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Content

Foreword 3

Interview with Kabir Thakur, Managing Director, Creador Advisors India LLP and Chief Investment Officer, Creador Sdn. Bhd 5

Private equity trends 2022 9

Interview with Vikas Nahar, Founder, Happilo International Pvt. Ltd. 15

India economic outlook: Uncertainties cloud the outlook 18

Interview with Pushkar Jauhari, Director Investments, OIJIF- MC 22

Interview with Kartikey Hariyani, Founder and CEO, Chargezone 25

New Overseas Investment Framework in India 27

Enterprepreneurs' Summit 2022 31

Connect with us 31

Foreword

The Indian economy entered 2022, surviving macro-economic stresses of COVID-19, including inflation, supply-chain disruptions, and higher unemployment, which significantly imbalanced the economy. The pandemic caused one of the highest recessions since independence. Major sectors such as consumer, travel and tourism, and oil and gas were adversely affected as both, domestic demand and exports abruptly disappeared. Despite these economic uncertainties, Private Equity (PE) funds performed extremely well in 2021 and H12022.

The Indian Private Equity and Venture Capital (PE/VC) industry ended 2021 with investments of over US$77.1 billion, compared with US$62.2 billion in 2020, as investment activity increased across major sectors. This also included the Jio Platforms and Reliance Retail deals. There has been a decline in deal count per month by c. 18 percent (annualised) in H12022 over H12021 and 48 percent decline over H22021. H12022 recorded US$34.1 billion in PE/VC investments, which was 28 percent higher than that in H12021, but it declined 32 percent compared with H22021—an indicator that average deal sizes increased. India has become an attractive investment destination within APAC after the reallocation of funds from China. The PE/VC investment flow into India has remained robust, despite experiencing a sequential fall in the face of inflation and tightening liquidity. Fundraising stayed strong with a dry powder glut and funds shying away from China. This has played favourably for India.

The year 2021 saw a perpetuation of megatrends from the previous decade. These trends include growing importance of sizeable deals, increase in new buyouts, significant direct investments from pension funds and sovereign wealth funds, and large investments in financial services and in the e-commerce sector. Buyout deals and exits witnessed new records. More money was being directed to buyouts by larger PE funds as the value of takeover deals surged five times in five years, reaching a US$16 billion in 2021. More than 50 percent PE investments in 2021 were buyouts as compared with 25 percent in 2016. However, H12022 recorded US$4.3 billion in buyouts, which saw a 46 percent and 69 percent decline compared with H1 2021 and H2 2021, respectively. Non-buyout private investing categories, such as growth equity and venture capital have also witnessed a significant surge in activity.

Tech sectors, such as consumer tech, IT/ITES, and EdTech, emerged as favourites amongst PE/VC investors. Investment in new themes and sectors, such as Electric Vehicles (EV), media entertainment, and education also saw an increase. The e-commerce and technology sectors slipped to the second place as they received a disproportionate share of deal flow, both in terms of value and volume. India also saw dominance of start-up investments and is emerging as one of the fastest-growing start-up ecosystems globally. To promote start-ups, the Indian government made announcements in the Union Budget 2022-23, including direct digitisation in the banking, higher education, and health care sectors, and India's own digital currency, which will have a significant impact on India's digitisation front. The RBI’s recent announcement on launching a central bank-backed digital rupee will boost the IT sector, as banks and payment wallets implement population-scale digital currency.

PE/VC funds expect ESG considerations over their assets to grow to 90 percent over five years from now, up from only 39 percent five years ago, indicating a significant acceleration in ESG adoption across sectors. US$1 billion was raised by climate focused funds in H12022; of which, US$0.7 billion was raised by Green Growth Equity Fund by EverSource Capital for businesses and platforms in renewable energy and related services, e-mobility, resource conservation, waste and water management, and energy efficiency.

