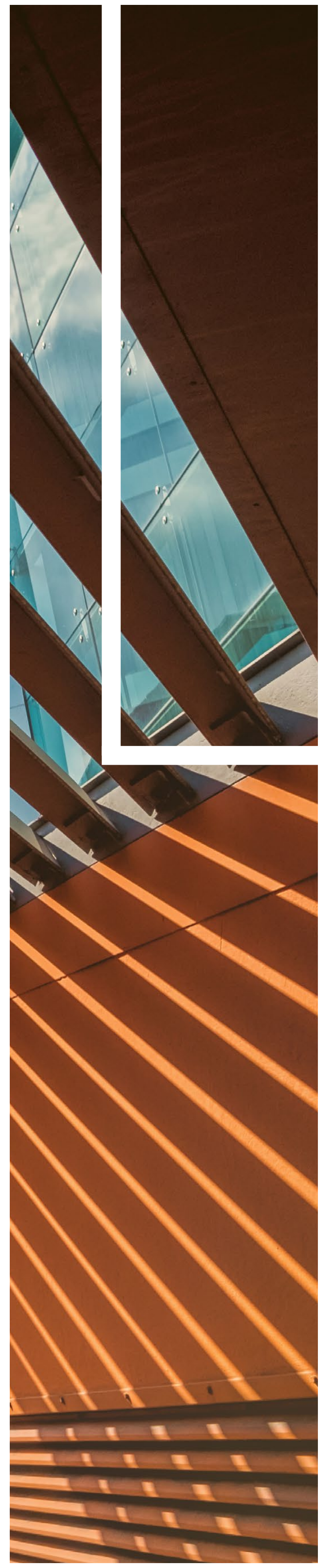
State of Dealmaking in India:
Three Takeaways for Business Owners and Leaders

The Indian dealmaking landscape has made significant strides over the last 10 years. We have come far from 2011 when a total of $10 billion of private equity (PE) capital was invested in India to 2020 with $40 billion of PE capital flowing in across over 850 deals. With deals worth $32 billion already done in the first six months of 2021, Lincoln International expects the year to close at over $50 billion in capital invested. Similar trends are being observed across mergers and acquisitions (M&A) while capital markets remain buoyant, truly marking the last decade as a "coming of age" for Indian dealmaking.

As Lincoln celebrates 10 years in India, the firm shares three key takeaways for business owners.



DESPITE IMPACT FROM COVID-19, INDIAN M&A IS EXPECTED TO THRIVE THROUGH END-OF-YEAR

The COVID-19 pandemic is far from over in India, but M&A activity has rebounded even amongst a slower economic recovery.

"Geo-political shifts away from China are pushing global industrial players to buy strategic assets in India to strengthen supply chains and better position themselves to cater to the large domestic market," shared Preet Singh, Managing Director at Lincoln International. "Similarly, the accelerated timelines around deploying renewable energy-generating assets are driving consolidation as the larger, more well-funded players are acquiring scale inorganically to augment the rapidly approaching greenfield installations."

Additionally, digital startups in consumer, healthcare, small- and medium-sized businesses (SMBs) and software got a shot in the arm as COVID-19 necessitated at-home access to essential products and services. Large players emerged in the startup space and turned into acquirers led by players like BYJU's in education technology and PharmEasy in healthcare.

Many of these changes in consumer preferences, driven by the pandemic, are expected to be permanent. To maintain their stronghold, traditional corporations are actively acquiring digital assets as was seen in the case of Reliance (Netmeds, Urban Ladder) and Tata (BigBasket, 1mg, cure.fit). Lincoln was the sole advisor on the sale of Pharmarack, a pharmaceutical supply chain solutions provider to DigiHealth Technologies – a digital platform set up by eight big pharmaceutical players, including Sun Pharma, Torrent and Cadila Healthcare.

"This acquisition is not only a step towards developing a world-class pharmaceutical supply chain and distribution information technology ecosystem that addresses the issue of visibility into drug expiration and counterfeits, but it is also a big step in support of the government's national digital health mission," added Gaurav Marathe, Managing Director and CEO India at Lincoln International.

Further, as businesses prove their resilience and markets mature, new and diverse pools of capital have emerged with increased participation from hedge funds / cross-over funds, global family offices, corporate venture funds and global impact funds. Global buyout funds and traditional growth PE investors have now started becoming active in early stage assets as is marked by the recent investment of KKR in Lenskart, Blackstone in BYJU's and the acquisition of Simplilearn by Blackstone.

