PE/VC Industry in India;

What comes next?

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Agenda

- PE Industry Overview
- Historical PE Investment Data (2004-2009)
- Forecast and Trends (2010-2015)
- Government Involvement and its Potential Impact
Indian PE/VC Industry Structure

**Capital Sources**
- Government
- Global Funds
- Indian Financial Inst.
- Corporates
- Family Offices
- HNIs

**Deal Size**
- >$20m
- $5-20m
- <$5m
- <$1m

- PE/Buyout
- Growth Funds
- Early Stage Funds
- Inst. Seed Funds
- Angel Networks / Prof. HNIs
- HNIs / Faith Capital
Indian PE Industry Overview

- PE funds invested $40B* in the Indian economy between 2004 and 2009

- At current growth rates, we estimate $70-75B will be invested in 2010-2015

- However, with government encouragement and support, PE investment during this period can be $100-150B

Source: Venture Intelligence
Over $40B invested in 1800 companies in this period

$36B raised by India-dedicated funds; Including allocation from global pools, approximately $50B made available for India

Historical PE/VC Investment in India

Sources: Venture Intelligence, Prequin

PE Investment 2004-2009

Amount Invested/Raised (USD million)

No. of Deals

2004 2005 2006 2007 2008 2009

Sources: Venture Intelligence, Prequin
Only $3.3B (8%) of PE investment is currently Venture Capital

Average deal size approximately $5m (v/s $15-20m for PE)
PE Investments firing only in select sectors – IT/ITES, BFSI, Manufacturing

Key sectors not currently attracting PE are Education, Retail, Travel etc.
PE Investments by Stage

Average holding period for early stage investments is 5.5 years

Sudhir Sethi, IDG Ventures India  
March 9, 2010
**PE Exits**

**PE is long-term capital – more money invested than distributed so far**

$40B invested in the economy during this period and only $15B returned

Source: Venture Intelligence

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Sudhir Sethi, IDG Ventures India

March 9, 2010
2010-2015 Estimate

$70-75B estimated PE Investment in India during 2010-2015

- $25B for follow-up funding of current PE-funded companies (850 companies)
- $35B in new investments in 2000 companies in top 4 sectors
- $10-15B in new investments in other sectors
850 companies likely to attract $26B follow-on funding in 2010-2015
$34B expected investment in top 4 sectors 2010-2015

Projections based on historical growth rates

PE Investment Forecast in Top Sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>2004-2009 Investment</th>
<th>2010-2015 Investment</th>
<th>Historical CAGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT &amp; ITES</td>
<td>6596 USD million</td>
<td>12807 USD million</td>
<td>25%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4737 USD million</td>
<td>6578 USD million</td>
<td>21%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>2997 USD million</td>
<td>8122 USD million</td>
<td>35%</td>
</tr>
<tr>
<td>Engg. &amp; Construction</td>
<td>3107 USD million</td>
<td>6753 USD million</td>
<td>26%</td>
</tr>
</tbody>
</table>
2010-2015: Key Drivers for $100B Deployment

- Telecom
  - New technology deployment (3G/WiMax) likely to drive next wave of PE funding
  - Estimated $3B equity funding required for 3G license purchase alone
  - Equipment purchase and rollout funding on top of this

- BFSI
  - New banking licenses will spur equity investment of $200-500m per bank

- Energy
  - Approximate Capex of $1m for every MW of generation capacity
  - 150,000 MW capacity to be added by 2015 will require $30B equity investment
  - However, the sector needs to be made more investor-friendly through market pricing, reverse grid flow etc.
2010-2015: Key Drivers for $100B Deployment

◆ Education
  • 81% of PE Investors in India want to invest in education, yet only $300m invested so far
  • Currently PEs can only participate indirectly due to ownership restrictions for schools and higher education institutions
  • The government must lift key regulatory hurdles to spur PE investment

◆ Retail
  • Only $450m invested by PE funds so far despite high interest
  • Caps on foreign equity participation currently deter investment in the sector

$50B+ additional investment possible in these sectors with right regulatory and policy environment,
Global Limited Partners (LPs) showing strong interest in India

- In the past 3 years, at least 15-20 reputed global LPs have established presence in India
- Top LPs with India offices:
  - Sigular Guff
  - Guggenheim
  - Capvent

Indian entities increasingly interested in PE investments

- Interest from Banks, Family offices, HNIs, Corporates
- In the past year, at least 3 funds of Rs. 1000 Cr each raised from Indian LPs
Government Initiatives to Propel PE Investment

- Today, the PE industry is growing with only passive involvement from the Government
  - Active government role can catalyze investment to $100B+ in 2010-2015

- Encouragement to Early-Stage Venture Capital
  - Currently Venture Capital is only 8% of PE investment in India, v/s 30% in the US (NVCA, 2008)
  - However, venture-funded firms are a crucial supply chain to later stage PE
  - Venture Capital investments are long-term holds, with 5-7 year investment cycle
  - Investment in R&D and Innovation are of strategic importance to the economy
  - Government regulations need to treat Venture Capital as a separate investment class with special incentives

- Removal of regulatory hurdles in several industries
  - Several industries with large investment needs – Energy, Retail, Education etc. – have structural hurdles for investment
  - Investment-friendly regulatory and policy environments will spur PE investments in these sectors
Government Initiatives (Contd.)

- Mauritius v/s Mumbai
  - Routing funding through Mauritius is wasteful, inefficient and a deterrent to global investors
  - The industry has spent an estimated $1B in 5 years administering the Mauritius route

- Promotion of Indian LPs
  - PE exit distributions (estimated $40B) can stay in India if Indian LPs invest in PE funds
  - Tax benefits and other encouragement for long-term risk capital will promote Indian LP participation
Government Initiatives (Contd.)

Deal Size

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PE/ Buyout

Current focus of govt. policy

Growth Funds

Needs special focus & support as strategic investment sector

Early Stage Funds

Inst. Seed Funds

Angel Networks / Prof. HNIs

HNIs / Faith Capital

Needs incentives as supply chain for PE/VC