Investment Chronicle

January - December 2019

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Nexdigm (SKP) is pleased to present the annual edition of Investment Chronicle – our periodical update on India’s deal-making landscape that analyzes Mergers and Acquisitions (M&A), equity investments, and exits. In this edition, we cover India’s transactions arena in 2019.

The phenomenal performance of 2018, with the total transactions value crossing the USD 100 billion mark, set a daunting benchmark for the years ahead. In line with anticipations around investor behavior, owing to global headwinds and political uncertainty in the country during the first half of the year, the total deal value declined to ~USD 80 billion in 2019.

While the aggregate value of M&A deals declined to half of 2018’s record, Equity Investments, at USD 37 billion, salvaged the deal landscape this year with their highest performance to date. 30% of these equity investments are attributed to the Indian startup ecosystem, which is the third-largest in the world. Private equity exits, in contrast, plummeted to USD 5.6 billion due to volatile capital markets, which compelled investors to revisit their exit strategies.

Despite the deceleration in the transaction landscape this year, India’s long-term market position remains optimistic. While there has been short-term turbulence, India continues to hold an edge over other developing nations in attracting FDI, encouraged by an immense captive consumption market and several measures taken by the government to maintain investor confidence in long term prospects.

The Union Budget 2019 further streamlined and relaxed FDI norms in aviation, media and insurance, information utilities, and contract manufacturing to attract investments and also promote the ‘Make in India’ initiative. Major foreign investors such as Softbank and Alibaba Group, as well as global business houses, plan to infuse further funds in India to tap opportunities in the domestic market, encouraged by the improvement in the ease of doing business.

The year saw the continued implementation of several reforms this year such as the Goods and Services Tax (GST), Insolvency and Bankruptcy Code (IBC), and the Real Estate Regulatory Authority (RERA). Fiscal measures initiated by the government, including the allocation of funds for infrastructure, bank restructuring, and drop in corporate tax rates, accentuate these to give a positive long-term outlook for the Indian Market. Such measures uphold investor confidence, encouraging them to bet on this market's upward potential.

Maulik Doshi
Senior Executive Director
Transaction Advisory
Annual Compass

Deal Trends (Volume/Value)

Annual Highlights

Average M&A Deal Value
USD 42.50 million

Top M&A Deal Value
USD 5,972 million

Hot Sector
Information Technology

Top EInv Deal Value
USD 3,666 million

Emerging Segment
Transportation Infrastructure

Top Outbound Partner
USA

M&A CAGR (4 years)
13%

Top PEE Deal Value
USD 1,500 million

EInv CAGR (4 years)
12.4%
2018 was a record-breaking year, which saw Mergers and Acquisitions activity of USD 80 billion, and the largest M&A transaction in India till date. In line with the anticipated trend for 2019, investor apprehensions arising from political uncertainty and economic slowdown took form in the decline of total M&A value to USD 36.6 billion.

In contrast, a mere 10% decline in deal volume, coupled with fewer big-ticket transactions, further pronounced the reduction in average deal size by half (to USD 43 million). 2019 witnessed five transactions crossing the USD 1 billion mark, making up 40% of the total deal value. While the Materials and Financials sectors led in terms of deal value, Information Technology dominated in terms of volume.

The M&A activity was mainly driven by the acquisition of stressed assets, diversification, consolidation, and restructuring activities.

A credit squeeze due to disruption in the non-banking financial (NBFCs) sector curbed consumer spending on non-essential goods. This subsequently contributed to a slowdown in the Consumer Discretionary sector, causing these businesses to realign their growth and investment plans.

2018 was an outperforming year with a large number of deals surpassing the USD 1 billion mark. While M&A performance this year seems dismal in comparison to 2018, it has maintained the momentum of preceding years, despite global turbulence.

Favorable measures taken by the government (such as the recent corporate tax rate cut) continue to foster investor confidence. Companies viewing a long-term horizon and assets with a sound business model for future expansions are expected to drive M&A in the coming years.

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### Mergers and Acquisitions

<table>
<thead>
<tr>
<th>Deal</th>
<th>Buyer</th>
<th>Target</th>
<th>Type</th>
<th>Value (USD million)</th>
<th>% Sought</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Arcelor Mittal SA, Nippon Steel and Sumitomo Metal Corporation</td>
<td>Essar Steel Ltd</td>
<td>Inbound</td>
<td>5,972</td>
<td>100%</td>
<td>Materials</td>
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<td>2</td>
<td>Bandhan Bank Ltd</td>
<td>Gruh Finance Ltd</td>
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<td>3,007</td>
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<td>Financials</td>
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<td>3</td>
<td>JSW Steel Ltd</td>
<td>Bhushan Power and Steel Ltd</td>
<td>Domestic</td>
<td>2,726</td>
<td>100%</td>
<td>Materials</td>
</tr>
<tr>
<td>4</td>
<td>RA Hospitality &amp; Others</td>
<td>Oravel Stays Ltd</td>
<td>Domestic</td>
<td>1,500</td>
<td>15%</td>
<td>Information Technology</td>
</tr>
<tr>
<td>5</td>
<td>Larsen &amp; Turbo Ltd</td>
<td>MindTree Ltd</td>
<td>Domestic</td>
<td>1,402</td>
<td>59.66%</td>
<td>Information Technology</td>
</tr>
</tbody>
</table>
The recent tightening of banking norms and regulations by the Reserve Bank of India (RBI) has revealed the stress on assets of large business houses. Essar Steel, which owed its lenders over USD 7 billion, was one of the 12 NPAs assigned for resolution by the RBI under the Insolvency and Bankruptcy Code (IBC).

