PE/VC agenda

India Trend Book 2023

IVCA
IVC ASSOCIATION
INDIAN VENTURE AND ALTERNATE CAPITAL ASSOCIATION
PROMOTING PRIVATE CAPITAL ECOSYSTEM

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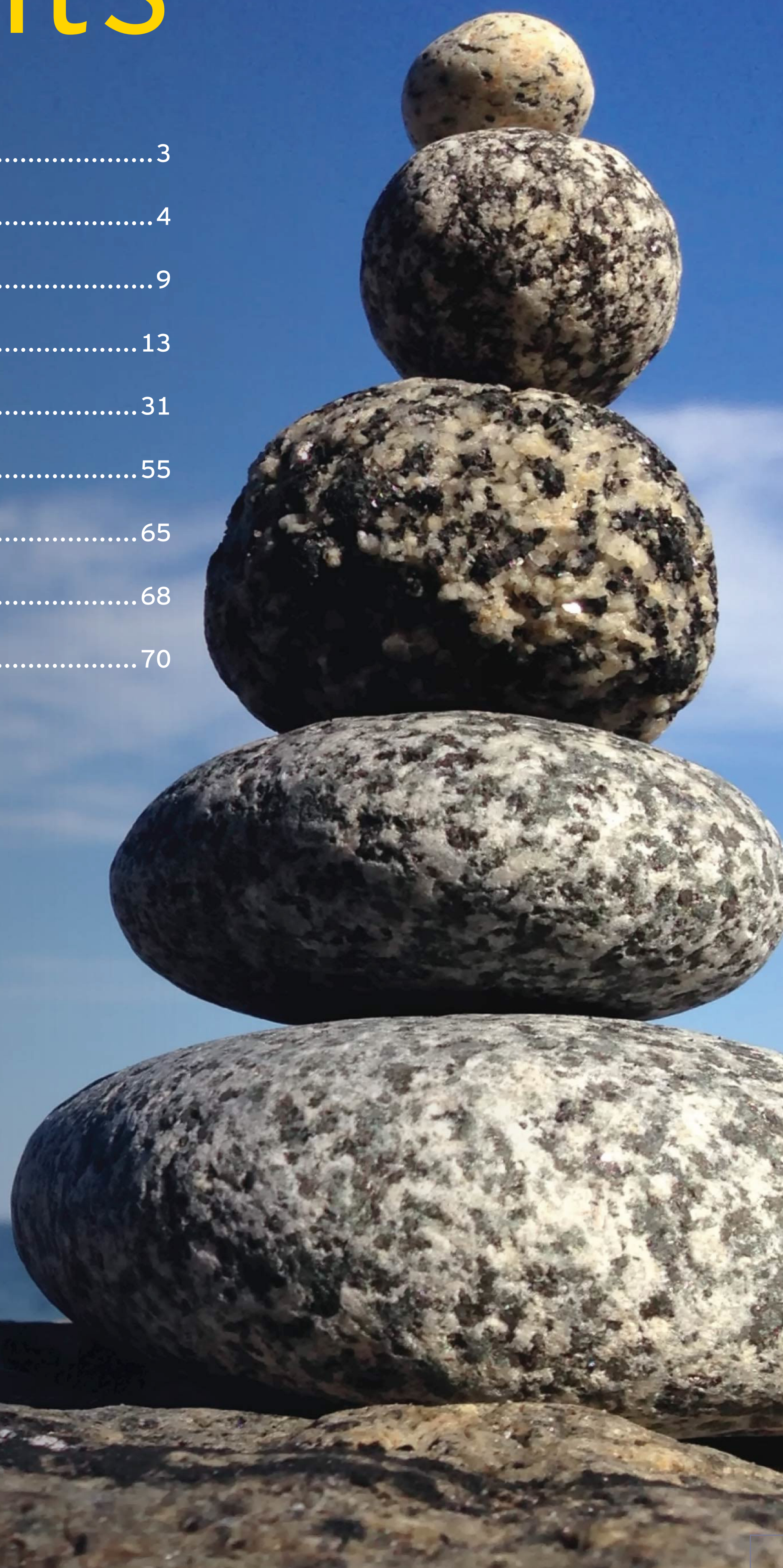

Foreword

Karthik Reddy
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After a record-breaking 2021, PE/VC investments and exits in 2022 declined by 26% and 55%, respectively. Absence of mega deals (deal >US$1 billion) was the primary reason for the sharp fall in the dollar value of deals.

Rising inflation, increasing cost of capital as central banks around the world increased their interest rates, and the continuing geopolitical conflict severely impacted investor sentiment, causing them to become cautions in their deal making. As a result, the cheque sizes became measured and large funding rounds became difficult to come by.

Total PE/VC investment activity in 2022 was at US$56.5 billion, a 26% decline over 2021 levels. The decline was more pronounced in the pure play PE/VC asset class segment that recorded a decline of 38% y-o-y mainly due to the absence of large buyout and startup deals. Pure play PE/VC buyouts declined by 78% in terms of value and 33% by volume. There were six pure play PE/VC buyouts of value greater than US$1 billion in 2021 and none in 2022.

While the startup deal segment continued to be the largest receiving US$18.6 billion in PE/VC investments, its total deal value vs 2021 was down by 35%. This slowdown in startup investments has widely been termed as 'funding winter' for startups and has affected the fundraising plans of many companies. While technology and e-commerce were the top two sectors in 2021, they have dropped down to the fourth and fifth spot, each recording over 60% decline in value. This was however offset to a small extend by the rebound in PE/VC investments in the infrastructure and real estate asset classes, which recorded a 52% y-o-y increase (US$16.3 billion vs. US$10.7 billion in 2021).

The poor investor sentiment and high volatile in the listed small and midcap space impacted exit activity severely recording US$18.3 billion, a 55% y-o-y decline. The widening bid-ask spread in valuation multiples made closure of strategic and secondary deals difficult. PE-backed IPOs, which were a key highlight in 2021 were made conspicuous by their absence as many startups had to cancel or postpone their listing plans amid the poor performance of recently listed new-age startups in India as well as globally.

Despite the apparent decline in PE/VC investments, the deal momentum in India has been relatively strong with number of deals remaining unchanged. Further with all-time high India dedicated fundraises in 2022 (US$17.4 billion) and the high level of dry powder available globally the India PE/VC story is expected to grow stronger, especially when India is among the few bright spots in a slowing global economy. This is a tremendous opportunity for our industry to act as an agent of change and to deliver impact by judicious allocation of risk capital and become a vehicle to support global growth. The recent announcement by Air India of multi-billion-dollar aircraft purchases from global suppliers is an indication of the optimism shown by the Indian industry and their faith in the India growth story as we move toward becoming a US$5 trillion economy.

The ongoing geo-political conflicts, growing fears of a recession in the developed world, and the ever-tightening liquidity conditions remain a cause for concern, and we hope that the global central banks and governments can orchestrate a soft landing.

I thank all of you for your support and look forward to your continued participation in IVCA initiatives which is working tirelessly to strengthen the Indian private equity and venture capital ecosystem.

I thank the EY team for putting together this report and for their detailed work.

Preface and outlook

Preface

2021 saw India break all records for PE/VC investments and emerge as the world's third largest startup ecosystem. The deal sizes became larger than ever before and there was an unprecedented increase in investor risk appetite. The year also had so many firsts, like the listing of five-six startups and emergence of new investment themes, such as EVs, media and entertainment, and edtech. Many of these sub-sectors saw massive increase in consumer traction during 2020-21 when consumer adoption of everything digital skyrocketed. Expectations were that similar growth rates would prevail in 2022, 2023, but things panned out differently. Further, the emergence of multiple global headwinds like geopolitical conflict in Ukraine, resulting supply chain shocks, rising inflation, and interest rate hikes by global central banks dampened global investor sentiment and roiled capital markets globally.

In India, the biggest impact on PE/VC investment activity emanated from the reduction in deal sizes with very few large deals closing, resulting in a 26% y-o-y decline in the total dollar value of PE/VC investments that fell to US$56.5 billion in 2022, primarily on account of the absence of very large PE buyouts (>US$500 million). The overall deal intensity, however, continued unabated, with the number of PE/VC deals remaining unchanged.

While investors reset their valuation appetite in March / April, sellers took time to get there, leading to a bid-ask spread in most transactions, which delayed and, in some cases, derailed PE-backed transactions for a large part of 2022. That said, India's attractiveness as an investment destination has emerged stronger and more sustainable from this bout of global uncertainty and volatility and the record levels of funds raised by India focused funds in 2022 is testimony to the investor confidence in the 'Invest in India' story.

While some PE/VC investment trends continued from 2021 (like the dominance of startup investments and continued leadership of financial services, technology, and e-commerce as the preferred sectors for PE/VC investments), some new trends emerged due to the underlying macro environment such as the fall in size and number of large deals, rise of private credit, and increased PE/VC investments in infrastructure, real estate, and healthcare sectors.

This report covers in detail the following trends that emerged in 2022:

- In 2022, large deals (>US$100 million) have recorded a 28% decline in terms of number of deals and 37% in terms of total dollar value. The biggest fall has been in the number and size of mega deals (deals of value >US$1 billion) which were a defining feature of PE/VC investment activity in 2021. 2022 recorded just two mega deals compared to eight such deals in 2021.
- Startup investments in 2022 declined by 35% on a y-o-y basis to US$18.6 billion. The unicorn rush has also slowed down from 44 unicorns in 2021 to 21 in 2022. Many startups are finding it difficult to raise funding as investors have turned cautious in the wake of a sharp increase in cost of capital and slowdown in growth rates of most startups.
- E-commerce and technology sectors that had recorded all-time high investments in 2021 recorded 66% and 62% y-o-y decline in PE/VC investments, respectively, in the absence of large deals.
- In a significant departure from earlier years, pure play PE investments declined by 38%, largely on account of pure play PE/VC buyouts declining by 78% in terms of value and 33% by volume. There

were six pure play PE/VC buyouts of value greater than US$1 billion in 2021 and none in 2022.

- Infrastructure sector (including renewables) was back in favor, especially among pension funds and SWFs, making direct investments in India, recording a growth of 67% y-o-y. As the cost of capital has increased and higher inflation levels are forecast to continue for some time, infrastructure asset class has seen an uptick in fund deployment vs. growth investments with high cash burn rates that has seen significant decline.
- Real estate too recorded a growth of 38%, spurred by an uptick in investments in the commercial real estate segment that made a comeback in a big-way as return-to-work trend took hold.
- 2022 has emerged as the best year for PE/ VC credit investments in India, recording US$6.7 billion. Credit investments in 2022 were 158% higher than 2021 and 116% higher than the previous high recorded in 2019. Amid rising interest rates and the bid-ask spread between investors and seller valuations remaining high, credit has emerged as an opportunity for both private credit investors as well as asset owners to capture value, with many companies looking to raise bridge funding as an alternative to raising equity at less-than-optimal valuation levels.

2021 saw record level of exits with large M&A and secondary deals between buyout funds. However, as volatility increased in 2022, large exits became difficult due to mismatch in valuation expectations, leading to a sharp fall in strategic and secondary exits. The frantic IPO activity witnessed in 2021 fizzled out, with many companies either canceling or postponing their IPO plans in 2022.

This report covers some of the key highlights of exits in 2022:

- Exits via sale to strategic players recorded a sharp fall in value of 63% on a y-o-y basis in the absence of large deals. Technology and e-commerce sectors recorded the maximum number of strategic exits aided by many larger players acquiring smaller competitors or augmenting capabilities.
- In 2022, secondary exits recorded a 67% y-o-y decline in terms of value and 45% in terms of volume. With rising interest rates, the cost of capital increased, thus impacting valuation expectations, which lead to a slowdown in the deal velocity as many funds decided to bide time than sell at lower valuations.
- The number of PE-backed IPOs declined by 59% y-o-y and the corresponding exit value declined by 78%. The sub-par performance post listing by many of the new-age startups largely contributed to the dampened investor sentiment toward IPOs as an exit option.

Outlook

PE/VC investments

PE/VC investments in 2023 have gotten off to a good start with Jan 2023 investments being higher than the previous month by 30% in terms of value, though lower than Jan 2022 by 17%.

Exhibit 1A

Investments	Value US$ million			Number of deals		
Deal type[1]	2022 (Jan)	2022 (Dec)	2023 (Jan)	2022 (Jan)	2022 (Dec)	2023 (Jan)
Growth capital	814	140	2,465	18	9	13
Startup	3,059	663	905	85	37	49
Buyout	133	2,045	691	4	5	5
PIPE	320	69	115	4	5	3
Private credit/Venture debt	442	330	37	14	9	3
Grand total	5,067	3,247	4,212	125	65	73

Source: EY analysis of VCCEdge data

In India, the bid-ask spread in most transactions, which delayed and, in some cases, derailed PE/VC-backed transactions for a large part of 2022 has been closing in the last few months and given the record level of India dedicated fundraises in 2022 (US$17.4 billion) and the high level of dry powder available globally we could see a strong rebound in PE/VC activity in India, especially with global LPs planning to increase their capital allocations for India.

- Many investors are now focusing on value plays, a marked shift from 2021 when growth was the primary focus. Many startups have already embarked on the path of conserving cash, and their growth rates are expected to be negatively impacted. We are projecting an uptick in consolidation / M&A within the startup space in the coming months. Given the IPO experience of most listed startups, we expect startups to remain private for longer and in that process, an increase in large secondary or strategic deals involving category leading startups. Also, as multiples have contracted across the board, PE/VC investors will focus on operational excellence and profitable growth for value creation.
- Structured trades will also increase as a means of bridging valuation gaps as companies will look to delay or reduce large equity fundraising till valuation multiples become attractive again.
- We expect the startup space to continue receiving large investments, albeit at valuation multiples lower than 2021. The scarcity of larger rounds witnessed in 2022 is expected to continue into 2023, and investors are expected to be very selective. Category leaders with positive unit economics and shorter path to profitability may get opportunities to play the role of consolidators.
- In terms of sectors, we expect financial services, infrastructure (especially renewable energy / green energy), real estate, healthcare, education, pharmaceuticals, chemicals, and auto (especially EV) to continue attracting significant levels of PE/VC interest.
- In 2021, IT/ITeS sector saw several mega-buyouts and in 2022, on account of the volatility in valuations, deal activity in this sector was subdued. With looming recession fears in the US and Europe, we expect deal activity and valuation multiples in this sector to remain subdued in 2023.
- Outlook for PE/VC investments in real asset classes of infrastructure and real estate is positive and we expect total investment dollars for these sectors in 2023 to exceed the 2022 levels. Specifically, renewable energy and clean tech / green energy sectors are expected to attract significant amount of investments from PE/VC investors.

The long-term outlook for India is very positive (EY's India@100 report projects Indian per capita income to reach US$15,000 by 2047[2]) and the geo-strategic stars appear to be aligning in India's favor. We expect the Indian PE/VC industry to grow to attain a significant

[1] Growth capital refers to investment in companies older than 10 years, Startup refers to investments in companies less than 10 years old, Buyouts refers to control transactions (>50% stake)

[2] https://www.ey.com/en_in/india-at-100

share of the Emerging Markets allocation by global PE/VC funds over the next two to four years as India's economic footprint continues to grow faster than the rest of the world. However, in the short term, the immediate outlook for 2023 is contingent on many developing headwinds, such as recession in the developed world, re-emergence of inflation, and any flare-up in geo-political conflicts. While the Indian economy has largely been resilient to these shocks, we do worry about any potential spike in oil prices and other commodities and the USD/INR exchange rate over the medium-term. That said, in our view, there is a high likelihood that Indian PE/VC investments in 2023 shall be meaningfully more than 2022 levels.

PE/VC Exits

Exits have gotten off to a relatively slow start, with Jan 2023 recording exits 22% lower than Dec 2022.

Exhibit 1B

Exits	Value US$ million			Number of deals		
Deal type	2022 (Jan)	2022 (Dec)	2023 (Jan)	2022 (Jan)	2022 (Dec)	2023 (Jan)
Strategic	50	-	**350**	9	4	**7**
Secondary	286	-	**60**	3	-	**5**
IPO	-	286	**26**	-	3	**1**
Open market	3	592	**252**	1	11	**2**
Buyback	-	-	-	-	-	-
Grand total	339	879	688	13	18	15

Source: EY analysis of VCCEdge data

As inflation and the cost of capital remains high, exit activity via secondary and strategic deals is expected to remain muted until the bid-ask spreads between sellers' and buyers' expectations narrow down. We have already seen some movement on that front and in 2023, should things continue down that path, we expect a significant uptick in secondary and strategic exits vs. 2022 levels.

A high level of consolidation is already taking place with well-established startups acquiring their smaller and under-funded peers. Also, many large corporates will also look to acquire startups to augment their e-commerce and technology capabilities as valuations become more benign. While 2022 had a very poor show in terms of PE-backed IPOs, many companies are expected to list with revised valuation expectations as long as the market environment remains favorable. We expect secondary transactions in IPO ready companies to increase as not all companies who had earlier planned for IPOs will end up listing.

The Indian equity markets have demonstrated resilience to all the domestic and global surprises thrown at it in the past three months and are now almost back to their record highs. As volatility in mid-cap / small-cap indices reduces further, in 2023, we expect many PE/VC backed companies to list, meaningfully increasing the exit activity via this route.

Overall, with the better-than-expected Indian economic revival[3], surging investor interest to deploy high levels of dry powder and convergence of valuation expectations between investors and sellers, we expect 2023 to significantly better the performance of 2022.

We look forward to your feedback and hope you have a fruitful and safe 2023.

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[3] India Economic Pulse - *economic indicators and policy measures*

01

A brief review of 2022

A brief review of 2022

After five consecutive record-breaking years, 2022 has recorded a 26% y-o-y decline in PE/VC investments. This was primarily due to a decline in deal sizes as the volume of deals remained fairly flat. Large amounts of stimulus by global central banks and the accompanying low interest rate regimes post COVID-19 had fueled most of the mega funding rounds in 2021. However, with rise in business uncertainty, the same got rationalized in 2022. Notwithstanding this significant degrowth, 2022 was the second-best year for Indian PE/VC investments to date.

2022 was a tale of two periods, wherein the first half of the year saw a deal environment that carried over much of the momentum from 2021's record activity levels: PE/VC made investments worth US$35.8 billion in 1H2022. The second half of the year, however, saw PE/VC firms become increasingly cautious in the face of rising inflationary pressures, the macro impacts of the war in Ukraine, a widening valuations gap, and most importantly, the rising cost of capital to record US$20.6 billion in investments.

By investment strategy

The decline in PE/VC investments in 2022 was precipitated by a sharp fall in large deals in the buyout and startup deal segments of the pure play PE/VC asset class. The number of large deals (value greater than US$100 m) declined by 28% in 2022 (131 deals vs. 181 deals in 2021). The decline in the number of large deals combined with the fall in average ticket size meant the aggregate value of large deals declined by 37% y-o-y (US$36.9 billion vs. US$58.7 billion in 2021). There were eight US$1 billion plus deals accounting for US$16.0 billion in 2021 vs. just two deals worth US$2.9 billion in 2022.

The fall in pure play PE/VC investments was more pronounced, a 38% y-o-y decline (US$40.2 billion vs. US$65.2 billion in 2021). This was however offset to a small extent by the rebound in PE/VC investments in the infrastructure and real estate asset classes, which recorded a 52% y-o-y increase (US$16.3 billion vs. US$10.7 billion in 2021).

Buyouts recorded the sharpest fall in terms of value, down by 48% y-o-y (US$10.8 billion vs. US$20.8 billion in 2021) and 11% in terms of number of deals (54 in 2022 vs. 62 in 2021). This was despite large buyouts in the infrastructure and real estate sectors, which recorded a 93% increase y-o-y (US$7 billion across 32 deals vs. US$3.6 billion across 29 deals in 2021). Pure play PE/VC buyouts declined by 78% in terms of value and 33% by volume (US$3.8 billion across 22 deals vs. US$17.1 billion across 33 deals in 2021). There were six pure play PE/VC buyouts of value greater than US$1 billion in 2021 and none in 2022.

While the startup deal segment continued to be the largest, receiving US$18.6 billion in PE/VC investments, its total deal value vs. 2021 was down by 35%. This slowdown in startup investments has widely been termed as 'funding winter' for startups and has affected the fundraising plans of many companies, which have shifted their focus from growth to cash conservation / positive unit economics and are now deploying cost-cutting measures to reduce cash burn rates. This is despite the deal activity being fairly strong in 2022, with 815 deals, a marginal decline of 5% y-o-y. The big change seems to be a shift in the approach by PE/VCs, who have become more cautious and have cut back on big cheque sizes and are pushing back on valuation multiples given the significant increase in cost of capital and reduction in growth rates.

In addition to global factors like inflation, rising interest rates and geopolitical conflicts, domestic factors like the poor performance of IPOs of recently listed new economy companies have also affected PE/VC sentiment – that till recently were seeing IPOs as a viable exit option.

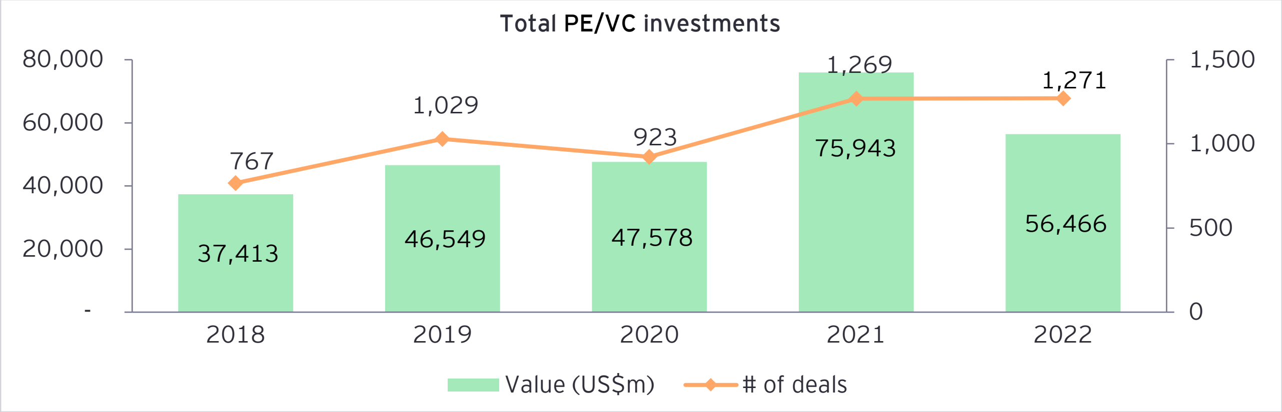
Like startup investments, growth investments at US$16.4 billion across 186 deals also recorded a decline in ticket size, leading to a 16% drop in aggregate value y-o-y, while the number of deals remained unchanged. The slowdown in PE/VC funding created an excellent opportunity for private credit. 2022 was the best year for private credit deals both in terms of value and volume, recording US$6.7 billion across 155 deals, a 157% and 82% increase y-o-y, respectively.

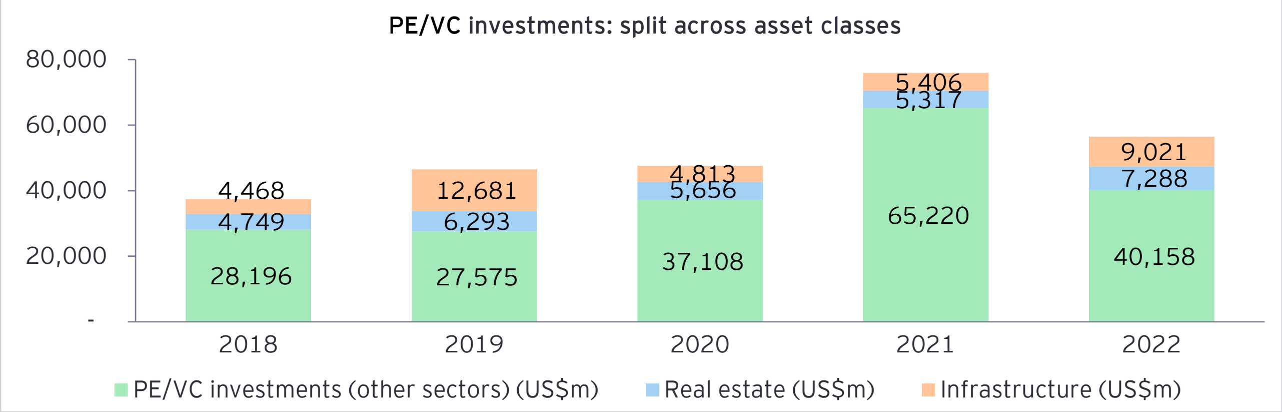
By sector

From a sector point of view, most major sectors recorded decline in the value of investments in 2022, as mentioned below:

- The financial services sector recorded the maximum PE/VC investments in 2022, both in terms of value and volume. In term of value, at US$10.5 billion, investments in the financial services sector in 2022 declined by 10% y-o-y.
- Technology and e-commerce, which were the favorite sectors in 2021, recorded US$6.1 billion and US$5.4 billion in PE/VC investments respectively, both recording over 60% decline y-o-y.
- Infrastructure, real estate, and healthcare were the only major sectors to record a significant increase in PE/VC investments. Infrastructure sector recorded ~US$9 billion in 2022, a 67% increase y-o-y and the real estate sector recorded US$7.3 billion, a 38% increase y-o-y. Healthcare sector recorded US2.5 billion in PE/VC investments, a 22% increase y-o-y.

Exhibit 2





Source: EY analysis of VCCEdge data

PE/VC exits

In 2022 exits recorded US$18.3 billion, a 55% decline compared to 2021. The sharp fall in the value of exits was on account of the absence of large strategic and secondary deals. In terms of volume, exits recorded a 11% decline compared to 2021 (248 deals in 2022 vs. 280 deals in 2021).

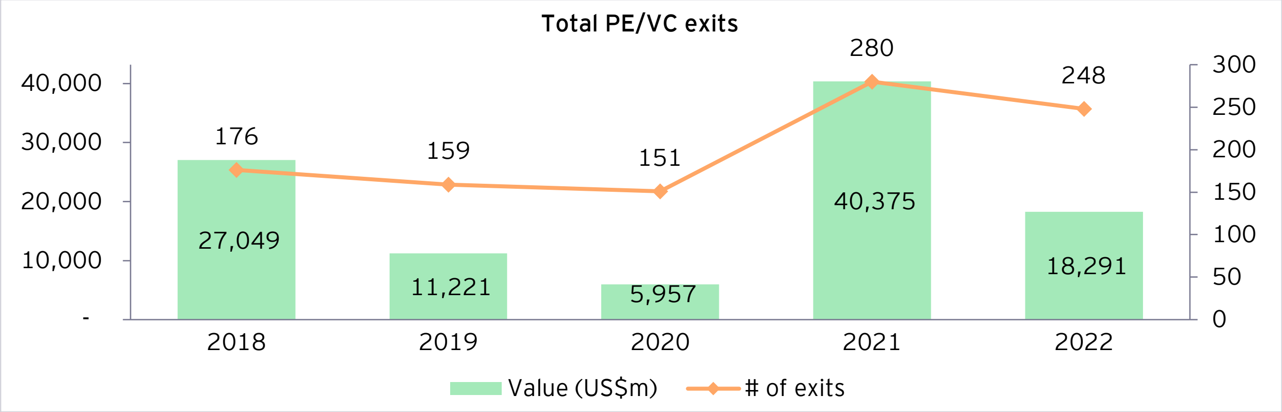
Strategic and secondary exits recorded US$5.2 billion (US$14 billion in 2021) and US$4.8 billion (US$14.4 billion in 2021) respectively, each declined by over 60% on a y-o-y basis due to fewer large deals. The largest exit in 2022 was a strategic exit by Actis that sold its stake in Solenergi Power Private Limited to Shell Plc for US$1.6 billion.

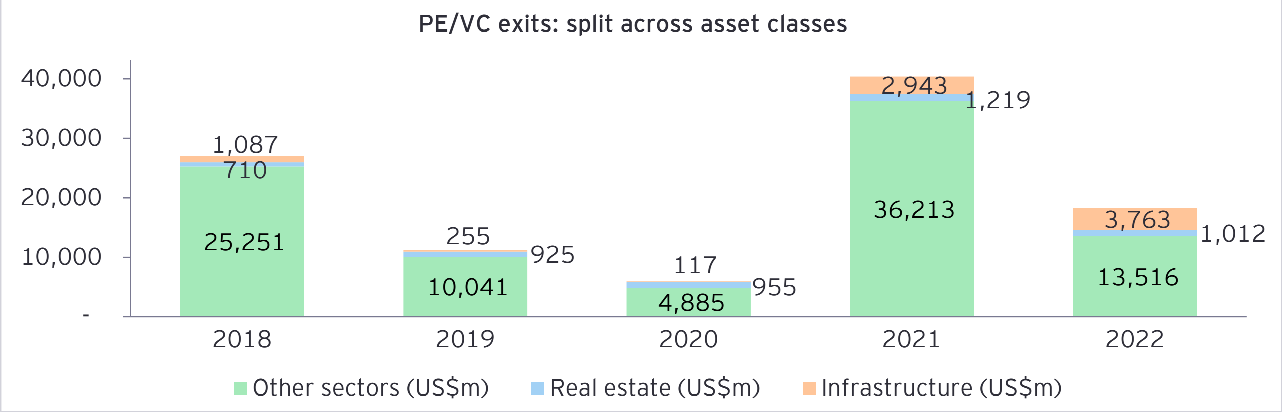
While 2021 was a record-breaking year for PE-backed IPOs (44 IPOs), it was the worst performing segment for exits in 2022, recording a 78% decline in value (US$1.1 billion) and 59% decline in number of IPOs (18 IPOs).

Open market exits was the largest segment in 2022, with US$6.6 billion recorded across 80 deals, a 9% increase y-o-y. The largest open market exit was by KKR that sold its 28% stake in Max Healthcare for US$1.2 billion.

From a sector point of view, the financial services sector had the highest value of exits in 2022 (US$3.8 billion across 40 deals vs. US$6.4 billion across 48 deals in 2021). The infrastructure sector recorded the second highest value of exits in 2022 (US$3.8 billion across nine deals vs. US$2.9 billion across 15 deals). Technology sector was the next big sector with exits worth US$2.7 billion across 38 deals (US$17.4 billion across 31 deals in 2021).

Exhibit 3



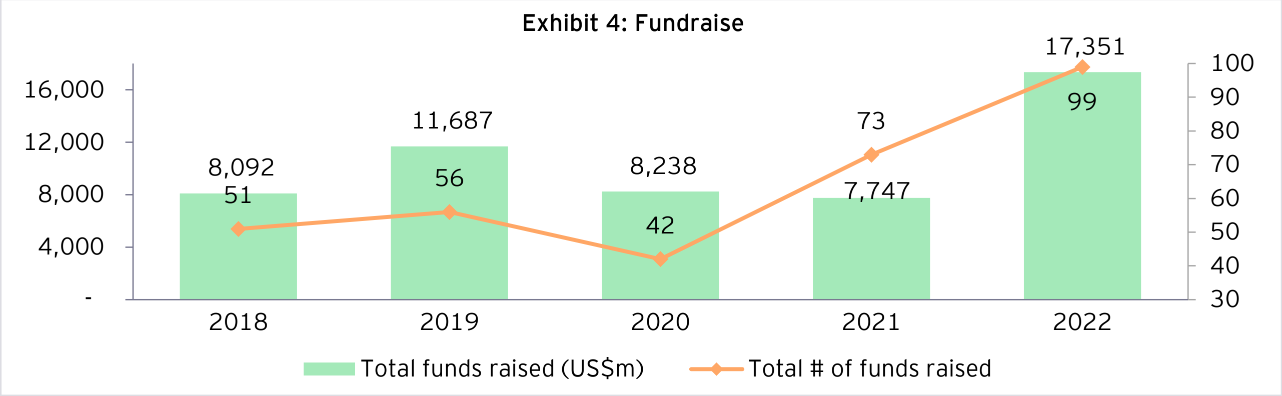


Source: EY analysis of VCCEdge data

PE/VC fund raising

Despite the slowdown in PE/VC investments in 2022, India's attractiveness continues to remain strong as evidenced by the ~US$17.4 billion raised by 99 funds in 2022, which is the highest ever annual value of India-dedicated fundraises, a 124% y-o-y increase. The largest fundraise in 2022 saw Sequoia raise a US$2.9 billion Southeast Asia fund, with ~US$2 billion dedicated toward India[4].

In addition to the increase in India-dedicated fundraises, there is a high level of dry powder available globally, estimated at almost US$590 billion[5]. Compared to prior years, a disproportionately larger chunk of this dry powder is expected to come India's way, as large global LPs, which until a year ago, were overweight on China, are now looking to balance their emerging market allocations by being overweight on India. This, coupled with the positive policy measures being taken by the government, is expected to facilitate the continued growth of PE/VC investments in India.



[4]https://techcrunch.com/2022/06/13/sequoia-india-and-southeast-asia-raises-2-8-billion-funds/

[5]Another PE dry powder record set; VC rounds in US FinTech surged in 2021 | S&P Global Market Intelligence

02

Key trends of 2022

2022: key trends

Fundraising at an all-time high

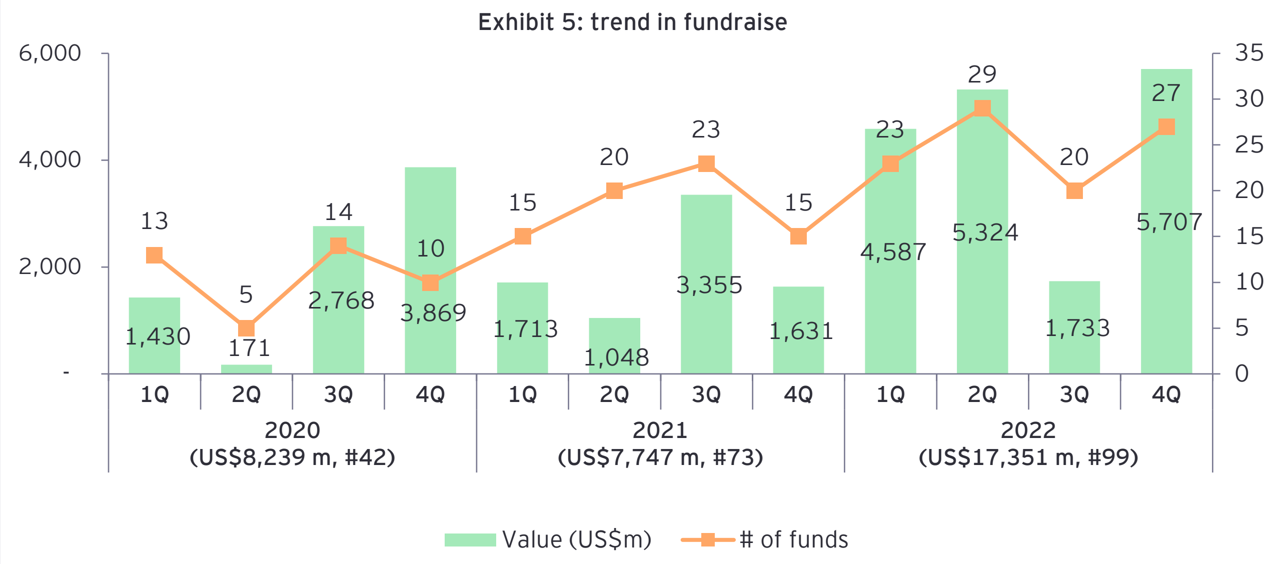
India-dedicated PE/VC fundraising was on an uptrend until 2019. However, on account of the pandemic, fundraising witnessed a slowdown for two years (2020-2021). This trend has reversed in 2022 with India dedicated funds raising US$17.4 billion, an all-time high for India.

