

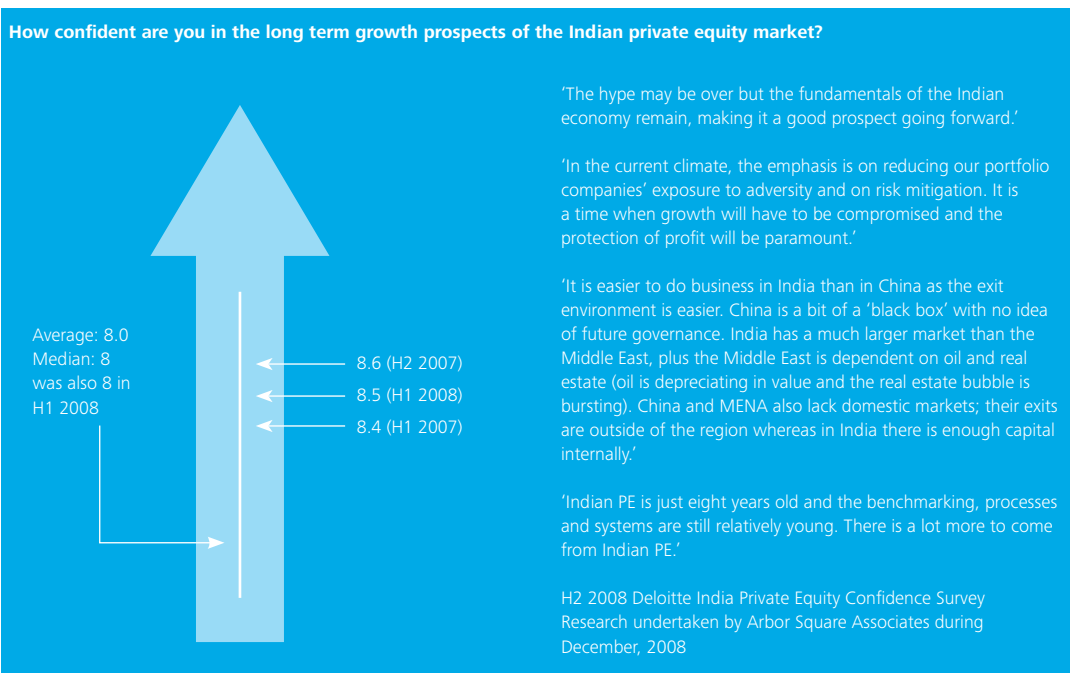
Deloitte.



India private equity survey
Long term Confidence

The India private equity confidence survey

The continued global financial crisis has not dampened the long-term outlook of respondents towards the Indian private equity market. Despite the ongoing economic crisis the average respondent's confidence level for the long term prospects for growth fell only marginally from 8.5 out of 10 in H1 2008 to 8.0 in this period.



The competitive environment for investment opportunities for PE houses is expected to ease during 2009 as the smaller PE houses and hedge funds exit. The ability to add value to portfolio companies and the reputation and track record of the PE house will be key success factors in this market. Whilst PE investments will continue to be dominated by growth capital, buyouts or control transactions are expected to see an increase. Infrastructure, pharmaceuticals and consumer oriented businesses are seen as the key growth sectors due to strong domestic consumption.

The number of respondents that expect entry multiples to decrease during the next 12 months has increased from 65% in H1 2008, to 75% in H2 2008. Consequently, exit multiples are also expected to fall going forward. Respondents expect the continued weakness in the IPO markets to result in trade sales to be the most common exit route for private equity investments. Overall, respondents expect the volume of PE deals in the market to be dependent on how quickly promoters are willing to accept lower valuations.