The Supreme Court’s approval of Arcelor Mittal’s resolution plan in November 2019 marked the procedural completion of the largest stressed asset deal in the country. Protecting the commercial decision of the committee of creditors, the approval also set aside the NCLAT’s previous order giving equal rights to financial and operational creditors over the sale proceeds from the deal. The recent amendments in the IBC, which ring-fence bidders from criminal proceedings against offenses committed by previous management, also addressed Arcelor Mittal’s key concern.

Marking the world’s largest steel company’s entry into India, the transaction paves way for augmented investments in the infrastructure and real estate sectors with substantial government backing. Post-transaction, Arcelor Mittal will jointly operate and own Essar Steel with Nippon Steel Corporation, Japan’s largest steel producer, in a 60:40 ratio.

On 7 January 2019 Kolkata-based Bandhan Bank Ltd. agreed to acquire HDFC group’s Ahmedabad-based affordable housing finance arm, Gruh Finance Ltd. in a share swap transaction. Shareholders of Gruh Finance receive 568 shares of Bandhan Bank for every 1,000 shares held.

The transaction is a part of a broader aim of reducing promoter holding in Bandhan Bank to 40%. This is in tune with the RBI’s licensing norms, wherein newly licensed banks are required to bring down promoter holding to 40% within three years of commencing operations. The transaction will result in reducing Bandhan Financial Holding’s stake in the bank to 61% (from 82.2%). Through the transaction, HDFC will hold a 15% stake in the merged entity.

On one hand, the complementary business models would help Bandhan Bank achieve product and geographic diversification. On the other hand, Gruh Finance can leverage the access to a wider distribution network and larger customer base. The proposed merger has been approved by Reserve Bank of India (RBI) & National Company Law Tribunal (NCLT).
Prime Deals

In September 2019, JSW Steel’s acquisition of Bhushan Power and Steel Ltd. (in an all-cash deal) was announced, making this the second deal undertaken under the Insolvency and Bankruptcy Code (IBC) by the acquirer. The transaction would lead to a 3.5 million tonne (or 15%) increase in JSW Steel’s production capacity, coupled with an expansion in eastern India (where it is currently not present).

The National Company Law Tribunal (NCLT) approval on the deal came at a time when the steel industry was looking out for production cuts and cost reduction options, in response to reducing demand due to the economic slowdown. In the long run, however, India’s current infrastructural inadequacy would continue to drive domestic demand.

Supported by the government’s development initiatives to cater to India’s vast populace, the company plans to almost double its investment every financial year until 2021, aiming to become a 45 million tonne capacity steel firm by 2030.

In October 2019, Total SA agreed to acquire a 37.40% stake in Adani Gas Ltd. (for a total consideration of USD 869 million). To execute this acquisition, the French energy giant will first make an open offer to buy a 25.2% stake in Adani Gas, and later acquire the requisite balance stake from Adani to reach the targeted 37.4%.

Total SA, is the world’s second largest Liquefied Natural Gas (LNG) provider. The transaction will help Adani Gas accelerate project executions in all new geographies.

The French energy player Total SA will introduce its competencies in LNG to Adani Gas, enabling the joint venture to market LNG in India and Bangladesh.

The deal marks the intent of both companies to make significant investments in the course of the next ten years, towards the development of the gas infrastructure, distribution, and marketing businesses in 15 Indian states (reaching approximately 7.5% of India’s population).
Despite the contrary external factors and political uncertainty of the first half, equity investments emerged victorious in 2019 at a booming USD 37.1 billion from 1,299 deals. With both aggregate deal value and volume observing a notable growth from the previous year (at 54% and 30% respectively), the average deal size remained at par at USD 28.5 million.

Opportunities in Financial Services and consumer-driven sectors observed the most traction, as investors continued to bet on the long-term growth prospects based on India’s large captive market. While the Consumer Discretionary and Information Technology sectors took the lead in terms of volume, the latter, along with the Financial sector accounted for 60% of the total deal value.

Infrastructure is another segment that has been abuzz, with increased interest from large global pension and sovereign funds, and a renewed focus on affordable commercial spaces. The real estate market in India is expected to contribute to 13% of the country’s GDP by 2025, aided by the recent technological and regulatory developments, and is geared up to continue garnering further investments.

As investors continue to bet on high value, quality deals in line with global trends, this year witnessed one of the largest equity investment deals in India till date. Brookfield Asset Management invested USD 3.7 billion in Reliance’s Tower Infrastructure Trust.

The top five deals of 2019 alone contributed ~25% of the year’s total deal value, each crossing the USD 1 billion mark and were primarily led by foreign investors.

Despite temporary uncertainties around the domestic market (arising from factors such as currency depreciation, liquidity crunch, and consumption slowdown), investor sentiment continues to remain strong and focused on the long term.
In July 2019, Canadian investment firm, Brookfield Asset Management Company, along with its affiliates, announced its forthcoming investment in Reliance telecom tower assets, one of the largest private equity deals in India amounting to USD 3,666 million.