This was on the back of a global surge in PE/VC fund raising in 2021, during which PE/VC funds raised US$732.6 billion[6], an all-time high and a surge of over 19% compared to 2020. In 2022, global fundraise stood at US$615 billion as of Q3.

The VC asset class was the largest at US$7.8 billion and accounted for 44% of all the India-dedicated PE/VC fundraises in 2022 followed by PE funds at USS$3.7 billion (21%) and private credit funds at US$3 billion (17%).

From a sectoral allocation perspective, more than 40% (US$7 billion) of the funds raised were for sector-agnostic deployment followed by the real estate sector accounting for 22% (US$3.8 billion) and technology/internet accounting for 17% (US$3 billion). Clean energy has been an emerging theme which has seen US$938 million in fundraise (5% allocation) almost entirely by PE funds.

While sector-agnostic deployment remains the largest investing play across PE, VC, credit, stressed asset, and venture debt funds, VC funds saw 60% of the funds being allocated to technology/internet related businesses vs. 39% by PE funds. 24% (US$871 million) of the PE funds have been allocated toward clean energy. Within private credit funds, 65% (US$1.9 billion) of the funds were dedicated toward the real estate sector.



Source: EY analysis of VCCEdge data

[6] https://www.privateequityinternational.com/fundraising-hit-a-new-full-year-record-in-2021/

2021 2022

Exhibit 6: by sector focus (US$m)

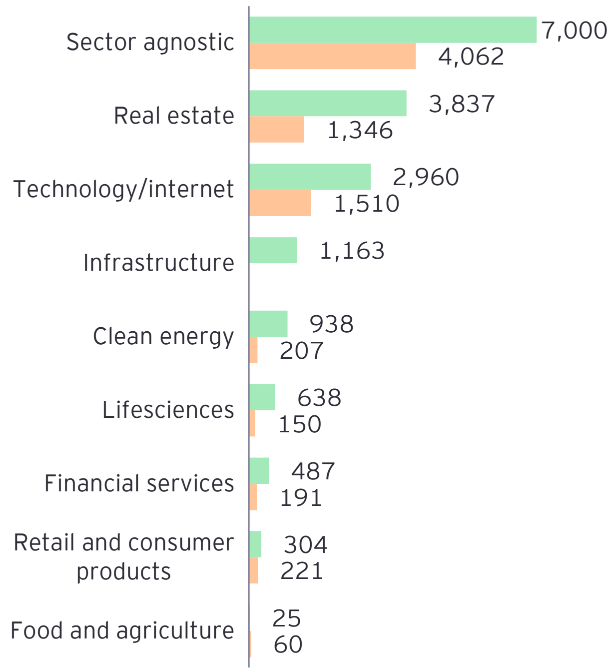
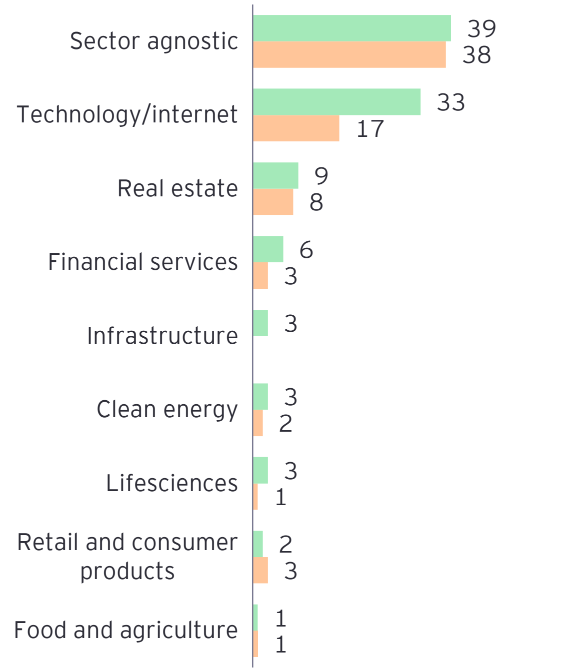


Exhibit 7: by sector focus (# of funds)



**Includes enterprise software, SaaS, FinTech, healthtech, e-commerce and other tech/internet enabled businesses*

Source: EY analysis of VCCEdge data

2021 2022

Exhibit 8: by fund type (US$m)

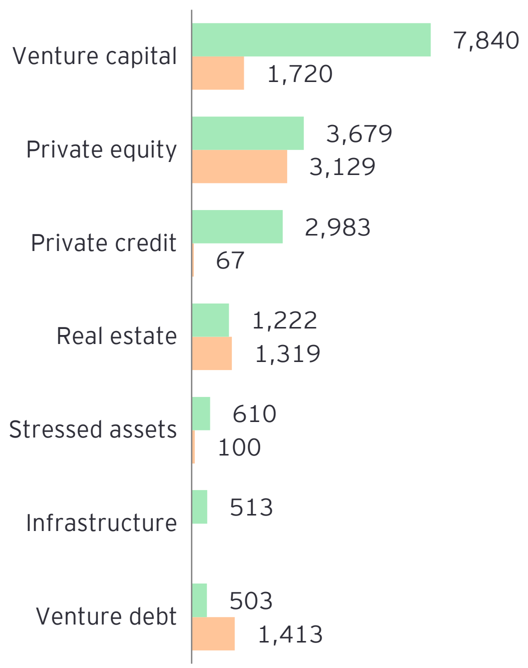
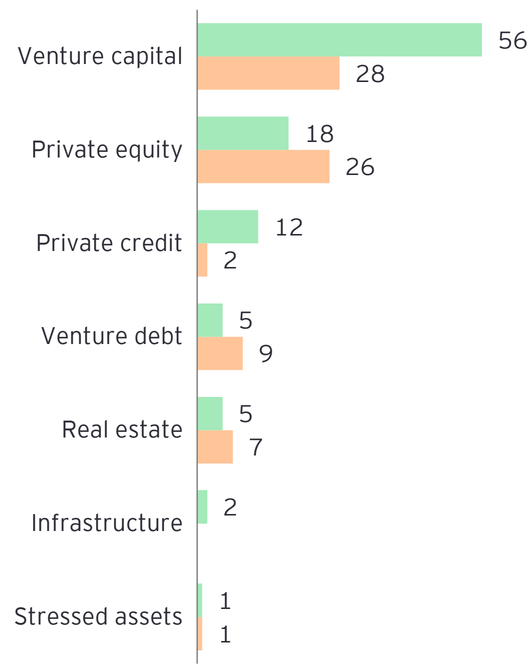


Exhibit 9: by fund type (# of funds)



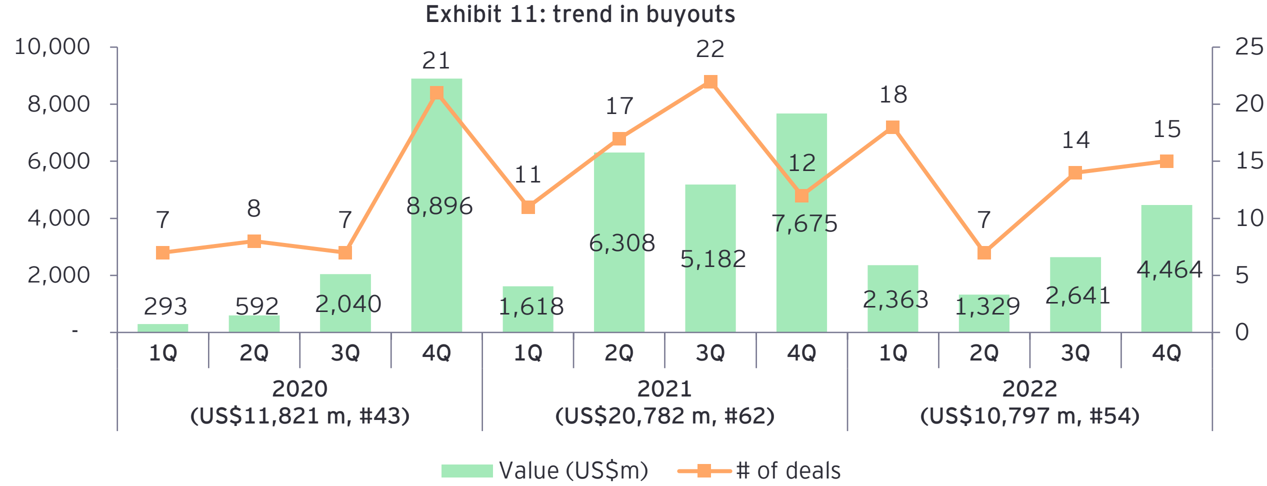
Source: EY analysis of VCCEdge data

Exhibit 10: top fundraises in 2022

Fund	PE/VC GP	US$m	Strategy
Sequoia Capital India-SEA fund	Sequoia	2,000	Venture and growth
HDFC Capital Affordable Real Estate Fund-3	HDFC Capital	1,880	Focus on providing long-term, flexible debt across the lifecycle of real estate projects (including land, approval and last mile funding) for affordable and mid-income housing across India
Green Growth Equity Fund	EverSource Capital	671	Invest in and build climate-positive businesses and platforms spanning renewable energy, energy efficiency, e-mobility, resource conservation, waste and water management and associated value chains
Elevation Capital 8th Fund	Elevation Capital	670	Write cheques of US$2-5 million during the early stages of a startup with capital commitments going all the way up to US$25 million during the lifecycle of the company
Kotak Infrastructure Investment Fund	Kotak	650	Focus on infrastructure credit
Special Window for Affordable and Mid-Income Housing Fund (SWAMIH) Investment Fund I	SWAMH (managed by SBI Capital Ventures)	610	The fund is set up under the special window for affordable and mid-Income housing to stressed realty projects
Jungle Ventures Fund IV	Jungle Ventures	600	Venture investments
KIA 12th real estate fund	Kotak	590	Invest in office assets across Mumbai, Bangalore, Delhi-NCR, Pune, Hyderabad, and Chennai
India Business Excellence Fund IV	Motilal Oswal	549	Mid-market growth investments
Lightspeed India IV	Lightspeed	500	Write cheques of US$500,000 to US$15 million and focus on seed to series B investments

Buyouts fall from all-time highs of 2021 in the absence of large technology sector deals

Exhibit 11: trend in buyouts



Source: EY analysis of VCCEdge data

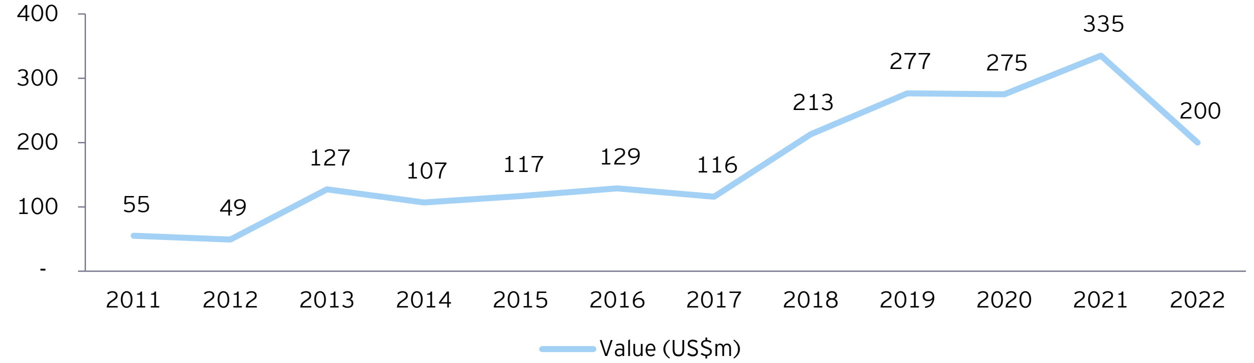
Buyouts recorded a sharp decline of 48% in terms of value in 2022 after recording an all-time high in 2021, while the number of buyouts declined by only 13%. The decline in value was mainly due to the absence of large buyouts. 2022 had no US$1 billion plus deals vs. six in 2021. An analysis of buyout deals indicates that 43% of the value of buyouts in 2022 is accounted for by deals of value US$500 million or higher compared to 78% in

2021, and 68% in 2020. As a result, the average size of buyouts fell by 40% in 2022 to US$200 million.

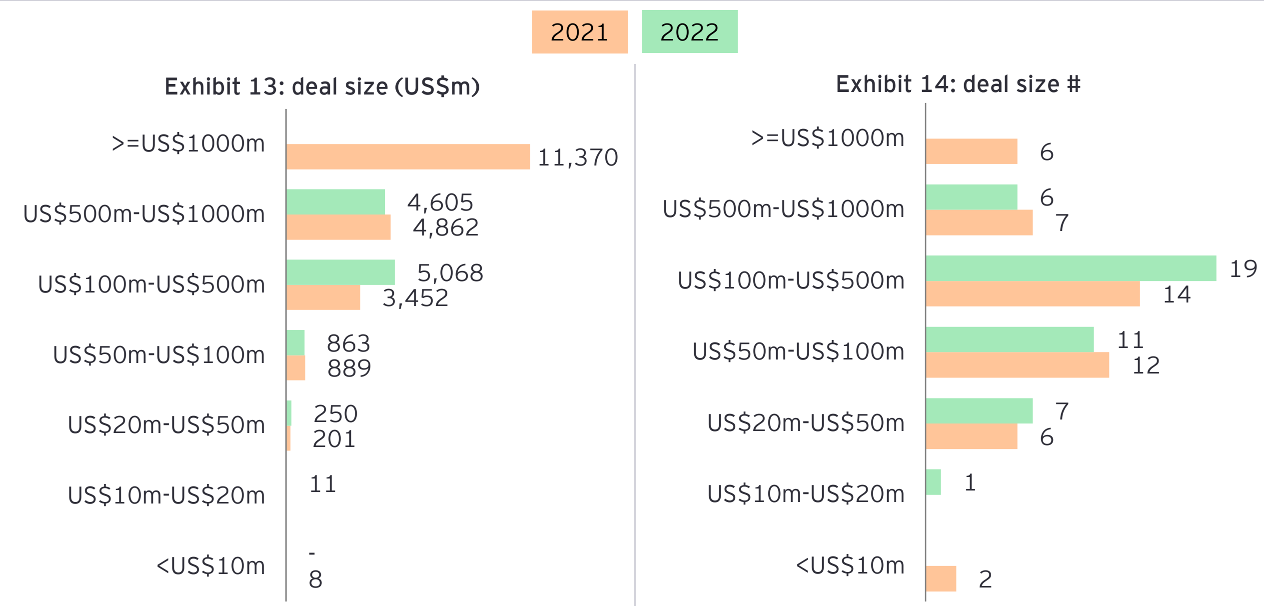
The decline in buyouts was in line with a drop in global M&A activity which fell by 37% to US$3.7 trillion after hitting an all-time high of US$5.9 trillion in 2021[7].

Amid rising interest rates, debt-financing for buyouts became scarce and volatility in listed midcap and small cap valuations dented investor appetite for private market valuations making deal-making difficult. 2023 could see a slow path to recovery for buyouts, especially with increasing opportunities as business look to divest non-core assets and on-board financially stronger partners to navigate the slow growth and high-cost global environment we have entered into.

Exhibit 12: trend in average deal size of buyouts



Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

Does not include deals where deal value is not available

Notwithstanding the slowdown in buyout activity, there has been growing interest of large global buyout funds that are looking to enter India, including the likes of Permira, Bodhi Tree, and SWFs like Mubadala.

Infrastructure and real estate sectors dominated buyout activity in 2022, accounting for over 57% of all buyouts by value and volume. This contrasts with 2021 when technology sector emerged as a preferred sector for buyouts, accounting for 57% of buyouts by value and 16% by volume.

In this era of rising cost of capital, the investor preference for cashflow generating assets is pronounced and infrastructure assets with their inflation hedged pricing models are in demand.

[7] https://www.reuters.com/markets/deals/dealmakers-brace-slow-2023-recovery-after-global-ma-sinks-2022-12-21/

2021 2022

Exhibit 15: top sectors by value (US$m)

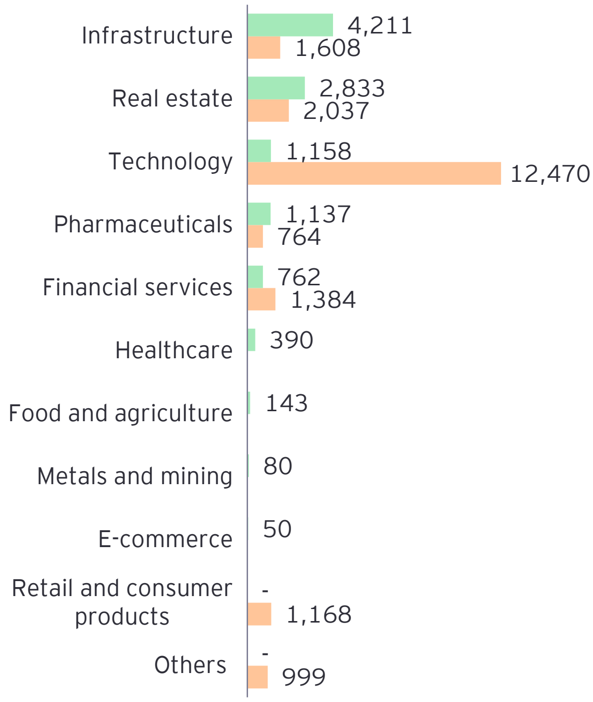
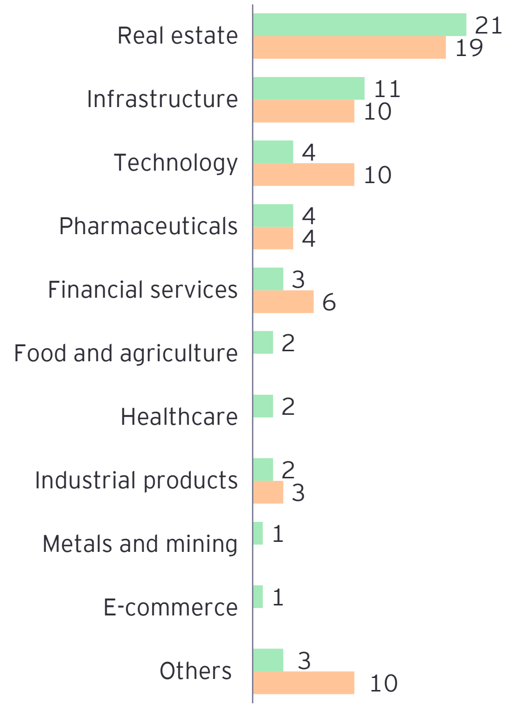


Exhibit 16: top sectors by # of deals



Source: EY analysis of VCCEdge data

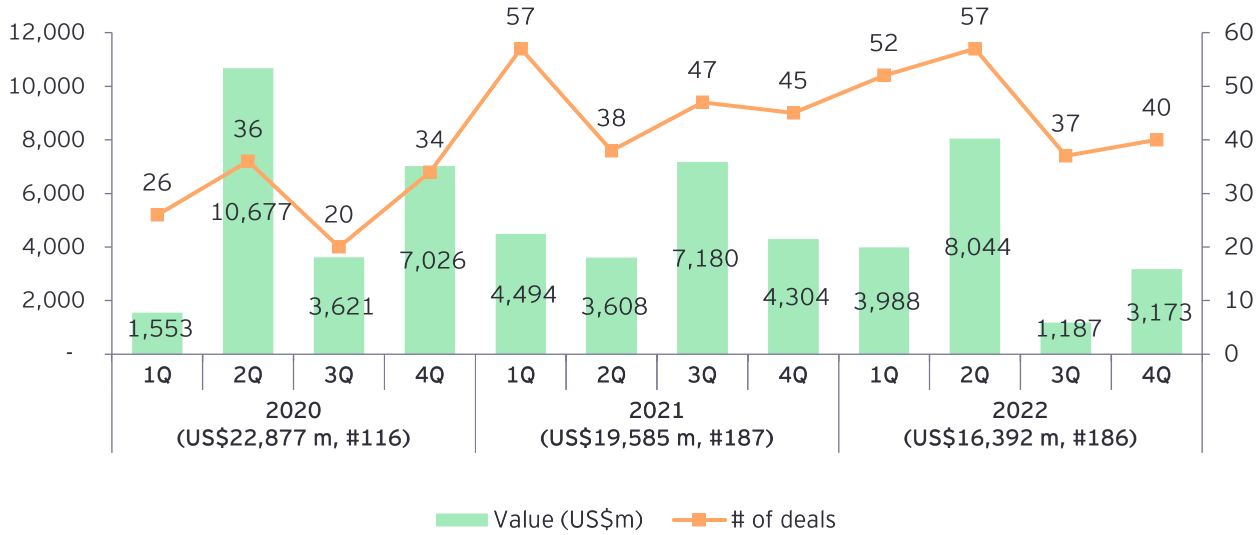
Exhibit 17: top PE/VC buyouts in 2022

Company/Asset	Investors	Sector	Amount (US$m)	Deal Stake %
Eight road projects of L&T	Edelweiss Infrastructure Yield Plus	Infrastructure	886	100
IGT Solutions Private Limited	BPEAEQT	Technology	800	100
Six operating highway toll road projects	Actis	Infrastructure	775	100
Eastern Peripheral Expressway	Maple Highways (CDPQ)	Infrastructure	774	100
Suven Pharmaceuticals Limited	Advent International	Pharmaceuticals	770	50
Core JV	GIC, ESR	Real estate	600	100
Poonawalla Housing Finance Limited	TPG Capital Asia	Financial services	462	100
Sunsure Energy Private Limited	Partners Group AG	Infrastructure	400	NA
Navayuga Quazigund Expressway Private Limited	NIIF	Infrastructure	377	100
3 million sq. ft in Bengaluru's Bharatiya City	GIC	Real estate	373	100
R Systems International Limited	Blackstone Capital	Technology	358	100
Projects of Bhartiya City	GIC	Real estate	354	100
Bharti Enterprises Limited, Four Commercial Projects	Brookfield	Real estate	337	51
L & T Infrastructure Development Projects Limited	Infrastructure Yield Plus Strategy (Edelweiss Alternatives)	Infrastructure	329	51
Vistaar Financial Services Private Limited	Warburg Pincus	Financial services	300	NA

Source: EY analysis of VCCEdge data

Reduction in ticket size, especially in the e-commerce sector, cause growth investments to decline

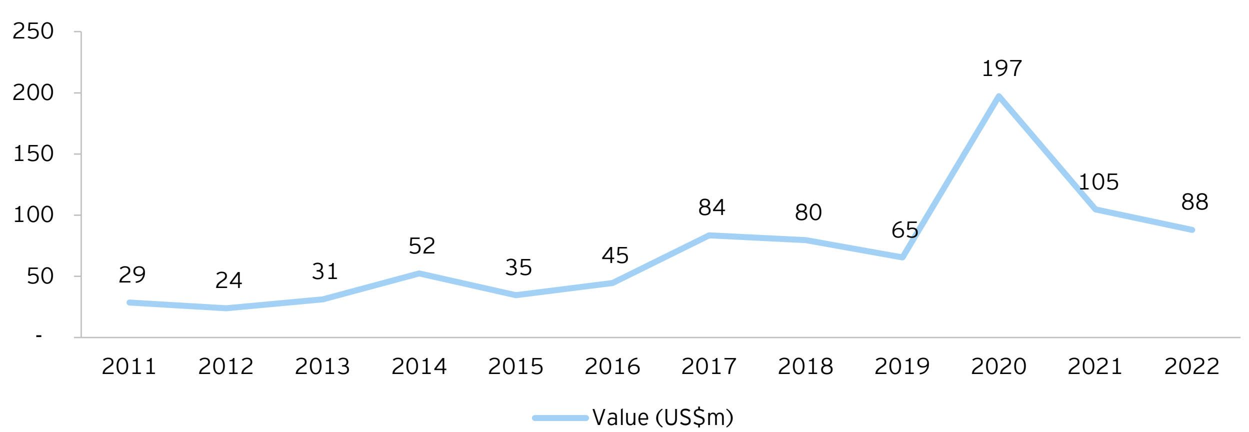
Exhibit 18: trend in growth investments



Source: EY analysis of VCCEdge data

At first glance, growth investments appear to have slowed down significantly in 2022 at US$16.4 billion, lower by around 16% compared to 2021. However, in terms of numbers, the overall deal activity has remained robust with 186 deals, at par with 2021. The de-growth has primarily been in the large deals segment (deals >US$50 million). The number of deals greater than US$100 million fell by 17% and deals between US$50 and US$100 million fell by 33%. Early-stage deals (deals below US$50 million), however, grew by 7% in number.

Exhibit 19: trend in average deal size of growth investments



Source: EY analysis of VCCEdge data

2021 2022

Exhibit 20: deal size (US$m)

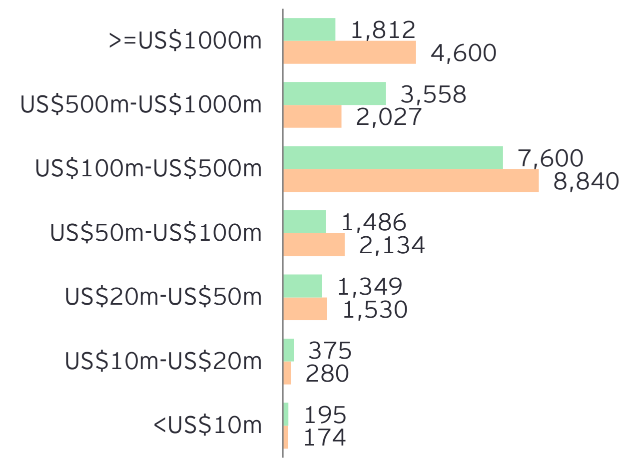
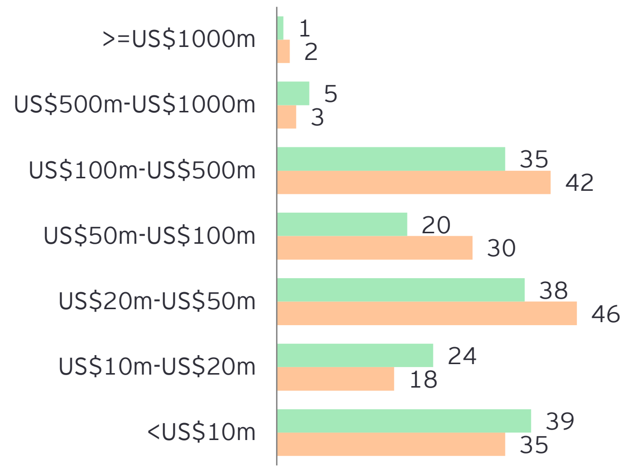


Exhibit 21: deal size #



Source: EY analysis of VCCEdge data

Does not include deals where deal value is not available

Eight sectors recorded over US$1 billion in growth investments in 2022, led by media and entertainment, technology, education, and financial services. E-commerce sector that had received a fourth of all growth investments in 2021 recorded a 79% y-o-y decline (US$1.1 billion in 2022 vs. US$5.2 billion in 2021). This does not mean that the sector was out of favor for growth investments, as the number of deals was higher by 20%. The decline was mainly due to a fall in the size of deals. E-commerce sector had recorded mega deals in 2021 with the largest being of US$3.6 billion. In contrast, the largest growth investment in the e-commerce sector in 2022 was of US$264 million. Automotive sector, especially the electric vehicles segment, had received growth investments worth US$1.2 billion in 2021 but none in 2022.

2021 2022

Exhibit 22: top sectors by value (US$m)

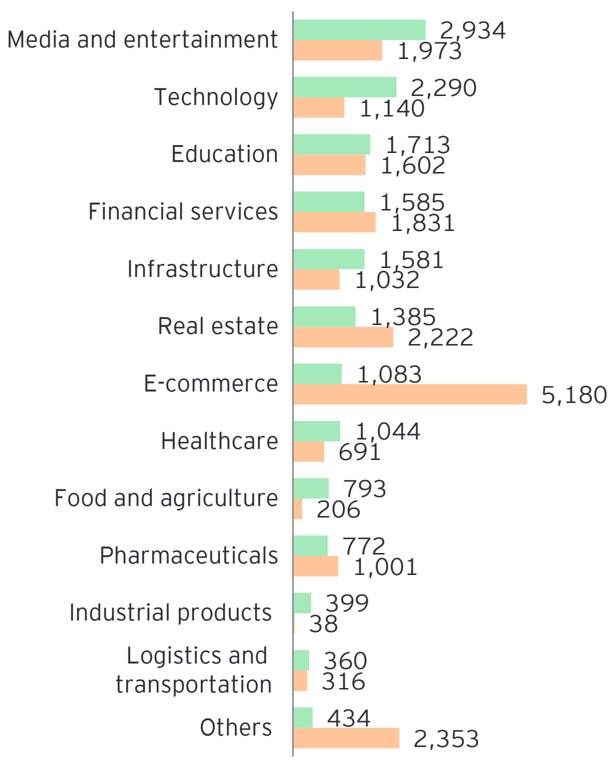
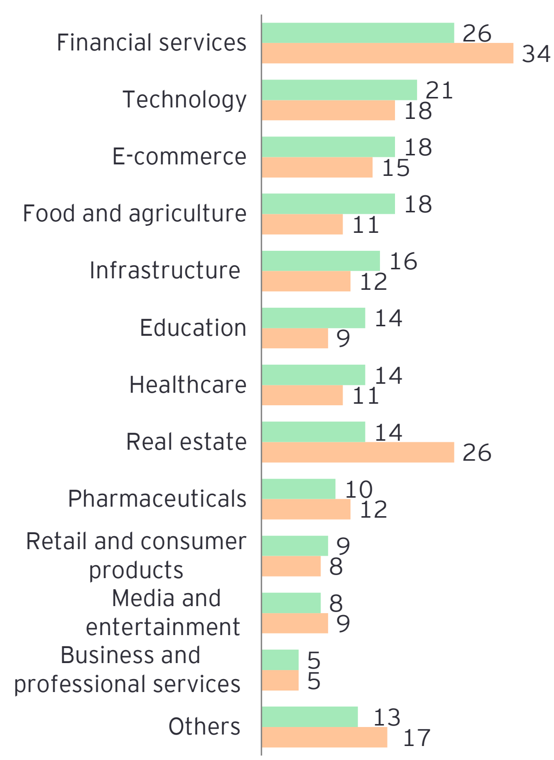


Exhibit 23: top sectors by # of deals



Source: EY analysis of VCCEdge data

Exhibit 24: top growth investments in 2022

Company/Asset	Investors	Sector	Amount (US$m)	Deal Stake %
Viacom18 Media Private Limited	Bodhi Tree System	Media and entertainment	1,812	40
CitiusTech IT Solutions Private Limited	Bain Capital	Technology	960	40
VerSe Innovation Private Limited (Dailyhunt)	CPPIB, Sofina SA, OTPP, Sumeru Ventures, and others	Media and entertainment	805	16
Lodha Logistics Platform	Bain Capital, Ivanhoe Cambridge	Real estate	667	NA
Allen Education and Management Services Private Limited	Bodhi Tree System	Education	600	NA
Tata Power Renewable Energy Limited	BlackRock, Mubadala	Infrastructure	527	11
Uniphore Software Systems Private Limited	March Capital, Sorenson Capital, Sanabil Investments, New Enterprise Associates	Technology	400	16
ReNew Power Private Limited	CPPIB	Infrastructure	400	NA
Think and Learn Private Limited (BYJU's)	Sumeru Ventures, Vitruvian Partners, and BlackRock	Education	400	2
Fractal Analytics Private Limited	TPG	Technology	360	NA
Eruditus Learning Solutions Pte. Limited	CPPIB	Education	350	NA
Two office parks of TATA Realty and Infrastructure Limited	CPPIB	Real estate	343	49
Hindustan Ports Private Limited	NIIF	Logistics and transportation	300	23
Advanta Enterprises Private Limited	KKR	Food and agriculture	300	13
Flipkart India Private Limited	Tencent	E-commerce	264	1

Source: EY analysis of VCCEdge data

Startup investments continue to flourish, albeit with smaller ticket size deals and rationalized valuations

2021 was a record year for startup investments in India, recording an all-time high of US$28.5 billion. In a bid to stimulate the economy post-pandemic, global central banks fostered a low interest rate environment, which led to a massive capital influx in the VC and PE industry, ultimately leading to a funding boom and hyper-valuation for startups. Major global investors, including Softbank, Tiger Global, and Sequoia Capital, wrote big cheques for well-established startups.

However, startup investments in 2022 declined by 35% on a y-o-y basis to US$18.6 billion. The unicorn rush has also slowed down from 44 unicorns in 2021 to 21 in 2022. Many startups in the growth phase fueled by cash burn and with good unit economics some distance away are finding it difficult to raise funding as PE/VCs have turned cautious in what is being termed as a funding winter.

Global factors are primarily responsible for this funding slowdown. The ongoing geopolitical tension between Russia and Ukraine has dampened investment sentiment and upset supply chains. Amidst rising global inflation, central banks, including the Federal Reserve, have raised interest rates, increasing the cost of capital. Moreover, INR's steep depreciation made a further dent in the dollar returns for PE/VCs.

