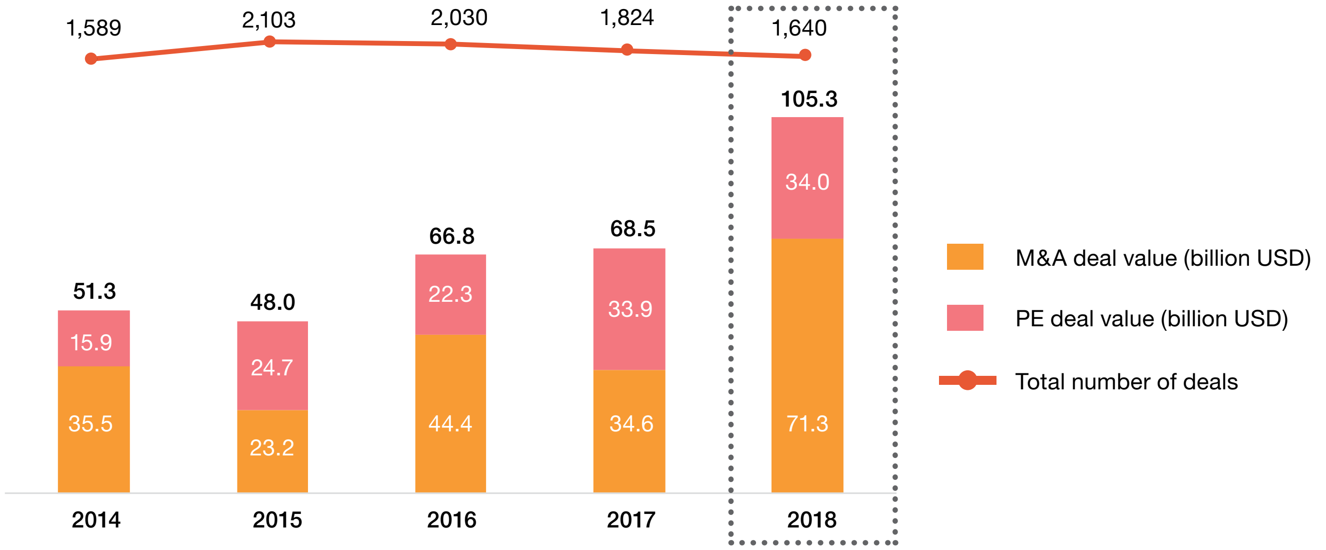
Deals in India: Annual review and outlook for 2019

December 2018

2018 has been a blockbuster year for deal activity in India. This year has broken all previous records by crossing the USD 100 billion mark in terms of deal value across both private equity (PE) and strategic (M&A) transactions. Deal value as of 3 December 2018 had reached a record high of around USD 105 billion across 1,640 transactions.

PE activity had a tepid start this year; however, investor confidence in India was evident from the USD 34 billion invested across the year (a PwC survey in 2014[1] had predicted USD 40 billion of PE investments by 2025, so they are well on track to get there by then, possibly sooner). The PE landscape in India has entered a mature phase backed by a steady stream of investments, record levels of exits and the mounting levels of dry powder. 2018 also recorded strategic deals worth over USD 71 billion, superseding all previous records and making 2018 a landmark year for M&A in India.

Deal activity in India



Source: VCCEdge (M&A), Venture Intelligence (PE) and PwC analysis

1. https://www.pwc.in/assets/pdfs/publications/2014/pe-in-india-2025.pdf

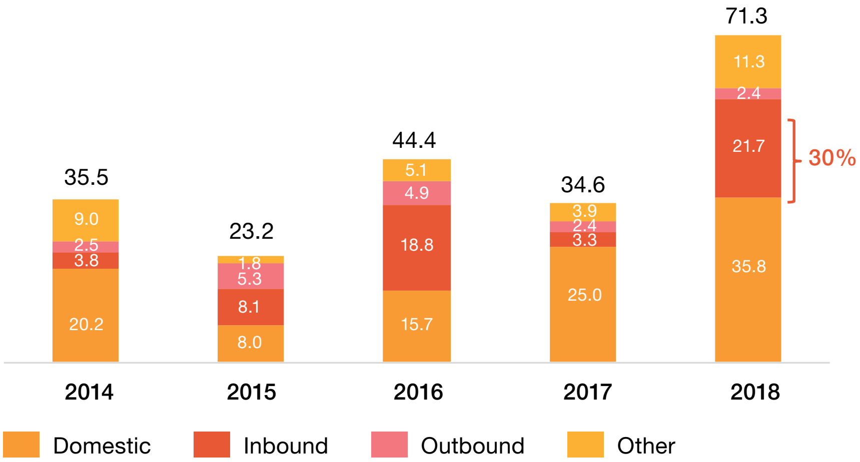
The uptick in activity could largely be attributed to a number of factors, including the increased attention to the stressed asset space, consolidation across sectors and a significant surge in big-ticket transactions. Both PE and M&A activity levels were impacted by a few underlying drivers which were visible across the year and could possibly continue to drive activity going forward. These factors are discussed below.

