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India Private Equity Mid-Market Monitor: July 2024

A tale of two markets

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A note from the CEO

“ While Indian public markets have reached record highs and continue to outperform global peers, private markets are undergoing a strategic reset with a key focus on long-term value creation. India, currently the world’s fastest-growing major economy, remains a powerful destination for investors seeking to capitalize on its ongoing growth trajectory. ”

Klaas Oskam
CEO, DC Advisory India



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The story so far: A tale of two markets

The Indian landscape is currently a tale of two markets - while the euphoria in public markets continues, private markets paint a more somber picture, with deal volumes down approximately 64% compared to the highs of 2022. Despite record levels of Private Equity (PE) / Venture Capital (VC) liquidity, deal activity in the first half of 2024 has fallen below pre-covid levels. As a result, a wave of investor caution continues to sweep through the private market, leading to a shift in priorities and investment trends.

1

A period of market correction is leading to more conservative valuations for private companies

While lower valuations may attract some investors, we continue to see startups face challenges securing primary capital. Internal funding rounds and down rounds are becoming increasingly common, and in many cases, the main source of primary capital for Indian startups.

Secondaries and buyouts activity of profitable compounders are on the rise - accounting for roughly 50% of overall deal value and 62% for transactions greater than \$50mn (see Fig.4). As a result, we are seeing startup founders focus on rationalizing cost structures.

2

3

Investors prioritize sustainability vs growth

Hedge funds' 'growth-at-all-costs' strategies are waning. Instead, private equity, sovereign wealth funds, late-stage VCs, family offices, and crossover investors are adopting more traditional growth equity risk and return approaches, emphasizing profitable models and long-term value creation.

Traditional sectors are outperforming new-age tech

Sectors with established offline operations - such as Financial Services, Healthcare, Industrials, Consumer, and Infrastructure - are showing more resilience compared to online-first counterparts in Fintech, Online Consumer, HealthTech, and EdTech.

4

This is the first time in two decades that we witnessed a deviation from the '18 month recovery/correction rule', we continue to remain optimistic that deal activity will pick up on the back of a strong macro, albeit after a couple of more quarters of pain, clean-ups and valuation resets.

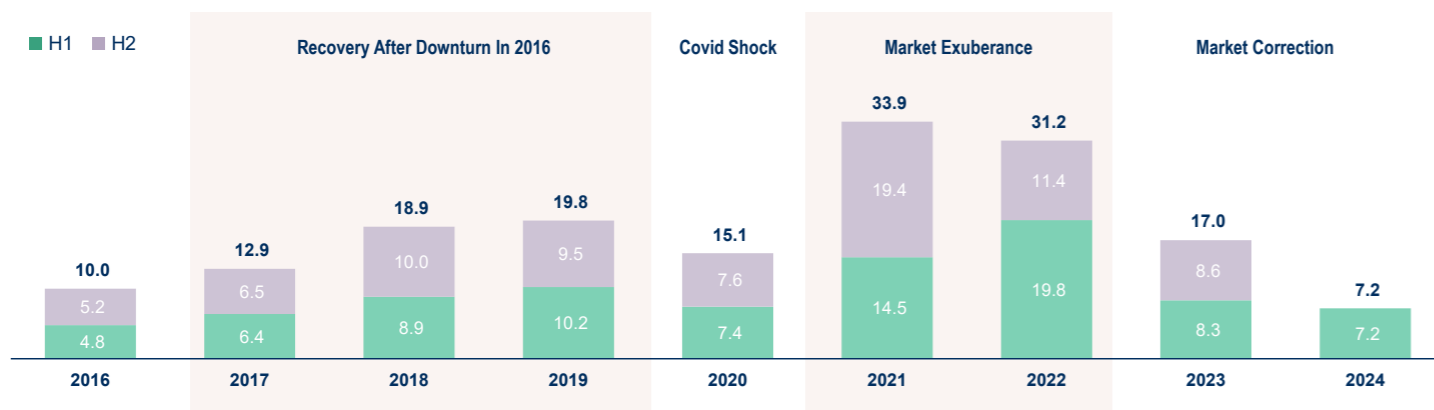
The story so far: In numbers

The investment landscape

Deal values have not recovered to pre-covid levels, making this the longest correction period since the dotcom bust (see Fig. 1).