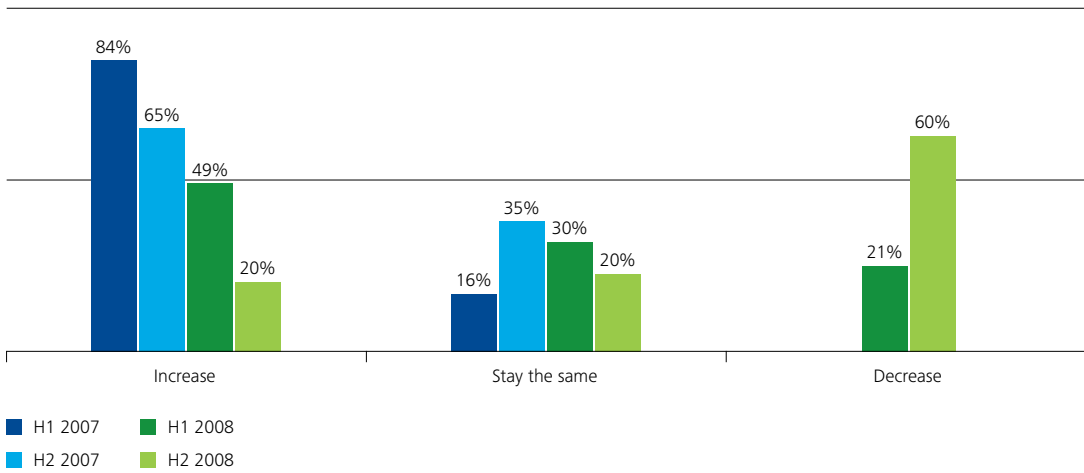
Most respondents believe transparency in operations, financial governance and separation of ownership and management remain the key issues to overcome from a corporate governance standpoint.

Given the current turmoil in the market and the resultant uncertainty about valuations, the deal execution process is expected to take longer than in the past, with an emphasis on more stringent diligence and heightened caution from GPs who will look harder than before to identify successful investments. Respondents expect this, combined with a reduction in competition, to make the quality of investments made in 2009 better than in previous years.

Sandeep Gill
Managing Director
Deloitte Corporate Finance Services India Private Limited

Outlook for overall levels of investment activity

Over the next 12 months, do you expect investment activity in the Indian private equity market to:



Why increase

'Compared to the last three to four months, activity will increase. Valuations are changing - there is more acceptance of the new, lower valuations by promoters.'

Why stay the same

'Sellers will be more reluctant to raise capital under current market conditions. However, overall demand for growth capital will sustain the market.'

Why decrease

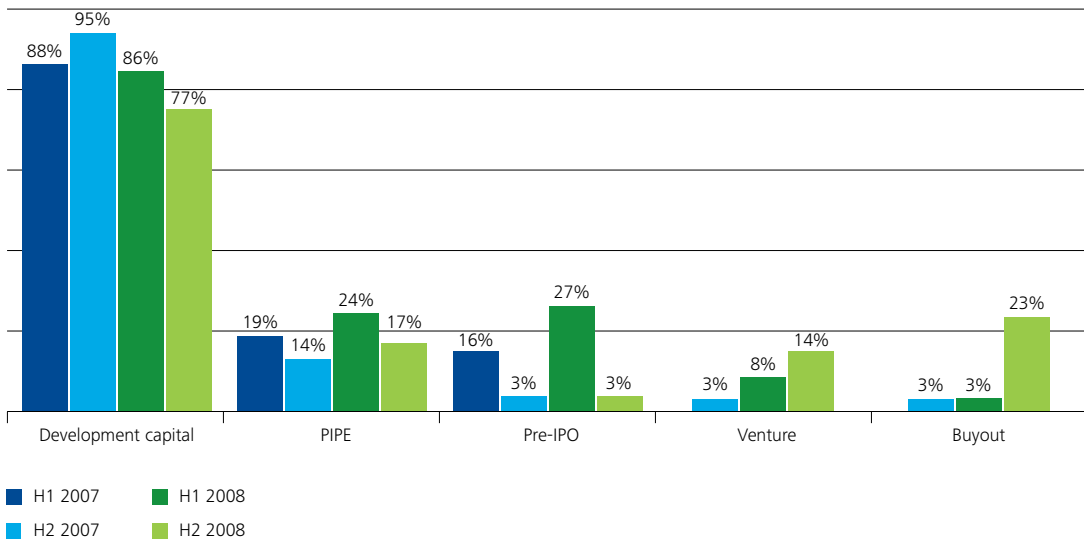
'There is a lot of uncertainty in the market, and it is difficult to close transactions. You have to be very careful when selecting deals.'