1. India's growing international appeal

While global PE funds have demonstrated interest in India over the past few years, 2018 has seen renewed interest from strategic buyers who have placed significant bets on India's growth story. Walmart and Schneider were among the key global contributors to the M&A deal value this year, and this could trigger further interest from overseas corporates and investors going forward.

Inbound activity alone accounted for over 30% of the M&A deal value this year, over six times the deal value in 2017.

M&A activity by deal type (billion USD)



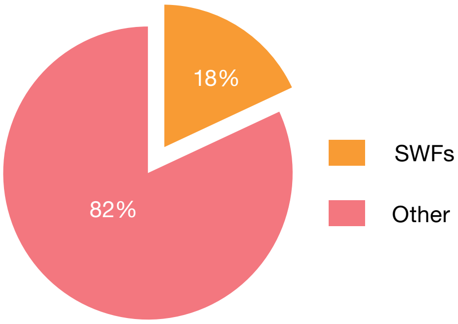
Source: VCCEdge and PwC analysis

2. Broadening interest of SWFs

Global pension funds and sovereign wealth funds (SWFs) have been expanding their footprint in India over the course of the last few years. SWFs have been a part of over 18% (in terms of value) of the PE investments made in the country between 2014 and 2018. SWFs from across the globe, particularly Canada, Singapore and Abu Dhabi, were a part of some of the largest PE transactions this year, contributing around 6.5 billion USD to the PE deal value in 2018. This is over double the value 5 years ago.

SWFs have been relatively active in the renewables space, having been a part of some of the largest deals in this segment. These funds have not only demonstrated interest in energy, financial services, real estate and infrastructure but have also jumped on the tech start-up bandwagon, possibly spurring competition with the venture capital (VC) community.

SWFs involvement in PE deals over the last 5 years



Source: Venture Intelligence and PwC analysis

3. United we stand

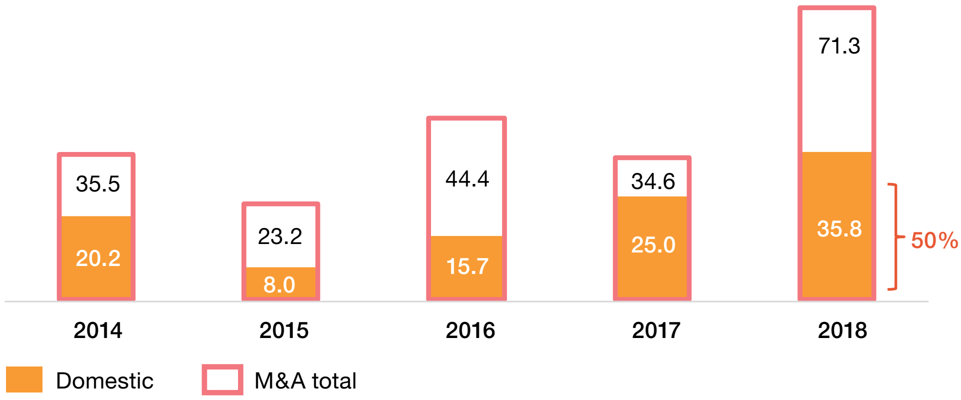
Consolidation has been a key driver for deal activity this year, accounting for around 50% of the M&A transaction value in 2018, with e-commerce at the forefront of this activity. With consumerism sweeping through India, investors and corporates have taken note of this trend and are keen to tap into its potential.

Walmart's acquisition of Flipkart was the largest deal recorded in India and a contributing factor towards the surge in M&A deal values in 2018. With technological advancements, companies are becoming increasingly aware of the need for new tech to boost operational efficiency, and are thus pushing acquisitions in the technology/e-commerce space.

