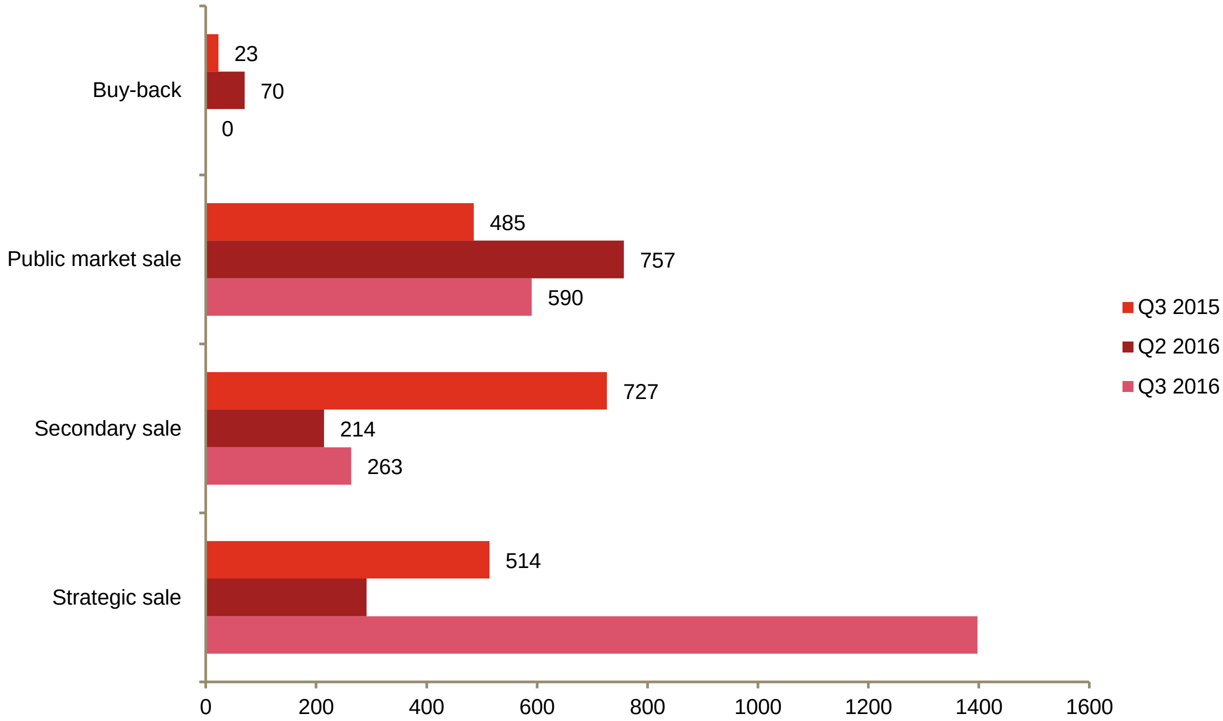
Exits by type

Q2 ’15, Q1 ’16 and Q2 ’16

Strategic sale has become the favoured exit route for PE investors in this quarter, with a total exit value of 1.40 billion USD in 22 deals. In Q2 ’16, strategic sale deals were worth 291 million USD in 15 deals, while in Q3’15, the figures were 514 million USD in 14 deals.

Public market sales saw exits worth 590 million USD in 32 deals, while secondary sales saw nine deals worth 263 million USD. No exit was made via the buy-back route this quarter.

Exits by type



Data provided by Venture Intelligence

Top five PE exits
Q3 ’16

The top five exits comprised 54% of the total exit value in Q3 ’16.

Top 5 PE exits in Q3 2016

Company	Industry	Investor	Deal amount (US$ M)
Gland Pharma	Healthcare & life sciences	KKR	556
Minacs BPO	IT & ITeS	CX Partners, Capital Square Partners	420
Indecomm Global Services	Healthcare & life sciences	IFC, Tiger Global, Acer Technology Ventures, WestBridge	90
Hero MotoCorp	Manufacturing	GIC	83
Jabong.com	IT & ITeS	CDC Group, Rocket Internet	70

Data provided by Venture Intelligence

4. Active PE firms

Sequoia Capital India and Accel India have entered into 11 and nine deals, respectively in this quarter.

The most active PE investors in Q3 '16 are listed at right.

