VENTURE INTELLIGENCE

Private Equity Impact

Impact of Private Equity and Venture Capital on the Indian Economy

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Contents

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Executive Summary

Since 2004, India has witnessed a tremendous rise in Private Equity and Venture Capital financing. Indian companies are creating partnerships with PE and VC firms on a scale that has not been witnessed before. Is this good for the Indian economy? What kind of value does this relatively new form of financing offer to Indian entrepreneurs?

In this context, the *Private Equity Impact* study - conducted by **Venture Intelligence** with advice and guidance from ***Prof. Amit Bubna*** of the **Indian School of Business, Hyderabad** **-** aims to measure the economic impact of Private Equity and Venture Capital on the Indian economy using qualitative and quantitative methods.

This first-of-its-kind study provides quantitative comparison of Private Equity- and Venture Capital-backed companies against their non Private Equity-backed peers and relevant market indices, in terms of key economic parameters like Sales, Profitability, Exports, Wages and Research & Development.

Findings from the quantitative study:

- **PE-backed companies grew at a significantly higher rate compared to non Private Equity-backed companies as well as market indices like the Nifty and CNX Midcap.**
- **Wages at Private Equity-backed companies grew at a significantly higher rate compared to their peers who are not PE-backed.**

We also conducted the first-ever survey of PE- and VC-backed entrepreneurs to get a qualitative feedback on the value added by these investors to privately held companies.

Findings from the survey:

- **About 96% of top executives at Private Equity-backed companies believe that without Private Equity/ Venture Capital financing, their companies would not have existed or would have developed slower.**
- **More than 60% of top executives at Private Equity-backed companies said that the number of employees at their companies had increased after the PE investment.**

We had detailed interactions with entrepreneurs and top executives at three companies from different sectors – Business Process Outsourcing, Pharmaceuticals and Telecom Services – to understand how their organizations benefited from PE/VC investments and the lessons learnt in the process.

We also analyzed the rapidly growing BPO sector where PE/VC backed companies dominate the list of top companies.

The common thread that emerges from the study:

Private Equity / Venture Capital investment, when chosen and leveraged well, can help Indian companies innovate, create new businesses and accelerate growth in several ways that add significant value to the Indian Economy.

ICICI Venture Funds

IICICI Venture is the largest and one of the most successful private equity and venture capital management companies in India with aggregate funds under management in excess of US$ 2 billion. ICICI Venture is a subsidiary of ICICI Bank, India's second-largest bank.

Funds

ICICI Venture manages funds credited with many firsts in the Indian Private Equity Industry like, the first leveraged buyout, first real estate investment, and first mezzanine funding for acquisition. The firm is credited with the India Advantage Fund Series II, India's largest private equity fund till date with a corpus of US$810 million. The India Advantage Fund III and IV is the largest real estate fund in India.

ICICI Venture has a wide network of third party investors, which include domestic investors such as public sector banks, financial institutions and other companies and international investors from international development financial institutions and international funds.

Team

The team at ICICI Venture is a mix of investment professionals, entrepreneurs, industry professionals, and structured finance professionals. The complementary strengths of the various team members ensures not only the best deal sourcing and the most optimum structuring but also the ability to add significant value to the portfolio companies. ICICI Venture has the largest team strength amongst all private equity firms in India. In addition, what makes the team unique is the presence of in-house legal, finance, compliance and risk departments. The management team at ICICI Venture has the experience of executing large and complex transactions, structuring innovative deals and creating new investment landscapes through each of its investments.

Select Portfolio Companies : ACE Refractories, Arch Pharma, Geometric Software, Infomedia, Naukri.com, PVR Cinemas, Perlecan Pharma, VA Tech, Welspun.

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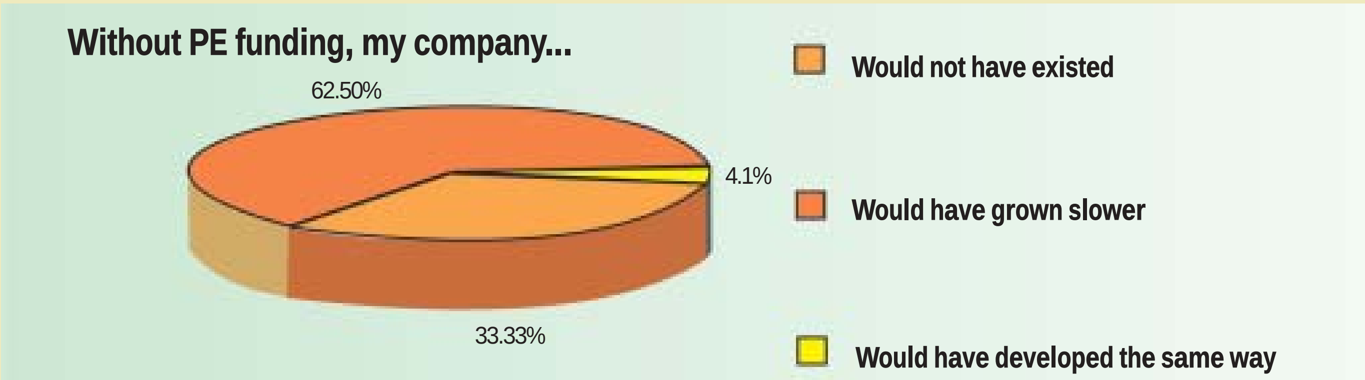
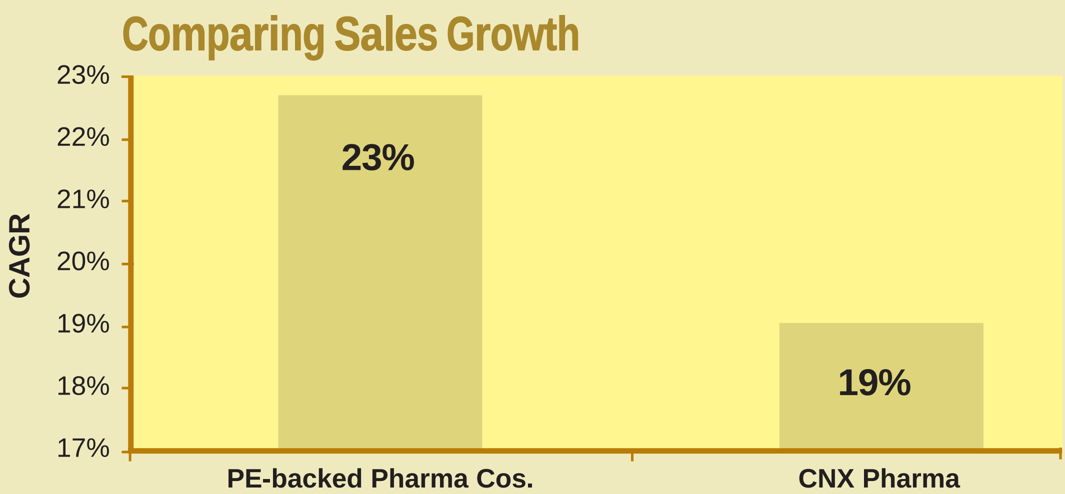
Private Equity boosts the Indian economy

Private Equity funding enables Indian companies achieve scale to compete in the global economy. Over the five year period considered, on average PE-backed companies grew at 22.9%, a significantly higher rate compared to non Private Equity-backed companies (10%), Nifty (15.8%) and Nifty Midcap (13%).

About 96% of top executives at Private Equity-backed companies surveyed believe that without Private Equity capital their company would not have existed or would have developed slower.

Sales at Private Equity-backed pharmaceutical companies grew significantly faster compared to CNX Pharma Index companies.





Business Process Outsourcing

Private Equity's Poster Child

Top BPO companies in India

(Source: Nasscom)

Genpact
WNS
Wipro BPO
HCL BPO Services
ICICI OneSource
IBM Daksh
Progeon
Aegis BPO Services
EXL Service Holdings
24/7 Customer
MphasiS BPO
Intelenet Global Services
GTL
TCS BPO
Transworks

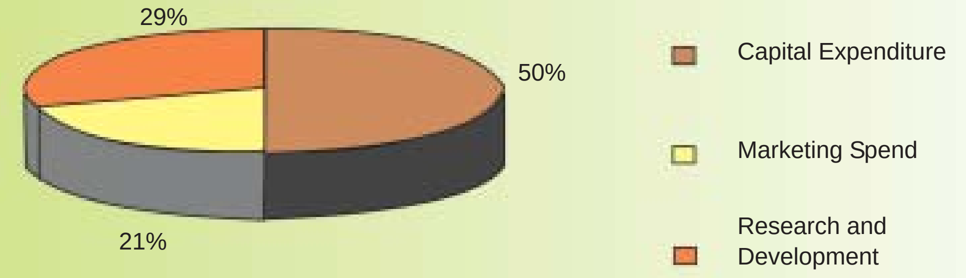
* Highlighted companies are PE-backed

At least 10 of the 15 top ranked third-party Business Process Outsourcing (BPO) companies in India have received Private Equity / Venture Capital backing in one form or the other.

There is evidently a strong correlation between PE/VC investments and success in this sector which is estimated to have generated over four lakh direct jobs – not including a multiplier effect on indirect employment - in less than a decade.

In the following pages, we profile the PE/VC financing history of some top BPO companies and how they have fared post financing.

How are you using the PE/VC investment?

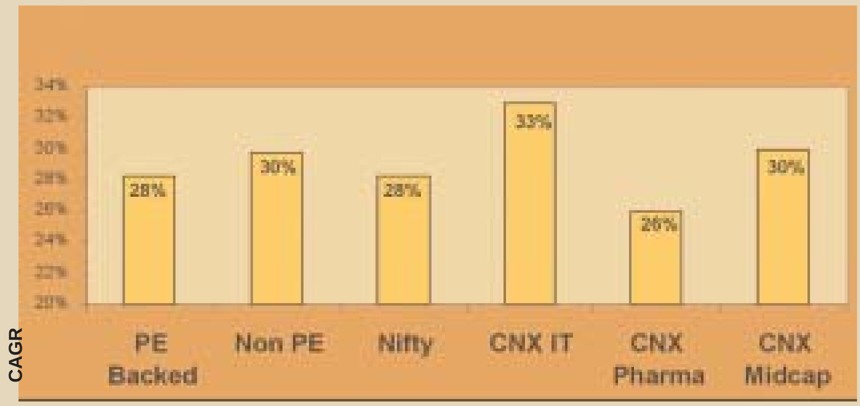


Private Equity funding provides long term perspective

Private Equity firms are willing to back companies that are focused on larger returns in the long term.