In this multi-stage deal, the proceeds will primarily be invested in units of Tower Infrastructure Trust, an infrastructure investment trust sponsored by Reliance Industries Limited's (RIL) subsidiary Reliance Industrial Investments and Holdings Ltd. The trust holds 51% stake in telecom tower operator Reliance Jio Infratel Pvt. Ltd, while the balance stake is held by RIL.

It took the Canadian investment firm a few years before it found this opportunity to establish a foothold in India’s telecom tower segment. Brookfield owns and operates one of the largest infrastructure portfolios in the world, measuring around USD 65 billion of assets. The proceeds of this investment will be used to repay certain existing financial liabilities of Reliance Jio Infratel and to acquire the balance 49% stake in the tower company from Reliance Industries Limited (RIL).

In the first monetization of a private pipeline in India, Brookfield Asset Management acquired the loss-making East West Pipeline Ltd. (formerly Reliance Gas Transportation Infrastructure Ltd.). The acquisition was structured through India Infrastructure Investment Trust, which is promoted by Brookfield Asset Management.

The East West Pipeline, which is owned and operated by Pipeline Infrastructure Ltd., is 1400 km long and runs from Kakinada in Andhra Pradesh to Bharuch in Gujrat, enhancing the connectivity to prominent locations. The pipeline's previous capacity of 80 million cubic meters per day began to decline post-2010, turning it into a loss-making entity.

The pipeline transports the natural gas produced at the Krishna-Godavari basin block, an essential hub for the extraction of natural gas. India has the potential to increase the proportion of natural gas in the energy mix from 11% to 20% by 2025.
Prime Deals

### DEAL HIGHLIGHTS

**Target:** GVK Airport Holdings Ltd  
**Buyer:** Abu Dhabi Investment Council & Others  
**SECTOR:** Industrials  
**DEAL VALUE:** USD 1,076 mn  
**DEAL TYPE:** Private Equity  
**% SHARE:** 79.1%  
**RATIONALE:** Growth and Expansion

GVK Airport Holdings Ltd. has raised USD 1,076 million from the Abu Dhabi Investment Council, Public Sector Pension Investment Board, and National Investment and Infrastructure Fund Ltd. for a 79.1% stake in the company towards the end of October. Post this transaction, GVK Airport Developers Ltd. will hold 20.9% in GVK Airport Holdings Ltd., and the rest of the stake will be equally divided among the three investors.

The funds raised will be used to release the debt obligations of its holding companies and allow the purchase of additional shares in Mumbai International Airport Ltd. The proceeds will also be used to develop the Navi Mumbai International Airport, monetize the Mumbai International Airport’s real estate assets, and develop a stronger airport business (with the backup of global infrastructure investors).

### DEAL HIGHLIGHTS

**Target:** One 97 Communications Ltd  
**Buyer:** Alibaba Group Holding Ltd, Softbank Group Corp & Others  
**SECTOR:** Information Technology  
**DEAL VALUE:** USD 1,000 mn  
**DEAL TYPE:** Venture Capital  
**% SHARE:** NA  
**RATIONALE:** Growth Acceleration

One 97 Communications Ltd., the parent company of the digital payment gateway Paytm, raised USD 1 billion in a Series G funding round, following which the company’s valuation reached a whopping USD 16 billion. The deal was driven by major investors like Alibaba Group and SoftBank aiming to tap opportunities arising from the current credit crisis in the country.

Paytm is on track to expand offerings in online financial services such as lending, insurance, investments, and stockbroking to the public. It also intends to reinforce user engagement with content services under Paytm Inbox that offers games, news, videos, etc.

The start-up aims to invest USD 1.4 billion (INR 10,000 crores) over the next three years to facilitate financial inclusion in rural areas. This would be brought about by introducing low-cost, mobile-enabled financial services to this audience.
After two consecutive years of stellar performance, where the value of private equity exits doubled its preceding records, 2019 witnessed total exit value drop to USD 5.7 billion amid volatile markets.

A chain of global events led to this milder than anticipated performance. However, excluding the outlying exit arising out of the Flipkart-Walmart deal in 2018, exits value in 2019 increased by 22%, keeping pace with the previous years. This, coupled with an equivalent decline in deal volume this year, also reflects on the quality of exits and returns made by investors as the average deal size increased by over 50%.

Financials, Consumer Discretionary, and Information Technology were the prime sectors this year, accounting for the highest exit activity both in terms of value and volume. The buyback of Oravel Stays for USD 1.5 billion is one of the largest exits this decade.

Representing almost 50% of the deal volume, open market transactions and secondary sales have been popular exit routes, as strategic investors look for inorganic growth methods.

Volatility in capital markets compelled equity investors to refrain from executing exit plans that were previously strategized through the public market. This further hindered the performance of equity exits this year, with 2019 observing less than 10 exit deals through IPO’s. However, this is more of a transitory impediment. Equity exits in the coming period are expected to gain traction as investors bank on an improvement in market conditions, while some may also realign their strategies to private markets.
Prime Deals

**DEAL HIGHLIGHTS**
Target: Oravel Stays Pvt Ltd
Seller: Sequoia Capital India IV Ltd., Lightspeed India Partners

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>DEAL VALUE</th>
<th>DEAL TYPE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>USD 1,500 mn</td>
<td>Buyback</td>
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</tbody>
</table>

% SHARE 15%

RATIONALE Expansion and growth

Oravel Stays the world’s third-largest hotel chain by room count, has noted a 3.8 times revenue growth in 2019. Lightspeed and Sequoia Capital sold ~50% of their stake to allow the founder to buyback shares and increase his stake in the company. The buyback was financed by a Japanese consortium, which includes investment firms such as Nomura Holdings and Mizuho.