Most active PE investors – Q3 2016

Investors	No of deals
Sequoia Capital India	11
Accel India	9
Kalaari Capital	6
IDG Ventures India	5
SAIF	5
ChrysCapital	4
IFC	4
Nexus Venture Partners	4
Norwest	4
RB Investments	4
Bertelsmann India Investments	3
Goldman Sachs	3
Helion Ventures	3
India Quotient	3
Jungle Ventures	3
Omidyar Network	3
Qualcomm Ventures	3
WestBridge	3

Data provided by Venture Intelligence

** Number of deals includes both single and co-investments by PE firms. Cases where two or more firms have invested in a single deal are accounted for as one deal for each firm.*

5. Sector focus – IT & ITeS sector

The technology sector in India is undergoing a significant change driven by movements in demand and supply equations, and technological disruption as well as socioeconomic and geopolitical factors. Recently, Nasscom lowered its IT export growth target to 8-10% for 2016-17; at the beginning of the year Nasscom had projected a 10-12% growth rate for the Indian IT & ITeS market.* The change in business environment is being influenced by the forces of global macroeconomic headwinds, e.g., the US election, Brexit, oil price fluctuations and volatility in currency and financial markets, whereas the demand-supply equation is being impacted by trends like IT outsourcing and vendor consolidation. In terms of trends, business-driven technology spending has been growing at a faster rate than traditional spending. Digitalisation is transforming business models as companies look to reinvent themselves while traditional outsourcing is inching towards next-gen IT outsourcing, where the focus is on integrated services delivery, artificial intelligence, automation and cloud.

The technological breakthrough megatrends are manifesting themselves in a proliferation of technologies. PwC's ***Essential Eight***, a shortlist of emerging technologies to watch out for, have the potential to transform business models across all industries and drive significant organisational change. These emerging technologies are directly impacting businesses and are changing buyer behavior, making it business-centric. Buying decisions are now being strongly influenced by business leaders, in addition to the IT leaders in an organisation, as companies realise the impact of technologies like 3D printing, robotics and the Internet of Things on their organisations. To remain relevant and to succeed, an emerging technology strategy will have to be a part of every company's corporate strategy.

Another important business development this quarter has been the Indian government's demonetisation scheme which banned notes of higher denominations in order to curb the flow of black money and corruption. The scheme is likely to help build a cash-less economy, thereby helping businesses to pursue higher growth in digital driven areas. Along with the upcoming Goods and Services Tax (GST) launch, these initiatives are likely to help strengthen the economy and improve the ease of doing business in India.

An important growth area in terms of deals activity this quarter has been the Mobile Wallets subsector and recent government initiatives have triggered the strong adoption of electronic payments. We have seen explosive growth for digital transactions and usage of mobile wallets by consumers and mobile in point of sale (PoS) by merchants. Mobile wallets are being used for a variety of purposes from bill payments to food delivery and travel. Further, the launch of a unified payment interface (UPI) will make transactions easier and aid in overall growth. Mobile Wallet companies will have to focus on customer retention and building customer loyalty as well as challenges around cyber security. Achieving scale with positive unit economics and acquiring greater wallet share of the target customer segment will also be important for the growth of the subsector.

Sandeep Ladda
Leader, Technology
PwC India

*http://economictimes.indiatimes.com/tech/ites/nasscom-cuts-it-export-growth-forecast-to-8-10-for-2016-17/articleshow/55457227.cms