ESG funds have the opportunity to emerge as leaders, capturing outsized value from their initiatives as they explore how to raise better, invest better, own better, and exit better. Firms have unlocked 3–5 percent EBITDA points from ESG levers, and this value is expected to grow.

The aggressive environment within the PE industry is undergoing fundamental change as the Indian market develops and active funds increase. The following trends are emerging:

A) Changes in the traditional fund model because of a maturing investment ecosystem:

- Attractive returns have lured in more players, thus increasing competition for quality assets, which has in-turn, resulted funds to offer larger cheques and started to pull the returns down.
- Faster deal sourcing and execution due to sectoral focus by funds, using deep sectoral understanding of asset performance. Limited Partners (LPs) are more active and co-investing along with General Partners (GPs) on large assets. LP participation unlocks access to larger deals with a shared risk and allows a win-win for both GPs and LPs.
- Various incentives, such as large-ticket transactions, access to attractive deals, and using GP strength at no cost have proved to be the reason for LP’s becoming more active and starting to explore co-investing with GPs at the same time, additionally sharing deal value by bearing lower risk with LPs has proved to be incentive for GPs.

B) With these trends in 2021 and start of 2022 we can expect the following:

- Investment interest is likely to continue in the health care, insurance, renewable energy, automobile, FMCG, and technology sectors, as these have become important drivers for the economy.
- As traditional businesses adopt digital transformation for business continuity by shifting to cloud infrastructure, automation, etc., PE interest in this sector is likely to remain attractive.
- Less than 1 percent of the health care industry's value is attributed to India's HealthTech market, which represents a sizeable unexplored market. Over the past three years, funding has tripled, indicating significant interest of PEs in this sector.
- Increase in focus on multi/omnichannel and direct-to-consumer solutions because of shifting customer preferences and disruption of traditional retail. By 2026, e-commerce would account for 11.4 percent of the Indian retail sales. The D2C segment is expected to grow at a CAGR of 25 percent between 2021 and 2025, with the fashion market likely to account for 53 percent of the category's growth.
- Over the past two years, secondary and strategic sale have expanded by 28 percent and 23 percent, respectively, becoming the most preferred exit route each year. Strategic sale is expected to be the preferred exit route.

Several factors, such as growing credit scores and better GST collection indicate that the Indian economy is gradually recovering; however, based on our discussions with multiple PE clients, the current phase of hectic investment activity is likely to see an 8–12 month pause; post which, there will be sufficient liquidity in the market and the PE environment will emerge stronger than before with the gaps plugged in. That said, the long-term view on India continues to be bullish and those that have been quick to respond to this crisis, will recover faster, and thrive when the tide turns.

Andy Khanna

Interview with Kabir Thakur, Managing Director, Creador Advisors India LLP and Chief Investment Officer, Creador Sdn. Bhd

Kabir Thakur
CFO, Managing Director, Creador Advisors India LLP and Chief Investment Officer, Creador Sdn. Bhd

Andy: Creador is a Private Equity (PE) firm that focusses on growth capital across South and Southeast Asia. How is the investment environment similar or different across India, Singapore, Malaysia, and rest of the economies? What is your investment strategy?

Kabir: Before I touch on the similarities and differences across the Asian economies, let me first put this in perspective against our business.

At present, Creador's investments are spread across India, Singapore, Indonesia, the Philippines, and Malaysia. India constitutes about 40 percent of the total investment, and the Southeast Asian bloc constitutes 60 percent. Therefore, India as an individual market is significant to the portfolio.

Creador's focus continues to be investments in South Asia, which is home to some of the world's fastest-growing economies. Due to various reasons, some hesitancy around China had a positive spillover into India and Southeast Asia. Both have gained overall capital allocations.

Our strategy is growth-focused, and growth portfolio constitutes 80 percent of our investments with the remaining 20 percent being buyouts or rollups.

India, the Philippines, and Indonesia have an average Gross Domestic Product (GDP) growth of about 6–7 percent, and these countries take the bulk of our growth capital. In Singapore, Malaysia and Thailand, GDP growth rates are slow and our investments are primarily through buyouts, rollups, etc.

