Deals in India: Annual review and outlook for 2022

February 2022

pwc

Despite the headwinds from the pandemic and other looming uncertainties, deal activity in India witnessed a record high in 2021 and surpassed the pre-COVID level.

In a radically changed world, characterised by uncertainty, geopolitical instability, shifting consumer preferences and accelerated digitisation, there is a heightened need for agility and adaptability to remain relevant. Businesses are showing signs of adapting, be it embracing technology, diversifying non-core businesses, tapping new markets through acquisitions, divestitures and fundraising. All this has led to a flurry of deal activity. Another key contributor to the buoyancy of deal activity in 2021 is abundant cash reserves, availability of private equity (PE) dry powder, foreign direct investment and lower interest rates.

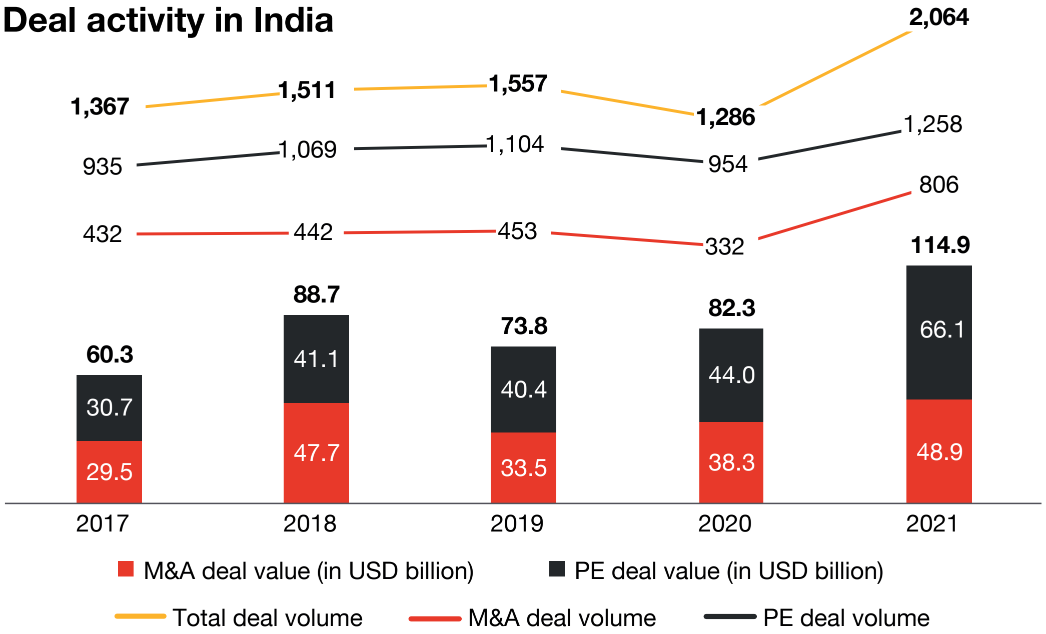
Though slowing rural demand, inflation, disruptions in the global supply chain, firm crude prices and, most notably, the ongoing COVID pandemic are concerns, as per a recent survey, CEOs in India are significantly optimistic about the prospects for a stronger economy in the coming year. In fact, 99% of CEOs in India believe India's economic growth will improve over the next 12 months.[1] The momentum of deal activity is thus expected to continue in 2022.

2021 witnessed a remarkable spike in deal activity, outperforming 2020 by 40% in terms of value and 60% in terms of volume. PE claimed the lion's share of deal activity in 2021, contributing 57% by value and 61% by volume, while M&A contributed the remaining 43% by value and 39% by volume.

PE deal value reached an all-time high – 32% higher in volume and 50% higher in value compared to 2020. Deal volumes were bumped up by M&A activity in 2021, more than double the volume and 28% higher in value compared to 2020. Megadeals have contributed greatly to the uptick.

1 India edition of PwC's 25th Annual Global CEO Survey

Deal activity in India

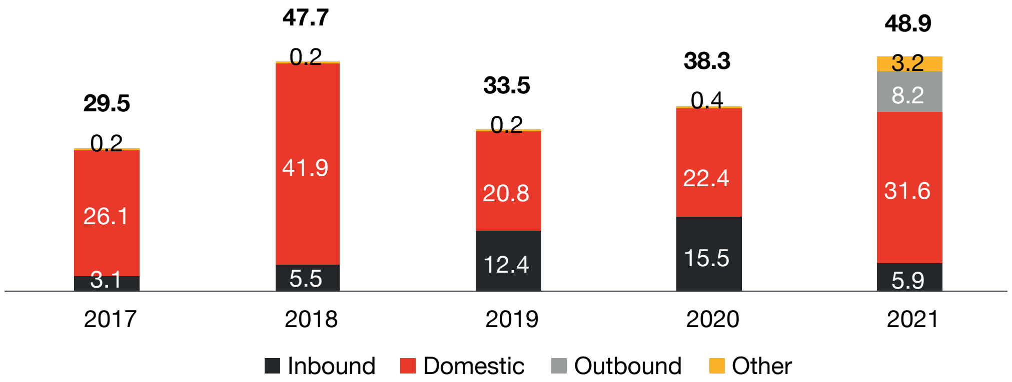


Source: Venture Intelligence (PE), VCCEdge (M&A) and PwC analysis

	Deal value		Deal volume	
	Y-o-y increase	Contribution in 2021	Y-o-y increase	Contribution in 2021
PE	50%	57%	32%	61%
M&A	28%	43%	143%	39%
Total	40%	100%	60%	100%