Due to the pandemic, buyers and sellers have become comfortable completing due diligence and closing deals electronically, leading to accelerated timelines for many deal processes. Looking ahead to the rest of 2021, Lincoln expects deal activity to remain high as business owners take advantage of this increased availability of capital in the market.

> *"Geo-political shifts away from China are pushing global industrial players to buy strategic assets in India to strengthen supply chains and better position themselves to cater to the large domestic market.*
>
> – Preet Singh, Managing Director at Lincoln International

(continued on next page)

The abundance of dry powder in the Indian market and the attractiveness of listing publicly have shifted decisionmaking power to entrepreneurs and business owners as they make plans for an exit.

INDIAN CAPITAL MARKETS CRAZE GIVES ENTREPRENEURS NEGOTIATING POWER

India is set to reach a new record of initial public offerings (IPOs) in 2021 and capital markets activity shows no signs of slowing down. At least 30 additional IPOs are expected by the end of the year with Indian IPOs raising nearly $3 billion in the first five months of the year. The industrials sector has led the way in Indian IPO activity, accounting for more listings than any other industry. 2021 will not just beat the 2017 IPO peak in number and value of IPOs, but unlike the 2017 IPO rush, which was predominantly led by listings of several large insurers, the 2021 IPO rush is more diversified across industrials, consumer, technology and infrastructure companies.

This frenzy has been supported by high levels of liquidity as well as backing from foreign investors. High-performing stock markets fueled the urge to go public for many companies as they looked to raise capital during the pandemic. Valuations in public markets have generally been higher than the private markets, influencing business owners to pursue IPOs. As capital from foreign institutional investors and retail investors continues to pour into the market, Lincoln expects valuations to remain high. While soaring prices do not always reflect underlying value, Indian business owners are enjoying the party while it lasts.

Stellar listings of companies such as Zomato and Nazara have set in motion the listings of tech startups in India. 2021 will see listing of large technology startups such as Paytm, Nykaa and Policy Bazaar. This will be a milestone year for venture capital (VC) exits and is expected to strengthen the investment thesis for early stage investors in India.

The abundance of dry powder in the Indian market and the attractiveness of listing publicly have shifted decisionmaking power to entrepreneurs and business owners as they make plans for an exit. In considering a sale to a private equity or strategic buyer, owners can secure highly favorable terms from investors.

As these startups now mature, the appetite for Indian technology stocks is on the rise globally and investors are paying a premium to get in on the action.

THE TECHNOLOGY SECTOR IS LEADING THE WAY WITH HIGH DEAL VOLUME AND HIGHER MULTIPLES

As consumers and workers sheltered at-home, technology showed a unique immunity against the waves of the pandemic and took on a new role in people's lives, from online shopping habits to enabling successful work from home environments. 16 new unicorns have been added in India in 2021 so far, taking the total count to over 50, behind only the United States and China.

Zooming out, deal volume doubled for the technology sector over the last 10 years while deal value remained constant, evidencing the slow rise of early stage technology startups. As these startups now mature, the appetite for Indian technology stocks is on the rise globally and investors are paying a premium to get in on the action.

The Jio Platforms deal in 2020 saw the entry of blue-chip technology investors, such as Silver Lake and Vista Equity Partners into India. Hedge funds and cross-over funds, such as D1 Capital, Wellington, Coatue, Viking Global and Bond Capital have become highly active in the Indian startup ecosystem scouting for quality assets to invest into. With a star-studded technology IPO line-up, hedge funds and cross-over funds are actively participating in pre-IPO rounds of e-commerce giants, including Swiggy and Flipkart, who recently raised over $1 billion at record-breaking valuations.

Software, in particular, is thriving with the penetration of global Software as a Service (SaaS) players, including Zenoti, Postman and Innovaccer leading high deal multiples. In the next six months, Lincoln expects to see more unicorns created in the space and an uptick in M&A by strategic buyers both inside and outside of India.

"We are seeing an accelerated appetite for India-based SaaS businesses serving a global client base from a plethora of market participants across the spectrum – VCs, PEs, hedge funds and even PE-owned SaaS businesses with a strong acquisition mandate," concluded Sathya Ramanathan, Managing Director at Lincoln International.

Click here to read more of Lincoln's perspectives on the trends and investment opportunities in India or connect with a member of our global team.