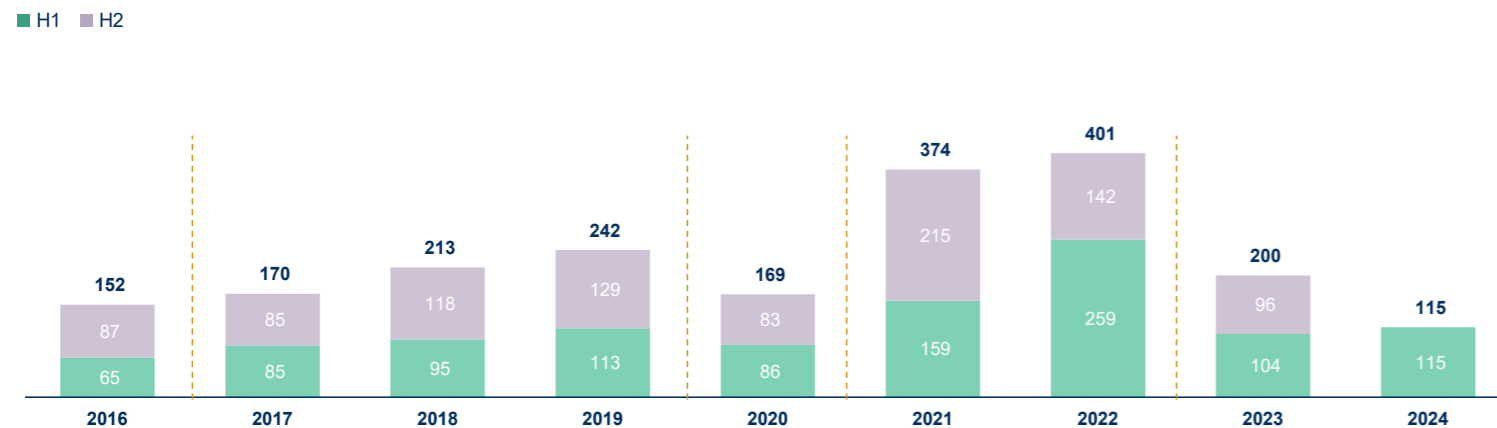
While green shoots like Zeptoⁱ, Innovacerⁱⁱ and Bluestoneⁱⁱⁱ suggest a potential pick-up, investor appetite remains cautious, favoring companies with demonstrably strong unit economics and profitability.

Fig. 1: Mid-Market VC/PE activity in India by deal value (\$bn)



Source: Venture Intelligence (See Appendix* for search criteria)

Fig. 2: Mid-Market VC/PE activity In India by deal volume

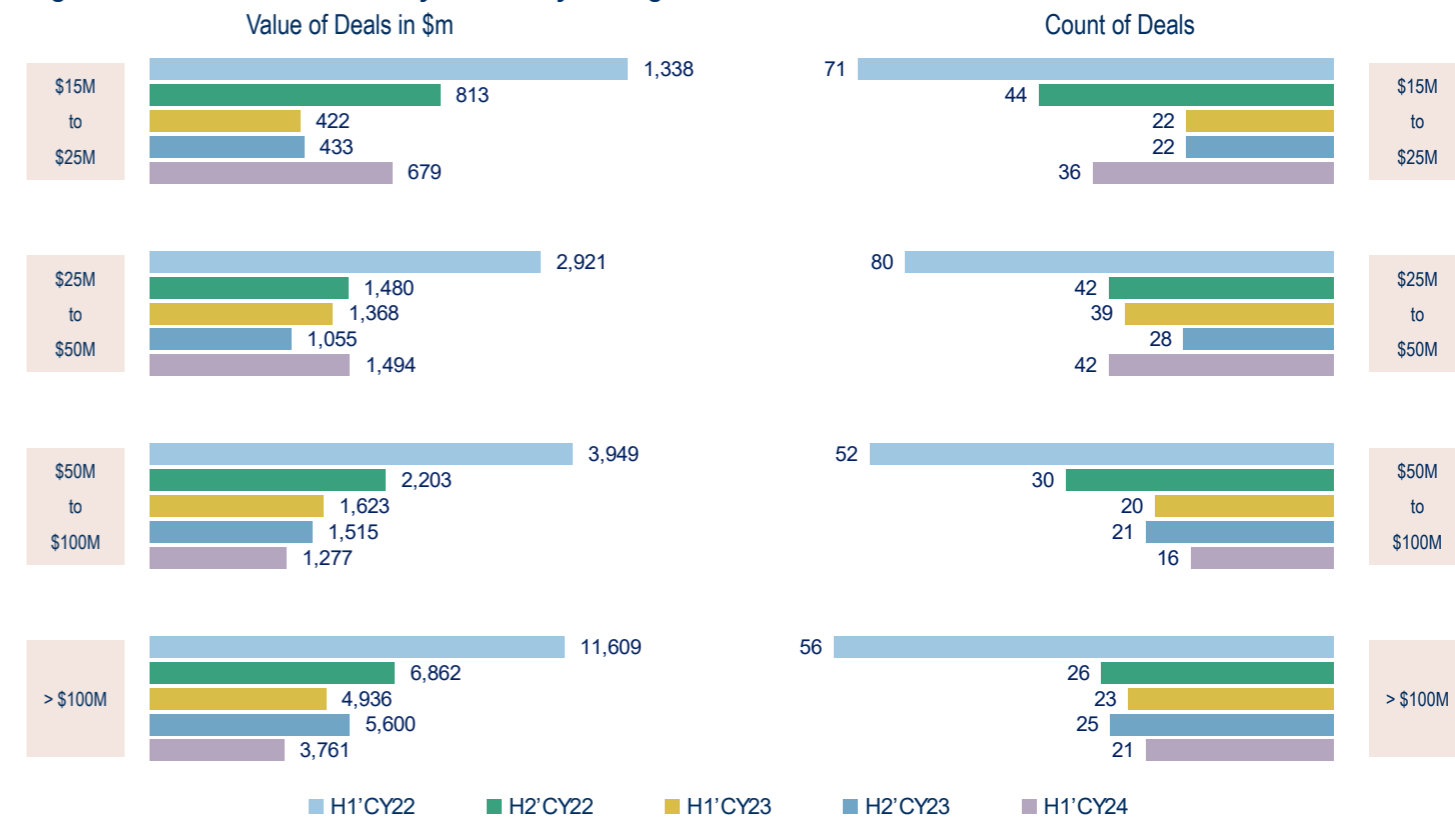


Source: Venture Intelligence (See Appendix* for search criteria)

Large deals exceeding \$50mn have taken a significant hit, with the total value falling by 70% since the first half of 2022 (see Fig. 3).