Emergence of outbound M&A deals

M&A activity by deal type (USD billion)

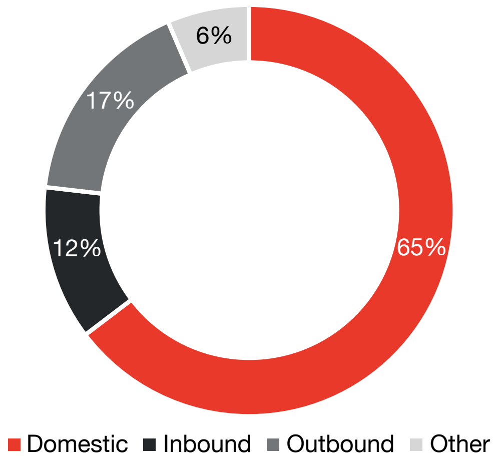


Source: VCCEdge

Outbound deal activity was primarily fuelled by large deals in the renewable energy sector, such as Adani Green Energy's acquisition of SB Energy India for USD 3.5 billion and Reliance New Energy Solar's acquisition of REC Solar Holdings for USD 771 million. The next big contributor to deals was the IT sector, with Wipro's acquisition of Capco for USD 1.5 billion and the acquisition of Great Learning and Epic by Byju's for USD 600 million and USD 500 million respectively.

Consolidation continues to drive M&A

M&A activity by deal type (USD billion) in CY 2021



Domestic deal activity in 2021 was up 41% from 2020 in terms of value, owing to seven billion-dollar deals. Economic optimism and availability of abundant capital spurred domestic M&A in 2021, with companies liquidating non-core assets to streamline large corporate structures and in turn using the cash to buy assets. In the post-pandemic world, companies are also forced to react more quickly to competition by consolidation in order to capture a share of the pie, especially in the retail and consumer technology sectors.

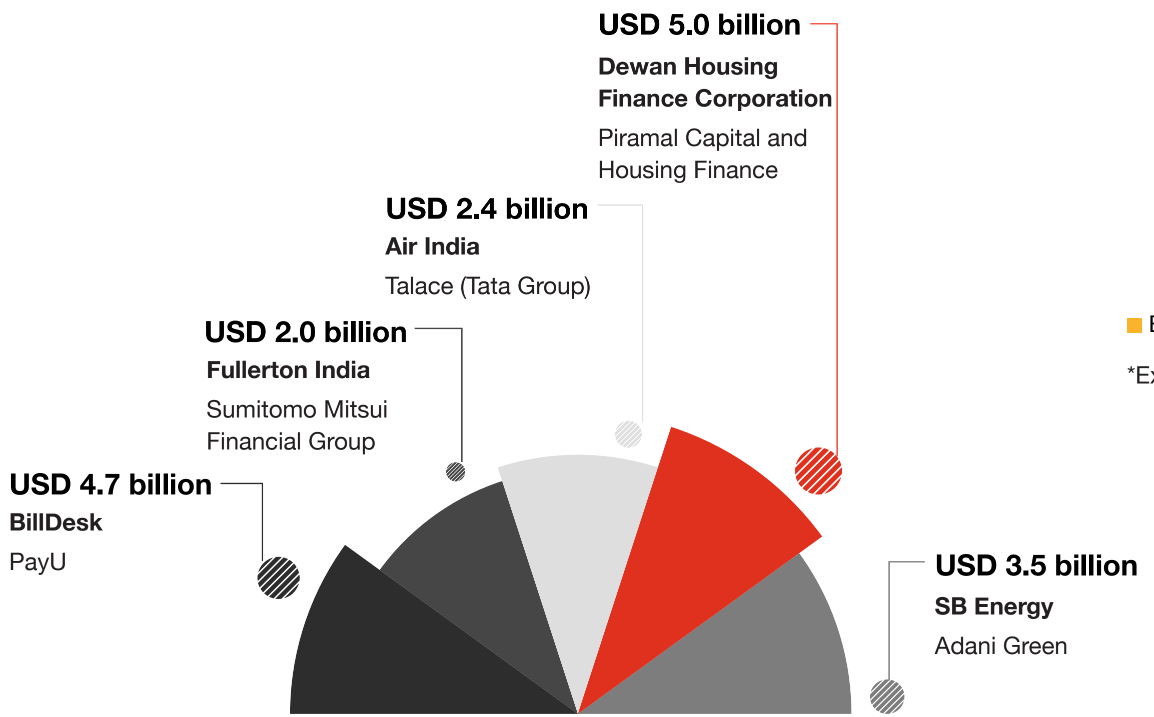
It is anticipated that the trend of outbound acquisitions will continue in 2022 as companies will continue to be on the lookout for acquisitions in the overseas markets to foray into new markets, expand their portfolio and acquire complementary business capabilities.

Megadeals – buyers go big

Large strategic investments or takeovers continued to dominate the deals space in 2021. Corporate and private acquirers have carried on with their pursuit of megadeals (over USD 1 billion) and 18 billion-dollar deals have been recorded in this year.[2] Ten M&A megadeals and eight PE megadeals contributed to 50% and 23% of the total M&A deal value and PE deal value in 2021 respectively.