Total PE investments

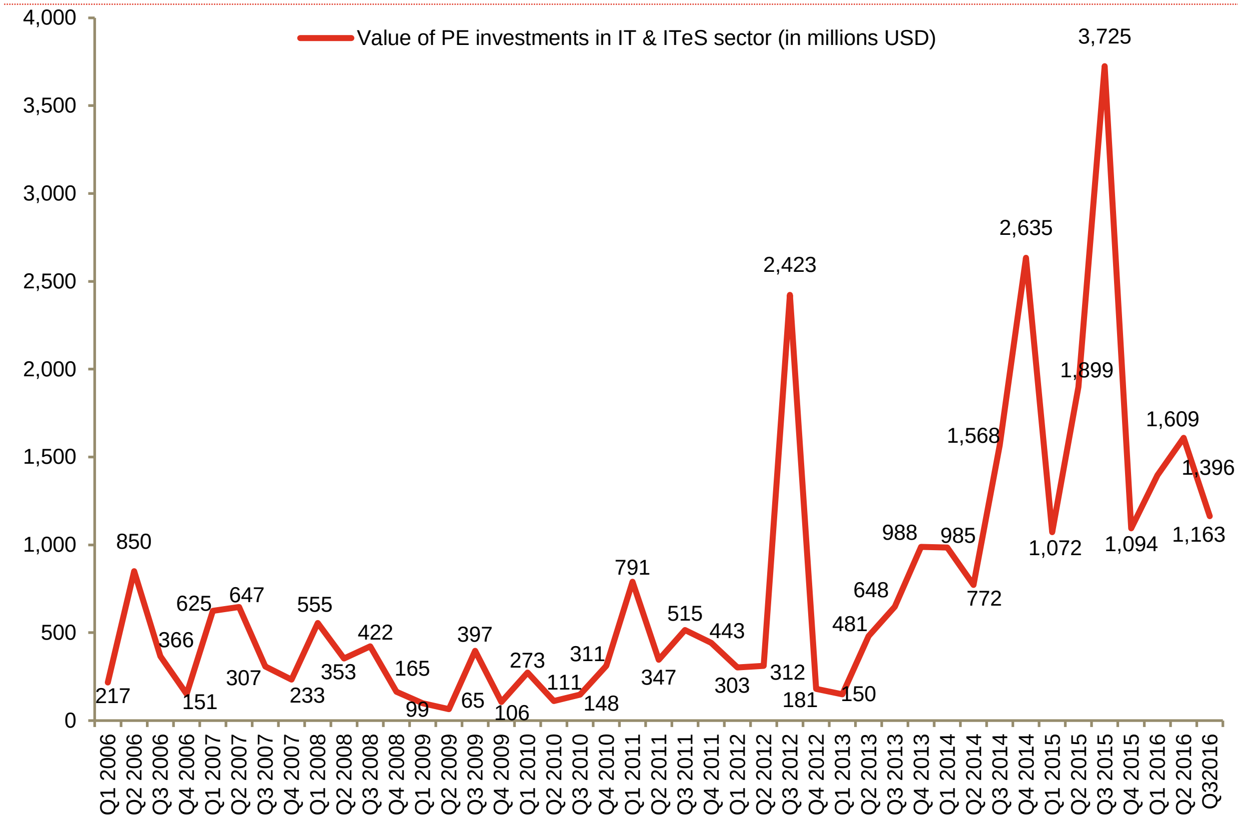
With six deals in the top 20 worth a total 748 million, IT & ITeS continued to be an attractive sector, with a total investment of 1.16 billion USD in 68 deals. This is a 28% drop from the previous quarter and a 68% drop as compared to the year-ago period. In Q2 '16, there were 92 deals worth 1.60 billion USD, while Q3 '15 saw 135 deals worth 3.72 billion USD.

This time, growth stage clearly earned the top spot in terms of stage of investing, with 15 deals worth 447 million USD. Late-stage investments followed by attracting 403 million USD in three deals.

Interestingly, early-stage investing has seen a rise in this quarter, with 187 million USD from 46 deals.

The average deal size this quarter was 17.10 million USD, down from the 17.48 million USD seen in the last quarter.

Value of PE investments in IT & ITeS sector (in millions USD)