Domestic factors, such as the dismal performance of some recently listed startup giants' IPOs, has also affected PE/VC sentiment since they saw IPOs as a viable exit option in the absence of a well-developed secondaries market in India. Furthermore, growth rates of many startups, that saw a spike during 2020-2021, have now come down as consumers are back to consuming / buying both online as well as offline. This double whammy of increase in interest rates and decrease in growth rates has had an exponential impact on the fund-raising plans of those startups whose valuations were overweight on '*terminal value*'.

As the current market conditions have altered the startup economy, startups will have to realign their priorities and adjust to the new realties:

Smaller paychecks and multiple funding rounds – founders looking to raise capital are noticing delays and renegotiations resulting in multiple rounds of funding at lower valuation multiples.

Renewed focus on profitability – businesses will be tested on the viability of their business model. Most investors are likely to ask tougher questions to justify valuations.

Slowdown in IPO frenzy – multiple startups have reportedly delayed their IPO plans given the market uncertainty.

More M&A and consolidation activity – the funding winter has created a unique opportunity for mature startups to expand their product offerings by acquiring companies that have faced fundraising headwinds: Zomato's acquisition of Blinkit, Swiggy's acquisition of Dineout, and Bira's acquisition of The Beer Café are a few examples.

Cost-cutting and right-sizing – as funding dried up, many companies had to shift from managing growth to focusing on efficiency and productivity. Many startups are rationalizing business verticals and burn rates by cutting down workforce and closing verticals, as well as withdrawing from marginal, loss generating markets, among other things. The number of layoffs in well-funded companies is an indicator of shifting priorities, from growth at all costs to conserving cash and shortening the path to operating profits.

Churn in sector focus and deal size mix – startups in sectors such as cryptocurrency and gaming, which were popular a year or two ago, have fallen out of favor among investors due to regulatory concerns.

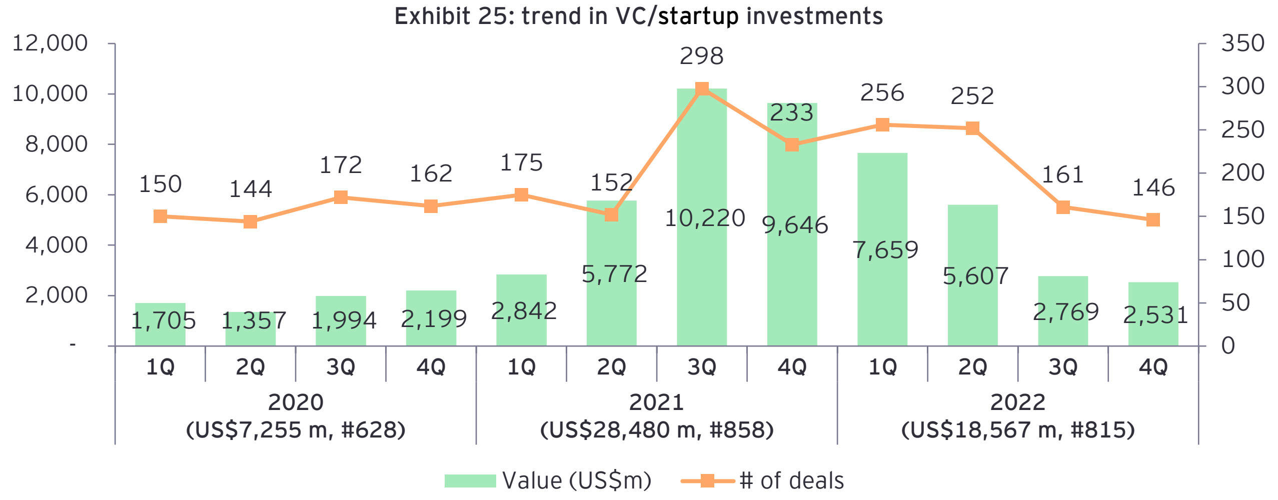
While at first glance this 'funding winter' seems like a stark contrast to the enormous amounts of funds raised by startups at high valuations in 2021, it is actually not so. 2022 has still been the second-best year for startup investments, 50% higher than the next best at US$11.7 billion recorded in 2019. Moreover, deal activity has not seen a significant slowdown; number of deals is down by just 5% on a y-o-y basis. PE/VCs are still investing, though cautiously and with smaller cheque sizes and doing far fewer mega deals.

The average deal size in the startup space continues to remain small at around US$23 million, with 58% of deals being less than US$10 million in value. There was a sharp increase in large investment rounds in startups (value greater than US$100 million) in 2021, which recorded 87 deals of value greater than US$100 million aggregating US$18.4 billion, two times the number of similar deals in 2022 (41 deals) and four times of that in 2020 (20 deals worth US$2.8 billion). These large deals accounted for 64% of all startup investments by value in 2021 compared to 43% in 2022.

On the contrary, deals of value less than US$100 million have increased on a y-o-y basis by 8% and their aggregate deal value has increased by 6%. What we are seeing is that the startup investment activity is relatively intact and growing in the early-stage segment and the slowdown is primarily in the big cheque sizes (>US$100 million) being given out to some of the mature startups.

With India dedicated fundraises at an all-time high and substantial amount of dry powder available globally, companies with good fundamentals are not expected to face a dearth of investment. Over the past couple of quarters, the funding slowdown has started normalizing the frantic valuations. As investors and founders accept the new normal, stronger, and more sustainable businesses will emerge, which will benefit from the opportunity presented. Situations such as these lead to some of the best vintages for investment activity in the long run and smart investors and efficient founders stand to gain the most.

Exhibit 25: trend in VC/startup investments



Source: EY analysis of VCCEdge data

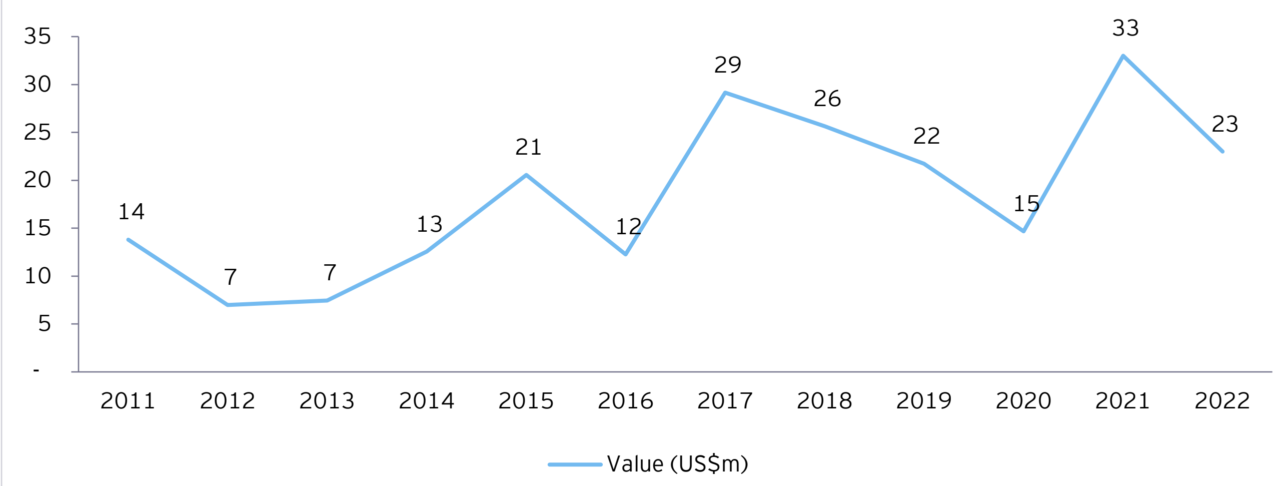


Exhibit 26: trend in average deal size of VC/startup investments

Source: EY analysis of VCCEdge data

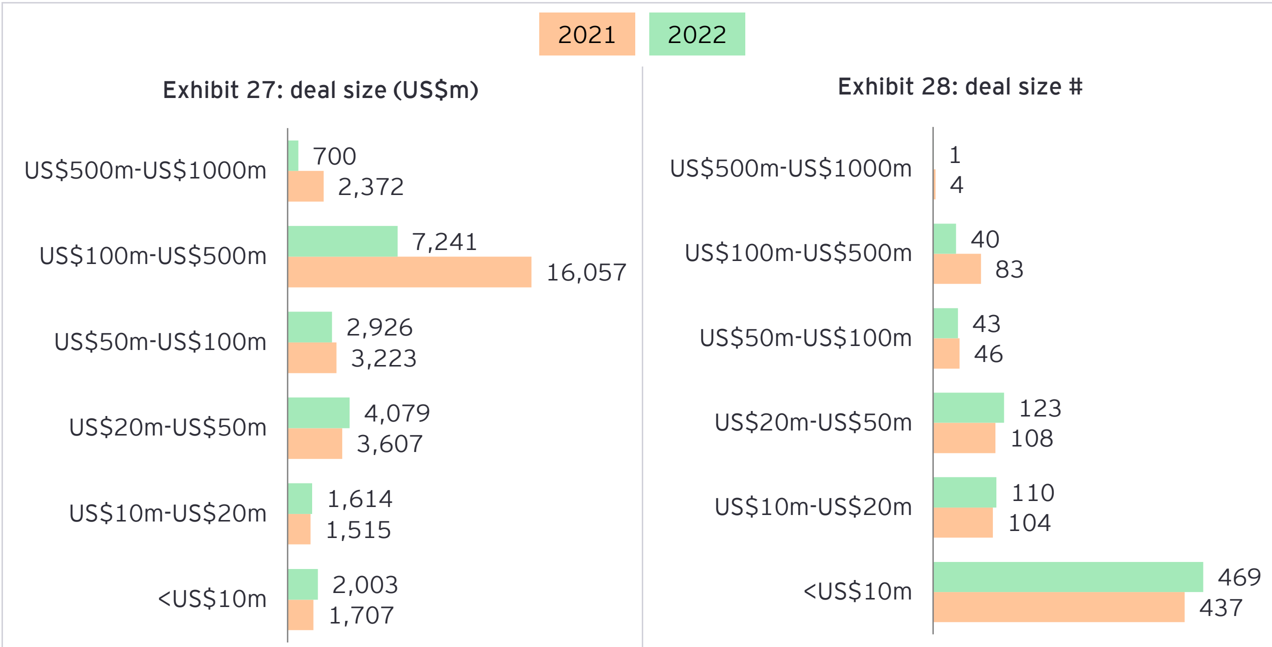


Exhibit 27: deal size (US$m)

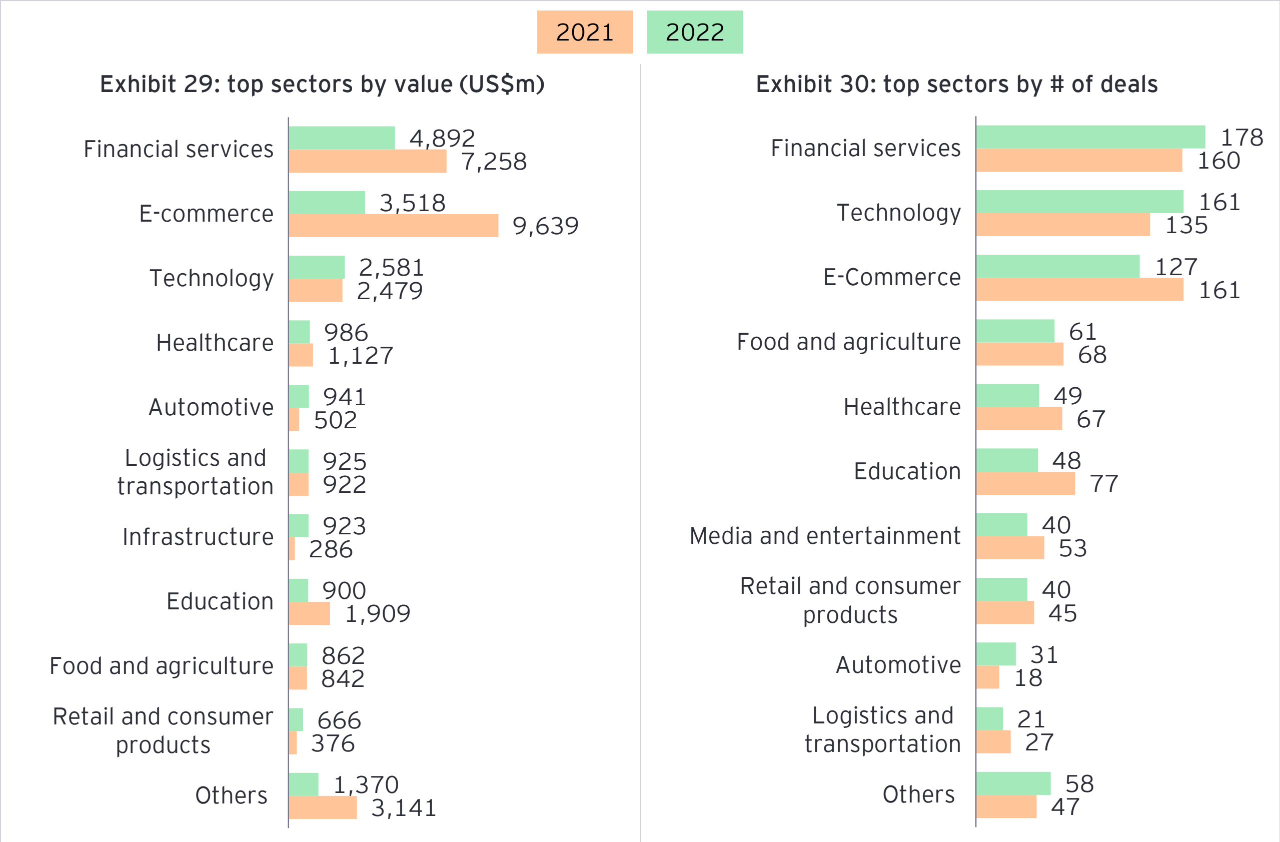
Exhibit 28: deal size #

Source: EY analysis of VCCEdge data

**Does not include deals where deal value is not available*

Financial services (FinTech), e-commerce, technology, and healthcare were the top sectors for VC/startup investments in 2022, with the top two sectors accounting for 45% of all startup investments by value. Financial services received the highest VC/startup investments in 2022 of US$4.9 billion, accounting for 26% of VC/startup investments in 2022, followed by e-commerce that received US$3.5 billion in VC/startup funding, accounting for 19% of VC/startup investment in 2022.

These sectors were also highest in terms of number of deals with financial services, technology, and e-commerce, each recording over 100 deals in 2022 with financial services and technology sectors recording more deals than in 2021 despite the apparent slowdown in startup investments.



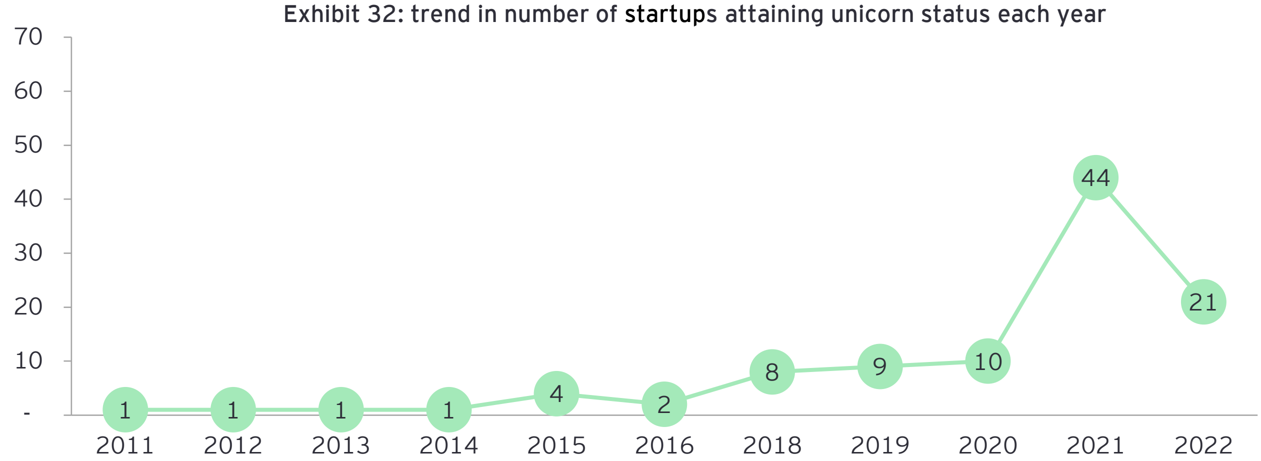
Source: EY analysis of VCCEdge data

Exhibit 31: top VC/startup investments in 2022

Company/Asset	Investors	Sector	Amount (US$m)	Deal Stake %
Bundl Technologies Private Limited (Swiggy)	Sumeru Venture, Alpha Wave Global, Prosus Ventures, The Qatar Investment Authority, and others	E-commerce	700	7
Polygon Technology	Tiger Global, Elevation Capital, Dragonfly Capital Management, Sequoia Capital, SoftBank, and others	Financial services	450	NA
Hero Future Energies Private Limited	KKR, Hero Group	Infrastructure	450	45
Serentica Renewables India Private Limited	KKR	Infrastructure	400	NA
NTex Transportation Services Private Limited (Elastic Run)	Softbank, Prosus Ventures, Chimera Investments, and others	Logistics and transportation	332	22
BusyBees Logistics Solutions Private Limited (Xpressbees)	ChrysCapital, Investcorp, Tarrant Capital, Norwest, Blackstone	Logistics and transportation	300	25
Tablespace Technologies Private Limited	Hill House Capital	Real estate	300	NA
EQX Analytics Private Limited (Stashfin)	Uncorrelated Ventures, Fasanara Capital, and Abstract Ventures	Financial services	270	36
Mahindra EV Co.	British International Investment Plc (CDC)	Automotive	250	3

Source: EY analysis of VCCEdge data

Exhibit 32: trend in number of startups attaining unicorn status each year



Source: EY analysis of Venture Intelligence data

Exhibit 33: sectoral split of unicorns by value (US$ billion)^ - 2022

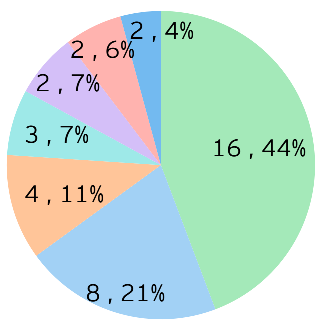
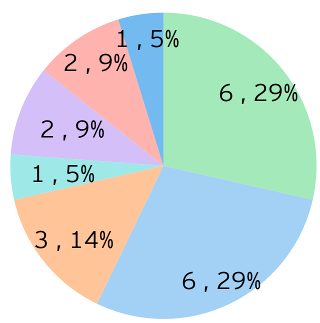


Exhibit 34: sectoral split of unicorns by volume - 2022



Source: EY analysis of Venture Intelligence data

^Valuation at entry

Large deals decline in the absence of mega buyouts in the technology sector and big-ticket startup investments

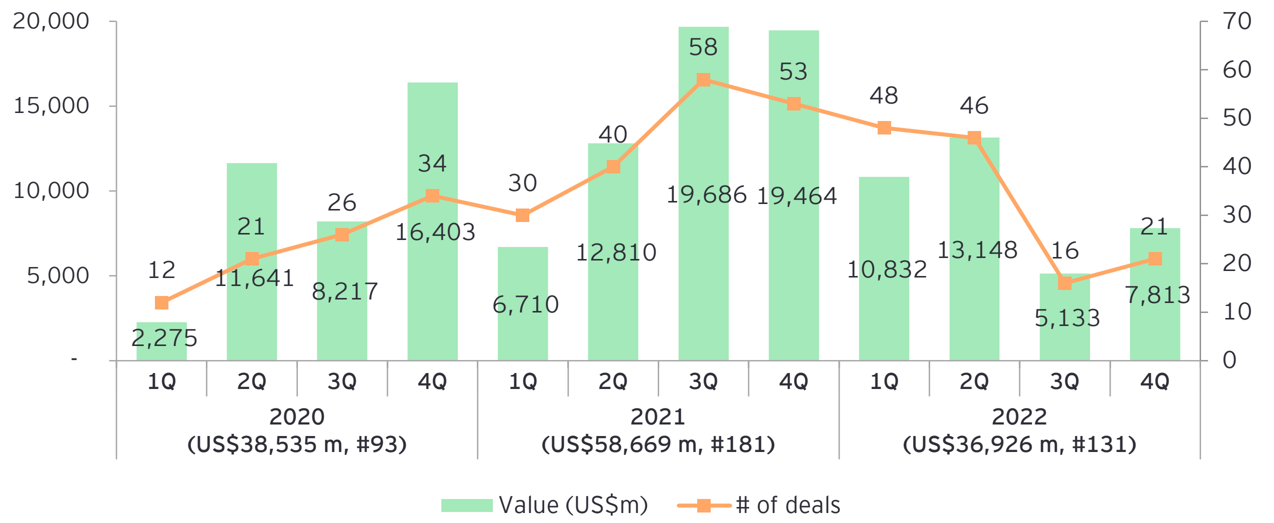
2021 had recorded an all-time high on the back of growing number and size of large deals (deals of value US$100 million and higher). Large deals in 2021 (181 deals) almost doubled in volume compared to 2020 (93 deals). However, in 2022, large deals have recorded a 28% decline in terms of number of deals and 37% in terms of value.

The biggest fall has been in the number and size of mega deals (deals of >US$1 billion) which were a defining feature of investments in 2021. 2022 recorded just two mega deals compared with eight such deals in 2021. Mega deals accounted for 77% of the value contributed by large deals and 21% of total PE/VC investments in 2021. In contrast, mega deals account for just 8% of the value contributed by large deals and 5% of total PE/VC investments in 2022.

Large multi-billion-dollar buyouts in the tech sector, including BPEAEQT-Sagility, Advent-Encora, Blackstone-VFS, Carlyle-Hexaware etc., had contributed to the mega deals in 2021, which were absent in 2022.

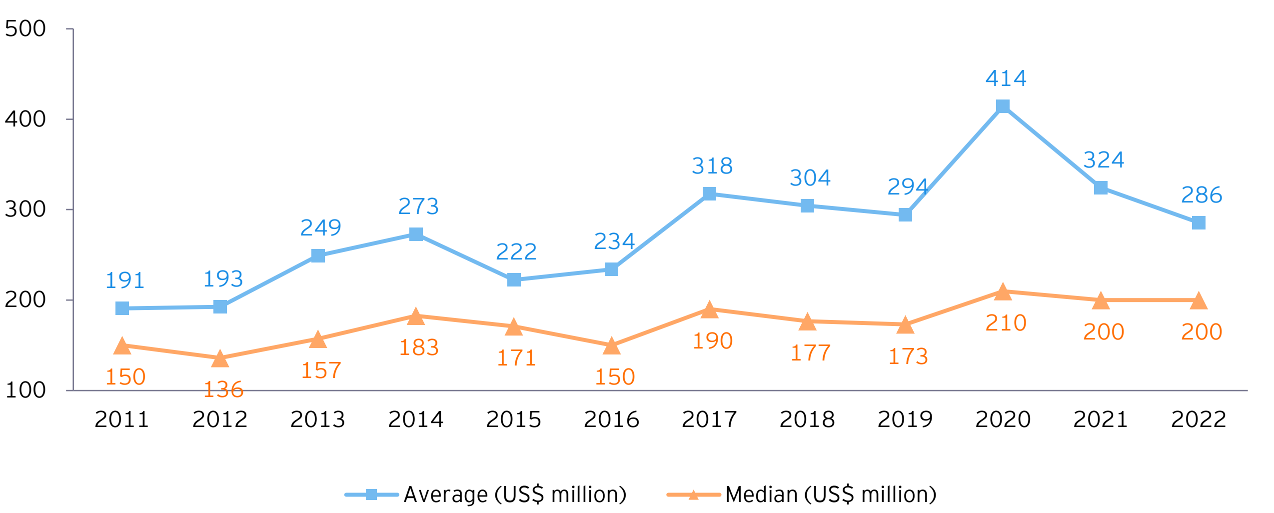
The other segment that drove up the quantum of large deals in 2021 was big sized cheques written by PE/VCs to startups in the new-age sectors like FinTech, hyperlocal delivery, mobility, and healthtech.

Exhibit 35: trend in large deals (value >= US$100m)

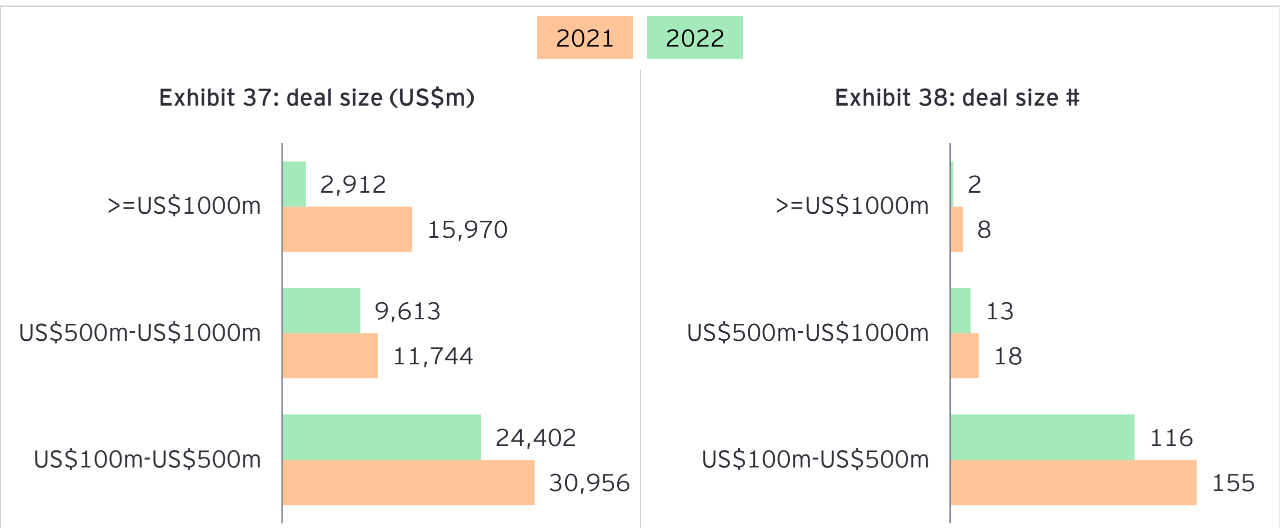


Source: EY analysis of VCCEdge data

Exhibit 36: trend in average and median deal size



Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

Does not include deals where deal value is not available

2021 2022

Exhibit 39: large deal type (US$m)

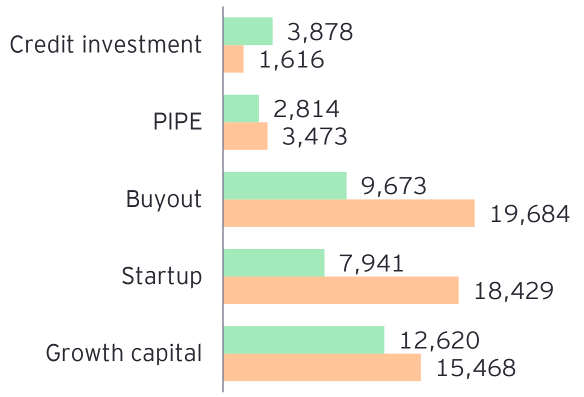
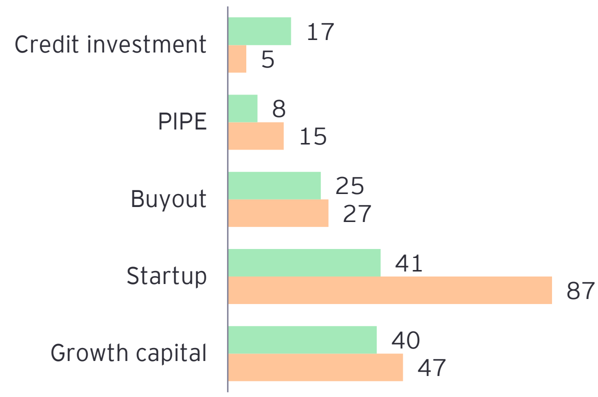


Exhibit 40: large deal type #



Source: EY analysis of VCCEdge data

While e-commerce and technology sectors accounted for 48% of large deals by value and 34% by volume in 2021, in 2022, the balance shifted back to the traditional sectors of infrastructure, real estate, and financial services that received a major share of the dollar value of large deals. These three sectors accounted for more than 51% of all the large deals in 2022, both in terms of value and volume.

2021 2022

Exhibit 41: large deals top sectors by value (US$m)

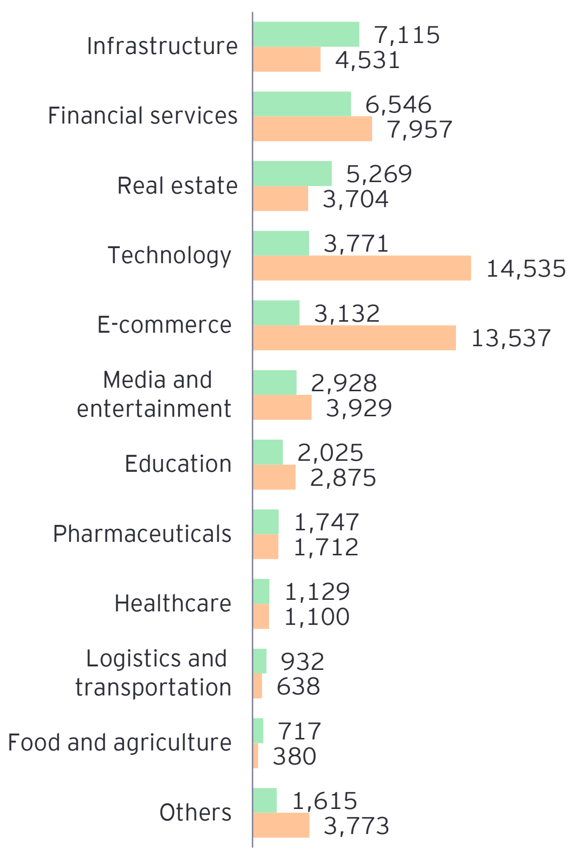
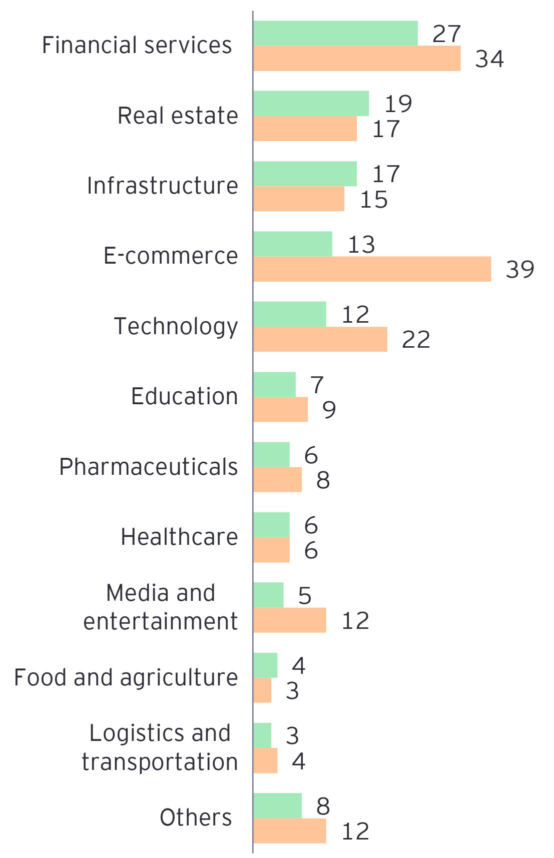


Exhibit 42: large deals top sectors by # of deals



Source: EY analysis of VCCEdge data

Exhibit 43: top large deals in 2022

Company/Asset	Investors	Sector	Stage	Amount (US$m)	Deal Stake %
Viacom18 Media Private Limited	Bodhi Tree System	Media and entertainment	Growth	1,812	40
YES Bank Limited	Advent, Carlyle	Financial services	PIPE	1,100	20
CitiusTech IT Solutions Private Limited	Bain Capital	Technology	Growth	960	40
Eight road projects of L&T	Edelweiss Infrastructure Yield Plus	Infrastructure	Buyout	886	100
VerSe Innovation Private Limited (Dailyhunt)	CPPIB, Sofina SA, OTPP, Sumeru Ventures, and others	Media and entertainment	Growth	805	16
IGT Solutions Private Limited	BPEAEQT	Technology	Buyout	800	100
Six operating highway toll road projects	Actis	Infrastructure	Buyout	775	100
Eastern Peripheral Expressway	Maple Highways (CDPQ)	Infrastructure	Buyout	774	100
Suven Pharmaceuticals Limited	Advent	Pharmaceuticals	Buyout	770	50
Mumbai Airport (MIAL)	Apollo Global	Infrastructure	Credit	750	NA

Source: EY analysis of VCCEdge data

Private credit makes significant inroads as equity capital becomes costly and difficult to source[8]

Globally, investors are diversifying their portfolios and seeking better returns by increasing capital allocations from traditional asset classes toward alternative asset classes. Private credit as an asset class has grown significantly over the past four years and now accounts for about 12% of global private capital assets under management[9].

2022 has emerged as the best year for PE/VC backed private credit investments in India, recording US$6.7 billion. Credit investments in 2022 were 158% higher than 2021 and 116% higher than the previous high recorded in 2019.

Four sectors – financial services, real estate, infrastructure, and e-commerce, have accounted for almost 87% of all credit investments in 2022.

With rising interest rates bid-ask spreads between investor valuations and seller expectations continuing to remain high, credit has emerged as a good opportunity for PE/VC firms to step into the cap tables of many companies looking to raise bridge funding as an alternative to raising equity at less-than-optimal valuation levels.

Apollo, IFC, CPPIB, Ares, and Bain were among the largest credit investors in 2022, investing over US$2.5 billion. In addition, Varde Partners, Cerberus Capital are also emerging as major players in the Indian credit markets.

The entry of large global private credit players has resulted in large cheque sizes as well. 2022 recorded 17 large deals (deals of value greater than US$100 million) worth US$3.5 billion compared to five deals totaling US$1.6 billion in 2021.

India offers a large structural opportunity for private credit investors. Post a spate of bad loans, traditional lenders have become risk averse while NBFCs are recovering from a liquidity crisis that engulfed them in 2018. This has left a void for private credit providers that can offer flexibility in structures and repayment schedules to capture.