Seventy nine percent of the PE-backed companies surveyed said they utilized the financing to invest in capital expenditure or Research and Development (R&D). This creates valuable assets that can lead to enhanced profitability in the long term.

Comparative Annual PAT Growth (2000 - 2005)



UTI Venture Funds

UTI Ventures is a leading Indian Private Equity firm. We are backed by marquee investors from India and overseas. We are associated with UTI AMC, India's largest asset management company.

Our unique team blends decades of rich experience in Indian public and private equity markets. This, coupled with our track record and a vast network, gives us an edge and helps us achieve success.

Our Funds

We are strong in mid market space, hence we prefer and focus on growth capital.

Our **first fund**, India Technology Venture Unit Scheme (ITVUS), is on track to be one of the **top decile performers amongst vintage 2000 funds**. This fund focused on technology, life sciences and outsourcing sectors.

We are currently investing from **Fund II**- Ascent India Fund, a growth capital fund raised in 2005 from marquee Indian and international investors. We seek investment opportunities across high growth sectors in India.

Our Approach

- We have a long term 'entrepreneur centric' approach.
- We partner with capable, ambitious and highly focused entrepreneurs.
- We play an active role in scaling enterprises.
- We leverage our vast network to achieve liquidity and superior returns.

Our Investments

Select portfolio companies include:

- **Subex Azure:** Global IT leader in telecom 'fraud' management and revenue maximization solutions
- **Consolidated Construction Consortium:** One of India's largest urban infrastructure services companies
- **Laqshya Media:** India's largest outdoor media company
- **Koutons:** India's largest integrated men's apparel retail chain
- **SemanticSpace Technologies:** A fast growing software product company specializing in enterprise solutions
- **Naturol Bioenergy:** India's first integrated bio diesel company
- **Primus Retail:** India's leading retail and distribution chain of lifestyle products
- **Shriram EPC:** A leading Indian engineering and infrastructure services company

UTI Venture Funds,

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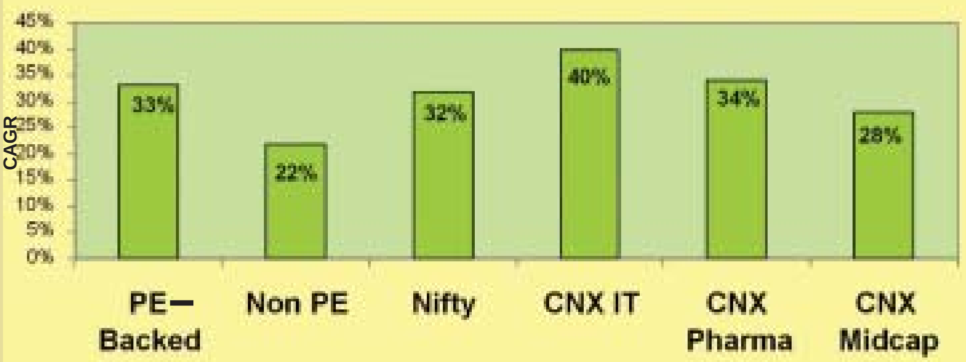
www.utiventures.com

Private Equity-backed companies generate foreign exchange earnings

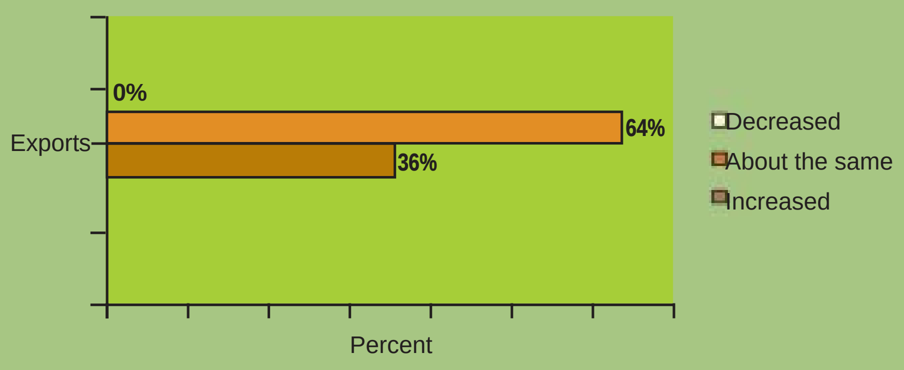
Private Equity-backed companies utilize capital to expand their operations internationally and improve their sales in export markets. Also, fund managers use their international networks to help portfolio companies reach out to newer markets.

Comparative Annual Exports Growth (2000 - 2005)



More than one-third of top executives at Private Equity-backed companies said their companies' exports have increased after the infusion of Private Equity capital.

Impact of PE Investment on Exports



WNS
Extending Your Enterprise

Investor: Warburg Pincus
Investment Date: May 2002

	2001-02	2005-06
Revenues (US $ Millions)	15	203
Headcount	1,200	10,433

BPO is a capital intensive business. Without Venture Capital, it would not have been possible for third-party BPOs to take off."

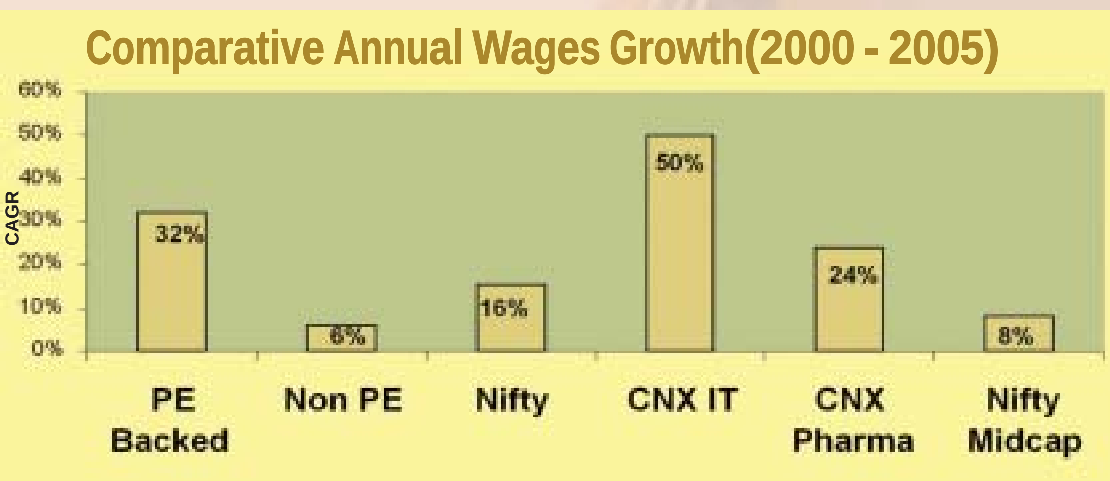
– **Raman Roy**
Founder, Spectramind

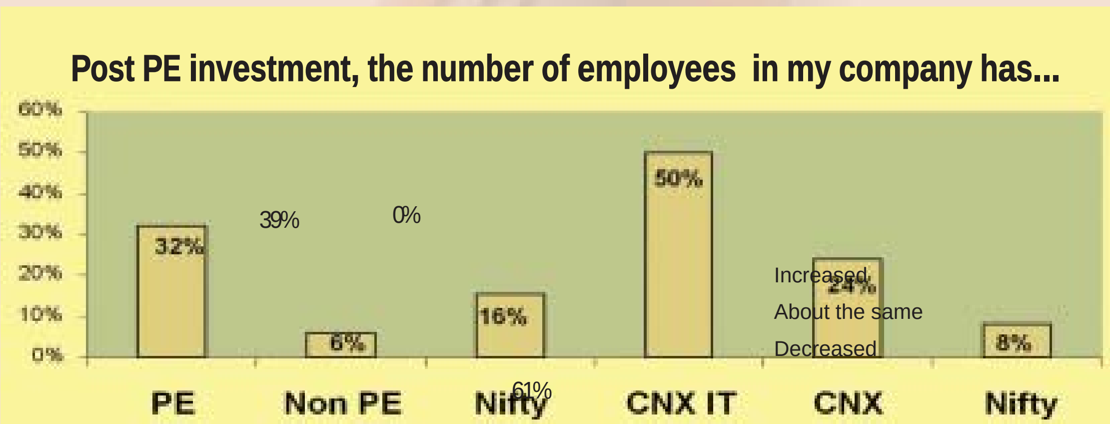
Private Equity-backed companies create well-paying jobs

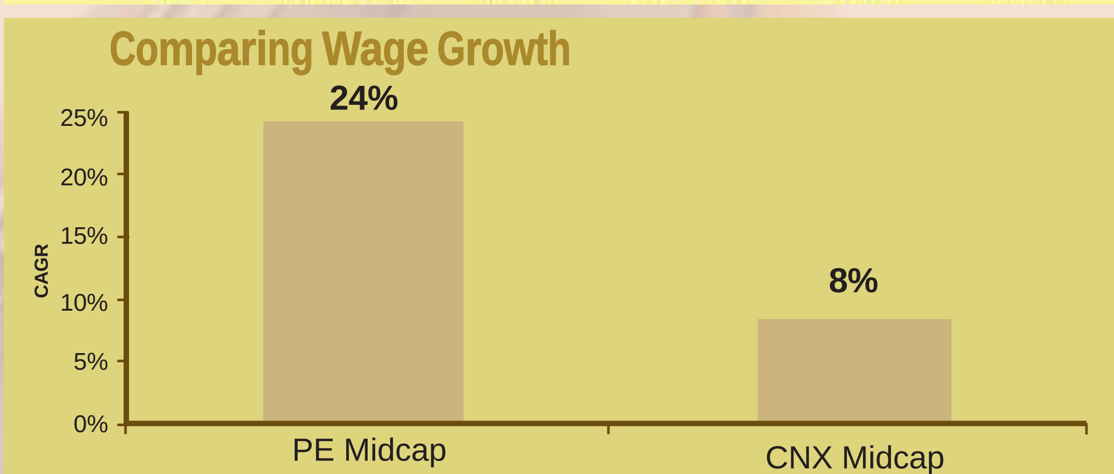
Wages at Private Equity-backed companies grew at a significantly higher rate compared to their peers which are not PE-backed. The differential can be explained by rise in salaries of employees due to enhanced productivity and/or increase in the number of employees.