Simultaneously, we are witnessing consolidation across sectors, including steel, telecom and oil and gas.

India has entered a phase where corporate players are looking to improve their size, scalability and operating models through consolidation. This is not only limited to strategic players but could also become a trend among PE players looking to establish dominance in select sectors by merging their portfolio companies, and/or leading sectoral consolidation through platforms.

Domestic deals contribution to M&A activity (billion USD)



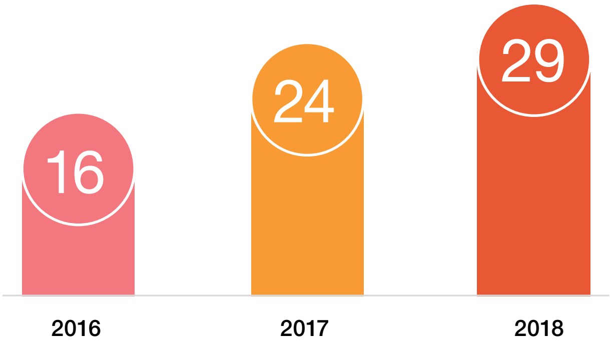
Source: VCCEdge and PwC analysis

4. The great Indian distressed sale

The Insolvency and Bankruptcy Code (IBC) has proved to be a game changer for deal activity in India. This is evident from the country's recent jump on the World Bank's 'Ease of Doing Business' ranking. Stressed assets have spiked the interest of global and domestic players, and created fierce competition among investors looking to pick up these assets. Global investors are viewing India as an opportunity they could strategically capitalise on with a supply of non-performing assets (NPAs) across a number of core sectors.

In an effort to establish their footprint in the distressed space, PE funds and SWFs are tying up with asset reconstruction companies (ARCs) and setting up distressed funds. Several major PE players have already entered the stressed market, while a number of pure-play PE funds are expressing interest in this space.

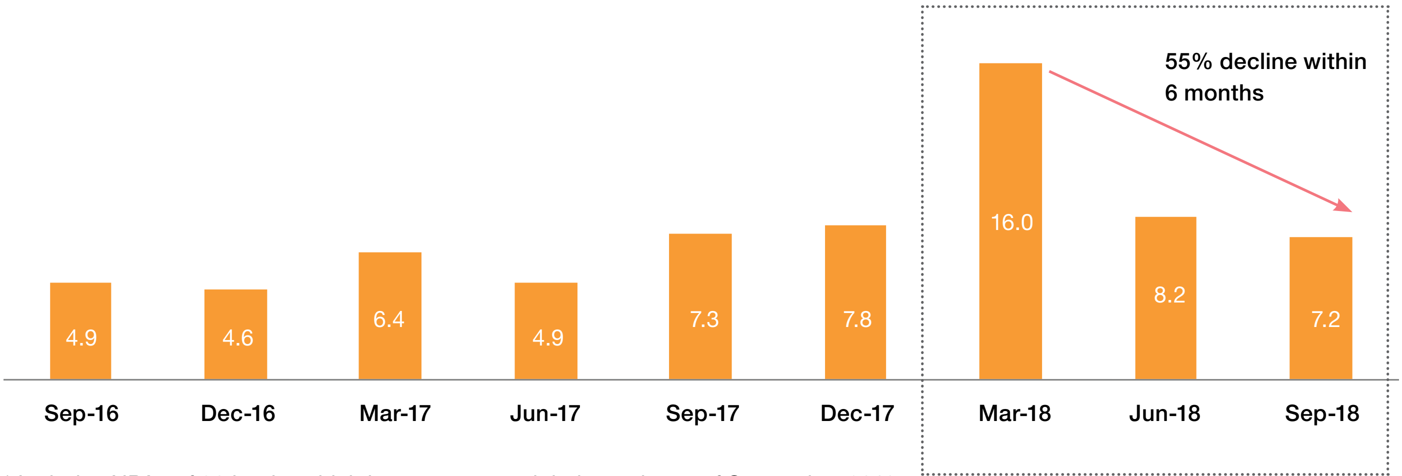
Increasing number of ARCs in India



Source: Reserve Bank of India and Economic Times

Data suggests the provision for NPAs for a select 30 banks peaked in March 2018 and has since witnessed a decline with banks aggressively working towards cleaning up their balance sheets.*