Credit enforcement, bolstered by the introduction of the creditor-friendly "Insolvency and Bankruptcy Code, 2016" supported by dedicated tribunals, has provided private credit with a great start in India. A series of economic and administrative reforms working toward a more business-friendly environment, coupled with the

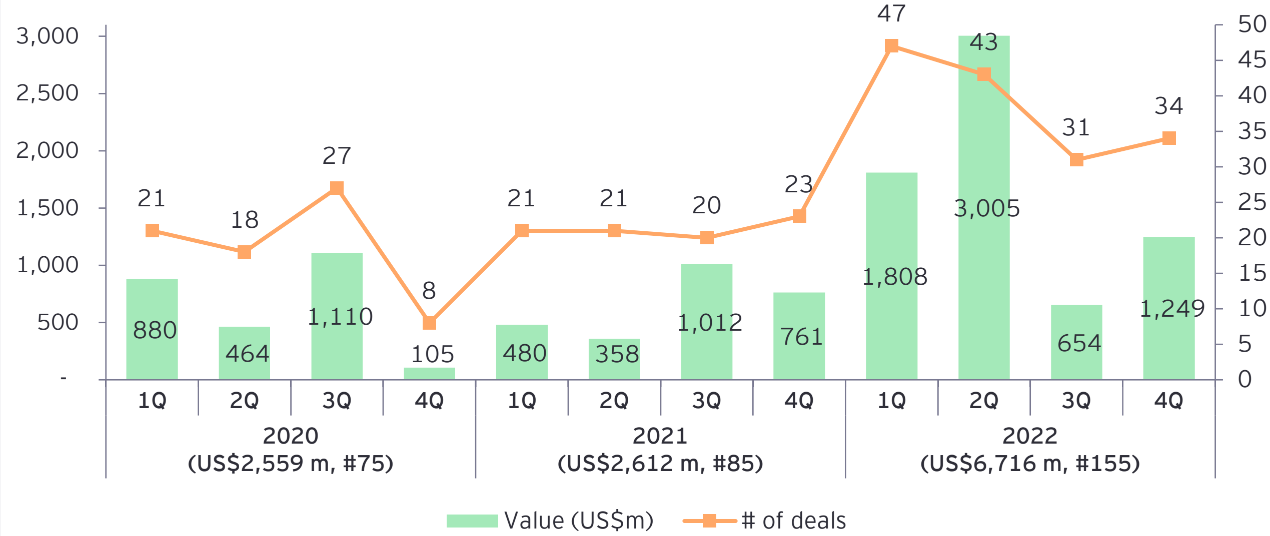
[8]For the purpose of this analysis, we have only considered private credit investments by PE funds, SWFs, Pension Funds and Venture debt investments

[9]How private credit is evolving in India, EY

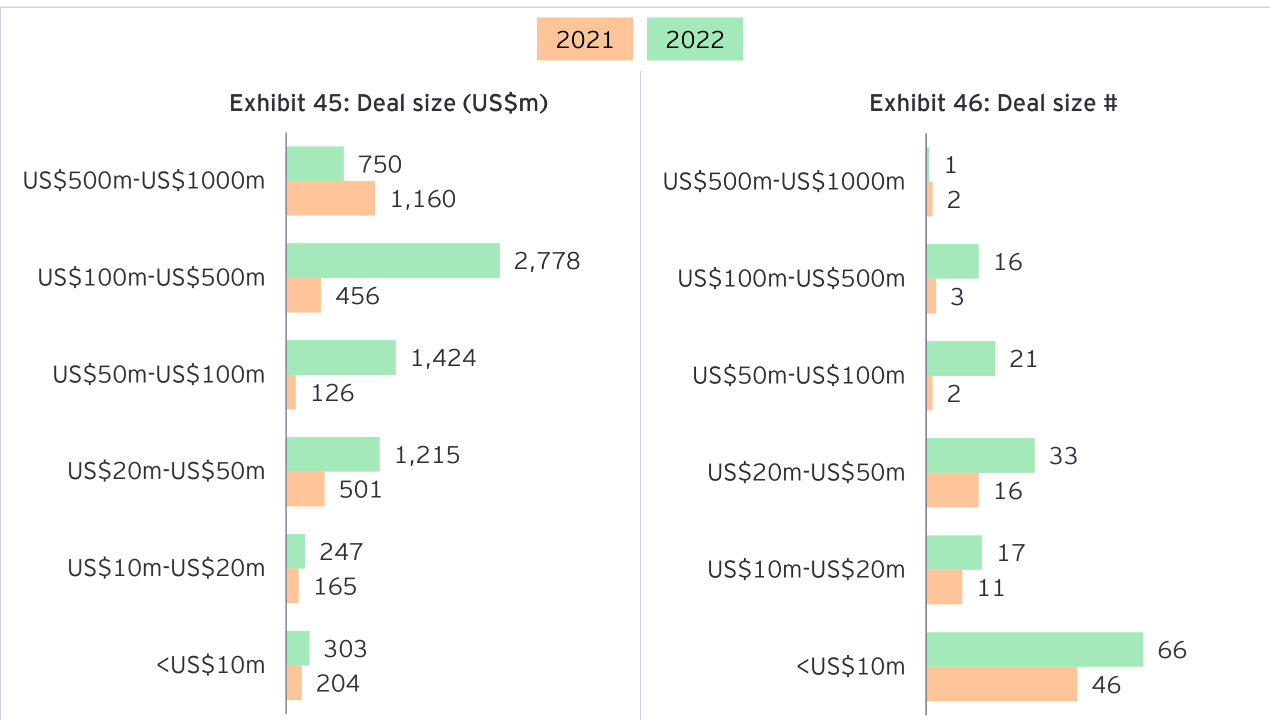
push for growth, provide the ideal platform for private credit to grow to potential.

Stressed asset investment opportunities (emanating from the existing stock of unresolved NPAs and fresh credit defaults) and special situation opportunities could be worth around US$25 billion over the next five years, according to an EY report[10]. As a result, India is witnessing growing interest from global multi-strategy PE firms in the credit and special situation spaces. With the Indian PE/VC market maturing, we could see bigger plays in the Indian credit market by global funds.

Exhibit 44: trend in credit investments



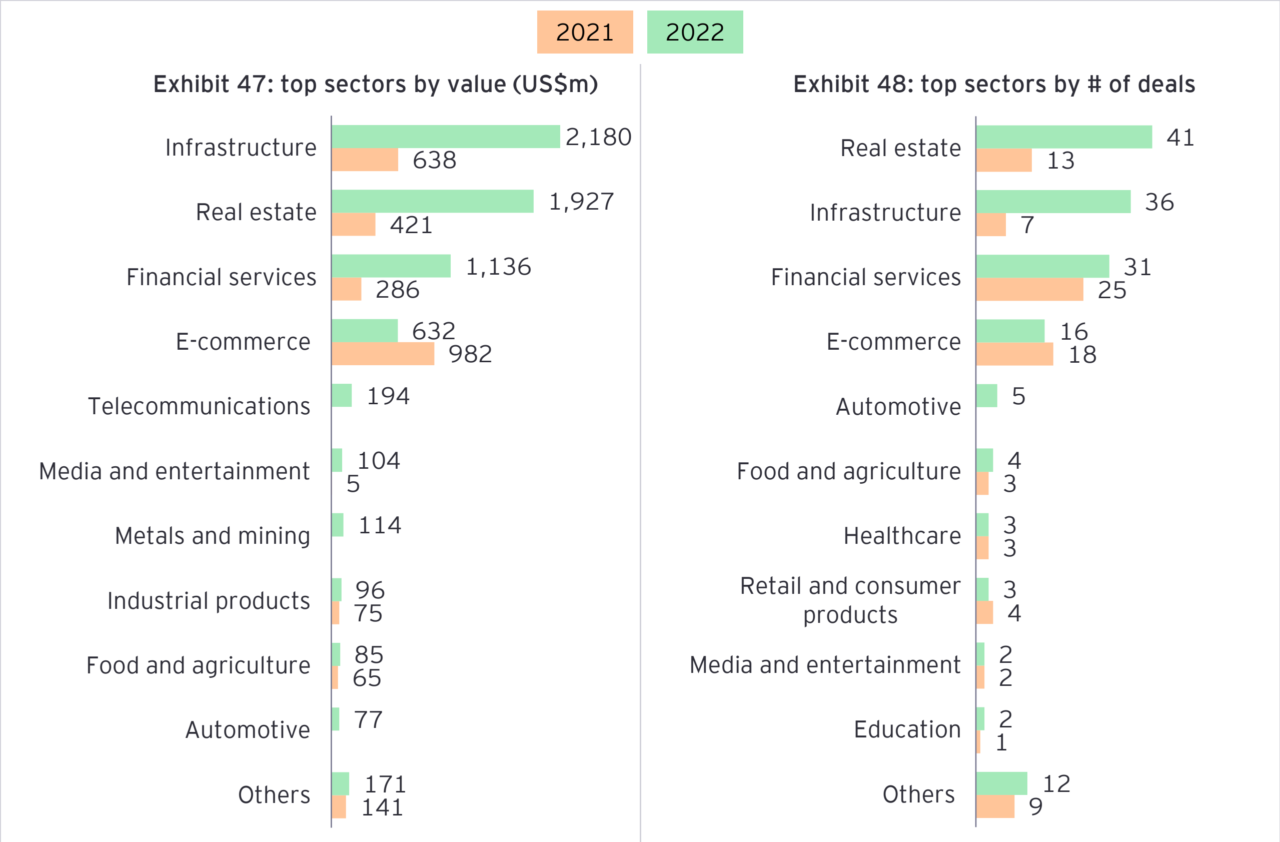
Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

Does not include deals where deal value is not available

[10] How private credit is evolving in India, EY



Source: EY analysis of VCCEdge data

Exhibit 49: top private credit investments in 2022

Company/Asset	Investors	Sector	Amount (US$m)
Mumbai Airport (MIAL)	Apollo Global	Infrastructure	750
Cholamandalam Investment and Finance Co. Limited	IFC	Financial services	350
API Holdings Limited (PharmEasy)	Goldman Sachs	E-commerce	273
Shriram Transport Finance Co. Limited	US DFC	Financial services	250
Hiveloop Technology Private Limited (Udaan)	VBG Realty LLP, Blacksoil, Corsa Ventures, Walton Street India and others	E-commerce	250
Mahagun Medalleo residential project	Vistra TCL	Real estate	220
Airtel Africa Plc	IFC	Telecommunications	194
Six housing projects of Shapoorji Pallonji	HDFC Capital Advisors	Real estate	191
Evangelos Ventures Private Limited	Ares SSG Capital and Farallon Capital	Real estate	183
Tarc Limited	Bain Capital	Real estate	175

Source: EY analysis of VCCEdge data

03

PE/VC investments – by sector

PE/VC investments – by sector

PE/VC investment activity in 2022 was dominated by five sectors – financial services, infrastructure, real estate, technology, and e-commerce that have accounted for almost two-thirds of the deal activity by value and volume, each recording over US$5 billion in investments. While technology and e-commerce were the top two sectors in 2021, they have dropped to the fourth and fifth spot, with infrastructure sector rising to the second spot behind financial services. In total, there were 13 sectors that received over US$1 billion in investments in 2022.

E-commerce and technology sectors that had recorded all-time high investments in 2021, recorded 66% and 62% y-o-y decline in PE/VC investments in 2022, respectively. Financial services sector, too, recorded a de-growth of 10% y-o-y. Infrastructure and real estate sectors recorded a growth of 67% and 38%, respectively. Healthcare was another sector that recorded growth in PE/VC investments in 2022 with investment worth US$2.5 billion, a 22% growth y-o-y. Other sectors that had witnessed strong investor interest in 2021, like education, and media and entertainment, recorded 30% and 24% y-o-y decline in investments, respectively. These sectors had benefited from strong consumer adoption during the pandemic due to emergence of new-age business models like online education, media streaming and gaming / sports entertainment.

Exhibit 50: top sectors by value (US$m)

Sectors	2021	2022
Financial services	11,688	10,497
Infrastructure	5,406	9,021
Real estate	5,317	7,288
Technology	16,234	6,136
E-Commerce	16,125	5,396
Media and entertainment	4,692	3,559
Education	3,763	2,621
Healthcare	2,083	2,544
Food and agriculture	1,287	2,112
Pharmaceuticals	2,307	2,076
Logistics and transportation	1,255	1,356
Retail and consumer products	1,967	1,210
Automotive	1,749	1,055
Industrial products	506	658
Cement and building products	327	214
Telecommunications	220	209
Metals and mining	94	194
Business and professional services	466	167
Aerospace and defense	83	139
Chemicals	74	47
Oil and gas	300	-

Source: EY analysis of VCCEdge data

Exhibit 51: top sectors by # of deals

Sectors	2021	2022
Financial services	240	250
Technology	170	191
E-Commerce	198	163
Real estate	72	96
Food and agriculture	91	94
Infrastructure	47	75
Healthcare	85	72
Education	88	67
Retail and consumer products	67	62
Media and entertainment	70	50
Automotive	26	40
Logistics and transportation	33	25
Pharmaceuticals	32	25
Industrial products	14	20
Business and professional services	13	18
Aerospace and defense	10	12
Cement and building products	3	5
Telecommunications	2	3
Chemicals	5	3
Metals and mining	2	3
Oil and gas	1	-

Source: EY analysis of VCCEdge data

The following section covers key highlights of some of the prominent sectors in 2022:

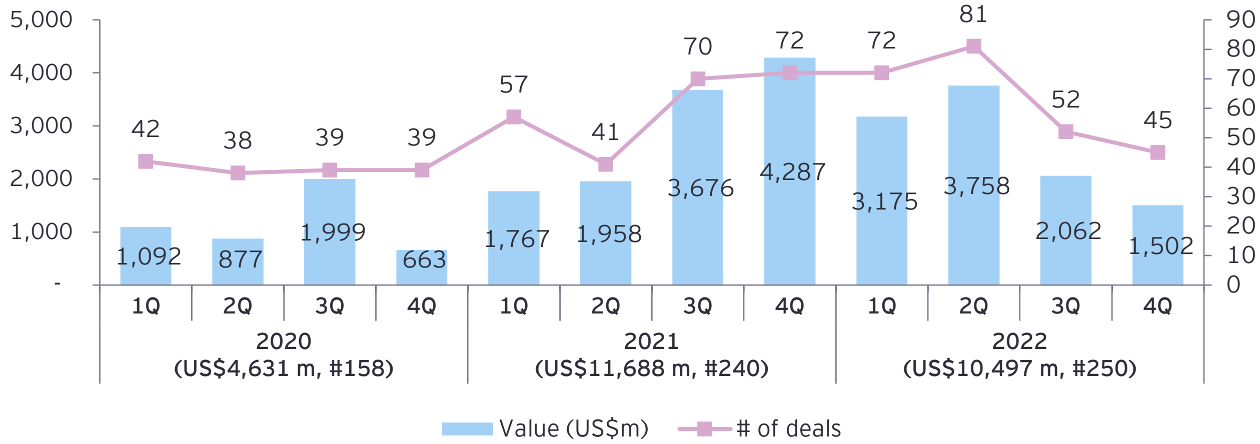
Financial services sector continues to be the most preferred sector for PE/VC investments but with a changing segment mix

Financial services sector has regained its spot as the top sector for PE/VC investments in 2022 with investments of US$10.5 billion. It had moved to the third spot in 2021, with investments worth US$11.7 billion behind technology and e-commerce. While in terms of value, the financial services sector has recorded a 10% decline on a y-o-y basis, the deal momentum continues to remain strong with 250 deals in 2022 vs. 240 deals in 2021.

The financial services sector has been one of the most versatile sectors for alternative investments with direct links to the economy, providing a good proxy of the long-term India growth story for investors to play on. FinTech investments became a mainstay of financial services sector investments post the pandemic, recording an all-time high of US$7.5 billion and accounting for 64% of the investments in the financial services sector in 2021. While FinTech continues to receive maximum PE/VC investments, its share has reduced to 47% in 2022 from 64% in 2021. With changing regulatory winds buffeting some of the new age FinTech models like crypto exchanges, buy now pay later (BNPL) etc., investor interest has shifted back to funding the traditional business like NBFCs, HFCs and banks as credit growth has picked up.

However, the tide of FinTech investments is not likely to recede any soon and is here to stay, as reflected in the 9% y-o-y growth in the number of deals in 2022. It is only the deal sizes that have moderated, especially those in the US$100-US$500 million range. In the coming years, the FinTech investment trend is expected to get stronger as more and more PE/VC funds back financial services companies that leverage technology to do business, solving real-world problems revolving around distribution, underwriting and collection of credit. FinTech firms are playing an important role in propagating financial inclusion and making transactions easier across many segments, including payments, investments, insurance, etc.

Exhibit 52: trend in investments in financial services sector



Source: EY analysis of VCCEdge data

2021 2022

Exhibit 53: top sub-sectors by value (US$m)

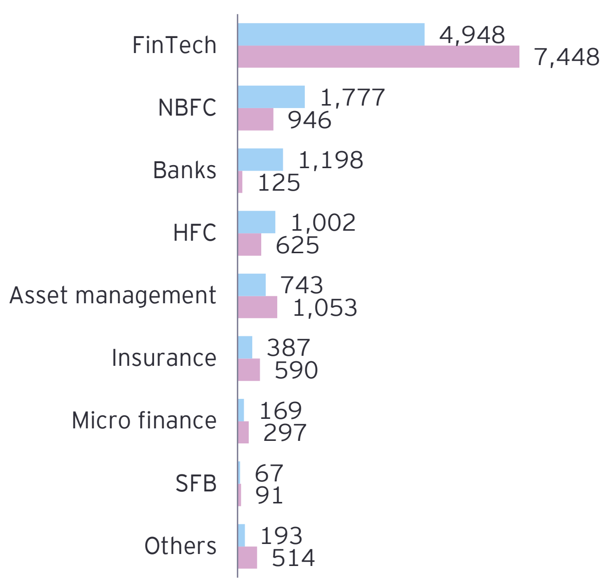
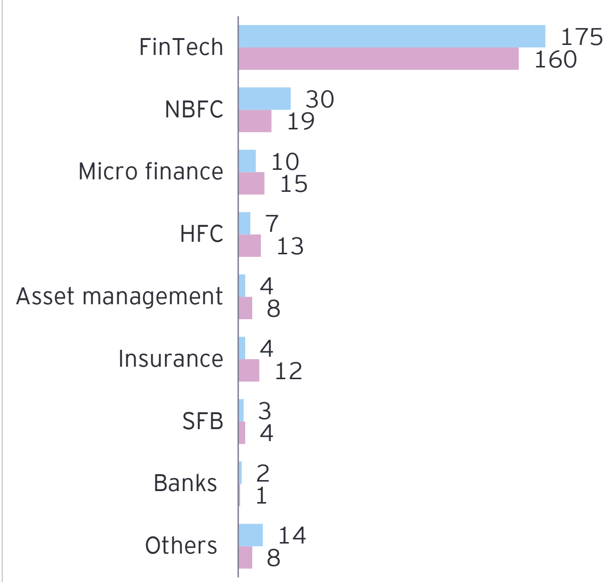


Exhibit 54: top sub-sectors by # of deals



Source: EY analysis of VCCEdge data
Note: Others includes exchanges, brokerages, advisory services etc.

2021 2022

Exhibit 55: deal type (US$m)

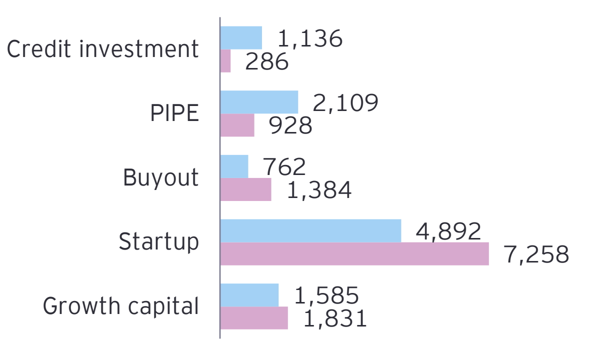
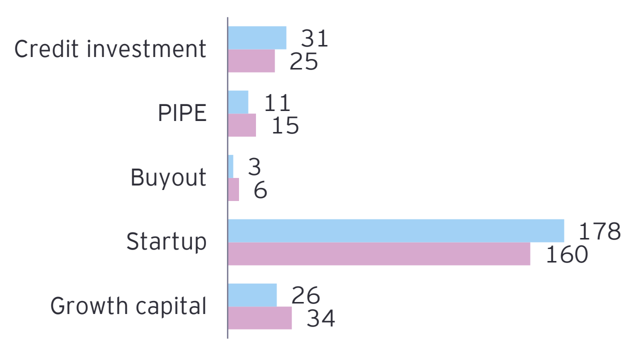
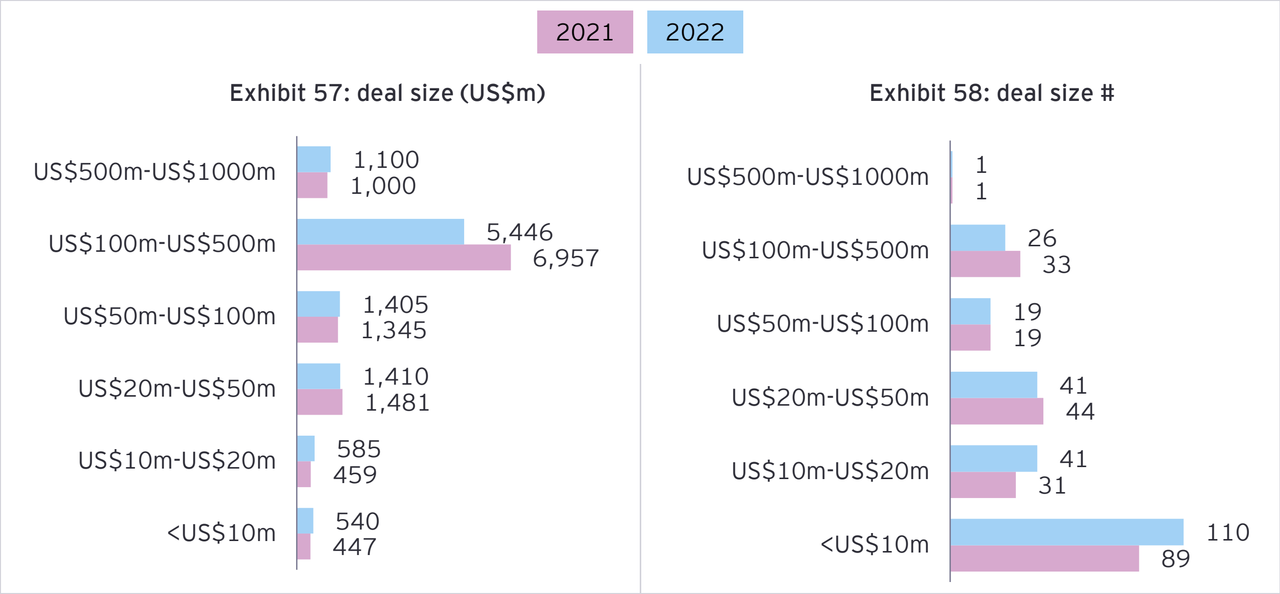


Exhibit 56: deal type #



Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

Does not include deals where deal value is not available

Exhibit 59: top financial services sector investments in 2022

Company/Asset	Investors	Sub-sector	Stage	Amount (US$m)	Deal Stake %
Yes Bank Limited	Advent, Carlyle	Bank	PIPE	1,100	20
IIFL Wealth Management Limited	Bain Capital	Asset management	PIPE	483	25
Poonawalla Housing Finance Limited	TPG Capital Asia	HFC	Buyout	462	100
Polygon Technology	Tiger Global, Elevation Capital, Sequoia Capital, SoftBank, and others	FinTech	Startup	450	NA
Cholamandalam Investment and Finance Co. Limited	IFC	NBFC	Credit	350	NA
Vistaar Financial Services Private Limited	Warburg Pincus	NBFC	Buyout	300	>50
IIFL Home Finance Limited	ADIA	HFC	PIPE	283	20
EQX Analytics Private Limited	Uncorrelated Ventures, Fasanara Capital, and Abstract Ventures	FinTech	Startup	270	36
Chargebee Inc.	Insight Venture, Sapphire Ventures, Steadview Capital, Tiger Global, Sequoia Capital	FinTech	Growth	250	7
Shriram Transport Finance Co. Limited	US DFC	NBFC	Credit	250	NA
IDFC Asset Management Co. Limited	GIC and ChrysCapital	Asset management	Growth	240	40
Shriram General Insurance Co. Limited	KKR	Insurance	Growth	237	10
Oxyzo Financial Services Private Limited	Alpha Wave Global, Tiger Global, Norwest Venture Partners, Matrix	FinTech	Startup	200	20
Pine Labs Private Limited	Alpha Wave Global	FinTech	Growth	150	3
Dreamplug Technologies Private Limited- (CRED)	GIC, Sofina, Tiger Global, Falcon Edge, and Dragoneer	FinTech	Startup	140	2

Source: EY analysis of VCCEdge data

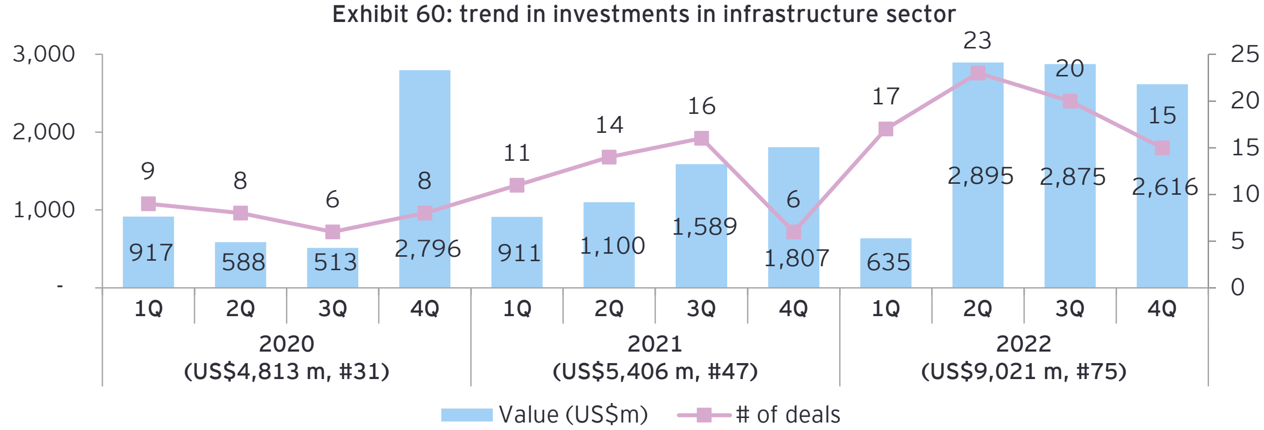
Infrastructure sector regains prominence and records the highest growth in PE/VC investments in 2022

In the previous decade, the infrastructure sector was the second largest sector behind financial services for PE/VC investments, with US$34.9 billion invested across 292 deals. A major surge in PE/VC investments in the sector came in the last three years. However, with easing liquidity and falling yields globally post the pandemic, the focus of PE/VC players shifted to growth-oriented e-commerce and tech-oriented businesses. As a result, infrastructure investments in 2021 dropped to the fourth place, with US$5.4 billion recorded across 47 deals. With interest rates rising globally in 2022, steady yield generating real assets are seen as a hedge against inflationary forces, and we saw investments in the infrastructure sector increase to US$9 billion, a 67% increase y-o-y.

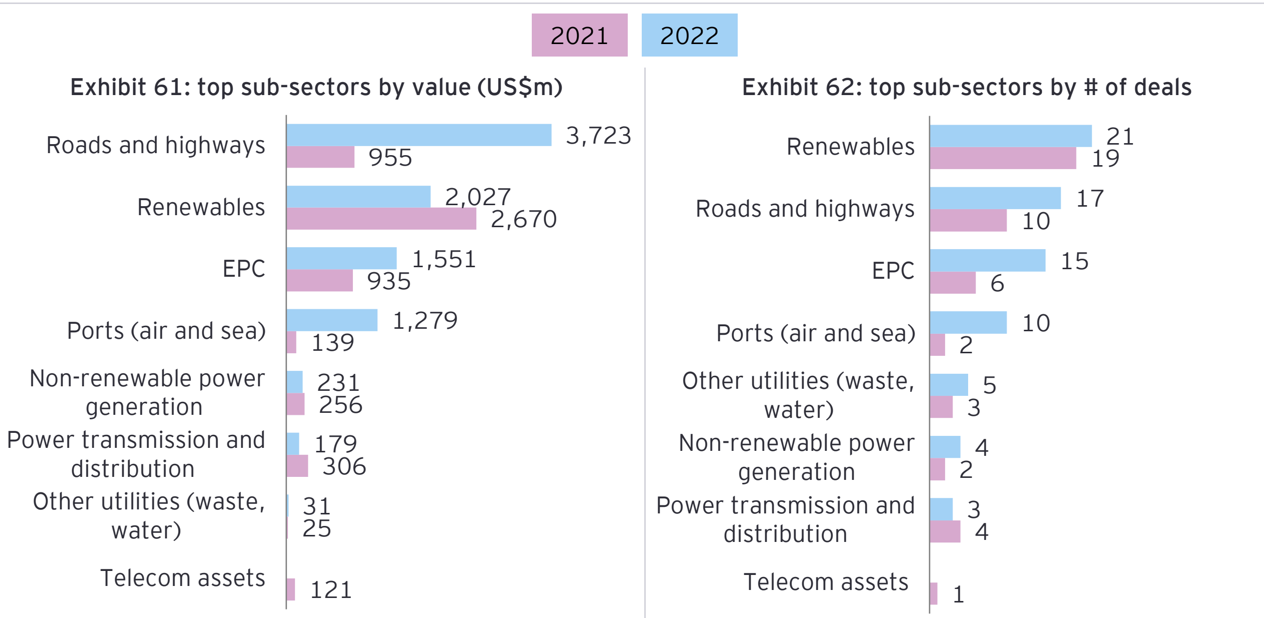
Unlike other sectors, the infrastructure sector saw an increase in large deals with 18 US$100 million+ deals compared to 15 such deals in 2021. In 2022, 41% of all PE/VC investments were in the roads and highway sector aggregating to US$3.7 billion, unlike 2021, which had more than half the deals in the power sub-sector aggregating to US$3.2 billion and predominantly in the renewables space (US$2.7 billion), accounting for 59% of all infrastructure investments.

With increasing direct investments by pension funds and SWFs, emergence of new investment vehicles like InvITs, favorable policies from the government, and a substantial asset monetization pipeline of large infrastructure assets by the government as well as corporates, the infrastructure asset class is expected to remain one of the priority areas for PE/VC funds to deploy capital, especially under the high interest rate regime where steady, cashflow generating real assets find more allocation in investor portfolio's.

Exhibit 60: trend in investments in infrastructure sector



Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

Note: Others includes exchanges, advisory services etc.

2021 2022

Exhibit 63: deal type (US$m)

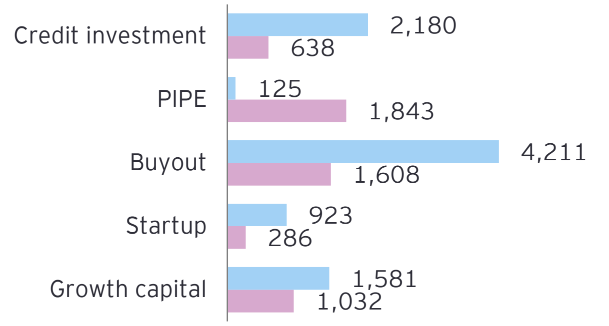
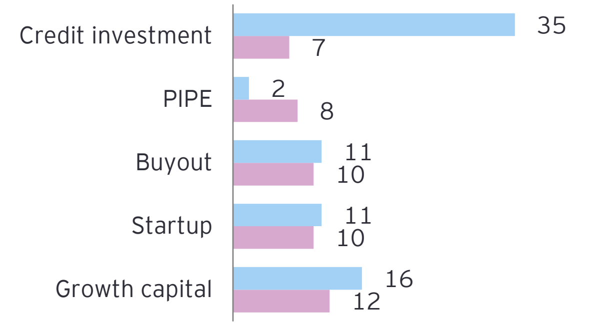


Exhibit 64: deal type #



Source: EY analysis of VCCEdge data

2021 2022

Exhibit 65: deal size (US$m)

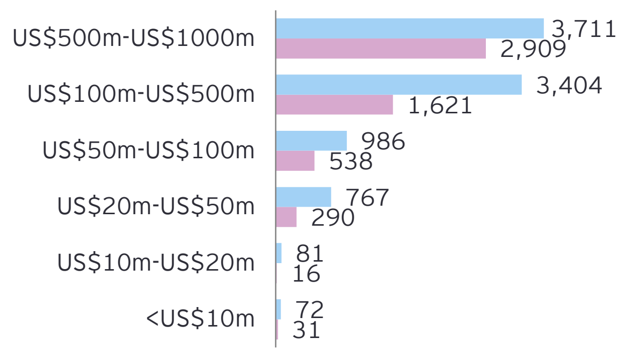
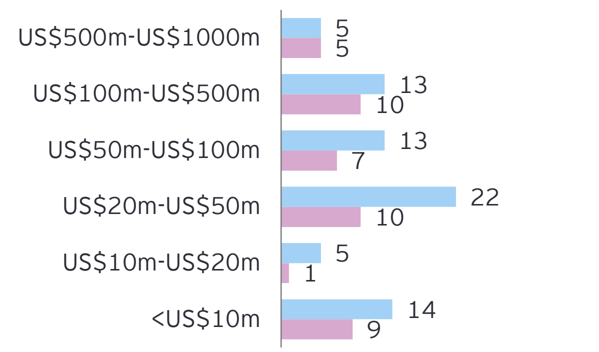


Exhibit 66: deal size #



Source: EY analysis of VCCEdge data
Does not include deals where deal value is not available

Exhibit 67: top infrastructure sector investments in 2022

Company/Asset	Investors	Sub-sector	Stage	Amount (US$m)	Deal Stake %
Eight road projects of L&T	Edelweiss Infrastructure Yield Plus	Roads and highways	Buyout	886	100
Six operating highway toll road projects	Actis	Roads and highways	Buyout	775	100
Eastern Peripheral Expressway	Maple Highways (CDPQ)	Roads and highways	Buyout	774	100
Mumbai Airport (MIAL)	Apollo Global	Ports (air and sea)	Credit	750	NA
Tata Power Renewable Energy Limited	BlackRock, Inc., Mubadala	Renewables	Growth	527	11
Hero Future Energies Private Limited	KKR and Hero Group	Renewables	Startup	450	45
Serentica Renewables India Private Limited	KKR	EPC	Startup	400	NA
ReNew Power Private Limited	CPPIB	Renewables	Growth	400	NA
Sunsure Energy Private Limited	Partners Group	EPC	Buyout	400	>50
Navayuga Quazigund Expressway Private Limited	NIIF	Roads and highways	Buyout	377	100

Source: EY analysis of VCCEdge data

Real estate sector records all-time high PE/VC investments driven by large investments in commercial real estate and logistic parks

Alongside infrastructure, the real estate sector was the only major sector to record growth in PE/VC investments in 2022. Real estate sector recorded US$7.3 billion in PE/VC investments, an all-time high and a 38% growth y-o-y, on the back of large deals in the commercial real estate segment.