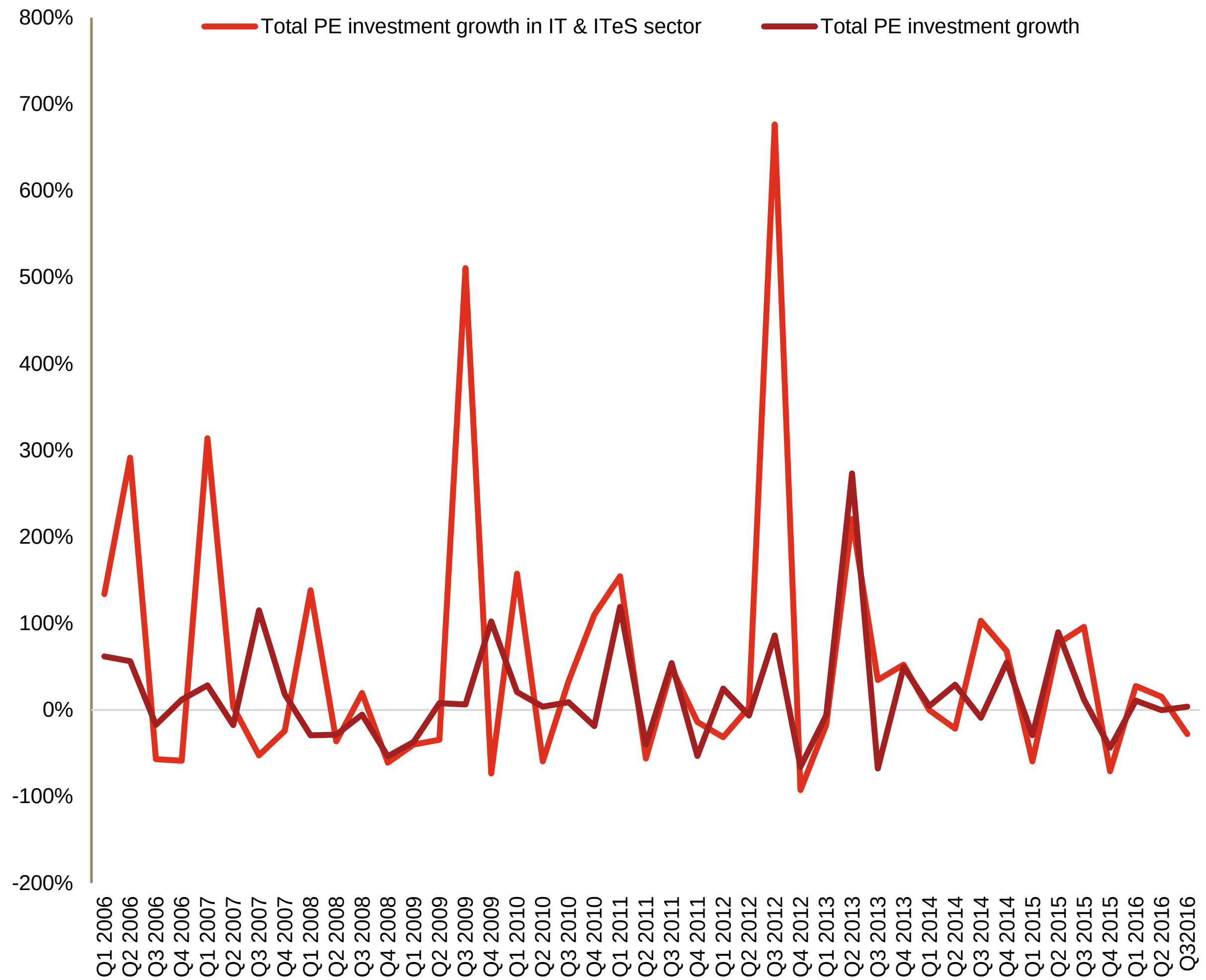


Data provided by Venture Intelligence

No. of deals	28	18	35	21	34	35	35	32	33	27	47	26	24	16	21	21	28	16	36	24	40	47	43	43	47	49	60	40	44	43	48	48	70	61	78	79	114	106	119	109	103	92	68

A comparison between the quarter-on-quarter growth rates of the IT & ITeS PE investments against the total PE investments during the last decade shows that funding growth for this sector was higher than the total PE funding growth across several quarters. The third quarter of 2016 was, however, different, with total PE investments seeing a 4% growth and tech investment dropping by 28%.

Comparative PE investment (Total vs IT & ITeS sector)