We believe this is a result of a decline in large primary funding rounds for high-growth tech companies and unicorns (see Fig.4), previously fueling market expansion between 2018 and 2022. Secondary transactions and buyouts, typically associated with traditional sectors and established companies, have emerged as a bright spot. These deals now comprise 62% of the total value in deals exceeding \$50mn. In contrast, the sub-\$50mn segment remains more active, with both total deal count as well as total deal value starting to bounce back and slightly ahead of levels seen in H1 and H2 of 2023. We believe limited primary capital availability for high cash burn businesses desire to minimize dilution, given muted private market valuations, are the key drivers as to why deal activity in the sub-\$50mn has started to modestly bounce back from the lows seen in 2023.

Fig. 3: Mid-Market VC/PE activity In India by average deal size



Source: Venture Intelligence (See Appendix* for search criteria)

The story so far: In numbers

The investment landscape

Five new unicorns have emerged in the last 18 months, compared to 44 in 2021 (see Fig.5).

Tight funding conditions have led to an increase of fallen unicorns in India, with seven losing their billion-dollar status in the first half of 2024. We believe there is a growing number of startups at risk of losing their unicorn status, otherwise known as 'zombie unicorns', due to valuation resets.

Fig. 4: Split between internal rounds/down rounds, Secondaries, Buyouts & Primaries



Source: Venture Intelligence (All deals between 01 Jan 2023 to 30 Jun 2024. See Appendix* for search criteria)