SoftBank is the leading shareholder in the company holding around 45% stake. In order to retain control, Oravel (known for its brand OYO) has restricted Softbank’s shareholding limit to 49.99%. Post this transaction, the founder, Ritesh Agarwal will be the second-largest shareholder of OYO.

According to various reports, the company is planning to go public in the next two-three years and is expected to pay off the loan given against these shares within this timeline.

The company has expanded remarkably, and is now operating in more than 80 countries. It plans to restructure its business activities into three major units – India, international, and technology & brand licensing. The funds will be utilized primarily to increase its foothold in the US.

**DEAL HIGHLIGHTS**
Target: Genpact Ltd.
Seller: Bain Capital LLC, GIC Pvt Ltd.

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>DEAL VALUE</th>
<th>DEAL TYPE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>USD 684 mn</td>
<td>Initial Public</td>
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</table>

% SHARE 10.53%

RATIONALE Return on investment

Bain Capital LLC, one of the top-ranked multi-asset alternative investment firms, and GIC Pvt Ltd. (formerly Government of Singapore Investment Corporation Pte Ltd.) is a private equity and venture capital firm, which sold equity shares, each representing 9% stake and 1.53% stake respectively in Genpact Ltd. and 1.3x return on investment.

Post this transaction, Bain Capital holds 23.5 million equity shares, representing a 12.24% stake, while GIC holds 4.2 million equity shares, representing a 2.2% stake.

Genpact Ltd. (previously known as GE Capital International Services), provides business process outsourcing and information technology (IT) management services worldwide.

Bain Capital and GIC’s investment in Genpact dates back to 2012, when Bain Capital, through its affiliates South Asia Private Investments and GIC Special Investments Pte Ltd., invested USD 1 billion in Genpact to acquire a 30% stake from General Atlantic LLC and Oak Hill Capital Partners II LP, a fund managed by Oak Hill Capital Partners.
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Prime Deals

**DEAL HIGHLIGHTS**

**Target:** SBI Life Insurance  
**Seller:** Carlyle Asia Partners, KKR India Advisors, BNP Paribas  
**SECTOR** Financials  
**DEAL VALUE** USD 606 mn  
**DEAL TYPE** Open Market  
**% SHARE** 4.73%  
**RATIONALE** Return on Investment

KKR India Advisors acquired 19.5 million shares in SBI Life Insurance in December 2016, representing 1.95% stake for a purchase consideration of USD 133 million. Of this, the private equity firm sold 1.73% through an open market transaction in 2019, for a value of USD 213 million, at a 80% return on investment. Post the transaction, KKR holds 2.23 million equity shares, representing a 0.22% stake in the company.

On 1st March 2019, Carlyle Asia Partners acquired an 8.99% stake for USD 651 million. The firm sold 3% from its total holding on 19 November 2019, for USD 393 million, bringing in a 81% of return on its investment.

SBI Life Insurance, a joint venture between State Bank of India and the global insurance company, BNP Paribas, had an IPO in September 2017.

**DEAL HIGHLIGHTS**

**Target:** ICICI Lombard General Insurance Company Ltd  
**Seller:** Warburg Pincus LLC  
**SECTOR** Financials  
**DEAL VALUE** USD 424 mn  
**DEAL TYPE** Open Market  
**% SHARE** 5.82%  
**RATIONALE** Return on Investment

Warburg Pincus, the US-based private equity firm, sold 26.7 million equity shares in the nation's largest private general insurer, ICICI Lombard General Insurance Company Ltd., in 2019 through an open market transaction. With a total consideration of USD 424 million, it received a return of 1.3x on its investment.

Warburg Pincus' stake in ICICI Lombard was 9%, which it purchased from Fairfax Financial Holdings Ltd. in 2017.

In 2018, Warburg Pincus, through its affiliate Red Bloom Investment sold 3.18% of its stake through an open market transaction, leaving it with 5.82% of stake in the insurance major.

Post this recent transaction, Warburg Pincus has completely exited as a shareholder of ICICI Lombard.
## Sector Insights

### Consumer Staples
- **M&A**: USD 1,138 million, 39 Deals
- **EInv**: USD 635 million, 92 Deals
- **PEE**: USD 157 million, 10 Deals

### Consumer Discretionary
- **M&A**: USD 2,642 million, 153 Deals
- **EInv**: USD 4,177 million, 240 Deals
- **PEE**: USD 612 million, 36 Deals

### Telecommunication
- **M&A**: USD 26 million, 8 Deals
- **EInv**: USD 2 million, 4 Deals
- **PEE**: - , 1 Deal

### Materials
- **M&A**: USD 9,995 million, 69 Deals
- **EInv**: USD 603 million, 7 Deal
- **PEE**: - , 2 Deal

### Utilities
- **M&A**: USD 2,901 million, 43 Deals
- **EInv**: USD 2,316 million, 14 Deals
- **PEE**: - , 1 Deal

### Industrial
- **M&A**: USD 4,082 million, 131 Deals
- **EInv**: USD 4,553 million, 101 Deals
- **PEE**: USD 224 million, 20 Deals