More than 60% of top executives at Private Equity-backed companies said that the number of employees at their companies had increased after the PE investment.

Wages at Private Equity-backed Midcap companies grew at thrice the rate of that at Midcap index companies.







IDFC Private Equity

IDFC PE is the largest and most active private equity firm focused on Infrastructure in India. Under two funds, the India Development Fund and the IDFC Private Equity Fund II, the firm manages a corpus of US$ 632 million. IDFC PE is a subsidiary of IDFC, India's leading Financial Institution focussed on Infrastructure. The firm is backed by over 100 years of investing experience and domain knowledge in infrastructure.

Team

The investment team at IDFC PE is headed by Mr. Luis Miranda, President and CEO with extensive experience in dealing with early stage companies and private equity funding. He is backed by Executive Vice Presidents Prakash Karnik and Satish Mandhana. The team is characterized by their significant experience in investment banking, asset management and Private Equity.

The team is backed by advisors and a senior expert council drawn from development financial institutions, the Government of India, Financial Institutions and senior hands from IDFC.

Portfolio Companies

The firm has interests in 3 airports, 4 ports, 30 roads, 4 power plants, 3325 hospital beds, 12 hotels, 1100 km of gas pipelines, 1 million sq feet of real estate development and 2 amusement parks.

Sample: GMR Infrastructure, Gujarat State Petronet, Delhi International Airport, Hotel Leelaventure, Manipal Health Systems and L&T IDPL.

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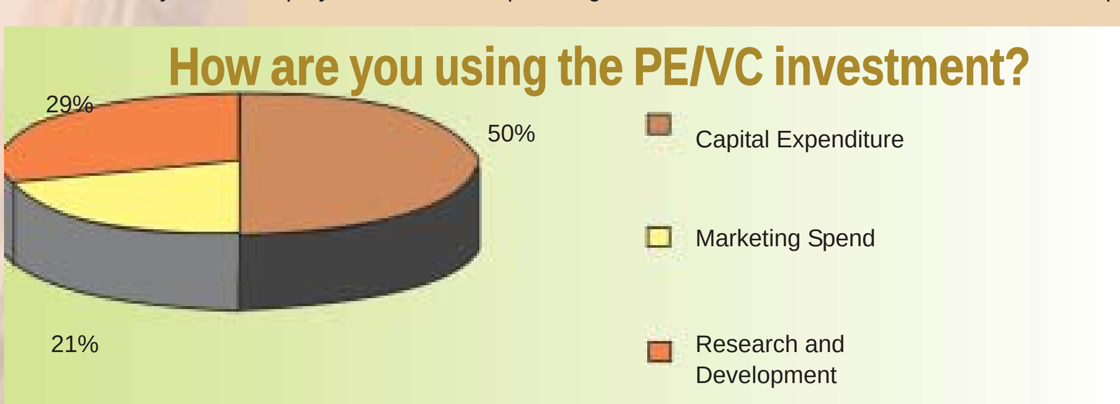
Private Equity catalyzes innovation in the economy

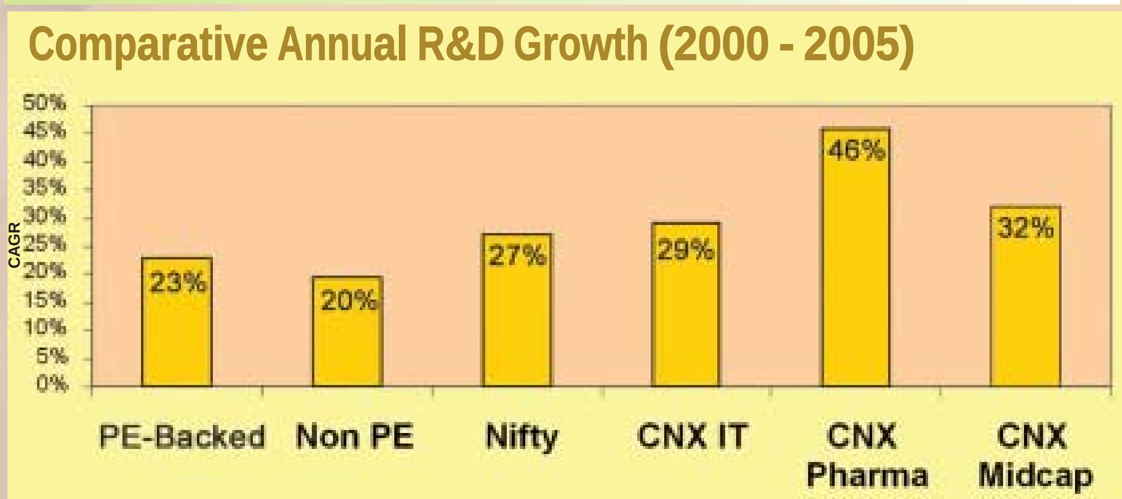
Research and Development (R&D) activity – that helps launch innovative products and services – is key to spurring economic demand. Lack of capital to invest in R&D has long been a factor that has held back corporate India. Private Equity capital is helping address this issue.

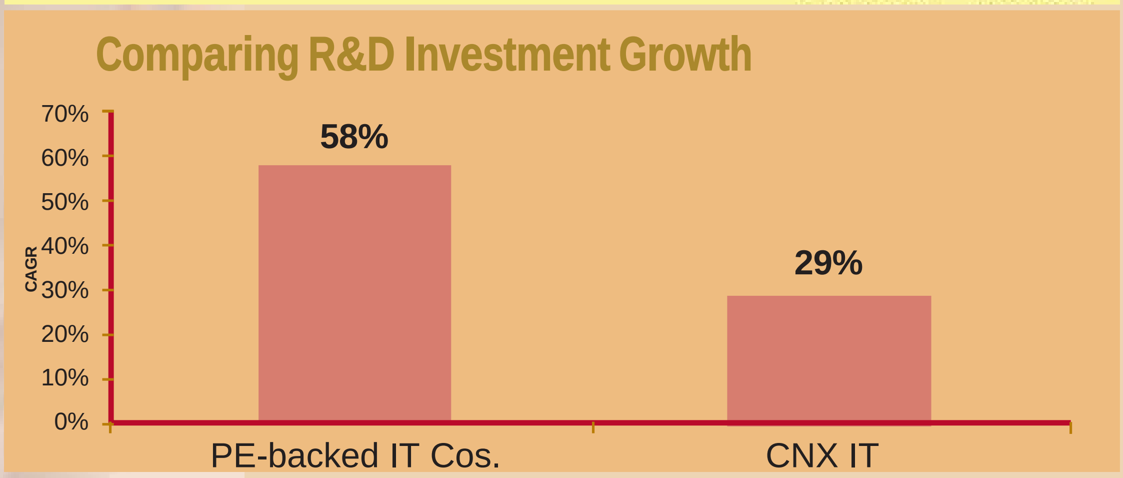
About thirty percent of top executives from Private Equity-backed companies surveyed said they utilized PE funding to invest in R&D initiatives.

Private Equity-backed companies invest more in R&D activities compared to their non PE-backed counterparts.

R&D investments by Private Equity-backed IT companies grew at almost twice that of CNX IT index companies.







Investor: Baring Private Equity
Investment Date: 2000

	2000-01	2005-06
Revenues (US $ Millions)	**7.98**	**2979.60**
Headcount	**178**	**7,881**

"While we could have raised funding from other sources, Warburg Pincus' involvement helped us in scaling up significantly."

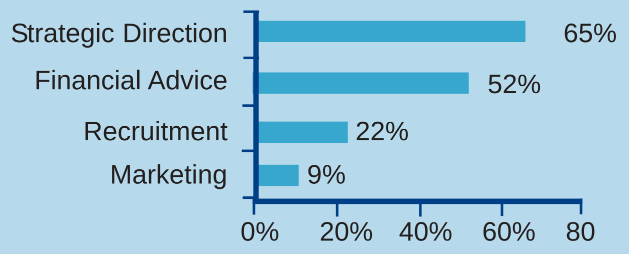
– Akhil Gupta, JMD & CFO, Bharti Airtel

Private Equity capital is more than just money

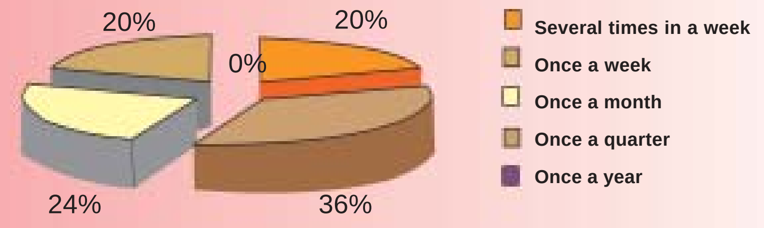
Apart from providing capital, Private Equity investors provide strategic and operational guidance to the companies they invest in. A vast majority of top executives from the PE-backed companies felt that their Private Equity investors made far greater contributions than just provision of capital. Entrepreneurs cited strategic direction, financial advice, top management recruitment and marketing as the main areas where Private Equity fund managers add value.

Private Equity firms are active investors and adopt a hands-on working relationship with their portfolio companies. Their strategic input is more than just financial monitoring. Eighty percent of the top management at PE-backed companies said they interact with their investors on a weekly or monthly basis.

Main Contribution of PE Investor to business operations



Frequency of contact between PE investor and entrepreneur



Zephyr Peacock India Fund

Zephyr Peacock India Fund is an India-focused Private Equity fund which provides growth financing for fast growing companies. The fund's objective is to help small and medium sized companies in India become highly profitable players with global scale. The fund seeks investments in knowledge-based businesses where there are large export or domestic markets, significant barriers to entry, and the opportunity to add value.