Data provided by Venture Intelligence

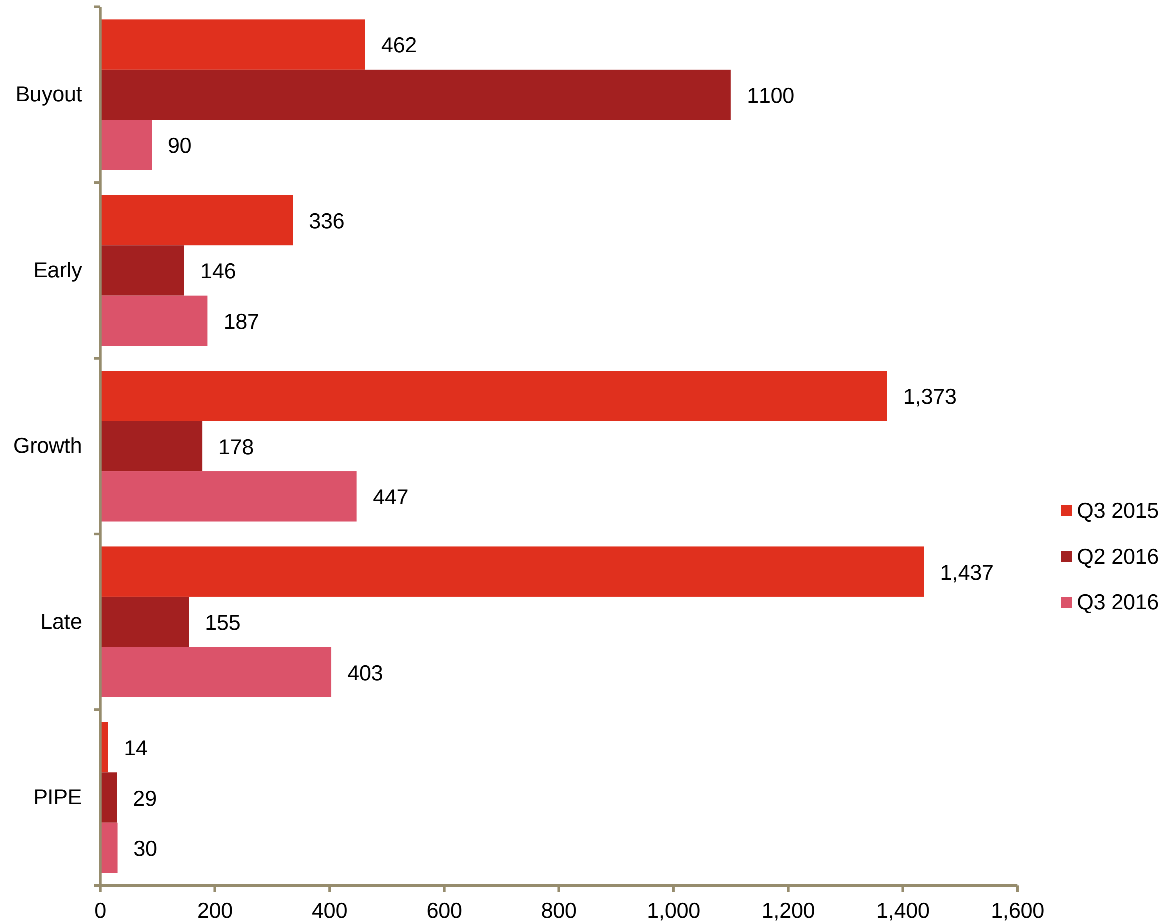
Investments by stage of development
Q3 '15, Q2 '16 and Q3 '16

Growth-stage deals took the lead this quarter, with a two-and-a-half-times growth over the previous quarter.

The growth stage has seen 15 deals (same as last quarter) worth 447 million USD, a 152% growth as compared to Q2 '16 (178 million USD). It also witnessed a 67% drop from Q3 '15 (1373 million USD from 29 deals). The growth stage was followed by late-stage deals with three investments worth 403 million USD, while the previous quarter saw six deals that brought in investments worth 155 million USD. In the year-ago period, it was 1,437 million USD from 11 deals.

Buyout investments dropped by 92% from 1,100 million USD in Q2 '16 to 90 million USD in Q3 '16. PIPE deals saw 30 million USD in one deal, an increase of 2% from the previous quarter.