Fig. 5: Unicorn additions & deletions

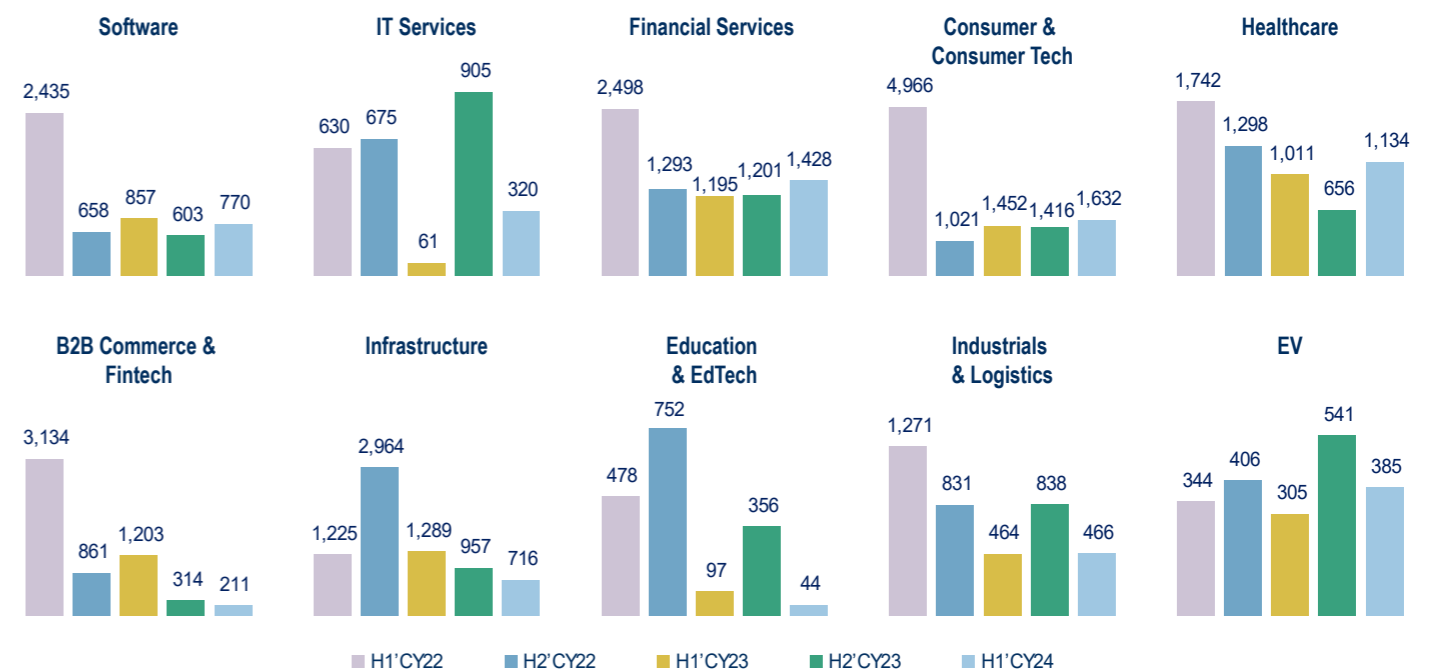


Source: Venture Intelligence^{iv}

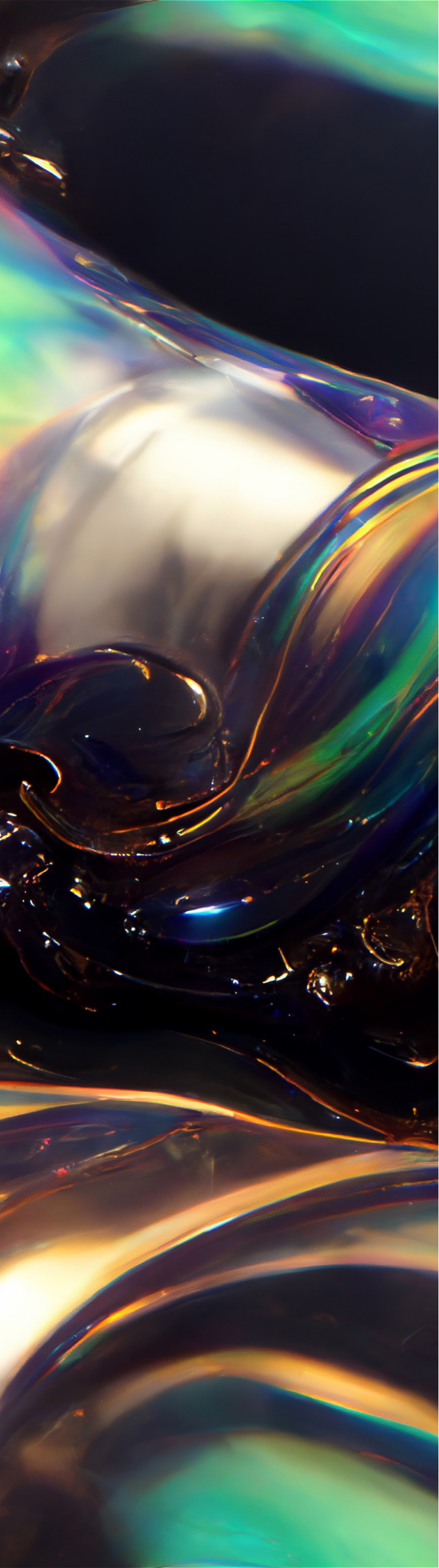
Tech and new-age sectors have borne the brunt of the slowdown, with deal values plummeting more than 70% between H1 2022 and H1 2024^v.

Traditional sectors, including those with strong offline models such as Financial Services, Healthcare, Industrials, Consumer and Infrastructure are demonstrating resilience compared to new-age tech and online-first counterparts, like FinTech and EdTech (see Fig. 6). This further highlights the shift in investor focus on companies with proven profitability, as opposed to high-growth, high-burn new-age tech models. This trend has prompted many new-age direct-to-consumer (D2C) brands to prioritize offline expansion strategies to reduce customer acquisition costs (CAC) historically associated with online-only models.

Fig. 6: Mid-Market VC/PE activity by sector (\$mn)



Source: Venture Intelligence (See Appendix* for search criteria)



Public markets are at the other end of the spectrum

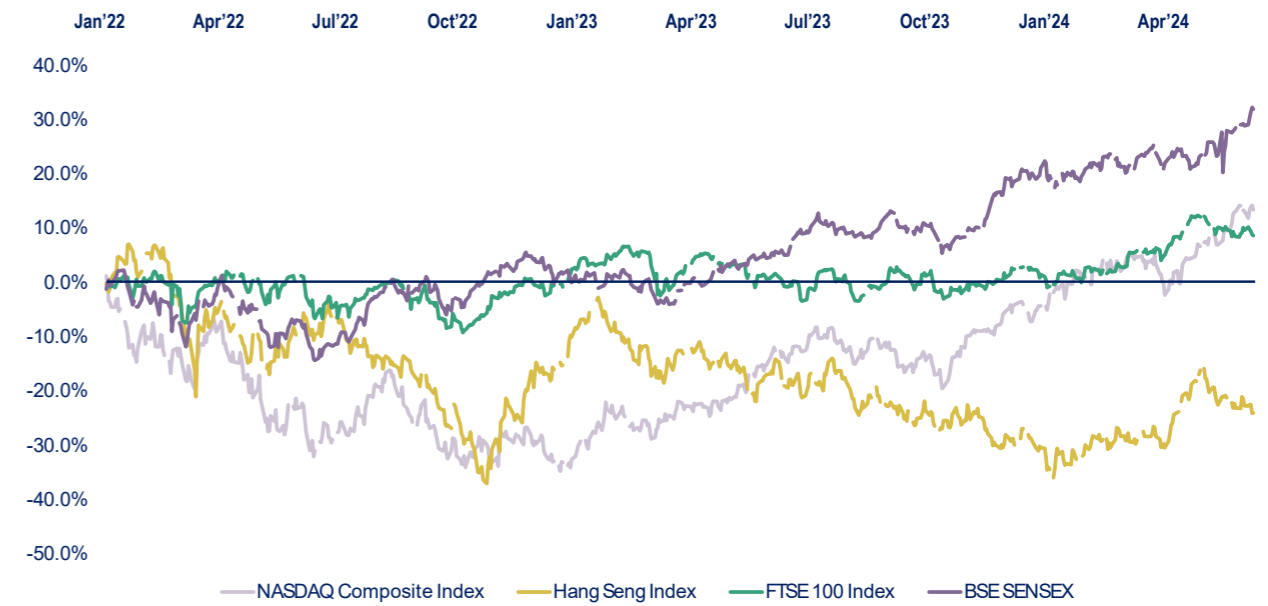
India remains the fastest growing major economy and is poised to become the world's third-largest economy by 2030.^{vi}

India's stock market has surged over 30% since January 2023, outperforming all major indices globally (see Fig. 7). We believe this run is fueled by strong corporate earnings, healthy economic growth (8.2% GDP growth in FY24^{vii}), and a stable government. In addition, an uptick in domestic investments (individual savings channeled into equities via mutual funds due to more favourable tax treatment in comparison with debt has provided further momentum.^{viii} With the macro intact, India continues to be the preferred investment destination for global investors, given waning interest in China.^{ix}

Due to the improved market performance, there has been a significant surge in IPO activity by PE/VC-backed startups.