'The next six months will be a very slow period in terms of investments. The 'dislocations' in the US will spread to other industries and other markets. A 'wait and see' approach is required now.'

'The prices are coming off and entrepreneurs are backing away.'

Deal type expected to be most prevalent

What do you expect to be the most popular type of transaction in the Indian market over the next 12 months?

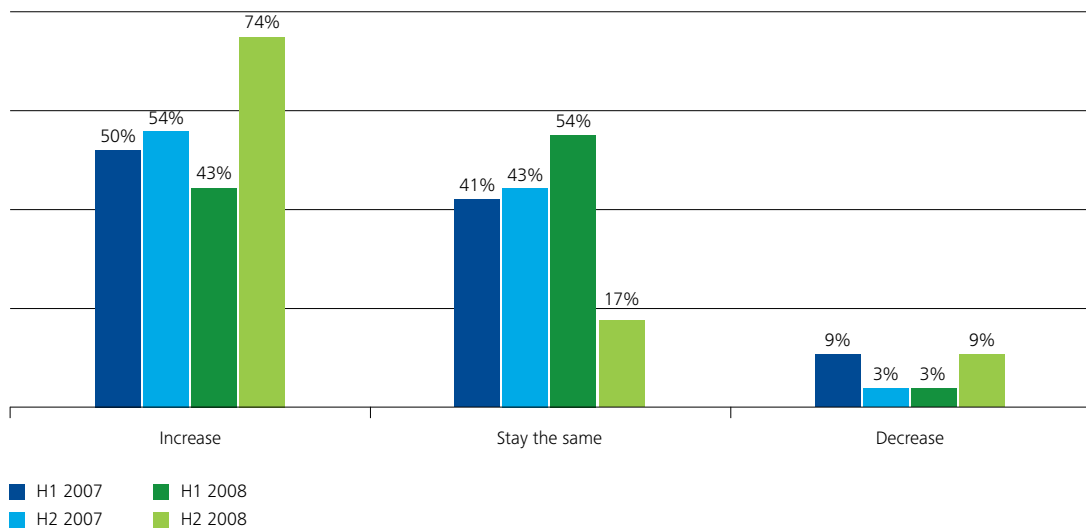


'On the one hand, entrepreneurs are now more keen to give up their companies and move on to new projects, which paves the way for buyouts. On the other hand, there are still some strong businesses that are looking to raise development capital.'



Quality of investment opportunities

On average, do you expect the quality of investment opportunities in the near term to:



Why increase

'Last year valuations were high, whereas this year only the companies that really want to raise money will come to the market, and they will need to be companies of very high quality to achieve this.'

'The quality of opportunities will increase both for the investor and the investee, as both are better prepared now. The Indian PE market will really take off in the next two to three years.'