Zephyr Peacock seeks to make investments in businesses that will benefit from the rapid growth of the Indian economy and provide competitive advantages beyond low cost labor. Our target investments operate in large markets and have strong management teams, with a focus in the following areas:

- High value manufacturing
- Financial & Business Services
- Consumer Related Businesses
- Knowledge Process Businesses
- Information Technology & Communications

The investment team based in Bangalore and New York, combines local and international private equity expertise and will leverage its experience and relationships to help portfolio companies in areas such as:

- Recruitment of key talent
- Institution of strong financial management and corporate governance
- Introduction to customers and strategic partners in India and abroad
- Preparation for a public offering or a strategic sale.

Team

India	New York
Kartik Parija, MD & Co-founder	Brian Kim, Managing Director
Mukul Gulati, MD & Co-founder	Thomas C. Barry, Founder, President and CEO
Mitesh Daga, Senior Analyst	

Portfolio (Sample): Maxop Engineering, www.maxopgroup.com

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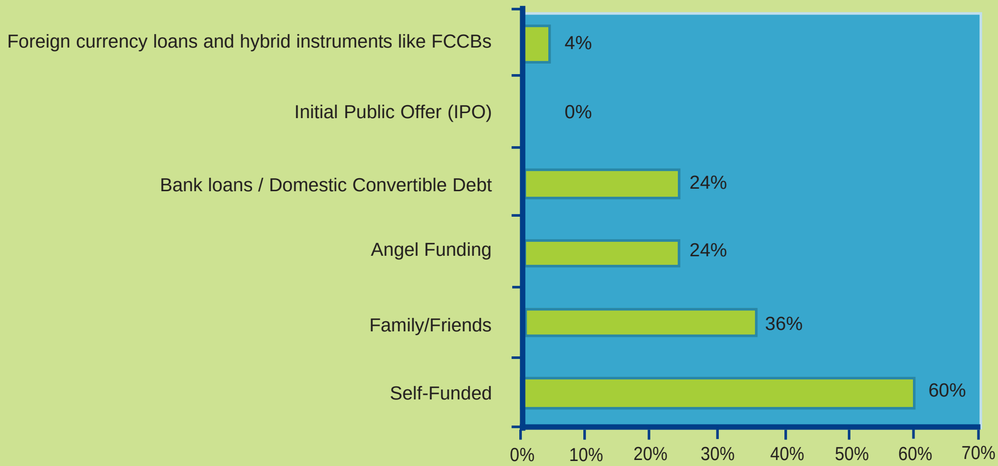
Private Equity reinforces India's entrepreneurial spirit

Private Equity was a necessity – and not just sufficient – for most companies surveyed to grow.

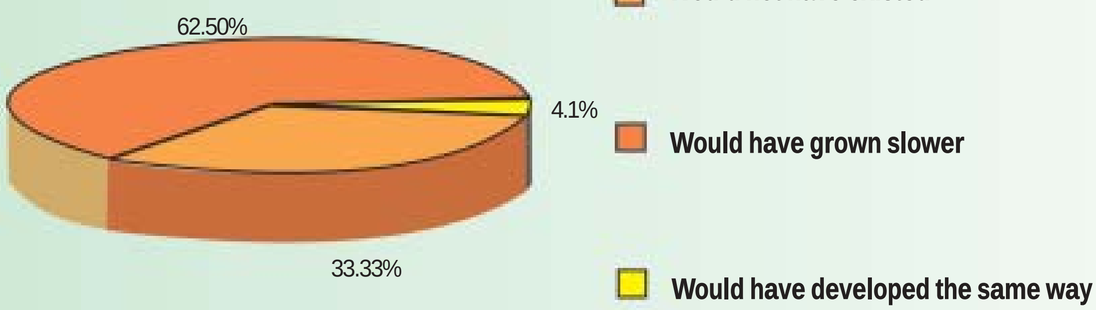
Most Private Equity-backed entrepreneurs surveyed said they self funded or borrowed from family/friends to finance their businesses before raising PE capital.

A vast majority (96%) of entrepreneurs surveyed believed that their companies would not have existed or would have grown slower if not for Private Equity capital.

How were you funding your company before raising PE/VC funding?



Without PE funding, my company...



firstsource

Investors: ICICI Ventures, Sequoia India; Temasek

Investment Date: 2002

	2002-03	2005-06
Revenues (US $ Millions)	**16.1**	**121.9**
Headcount	**~2,250**	**8,350**

"PE backing increases the confidence of various stakeholders including customers – in the company."

– **Ajit Kamath, CMD**
Arch Pharma

Spectramind eServices

Sector: Business Process Outsourcing / IT-enabled Services
PE / VC Investors: ChrysCapital, HDFC
Transaction Summary: Raised $10 million in 2000 to launch operations. Was acquired by Wipro in 2002 for about $100 million.

While there have been successful Venture Capital-funded companies both before and after, the Spectramind story will enjoy its pride of prominence in the history of the Indian VC industry for several reasons. Without overstating the case, this pioneering venture-backed enterprise helped create an entirely new industry in India that today guarantees a well paying job to virtually any fresh college graduate (something that only an engineering degree could earlier guarantee). For India's VC industry – struggling from the collapse of the Internet bubble – Spectramind's acquisition by IT services giant Wipro in 2002 helped convince investors that "multi bagger" exits are possible within the country (and that too in a short period).

The Spectramind story can be traced back, believe it or not, to former GE Chairman & CEO "Neutron" Jack Welch. **Raman Roy**, who was leading GE's back-office operations (GECIS) out of Gurgaon (after helping set up and run the New Delhi-based accounting back-office of American Express), proposed to the GE management that GECIS could now offer its services to other multinational companies rather than remain a captive cost center. "Jack however believed that the Indian back office was GE's 'secret weapon' and wasn't interested in the idea," Roy recalls. That's when Roy and members of his top management team started to think of looking beyond GE.

PE-VC Investment

While they had the expertise as well as the "aspirations and ambitions" to start their own venture, Roy and his team needed external capital to launch such an operation. It was a good time to look out for capital. Encouraged by the wave of Internet investments in the US, the late 1990s had seen the setting up of quite a few India-focused VC funds. Among them was the $65 million Chrysalis Capital, founded by two Harvard graduates – Ashish Dhawan and Raj Kondur – who had earlier worked with leading US investment banks.

"While there were other investors who were interested, we could identify a lot with the 'fire-in-the-belly' attitude of the Chrysalis team," Roy recalls. "They shared the same kind of aspirations and ambitions as us and took pride in doing something for India." (HDFC, India's leading mortgage lender, also invested along side).

Having "done it before" in the captive BPO business, the Spectramind team was well aware about the need for creating capacity – what Roy calls the "readiness to serve" – before pitching to customers. The company acquired a 58,000 square feet office building in Gurgaon before it had signed up any customers. "Quite a few people thought we were crazy," Roy recalls.

Given that third party BPO was entirely new territory, the venture funding enabled the Spectramind management to convince the first set of employees to come on board. "In fact, we insisted the money is in the bank even before we quit our jobs. In hindsight, maybe, we were a bit conservative," Roy says. "We used the bank balance to

Ranked in the top decile of global Private Equity funds of similar vintage, ChrysCapital manages $1 billion across four funds. With over 30 investments since 1999, the fund has valuable experience in investing across a breadth of sectors that leverage growth in the Indian Economy. ChrysCapital invests across all growth sectors in India including Business Services, Consumer Goods and Services, Financial Services, Healthcare and Pharmaceuticals, Infrastructure and Manufacturing.

The firm's strength lies in its extensive track record and long term focus, besides investing only in businesses that they understand and are disciplined in risk aversion and diversification.

As a value add the firm provides portfolio companies with industry insight and strategic planning that can lead to establishing market leadership over the long term. Besides, its focus is on being a trustworthy financial partner providing objective feedback and strategic guidance. However, ChrysCapital does not interfere with the day-to-day operations of the company.

ChrysCapital typically makes equity investments of $10-75 million in profitable companies with revenues between $25-500 million.

Team:

The team at ChrysCapital combines international investment experience with on the ground Indian operational experience. The team led by Mr. Ashish Dhawan, Senior Managing Director comprises of four Managing Directors viz, Brahmal Vasudevan, Ravi Bahl, Kunal Shroff and Sanjiv Kaul.

Portfolio (Sample):

Spectramind, TransWorks, Gammon Infrastructure, UTI Bank, Yes Bank, Suzlon Energy, Moser Baer and Intas Pharma.

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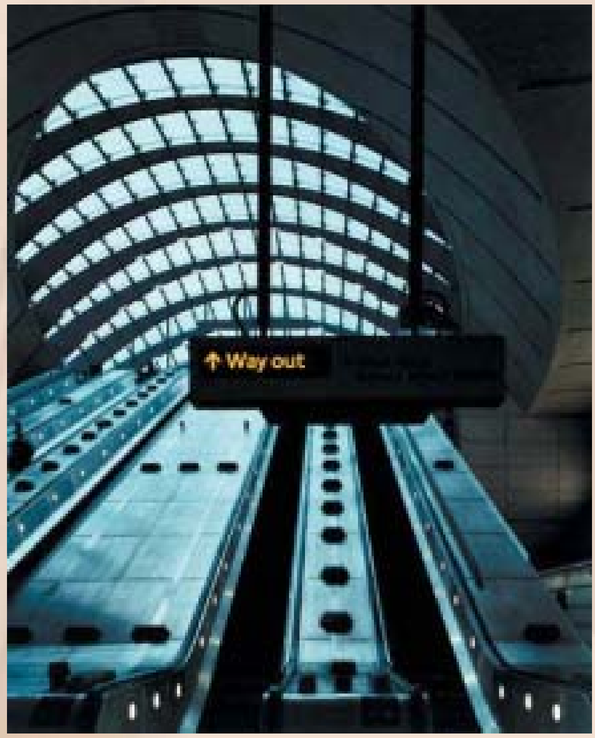
actually prove to potential employees that we had enough money to pay their salaries for the next year-and-a-half even if we do not get a single customer!"