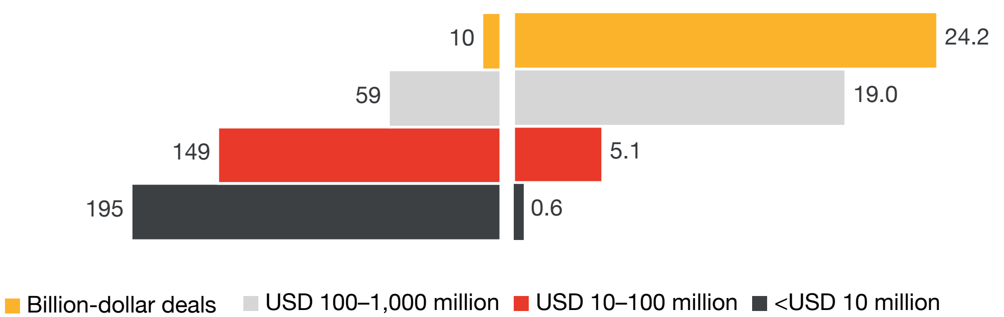
M&A megadeals in sectors such as renewables, infrastructure and education reflect the continued interest in consolidation.

Top five M&A transactions (by deal value) in CY 2021



Source: VCCEdge

M&A by deal value and volume



*Excludes deals with confidential/undisclosed/unavailable terms

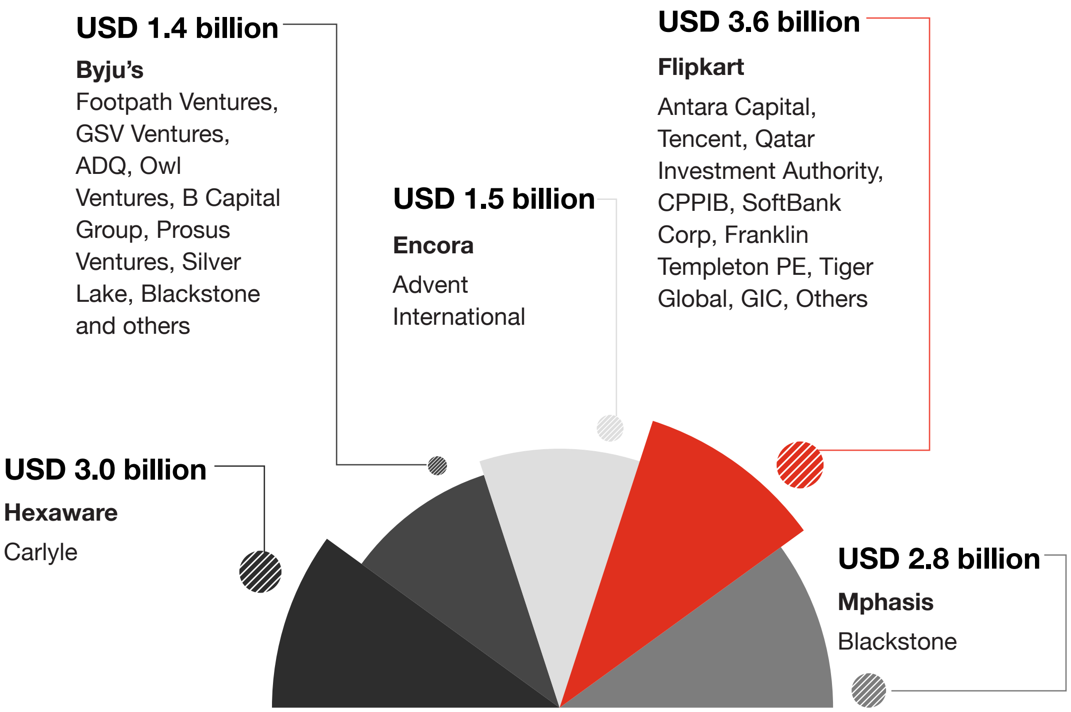
2 Source: VCCEdge for M&A deals and Venture Intelligence for PE deals

PE activity

PE activity reached an all-time high in 2021 and recorded 1,258 deals worth a whopping USD 66.1 billion, up by 32% in volume and 50% in value from 2020. This was achieved by eight billion-dollar deals primarily in the technology sector totalling USD 15.5 billion. Clearly, the technology sector dominated the PE landscape in 2021, contributing a total of USD 40.0 billion to deal value. Abundant dry powder from PE investors contributed to PE activity.

PE funds have demonstrated their faith in India's growth story and made long-term investments despite the pandemic. The India-centric dry powder has helped PE funds, and established companies with greater liquidity are expected to record more big-ticket deals.