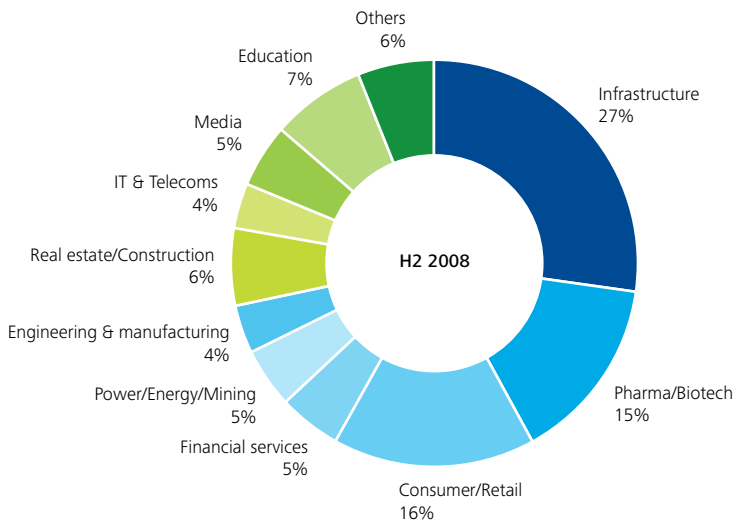
Why stay the same

'There are a couple of factors pushing either way: on the one hand, the quality of opportunities may decrease because prudent VCs are waiting for better times before they start making new investments; but at the same time there are some distressed opportunities in certain sectors.'



Sector

In terms of sector, where do you expect the most opportunities to come from in the next six months?



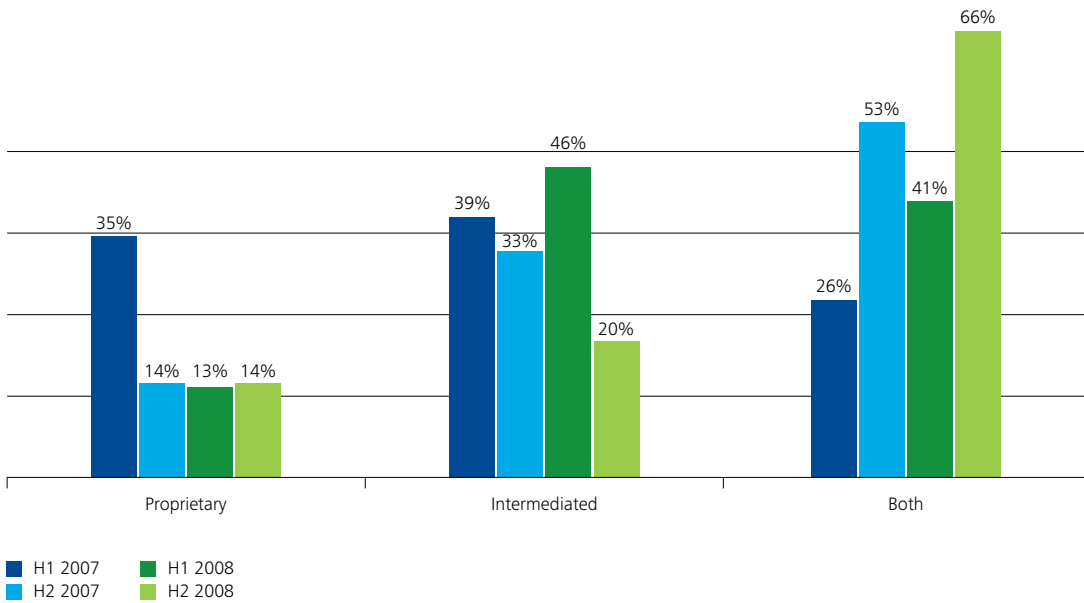
'In our opinion, sectors driven by domestic consumption and infrastructure related sectors are likely to see maximum PE deal activity in the coming 12 months. The growing consumer class is increasing demand in key industries, such as hospitality, retail and healthcare delivery.'

'The government is willing to inject money into the infrastructure sector to maintain the momentum, therefore there will continue to be good PE opportunities.'

'The infrastructure sector will continue to grow, although the valuations will be lower. Also, distressed assets will be a good source of PE deals.'

Originating deals

What do you expect to be the most important ways of sourcing deals for private equity firms in India in the next 12 months?



'It depends on the space you occupy in private equity. Mid to large sized funds require intermediated sources through investment banks, while small funds require a more proprietary approach via commercial banks. So it very much depends on the segment.'