NPA provision* (billion USD)



* Includes NPAs of 30 banks which have announced their results as of September 2018

1 USD = 70.2 INR

Source: CARE Ratings

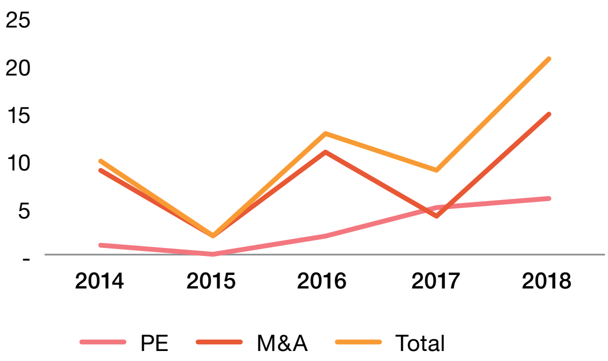
Despite this decline, India is still burdened with a pile of bad loans that present a significant opportunity for investors and corporates to reap lucrative returns. We could also expect to see this NPA opportunity expand further, with investors starting to look at retail loans as well.

5. Big billion bets

Deal volumes have been on a downward trajectory over the last few years, while deal values surge on the back of a spike in big-ticket transactions. 2018 has seen 21 billion-dollar deals across both PE investments and strategic deals combined—more than double the number recorded last year.

Overseas buyers have showcased their confidence in India by placing sizeable bets across sectors, including technology, industrial products, telecom, oil and gas, and energy.

Number of billion dollar deals in India



Source: VCCEdge (M&A), Venture Intelligence (PE) and PwC Analysis

Simultaneously, PE investors and SWFs have made bold investments in technology, infrastructure, telecom and financial services. India's focus on resolving the NPA crisis and developing infrastructure has caught the eye of the global investor community and could spur further competition with domestic players in the race to capitalise on the country's potential.

Top 5 M&A transactions in 2018

Company	Buyers	Industry	Deal Value (billion USD)	% sought
Flipkart Pvt. Ltd.	Walmart Inc.	Technology	16.0	77
Tata Steel BSL Ltd.	Bamnipal Steel Ltd.	Industrial products	7.5	73
Indus Towers Ltd., Amalgamated	Bharti Infratel Ltd.	Telecom	6.2	58
Hindustan Petroleum Corporation Ltd.	Oil and Natural Gas Corporation Ltd.	Energy	5.8	51
Arysta LifeScience Inc	UPL Corporation Ltd.	Chemicals	4.2	100

Source: VCCEdge

Top 5 PE transactions in 2018

Company	Investors	Industry	Deal Value (billion USD)	% sought
NHAI TOT Bundle I	Macquarie	Engineering and construction	1.5	NA
Airtel Africa	SoftBank Corp, Temasek, Warburg Pincus, Others	Telecom	1.3	28
UPL Corp	ADIA, TPG Capital	Chemicals	1.2	22
HDFC	KKR, GIC, Others	Financial services	1.1	2
Oyo Rooms	Greenoaks Capital, SoftBank Corp, Lightspeed Ventures, Sequoia Capital	Technology	1.0	NA

Source: Venture Intelligence

6. Taking control

Corporate governance has been gaining importance in recent times as strategic and PE investors have begun to lay emphasis on control as a key component in the performance of their investments. Buyout deals have witnessed a nearly 25% increase in value as compared to 2017, underlining the growing appetite for control deals in India. Promoters are now open to ceding control in terms of operational aspects of their businesses in an effort to boost the growth of the company.

Globally, the average buyout fund has nearly doubled in terms of assets under management (AUMs) over the last year, a trend likely to play out in India going forward.

7. Platform deals

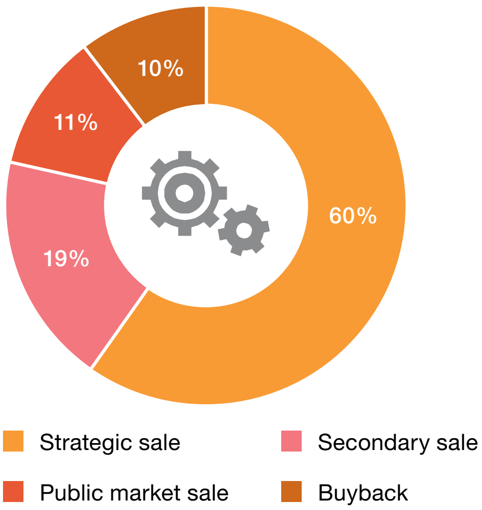
2018 has witnessed a number of investors adopt a more focused approach in terms of deployment of capital. Funds are increasingly moving towards platform deals to channelise their expertise into specific sectors or focus areas. A number of PE funds and SWFs have already entered into agreements with domestic players to cater to segments such as infrastructure, real estate, renewables, healthcare and, most importantly, stressed assets. This could be attributed to the increased focus on the correlation between governance and performance coupled with the recent attention on deleveraging.