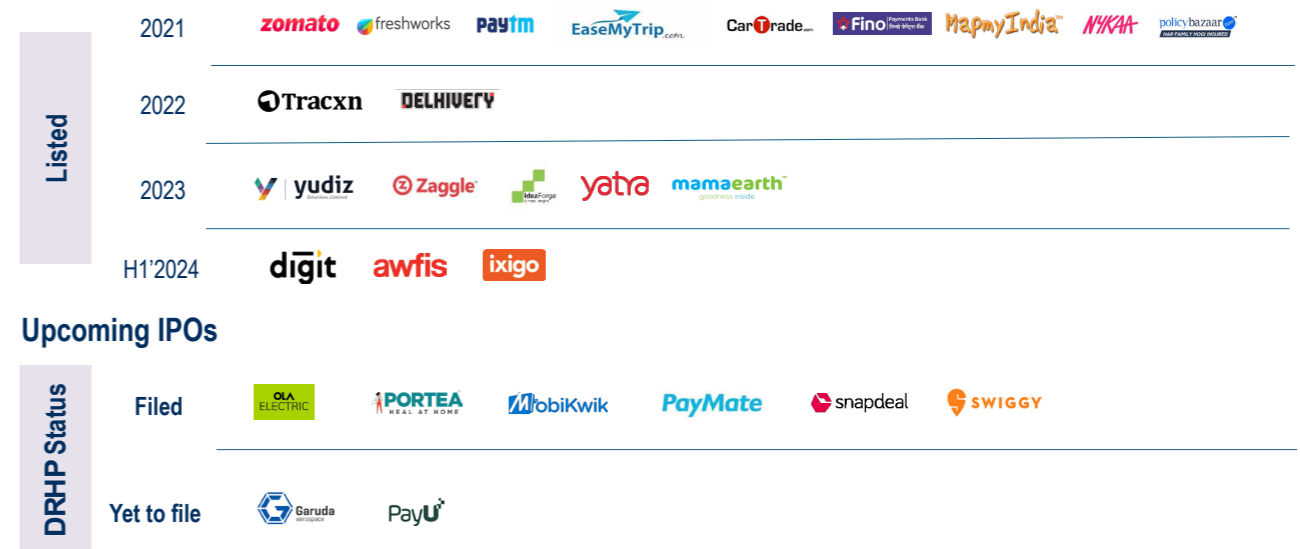
This strong public market performance has revitalized IPOs as a viable exit strategy for PE/VC-backed startups. Unlike in the past where M&A and buyouts may have been the dominant exit strategy, we have seen public markets valuing most traditional businesses as well as several new-age startups more generously than private markets. This shift is coupled with public markets' continued reward for profitability, for example, Zomato's stock price delivered break-out returns after the company turned profitable (see Fig. 9). We believe this further incentivizes startups to prioritize profitability. However, it is important to note that IPOs can only provide liquidity in stages – whereby investors and in particular founders can typically only liquidate part of their ownership in the initial IPO. Given the stark difference in market sentiment and at times material valuation disparity between public and private markets, many Indian PE/VC investors are steering their scaled-up portfolio companies towards an IPO to benefit from the very buoyant Indian capital market sentiment. Basis the overall macro and record levels of new IPO filings in India, we expect the public markets to remain robust for the next couple of quarters, providing a welcome breather to PE/VC investors in search of exits and DPI.