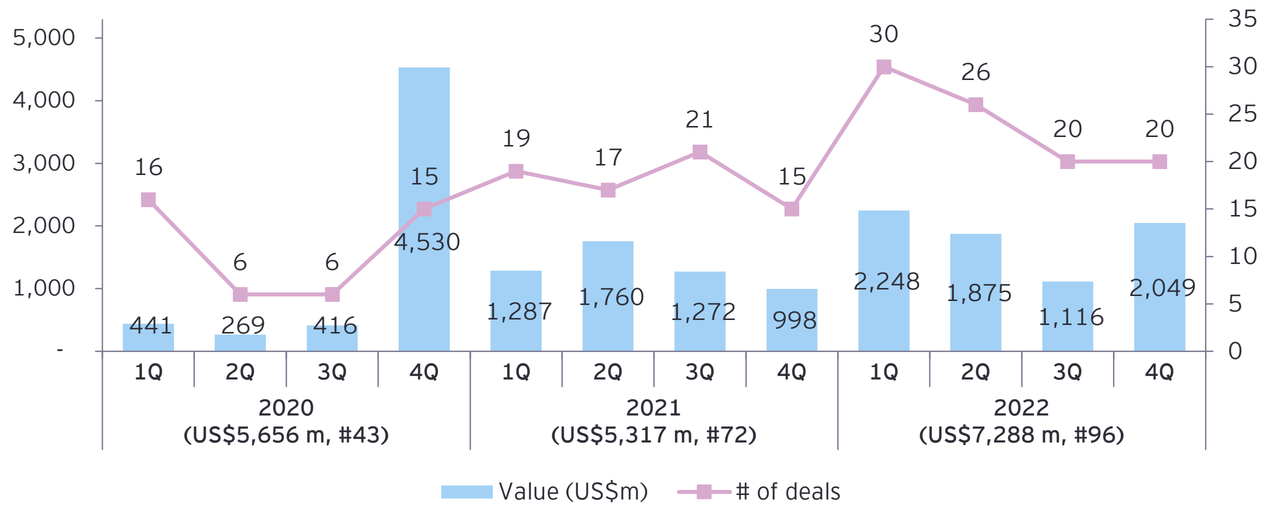
Large deals (value greater than US$100 million) accounted for 73% of the investments in the real estate sector in 2022. Commercial real estate segment had 10 out of the 21 large deals.

After very low levels of utilization in the wake of COVID-19, workplaces have made a comeback in 2022 – making it the second strongest year of recovery for the office market in the past decade. The return to work gained momentum across all sectors, with the major growth drivers being flex spaces, technology, and banking, financial services, and insurance (BFSI). According to realty firm CBRE's findings[11], the office sector in India witnessed gross absorption of 56.6 million square feet (msf) in 2022, registering a year-on-year growth of 40% and marking the second-highest leasing activity in 10 years after it touched a peak in 2019 with 65 msf.

According to the report, southern cities, especially Bengaluru, Chennai and Hyderabad are emerging as leading hubs in office space leasing owing to robust demand from tech and flex players, which is also mirrored by the PE/VC investment activity. Southern region accounted for more than 50% of all deals by value and 71% by volume in the commercial real estate segment.

Industrial and logistics parks and data centers are a new bright spot on the Indian real estate heatmap. Improving infrastructure status, proliferation of e-commerce, the multi-modal logistics park policy, and implementation of GST, has caused private equity firms to take greater interest in the logistics and warehousing sector. Further, the growth of social media, adoption of cloud and AI technology is driving the next wave of PE/VC real estate investments into data centers. These two segments together witnessed US$1.8 billion in PE/VC investments in 2022, a 29% growth y-o-y.

Exhibit 68: trend in investments in real estate sector



Source: EY analysis of VCCEdge data

[11]CBRE - India Office Figures Q4 2022

2021 2022

Exhibit 69: top sub-sectors by value (US$m)

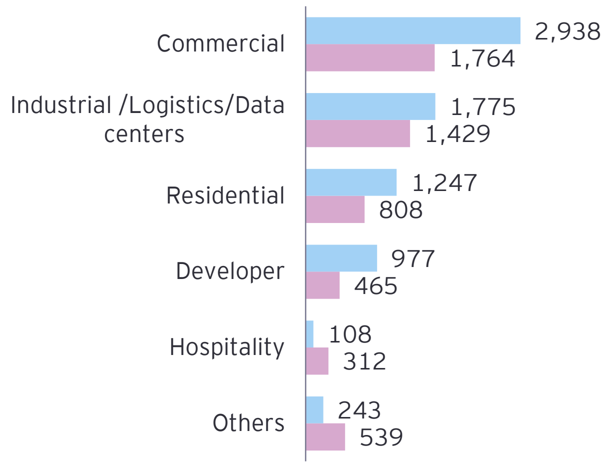
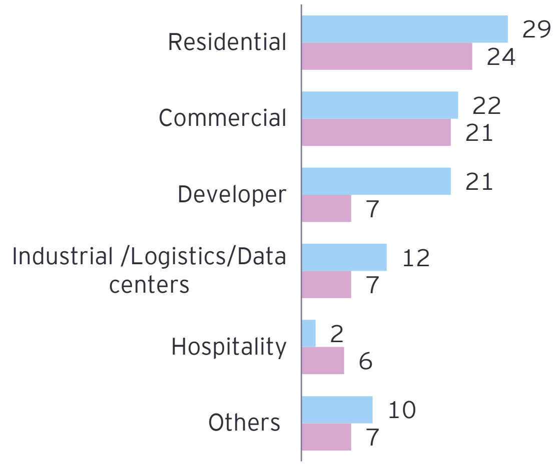


Exhibit 70: top sub-sectors by # of deals



Source: EY analysis of VCCEdge data

Note: Others includes exchanges, brokerages, advisory services etc.

2021 2022

Exhibit 71: deal type (US$m)

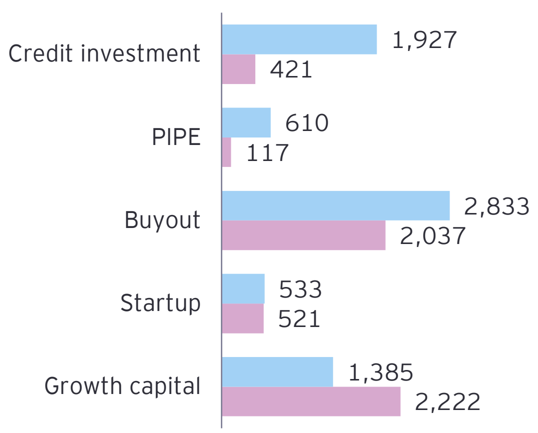
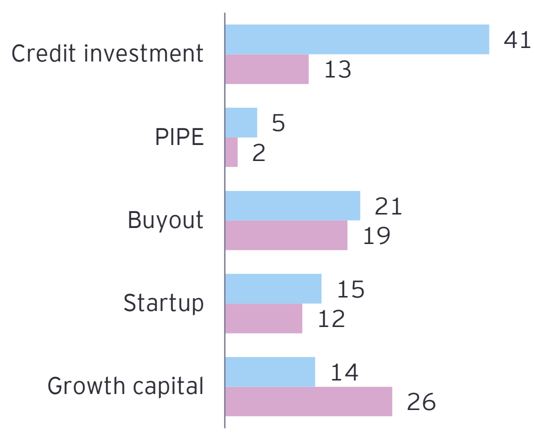


Exhibit 72: deal type #



Source: EY analysis of VCCEdge data

2021 2022

Exhibit 73: deal size (US$m)

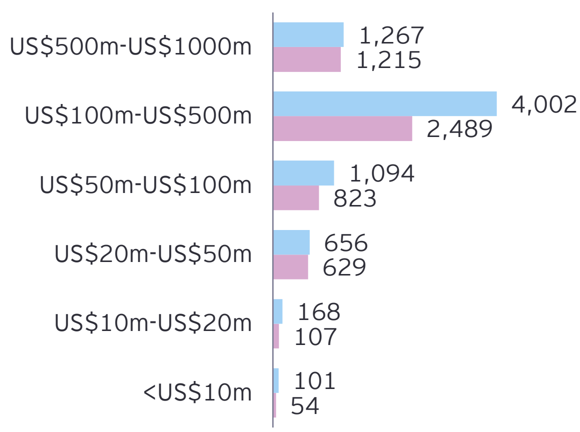
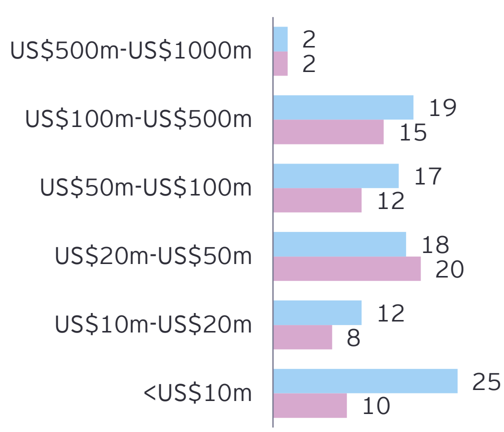


Exhibit 74: deal size #



Source: EY analysis of VCCEdge data

Does not include deals where deal value is not available

Exhibit 75: top real estate sector investments in 2022

Company/Asset	Investors	Sub-sector	Stage	Amount (US$m)	Deal Stake %
Lodha Logistics Platform	Bain Capital, Ivanhoe Cambridge	Industrial/Logistics/ Data centres	Growth	667	67
Core JV	GIC, ESR	Industrial/Logistics/ Data centres	Buyout	600	100
3 mn sq. ft. in Bengaluru's Bharatiya City	GIC	Commercial	Buyout	373	100
Commercial project by Bhartiya City	GIC	Commercial	Buyout	354	100
TATA Realty and Infrastructure Limited, Two Office Parks	CPPIB	Commercial	Growth	343	49
Bharti Enterprises Limited, four commercial projects	Brookfield	Commercial	Buyout	337	51
Tablespace Technologies Private Limited	Hill House Capital	Commercial	Startup	300	NA
Mindspace Business Parks REIT	ADIA	Commercial	PIPE	234	9
Mahagun Medalleo, residential project	Vistra TCL	Residential	Credit	220	NA
Embassy Office Parks REIT	Kotak Performing RE Credit Fund	Commercial	PIPE	200	5

Source: EY analysis of VCCEdge data

E-commerce[12] sector loses its sheen as high valuations and large cheque sizes become scarce

The e-commerce sector became one of the predominant sectors for PE/VC investments in 2021, recording an all-time high of US$16.1 billion, accounting for 21% of the total PE/VC investments. However, investments in e-commerce declined by 66% in 2022 to US$5.4 billion.

After the onset of the pandemic, there was an accelerated adoption of e-commerce globally as well as in India driven by the ease of use and convenience it provided. The pandemic also accelerated the learning curve for technology adoption and online commerce among the less tech savvy and first-time users.

Established e-commerce businesses saw multiple rounds of investments, within a short span of time, at progressively higher valuations. Many e-commerce startups saw large cheques being written in a single round, with many witnessing billion-dollar rounds that were never seen before. Large deals (value greater than US$100 million) accounted for 84% of the deal value and 20% of all the deal volume in 2021.

The interest was high not only among private capital investors, but also public equity investors as witnessed in the strong response to IPOs of e-commerce platforms such as Zomato, Policybazaar, Nykaa etc. Investor interest in e-commerce was so strong that past investors re-entered positions with their erstwhile investees at higher valuations, after having fully exited from them in the past, as seen in the US$3.6 billion funding round in Flipkart by Softbank, Tiger Global and others.

However, as interest rates rose globally, and the pandemic receded, many e-commerce firms were faced with a double whammy – declining sales as people began to move out of their homes and reduced their reliance on e-commerce and rising cost of capital, which meant the high valuation multiples of 2021 could no longer be underwritten by investors.

As a result, large deals declined by 64% to just 14 vs. 39 in 2021 and the aggregate value declined by 77% to US$3.1 billion, accounting for 58% of all e-commerce investments in 2022 compared to 84% in 2021. However, the deal intensity in the sub-US$50 million segment was not as impacted and remained at par with 2021.

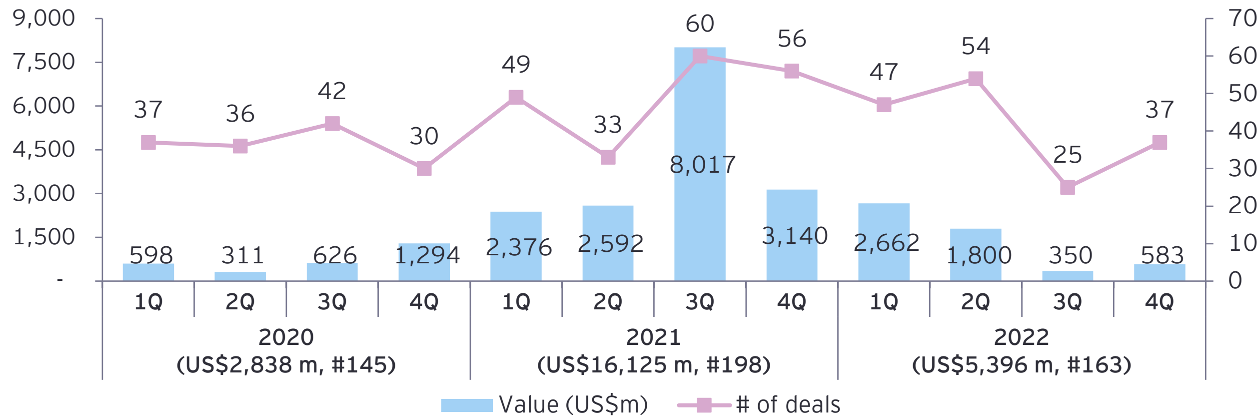
The pandemic has widened the chasm between the stronger players and the mid-tier ones, and has propelled the larger players into another orbit, with the

[12] This analysis excludes internet enables business like healthtech, fintech, agritech, gaming etc., as they have been considered under the parent sectors of healthcare, financial services, agriculture, media and entertainment, respectively in the other sections

well-funded ones now driving consolidation in each of their respective sub-segments, especially in the current funding winter.

All said, the e-commerce sector in India is expected to continue to flourish given the young demography, increasing internet and smartphone penetration, and relatively better economic performance.

Exhibit 76: trend in investments in e-commerce sector



Source: EY analysis of VCCEdge data

2021 2022

Exhibit 77: top sub-sectors by value (US$m)

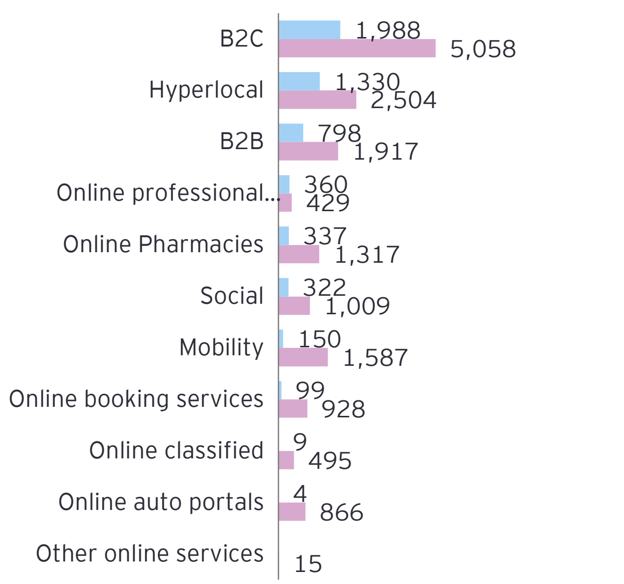
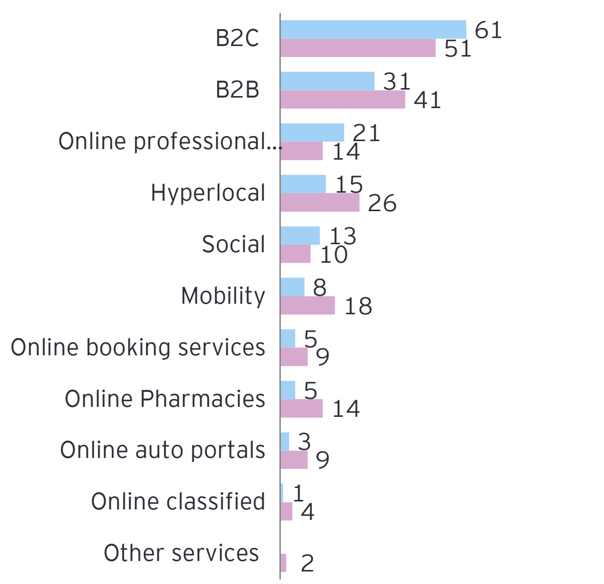


Exhibit 78: top sub-sectors by # of deals



Source: EY analysis of VCCEdge data

2021 2022

Exhibit 79: deal type (US$m)

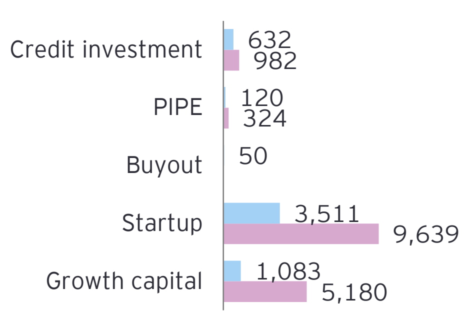
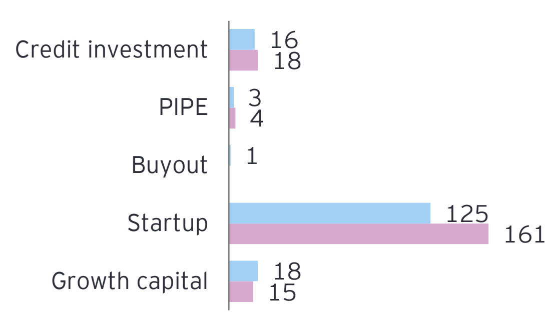


Exhibit 80: deal type #



Source: EY analysis of VCCEdge data

2021 2022

Exhibit 81: deal size (US$m)

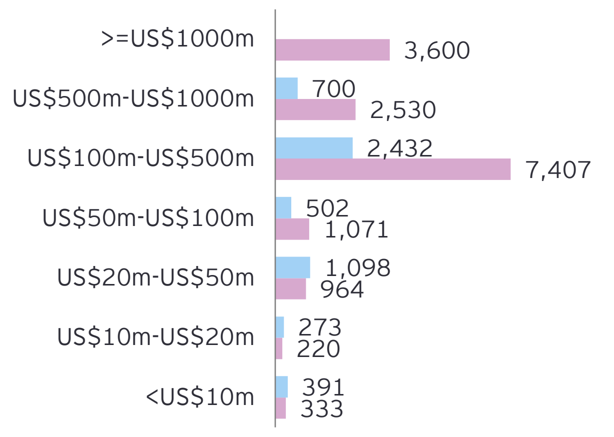
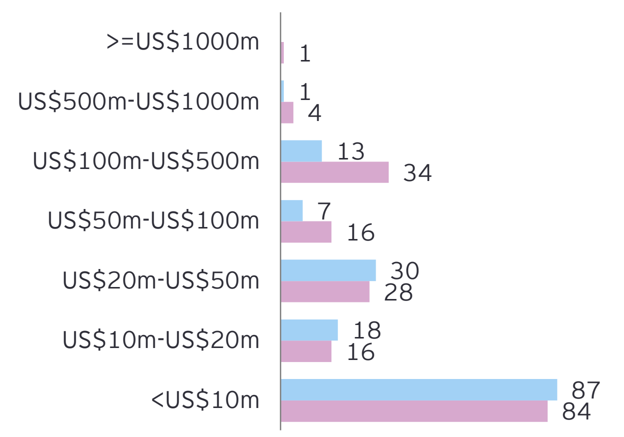


Exhibit 82: deal size #



Source: EY analysis of VCCEdge data

Does not include deals where deal value is not available

Exhibit 83: top e-commerce sector investments in 2022

Company/Asset	Investors	Stage	Sub-sector	Amount (US$m)	Deal Stake %
Bundl Technologies Private Limited (Swiggy)	Sumeru Venture, Alpha Wave Global, Baron Capital, Prosus Ventures, QIA, and others	Startup	Hyperlocal	700	7
API Holdings Limited (PharmEasy)	CPPIB	Credit	Online pharmacy	273	NA
Flipkart India Private Limited	Tencent	Growth	B2C	264	1
Hiveloop Technology Private Limited (Udaan)	Blacksoil Asset Management, Corsa Ventures, Walton Street India, and others	Credit	B2B	250	NA
Mogli Labs Private Limited	Alpha Wave Global, Tiger Global Management LLC, Ward Ferry	Startup	B2C	250	10
BrainBees Solutions Private Limited (FirstCry)	NIIF, PremjiInvest	Growth	B2C	240	12
KiranaKart Technologies Private Limited	Nexus India, Kaiser Permanente Ventures, Glade Brook Capital	Startup	Hyperlocal	200	22
Home Interior Designs E-commerce Private Limited (Livspace)	Jungle Ventures, Venturi Partners, Ingka Investments, KKR	Startup	Online professiona l services	180	14
Merabo Labs Private Limited (DealShare)	Alpha Wave, Tiger Global, Dragoneer Investments, Kora Capital, and Unilever Ventures	Startup	Social	165	10
Delightful Gourmet Private Limited (Licious)	Amansa Capital, Axis Growth Avenues, Kotak Pre IPO Opportunities Fund	Startup	Hyperlocal	150	NA

Source: EY analysis of VCCEdge data

Technology sector records muted performance in the absence of mega buyouts

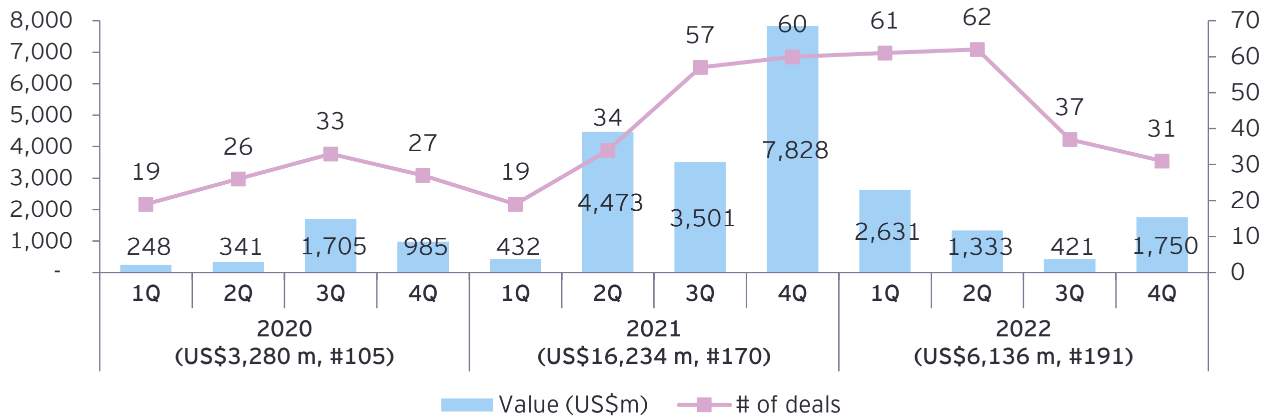
Technology sector recorded all-time high PE/VC investments in 2021 at US$16.2 billion, also the highest ever annual investment value for any sector till date. The sector recorded a sharp decline of 62% in value terms in 2022, despite a 12% increase in the number of deals, mainly due the absence of large buyouts.

The technology sector was one of the most resilient sectors during the pandemic. In fact, COVID-19 accelerated the adoption of technology, with corporates embarking on digitization roadmaps to prepare for the working environment of the future characterized by automation, remote working, high levels of efficiency, and analytics driven business intelligence.

Technology sector investments in 2021 were propped up by mega buyouts (10 buyouts) which included five billion-dollar plus deals - BPEAEQT-Sagility, Advent-Encora, Blackstone-VFS Global, Carlyle-Hexaware, and Blackstone-Mphasis, aggregating US$10.4 billion and accounting for 64% of all investments in the sector. The pandemic-led frenzy enabled many technology sector companies to front-load their orderbooks and implementation pipelines, leading to high revenue and profitability growth which got projected into the future, making them compelling investment candidates. However, the growth prospects of many tech sector companies were moderated by the rising cost of capital and corporates cutting back or slowing their technology spends amid fears of impending recession. As a result, 2022 had just four buyouts worth US$1.2 billion. In the absence of large buyouts in 2022, large deals (value greater than US$100 million) recorded a 74% decline in terms of value and 45% in terms of volume in 2022.

Like 2021, IT/ITES received the maximum PE/VC investments at US$2.6 billion in 2022. However, over the recent years, SaaS has emerged as one of the leading sub-sectors within technology, which recorded the highest number of PE/VC deals in 2022 (91 deals).

Exhibit 84: trend in investments in technology sector



Source: EY analysis of VCCEdge data

2021 2022

Exhibit 85: top sub-sectors by value (US$m)

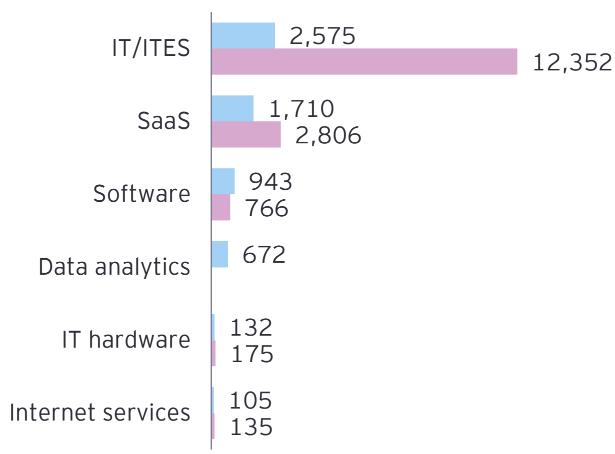
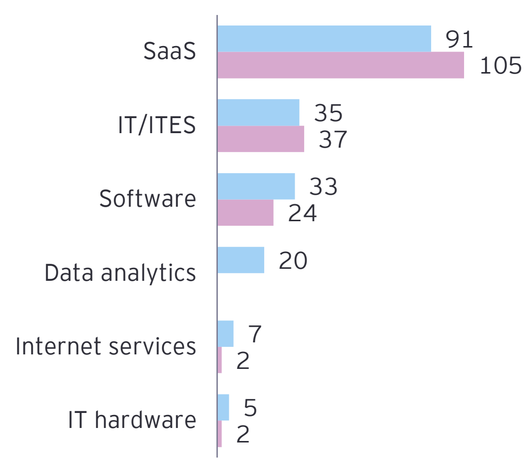
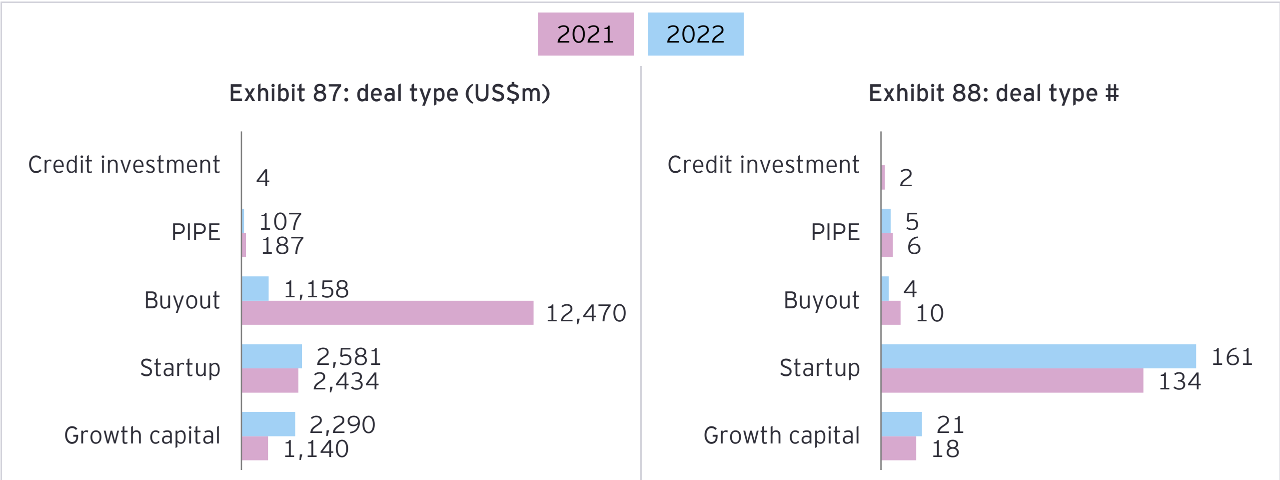


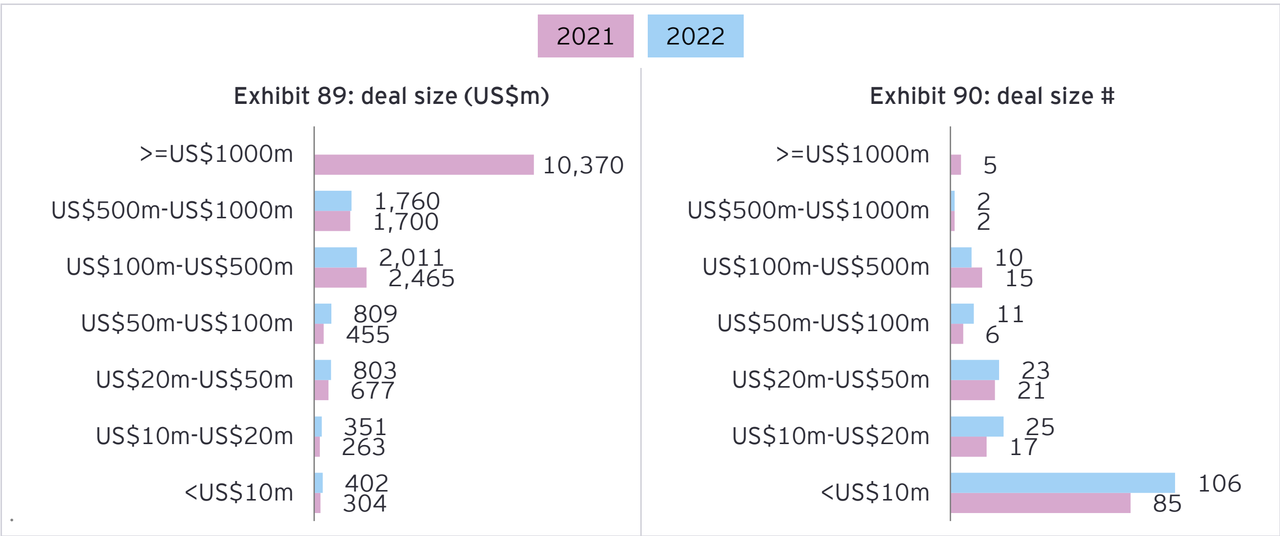
Exhibit 86: top sub-sectors by # of deals



Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

Does not include deals where deal value is not available

Exhibit 91: top technology sector investments in 2022

Company/Asset	Investors	Sub-sector	Stage	Amount (US$m)	Deal Stake %
CitiusTech IT Solutions Private Limited	Bain Capital	IT/ITES	Growth	960	40
IGT Solutions Private Limited	Baring PE Asia	IT/ITES	Buyout	800	100
Uniphore Software Systems Private Limited	March Capital Partners, Sorenson Capital, Sanabil Investments, New Enterprise Associates	Software	Growth	400	16
Fractal Analytics Private Limited	TPG	Data analytics	Growth	360	NA
R Systems International Limited	Blackstone	IT/ITES	Buyout	358	100
Instoried Research Labs Private Limited	GEM Global Yield Fund	SaaS	Startup	200	NA
MarketXpander Services Private Limited	Gaja Capital, Westbridge Capital	SaaS	Growth	153	15
Z21 Labs Inc.	Menlo Ventures, Nexus India, SoftBank, Emergent Ventures, Steadview Capital, and others	Data Analytics	Startup	125	NA
GreyOrange Inc.	BlackRock, Mithril Capital	Hardware	Growth	110	NA

Source: EY analysis of VCCEdge data

Life sciences sector has seen a renewed interest

Post the pandemic, there has been a renewed interest in the life sciences sector, first driven by the growth tailwinds in the pharmaceuticals sector due to the pandemic and now due to the value play emerging in the healthcare sector. PE/VC investments in the life sciences sector in 2022 grew by 5% following a 15% y-o-y increase in 2021. While PE/VC investments in the life sciences sector in 2020 were dominated by pharmaceuticals (87% share), its share has declined in 2021 to 51% and 45% in 2022.

In 2022, the life sciences sector saw growth and buyouts outpace startup investments recording a y-o-y growth of 7% and 100% respectively, compared to a de-growth of 28% recorded by startup investments.

The healthcare sector had seen significant investments into the healthtech space that accounted for 51% of all investments in 2021, in-line with the global trend of investments in tech enabled businesses. However, in 2022, the trend has shifted to the traditional business of hospitals with a focus on cashflow generation and preference for value vs. growth, which now account for 49% of all healthcare investments. Nonetheless, health tech was the second most preferred segment for healthcare sector investments.