Andy: The company has made several investments in the Banking, Financial Services and Insurance (BFSI) segment. What are some decisions that PE investors like you focus on? What are some structural changes that you have noticed in the past few years?

Kabir: Creador's portfolio is a healthy balance between sectors, such as modern retail, consumer goods, F&B businesses, and the fast-evolving sectors, such as health care, tech, financial services. Asian markets are particularly under-penetrated in the latter.

At present, our BFSI portfolio is spread across vehicle finance, housing finance, and micro finance.

As a mid-market fund, we do not invest in later-stage companies where valuations have crossed US$ 1.5 billion. We generally identify targets with US$ 200 million to US$ 1 billion in valuation.

Our four main criteria when evaluating the BFSI investments include the following:

- High growth
- Good distribution models
- Good underwriting capability
- Strong return on equity models

We are fortunate that Asia is witnessing an increased focus on good governance, with a regulatory environment that promotes responsible and sustainable investments. In India, the RBI is one of the region's best regulators. It has been taking positive steps to spur the growth of the sector. This includes tightening Non-Banking Financial Company (NBFC) norms, capital adequacy, and Non-Performing Asset (NPA) norms to ensure transparency of reporting.

In our view, three RBI initiatives that are of particular benefit include the following:

- Making conscious efforts to bring NBFC reporting closer to banks. This may take some time, but I believe these are the steps in the right direction
- Allowing small finance banks and micro finance companies some breathing room during the pandemic
- Giving affordable housing a push in the past few years, which is another startup segment that has emerged in India

Andy: With a deteriorating global environment and challenges faced by unicorns for business growth and valuations, what are some of the greatest challenges you face?

Kabir: PE firms face some challenges under the current market conditions:

- Business performance is affected by slowing demand due to inflation and rising interest rates.
- Portfolio exits have become challenging as liquidity dries up during such times.

For Creador, we are at a position where:

- Only 2 percent of our portfolio is in unicorns, such as tech business models, which means we are less exposed to loss-making pressures.
- Our debt exposure across the portfolio is small. Hence, we are less affected by rising interest rates.
- In the past year, some of our businesses were affected by challenges around the cost of raw materials, shipping, logistics, which affected margins. However, the growth is steady, as most of these businesses revolve around everyday essentials that consumers continue to spend on.

From a long-term perspective, we feel confident that our investment geographies will emerge stronger and are well positioned to deliver substantial wealth creation.

Andy: Valuations have reached their peak and competition has intensified. How does a PE firm make sure that they are creating value and taking their investments from good to great returns?

Kabir: Creador creates value and provides steady, sustainable returns by focusing on the following three key strategies:

1. As mentioned earlier, our strategy is growth focused.
2. In the past three to four years, 70–80 percent of Creador's returns have come from growth investment, with the balance 20–30 percent coming from improvement in margins and accretive acquisitions.
3. At Creador, we have the benefit of a deep bench of in-market expertise. Our success stems from the insights and knowledge of our experienced and well-networked teams within markets. These teams provide customised solutions for our portfolio companies that add value, improve margins, and optimise operations. One such increasingly powerful tool to add value is M&A. Across our portfolio, we are actively working on acquisitions to add value.

Andy: Can you share a case study of how your team has worked with a portfolio company on operational performance improvement, formulating corporate strategy and using network?

Kabir: During 2014-2015, we invested in a company named CTOS Digital in Malaysia. It was a family-run, credit-reporting business with a valuation of US$100 million. We bought 80 percent of the company and used our position as a majority shareholder to drive growth.