Fig. 7: Indian stock markets have outperformed global indices



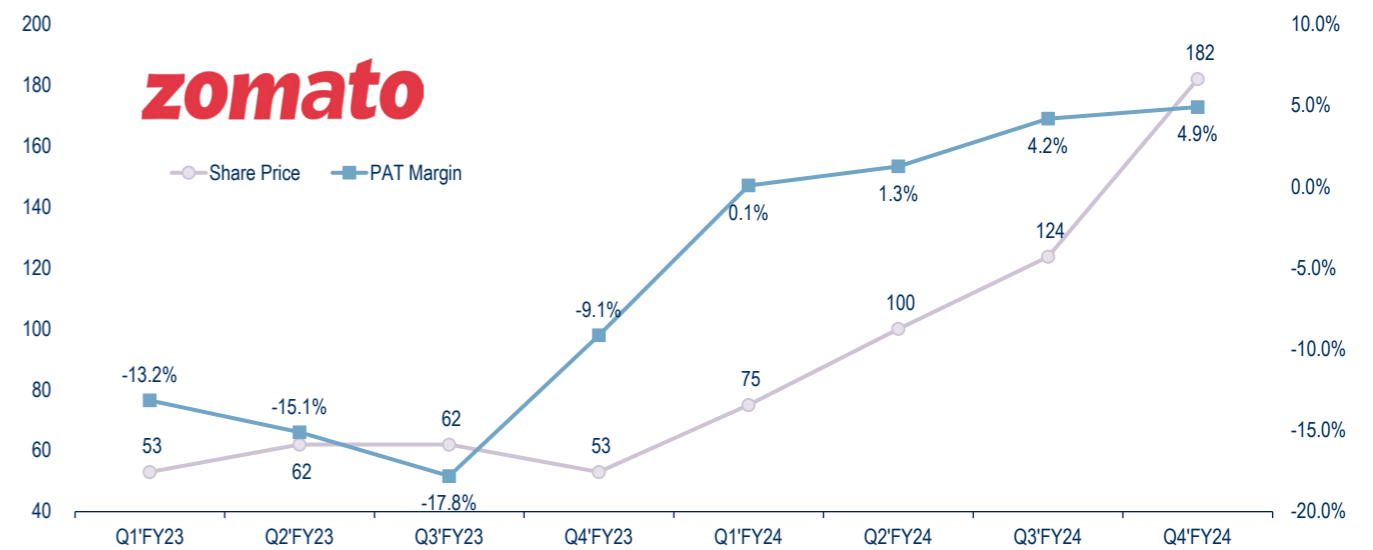
Source: Copyright © 2024 S&P Global Market Intelligence (and its affiliates, as applicable) - India stock market indices report Q1 2024

Fig. 8: IPO listings



Source: Inc42^x

Fig. 9: Zomato stock price movement after it turned profitable



Source: Copyright © 2024 S&P Global Market Intelligence (and its affiliates, as applicable) – Zomato stock price

How public markets are impacting private markets & the startup landscape

Everyone is thinking exits and profitability, and profitable companies are better valued by the Indian stock markets compared to the US and Europe.^{xi}

India's VC/PE industry is grappling with the need to demonstrate successful exits and Distributed to Paid-In Capital (DPI), for its Limited Partners (LPs). Previously, paper mark-ups on portfolio companies enabled General Partners (GPs) to raise their second or in some cases even third fund - however, for established GPs with over 10 years of operating history, we believe DPI is becoming increasingly important. As a result, GPs are increasingly looking to pursue exits through IPOs, secondary transactions, and M&A / buy-outs to boost DPI and return capital to LPs, ultimately securing their continued commitment for future funds.

The large majority of secondary transactions in India are currently company specific Secondaries / pre-IPO secondary rounds or majority recaps, as against GP led portfolio level exits or (multi asset) continuation funds that have become significant contributors to secondary liquidity in the US and Europe. Given the increasing pressure to deliver DPI and in particular in a scenario where the Indian public market sentiment starts to moderate, we do foresee a significant uptick in portfolio level or multi-asset secondary activity.^{xii}

As it relates to the broader private market, FOMO (fear of missing out) has largely dissipated, leading investors to be selective and cautious of pursuing new deals in 2024, prioritizing profitable companies or those with a clear path to profitability. We believe this shift in investor sentiment favours mature companies and secondary transactions over high cash-burning unicorns typically funded through large primary rounds. Both VCs and the select number of hedge funds that remain active, are adopting a more traditional growth private equity approach, moving away from the high-risk, high-reward VC style of the past.

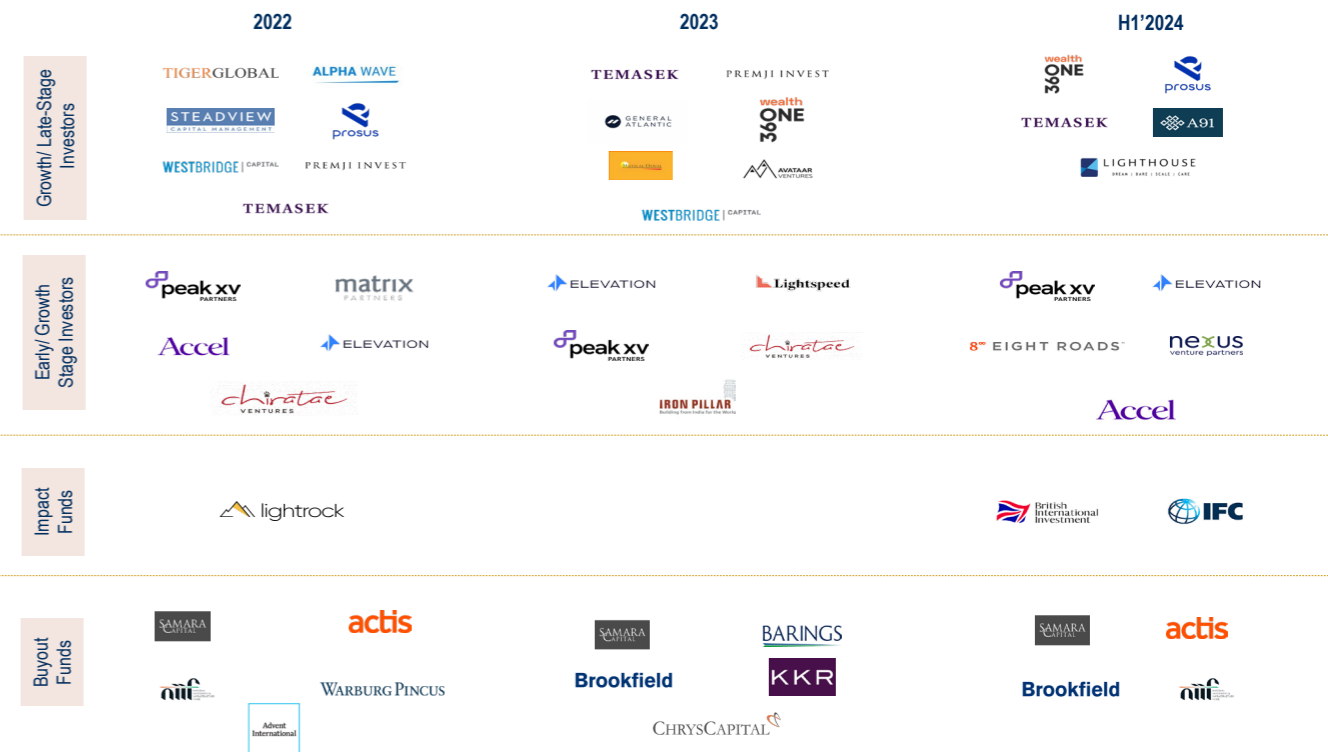
This cautious approach reflects a significant shift in the investor landscape over the past few years. The exuberant days of 2021,