Going forward, with the spike in buyout deals, we could expect to see a lot more platform play, consequently followed by more consolidation activity.

8. Reaping rewards

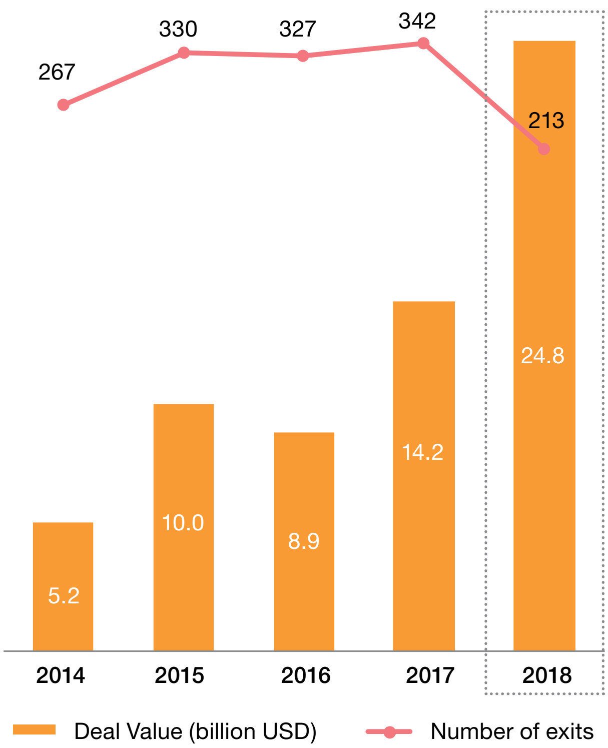
PE exits are also at an all-time high this year, recording 213 exits worth nearly USD 25 billion. While strategic sales accounted for the majority of the pie, this was mainly on the back of Walmart's acquisition of Flipkart. Secondary sales as a mode of exit are gaining importance within the PE community, visible through the 38% spike in value over 2017.

PE exit activity in 2018 by deal type



Source: Venture Intelligence and PwC analysis

PE exit activity in India



Source: Venture Intelligence and PwC analysis

9. The technology boom

Technological disruption has been a major factor impacting the deal activity this year. With larger corporations looking to adapt to technological advancements and revamp their business models, 2018 has seen a number of acquisitions in the new technology space. Relevance has become a key element for the survival of any business, and this has made technology expertise a requirement to achieve a competitive advantage in the current market.