The Exit

In 2002, Spectramind started to look out for its second round of funding. The company decided to go for a strategic investor in order to get better access to customers, deeper pockets and a "brand rub off". Wipro thus initially came in as an investor with a 24% stake. Within nine months of making the original investment, Wipro decided that it liked Spectramind so much that it offered to completely acquire the now 2,700 people company for about $100 million. The $10 million Spectramind's investors had invested 2000 had become worth over $60 million in about 2.5 years.

After integrating Spectramind with Wipro, Roy moved on to launch his "fourth venture" - Quatrro - in mid-2006. Quatrro, which is focused on high end BPO services, has chosen to again partner with a Private Equity firm. This time, Roy is starting out with 130,000 square feet of office space. But no one seems to think he is crazy.



Challenges

"Valuation is one area where the interests of the entrepreneur are diagonally opposite to that of the investors," Raman Roy says. "Valuation was a challenging issue when we raised capital for Spectramind and it was as challenging when we did it for Quatrro." While VC investors would like founders to have enough "skin in the game" to remain motivated, in the absence of any perfect methodology for valuations, it often comes down to subjective judgment. And it is something that can often cause heart burn.

Roy also feels that deal documentation – especially the kinds of clauses required by VCs – is another area that poses challenges for entrepreneurs.

Investors: Oak Hill, FT Ventures
Investment Date: 2002

	2003 (Dec)	2005(Dec)
Revenues (US $ Millions)	**27.8**	**74.0**
Headcount	**2,344**	**5,137**

"Warburg Pincus' repeated advice to us was to forget about the share price and just focus on the good work that we were doing."

– Akhil Gupta,
JMD & CFO,
Bharti Airtel

Arch Pharmalabs Limited

Sector: Pharmaceuticals

Investors: Swisstec, ICICI Ventures, IIML

Transaction Summary: Has raised $36 million in four rounds in as many years.

Arch Pharma was founded by a group of professionals in 1999. The founders identified Hyderabad-based Merven Drug Products, a company that was under bankruptcy protection (under the Indian Government's Board for Industrial and Financial Reconstruction, BIFR), for the manufacture of pharmaceutical intermediates.

Arch manufactures various drug intermediates and APIs – 70% of which is exported to reputed multinational pharma companies - at six locations across India. Three of these manufacturing facilities came in through acquisitions – an activity for which Arch has creatively leveraged Private Equity financing.

PE/VC Investment

In late 2003 and early 2004, Arch quickly raised two rounds of Private Equity funding – $2 million in October 2003 from Swisstec and $3 million in January 2004 from ICICI Ventures – that helped it acquire Merven Drugs (through a reverse merger). In January 2005, Arch raised another round – $9 million from IIML. The new funds were used to finance the acquisition of the pharmaceuticals business of a larger company.

"Private Equity is a creative mode of financing," avers **Ajit Kamath**, Arch Pharma's Chairman & Managing Director. "ICICI Venture was willing to back us to acquire a sick company. Please remember that this was at a time when there was no asset reconstruction company in India and the financial landscape was very different."

In November 2006, Arch raised $22 million from existing investor, ICICI Ventures. Interestingly, the company chose to go in for another round of PE financing when it had the option of going to the public markets.

Apart from providing strategic direction and financial advice, PE investors have helped Arch improve its systems and corporate governance standards very significantly. Kamath feels another key benefit of PE financing is the enhanced visibility that it provides for the company – especially in the media. "Thanks to our PE-backing, we get more visibility in the media compared to other companies of our size," he says. Importantly, this positive rub-off also increases the confidence of various stakeholders – including customers – in the company.

Evolvence Capital (ECAP) is a leading diversified Alternative Investment firm that differentiates itself in the Alternative Investment Industry by not only partnering with a select group of leading Alternative Investment sponsors, but does so by leveraging internal talent and experience to incubate teams and develop niche products.

Evolvence India Fund

Launched in June 2005, the Evolvence India Fund (EIF) is the first independent Private Equity Fund of Funds set up for investments into India. Sponsored by Evolvence Capital, Dubai and with capital commitments of US$ 140 million in place, EIF is well positioned to tap the private equity boom in India.

Evolvence Team

Evolvence India Fund's team is led by Jay V. Jegannathan and consists of two Managing Directors viz., Paresh Thakker (Paresh) and Ezaldeen El Araj (Ez) and a team of six professionals with a combined experience of 70 years.

The Evolvence India Fund has a diversified fund portfolio across different growth sectors in India , including real estate and infrastructure projects. As of December 2006, EIF has taken LP interest with six Private Equity fund managers and the funds had in turn themselves invested in 54 portfolio companies.

Evolvence India Life Sciences Fund

Evolvence India Life Sciences Fund (the "Fund") is a private equity fund established to make equity and equity related investments in pharmaceutical and biotechnology companies based in India. The Fund is a Mauritius limited life company. The fund is seeking to raise US$150 million and had its initial closing in December 2006 with US$50 million commitments. The Fund intends to invest in small to mid-sized pharmaceutical, biotechnology, and contract research & manufacturing businesses which are either located in India or which derive significant competitive advantage from operations located in India.

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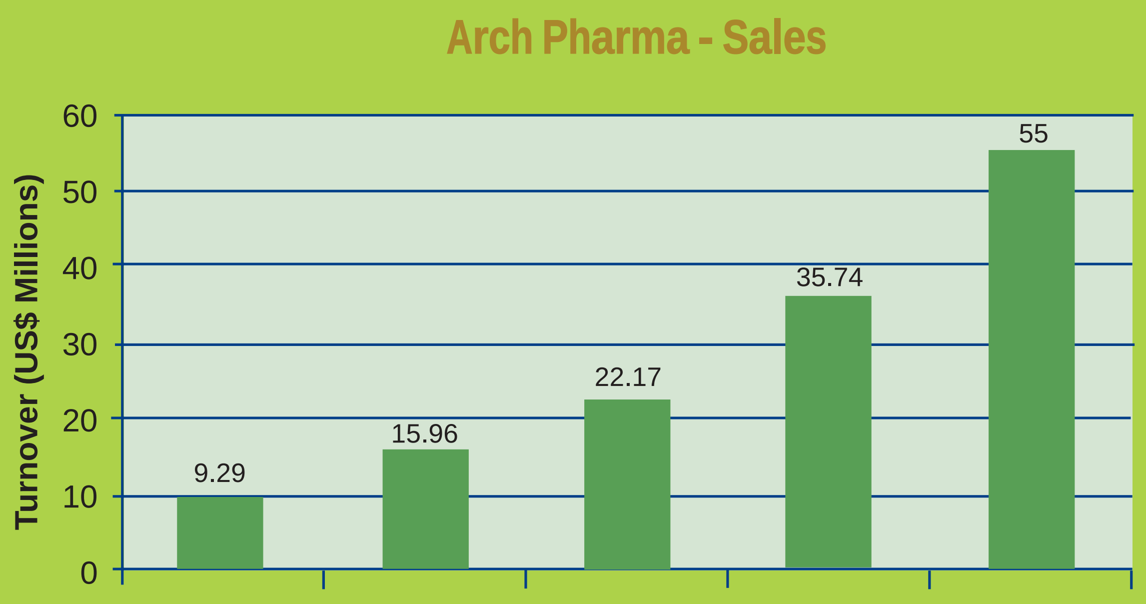


Challenges

Like other PE- and VC-backed entrepreneurs, Kamath cites the distraction from operations for the management team and time taken as important challenges in raising PE financing. For a company that has raised four rounds of financing in as many years, another key challenge was the need to undergo repeated due diligence. “We seem to be perpetually in due diligence mode! This takes time away from various stakeholders including our customers and vendors (who have to answer queries from investors regarding Arch),” Kamath says.

Kamath recommends PE firms not to look for clear executive role definitions - pre financing - in a typical Indian company. As long as the management team is amenable to changes to meet higher standards of corporate governance post investment, PE firms should not view this as a stumbling block.

Interestingly, Kamanth advises entrepreneurs not to bother much about company valuation when raising the first round of financing. It is more important how one is going to use the capital to create value and increase the size of the pie for everyone. Indeed, Arch’s per share price in the latest round of financing is over six times that during its first round! Enough reason for other entrepreneurs to pay heed to the company’s experience in creatively leveraging Private Equity financing.

Investors: General Atlantic, Oak Hill
Investment Date: 2004

	2004 (Dec)	2005
Revenues (US $ Millions)	**404**	**493**
Headcount	**15,980**	**19,500**

"Apart from strategic direction and financial advice, PE investors have helped Arch Pharma improve its systems and corporate governance standards."

Bharti Airtel Limited

Sector: Telecom Services

PE / VC Investors: Warburg Pincus

Transaction Summary: Raised $292 million from Warburg Pincus over a two year period ending September 2001. WP completed its exit in October 2005 with total gains of about $1.3 billion.

Pulak Prasad of Warburg Pincus remains on the Bharti Airtel board well over a year after the Private Equity firm completely sold its stake in India's largest private telecom services company. PE firms typically do not retain their board seats on public companies once they have made a decision to exit their investment. But then, there is probably nothing very typical about a Billion Dollar plus return on an emerging market PE investment.

The telling of the Bharti-WP story has been a key catalyst in attracting a long line of global PE investors to India since 2005. But like India's famed epics, it's a story that's worth telling again and again.

PE-VC Investment

Availability of funds at the right time has been crucial to Bharti Airtel's growth and success, feels the company's management. From just two mobile telecom circles in 1998, the company rapidly expanded its presence to four circles in 1999, six circles in 2001, and 23 circles in 2004. The expansion was not only through application for fresh licenses, but also thorough the acquisition of operators in circles like Andhra Pradesh, Karnataka, Rajasthan, Chennai and Kolkata.

Bharti Airtel had begun to actively look out for PE funding in 1998-99, when it decided to expand beyond its two circles (Delhi and Himachal Pradesh). "Most of the leading PE investors at that time considered us too small. They all seemed to be speaking to us and then going on to invest in our competitors!" recalls **Akhil Gupta**, Joint Managing Director and CFO of Bharti Airtel. "At that time, we had not heard of Warburg Pincus and when we agreed to meet Pulak Prasad, we did not know what to expect," he says. The rest is Indian Private Equity history.