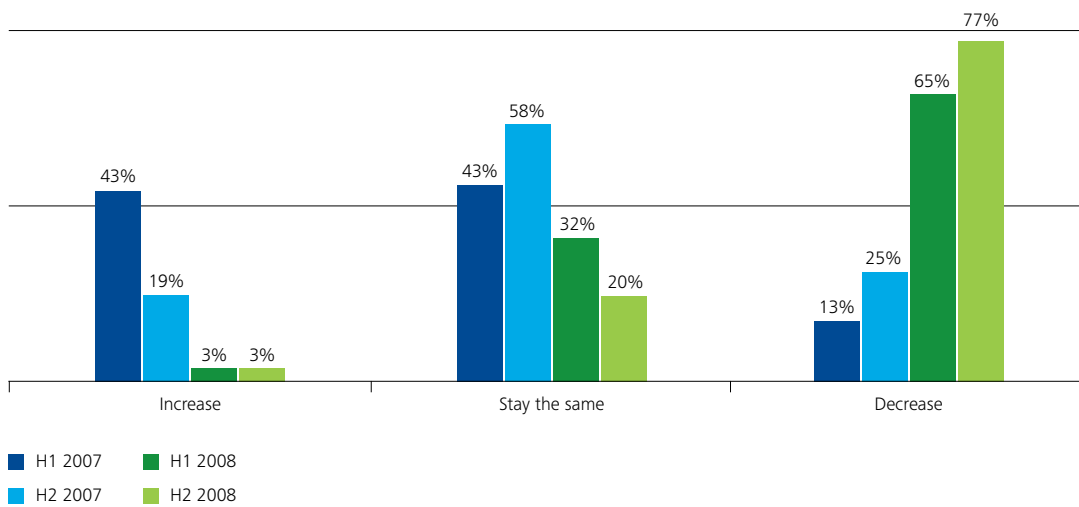
'No real proprietary dealflow exists in India - there is always going to be an investment bank involved. However, the GP's influence on the founder/promoter is a very important part of the transaction.'

'We would love to do purely proprietary deals, but there is only so much you can do without an intermediary.'

'Proprietary deals will be all the more important from now on. There will be a big drop-off in the closure rate of intermediated deals.'

Entry multiple for deals

Over the next 12 months, do you expect entry multiples to:



Why stay the same

'Valuations got hammered so badly that the benchmarks for listed companies are down now. However, this will provide some good (buying) opportunities.'

'It's difficult to judge, but markets probably won't recover in the next 12 months. In the private markets, we're likely to see lots of deals structured around 2010 and 2011.'

Why decrease

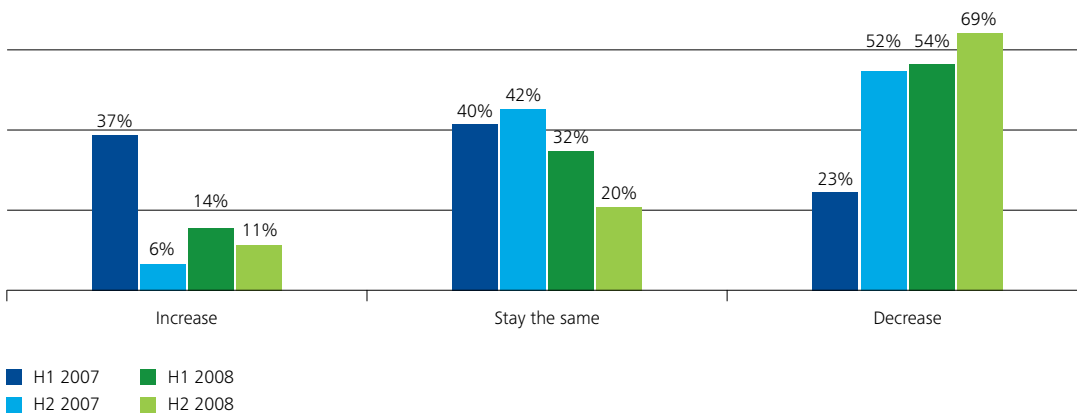
'Valuations are now more realistic - they have decreased by more than 50%.'