IT & ITeS investments by stage of development



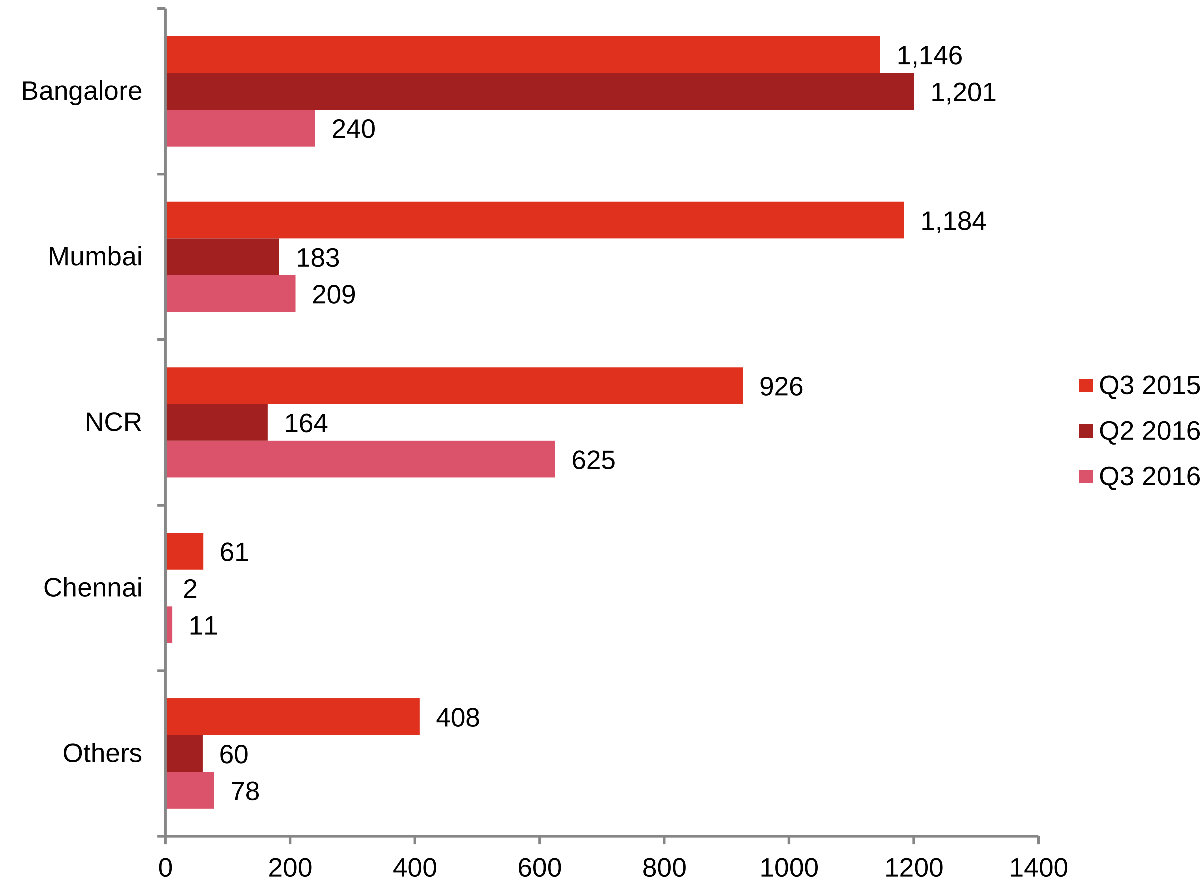
Data provided by Venture Intelligence

Investments by region
Q3 ’15, Q2 ’16 and Q3 ’16

Regionally, NCR led technology investments with 625 million USD in 20 deals. It attracted 54% of the total invested money in the tech sector, i.e., 1.16 billion USD across 68 deals. Bengaluru lagged behind in the second slot with 240 million USD in 22 deals.

Note: NCR includes Delhi, Gurgaon and Noida.