Beyond providing the capital to support its rapid growth, WP also helped Bharti Airtel with important strategic inputs and mentoring to its management team, says Sonal Kapasi, who heads investor relations at the company. "While we could have raised funding from other sources, Warburg Pincus' involvement helped us in scaling up significantly," adds Gupta.

WP's speed of decision making and faith in the management team played a key role in the partnership, Gupta feels. This proved especially important as Bharti Airtel embarked on an aggressive growth path – that combined organic and inorganic strategies - to expand its footprint across the country. "WP took all decisions relating to acquisitions in 24-48 hours," Gupta recalls.

Another aspect that the Bharti Airtel management appreciated was how WP did not lose its calm when, post the company's January 2002 IPO, the stock price went lower than the IPO price (of Rs. 45 per share). "Their repeated advice to us was to forget about the share price and just focus on the good work that we were doing," Gupta says.

Infosys

Infosys BPO (formerly Progeon)

Investor : Citigroup
Investment Date: April 2002

	2002-03	2005-06
Revenues (US $ Millions)	**4.53**	**84.2**
Headcount	**539**	**7,021**

“Warburg Pincus’ speed of decision making and faith in the management team played a key role in the partnership.”

– Akhil Gupta
JMD & CFO, Bharti Airtel

The Exit

WP started its process of exiting Bharti Airtel in August 2004 by selling a 3.35% stake for about $208 million in the public markets. It sold another 6% stake for $560 million in March 2005, marking the largest ever equity deal in a single scrip on an Indian stock exchange. In October 2005, WP sold its final 5.65% stake to UK-based Vodafone for $847.5 million. The Vodafone deal valued Bharti at $15 billion - over 10 times that when WP made its original investment five years earlier.

Challenges

Bharti Airtel Joint Managing Director & CFO Akhil Gupta cites “money and the ability to put in more money” are among the positives of PE financing. Private Equity proved a good fit for an infrastructure provider like Bharti Airtel since it is a form of capital that is “not only hungry for growth and scale up but also hungry for extraordinary returns over the *long term*”. PE investors also provide companies with experience in building companies over various stages and an understanding of capital markets.

While valuation is among the biggest challenges in any fund raising, Gupta suggests that the timing of capital availability is often more important than the terms. “Do negotiate hard on the valuation and other aspects. But forget those things after the deal is done,” he says.Gupta advises entrepreneurs not to expect too much support from PE investors in day-to-day operations and in getting customers.

There’s also no escaping the thorough due diligence process PE investors would require before investing. The onus is on the company’s management to select the right PE investor who shares their vision and in be receptive to their thoughts. “These are key factors for a successful long term relationship,” Gupta says. The final test to that relationship, Gupta suggests, is whether, post exiting the first investment, the PE investor is eager to invest in your new venture.

"While there were other investors who were interested, we could identify a lot with the aspirations and ambitions of the Chrysalis Capital team." – Raman Roy, Founder, Spectramind

"Private Equity is a creative mode of financing.
ICICI Venture was willing to back us to acquire a sick company." - Ajit Kamath, Chairman & Managing Director, Arch Pharmalabs.

"The final test to an investor-entrepeneur relationship is whether, post exiting the first investment, the PE investor is eager to invest in your new venture," – Akhil Gupta JMD & CFO, Bharti Airtel

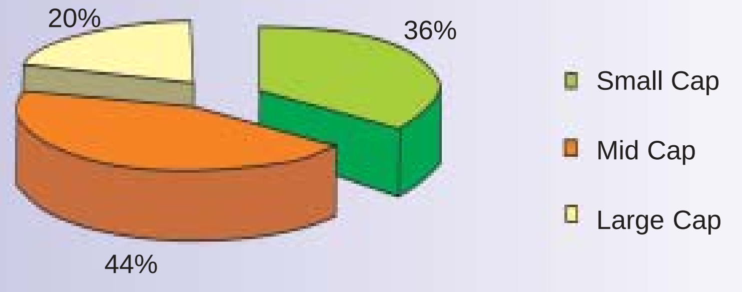
Methodology

Private Equity firms invest in the equity of companies that are, typically, not traded on a public stock exchange. Categories of Private Equity investment include buyouts, mezzanine capital, venture capital (VC) and seed capital. In some cases, Private Equity firms also invest in listed companies through PIPE (Private Investment in Public Enterprises) transactions.

Quantitative Study

- The time period used for the quantitative comparison was 2000-2005. This period includes an upward and downward cycle in the economy and maximizes the number of companies taken for comparison. Private Equity investments in the economy declined in the period 2000-2002 before picking up again in 2003.
- The companies analyzed in the quantitative study are publicly listed firms to ensure authenticity and accessibility of data.
- The list of all publicly listed companies as on March 31, 2005 was compared to Venture Intelligence's database of Private Equity-backed companies to generate a list of publicly listed Private Equity-backed companies.
- The Private Equity-backed companies considered were those that received Private Equity investment at any point in their lifecycles. The investor(s) might/might not hold a stake in the company currently.
- There were 75 such publicly listed Private Equity-backed companies (which constitute the "PE-backed Cos." list in the study report). These companies were eliminated from the master list to generate the list of "non Private Equity-backed companies".
- The capitalization classification of the Private Equity-backed companies was done by comparing the market capitalization of the 75 companies with the market capitalization of companies that constitute the Nifty Midcap, the BSE Midcap and the BSE Small Cap indices.
- On the basis of the sector-wise and size-wise distribution of Private Equity-backed companies, Nifty CNX Midcap, CNX IT and CNX Pharma were chosen as the relevant indices for comparison.
- The constituents of the indices used for comparison were the ones as on April 1, 2006. Movement of particular stocks from and into the index was not been considered.
- The sample might suffer from survivorship bias, as it represents a sample of Private Equity-backed companies that were able to go public. The performance of these companies has been compared to non PE-backed companies that are also listed. (We have attempted to capture the impact of Private Equity on unlisted companies through a survey of Private Equity backed entrepreneurs at privately-held companies.)

Size-wise distribution of PE-backed companies



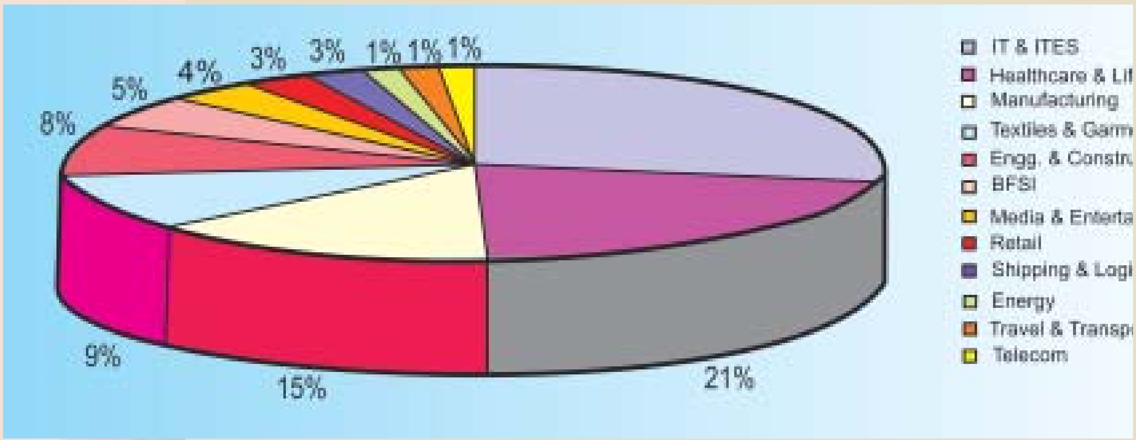
- Non monetary compensation – like employee stock options, etc – was not considered when making the wages-related calculations.
- In the case of mergers or acquisitions, the merged entity was considered as "Private Equity-backed" (or not) based on the following:
  - i) Whether the Private Equity firm retained a stake in the merged entity
  - ii) Whether the company that constituted 75% or more of the merged entity's revenues was Private Equity-backed
  - iii) Whether Private Equity funding played role in the transaction. (For example, it is common for companies to use Private Equity funding for inorganic growth. In such cases, the merge entity was considered as Private Equity-backed.)

    If the all the above condition were false, the merged entity was not considered as Private Equity-backed.
- Adjustments were made for changes in annual reporting cycles.
- Growth rates were not inflation adjusted as the analysis was cross sectional only.

Additional Notes

- We have juxtaposed quantitative and qualitative methods in the report. This was unavoidable due to difficulty in accessing reliable financial data from PE-backed companies that are currently privately held.

Sector-wise distribution of PE-backed companies



Qualitative Survey

- A survey questionnaire was emailed to two hundred entrepreneurs at unlisted companies that had raised Private Equity funding. The purpose of the survey was to gain an understanding of the entrepreneurs' perception on the value added by Private Equity/Venture Capital firms to their companies.
- The survey was conducted during October-December 2006.
- Forty nine responses were received, representing a return rate of 24.5%.
- Three responses were rejected as they were incomplete.
- We have attempted to minimize the bias due to self selection by making the responses anonymous.

Milestones: Private Equity & Venture Capital in India

While the first formal Private Equity and Venture Capital vehicle in India can be traced back to the setting up of the Risk Capital Foundation in 1975, the history of the industry in India is entwined with the liberalization of the country's economy – a process which began hesitantly in the 1980s and gained significant momentum in 1991.

Pre-1995

Until the mid-1990s, the need for Private Equity was met largely by development finance institutions like IDBI, ICICI and IFCI.

1984: The Industrial Credit and Investment Corporation of India (ICICI) decides to allocate funds for venture capital type activity.

1986: ICICI launches a venture capital scheme to encourage start-up ventures in the private sector in emerging technology sectors.

1988: Technology Development and Information Company of India Ltd. (TDICI) is set up to encourage private sector ventures in emerging technology sectors. (TDICI has since been renamed ICICI Venture Funds).

With strong encouragement and financial support from the World Bank, the Government of India announces guidelines for venture capital funds.