'It all depends on how promoters react to changing valuation expectations.'



Returns

Over the next six months, do you expect the returns achieved from the private equity exits to:



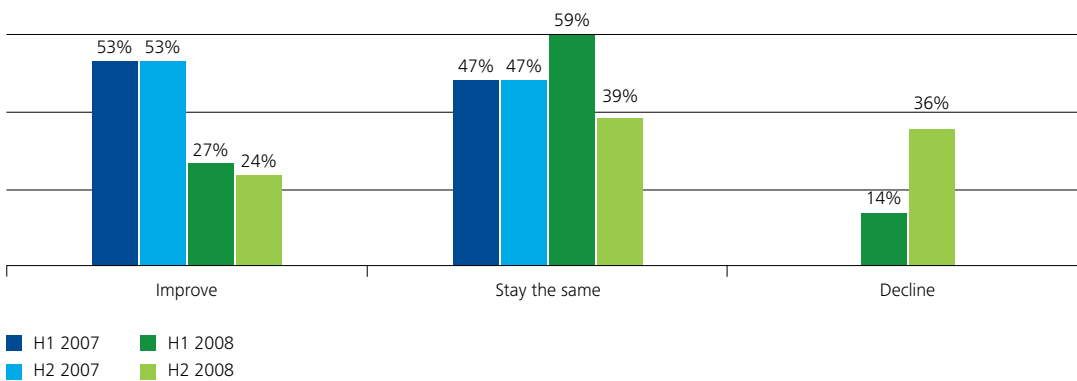
'Most private equity firms will try to ride out the storm and hope for a better exit environment 12 months down the line. Hedge funds will be forced to sell as they don't have the same model as private equity firms.'

'Private equity firms are beginning to recognise that when they invest in a company they need to be in it for the long-term.'

'There will be a big difference in terms of the returns achieved by existing investments, and those of new investments. For existing investments returns will be lower, but new investments stand a good chance of achieving higher returns.'

Operating climate for portfolio companies

Over the next 12 months do you expect the general health of your portfolio companies to:



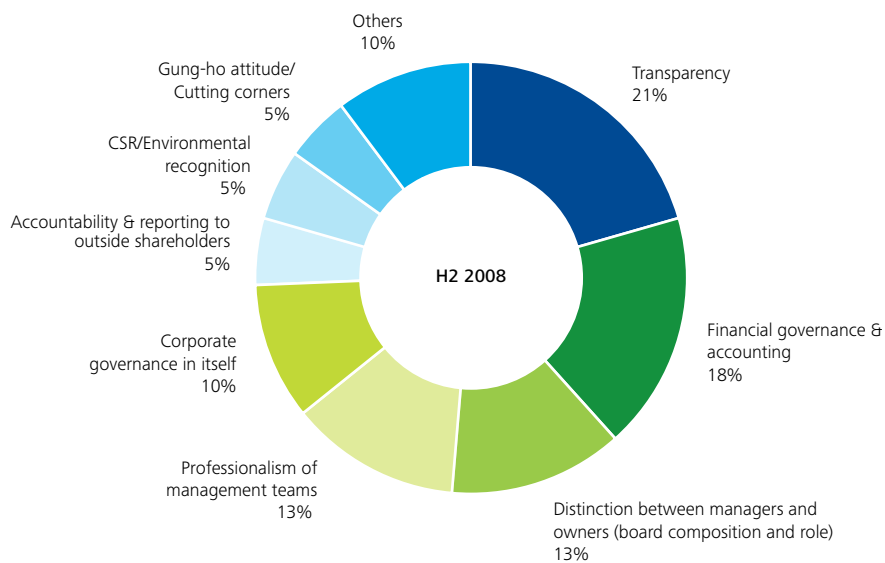
'This will stay the same or marginally decline. It is a mixed bag really. Those companies exposed to global exports will be impacted and some will slow down. It is hard to predict beyond the next visible six months.'