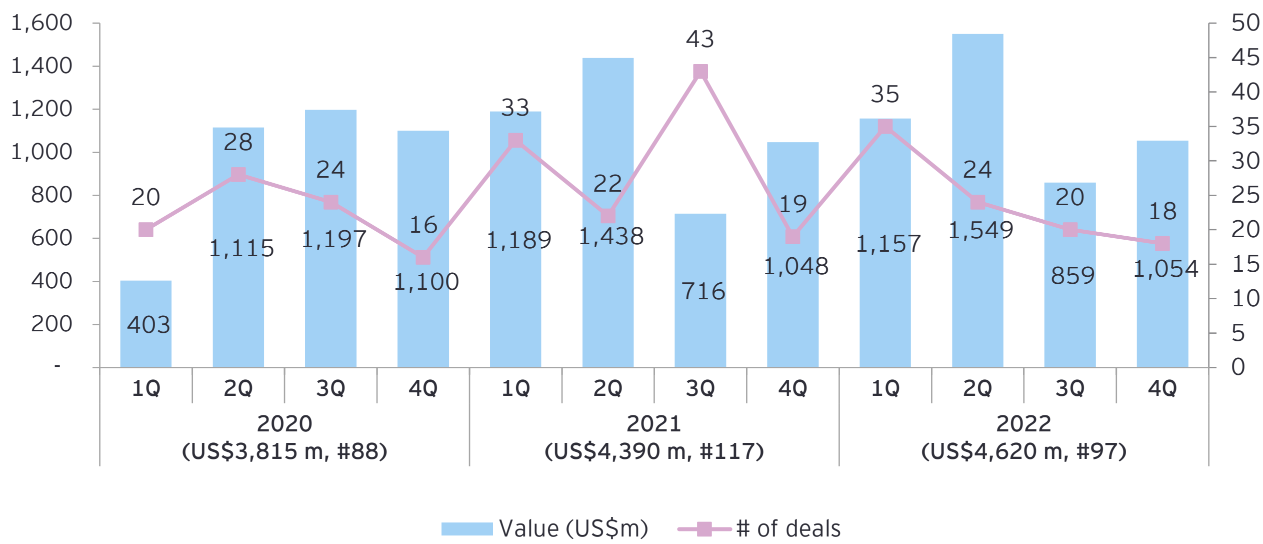
The pharmaceuticals sector saw maximum investments in the API/intermediate segment in 2022, accounting for two-thirds of all PE/VC investments in the pharmaceuticals sector vs. 2021, in which formulations businesses receive a major chunk of the investments.

The increase in PE/VC investments in the life sciences sector is driven by an expansion of opportunities for investments. The life sciences sector had two main themes - pharmaceuticals on the generic side and healthcare services covering hospitals and diagnostics. However, in the last two to three years, a number of new themes have become the mainstay of healthcare such as digital health, consumer health, self-care, medical devices and technology, point-of-care devices, animal health, drug discovery and biotech.

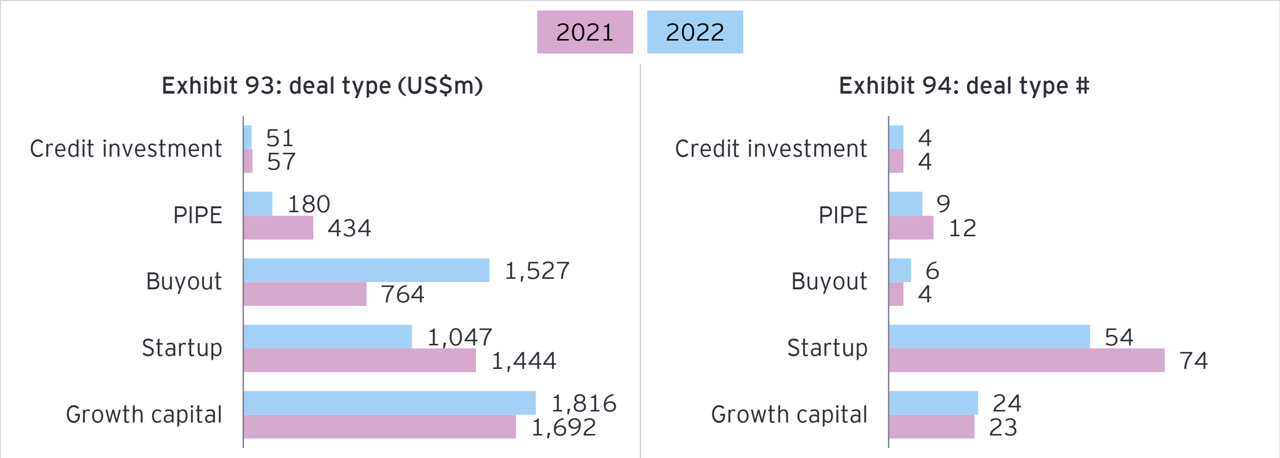
This has largely been driven by two main factors - firstly, the coronavirus pandemic and second, the tailwinds from government policies such as the Ayushman Bharat, a health insurance scheme, rolled out in 2019, and the National Digital Health Mission (NDHM) floated in 2021.

The supply shocks due to COVID-19 have caused many large global pharma companies to rethink their global supply chains and diversify sourcing, and India is expected to be a major beneficiary of this trend.

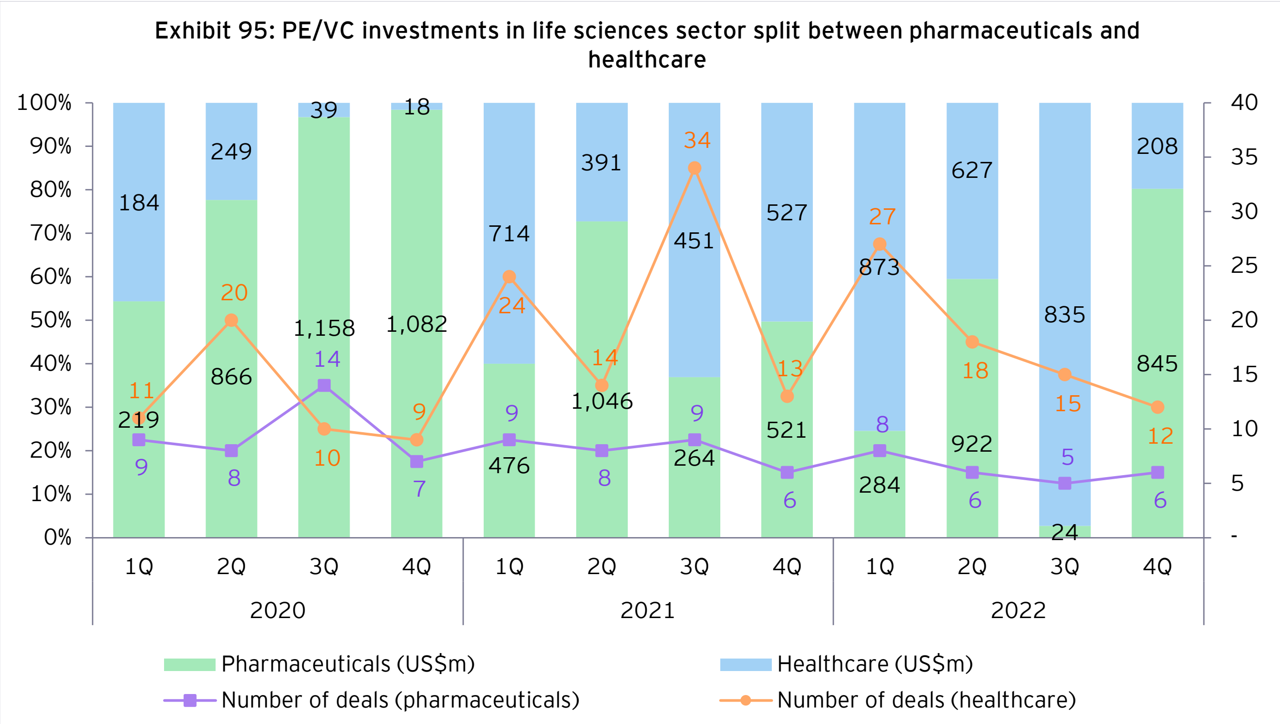
Exhibit 92: Trend in investments in life sciences sector



Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

Source: EY analysis of VCCEdge data

Does not include deals where deal value is not available

2021 2022

Exhibit 98: top sub-sectors in pharmaceuticals by value (US$m)

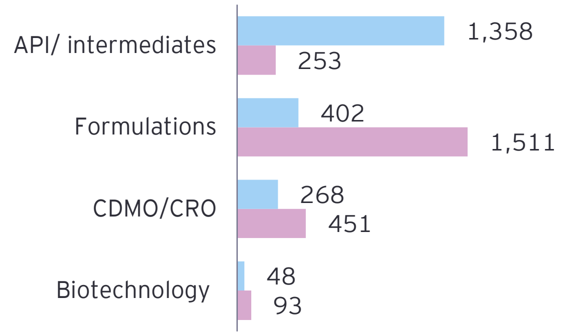
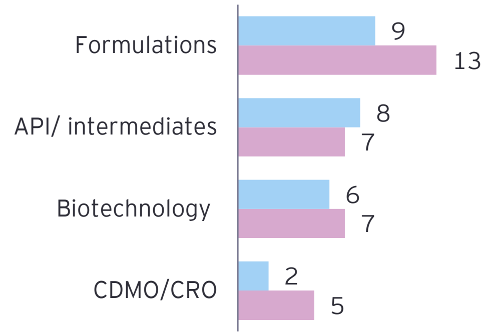


Exhibit 99: top sub-sectors in pharmaceuticals by # of deals



Source: EY analysis of VCCEdge data

2021 2022

Exhibit 100: top sub-sectors in healtcare by value (US$m)

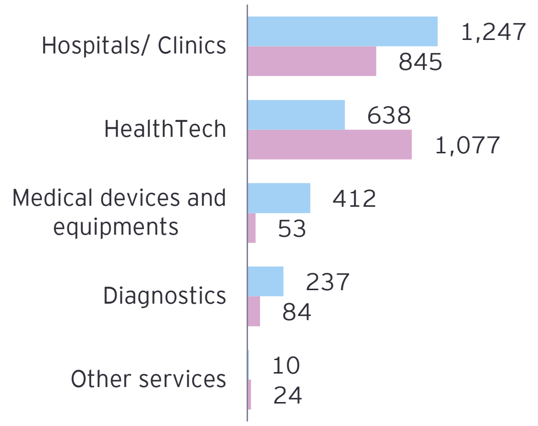
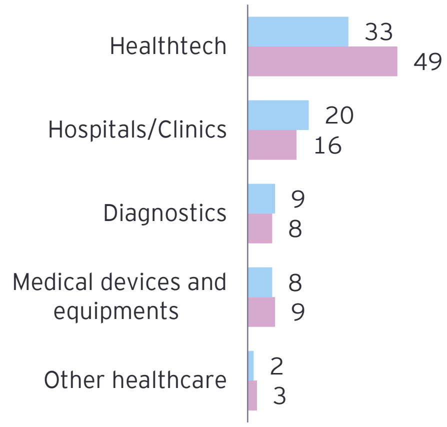


Exhibit 101: top sub-sectors in healtcare by # of deals



Source: EY analysis of VCCEdge data

Exhibit 102: top pharmaceuticals sector investments in 2022

Company/Asset	Investors	Sector	Stage	Amount (US$m)	Deal Stake %
Suven Pharmaceuticals Limited	Advent International	API/intermediates	Buyout	770	50
Optimus Drugs Private Limited	PAG, CX Partners and Samara Capital	API/intermediates	Buyout	267	74
Intas Pharmaceuticals Limited	ADIA	Formulations	Growth	260	3
Zifo Technologies Private Limited	TA Associates	CRO/CDMO	Growth	250	NA
BDR Pharmaceuticals Internationals Private Limited	Multiples	API/intermediates	Growth	101	10
Avra Laboratories Private Limited	Advent International	API/intermediates	Buyout	100	>50
BDR Pharmaceuticals Internationals Private Limited	Multiples Alternate, QRG Investments	API/intermediates	Growth	88	9
Jagsonpal Pharmaceuticals Limited	Convergent funds	Formulations	PIPE	36	44
Malladi Drugs and Pharmaceuticals Limited	InvAscent (India Life Sciences Fund)	API/intermediates	Growth	33	NA
Adret Retail Private Limited	OrbiMed, Vertex Ventures, 3one4 Capital	Formulations	Startup	29	NA

Source: EY analysis of VCCEdge data

Exhibit 103: top healthcare sector investments in 2022

Company/Asset	Investors	Sector	Stage	Amount (US$m)	Deal Stake %
Sahyadri Hospitals Private Limited	OTPP	Hospitals/Clinics	Buyout	300	90
Micro Life Sciences Private Limited	Warburg Pincus	Medical devices and equipment	Growth	210	12
ASG Hospital Private Limited	General Atlantic, Kedaara Capital	Hospitals/Clinics	Growth	188	NA
Asia Healthcare Holdings Advisory LLP	GIC	Hospitals/Clinics	Startup	170	40
Dr. Agarwal's Health Care Limited	Temasek, TPG Growth	Hospitals/Clinics	Growth	136	NA
Medi Assist Healthcare Services Limited	Bessemer Venture Partners, Innoven Capital, Quadria Capital, Stride Ventures, and others	Healthtech	Growth	125	NA
Sterling Addlife India Private Limited	Arpwood Partners, Somerset Health Capital, Clermont Group and others	Hospitals/Clinics	Buyout	90	90
Molbio Diagnostics Private Limited	Temasek	Medical devices and equipment	Growth	85	5
LifeCell International Private Limited, Diagnostics Business	Orbimed	Diagnostics/Path labs	Growth	80	NA

sSource: EY analysis of VCCEdge data

Big ticket startup funding dries up in the media and entertainment sector

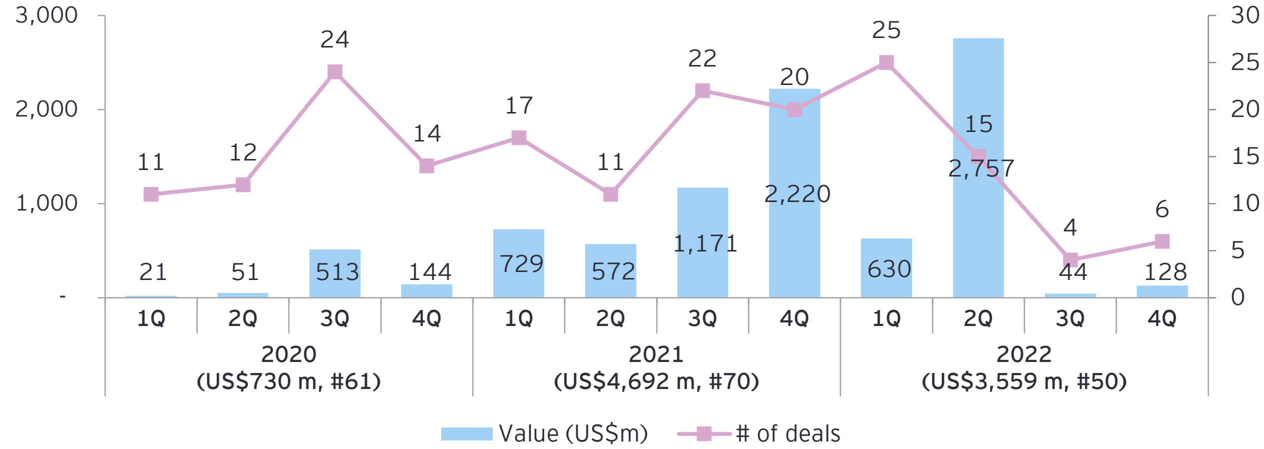
India is amongst the largest content producing nations in the world – with over 1,50,000 hours of TV content, 2,500 hours of premium OTT content and 2,000 hours of filmed content produced every year. India has over 950 animation and VFX studios, 185,000 electronic artists and 139 universities – and is fast becoming the content back office of the world.

The penetration of digital infrastructure and the onset of the COVID-19 pandemic created conditions that were very conducive to the consumption of media online. In fact, the lockdowns imposed during the pandemic further accelerated the change in how people consumed entertainment, with online medium fast gaining the share of eyeballs as well as wallet. As a result, more than 55% of the investments in the sector have come in the past two years. 2022 recorded US$3.6 billion in PE/VC investments in the media and entertainment sector, a 24% decline y-o-y, However, it is still the second-best year for PE/VC investments in the media and entertainment sector and features among the top sectors for PE/VC investments in 2022.

Like other sectors, investments in the media and entertainment sector shifted from funding startup to growth investments in established players. TV broadcasting and online news received a major share of the investment dollars in 2022 while gaming and social media were the top segments in 2021.

As media consumption becomes more personalized and moves to handheld/personal devices, the growth of media and entertainment sector is expected to further accelerate and see the emergence of new platforms with varied aggregation, content, customer segmentation, and monetization models.

Exhibit 104: trend in investments in media and entertainment sector



Source: EY analysis of VCCEdge data

2021 2022

Exhibit 105: top sub-sectors by value (US$m)

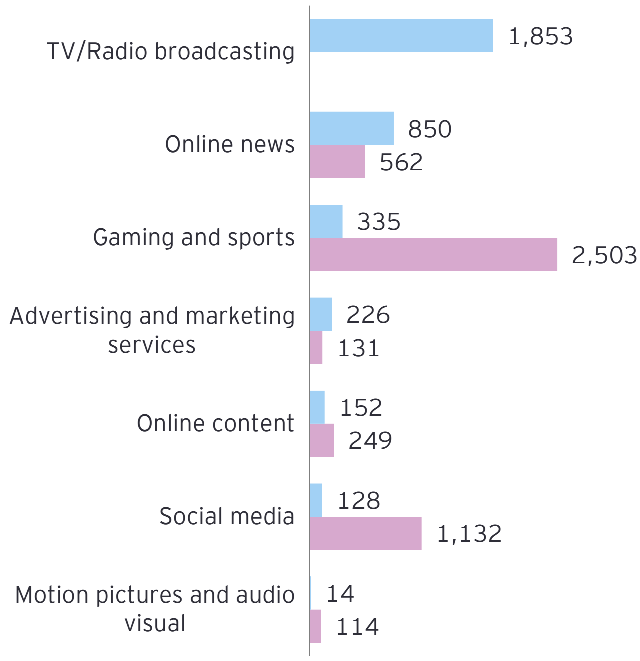
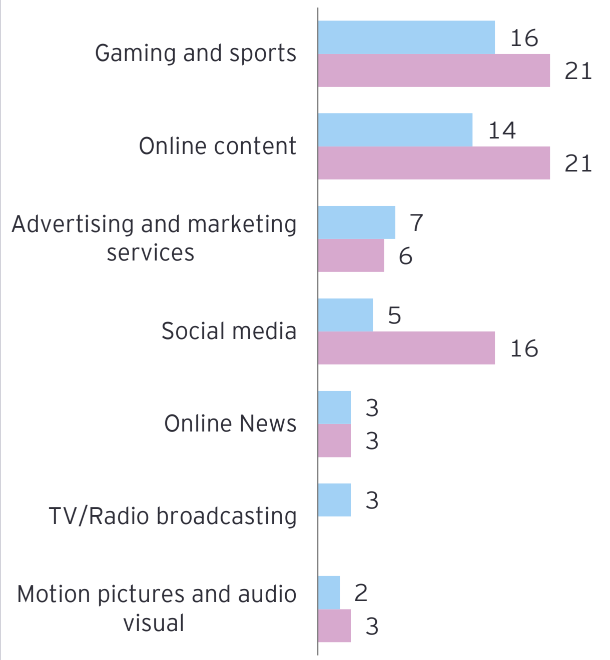


Exhibit 106: top sub-sectors by # of deals



Source: EY analysis of VCCEdge data

2021 2022

Exhibit 107: deal type (US$m)

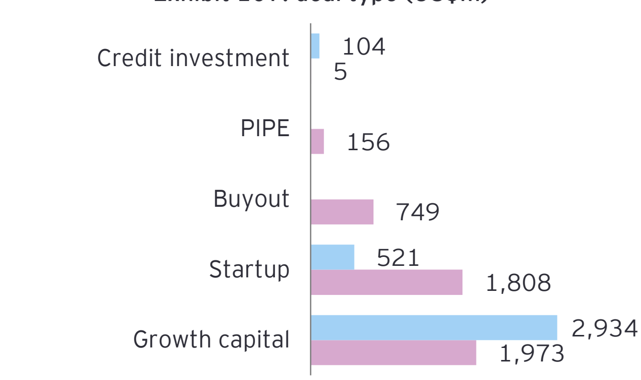
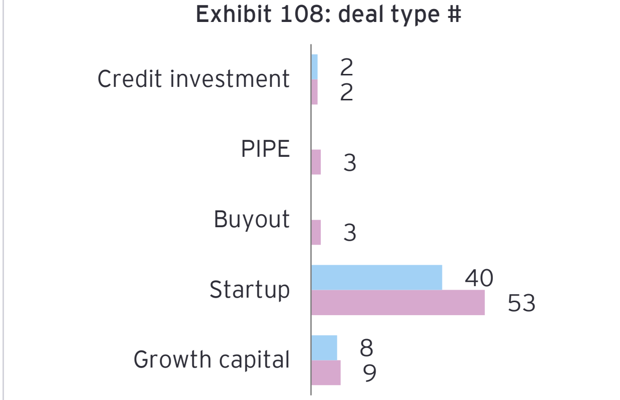


Exhibit 108: deal type #



Source: EY analysis of VCCEdge data

2021 2022

Exhibit 109: deal size (US$m)

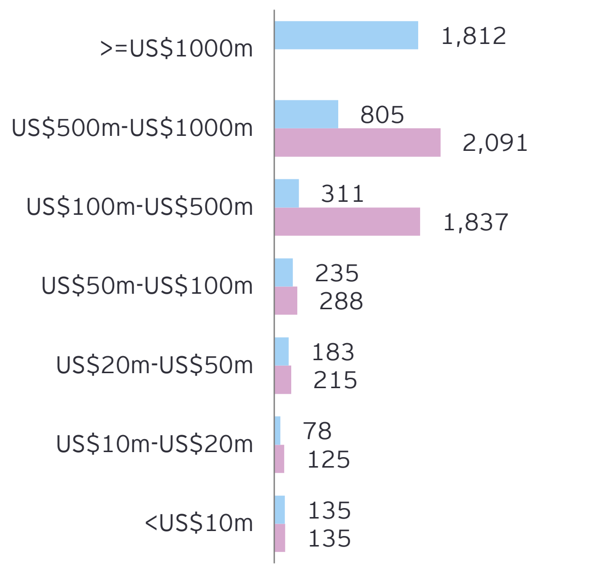
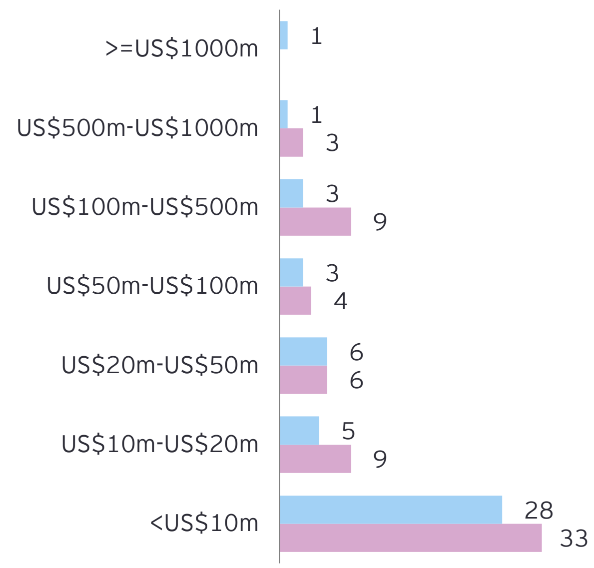


Exhibit 110: deal size #



Source: EY analysis of VCCEdge data

Does not include deals where deal value is not available

Exhibit 111: top media and entertainment sector investments in 2022

Company/Asset	Investors	Sub-sector	Stage	Amount (US$m)	Deal Stake %
Viacom18 Media Private Limited	Bodhi Tree System	TV/Radio broadcasting	Growth	1,812	40
VerSe Innovation Private Limited (Dailyhunt)	Baillie Gifford and Company, CPPIB, Sofina SA, Luxor Capital, OTPP, Sumeru Ventures	Online News and social	Growth	805	16
Amagi Media Labs Private Limited	General Atlantic	Advertising and marketing services	Growth	109	8
Cashgrail Private Limited (Ludo)	Nepean Capital, WestCap Group, Tomales Bay Capital, AJ Capital, Matrix Partners, and Orios Venture Partners	Gaming and sports	Startup	102	NA
Mohalla Tech Private Limited (ShareChat)	Tencent	Social	Credit	100	NA
Amagi Media Labs Private Limited	Accel India, Avataar Capital, Norwest Venture Partners	Advertising and marketing services	Growth	95	10
Play Games24x7 Private Limited	Tiger Global, Malabar Investment, and others	Gaming and sports	Growth	75	3
Pocket Fm Private Limited	Tanglin Venture Partners, Goodwater Capital	Online content	Startup	65	NA
Stoughton Street Tech Labs Private Limited (Loco)	Catamaran Ventures, Korea Investment Partners, and others	Gaming and sports	Startup	42	21
Fanbuff Technology India Private Limited (FanClash)	Alpha Wave Global, Sequoia Capital, and others	Gaming and sports	Startup	40	NA

Source: EY analysis of VCCEdge data

Large ticket startup funding abates for the EdTech sector, driving consolidation

PE/VC investments in the education sector have been on a sharp uptrend over the past three years. Investments in the education sector between 2020-2022 account for more than 70% of all PE/VC investments in the sector since 2010. PE/VC investments in the education sector began to surge after 2018. However, the pandemic accelerated this trend in 2020 and 2021, with schools and colleges having to go online and students adapting to online modes of pedagogy.

Traditional modes of pedagogy have witnessed a sea change both in delivery and consumption. Increasing internet and smartphone penetration, high data speeds, and low cost of data coupled with the emergence of online education platforms has democratized access to education. Further, creativity in educational content enabled by technology has ensured students have a plethora of choices for learning. The confluence of different technology advances has brought teaching and learning from inside the traditional classroom setup into the personal space of individual students.

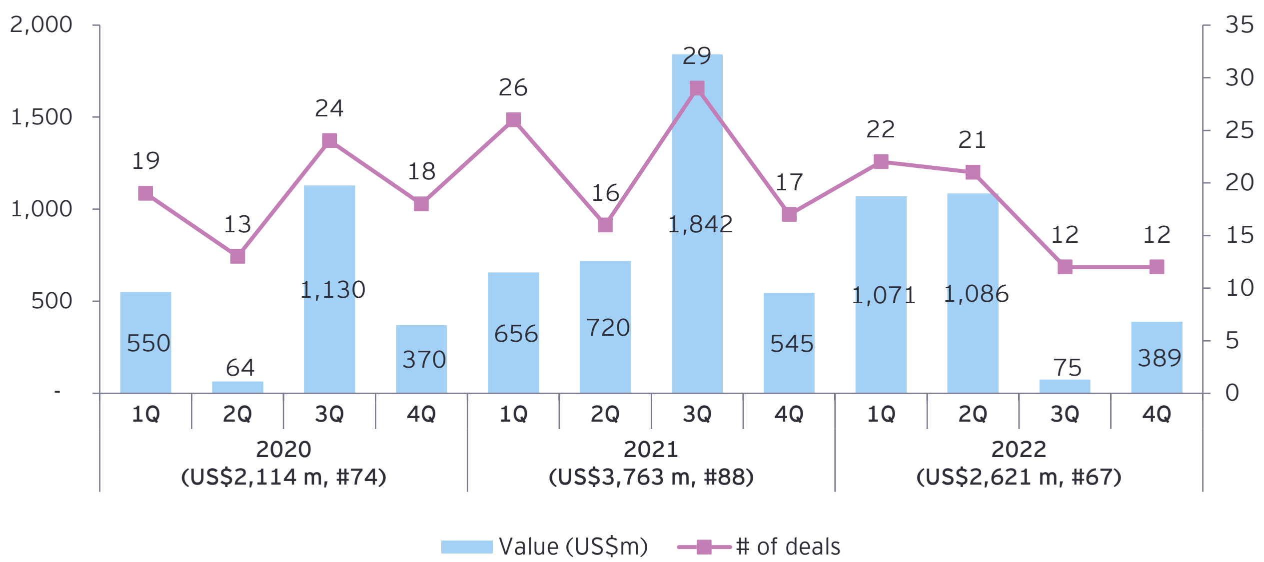
These disruptions have revolutionized the various business models in the education sector across segments like training, tuitions, competitive exam preparation, upskilling etc. PE/VC investments have been one of the sole drivers of this change with EdTech sector investments accounting for 46% of the value and 79% of the number of deals in 2022 (80% of value and 90% of volume in 2021), with a handful of players dominating all the investment dollars.

Three startups – BYJU's, Eruditus and Unacademy — have received more than 50% of all PE/VC investments in the sector till date and seven companies have achieved unicorn status which include Aakash, BYJU's, Unacademy, Eruditus, upGrad, LEAD School and Vedantu.

However, with schools opening, the uptick in online education has slowed down and EdTech firms have lost some of the traction generated over the past couple of years. As a result, PE/VC investments in the education sector at US$2.6 billion recorded a 30% decline on a y-o-y basis. Consequently, 2022 recorded some large deals in the classroom-based education segments like Bodhi Tree's US$600 million investment in Allen Education and Management Services Private Limited.

The sector is now witnessing consolidation with some of the bigger players going on an acquisition spree to diversify into classroom-based models. The sector has recorded 61 bolt-on acquisitions worth US$3.2 billion since 2015. Of the 61 bolt-on deals to date, 20 were by BYJU's and 11 by Unacademy. The BYJU's – Aakash deal was the largest bolt-on deal in the sector, worth US$1 billion.

Exhibit 112: trend in investments in education sector



Source: EY analysis of VCCEdge data

2021 2022

Exhibit 113: top sub-sectors by value (US$m)

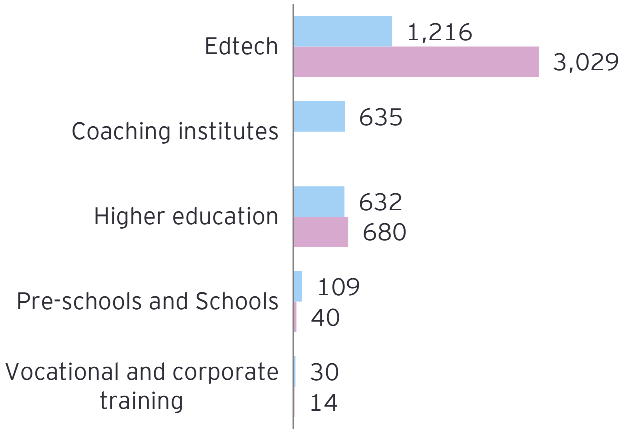
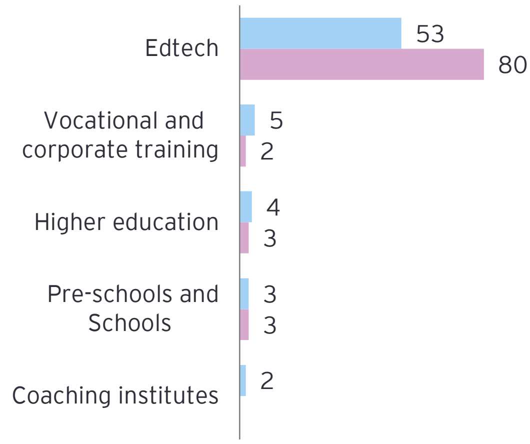


Exhibit 114: top sub-sectors by # of deals



Source: EY analysis of VCCEdge data

2021 2022

Exhibit 115: deal type (US$m)

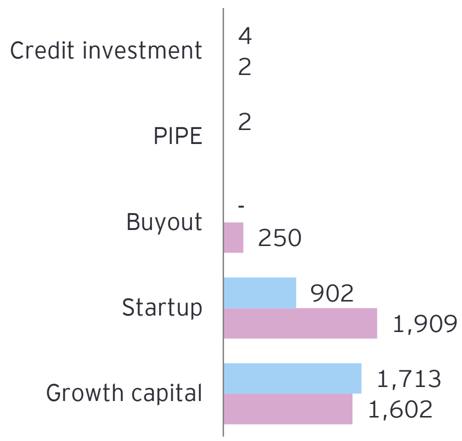
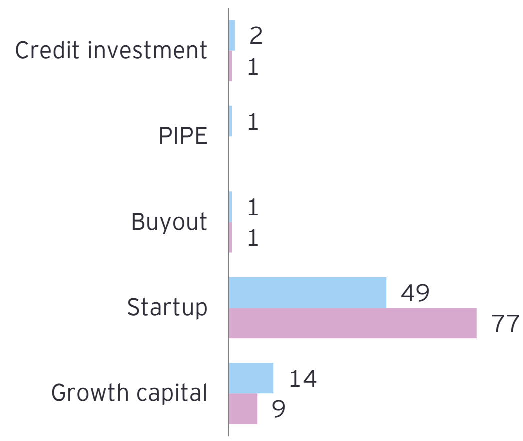


Exhibit 116: deal type #



Source: EY analysis of VCCEdge data

2021 2022

Exhibit 117: deal size (US$m)

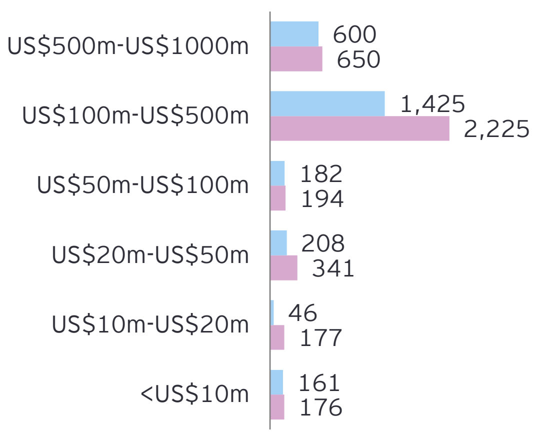
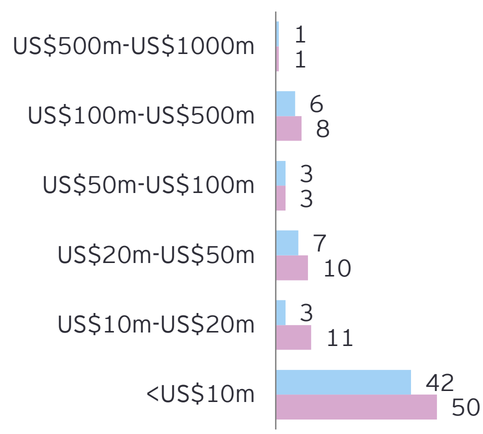


Exhibit 118: deal size #



Source: EY analysis of VCCEdge data

Does not include deals where deal value is not available

Exhibit 119: top education sector investments in 2022

Company/Asset	Investors	Sub-sector	Stage	Amount (US$m)	Deal Stake %
Allen Education and Management Services Private Limited	Bodhi Tree System	Coaching institutes	Growth	600	NA
Think and Learn Private Limited (BYJU's)	Sumeru Ventures, Vitruvian Partners, and BlackRock	Edtech	Growth	400	2
Eruditus Learning Solutions Pte. Limited	CPPIB	Higher education	Growth	350	NA
Think and Learn Private Limited (BYJU's)	Qatar Investment Authority (QIA) and other existing investors	Edtech	Growth	250	1
UpGrad Education Private Limited	Temasek, ETS Strategic Capital, Lupa Systems, and others	Higher education	Startup	225	10
Leadership Boulevard Private Limited	GSV Ventures, Westbridge Capital	Pre-schools and Schools	Startup	100	9
Physicswallah Private Limited	Westbridge Capital, GSV Ventures	Edtech	Startup	100	9
Bunch Microtechnologies Private Limited	Alpha Wave Incubation Fund, Chimera Investments, Tiger Global, RTP Global Advisors	Edtech	Startup	70	12
Cue Learn Private Limited	Unitus Seed Fund, Sequoia Capital, Alpha Wave Incubation Fund, Lightrock India, and others	Edtech	Startup	57	14
Interviewbit Technologies Private Limited	Lightrock, Sequoia Capital, Tiger Global	Edtech	Startup	55	8

Source: EY analysis of VCCEdge data

04

Exits – key trends

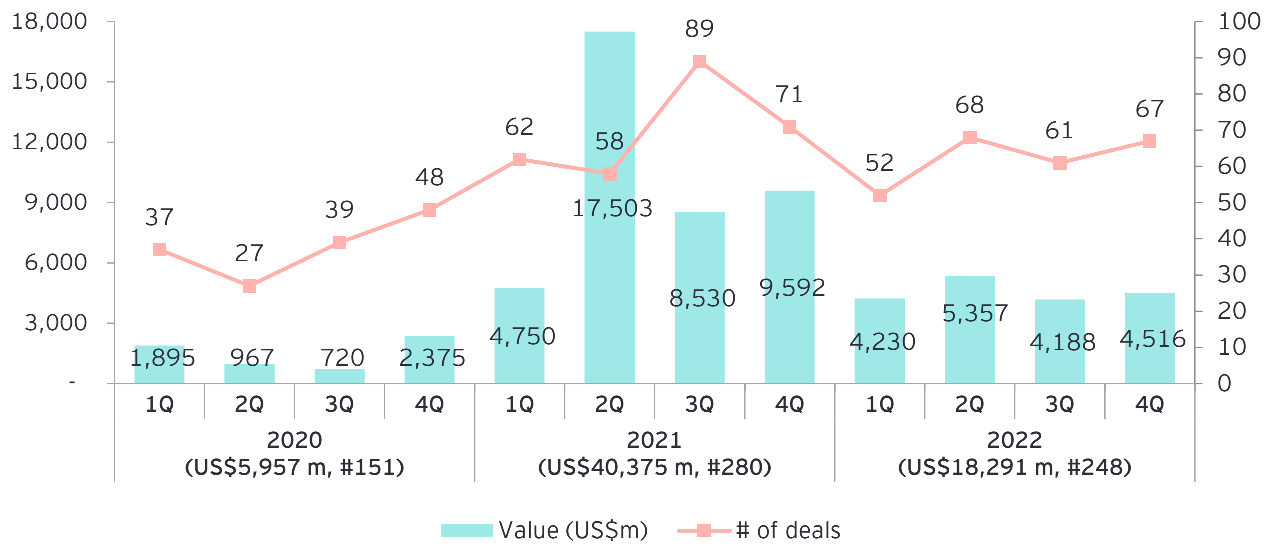
Exits – key trends

Exits in 2022, fell sharply by 55% to US$18.3 billion after scaling an all-time high of US$43.2 billion in 2021.