Top five PE transactions (by deal value) in CY 2021

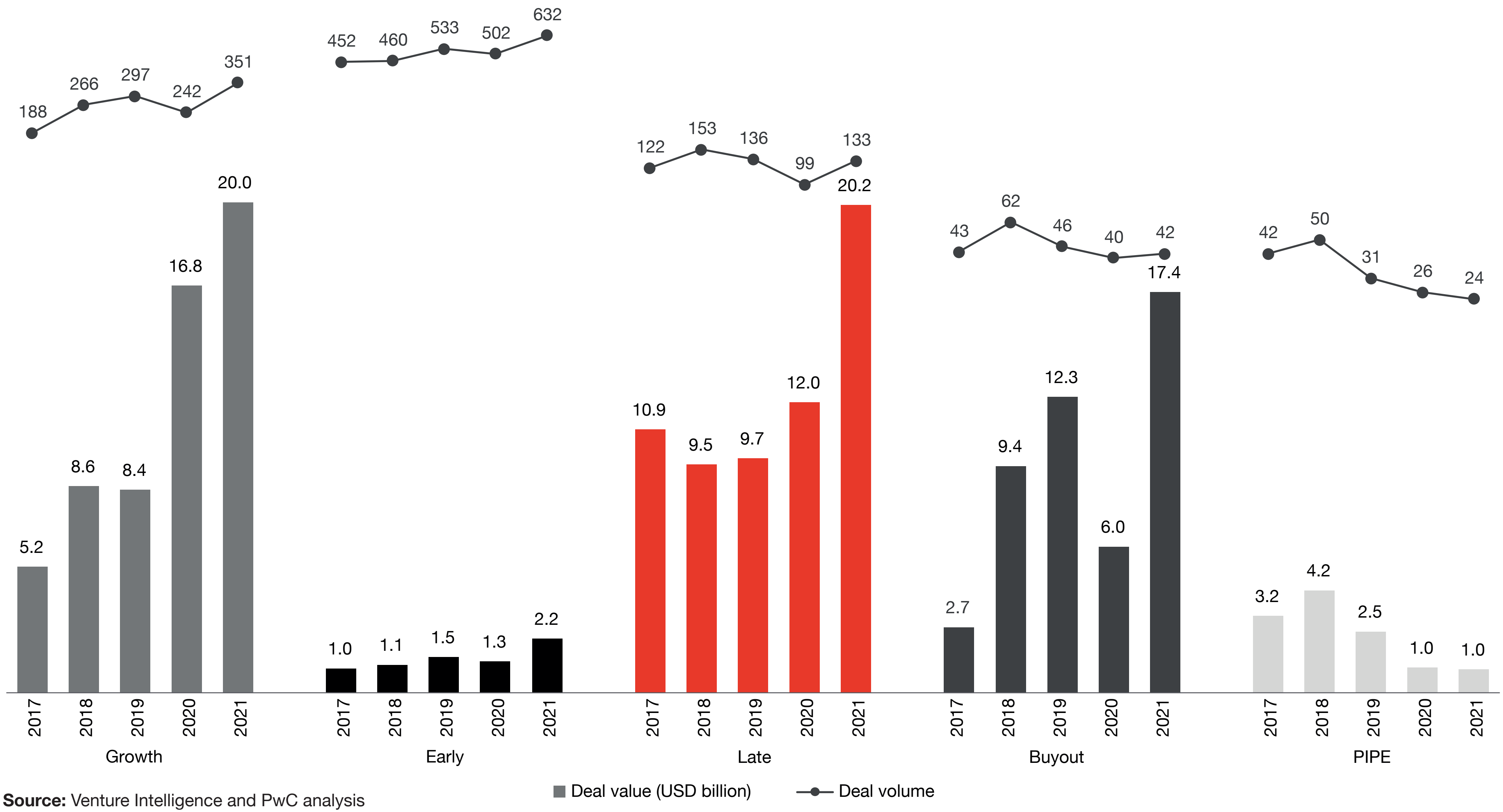


Source: Venture Intelligence

Quantum of stake not disclosed

PE investments by stage

PE investments by stage (in USD billion)



Source: Venture Intelligence and PwC analysis

Excludes real estate, pre-IPO and others

2021 was an exceptional year for buyout deals, recording 42 deals worth USD 17.4 billion, almost three times the deal value recorded in 2020. The charge was led by five billion-dollar investments in the technology and financial services sectors totalling USD 9.5 billion. The largest deals were Carlyle's USD 3.0 billion investment in Hexaware, a leading global provider of IT and BPO services, and Blackstone's USD 2.8 billion investment in Mphasis, a leading provider of cloud and digital solutions.