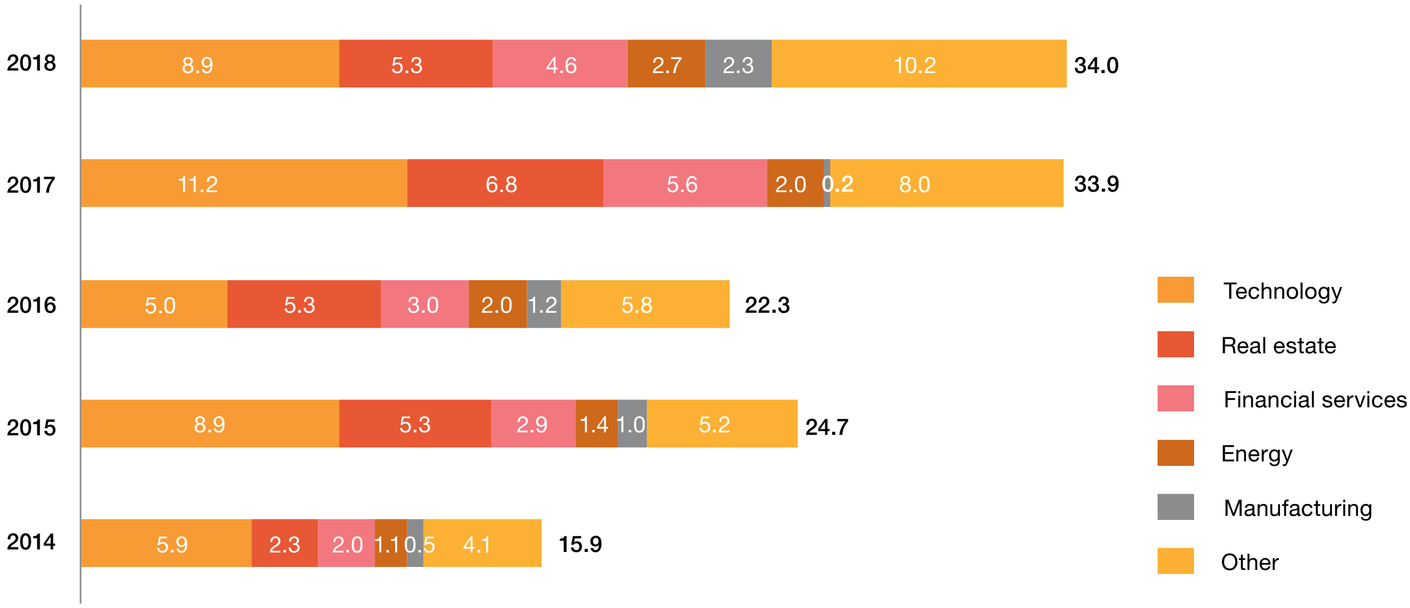
Digitisation, artificial intelligence, cyber, and data & analytics are some of the technology trends garnering significant interest from both corporates and funds. The technology space has attracted investments worth over USD 30 billion in 2018 across both PE and M&A together, a clear advancement over previous years. The retail sector, in particular, was at the frontline of the technology convergence trend this year. Advancements in technology are driving the constant evolution of consumer behaviour and expectations, compelling traditional retail players to challenge themselves in the race against the growing ecommerce segment. Technology has been at the forefront of deal activity in India over the last few years, and will continue to garner significant interest from both global and domestic players.

10. Sector prospects

Apart from technology, real estate, financial services, energy and manufacturing were among the top five sectors drawing significant attention in 2018.

Real estate witnessed a number of investments in the office-space segment and affordable housing. Likewise, within the financial services sector, non-banking financial companies (NBFCs) continued to garner maximum interest.

Top 5 sectors attracting PE investment (billion USD)



Source: Venture Intelligence and PwC analysis

Renewables dominated the energy segment with SWFs being key investors, while the manufacturing sector caught the attention of overseas investors. Considering these top five sectors have attracted over 70% of investor interest over the last 5 years, we could expect this trend to continue as we enter 2019. The recent crisis in the NBFC sector could mean that quite a few financial services businesses would become ‘deal’ ready owing to sector consolidation, deleveraging by financial services conglomerates or simply fund-raising situations.

Outlook for 2019

2018 has witnessed a number of prominent deals across the year, indicating a maturing deals landscape in India. Both global and domestic corporates are eager to capitalise on the India opportunity and have showcased their interest in 2018 through the record-breaking M&A activity. Simultaneously, investor appetite among the PE community is evident from the strong rounds of funding as well as fundraising throughout the year.

The surge in 2018 deal activity could be attributed to a myriad of factors over the last few years, including IBC, liberalisation of Foreign Direct Investment (FDI) norms, roll-out of the Goods and Services Tax (GST) and the evolving simplified regulatory environment.

From an M&A standpoint, then, we will be entering 2019 with strong tail winds. At the same time, 2018 has set the bar relatively high in terms of deal activity, and the following factors may pose a challenge to deal activity in 2019:

a. political uncertainty, at least up to the general elections, particularly in the wake of the results of the recently-held state election

b. the global environment, specifically continuance of the trade wars, which could potentially keep global investors away from emerging markets in general

c. delays in resolution of the stressed assets owing to legal or regulatory roadblocks that are also expected to free up capital for fresh investments

d. any worsening of India’s (and its states) fiscal condition owing to the increase in oil prices and possible enhanced populist measures.

We, however, remain optimistic about M&A activity in 2019 and expect many of the deal triggers of 2018 to continue in 2019 and drive both deal values and volumes for the year.

Notes:

Data as on 3 December 2018

Source: Venture Intelligence (PE) and VCCEdge (M&A)

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