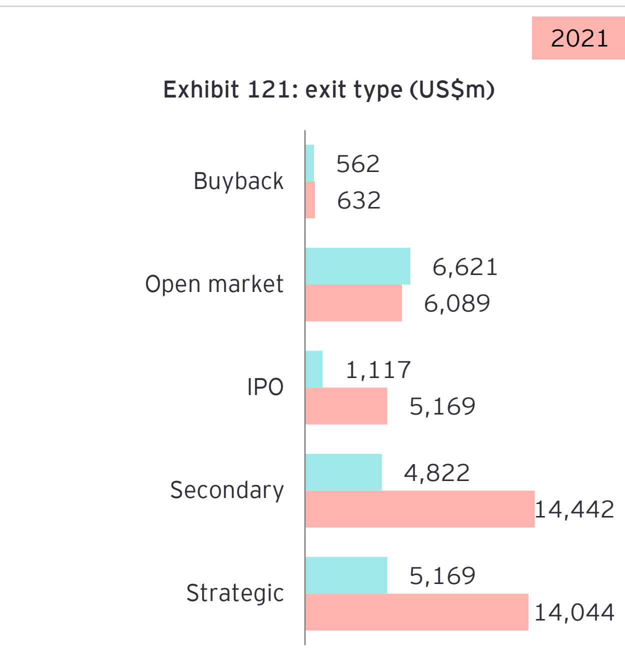
The fall in exits was mainly on account of absence on large strategic and secondary deals. This was further exacerbated by the sharp fall in the number of PE-backed IPOs, which were a defining feature in 2021.

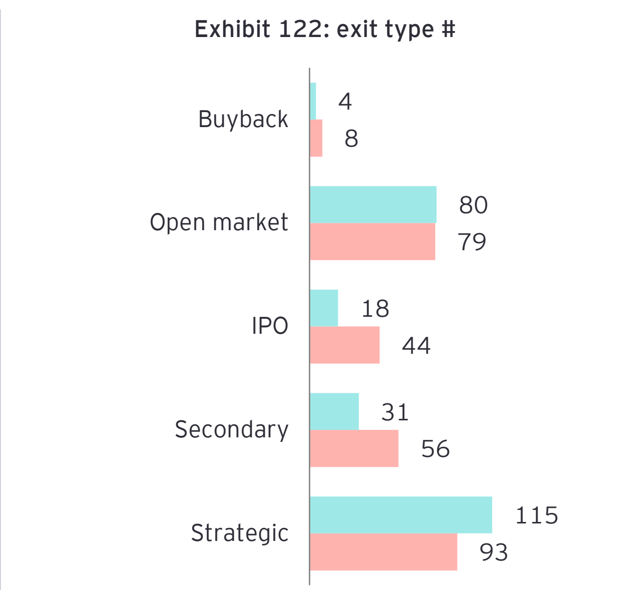
As deals in the private market dried up, exits via open market took the center stage, especially follow-on sale of balance stakes in recently listed companies by PE/VC funds.

Exhibit 120: trend in PE/VC exits



Source: EY analysis of VCCEdge data





Source: EY analysis of VCCEdge data

Exhibit 123: top exits in 2022

Company/Asset	Sellers	Investors	Sector	Exit Type	Amount (US$m)	Deal Stake %
Solenergi Power Private Limited	Actis	Shell Plc	Infrastructure	Strategic	1,550	100
Five road projects (Simhapuri Expressway, Rayalseema Expressway, Mumbai Nasik Expressway, Kosi Bridge Infrastructure, Gorakhpur Infrastructure)	Brookfield	IndInfravit Trust	Infrastructure	Strategic	1,200	100
Max Healthcare Institute Limited	KKR	NA	Healthcare	Open market	1,163	28
CitiusTech IT Solutions Private Limited	BPEAEQT	Bain Capital	Technology	Secondary	960	40
Kotak Mahindra Bank Limited	CPPIB	NA	Financial services	Open market	893	2
IGT Solutions Private Limited	AION/Apollo/	BPEAEQT	Technology	Secondary	800	100
Sona BLW Precision Forgings Limited	Blackstone	GIC	Automotive	Secondary	509	14
Blink Commerce Private Limited	Tiger Global, KTB Ventures, Sequoia, Softbank, DST Global	Zomato	E-commerce	Strategic	498	86
IIFL Wealth Management Limited	General Atlantic, Fairfax	Bain Capital	Financial services	Secondary	483	25
Max Healthcare Institute Limited	KKR	NA	Healthcare	Open market	440	10

Source: EY analysis of VCCEdge data

Strategic exits

Sale to strategics remains one of the most prominent modes of exit for PE/VC funds in India. In terms of numbers, strategic deals in 2022 were the highest ever at 115 deals (93 deals in 2021). However, in terms of value, exits via sale to strategics recorded a sharp fall of 63% on a y-o-y basis because of the absence of large deals. 2021 had recorded three US$1 billion plus deals, including the US$8.6 billion exit by CPPIB and Partners Group from Global Logic. Deal values were undisclosed on 70 out of the 115 deals, which was partially responsible for pulling down the reported aggregate for strategic exits in 2022.

While the technology sector dominated strategic exits in 2021, in 2022, the infrastructure sector recorded the highest value of exits at US$3.6 billion, accounting for two-thirds of all strategic exits by value, comprising primarily of assets in the roads and renewables segment.

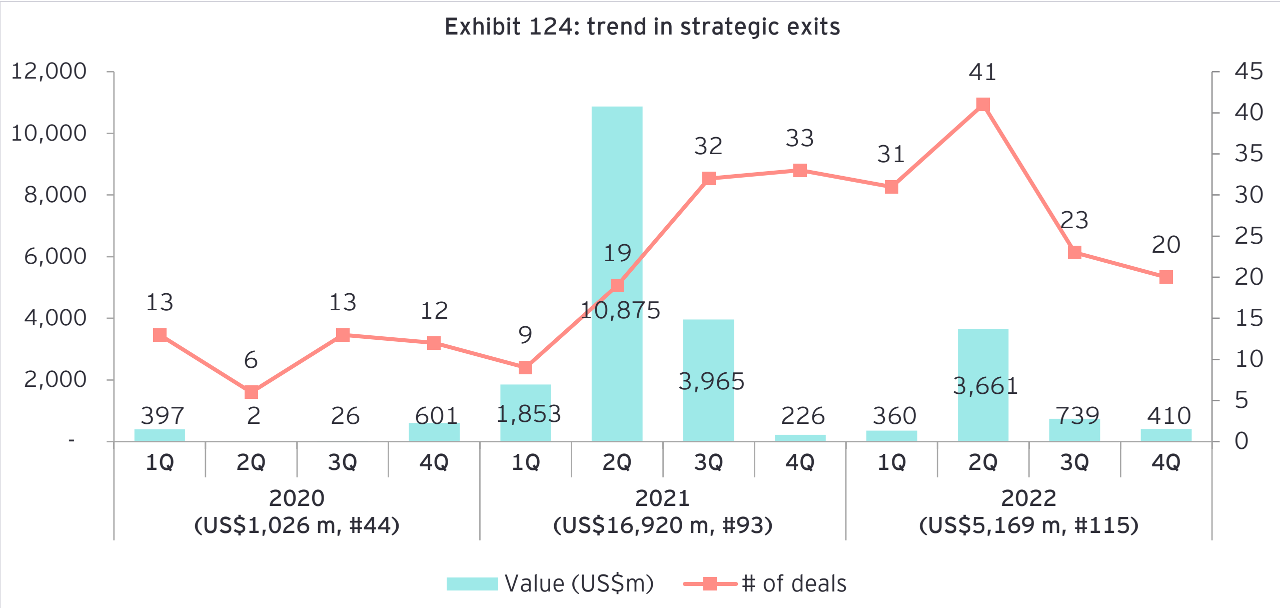
In 2022, domestic buyers accounted for a larger share of strategic buyers in terms of volume (83%) and value (69%).

The largest outbound deal saw Shell Plc acquire Solenergi Power Private Limited, giving an exit worth US$1.6 billion to Actis. The largest strategic exit in the domestic space saw Indinfravit Trust buyout five road assets from Brookfield for US$1.2 billion.

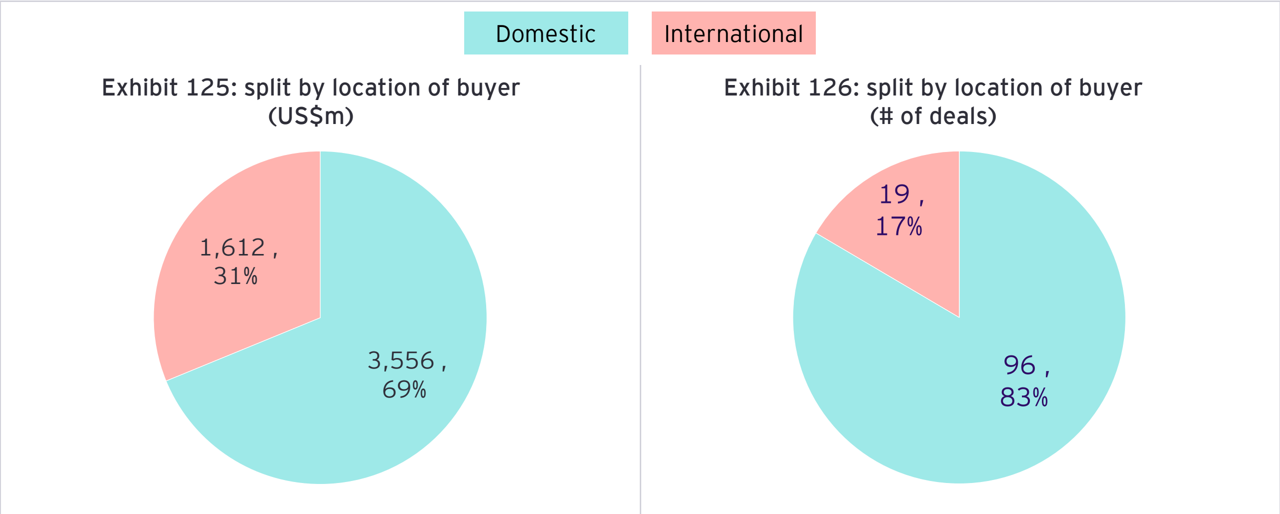
Technology and e-commerce sectors recorded the maximum number of strategic exits aided by many large players acquiring smaller competitors or augmenting capabilities like Reliance Retail's acquisition of D2C platform Clovia, V-Mart's acquisition of fashion marketplace Limeroad, Flipkart's acquisition of D2C SaaS platform ANS Digital, Gupshup's acquisition of conversational AI platform AskSid, CRED's acquisition of lending enablement platform Creditvidya, etc.

Consolidation was also witnessed in the edtech sector with many large players either acquiring smaller players in allied verticals to expand their service offering or players in the classroom model to augment their omnichannel strategy to help retain customers that wanted to return to the classroom environment of pedagogy. Many early investors took this opportunity to cash out. Upgrad's three acquisitions - Centrum learning (vocational training and skill development), Testbook (online test prep), International School of Engineering (classroom based learning program) and BYJU's acquisition of English learning platform Intap Labs are few such examples.

As the economy recovers from the lows of COVID-19, many firms are looking to supplement their growth through acquisitions. Further, larger and stronger players are using the current opportunity to consolidate their position by acquiring smaller/weaker players at reasonable valuations. Many PE/VCs are focusing on creating platform plays and making bolt-on acquisitions through their portfolio companies. All these factors are expected to further add to the value and number of strategic exits in the coming years.



Source: EY analysis of VCCEdge data



Source: EY analysis of VCCEdge data

Exhibit 127: split by sector (US$m)

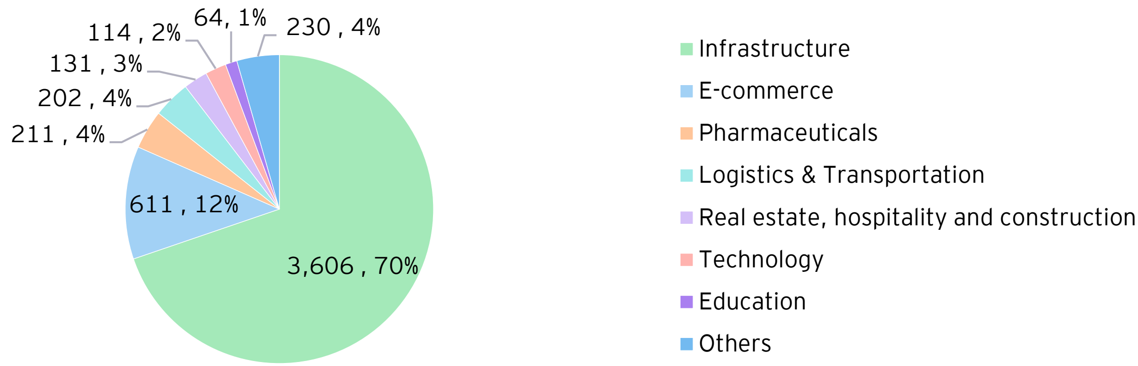
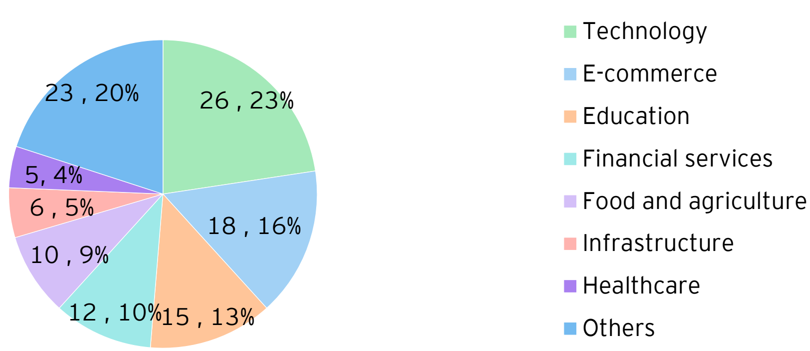


Exhibit 128: split by sector (# of deals)



Source: EY analysis of VCCEdge data

Exhibit 129: top strategic exits in 2022

Company/Asset	Sellers	Investors	Sector	Amount (US$m)	Deal Stake %
Solenergi Power Private Limited	Actis	Shell Plc.	Infrastructure	1,550	100
Five road projects (Simhapuri Expressway, Rayalseema Expressway, Mumbai Nasik Expressway, Kosi Bridge Infrastructure, Gorakhpur Infrastructure)	Brookfield	IndInfravit Trust	Infrastructure	1,200	100
Blink Commerce Private Limited	Tiger Global, KTB Ventures, Sequoia, Softbank, DST Global, Apoletto	Zomato	E-commerce	498	86
Swarna Tollway Private Limited	Macquarie	Adani Road Transport Limited	Infrastructure	368	100
Vector Green Energy Private Limited	India Infrastructure Fund II	Sembcorp Green Infra Limited	Infrastructure	345	100
DB Power Chhattisgarh Limited	Global Infrastructure Partners (GIP)	Adani Power	Infrastructure	143	16
Curatio Health Care India Private Limited	ChrysCapital, Sequoia Capital	Torrent Pharma	Pharmaceuticals	141	53
Viviana Mall by Sheth Developers and Realtors India Private Limited	GIC	Lake Shore India	Real estate	127	50

Company/Asset	Sellers	Investors	Sector	Amount (US$m)	Deal Stake %
Pickrr Technologies Private Limited	Amicus Capital Partners, Ananta Capital, Omidyar Network, and others	BigFoot Retail Solutions Private Limited	Logistics and transportation	120	60
Purple Panda Fashions Private Limited (Clovia)	Mountain Apollo Capital, IvyCap, Singularity Ventures	Reliance Retail Ventures Limited	E-commerce	100	71

Source: EY analysis of VCCEdge data

Secondary exits

Secondary exits in 2021 were the highest ever both in terms of value and volume, recording US$14.4 billion cross 56 deals. In 2022, secondary exits recorded a 67% y-o-y decline in terms of value and 45% in terms of volume.

With high global liquidity and low interest rates lifting valuations across public and private markets alike, many PE/VC funds sitting on older vintage investments used the opportunity to exit long held positions at reasonably good valuations in 2021.

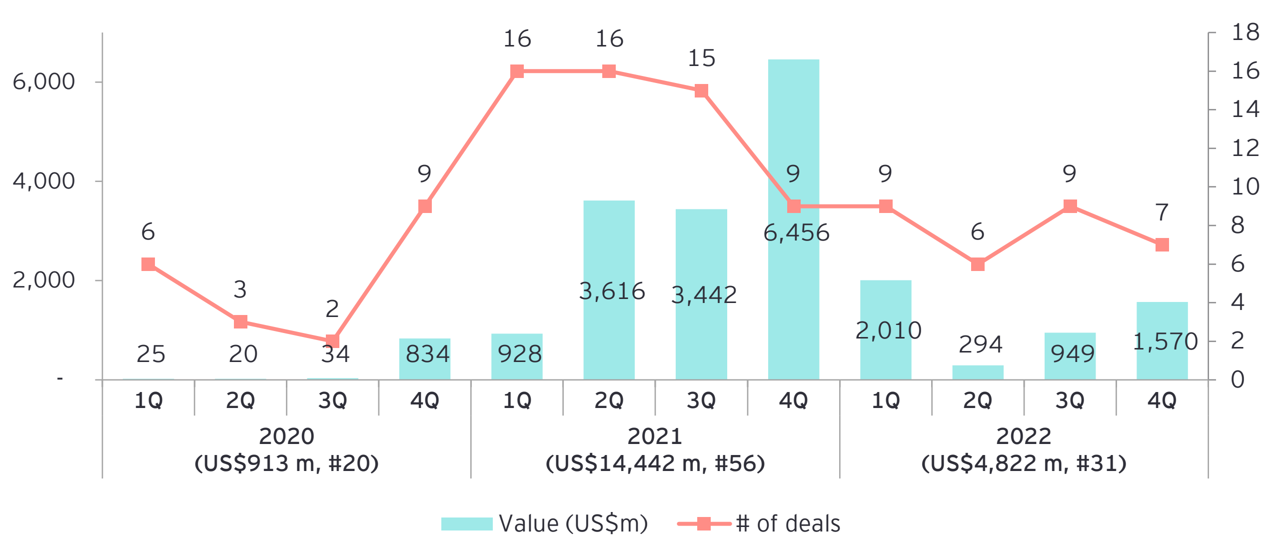
Further, with many companies choosing the IPO route to raise funding, large PE investors were actively looking for secondary deals especially in situations where financial sponsors hold majority control and where an IPO, though lucrative, was not a viable option for a complete exit given the size of their holding. As a result, there were many secondary deals between large buyout funds in 2021.

However, with rising interest rates, the cost of capital increased sharply, impacting valuation expectations that led to a slowdown in the deal velocity, as many funds decided to bide time than sell at lower valuations.

In terms of value, technology sector had accounted for 54% (US$7.8 billion) of all secondary exits by value in 2021 primarily due to a few large US$1 billion plus deals like Hexaware (Carlye-BPEAEQT), VFS Global (Blackstone-EQT), Encora (Advent-Warburg) etc. While the technology sector continued to be the largest sector in 2022 for secondary trades with seven deals worth US$1.9 billion, the deal sizes were not as large as in 2021. Also, many of the secondary deals in 2021 were buyout transactions involving large stakes changing hands that pushed up the deal values, which was not the case in 2022, which mostly saw minority stakes exchange hands, thereby limiting the deal sizes.

In terms of number of deals, the technology sector recorded highest number of deals in 2022 (7 deals) compared to 2021, which had recorded maximum deals in the e-commerce sector (13 deals). E-commerce sector recorded just two deals in 2022.

Exhibit 130: trend in secondary exits



Source: EY analysis of VCCEdge data

Exhibit 131: split by sector (US$m)

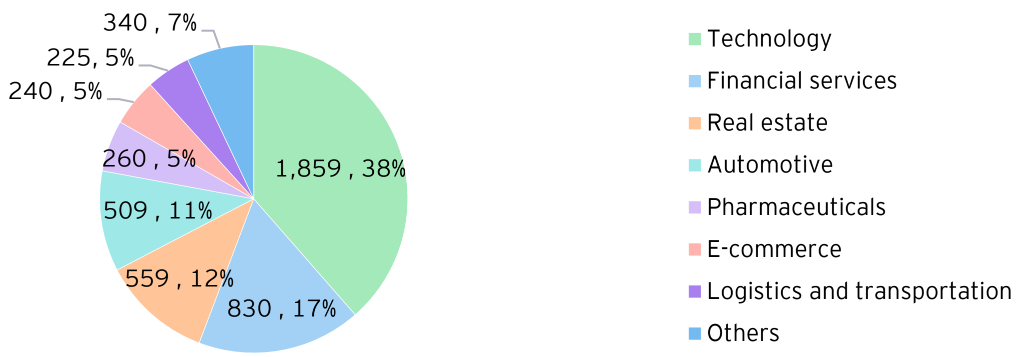
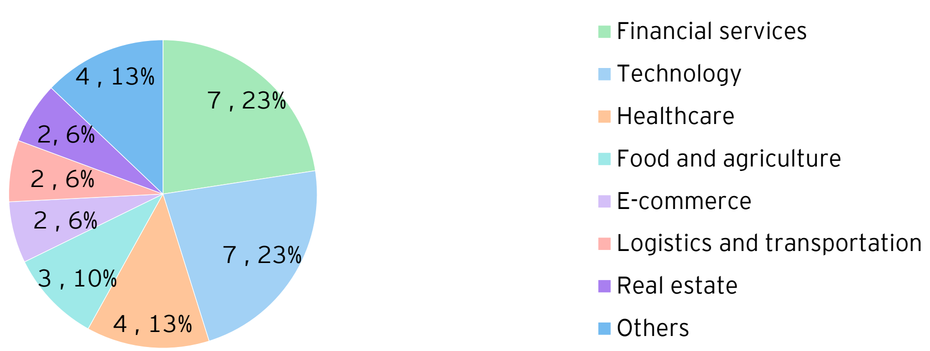


Exhibit 132: split by sector (# of deals)



Source: EY analysis of VCCEdge data

Exhibit 133: top secondary exits in 2022

Company/Asset	Sellers	Investors	Sector	Amount (US$m)	Deal Stake %
CitiusTech IT Solutions Private Limited	BPEAEQT	Bain Capital	Technology	960	40
IGT Solutions Private Limited	AION/ Apollo	BPEAEQT	Technology	800	100
Sona BLW Precision Forgings Limited	Blackstone	GIC	Automotive	509	14
IIFL Wealth Management Limited	General Atlantic, Fairfax	Bain Capital	Financial services	483	25
Embassy Office Parks REIT	Blackstone	ADIA, Kotak RE. ICICI Prudential, HDFC Life and Kotak Mutual Fund	Real estate	325	8
Vistaar Financial Services Private Limited	Saama Capital, Elevar Advisors, Omidyar Network, Westbridge	Warburg Pincus	Financial services	300	NA
Intas Pharmaceuticals Limited	Temasek	ADIA	Pharmaceuticals	260	3
BrainBees Solutions Private Limited	Chiratae Ventures, NewQuest, SoftBank	NIIF, PremjiInvest	E-commerce	240	12
Mindspace Business Parks REIT	Blackstone	ADIA	Real estate	234	9
BusyBees Logistics Solutions Private Limited	Alibaba Group, CDH Investments	ChrysCapital, Investcorp, Tarrant Capital, Norwest Venture, Blackstone	Logistics and transportation	200	17

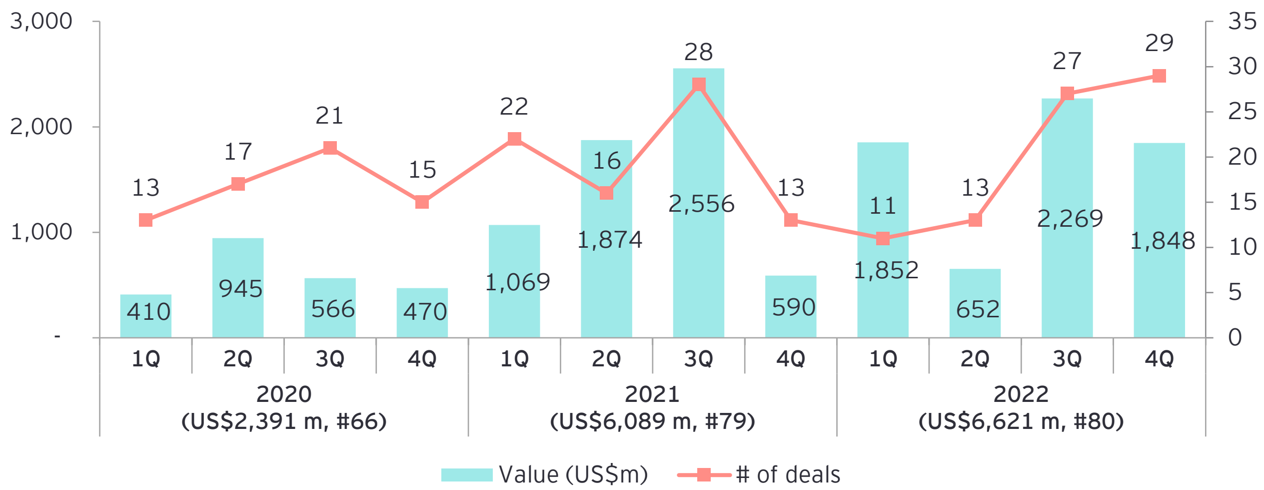
Source: EY analysis of VCCEdge data

Open market exits

Open market exits have been a mainstay for PE/VC exits in India over the past decade and were expected to be one of the major avenues for exit considering there were a large number of PE-backed IPOs in 2021 where PE/VC funds continued to hold sizeable stakes even after the IPOs. In 2022, open market exits recorded US$6.6 billion, highest ever value of exits via open market. With the lock-in period for many of the large PE-backed IPOs of 2021 coming to an end, many funds undertook successive sale of their residual stakes in the recently listed companies.

From a sector perspective, financial services was the largest sector for open market exits with US$2.4 billion realized across 17 exit deals, accounting for 36% of all open market exits by value in 2022.

Exhibit 134: trend in open market exits



Source: EY analysis of VCCEdge data

Exhibit 135: split by sector (US$m)

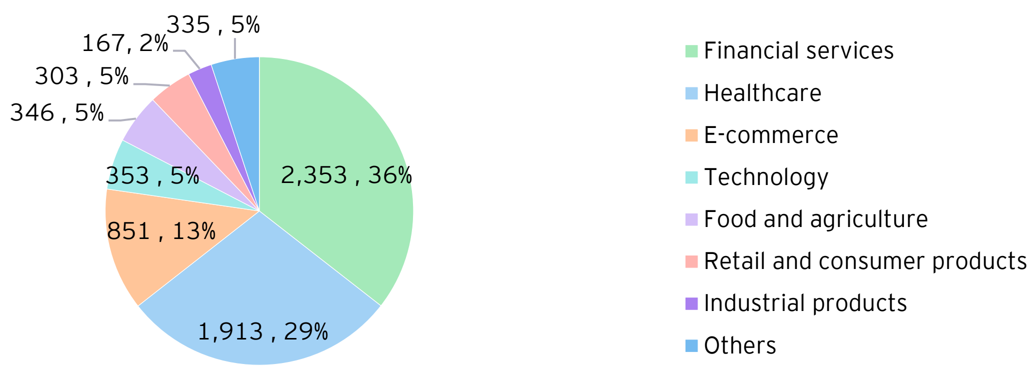
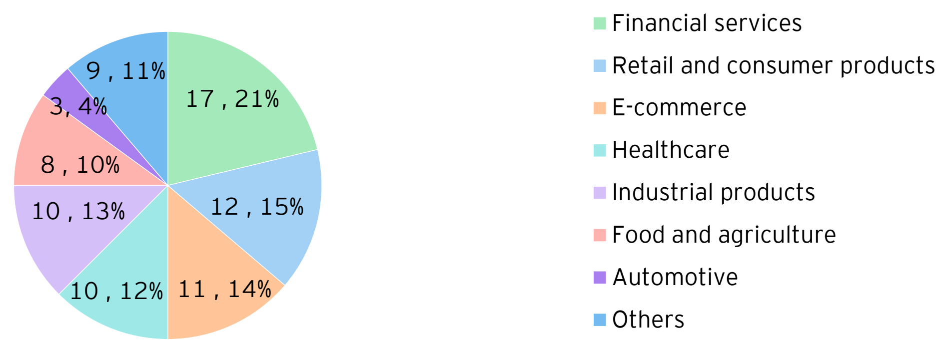


Exhibit 136: split by sector (# of deals)



Source: EY analysis of VCCEdge data

Exhibit 137: top open market exits in 2022

Company/Asset	Sellers	Sector	Amount (US$m)	Deal Stake %
Max Healthcare Institute Limited	KKR	Healthcare	1,163	28
Kotak Mahindra Bank Limited	CPPIB	Financial services	893	2
Max Healthcare Institute Limited	KKR	Healthcare	440	10
Coforge Limited	BPEAEQT	Technology	332	10
SBI Cards and Payment Services Limited	Carlyle	Financial services	294	3
Zomato Limited	Alibaba	E-commerce	199	3
One 97 Communications Limited (PayTM)	SoftBank	Financial services	195	5
Axis Bank Limited	Bain Capital	Financial services	181	1
IndusInd Bank Limited	Route One Investment Company	Financial services	169	2
Zomato Limited	Sequoia	E-commerce	135	2

Source: EY analysis of VCCEdge data

IPO exits

2021 was a seminal year for PE-backed IPOs in India. Not only did it record the highest ever number of PE-backed IPOs which resulted in large exit proceeds at rich valuations, giving good returns to early PE/VC investors, but also saw a plethora of first-time listings by new-age startups. However, this euphoria settled down in 2022, as global capital markets recorded sharp corrections amid major headwinds of rising inflation, interest rate tightening by global central banks, supply shortages, and geo-political conflicts.

This dampened investor sentiment and reduced IPO appetite, especially after the sub-par performance post listing by many of the new-age startups both in US as well as India. As a result, the number of PE-backed IPOs declined by 59% and the corresponding exit value declined by 78% on a y-o-y basis in 2022. However, with inflation cooling off and the Indian markets holding ground on the back of a stable economy and strong domestic inflows, there has been a revival in PE-backed IPOs in the fourth quarter of 2022. As a result, 2022 has emerged as the third best year for PE-backed IPOs.

