36th National Convention of Company Secretaries

“Global Meltdown – Challenges & Opportunities”
Private Equity Industry Perspective

November 7, 2008
State of Private Equity Industry

Issues arising from “Global Meltdown”

Industry response - ICICI Venture Perspective
Global PE investments touched USD 297 billion in 2007, showing 4x growth in 10 years.
Fund raising by global PE industry reached an all time high of USD 459 billion in 2007.

Fund raising continued to be buoyant in first half of 2008.
Indian PE market crossed USD 17 bn in 07

<table>
<thead>
<tr>
<th>Early Stage Investments Phase</th>
<th>Depression Phase</th>
<th>Revival Phase</th>
<th>Take-off Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Beginning of PE/VC activity in India</td>
<td>- Decline in activity post ‘dot-com’ bubble</td>
<td>- Revival of interest</td>
<td>- India growth story firmly established</td>
</tr>
<tr>
<td>- Largely VC in nature</td>
<td>- A risk-averse approach taken by most players</td>
<td>- Expansion beyond IT</td>
<td></td>
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<tr>
<td>- Peaked in 2000, backed by the IT boom</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Main sectors were IT and Telecom</td>
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</table>

Source: Edelweiss Private Equity Report, 2007
India was the third largest recipient of PE funds globally in 2007

<table>
<thead>
<tr>
<th>Country</th>
<th>Investment value (USD billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>105.7</td>
</tr>
<tr>
<td>UK</td>
<td>40.1</td>
</tr>
<tr>
<td>India</td>
<td>17.5</td>
</tr>
<tr>
<td>Japan</td>
<td>14.7</td>
</tr>
<tr>
<td>Australia</td>
<td>14.6</td>
</tr>
<tr>
<td>France</td>
<td>14.4</td>
</tr>
<tr>
<td>China</td>
<td>10.6</td>
</tr>
<tr>
<td>Germany</td>
<td>8.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>5.4</td>
</tr>
</tbody>
</table>
Increasing maturity in regulatory & financial markets has facilitated private equity activity in all aspects

- Possible to create off shore or domestic cum off shore funds
- Regulatory guidelines are in place for different routes: Foreign Direct Investment (FDI), Foreign Institutional Investment (FII), Foreign Venture Capital Investment (FVCI)
- Barring few sectors, most sectors don’t have restrictions on foreign investments / FDI caps
- Buy-outs are permitted although commercial banks have restrictions in providing leverage for equity purchase
- Diverse investment instruments including equity capital, preference capital, convertible debentures are used in the Indian markets enabling efficient structuring of transactions
- There is a well developed ecosystem of investment banks, legal advisors, financial and tax advisors, regulatory advisors, capital market participants, etc
Indian Private Equity industry has a large presence of global and local players.

Global players want more of India

Indian private equity players are growing bigger.
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<td>Industry response-ICICI Venture Perspective</td>
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</table>
Financial markets could impact a PE player in 4 broad areas

- Existing Portfolio
- Exits
- Fresh Investments
- Fund raising
Key portfolio issues at a macro level

- Does the business require a fundamental rethink on strategy?
- Have the ‘growth drivers’ of the company undergone a change?
- Is any company facing potential financial distress?
- Are the expansion plans impacted by lack of availability of financing?
- Is there a major impact of rise in interest rate?
- Are the exit plans adversely affected by the change in capital market scenario?
- Impact of changing growth expectations and macro environment on the ‘exit-realizations’?
### Illustration of impact at a Micro level

<table>
<thead>
<tr>
<th>Macro Factor</th>
<th>Sectors significantly impacted</th>
<th>Liquidity constraints in the financial market impacting growth, availability of finance &amp; valuations</th>
</tr>
</thead>
</table>
| **Financial Services**     | **Retail**                     | • Slowdown in retail consumer demand  
• Decline in retail broking activity  
• Fall in market valuations  
• Constraint in availability of funds  
• Fall in market valuations  
• Reduced discretionary spend affecting demand  
• Reduced domestic consumption might impact growth rates  
• Fall in market valuations  
• Fall in commodity prices |
| **Media & Services**       | **Metals & Mining**            |                                                                                                 |

The portfolio is likely to witness some delay in exits and potentially lower realisations due to changed market conditions.
Decline in market indices has eroded portfolio value for PIPE investors