### Information Technology
- **M&A**: USD 6,247 million, 229 Deals
- **EInv**: USD 9,637 million, 572 Deals
- **PEE**: USD 2,705 million, 40 Deals

### Healthcare
- **M&A**: USD 1,775 million, 84 Deals
- **EInv**: USD 1,362 million, 100 Deals
- **PEE**: USD 215 million, 17 Deals

### Energy
- **M&A**: USD 102 million, 7 Deals
- **EInv**: USD 1,832 million, 2 Deals
- **PEE**: - , -

### Financials
- **M&A**: USD 7,732 million, 99 Deals
- **EInv**: USD 11,958 million, 167 Deals
- **PEE**: USD 1,749 million, 27 Deals
## Sectoral Panorama

<table>
<thead>
<tr>
<th>Sector</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Weights</th>
<th>Movement in Value*</th>
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<td>Deals</td>
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<td>Total</td>
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<td>2,375</td>
<td>81,974</td>
<td>2,556</td>
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</table>

* The movement mentioned above is a comparison between 2018 and 2019 deal values.
Indian Terrain

Top five states by transactions (Domestic + Inbound Deals)

Haryana

- M&A USD 2,043 million, 39 Deals
- EInv USD 2,195 million, 127 Deals
- PEE USD 1,788 million, 13 Deals

Top Sectors
- 15 Deals
- 22 Deals
- 92 Deals

Maharashtra

- M&A USD 14,338 million, 209 Deals
- EInv USD 14,771 million, 314 Deals
- PEE USD 2,045 million, 52 Deals

Top Sectors
- 133 Deals
- 130 Deals
- 125 Deals

Karnataka

- M&A USD 4,007 million, 103 Deals
- EInv USD 5,125 million, 317 Deals
- PEE USD 692 million, 23 Deals

Top Sectors
- 31 Deals
- 256 Deals
- 54 Deals

Tamil Nadu

- M&A USD 1,185 million, 52 Deals
- EInv USD 1,832 million, 56 Deals
- PEE USD 169 million, 17 Deals

Top Sectors
- 27 Deals
- 17 Deals
- 27 Deals

Delhi

- M&A USD 4,033 million, 92 Deals
- EInv USD 2,089 million, 157 Deals
- PEE USD 148 million, 20 Deals

Top Sectors
- 78 Deals
- 68 Deals
- 17 Deals

Top Sectors
- 38 Deals
- 31 Deals
Cross-border Transactions

**Oravel Stays Pvt Ltd. acquired a majority stake in Leisure Holding BV**
- **Deal value:** USD 413 million
- **% Sought:** Undisclosed
- **Sector:** Information Technology

Oravel Stays Pvt Ltd., aka OYO, acquired a majority stake in the Netherlands-based online holiday rentals booking company, Leisure Holding B.V.

As part of the acquisition, Axel Springer will sell its 51% stake in the company for a total consideration of ~USD 201.67 million, including the repayment of a shareholder loan of ~USD 67.22 million. Tobias Wann, Chief Executive Officer at Leisure Holding, will become Chief Executive Officer of Vacation Homes at Oravel Stays.

**Hexaware Technologies Ltd. acquired Mobiquity Inc.**
- **Deal value:** USD 184 million
- **% Sought:** 100%
- **Sector:** Information Technology

IT services company Hexaware Technologies Ltd. acquired the US-based digital services firm Mobiquity for USD 182 million in an all-cash deal.

With a presence across three continents, Mobiquity is an independent customer experience consulting firm specializing in using cloud technology to create smooth multi-channel digital experiences.

Post the transaction, Mobiquity Inc.’s leadership and teams would continue without any structural changes.

**Reliance Brands Ltd. to acquire Hamleys Global Holdings Ltd**
- **Deal value:** USD 89 million
- **% Sought:** 100%
- **Sector:** Consumer Discretionary

Mumbai’s Reliance Brands Ltd. agreed to acquire UK-based toy retailer, Hamleys Global Holdings Ltd., from C Banner International. Post-transaction, Hamleys Global Holdings Ltd. will operate as a subsidiary of Reliance Brands Ltd.

This acquisition will catapult the buyer to be a significant player in the global toy retail industry. The deal adds to Reliance’s growing shopping basket. The worldwide acquisition of the iconic Hamleys brand places Reliance on the frontline of global retail.

**Tech Mahindra acquires Mad*Pow Media Solutions LLC**
- **Deal value:** USD 70 million
- **% Sought:** 65%
- **Sector:** Information Technology

IT giant Tech Mahindra, acquired a design consultancy firm, Mad*Pow Media Solutions. The current acquisition has been of a 65% share, with the intention to buy the balance shareholding over the next three years.

Tech Mahindra aims to improve their customer experience and digital transformation, user experience design, behaviour change design, content strategy, mobile app and web development, data science and analytics, etc., post this acquisition.

**Sheela Foam acquired majority stake in Interplasp S.L**
- **Deal value:** USD 47 million
- **% Sought:** 100%
- **Sector:** Materials

Sheela Foam will acquire a majority stake in a Spanish company, Interplasp to expand in Europe.