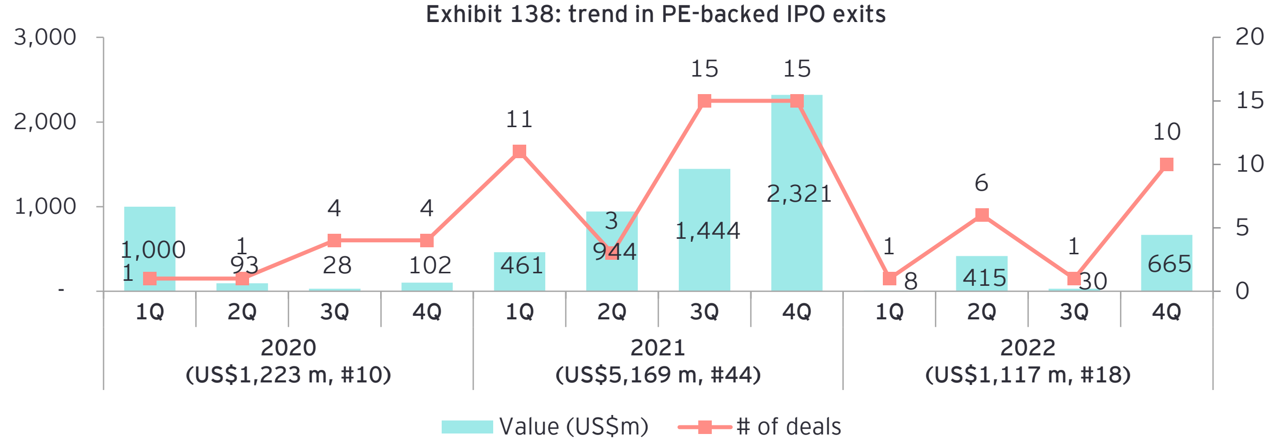
There has also been a churn in the sectors that saw PE-backed IPOs. While 2021 had PE-backed IPOs in almost every sector, 2022 saw PE-backed IPOs only from a few sectors. E-commerce, which was one of the high-flying sectors for PE-backed IPOs, did not record a single IPO in 2022, despite there being a long pipeline of prospective candidates at the beginning of the year with many e-commerce startups either postponing or shelving their IPO plans.

Financial services continued to remain the top sector for PE-backed IPOs, with consumer, technology, and healthcare being next in line.

If the markets remain stable, we could see a return of some startup IPOs, albeit listing at lower valuation multiples than what prevailed in 2021.

Among PE/VC funds, TPG had the maximum number of portfolio companies that IPO'd (three IPOs) in 2022, which include Five Star Business Finance, Campus Activewear Limited, and Landmark Cars Limited.

Exhibit 138: trend in PE-backed IPO exits



Source: EY analysis of VCCEdge data

Exhibit 139: split by sector (US$m)

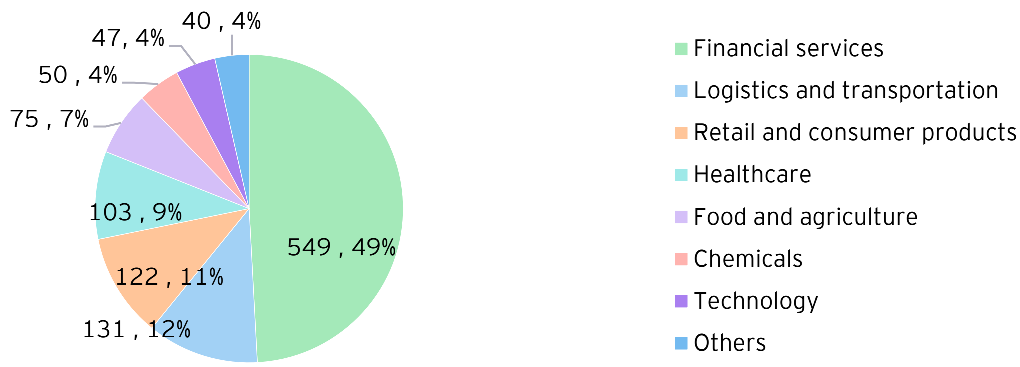
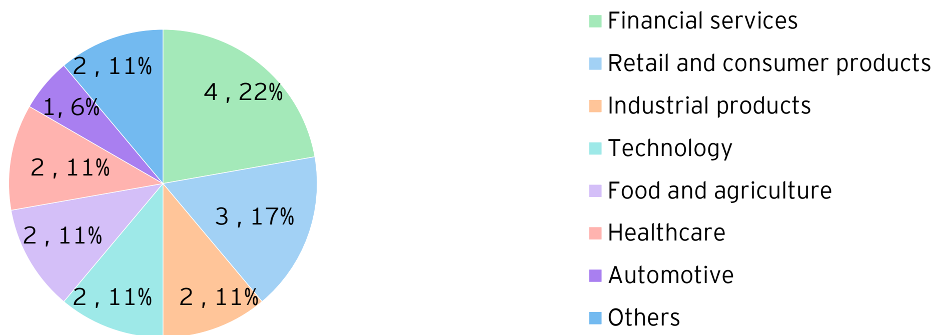


Exhibit 140: split by sector (# of deals)



Source: EY analysis of VCCEdge data

Exhibit 141: top PE-backed IPO exits in 2022

Company	Sellers	Sector	OFS Amount (US$m)	Deal Stake %
Five Star Business Finance Limited	Sequoia, Matrix, Norwest, TPG	Financial services	242	14
KFIN Technologies Limited	General Atlantic	Financial services	183	24
Delhivery Limited	Carlyle, Softbank, and others	Logistics and transportation	131	3
Campus Activewear Limited	TPG Growth	Retail and consumer products	113	10
Rainbow Children's Medicare Limited	CDC Group	Healthcare	103	14
Prudent Corporate Advisory Services Limited	TA Associates	Financial services	67	20
Sula Vineyards Limited	Haystack Investments, Saama Capital, Verlinvest SA	Food and agriculture	64	17
Fusion Micro Finance Private Limited	Warburg, Oikocredit, Global Impact Funds	Financial services	57	13
Archean Chemical Industries Limited	India Resurgence Fund	Chemicals	50	8
Landmark Cars Limited	TPG Growth	Automotive	40	16

Source: EY analysis of VCCEdge data

05

Tax and regulatory updates

Tax and regulatory updates

Introduction

After consecutive record-breaking years, 2022 has recorded a decline in PE/VC investments in India. Some of the key challenges that may have led to a decline in PE/VC investments in 2022 were related to valuation mismatches between promoters and PE/VC investors (including the interplay between commercial and tax valuations), long gestation periods associated with regulatory approvals and alleged governance lapses in Indian companies.

Measures are constantly being taken by the Government of India to boost the PE/VC ecosystem. The Hon'ble Finance Minister in Budget 2022 had announced the set-up of an Expert Committee for suggesting tax and regulatory reforms to make PE/VC more attractive. The Expert Committee, headed by the former SEBI chief M. Damodaran, submitted its report in December 2022 to the government. One can hope that the asks of the PE/VC sector, like employee taxation on PE/VC benefits, rationalization of scrutiny audits, etc., will be addressed in due course.

Having said the above and adopting a futuristic view, the Budget 2023 endeavors to foster growth by stimulating private consumption by promoting infrastructure development, technology, green growth, and employment generation. Moreover, India's G20 leadership also brings high expectations for global stability, multilateral coordination and strengthening India's role in the world economic order.

We have summarized some of the key tax and regulatory changes introduced in 2022 and a few noteworthy proposals of the recently announced Union Budget 2023 that could impact the PE/VC ecosystem:

Tax updates

A] Key tax proposals introduced vide Finance Bill, 2023 ('FB, 2023')

Some of the key proposals of the Union Budget 2023 impacting the PE/VC space are as under:

1. *Tax incentives for startups*

   The PE/VC sector has shown a keen interest in the startup space in recent years. To promote and encourage the startup ecosystem, the Budget has proposed the below incentives -

   - Sunset date for incorporation of startups to be eligible for tax holiday extended from 31 March 2023 to 31 March 2024
   - With an intent to align with the profit linked deduction which is available to eligible startups (for three consecutive years) during the first 10 years of incorporation, the qualifying period for not attracting loss carry forward limitation for eligible startup increased from seven years from the year of incorporation to 10 years from the year of incorporation.

2. *Angel tax extended to non-resident investors*

   - Investment from non-resident investors will also be covered under the ambit of 'premium/ angel taxation', and therefore, any funds raised in excess of the prescribed fair value will be taxable in the hands of the Indian Company.
   - From a PE/VC standpoint, this is likely to create certain deal related challenges (commercial and otherwise) and pose hurdles.

3. *Cash perquisites received in the course of business/ profession*

   - Any benefit or perquisite granted in cash or in kind, partly or wholly, will now be taxable on or after
     1 April 2024. Consequential amendments have been proposed to be made to the applicable withholding of tax provisions.
   - The impact of the above amendment on IBC matters and stressed assets where there is a haircut or waiver of loans would need to be examined.

4. *Tax to unit holders on certain distributions made by business trusts (REITs / InvITs)*

   - While taxation of interest, dividend and rental income remains unchanged, with an intent to avoid dual non-taxation, any other distributions by the business trusts are sought to be taxed in the hands of the unit holders as ''Other Income' (with a provision for adjustment of cost of units where such distribution is accompanied by a redemption of units).
   - This proposal is likely to impact investments in business trusts and one could potentially incur a base tax cost of 40% in respect of distributions by business trusts. Moreover, the

characterization of ‘other income’ being imposed on such distributions may even impact the tax treaty benefits which would have been claimed by PE/VC investors in respect of redemption of units.

5. ***Taxability of Market Linked Debentures ("MLDs")***

- Gains on MLDs will be treated as short-term capital gains, irrespective of the period for which the MLDs are held. Further to arrive at the gains on transfer of MLDs, one can reduce the cost of acquisition of such debentures and also any expenses incurred in connection with the transfer.
- MLDs were becoming an attractive product for foreign investors looking at the debt market in India. However, the change in taxation of MLDs (which would have otherwise been chargeable to tax as long term-capital gains at the base rate of 10%) is likely to impact the tax cost analysis made by PE/VCs at the time of investments.
- Moreover, existing structures in place would also require due evaluation to ascertain whether the instrument qualifies as a MLD (i.e., whether it is referenced to a debt security with return also being linked to other similar instruments).

6. ***IFSC-related***

- The government has been consistently taking the necessary steps to promote the IFSC in India and attract PE/VC investments.
- While a few key asks enabling foreign funds to relocate to GIFT remain unaddressed (primary one being enablement of issuance of P-Notes by such Funds), several other aspects related to elimination of dual taxation on income earned by IBUs and distributed to P-Note holders, considering P-Notes as legal/ valid contracts and extending the sunset clause for enabling foreign funds to relocate to GIFT in a tax neutral manner has been extended to 31 March 2025.

It must be noted that the Union Budget 2023 has not addressed some other key asks related to rationalization of capital gains tax regime, non-extension of concessional rate of 5% in respect of ECB loans/ rupee denominated bonds beyond 30 June 2023, enabling tax neutral shift back to India of Indian startups/ FinTechs through reserve flipping, etc.

Regulatory updates

On the regulatory front, the government has over the last couple of years constantly issued newer regulations keeping in mind aspects such as boosting investor confidence, regulating monies flowing in from non-FATF compliant jurisdictions, interdicting of stringent reporting norms of UBOs, etc.

In the year 2022, the government has consistently adopted the above approach and issued several regulations/ working papers targeted at liberalizing investment conditions and at the same time tightening norms in sectors such as FinTech wherein large PE/VC investments have been flowing in over the years.

Some key **regulatory** updates are as under:

1. ***Foreign Exchange Management (Overseas Investment) Directions, 2022 (‘OI Directions’) and Overseas Investments Rules and Regulations (‘OI Guidelines’)***

- The GoI, in consultation with the RBI, has issued OI Guidelines superseding the earlier framework of outbound investments in India. To provide clarity, RBI has also issued OI directions, giving effect to the above. The key changes are as below:
  - The definition of foreign entity now also includes IFSC.
  - Indian entity (not engaged in the financial services sector) making ODI in a foreign entity (engaged in financial services sector), except banking or insurance, is permitted to make ODI in an IFSC.
  - Indian entity (not engaged in the financial services sector) is permitted to make an investment in a foreign entity involved in the financial services sector.
  - Person resident in India is permitted to invest in a foreign entity that has invested or invests into India, directly or indirectly, up to two layers of subsidiaries, without RBI approval.
  - Loans and guarantees are now permitted to be made only if the Indian entity has made ODI and has a control over such foreign entity.
- With the issuance of these guidelines, the regulator has simplified, streamlined, and liberalized the existing framework for OI to cover wider economic activities and significantly reduce the need for RBI approvals.

2. ***Changes to PE investment in the insurance sector***

- IRDAI has announced some changes to investment rules applicable to PE investors following its board meeting on 25 November 2022. The key changes impacting PE/VCs are as under:
    - Use of Indian SPV is being made optional (earlier mandatory for PE investors classified as 'promoters' with more than 10% holding). This was causing a fair amount of tax leakage, in addition to other regulatory challenges.
    - Threshold is being set at 25% (as against 10%) for a PE to now be classified as a 'promoter' of an insurance company; non-Promoter investors to collectively hold not more than 50%.
    - Promoters of listed solvent insurance companies (on a continuous five-year look-back period) will be permitted to dilute up to 26% stake (this should give ability to PE firms to exit, subject to ICDR/ IPO related lock-in rules).
    - Insurance companies are being permitted to take up to 50% of paid up capital and premium (subject to 50% of net worth) in the form of preference shares. This will enable PE investors to use CCPS as an investment instrument.
    - Lock-in terms for 'promoters' and 'investors' will be announced basis 'age of insurer'. We expect some relaxation in lock-in periods.
- Complete assessment of these changes and impact on potential for the PE investors will be dependent on collective reading of the new regulations (pending and expected soon) with the existing IRDAI PE Guidelines, but indeed this seems to be a step in the right direction.

3. *Framework for foreign investments in AIFs*
    - SEBI has issued a framework for AIFs raising capital from foreign investors. Through this framework, SEBI intends to prohibit AIFs from raising capital from non-compliant foreign investors. Moreover, this has had an impact on foreign investors who are already on-boarded to schemes of AIFs.
4. *Consultation paper on review of regulatory framework for sponsors of a mutual fund (issued in January 2023)*
    - The objective of this consultation paper is to seek comments / views from the public on the proposals intending to review the regulatory framework for sponsor(s) of a mutual fund so as to explore the possibility of enabling diverse set of entities, who otherwise may not have been eligible, to be associated with mutual funds with requisite safeguards in place.
    - One of the key recommendations including allowing PEs to be sponsors of mutual funds, subject to certain conditions, such as capitalization of the AMC to the extent of INR 150 crores, lock-in period of five years to the extent of initial contribution of INR 150 crores, appointment of sufficiently experienced personnel in AMC having combined experience of 30 years, PE should only be a body corporate, etc.
    - Where the above is implemented, it is likely to fuel growth and innovation and expand the presence of mutual funds. Moreover, the challenges being faced by existing sponsors looking for an exit are likely to be overcome with PE investors, enabling such exits with good offers.
5. *Consultation papers on regulations impacting AIFs (inviting public comments by 18 February 2023) have been issued in respect to the below mentioned areas*
    - Manner of regulating distribution, commission, or placement fee in the context of AIFs to be paid to intermediaries/ charged to investors.
    - Mandatory dematerialization of AIF units.
    - Review of eligibility criteria for key investment team and prescribing qualification for compliance officer of Manager of an AIF.
    - Requirement of investor consent for buying/ selling investments from/ to associates of AIFs.
    - Provisions of an option to AIFs and their investors to carry forward unliquidated investments of a scheme upon completion of its tenure.

In addition to the above, the government has issued several regulatory reforms liberalizing operation in the IFSC, regulating digital lending apps, mandating disclosures by foreign investors of UBOs, etc.

While several changes are welcome given the growth prospects of the Indian economy, one can hope that in the year 2023, other administrative aspects on the regulatory front related to quicker turnaround time on issuance of licenses, providing regulatory approvals for transactions/ deals in a shorter timeframe, enabling more public consultation on regulatory reforms (as envisaged in the Union Budget 2023), etc., are also taken care off.

Glossary of acronyms

1.	ADIA - Abu Dhabi Investment Authority
2.	AI - Artificial Intelligence
3.	AIIB - Asian Infrastructure Investment Bank
4.	AIFs - Alternate Investment Funds
5.	AMT - Alternative Minimum Tax
6.	ARC - Asset Reconstruction Company
7.	AUM - Assets under management
8.	AY - Assessment Year
9.	B2B - Business-to-Business
10.	B2C - Business-to-Consumer
11.	CAGR - Compounded annual growth rate
12.	CBDT - Central Board of Direct Taxes
13.	CDPQ - Caisse de dépôt et placement du Québec
14.	CPPIB - Canada Pension Plan Investment Board
15.	CRAMS - Contract research and manufacturing services
16.	DFID - Department for International Development
17.	DIPP - Department of Industrial Policy and Promotion
18.	DPIIT - Department for Promotion of Industry and Internal Trade
19.	DRHP - Draft Red Herring Prospectus
20.	DTAA - Double Taxation Avoidance Agreement
21.	EBITDA - Earning before interest tax depreciation and amortization
22.	EMPEA - Emerging Markets Private Equity Association
23.	EPC - Engineering, Procurement and Construction
24.	FDI - Foreign Direct Investment
25.	ESG - Environmental, Social, and Corporate Governance
26.	EV - Electric vehicles
27.	FAQ - Frequently asked questions
28.	FEMA - Foreign Exchange Management Act, 1999
29.	FDI - Foreign Direct Investment
30.	FII - Foreign Institutional Investment
31.	FPI - Foreign Portfolio Investment
32.	GAAR - General anti avoidance rule
33.	GFC - Global financial crisis
34.	GIC - GIC Private Limited
35.	GIFT - Gujarat International Finance Tec-City
36.	GIP - Global Infrastructure Partners
37.	GoI - Government of India
38.	GP - General partner
39.	GST - Goods and services tax
40.	IDBI - Industrial Development Bank of India
41.	IFC - International Finance Corporation

42.	IFCI – Industrial Finance Corporation of India
43.	IFSC – International Financial Services Centre
44.	InvIT – Infrastructure investment trust
45.	IPO – Initial public offering
46.	IT/ITES – Information Technology / Information Technology Enabled Services
47.	IRDA – Insurance Regulatory and Development Authority of India
48.	KKR – Kohlberg Kravis Roberts & Co
49.	LPs – Limited Partners
50.	M&A – Mergers and Acquisitions
51.	MAT – Minimum Alternate Tax
52.	MFI – Micro Finance Institution
53.	MOPE – Motilal Oswal Private Equity
54.	MSME – Micro, Small and Medium Enterprises
55.	NASSCOM – National Association of Software and Service Companies
56.	NBFC – Non Banking Financial Company
57.	NCLT – National Company Law Tribunal
58.	NHAI – National Highway Authority of India
59.	NIIF – National Investment and Infrastructure Fund
60.	NPA – Non-performing Asset
61.	NRI – Non Resident Indian
62.	OCI – Overseas Citizen of India
63.	OMERS – Ontario Municipal Employees Retirement System
64.	OTPP – Ontario Teachers' Pension Plan
65.	PAN – Permanent Account Number
66.	PE/VC – Private Equity/Venture Capital
67.	PIF – Public Investment Fund of Saudi Arabia
68.	PIPE – Private investment in public equity
69.	PLI – Production-linked incentive
70.	PSP – Public Sector Pension Investment Board
71.	QIP – Qualified Institutional Placement
72.	RBI – Reserve Bank of India
73.	RE – Real estate
74.	REIT – Real estate investment trust
75.	RCP – Retail and Consumer Products
76.	RERA - Real Estate Regulatory and Development Act
77.	ROIC – Return on invested capital
78.	SaaS – Software as a service
79.	SBI – State Bank of India
80.	SEBI - Securities and Exchange Board of India
81.	SPAC - Special purpose acquisition company
82.	SWF – Sovereign wealth fund
83.	TCS – Tax collected at source
84.	TDICI - Technology Development and Information Company of India
85.	TDS – Tax deducted at source
86.	ToT – Toll operate transfer
87.	VSV - Vivad Se Vishwas
88.	WHT - withholding tax

Appendices

About EY's Private Equity Services

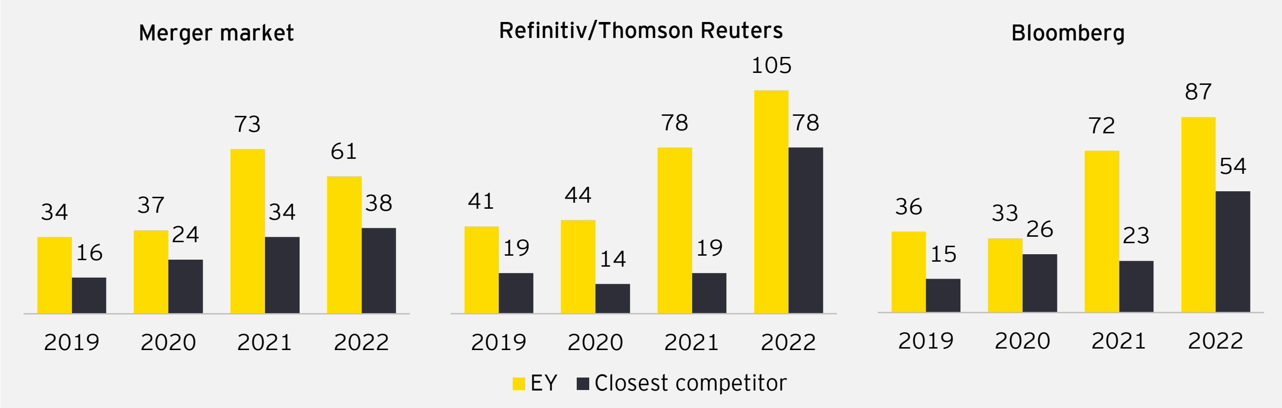
EY has been working with the private equity industry for more than 25 years, with approximately 25,000 seasoned professionals worldwide dedicated to the industry and its business issues. EY serves 74% of the top 300 PE firms included in the Global PEI 300 firms list. Private equity firms, portfolio companies and investment funds face complex challenges. They are under pressure to deploy capital amid geopolitical uncertainty, increased competition, higher valuations, and rising stakeholder expectations. Successful deals depend on the ability to move faster, drive rapid and strategic growth, and create greater value throughout the transaction life cycle. EY taps its global network to help source deal opportunities and combines deep sector insights with the proven, innovative strategies that have guided the world's fastest growing companies.

In India, EY is among the leading providers of advisory, tax, transactions, and assurance services. The organization was ranked as the number one professional services brand for SaT services in India in 2019*, which is a testimony to our relentless commitment to deliver exceptional client service and create a better working world. EY has offices spread across 11 cities in India. Worldwide, our 300,000+ people across 150+ countries and 700+ cities are united by our shared values and their unwavering commitment to quality.

- EY's India Private Equity Services Practice has been among the top advisors for private equity deals over the past ten years. EY has been awarded the "Most Active Transaction Advisor" award by Venture Intelligence for 2009-2013 and also the "Investment Bank of the Year, Private Equity" award by VC Circle in 2012, 2017 and 2020 as well as for M&A in 2018 and 2019.
- EY's India Private Equity Services Practice provides value to PE funds and their portfolio companies through its deep sector and service expertise. EY India is organized around key industry verticals in a matrix structure that enables us to offer an unparalleled blend of industry expertise and functional skills. We actively track about 15 sectors with sector leads, driving our penetration in each of those sectors.

Exhibit 142

EY has been ranked as #1 Financial Advisor for over a decade across Mergermarket, Thomson Reuters and Bloomberg**. Our position as the foremost M&A advisor in the Indian mid-market enables us to create a robust deal origination pipeline for our PE/VC clients, acting as the tip of the spear of what is India's dominant PE Services practice.



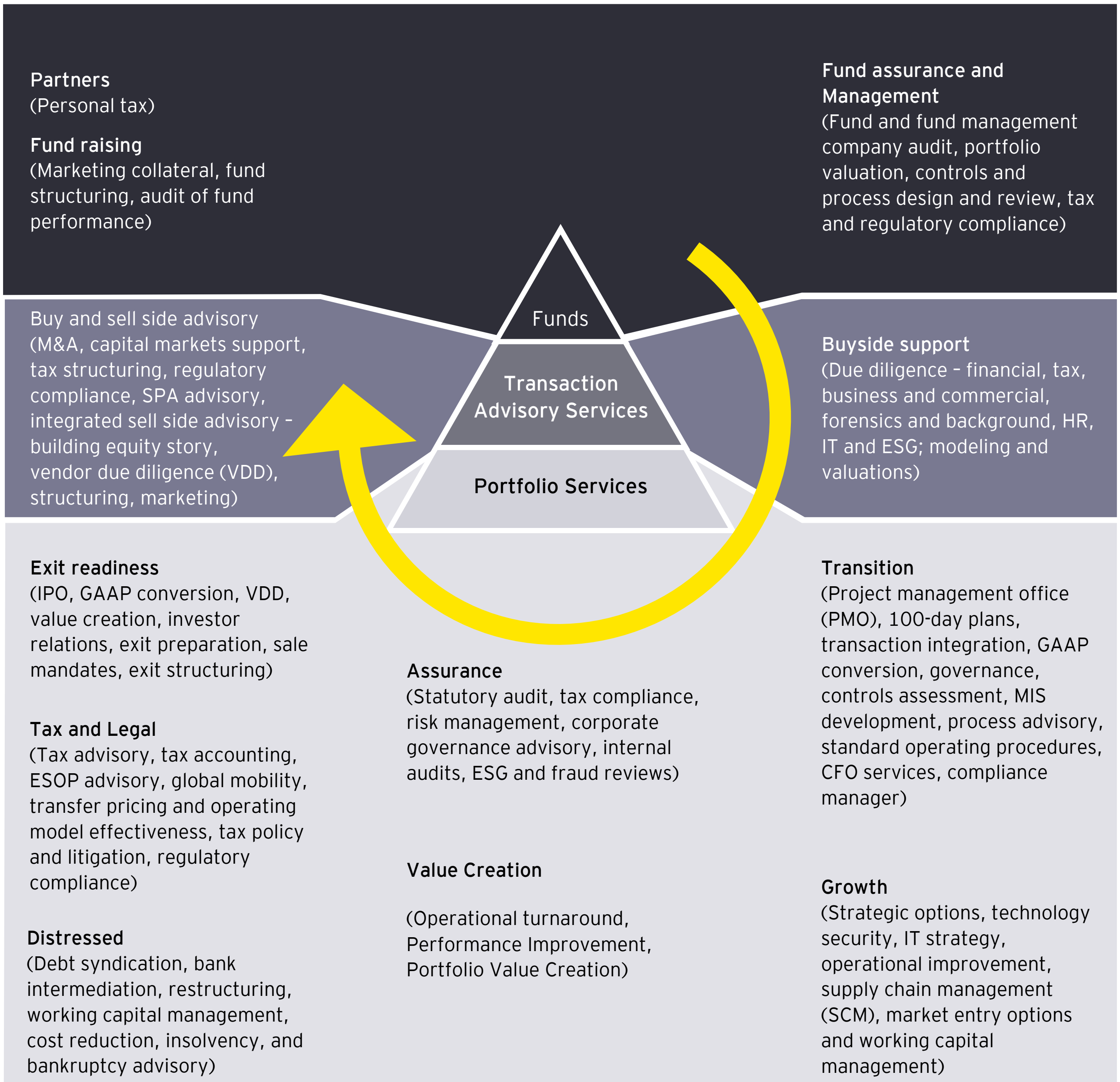
** as per Global Brand Survey, conducted by an independent research agency commissioned by EY*

*** for most number of deals*

- # 1 advisor on deal count in Financial advisory league tables across databases
- Consistently maintaining a significant lead from closest compete
- Adjudged as the Investment Bank of the Year – PE, 2020 by VCCircle

We offer an array of services to Private Equity funds and their portfolio/investee companies through our various service lines.

Exhibit 143



Delivering issue-based solutions to the entire PE enterprise

EY has established six distinct solutions reflecting the holistic set of challenges that PE firms face across all levels of the organization – the management company, the funds, and their portfolio companies.

Exhibit 144

Operating model and automation	Global compliance and reporting	Deal origination
Alternative asset managers need to drive efficiency through multi-year target operating models and infrastructure strategies to remain competitive. These align with strategic growth plans by leveraging vendor and service provider activities. EY defines and monitors data analytics and key performance indicators to annually assess data governance and risk against these target models.	Large asset managers have hundreds of non-US legal entities in multiple countries, and continually create new ones – all with different compliance obligations. Many are outsourced and require local knowledge. EY gathers the data, leverages local EY teams familiar with accounting and tax laws, performs data analytics to identify trends, risks and opportunities and monitors filing requirements.	The intense competition for a limited number of deals raises stakes to win for private equity firms. A proprietary investment approach, driven by sector insights, enables firms to confidently place winning bids that generate appropriate returns. EY's global origination team turns opportunities into actionable strategies. Our proprietary knowledge and advanced analytics help develop strategic capital options to help firms achieve success.
Integrated due diligence	**Value creation**	**Exit readiness and IPO**
Private equity firms conduct diligence on assets across strategic, financial, tax, operational and HR issues. Firms historically used issue-based advisors, managing different parties, and consolidating findings at the end of the process. Employing EY's integrated diligence approach at the early stages of a transaction provides more effective, comprehensive diligence on an asset, giving firms a distinct competitive advantage.	Private equity firms face increasing pressure to attract fresh capital. This requires generating greater investment returns and demonstrating a consistent track record in creating value in their portfolio. EY's value creation solution addresses these challenges across all five stages of the deal life cycle, including deal origination, diligence, inception, optimization and exit strategy.	Private equity firms must plan exits rigorously to successfully monetize their investment during the exit process in today's challenging environment. Executives must identify key short- and long-term priorities prior to undertaking an IPO or alternative transaction. EY can advise deal teams and portfolio companies on exit alternatives, assess exit readiness, prepare a business for exit/IPO, and create a value story for targeted buyers.

Exhibit 145

Focused advisory solutions for private equity backed portfolio companies	
IPO readiness: the first step in the IPO value journey	EY's IPO readiness service is the first step in what we describe as the "IPO value journey" and is designed to guide the client through a successful transformation from private to public status. Achieving readiness will ensure a strong debut in the capital markets. Getting IPO readiness right means implementing change throughout the business, organization, and the corporate culture. As a public company, the client will be subject to increased filing requirements, transparency, compliance, scrutiny by investors and analysts and overall accountability for delivering on promises. Successful businesses start to prepare typically 12 to 24 months before the IPO – in many cases with an IPO readiness assessment.
Performance improvement	Depending on objectives and business context, EY helps the client develop a combination of short-term and long-term strategies to reduce costs, optimize process and bring in efficiency and effectiveness across all layers of business to deliver positive impact on EBITDA by ensuring optimal utilization of both tangible and intangible resources.
Analytics: generate insights to make smarter, faster decisions	EY helps clients build data and information strategies using various analytics tools to deal with big data to address various areas of business, ranging from opportunity sizing and feasibility, operations and customer modeling, executive decision making, mergers and acquisition and valuation. EY helps across the capability value chain, ranging from strategy, implementation, hosting and running the analytics functions.
Growth navigator: achieving your growth ambitions	Having a broader perspective on the drivers of growth in your business and finding innovative ways to accelerate and sustain that growth can give you a competitive advantage. That is why we have developed EY Growth Navigator™, an interactive experience that uses the EY 7 Drivers of Growth to help you and your leadership team assess your business's current and aspirational position and create a strategic road map to help you get there.
Route to Market (RTM): deliver a successful strategy for your business	EY identifies focused opportunities for optimizing cost and growth after full assessment; designs new RTM, including different approaches for different segments (customers, regions, seasonal demand); identifies the optimal concessionaires' model considering different distribution approaches; and supports the implementation of the RTM by providing IT specs and additional services (e.g., stock management options).
Cybersecurity	EY assists internal teams to build cyber awareness and conduct company-wide training, as well as training of board of directors. EY supports in building regulations and compliance requirements with audit and readiness services. EY helps transform the security program and integrate information security and IT risk across the enterprise as well as help implement globalized data protection strategies to protect information that matters, while considering regulatory and industry compliances.

EY's consulting solutions across the investment lifecycle

TRANSACTION CLOSURE | **BUILD FOUNDATION** (Day 100) | **HOLDING PERIOD** (Year 1 to 4) | **EXIT PREPARATION**

- Org, Workforce & Culture
- Route to Market Strategy
- Supply chain planning & strategy
- Business Process Re-engineering
- Customer Experience Transformation
- Core Business Transformations
- Connected Commerce
- New Product design & Launch
- Tech & Digital Modernization Strategy

- Business and operating model Transformation
- Digital Maturity Assessment
- Customer Service Transformation
- Digital and Process Optimization
- Market Benchmarking
- Logistics Transformation
- Cost Optimization

- Supply Chain Planning and Transformation
- Commercial Due Diligence (CDD)
- Manufacturing Excellence
- Procurement Transformation
- ESG & Decarbonisation
- Value Chain Diagnostic
- Sales Enablement

- Enterprise Risk Assessment
- Actuarial
- Financial Services Risk Management
- Internal Audit
- Continuous Controls Management (CCM)
- Process Health Checks
- Compliance Management
- Software Asset Management
- Contract Management

Helping you **Grow**

By building **Efficiency**

Through **Governance and Control**

Enabled by **Technology**

- Cyber Security
- AI & ML Applications
- Data Analytics
- Cloud Adoption
- Tech Due Diligence

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Notes

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IVCA

About IVCA

The Indian Private Equity & Venture Capital Association (IVCA), is the apex body promoting the Alternative Investment Funds (AIFs) in India and promotes stable, long-term capital flow (Private Equity (PE), Venture Capital (VC) and Angel Capital) in India.

With leading VC/ PE firms, institutional investors, banks, corporate advisers, accountants, lawyers and other service providers as members, it serves as a powerful platform for all stakeholders to interact with each other. Being the face of the Industry, it helps establish high standards of governance, ethics, business conduct and professional competence.

With a prime motive to support the ecosystem, it facilitates contact with policy makers, research institutions, universities, trade associations and other relevant organizations. Thus support entrepreneurial activity, innovation and job creation.

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INDIAN VENTURE AND ALTERNATE CAPITAL ASSOCIATION
PROMOTING PRIVATE CAPITAL ECOSYSTEM

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