<table>
<thead>
<tr>
<th>Company</th>
<th>PE Firm</th>
<th>Entry Date</th>
<th>Deal value (INR mn)</th>
<th>Entry Price (INR)</th>
<th>Current Price* (INR)</th>
<th>Mark-to-Market Losses (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AllSec Technologies</td>
<td>Carlyle</td>
<td>23-Aug-06</td>
<td>786</td>
<td>260.0</td>
<td>27.4</td>
<td>89.5%</td>
</tr>
<tr>
<td>Sical Logistics</td>
<td>IDFC PE</td>
<td>24-Apr-07</td>
<td>1100</td>
<td>222.0</td>
<td>39.4</td>
<td>82.3%</td>
</tr>
<tr>
<td>India Infoline</td>
<td>Orient Global</td>
<td>24-Dec-07</td>
<td>5,550</td>
<td>300.0</td>
<td>58.6</td>
<td>80.5%</td>
</tr>
<tr>
<td>BAG Films &amp; Media</td>
<td>Fidelity</td>
<td>24-Oct-07</td>
<td>676</td>
<td>60.2</td>
<td>16.4</td>
<td>72.8%</td>
</tr>
<tr>
<td>Development Credit Bank</td>
<td>Tata Capital &amp; Others</td>
<td>10-Jul-07</td>
<td>850</td>
<td>105.0</td>
<td>30.5</td>
<td>71.0%</td>
</tr>
<tr>
<td>Nagarjuna Construction</td>
<td>Blackstone</td>
<td>3-Oct-07</td>
<td>6150</td>
<td>202.5</td>
<td>49.8</td>
<td>75.4%</td>
</tr>
<tr>
<td>Havells</td>
<td>Warburg Pincus</td>
<td>7-Dec-07</td>
<td>4394</td>
<td>625.0</td>
<td>246.2</td>
<td>60.6%</td>
</tr>
<tr>
<td>Gokaldas Exports</td>
<td>Blackstone Group</td>
<td>20-Aug-07</td>
<td>6760</td>
<td>275.0</td>
<td>90.0</td>
<td>67.3%</td>
</tr>
<tr>
<td>Yes Bank</td>
<td>Orient Global</td>
<td>4-Dec-07</td>
<td>3310</td>
<td>225.0</td>
<td>80.7</td>
<td>64.2%</td>
</tr>
<tr>
<td>Great Offshore Shipping</td>
<td>Carlyle</td>
<td>20-Jul-07</td>
<td>1650</td>
<td>861.0</td>
<td>296.4</td>
<td>65.6%</td>
</tr>
<tr>
<td>Infotech Enterprises</td>
<td>General Atlantic</td>
<td>6-Jun-07</td>
<td>3000</td>
<td>360.0</td>
<td>145.9</td>
<td>59.5%</td>
</tr>
<tr>
<td>JRG Securities</td>
<td>Baring India</td>
<td>27-Jul-07</td>
<td>1400</td>
<td>48.0</td>
<td>23.1</td>
<td>52.0%</td>
</tr>
</tbody>
</table>

*Price as on Oct 16, 2008
*Price adjusted for share split
Fund raising environment for PE players has become more challenging

- Large international investors are adopting a ‘wait and watch’ approach
- New fund managers are finding it difficult to raise funds
- New funds from existing fund managers are taking longer to achieve closure
- Size of new fund raisings being scaled down
- Domestic HNI investors continue to show interest, but currently form a smaller part of the market
Despite challenges, PE activity in India continues to show resilience in 2008

- Overall PE investment activity levels in India continued to be buoyant.

- A total of 227 deals with an aggregate value of USD 10.0 billion were announced during the Jan-Sept 2008 period.

- Maximum deal activity was seen in the Real Estate and Telecom sectors in value terms and IT & Real Estate in volume terms.
Indian PE industry is less impacted by global conditions than western world

- Focus of western PE industry over the past few years was on Leveraged Buyouts (LBO) due to availability of plenty of debt financing at very attractive rates

- LBO deals have been a small segment of the Indian PE market so far due to various factors - regulatory issues, cost of debt, conservative nature of Indian banks, lack of enough opportunities, philosophy of retaining leverage potential in portfolio companies, etc

- Due to global liquidity constraints and risk averseness of banks, LBO activity of PE industry has been adversely hit

- On the other hand, Indian PE industry will be impacted to a much lesser extent due to its focus on growth capital investing using their own resources
State of Private Equity Industry

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Industry response-ICICI Venture Perspective
In the short term, PE investors will become more cautious

- Rate of new investments may slow down in the coming 12 months, although appetite may continue to be strong

- Investors will seek better terms

- Promoters without a credible track record will find it tougher to tap PE as a source of capital

- Hunt for ‘differentiated’ investment opportunities will intensify
PE focus on unlisted companies is becoming greater, once again

Unlisted company deals as % of total deals

Source: JM Financial
In the long term, the India opportunity will continue to be vibrant

Demand drivers strongly in place. 
Rising Income, Geographical Spread

Key Sectors still under penetrated 
Healthcare, Retail, Financial Services, 

Strong financial markets impetus 
Exit tract record, Larger deals etc 

Global aspirations of Entrepreneurs and Financial Market Strength 

Potential buyout market in family owned businesses 
(with second generation ownerships)

Strong future for Indian private equity industry
Indian alternate assets market is expected to grow at a phenomenal rate over the next 5 years.

<table>
<thead>
<tr>
<th>Growth</th>
<th>Buyout</th>
<th>Mid-cap</th>
<th>Infra</th>
<th>Real Estate</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>38</td>
<td>15</td>
<td>10</td>
<td>33</td>
<td>30</td>
<td>19</td>
<td>145</td>
</tr>
</tbody>
</table>

Core private equity = US$ 63 bn

Real Estate & Infra = US$ 63 bn

Market opportunities expected to grow beyond the core private equity space with real estate and infrastructure presenting very large opportunity sets.

Source: Mckinsey Estimates
ICICI Venture endeavors to continue being the leader in this high potential market

- Innovative bets and differentiated deal structuring / execution
- Buyout and control situation focus across deal sizes
- Dedicated and large investment team to ensure high involvement
- Aligning with the market trend of larger size transactions

Continued leadership in our space in the Indian Private Equity market

ICICI Venture proposes to raise new Funds to address this opportunity