IT & ITeS investments by region

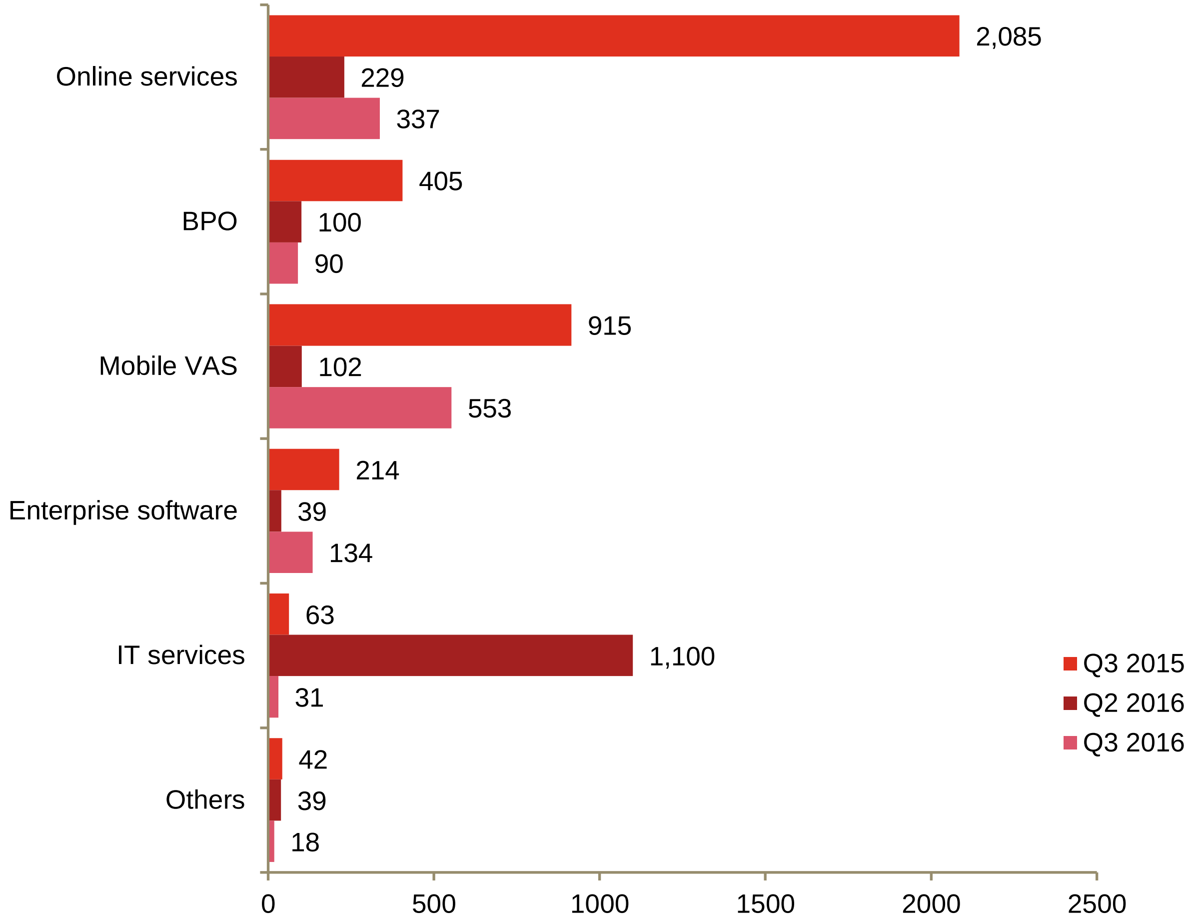


Data provided by Venture Intelligence

Investments by subsector
Q3 '15, Q2 '16 and Q3 '16

Mobile VAS has become the top subsector seeing 14 deals worth 553 million USD. In second position, online services attracted just 337 million USD in 31 deals.