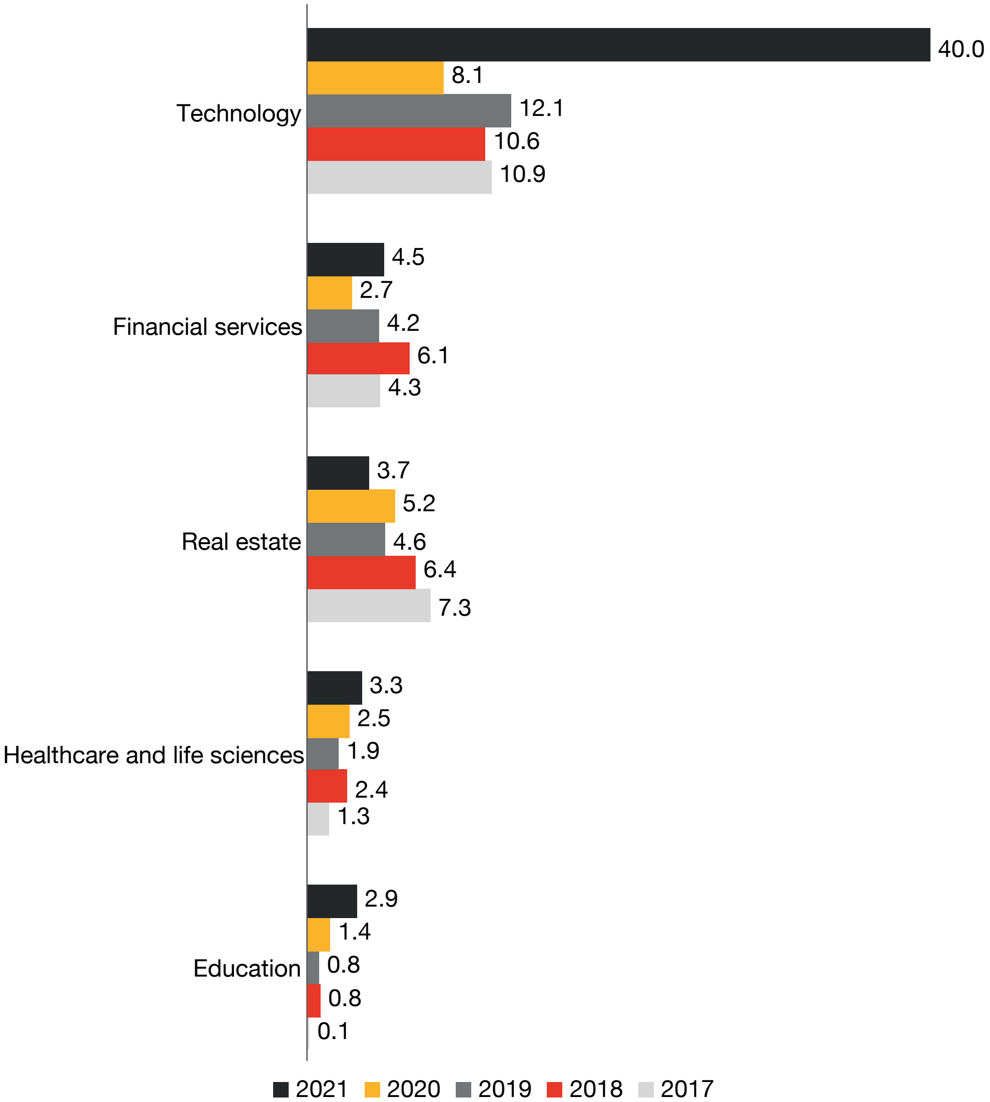
The increase in growth-stage deal activity was fuelled by a spike in deal volumes – 351 deals in 2021, up 45% from 2020. This pushed deal values to USD 20.0 billion, up 19% from 2020. More than 70% of the deals were in the technology sector, with an inclination towards consumer goods, marketplace platforms, FinTech and EdTech companies. This surge in PE activity enabled many companies to attain sky-high valuations and enter the coveted unicorn club. The largest recorded growth-stage deal was EdTech firm Eruditus' USD 650 million fundraise from Accel USA, CPPIB and SoftBank Corp, which saw it become a unicorn. Similarly, social e-commerce company Meesho raised USD 645 million in its series F round, doubling its valuation in less than six months to USD 4.9 billion.

Late-stage deal activity also fared well in 2021, recording 133 deals worth USD 20.2 billion, up by 34% in deal volume and by 68% in deal value compared to 2020. This growth was achieved on the back of large fundraising rounds by start-ups. For instance, EdTech firm Byju's raised USD 1.4 billion from multiple investors like Footpath Ventures, GSV Ventures, ADQ, Owl Ventures, B Capital Group, Prosus Ventures, Silver Lake and Blackstone. However, the largest deal was by the e-commerce conglomerate Flipkart, which raised USD 3.6 billion from marquee investors including CPP Investments, GIC, SoftBank and Walmart. Another notable fundraise was by TML EVCo, the newly incorporated subsidiary of Tata Motors Ltd. in the electric vehicles segment, which inked a deal to raise USD 1.0 billion from TPG.

Early-stage deals also saw increased activity in terms of deal value, up 71% from 2020, reflecting investor confidence and the outlook for the Indian start-up sector.

2 Source: VCCEdge for M&A deals and Venture Intelligence for PE deals

Tech takeover



The technology sector continues to dominate the Indian PE investment landscape. 2021 recorded a total of 823 deals totalling USD 40.0 billion, approximately five times the deal value witnessed in 2020. This sharp increase is primarily owing to large deal size, i.e. five billion-dollar deals totalling USD 12.1 billion and 78 mid-sized deals (investments in the range of USD 100–1,000 million) totalling USD 19.4 billion, compared to just 19 mid-sized deals in 2020. There is also a notable shift in interest from PE investors across subsectors. Within technology, the online services subsector had a breakout year, recording 322 deals totalling USD 10.9 billion in 2021, almost four times the deal value recorded in 2020. The super accelerated adoption of digital tools and services in the post-pandemic world has added several areas to the technology watchlist in the short run – the platformisation of consumer financial services, regulatory, market, finance and technology shifts – to accelerate the transition towards clean energy, the creation and expansion of the tech-enabled 'metaverse', the ongoing convergence of mobility and digital commerce, and the virtual evolution of health and wellness.[3]

In financial services, non-banking financial companies (NBFCs) showed resilience in 2021 despite the COVID-19 pandemic and this momentum is expected to continue in the next year. Even after excluding Piramal Group's USD 5 billion investment in the debt-ridden Dewan Housing Finance Corporation, the NBFC space has seen investment of USD 2.1 billion across 23 deals. This included the USD 380 million buyout of the debt-ridden Altico Capital by the Hong Kong based stressed assets specialist Ares SSG, the first-ever resolution of an NBFC outside the IBC process.