fueled by large VC funds and opportunistic hedge funds prioritizing hypergrowth at any cost, have receded. Today, the most active investors are as per our analysis, growth equity PE firms, buyout investors, sovereign wealth funds, crossover funds, and family offices. These entities are accustomed to public market valuations based on EBITDA multiples and conduct rigorous due diligence. International investors still participate, however primarily as co-investors leveraging the expertise of local lead investors with on-the-ground presence.

A new breed of investor has emerged alongside this shift - family offices and crossover funds. Domestic wealth accumulation through strong public markets has fueled their interest in diversifying into private markets. Additionally, their understanding of public markets in our experience makes them comfortable with pre-IPO bets in mature private companies 12-24 months ahead of planned public offerings. These pre-IPO investments can offer the allure of assured allocation (compared to potentially minimal allocation in a heavily oversubscribed IPOs), potential for healthy internal rates of return (IRR) in the pre-IPO period, and the potential for significant gains from the IPO pop associated with a successful public listing.

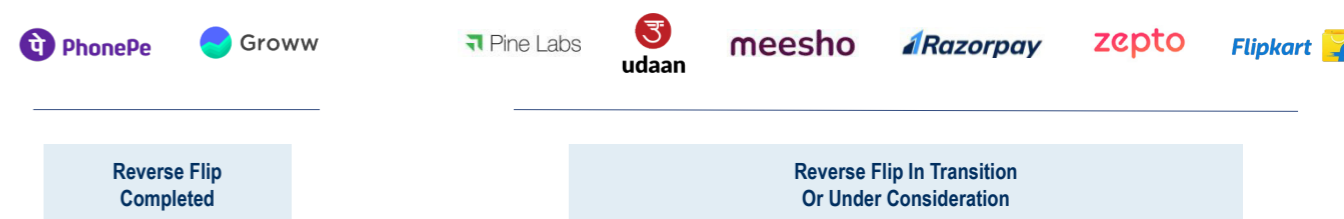
We have seen the allure of Indian public markets prompting a 'homecoming' trend for fast-growing tech startups. Previously, several VCs encouraged their portfolio companies to domicile in the US or Singapore for easier global listings and a perceived deeper M&A market. However, the strong performance of Indian public markets in combination with the much lower revenue threshold to take a company public in India, have made domestic listings increasingly attractive. Hence, multiple unicorns are 'flipping' their structure from overseas holding companies to India domiciled structures and/or are considering reverse mergers.^{xiii} Currently, software companies as well as profitable omni-channel / Consumer Tech companies are receiving higher valuations in the Indian stock markets vs their US and European peers.^{xiv}

Fig. 10: Changing most-active investor landscape



Source: Venture Intelligence (See Appendix* for search criteria)

Fig. 11: Companies returning to India



Source: Economic Times India^{xv}, Business Standard^{xvi}

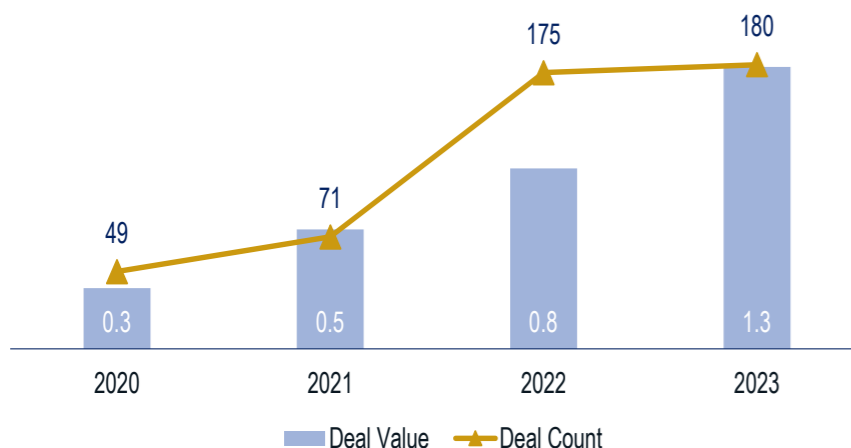
How startups are navigating the current market