Although Sheela foam, made a positive debut in the market, it has been struggling to increase its growth in the recent quarters to due to high competition and low demand. The acquisition will give Sheela Foam a presence in Europe, the world’s largest polyurethane foam market.

Post acquisition Sheela foam can purchase raw materials for negotiated prices from India, Australia, and Europe.

---

**Top countries by deal volume**

**USA**
- **Deal Volume:** 33 Deals
- **Deal Value:** USD 822 mn
- **Top Sector:** Information Technology

**Germany**
- **Deal Volume:** 8 Deals
- **Deal Value:** USD 77 mn
- **Top Sector:** Consumer Discretionary

**UK**
- **Deal Volume:** 6 Deals
- **Deal Value:** USD 136 mn
- **Top Sector:** Industrials
Akin to the companies that adopt an acquisitive route for strategic growth, there are equity investors who adopt a focused approach in financial investments. Private equity investments in the current year have been considerably higher than the investment in the earlier years. In this section, we have identified a few active investors and analyzed their strategies based on their deal types, sectors, and sub-segment focus. Sequoia Capital was the most active investor in 2019 with 76 deals, followed by Accel Partners with 52 deals, Tiger Global with 35 deals.

**Sequoia Capital**

<table>
<thead>
<tr>
<th>Volume</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venture Capital</td>
<td>65</td>
<td>37</td>
</tr>
<tr>
<td>Angel/Seed</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Private Equity</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>76</td>
<td>45</td>
</tr>
</tbody>
</table>

**Volume of Private Equity Exists**

2019 : 5  
2018 : 8

**Investment Rationale of Sequoia Capital**

**Information Technology**

They have narrowed down their focus sectors showing an inclination towards the tech and consumer domains, to tap into benefits from the increase in internet accessibility, democratized digital payments (including UPI), and increasing disposable income. Limitations of space and cost in the Indian scenario are also creating a market for innovative businesses such as bike rental services.

**Consumer Discretionary**

Evolving spending habits with a growing middle-income demographic continue to create lucrative opportunities in this space.

**Key Deals**

**Target :** WickedRide adventure  
**Sector :** IT  
**Business profile :** Portal offering rental bikes  
**Investment :** USD 16.22 million

**Target :** Kopi Kenangan  
**Sector :** Consumer discretionary  
**Business profile :** Indonesian style coffee-chain  
**Investment :** USD 20 million
Healthcare
Due to the improving medical facilities, increased insurance penetration and disposable income, the healthcare sector is booming. Sequoia strategy is focused on bridging the gap in the large and fragmented market with investments in targets showcasing scalable models and good economics.

Target: Pristyn care (operated by GHV Advanced care)
Sector: Healthcare
Business profile: Elective surgery platform
Investment: USD 3.96 million

Financials
Funds invested will be utilized for expanding operations by organized credit availability and promoting financial literacy.

Target: Finova Capital
Sector: Financials
Business profile: Non-Banking Financial Company
Investment amount: USD 5.65 million

Sub-segments focus
- **Financials** – Finova Capital, Amica, Capfloat, Aptus, Drip Capital
- Real Estate Development – Dtwelve Spaces
- Packaged Foods & Meats – Wingreens Farms, Kopi Kenangan
- Internet Retail – Grofers, Rebel foods, Urban ladder
- Healthcare – GHV Advanced, Zenyum, Biofourmis
- Education Services – Grasper Global
- Advertising – Ekanek Network
- Application Software – UrbanPiper, Seekify, Freshworks
- Internet Software & Services – Wickedride adventure, Resilent Innovations

- IT
- Consumer discretionary and staples
- Financials
- Others
In line with investor trends, Accel Partners’ major bets are in application software and internet software and services, as well as in early-stage, tech startups. Accel Partners encourage innovative products which aim to address pertinent business challenges. Accel partners invested USD 19.72 million in Wickedride adventures, alongside Sequoia Capital.

**Target:** Ally, a software operated by VTV Inc.
**Sector:** IT
**Business profile:** Business execution management
**Investment:** USD 8 million

Accel Partners have invested extensively in this sector to leverage the growth in purchasing power of the population.

**Target:** Curefit Healthcare
**Sector:** Consumer discretionary
**Business profile:** Omnichannel Health and Fitness
**Investment:** USD 28.85 million

Accel partners invested in companies that employ data analytics to help customers build a highly scalable trade platform. They also showcase keen interest in companies providing accessible and affordable healthcare services.

**Target:** Acko Technology & Services
**Sector:** Financials
**Business profile:** Online insurance start-up
**Investment:** USD 10 million

**Target:** SigTuple Technologies
**Sector:** Healthcare
**Business profile:** Healthcare technology
**Investment amount:** Undisclosed
Sub-segments focus

**Consumer Finance** – Drip capital

**Insurance brokers** - Acko

**Technology and Services**

- **Biotechnology** – Zumutor
- **Healthcare** - Good methods, SigTurple

**Internet retail** - CureFit, SZS tech, Smartpaddle, EdunetworkPackage

**Foods & Meats** – Asian Teaxpress, 1Balance, Maverix Platforms

**Specialized Consumer Services** – Spacejoy design

**Application Software** – S intel, Freshworks, Ampool, VComply, UiPath, Megashots

**Internet Software & Services** - VTV Inc., Homevista décor, Zetwerk, Wickedride, La casa, Yellow drive

- IT
- Consumer discretionary and staples
- Financials
- Healthcare
Tiger Global

<table>
<thead>
<tr>
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<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
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<td>7</td>
</tr>
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Volume of Private Equity Exists

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2</td>
<td>2</td>
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</tbody>
</table>

Investment Rationale of Tiger Global

Information Technology
In 2019, Tiger Global invested substantially more in Indian companies than in 2018. Tiger Global focuses investments on companies catering to B2B customers, and software segment, as they are mature and predictable in comparison to consumer markets.