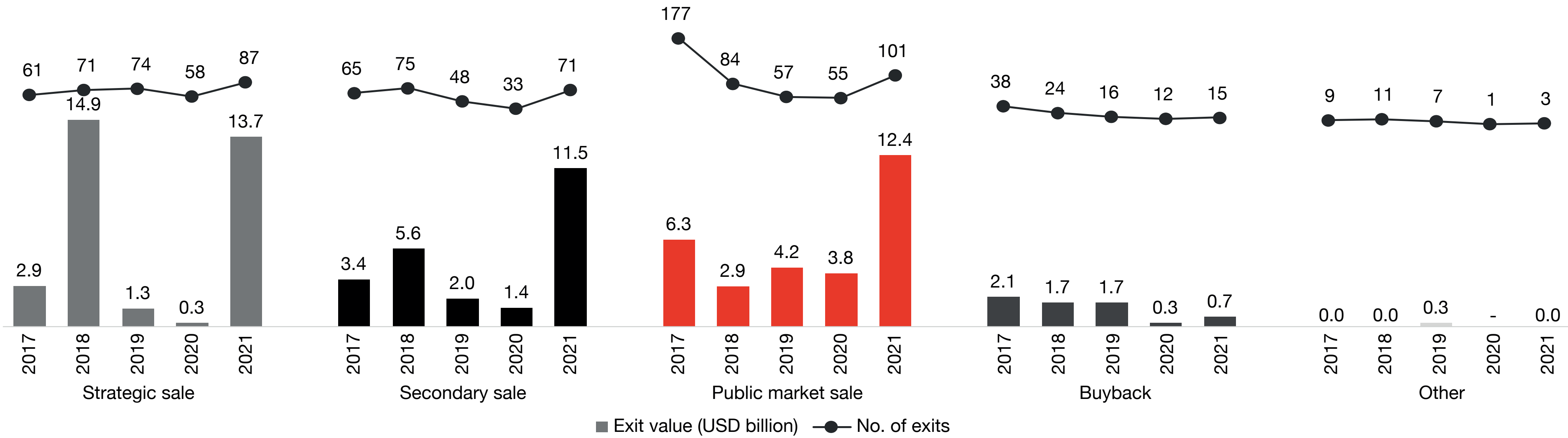
Deal activity in the healthcare and life sciences and education sectors saw a steady increase, buoyed by large deals such as the USD 1.4 billion fundraising round by Byju's from multiple marquee investors and Zydus Animal Health's USD 398 million buyout by a consortium led by Multiples PE.

In real estate, Blackstone continued to be a leading investor with the largest PE investment in this sector in 2021, acquiring Bengaluru-based Embassy Industrial Parks for USD 715 million. Although the USD 3.7 billion total deal value for 2021 is down 29% from 2020 owing to three billion-dollar deals in the previous year, deal volumes are up by 56% with 12 mid-sized deals compared to just two last year.

3 India edition of PwC's 25th Annual Global CEO Survey

Strategic and public market sales drive PE exits

PE exit activity (in USD billion)



PE exits increased exponentially in 2021, recording over six times the exit value of 2020, indicating that long-term investors seeking high valuation are taking advantage of the momentum.

Strategic sales saw the highest activity, accounting for 36% of the exit value in 2021. This was mainly due to three billion-dollar exits, the largest of which was Hitachi's acquisition of GlobalLogic from Partners Group and the Canada Pension Plan Investment Board for USD 8.1 billion. This was followed by PayU's acquisition of BillDesk from General Atlantic, Temasek, Clearstone, TA Associates and March Capital for USD 2.3 billion, and Tata Digital's acquisition of BigBasket from Abraaj Group, Ascent Capital and Alibaba for USD 1.2 billion.

Approximately 30% of the exit value in 2021 was contributed by secondary sales. The deal value achieved this year was more than eight times the deal value of 2020 with just over double the corresponding deal volume. This was primarily owing to two billion-dollar deals – Carlyle's acquisition of Hexaware from Baring Private Equity Asia for USD 3.0 billion and Advent's acquisition of Encora from Warburg Pincus for USD 1.2 billion.

The largest public market exits were from the IPO of Paytm, where investors Elevation Capital, SoftBank Corp, Ratan Tata, Alibaba, MediaTek, Berkshire Hathaway and Discovery Capital Management netted a total of USD 1.3 billion. Owing to the booming IPO market and positive investor sentiments, 2021 recorded over 100 exits via the public market compared to 57 exits in 2020. The outlook for 2022 is bright, with many well-funded firms such as Swiggy, OYO, MobiKwik, Delhivery, PharmEasy, Ola and Byju's lined up for public listing.

The PE exits can be attributed to the fulfilling of pent-up demand from the previous year, increasing M&A activity in the start-up ecosystem, focus on consolidation in the technology sector with improved liquidity and the recent rebound and remarkable performance of the Indian stock market.

The year of the unicorn[4]

Indian start-ups had a blockbuster CY21 with approximately USD 35 billion raised, a three times increase compared to CY20 and largely driven by FinTech, EdTech and software as a service (SaaS).

Around USD 35 billion was raised by Indian start-ups across more than 1,000 rounds in CY21.

FinTech, EdTech and SaaS were the top three invested sectors.