'2009 will be tough and performance will be lower than base case for most companies. However, the longer-term trend line is good.'



Corporate governance

What do you view as the key issues related to corporate governance?



'The key issue is transparency, and this has improved over the last five years. People have been cutting corners over the last 18-24 months, with orders piling up and general momentum. Now companies will cut costs a lot and we need to make sure they don't cut out the things that matter.'

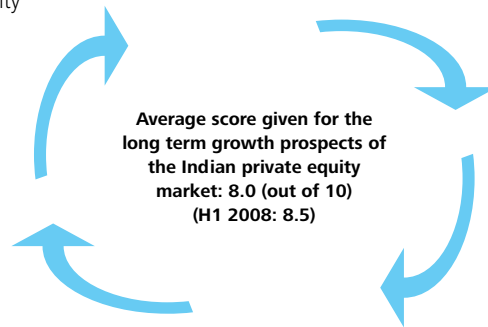
'The quality of the management is a key factor: family-run companies have a distinct lack of experience, there is no ecosystem and a lack of understanding of key issues.'

'New issues relating to corporate governance are just surfacing now. This is because promoters are under pressure to make their company look as attractive as possible, which is leading to some accounting discrepancies in areas such as forex. Also today there are new accounting norms, which have moved the bar.'

Summary

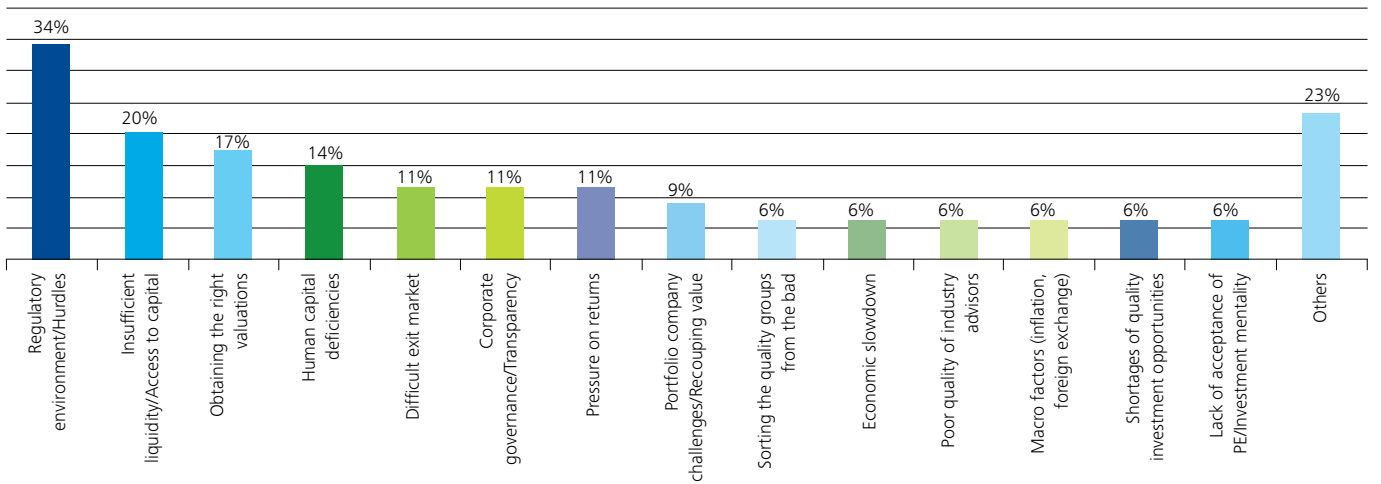
What the results show through the private equity cycle:

- India is seen as having a strong consumer base and entrepreneurial spirit compared to other emerging markets
- Ownership restrictions and rules governing PIPEs and take-privates present key legislative challenges
- Market regulation hurdles top respondents' list of biggest market challenges, while an emerging issue is the shortage of liquidity
- Fundraising is expected to be more of an issue as 63% of respondents expect LP appetite to decrease due to LPs shying away from emerging markets and a lack of GP track record
- Over two-thirds of respondents expect returns to decrease due to recent high prices and lower exit valuations, but there is optimism for 2009 vintage deals
- Exit activity is largely expected to decline due to poor IPO markets. Trade sales will predominate as an exit route, although exit time horizons will increase
- Infrastructure, healthcare, and consumer oriented sectors are seen as the key growth sectors
- Over half of the respondents believe that current investment activity levels are about to decline due to the economic downturn and overall cautiousness in the market. Deals will take longer to complete due to greater GP caution and more thorough due diligence
- Three-quarters think growth transactions will continue to be most popular; increasing optimism for venture and buyouts, while pre-IPO levels fall
- Nearly all respondents feel that promoters understand PE better now
- Competition levels are expected to decrease significantly due to players withdrawing from the Indian market
- Foreign and domestic houses are expected to be equally active as hedge funds fall away
- Reputation and value add are seen as the key competitive differentiators for PE firms in this market, while price has decreased in relative importance
- More than three-quarters of respondents feel that entry multiples will decrease due to valuations falling on a global scale
- Signs that any deal sourcing channel, proprietary or intermediated, is viewed as important in the current market; high hopes for overall deal quality as the wheat is sorted from the chaff



General outlook – challenges to overcome

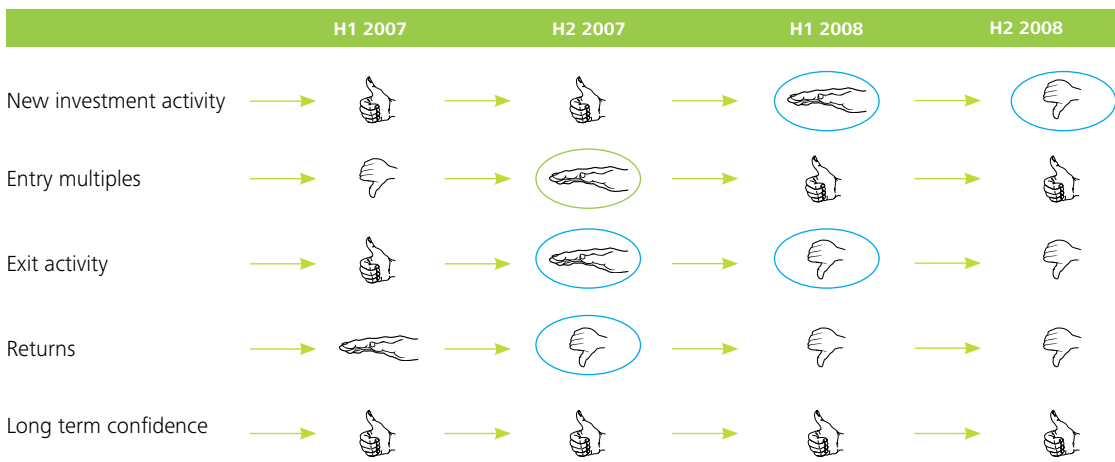
What do you see as the biggest challenges and barriers to growth for the Indian private equity industry to overcome?



‘The Indian market is nascent and immature. If PE is to be replicated here in full form, there needs to be more leeway and flexibility or it shall remain a niche growth capital market.’

‘The regulations that have been put in to regulate the earnings of companies are a big barrier. These are particularly prevalent in cable and telecommunications companies. Also, there are transparency issues when it comes to companies raising capital - slingshot pricing is not uncommon.’

Summary of indicators



- opinions were generally positive
 - opinions were generally negative
 - highlights a positive shift in sentiment against the previous results
 - highlights a negative shift in sentiment against the previous results

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