Key initiatives that had major impact on the company's future performance included the following:

1. **Professionalising the company -** We hired a new team, almost the entire C-suite, to ensure results.
2. **Expanding the product portfolio -** The company had a thin product line with a few products. We launched several new products that took the product offering beyond credit reports to financial decisioning, particularly for Small and Medium Enterprises (SMEs). Hence, we moved beyond our traditional customer base of banks and financial institutions and started marketing directly to the SME market. It contributes about 40 percent of Malaysia's GDP.
3. **Strengthening middle management -** To ensure the effective implementation of the strategy, we invested in good quality talent at middle management. This included a mix of people from different sectors, to add depth and breadth to our company's talent profile.
4. **Continuously investing in the business –** Change in the management and expansion of

product portfolio affected our margins. In the second year, margins fell from 20 percent to 15 percent. However, the margins increased by more than 30 percent (due to the new team and new products) in subsequent years.

5. **Expanding regionally through strategic investments -** The Southeast Asia market is still relatively young in terms of credit reporting and digital financial decisioning. We took advantage of this opportunity and made strategic investments in credit bureaus in Thailand and the Philippines.

After running CTOS Digital for six years, we listed it, attracted cornerstone investors from around the world, and attracted a very generous premium at listing. We still own 30 percent of the company, which provides us the opportunity for stellar future returns.

Private equity trends 2022

The Indian economy bounced back from the depths of the pandemic as vaccination drives caught momentum – increase in liquidity for deals, lower yields, low inflation, and public markets reaching all-time highs. H12022 saw global headwinds of tightening liquidity, supply-chain disruptions, rising inflation, the prolonged Russia-Ukraine conflict (causing oil prices to climb to a multi-year high), and INR depreciating to lifetime lows.

Overall trends

Over US$77.1 billion in investments were made by the Indian PE/VCs in 2021, a 62 percent increase from 2020. The amount of VC and growth equity surged over four-fold from 2020 to US$38.5 billion in 2021, accounting for more than half of the total investments. The deal velocity picked-up pace, in size and volume, in H2 2021 with Q32021 and Q42021 recording two of the best quarters for PE/VC investments at US$26.1 billion and US$24.4 billion, respectively. Investments in H12022 aggregated US$34.1 billion, which was a 32 percent decrease from H22021 but a 28 percent increase from H12021. With a monthly average run-rate of nearly US$6 billion, which is consistent with the past year, the PE/VC investment flow into India has remained strong.

A total of 1270 PE/VC deals were concluded in 2021, a 27 percent increase over 2020. The number of deals reached 714 in H12022, up by 27 percent from H12021, but down by 5 percent compared with H22021. Ninety-two large deals amounting to US$23.7 billion were recorded in H12022 (compared with 70 large deals amounting to US$19.5 billion in H12021). However, in H12022, the value of large deals was 41 percent less than in H22021, when there were 112 large deals reaching US$40.3 billion.

The shift away from China to India and momentum in exits were new trends. A significant increase was seen in average size of exits through secondary sales, public market exits, and strategic sales.

With five-times growth in the past five years, to reach US$16 billion, buyouts have been picking up. In 2021, the average buyout deal value increased three times, or to about US$0.9 billion. Buyouts are appealing because they provide investors greater control over the generation of value for high-value acquisitions, made possible by operational improvements and strong sectoral concentration. However, in H12022, 13 percent PE deals were buyouts, compared with 30 percent and 28 percent in H12021 and H22021, respectively.

Another key trend was attention to the Environmental, Social, and Governance (ESG) criteria in investing, as ESG funds scaled up its Asset Under Management (AUM). As ESG has become a key driver, the trend is expected to accelerate. Indian PE funds are proactively embedding ESG risks as red flags to avoid risks or costs in the future, despite low pressure to comply.