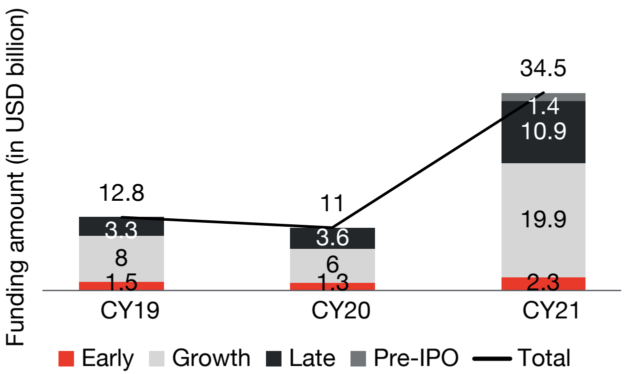
Growth- and late-stage deals comprise around 85% of the total funding.

There were 250+ M&A deals in the start-up ecosystem; 'roll-up e-commerce' was the biggest segment.

A record number of 43 Indian start-ups turned into unicorns in CY21.

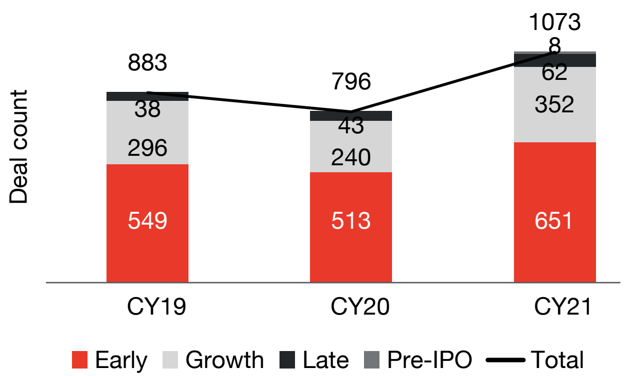
The tally of global unicorns reached 959, out of which 44 were decacorns and the largest representation was from the FinTech sector.

Funding (by stage)



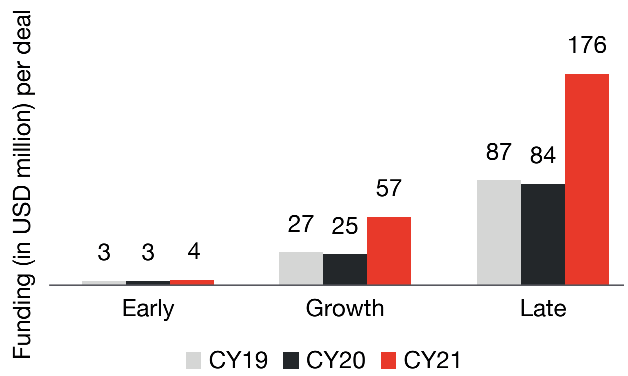
Source: Venture Intelligence

Deal count (by stage)



Source: Venture Intelligence

Average ticket size per deal



Source: Venture Intelligence

Increase in funding activity was noted across all sectors, both in terms of value as well as volume. However, FinTech, EdTech and SaaS are the top three investment sectors in CY21, together accounting for approximately 45% of the total funding activity and the emergence of 21 unicorns.

4 PwC's Start-up Perspectives: India start-up deals tracker Q3CY21

FinTech: A nearly fourfold increase in funds raised by FinTechs was witnessed in CY21 compared to CY20. Funds raised by the top three companies – Pine Labs, OfBusiness and CRED – amounted to USD 2.3 billion and 12 FinTechs attained unicorn status.

EdTech: The Indian EdTech market has gained significant traction since the pandemic. The user base and engagement have increased significantly, leading to a concentrated group of companies raising additional capital.

SaaS: Indian SaaS start-ups Gupshup, Innovaccer, Postman, BrowserStack, etc., have raised significant capital in CY21. The number of deals in this sector has been higher compared to other sectors (high early-stage emerging SaaS start-ups raising small tickets). The SaaS space also saw the addition of five new unicorns in CY21.

E-commerce (B2C): Funding in this segment increased by almost six times in CY21 compared to CY20. Car marketplace platforms attracted maximum investment in CY21, with start-ups like Cars24, Spinny, CarDekho and Droom together raising USD 1.6 billion in CY21.

E-commerce (B2B): There has been an approximate seven times increase in funding in CY21, driven by the big amounts raised by key players in this segment such as Udaan, Meesho, Zetwork, Infra.Market and Bizongo.

D2C: A number of new players have been successful and received funding in the last 12–15 months, given the changing buyer behaviour. The roll-up e-commerce space attracted big-ticket investments in CY21 and five new unicorns emerged in the sector.

Unicorn count	<CY18	CY18	CY19	CY20	CY21	As of Dec-21
FinTech		2		3	12	17
SaaS	1		2	2	5	10
D2C			1		6	7
E-commerce (B2C)				1	5	6
EdTech		1		1	3	5
E-commerce (B2B)		1			4	5
LogisticsTech	1		3		1	5
Media and entertainment	1			2	1	4
HealthTech					3	3
Real estate tech		1			1	2
Online gaming			1		1	2
FoodTech		1			1	2
Total	**3**	**6**	**7**	**9**	**43**	**68**

Source: PwC's Start-up Perspectives: India start-up deals tracker Q3 CY21

A total of 43 start-ups attained unicorn status in CY21 compared to nine in CY20. All the start-ups which became unicorns in 2021 had raised aggregated funding of USD 250–300 million on an average at the time of gaining the status. As of December 2021, there are 68 privately held start-up unicorns in India, primarily from the FinTech, SaaS and D2C sectors.