IT & ITeS investments by subsector



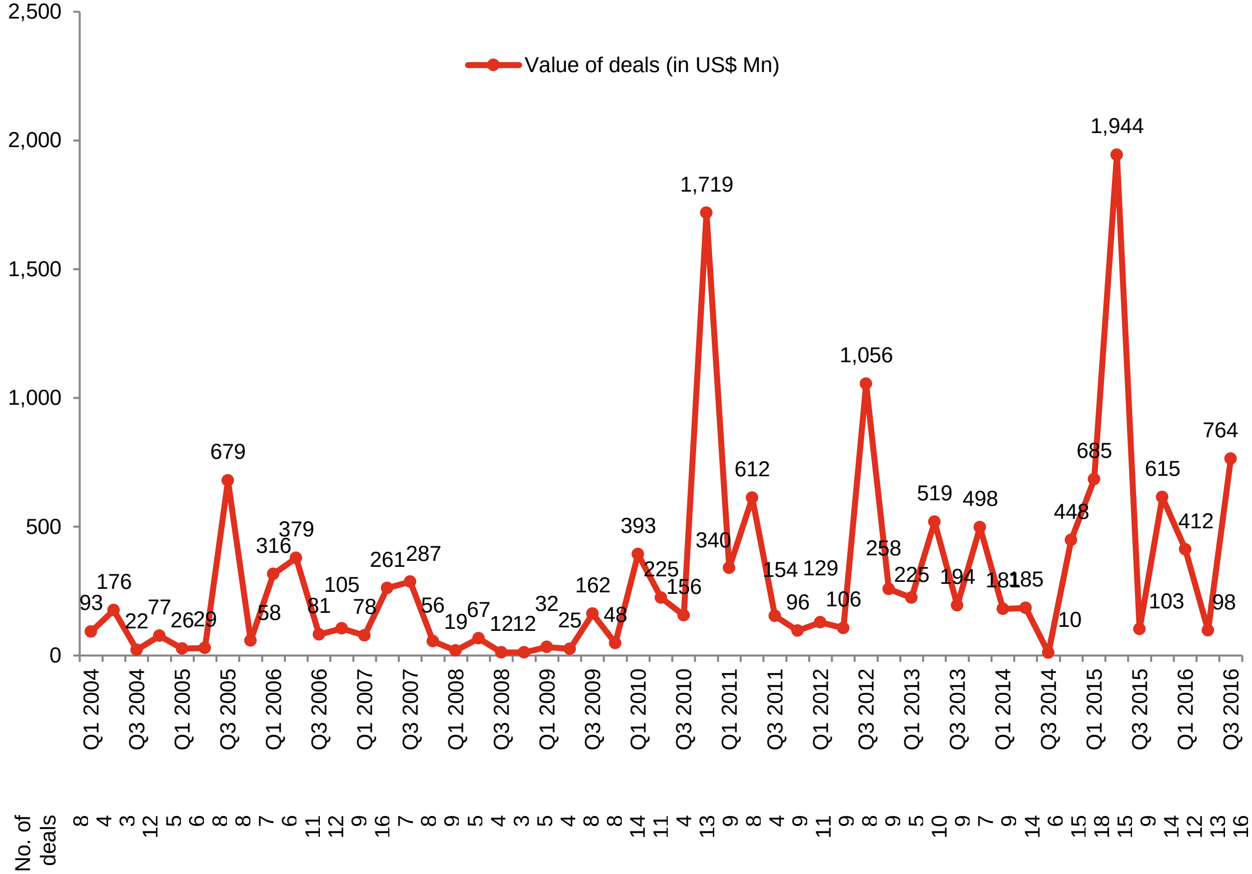
Data provided by Venture Intelligence

PE exits in the sector

Q2 ’15, Q1 ’16 and Q2 ’16

In comparison to the previous quarter, there was an eight times rise in exits in the IT & ITeS sector in Q3 ’16. The sector saw exits worth 764 million USD in 16 deals, as compared to 98 million USD in 13 deals in Q2 ’16. Strategic sales saw the highest number of exits—674 million USD in 14 deals.

Total IT & ITeS exits



Data provided by Venture Intelligence

Definitions

Stages of development

Early stage – This refers to the first or second round of institutional investments in companies that adhere to the following:

- Less than five years old
- Not part of a larger business group
- Investment is less than 20 million USD

Growth stage – This refers to investments of less than 20 million USD. Also, investments meeting the following criteria are considered to be in the growth stage:

- Third or fourth round funding of institutional investments
- First or second round of institutional investments in companies that are more than 5 years old and less than 10 years old or spin-outs from larger businesses

Growth stage PE: This includes the following:

- First or second round of investments worth 20 million USD or more
- Third or fourth round funding in companies that are more than 5 years old and less than 10 years old, or subsidiaries or spin-outs from larger businesses
- Fifth or sixth round of institutional investments

Late stage – This comprises the following:

- Investment in companies that are a decade old
- Seventh or later round of institutional investments

PIPEs – The following constitute PIPEs:

- PE investments in publicly listed companies via preferential allotments or private placements
- Acquisition of shares by PE firms via the secondary market

Buyout – This is an acquisition of controlling stake via purchase of stakes of existing shareholders.

Buyout–large – This includes buyout deals of 100 million USD or more in value.

Other – This includes PE investments in special purpose vehicle (SPV) or project-level investments.

Types of PE exits

Buyback – This includes the purchase of PE or VC investors' equity stakes by either the investee company or its founders or promoters.

Strategic sale – This includes the sale of PE or VC investors' equity stakes (or the entire investee company itself) to a third-party company (which is typically a larger company in the same sector).

Secondary sale – Any purchase of PE or VC investors' equity stakes by another PE or VC investors constitutes secondary sale.

Public market sale – This includes the sale of PE or VC investors' equity stakes **in a listed company** through the public market.

Initial public offering (IPO) – This includes the sale of PE or VC investors' equity stake **in an unlisted company** through its first public offering of stock.

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Contacts

Sandeep Ladda
Leader, Technology
PwC India
sandeep.ladda@in.pwc.com

Sanjeev Krishan
Leader, Private Equity
PwC India
sanjeev.krishan@in.pwc.com

This report was researched and written by the following:

Pradyumna Sahu
Executive Director, Markets & Industries
PwC India
pradyumna.sahu@in.pwc.com

Jitesh Bijlani
Sector Driver, Technology
PwC India
jitesh.bijlani@in.pwc.com

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