IFCI-sponsored RCF is converted into the Risk Capital and Technology Finance Corporation of India Ltd. (RCTC).

1989: Regional venture capital fund APIDC Venture Capital (APIDC VCL) is set up in Andhra Pradesh, followed by Gujarat Venture Finance Ltd. (GVFL) in Gujarat. Canbank Venture Capital, sponsored by Canara Bank, is also set up.

The first private sector funds come into being. Credit Capital Venture Fund (India) Ltd. is set up by Lazard Credit Capital in association with Asian Development Bank and the Commonwealth Development Corporation. (ANZ Grindlays – now part of Standard Chartered – had earlier set up India Investment Fund using funds from overseas Indians.)

1995-2000

During this period, several foreign PE/VC firms like Baring Private Equity Partners, CDC Capital, Draper International, HSBC Private Equity and Warburg Pincus enter the country. Firms like ChrysCapital and WestBridge Capital, set up by managers of Indian origin with foreign capital, also make their entry. The venture capital arms of companies like Intel and GE become active in India.

The main focus is on Information Technology and Internet related investments.

1995: Overseas investment in venture capital is permitted, along with tax incentives for such investments. VC funds can be floated by firms other than Banks and Financial Institutions.

1996: The Securities and Exchange Board of India (SEBI) issues the SEBI (Venture Capital Funds) Regulations, 1996.

Infrastructure Leasing & Financial Services Limited (IL&FS) acquires Credit Capital Venture Fund leading to the creation of what is now IL&FS Investment Managers Limited (IIML).

1999: Small Industries Development Bank of India (SIDBI) sets up SIDBI Venture Capital

2000: Based on the recommendations of the K. B. Chandrasekhar Committee, SEBI amends the 1996 regulations to help fuel the growth of the industry.

Mutual fund house Unit Trust of India (UTI) sets up its private equity arm, UTI Venture Funds.

2000-2005

An economic recession in the US and a slowdown in the technology sector result in some foreign PE investors quitting India during 2001-2003. The remaining funds focus largely on later stage and PIPE investments.

2002: Infrastructure Development Finance Company (IDFC) sets up IDFC Private Equity.

While successful exits – especially in the Business Process Outsourcing (BPO) sector – bring some cheer, investors clearly prefer late stage companies.

2003: Funds like ICICI Ventures and Actis become active in buyouts.

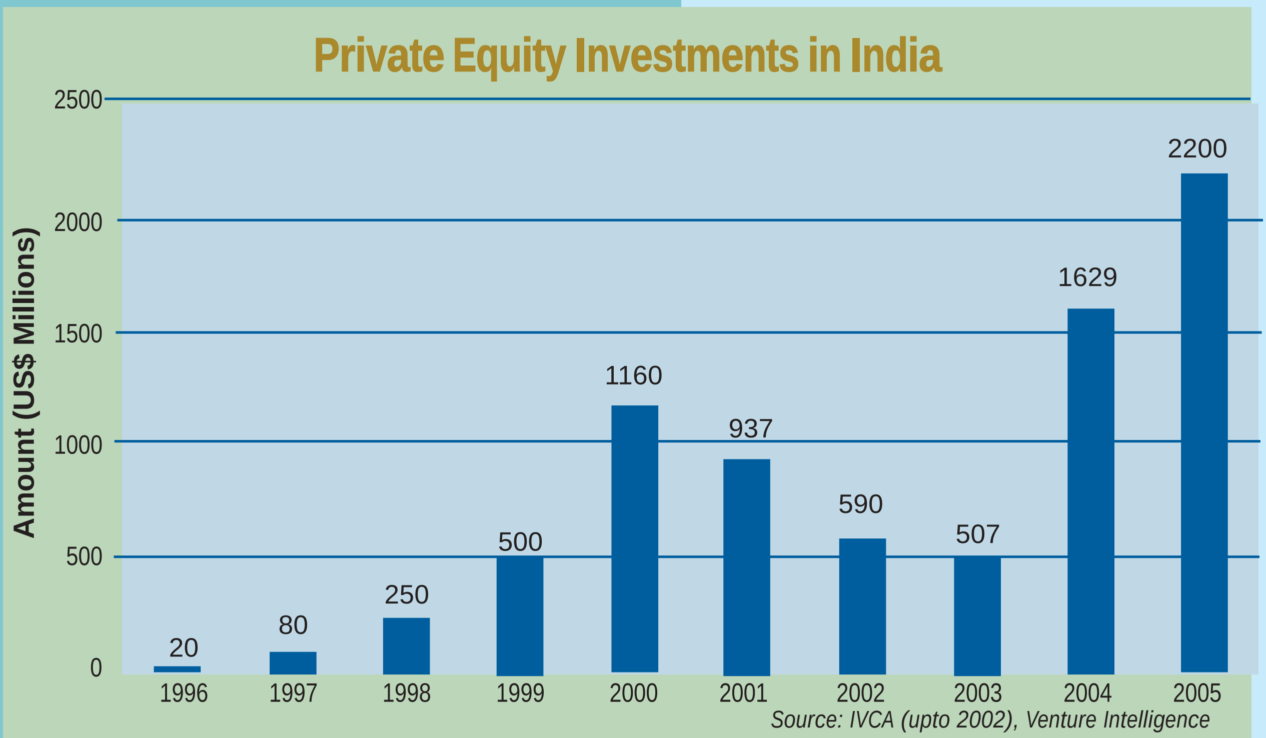
2004: Investment activity picks up. Six PE-backed companies – including Patni Computer Systems and Biocon - go public successfully.

2005: Investors increasingly focus on non-IT investments including in industries like manufacturing, healthcare and those dependent on domestic consumption.

Early stage investments re-emerge on investors' radar screens with several Silicon Valley VCs beginning to make direct investments in Indian companies.

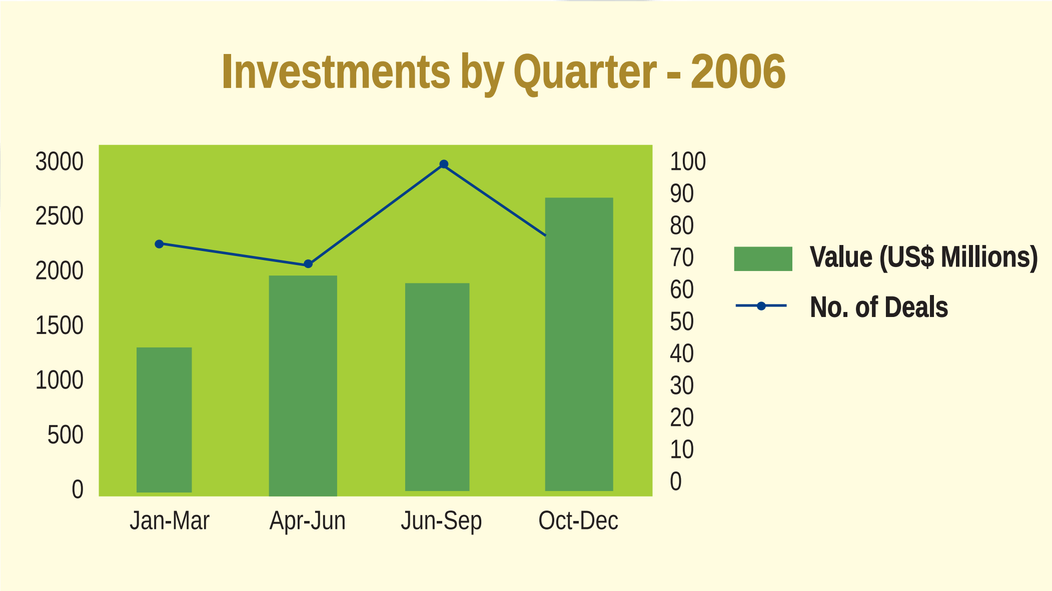
SEBI allows PE/VC investments in Real Estate.

Warburg Pincus' $1 billion plus gains from its investment in telecom services firm Bharti Airtel makes the global Private Equity industry sit up and take notice. Highly successful IPOs of PE-backed companies – including that of wind energy firm Suzlon Energy and print media firm HT Media – reinforce India's attractiveness as a destination for Private Equity investing.

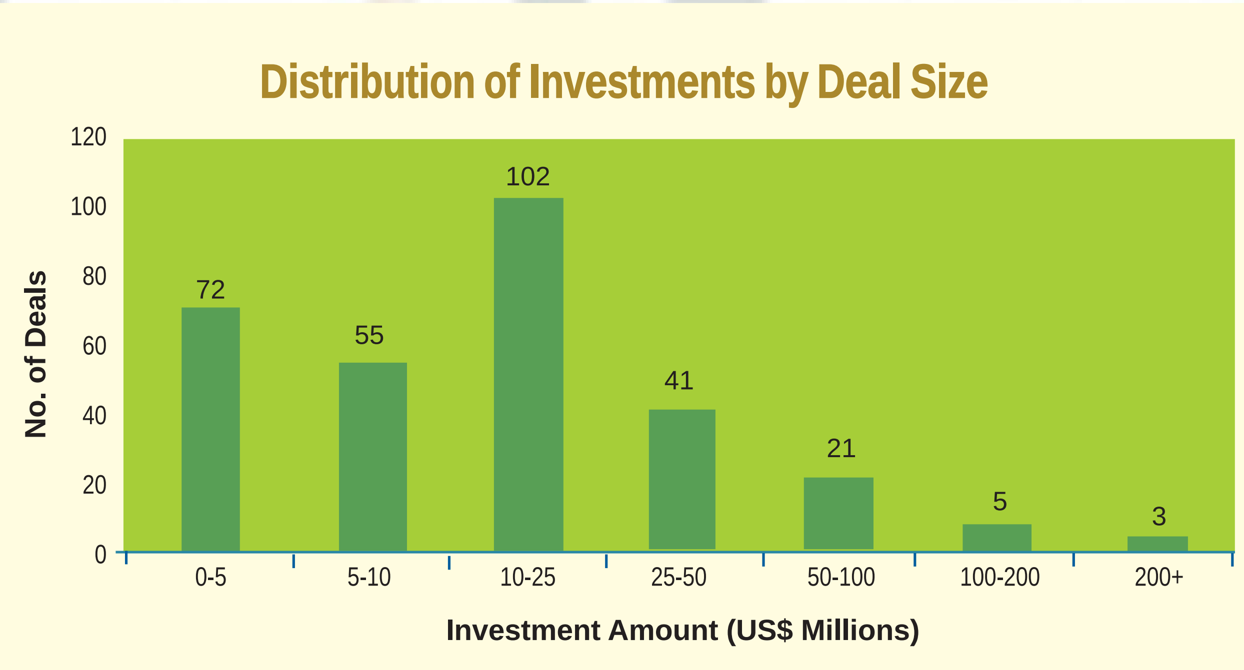


Private Equity investments in 2006

Private Equity firms invested a record $7,460 million over 299 deals in India during the 12 months ending December 2006. The amount invested during the year was over three times that during the previous year. (These figures exclude investments in real estate.)