Target: Ninjacart
Sector: IT
Business profile: Agri-tech startup
Investment: USD 89.78 million

Consumer Discretionary and Staples
Investments in this domain would be used for growth of businesses. Moreover, there is influx of new customers for innovative consumer goods.

Target: Wow! Momo
Sector: Consumer Discretionary
Business profile: Quick restaurant chain
Investment: USD 18.15 million

Financials

Recent developments in electric mobility with regards to price-sensitive market and incentives have encouraged investments in this space.

Investments in financials sector were aimed at expanding their presence in broking space.

Target: Ola Electric
Sector: Industrials
Business profile: Electric mobility
Investment amount: USD 24.92 million

Target: Upstox
Sector: Financials
Business profile: Online broking platform
Investment amount: USD 25 million
Sub-segments focus

Diversified Support Services – Ola Electric Mobility

Internet Retail – Grofers, Telio, Vietnam, Flipkart

Investment Banking & Brokerage – RKSV Securities

Application Software – UrbanPiper, Vivish Technologies, Soham, Innovapptive

Internet Software & Services – 63Ideas Infolabs, Urbanclap, Hella, Razorpay Software, NestAway Technologies

Movies & Entertainment – Contagious Online Media Network

IT Consulting & Other Services – Urbanpiper

Restaurants – Wow Momo

IT Consulting & Other Services – Urbanpiper

IT
Consumer discretionary
Financials
Industrials
The government’s recent policy initiatives towards introducing investor-friendly reforms to combat the slowdown in credit growth and consumption in the country, have contributed substantially towards sustaining investor confidence. In addition to the implementation of the previously introduced Goods and Services Tax and Insolvency and Bankruptcy Code, the government has undertaken a slew of measures such as corporate tax rate cuts and bank recapitalization. Bolstered by these policy developments, along with liberalized FDI thresholds and relaxed sectoral reforms, both M&A activity and private equity investments are likely to rise in the coming years.

Several important revisions to the regulatory framework that have been introduced this year:

**Simplified External Commercial Borrowing Framework**

In January 2019, the Reserve Bank of India (RBI) issued a new External Commercial Borrowing (ECB) framework aimed at further strengthening the Anti Money-Laundering (AML) framework and improving the ease of doing business in several ways, such as:

- broadening the scope of the terms lenders and borrowers
- aligning the guidelines with the Foreign Direct Investment (FDI) Policy
- allowing trading businesses to raise ECB
- significantly liberalizing the minimum average maturity period
- simplifying reporting mechanics, and
- relaxing the restriction on raising money using a rupee-denominated bond from a related party.

The new framework, which is instrument neutral, will allow India to jump up in the World Bank’s global ranking of ‘Ease of Doing Business’ and receive further FDI injections.

**Amendments to the Insolvency and Bankruptcy Code, 2016**

Since its promulgation, the insolvency code has been a game-changer for the economy, as banks have been successful in recovering dues from borrowers to a great extent. However, with the law still in an initial stage, a slew of amendments have been carried out to optimize and address the practical challenges to its implementation. The changes are proposed to ring-fence the successful bidders of stressed assets from the risk of criminal proceedings against offenses committed by previous management and promoters. They also prevent the frivolous triggering of corporate insolvency by proposing a threshold for financial creditors.

The Reserve bank of India will now allow bidders of insolvent companies to raise funds through external commercial borrowing to repay existing creditors, i.e., both operational and financial creditors who would at least be paid the amount that they would be entitled to in case of liquidation. Provisions relating to a personal guarantor of corporate debt have now been made effective. The central government, state government, and local authorities will be binding (with respect of statutory dues), once the resolution plan is made, for which the time limit is extended to 330 days. This gives the insolvent corporate sufficient time to find a resolution. Liquidation of the corporate can be undertaken as far as the commercial decision to resolve or liquidate the company falls within the domain of the committee of creditors. The insolvency law has increased its ambit by including NBFCs with an asset size of INR 500 crore (~ USD 70 million)¹ or more according to the latest statement of financial position.

All these amendments aim to instill confidence and increased participation from large investors taking over distressed assets for revival.

**Other Regulatory Developments**

The Companies (Amendment) Act, 2019 (notified in July 2019) sought to ensure more accountability and better enforcement of corporate governance norms and compliance management in the corporate sector. The amendment provides a mechanism for adjudication of penalties to ease the burden on the judicial and quasi-judicial authorities, de-clog the National Company Law Tribunal on certain matters, and enable an overhaul of offenses under the Companies Act.

