

Indian Private Equity /Q Middle East

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CDC worldwide

- Established in 1948 by the British Government for driving private sector growth in poor countries.
- Total assets under management c. £2bn (US\$ 3.9bn).
- US \$1.8bn of outstanding commitments to private equity funds globally
- Underlying exposure to around 250 companies worldwide.

CDC in India

- Active in Indian Private Equity since 1987.
- c. US\$600m committed to country funds, managed by 10 managers.
- Further exposure to India through funds managed by 4 regional players.
- Underlying exposure to over 60 Indian companies spanning the economic spectrum.

CDC's fund managers investing in India:



Examples of Sectors where FDI is currently restricted:

Sector	Sub-Sector	FDI Permitted
Retail	Single brand stores	Up to 51%
	Multi brand retail	Not permitted
Media	Newspapers	Up to 26%
	Radio	Up to 20%
	TV Networks	Up to 49%
Telecom Services		Up to 74%
Air Transportation Services		Up to 49%

Additional elements of protectionism exist even when FDI is permitted, exacerbated by inconsistency in policy guidelines issued by different regulatory bodies whose activities overlap:

Sector	FDI Permitted	Additional conditions
Real Estate	Up to 100%	Subject to a minimum build up area of 50,000 square metres.
Air Transportation Services	Up to 49%	No participation permitted by foreign airlines.
FM Radio	Up to 20%	Only resident Indians can hold key positions or be on the Board; one promoter must own over 50% of the paid up equity.
Hotels	100%	Only 51% is permitted automatically; the Foreign Investment Promotion Board must give consent above this limit.

Add changes to the tax regime announced in February 2007 to complicate matters further...

- Tax exemptions for venture capital undertakings (ie unlisted Indian companies) significantly tightened
- Now only available for investments in nano-technology, IT related development, bio-tech, pharma R&D, bio-fuels production, dairy or poultry industry, hotel cum convention centres
- Despite lobbying from VC / PE industry, unlikely that government will roll back the provision, although it may relent regarding infrastructure investment
- Affects any investor participating through a domestic fund structure
- International investors can circumvent by investing directly into Indian companies via an offshore vehicle such as Mauritius

Investment controls and regulations have been relaxed significantly in the past two years, and are likely to ease further in the short and medium term:

- Real estate investment was opened up to FDI investment in the past 18 months.
- In July 2006, a government-appointed panel proposed 49% limits on FDI in multi-brand stores during 2007. International retail players are currently courting incumbent domestic players (e.g. Walmart and Bharti).
- In 2009 WTO regulations will bring about changes in the ownership of banks.

In summary, India is the world's largest democracy. Things change, but not as fast as one would like. Patience will be rewarded.

How do international investors make the most of investment opportunities in restricted sectors?

- Investment in ancillary businesses.
- Recognise that minority growth investments still drive the private equity industry in India.
- Back indigenous fund managers with strong franchises and deal flow.

How much has the regulatory regime, red tape and poor infrastructure affected private equity players in India?

- Growing number of established and proven fund managers focusing on the Indian opportunity (e.g. Actis, Baring India, Chrys Capital, IVFA [GW Capital], IDFC, Sequoia [Westbridge]).
- Existing players are being joined by regional funds and new entrants, mainly at the early stage and large deal (i.e. over \$50m) ends of the market (e.g. NEA, Taj Capital, KKR, TPG).
- Country-focused funds raised during 2006 have attracted commitments in excess of \$2bn.

Given the number of recent announcements of GPs entering the Indian market, the impact has been limited.

Indian Private Equity Industry: the position today

- Evidence of GPs' ability to generate sufficient deal flow is reflected in the rapid growth and vibrancy of India's private equity industry:

	2004	2005	2006
No. of deals	68	147	299
Total Invested	\$1.6bn	\$2.3bn	\$7.5bn

* Source: Venture Intelligence India

- Strong exits have been posted through trade sale and IPO (e.g. Glenmark, Gujarat State Petronet, Mphasis, Bharti).
- Fund returns generated by a number of Indian GPs fall within the top quartile of global fund performance for their vintage.

Indian private equity investments by stage – 2006*

Stage	No of Deals	% Share	Amount \$m	% Share
Early stage	59	19.5	241	3.2
Growth	46	15.2	511	6.8
Late stage	108	35.8	3,639	48.7
PIPE	66	21.9	1,576	21.1
Buyout	14	4.6	1,135	15.2
Other*	9	3.0	373	5.0

*Venture Intelligence India

Future trends in Indian private equity

- Increasing availability of and expertise in change-of-control transactions.
- Continuing need for growth capital, strongly driven by corporate earnings, particularly for SMEs.
- Secondary transactions between GPs will arise as funds reach termination date.
- New fund opportunities in distressed debt, real estate, mezzanine.
- Relaxation on FDI in retail over next 18 months – 2 years.
- Advent of the first invitation-only funds.
- Launch of cross border funds