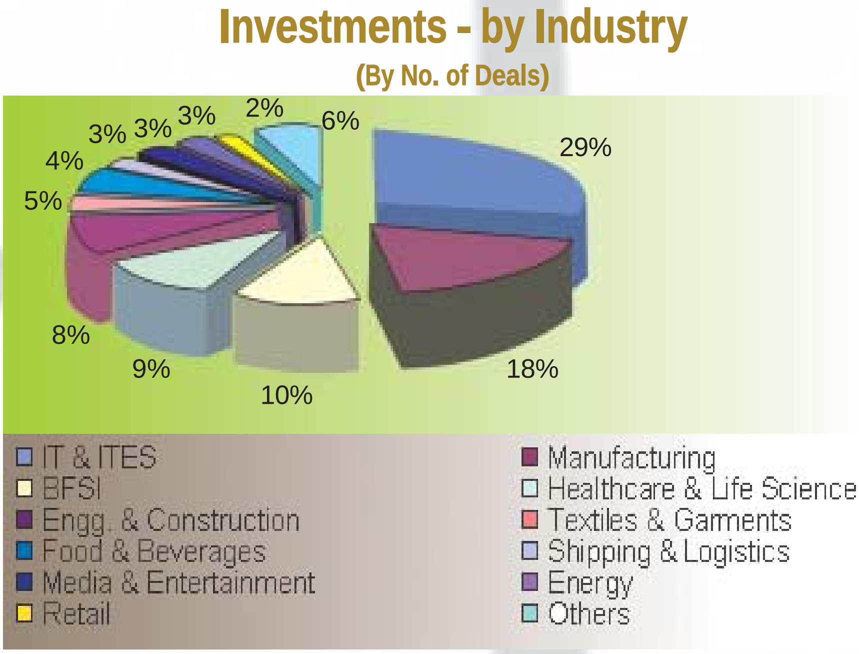


Despite the headline grabbing mega deals, the bulk of the investments were in the sub $25 million category, with the maximum number of investments falling in the $10-25 million range.



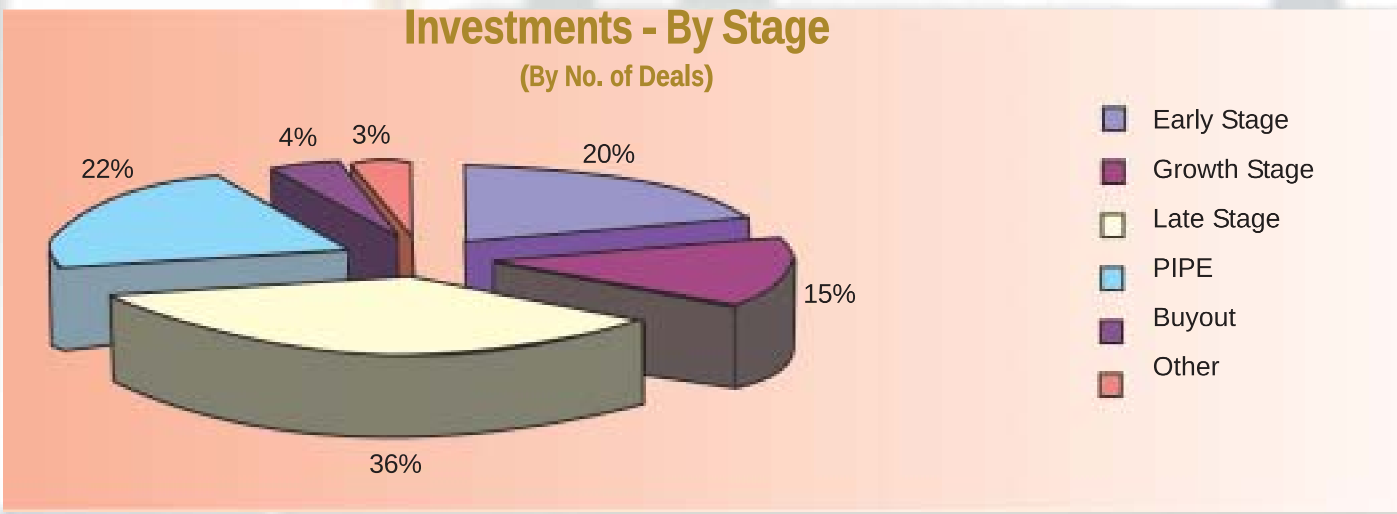
By Industry

Information Technology and IT-Enabled Services (IT & ITES) continued to remain the favorite industry among PE investors during 2006. Other industries that attracted significant PE investor attention during the year included Manufacturing, BFSI (Banking, Financial Services and Insurance), Healthcare & Life Sciences and Engineering & Construction.



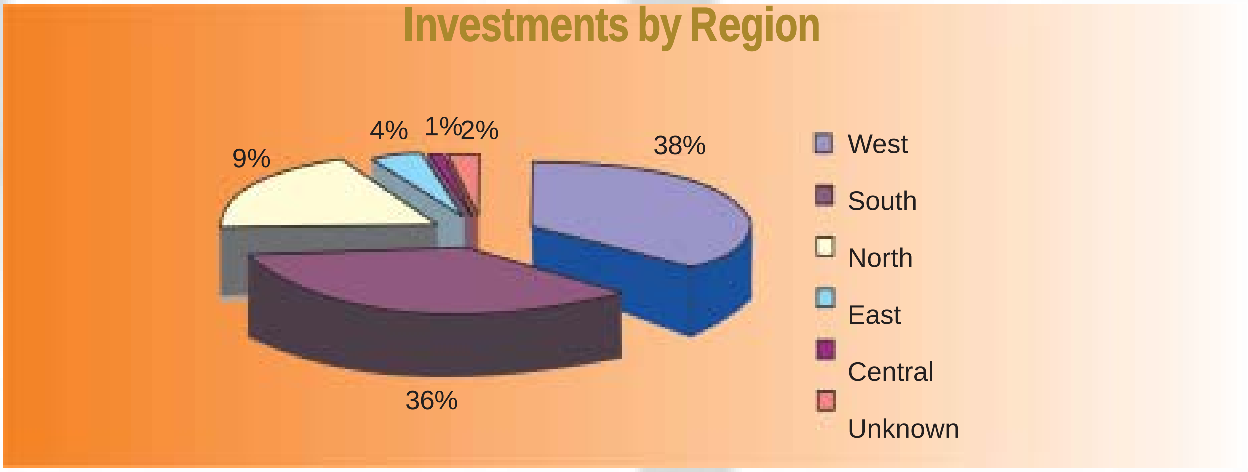
By Stage

Late-stage investments accounted for 36% of all deals while PIPEs (PE investments in listed companies) accounted for 22% of the deals. Early-stage investments accounted for about 20% of deals during 2006.



By Region

While companies based in Western India and South India enjoyed an almost equal share of Private Equity investments in 2006, in value terms Western India-based companies accounted for 50% of the pie. While manufacturing companies based in Western India attracted 21 investments compared to the South's 14, the South attracted 52 IT & ITES investments compared to the West's 22.



Top Cities

Among cities, Mumbai topped with 68 PE investments worth $1,780 million during 2006, followed by Bangalore with 44 investments worth $654 million.

Top Cities attracting Investments

City	No. Of Deals	Value (US$ M)
Mumbai	68	1780
Delhi/NCR*	51	1671
Bangalore	40	395
Chennai	21	344
Hyderabad	17	492

* National Capital Region

About Prof. Amit Bubna

Prof. Bubna holds a Ph.D in Economics from Stanford University (USA) and M.Phil and BA in Economics from Cambridge University (UK) and a B.Sc. in Economics from Presidency College, Calcutta.

He joined the faculty at Indian School of Business, Hyderabad (ISB) as Assistant Professor in 2004. Prior to this, he was a Managing Economist at the California office of LECG, LLC, a leading economic consulting services firm that provides complex economic and financial analysis for a wide range of customers, including Fortune 100 companies, regulatory bodies, and international financial institutions.

Prof. Bubna has taught economics to undergraduates at the University of California at Berkeley. He has also been a guest lecturer at the Haas School of Business, University of California where he spoke on the role of venture capital in funding new ventures.

Prof. Bubna's research interests include microeconomic theory, with applications in areas such as informal finance, venture capital, bankruptcy and auctions; comparative institutional analysis; corporate finance; and law and economics. His article on venture capital syndication was published in *Research in Finance*.

About Venture Intelligence

Venture Intelligence, a division of TSJ Media, is the leading provider of information and networking services to the Private Equity and Venture Capital ecosystem in India.

We provide a range of newsletters and reports including:

- **Deal Digest**: India's first deal-focused newsletter
- **India Roundup**: Quarterly and Annual reports summarizing Private Equity and Venture Capital investments in India
- **India-US Roundup**: the only service worldwide tracking VC and M&A deals involving Indian-founded companies in the US

Venture Intelligence events are a leading platform that bring together investors and entrepreneurs in a focused manner that facilitates discussion and networking.

Our customers include leading Private Equity and Venture Capital Firms, Limited Partners, Investment Banks, Law Firms, HR Services Firms and Consulting Firms.

Venture Intelligence is led by Arun Natarajan, a media entrepreneur with over 11 years of business journalism and research experience. Arun was earlier a senior research analyst with The Hindu-Business Line, a leading Indian business daily.

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