Further, the Foreign Exchange Management (Non-debt Instrument) Rules, 2019, were also notified recently, replacing certain previously applicable rules, to align with the Government’s foreign investment policy. These rules also provide for the Central Government to be the rule-making authority for underlying matters.

¹ Assuming exchange rate of USD 1 = INR 71
Important decisions in corporate tax, making the M&A and insolvency regime more clear and investor-friendly:

**The Supreme Court directed the tax department to accept revised tax return filings, though beyond the due date, to give effect to the merger scheme**

Companies undergoing amalgamation generally file their standalone original return of income, without considering the impact of the amalgamation, to comply with the provisions of the Income Tax Act. Once the scheme is sanctioned, the revised tax returns are filed.

However, in an M&A scenario, schemes receiving sanction beyond the due date of filing or revising return is a common phenomenon. This poses a practical challenge to compliance, since tax authorities often reject such returns on procedural grounds.

In a recent case, the court has categorically taken into cognizance the fact that the merger scheme specifically enabled the filing of revised returns beyond the due date, which was not objected to by the Tax Department. Hence, it becomes pertinent to include such safeguards in any M&A scheme to avoid future complications.

**Depreciation claim on Goodwill arising on merger allowed**

A critical tax advantage in a merger scenario is the depreciation of Goodwill arising in the course of the merger. The controversy around whether goodwill qualifies to fall within the ambit of intangible assets was set to rest by the Supreme Court in the case of CIT v. Smifs Securities Ltd, in favour of the tax payer. With the tax authorities aggressively challenging the claim, this ruling, which is consistently followed by various courts and Tribunals, will help the taxpayers defend their claim.

**Angel Tax – Valuation aspect**

Where a closely held company issues shares to residents at a value exceeding the fair valuation (which is generally arrived at basis projected cash flows), the excess consideration is taxable in the hands of the company.

If the valuation based on the actual numbers is less than that as per projections, the company needs to substantiate the basis for such projections before the tax officer.

As the cash flows are based on projections, they are bound to be at variance with actual numbers. Acknowledging this, in the case of Vodafone Pesa, the Mumbai Tribunal held that where the taxpayer has been able to substantiate the projections with robust documentation and the reasons for variations, such projections cannot be disputed simply because they were at variance with actuals.

As equity investments continue to gain traction in an economy with the third-largest startup ecosystem globally, this ruling comes as a welcome relief to investors betting on the long term potential of the Indian market.

\[^2\](348 ITR 302)
Since inception, our founders have emphasized on professional standards and personalized service; and we continue to reflect this progressive mind-set by offering customized solutions to our clients across diverse industries with quality, integrity and respect.

Stemming from our client’s needs, we provide services that address all the aspects relevant to a business right from conceptualization to implementation and operations.
Our Recent Credentials

**Online Gaming**
Financial and Tax due diligence for an large Indian sports entertainment venture on a company engaged in Online Rummy cards gaming platform.

**FinTech**
Financial advisory for a FinTech start-up focusing on innovative lending to the Small & Medium Enterprises using a dynamic co-lending model.

**Telecom Operators**
Economic advisory on Submission of a competition assessment report for a Form II filing about a proposed USD 20 billion merger between leading telecom operators in India. The transaction was unconditionally cleared by the CCI.

**Medical Device**
Financial and Tax due diligence of an Indian importer of cardiovascular and neurovascular products for a French manufacturer eying for forward integration in India.

**Fleet Management**
Provided economic advisory support and prepared an economic assessment report for an alleged abuse of dominant position and predatory pricing by a leading taxi aggregator in India.

**Telecom**
Financial advisory for a telecom software company providing mobile number portability and related software services transferring its assets to a third party.

**Food Processing**
Financial and Tax due diligence of an Indian manufacturer of spices for a USD 3 billion Japanese group looking to meet its sourcing requirements through India.

**Retail Apparel**
Financial advisory in accordance with RBI regulations for the fourth largest retail apparel group in the world aiming to expand their presence in India through their subsidiary.

**Furniture**
Financial Advisory for a leading Alternate Asset Manager in relation to reporting on its investment in an Indian online furniture and home décor solution provider.

**e-Commerce**
Financial advisory in relation to acquisition of the Philippines operations of a global online marketplace having presence in 40+ countries.

**Gold Refinery**
Financial advisory to a venture capital fund planning to sell stake in a gold refinery based out of Africa to external investors.

**Pathology**
Financial advisory and support on purchase price allocation to a leading Indian listed player providing Pathology & Diagnostic Services for acquisition of a regional pathology chain.
Publications

Investment Chronicle

July – September 2019

April – June 2019

January – March 2019

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About Nexdigm (SKP)

Nexdigm (SKP) is a multidisciplinary group that helps global organizations meet the needs of a dynamic business environment. Our focus on problem-solving, supported by our multifunctional expertise enables us to provide customized solutions for our clients.

Our cross-functional teams serve a wide range of industries, with a specific focus on healthcare, food processing, and banking and financial services. Over the last decade, we have built and leveraged capabilities across key global markets to provide transnational support to numerous clients.

We provide an array of solutions encompassing Business Consulting, Business Services, and Professional Services. Our solutions help businesses navigate challenges across all stages of their life-cycle. Through our direct operations in USA, India, and UAE, we serve a diverse range of clients, spanning multinationals, listed companies, privately owned companies, and family-owned businesses from over 50 countries.

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