While most startups may have come to terms with respect to the need to balance growth and profitability, we believe there are many that have either woken up to the new reality a little late and/or have not been able to change the fundamentals of their business. This focus on profitability has, in our view, resulted in the trimming down of high-fixed costs in the form of employees. Since the funding downturn commenced in H2 2022, approximately 37,000 employees have been laid off across 130 Indian startups. The EdTech sector experienced the highest number of layoffs, followed by Consumer Tech and e-commerce. Collectively, these three sectors have seen 59 startups reduce their workforce by 26,730 employees over 2023 and 2024.^{xvii} We believe the other impact of an increased focus on profitability is a reduction of marketing budgets, especially online, where incremental dollars may have generated diminishing returns. Furthermore, some companies that could not find product market fit or could not prove stable unit economics in a short period of time have chosen to shut down and return investor capital.

We believe that many companies which are yet to grow into their high valuation benchmarks from 2021, have reduced growth, brought their burn down and taken internal round / bridge rounds from existing investors to extend runway and tide through this muted phase in the private markets.

Given the significant rise in venture debt deployment, it seems that venture debt has come to the rescue of many startups looking to extend their cash runway or minimize dilution in a suppressed valuations environment. Over the last few years, multiple venture debt firms have come up in the Indian market and the total venture debt deployment in 2023 stood at \$1.3bn, a record figure (see Fig. 12).

Fig. 12: Venture-debt deployment in India (\$bn)



Source: India Venture Debt Report, 2023^{xviii}

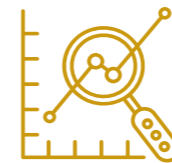
Outlook for the next 12 months



Taking a slightly longer-term view, we remain optimistic for activity to pickup pace in the Indian private markets, driven by record amounts of liquidity that VC/PE/SWF investors are sitting on and the strong economic growth the country is seeing.^{xix} However in the next two quarters we anticipate some more pain and clean-ups to take place in the startup ecosystem before overall activity levels (and in particular significant primary funding activity in unicorns) starts to pick up.



For now, be it VCs, PEs, SWFs, family offices or cross-over funds, the market seems to be looking for profitability and sustainable unit economics - the classic PE style model of investing. As more companies cross that threshold, we expect to see increased deal activity. Primary infusions will continue to be constrained. Instead, we believe the larger deals will continue to be dominated by Secondaries, pre-IPO rounds and buyouts / majority recaps.



Given this is the first time in two decades that the '18-month recovery/correction rule' was broken in India, we will need to wait and watch for the next trigger event to bring back strong deal momentum to the broader Indian private markets.

Look out for our upcoming report

"Global SaaS valuations have shifted significantly since the pandemic, now trading closer to the market mean. With the underlying drivers of valuation also having evolved, **businesses will need to realign their priorities to optimize**"

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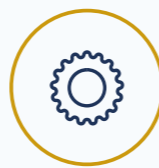
Financial Services



Education & EdTech



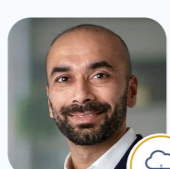
IT Services



Industrials & Logistics



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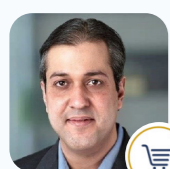
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*Appendix

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Venture Intelligence	
Sector	Search criteria
Software	Transaction completed in the Software industry classification between 1-Jan-16 to 30-Jun-24 with deal values between USD 15mn to 500mn
Consumer & Consumer Tech	Transaction completed in the FMCG, Food & Beverage, Retail, Agri-business and Travel & Transport industry classification between 1-Jan-16 to 30-Jun-24 with deal values between USD 15mn to 500mn
Financial Services	Transaction completed in the BFSI industry classification between 1-Jan-16 to 30-Jun-24 with deal values between USD 15mn to 500mn
Education & EdTech	Transaction completed in the Education & EdTech industry classification between 1-Jan-16 to 30-Jun-24 with deal values between USD 15mn to 500mn
IT Services	Transaction completed in the IT & ITES- IT Services industry classification between 1-Jan-16 to 30-Jun-24 with deal values between USD 15mn to 500mn
Industrials & Logistics	Transaction completed in the Manufacturing and Shipping & Logistics industry classification between 1-Jan-16 to 30-Jun-24 with deal values between USD 15mn to 500mn
Healthcare	Transaction completed in the Healthcare industry classification between 1-Jan-16 to 30-Jun-24 with deal values between USD 15mn to 500mn
B2B Commerce	Transaction completed in the B2B Commerce & FinTech industry classification between 1-Jan-16 to 30-Jun-24 with deal values between USD 15mn to 500mn
Infrastructure	Transaction completed in the Infrastructure industry classification between 1-Jan-16 to 30-Jun-24 with deal values between USD 15mn to 500mn
Industrials & Logistics	Transaction completed in the Industrials & Logistics industry classification between 1-Jan-16 to 30-Jun-24 with deal values between USD 15mn to 500mn
Electric Vehicles	Transaction completed in the Electric Vehicles industry classification between 1-Jan-16 to 30-Jun-24 with deal values between USD 15mn to 500mn

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