With market sentiments favourably inclined towards start-ups and the large base of scaled start-ups as of December 2021, we expect the unicorn tally to go well beyond 100 by the end of CY22.

Big-ticket deals in the distressed space[5]

There was significant momentum in the distressed asset space in 2021, with much-awaited big-ticket resolutions like Air India and Dewan Housing Finance Corporation, and bankruptcy admission of a few large firms, including Reliance Capital.

Besides Air India, some of the marquee cases that were resolved in 2021 include bankrupt township developer Jaypee Infratech, which got the highest bid from Suraksha Group. Bhushan Power & Steel (BPSL), which owed INR 48,000 crore, was acquired by Sajjan Jindal–owned JSW Steel for USD 2.7 billion (INR 19,350 crore) after three years, and grounded Jet Airways was acquired by Kalrock Capital consortium after two years.

Within IBC, Kotak Special Situations Fund and Blackstone-backed IARC, among others, won bids for road assets. Under liquidation, Nagarjuna Oil Corporation got approval to be acquired by the Chatterjee Group owned Haldia Petrochemicals. Another Mumbai housing project of bankrupt Ariisto Developers got a court nod to be bought by Bengaluru-based Prestige Estates Projects in the January to March quarter.

Outside the insolvency law, notable resolutions include Ares SSG Capital's acquisition of Altico Capital's assets; the acquisition of global private equity (PE) firm KKR-backed JBF Industries by Reliance Industries and CFM ARC; and Future Group and Shapoorji Pallonji's one-time restructuring deal. Nine years after being grounded, the recovery of Kingfisher Airlines Limited's dues worth INR 5,833 crore (USD ~780 million) was the icing on the cake for lenders.

Blockbuster IPO market

2021 witnessed an IPO frenzy, with INR 1.2 lakh crore raised through more than 60 IPOs. This is the **highest ever amount raised through IPOs in a calendar year**.[6] The success of IPOs was enhanced by **huge listing gains**, by the likes of Paras Defence (185%) and Sigachi Industries (271%). **IPOs from new-age loss-making technology start-ups** such as Zomato and Nykaa were enabled by the simplification of rules by the regulator, the Securities and Exchange Board of India (SEBI). 2021 also witnessed strong **participation from retail investors** on the release of pent-up demand, with the number of shares applied for being a huge 135% of the IPO mobilisation.[7] Other factors which have pushed the IPO market are **ample liquidity, strong earnings and robust qualified institutional placements** by banks and financial institutions.

5 https://www.vccircle.com/distressed-deals-soar-in-2021-bad-bank-ibc-measures-raise-hopes-for-2022

6 https://www.livemint.com/market/ipo/highest-amount-of-money-raised-through-ipos-in-2021-see-list-of-blockbusters-11640428123197.html

7 https://www.business-standard.com/article/markets/fund-raising-via-ipos-at-record-rs-1-19-trn-in-2021-says-report-121122301224_1.html

Outlook for the future

The factors that contributed to the record M&A market in 2021 will remain influential for deal making in 2022. PE deals have been on a particularly impressive run, and are on course to grow their share of M&A. On the corporate side, we expect the strategic shift to digital, innovative and new disruptive business models to continue to drive M&A decision making. With market conditions that demand a greater value creation mindset across global boardrooms, CEOs will also likely focus on divestitures, as they rebalance their portfolios for longer-term growth and profitability. A few key themes that can be expected in 2022 are:

Unicorns abound: Fuelled by PE activity, the start-up ecosystem is expected to remain strong in 2022 with more new age companies turning unicorns. Many unicorns will turn serial acquirers and trigger a wave of consolidation amongst new age companies.

PE to take bigger bites: It is expected that PE firms will participate in more buyout and control transactions in 2022. PE is expected to bet on early-stage innovative companies.

IPO frenzy may taper off: The strong momentum from 2021 is expected to carry forward to the next year. The IPO market frenzy is expected to taper off both in terms of valuations and interest as post-listing blues hit the market.

Government-backed divestment to pick up steam: Big-ticket divestments in the pipeline may see the light of day. These include the nation's largest insurer Life Insurance Corporation of India and oil refiner and marketer Bharat Petroleum and IDBI Bank.[8]

Rebound of the real estate and logistics sectors: These sectors are poised for recovery and rebound primarily owing to strong tailwinds in e-commerce and supply chain optimisation that will create demand in warehousing, commercial real estate, etc.

Rising impact of ESG: With increasing commitments being made to reduce carbon emissions by companies and PE funds, more capital will be mobilised for transition to greener sources of energy, creating opportunities for M&A.

8 https://www.bloombergquint.com/economy-finance/india-95-short-of-divestment-target-with-over-three-months-to-go

Contact us

Dinesh Arora
Partner and Leader, Deals
PwC India
dinesh.arora@pwc.com

Contributors

Kanchana Ramamurthi

Muneer Omer

Amena Pathan

Editorial support

Dion D'Souza

Design

Kirtika Saxena

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 156 countries with over 295,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

pwc.in

Data Classification: DC0 (Public)

In this document, PwC refers to PricewaterhouseCoopers Private Limited (a limited liability company in India having Corporate Identity Number or CIN : U74140WB1983PTC036093), which is a member firm of PricewaterhouseCoopers International Limited (PwCIL), each member firm of which is a separate legal entity.

KS/February 2021-M&C17221