Sectoral analysis

Consumer technology and IT/ITES (including SaaS and FinTech) accounted for most of the transaction activity in 2021, which signals the rising growth share that the tech and internet sectors is acquiring. Together, these two industries accounted for nearly US$44 billion in deal value in 2021, or more than 75 percent of the total deal value. These industries demonstrate the industry's attractiveness and resilience in the face of uncertainty because their business models changed quicker than those of traditional industries. This was further supported by the digital capital transfer from China to India based on the Chinese policy that forbade for-profit tutoring services focussed on public school curriculum and entrance tests. Compared with the previous two years, which only witnessed a US$1 billion deal, the IT/ITES sector saw five deals worth more than US$1 billion in 2021 and investments reached about US$14.2 billion in 2021 vis-a-vis US$11 billion in 2020. With large deals in ITES concluding at 20-30 times the EBITDA multiples (significantly higher than historical multiples of about 15 times), valuations in the IT sector saw a substantial growth. PE investment in the IT sector were US$16.4 billion across 813 deals in H12022 compared with US$28.9 billion over 1,222 deals in 2021.

India is likely to have a US$5 trillion economy by 2024–2025, and 5G services are expected to be essential for that goal. According to experts, 5G will increase the country's GDP by US$150 billion between 2025 and 2040 and have a cumulative economic impact of US$1 trillion by 2035. The development of Virtual Reality (VR), Augmented Reality (AR), and other technologies will have a significant impact on a variety of industries, including health care, agriculture, education, and disaster relief.

Following a downturn in 2020, the health care industry grew by 1.5 times in 2021, with providers rising by two times and pharmaceuticals performing well due to the pandemic-led boom in 2019. In H1 2022, health care witnessed a decline of 26 percent, vis-à-vis H12021, whereas it witnessed an increase of 13 percent compared with H22021.

In H12022, PE/VC investments in the financial services sector amounted to US$7.3 billion, with the e-commerce and technology sectors closely behind at US$4 billion each. In H12022, there were 224 investment deals in the Indian FinTech sector. The Indian FinTech industry currently attracts 14 percent of the worldwide capital, reaching US$29 billion. CAGR for the industry in India increased by 20 percent, outperforming growth rates of the US, the UK, and China (16 percent, 15 percent, and 10 percent, respectively). By 2025, it is anticipated that India's FinTech market will reach US$1.3 trillion.

Logistics, media and entertainment, and education were amongst the new areas that received PE/VC interest in H12022. In the media and entertainment industry, the value recorded in H12021 (US$1.3 billion over 30 acquisitions) more than doubled in H12022 with US$3.4 billion over 41 deals, representing the highest half yearly value of investments in the sector.

PE investment inflows in the real estate sector amounted to US$3.3 billion between January

2021 and September 2021. In H1 2022, the real estate sector recorded investments aggregating

US$3.4 billion across 38 deals, representing a 13 percent and 52 percent increase in value over H12021 and H22021, respectively. The sector is expected to be worth US$1 trillion by 2030, up from US$200 billion in 2021, and contribute 13 percent to the country's GDP by 2025. There is strong interest in sub sectors, such as warehousing, commercial offices, and IT parks. In H12022, PE investments in the warehousing sector was US$1.2 billion, compared with US$1.3 billion in 2021.

Sectors such as ed-tech, electric vehicles, gaming, online streaming, and sports-based entertainment received robust PE/VC investment flow around US$10 billion in 2021, laying the emphasis on the dominance of start-up and VC investments.

Top deals in key sectors in 2021 and H12022

Top five financial services deals:

Sr. no.	Target	Buyer	Deal value (US$ million)
1.	HDFC Bank Limited	GIC Singapore, Blackrock, AIG, T. Rowe Price, Fidelity Investments, Investment Corporation of Dubai, Schroder International Finance Corporation	6,667
2.	Life Insurance Corporation Of India	SBI Life Insurance Company Limited, GIC Singapore, ICICI Prudential Life Insurance, Kotak Mahindra Life Insurance Company Limited, Tata Investment Corporation Limited and others.	2,801
3.	Fullerton India Credit Company Limited	Sumitomo Mitsui Financial Group Inc	1,980
4.	ICICI Bank Limited	Undisclosed Investors	1,067
5.	HDFC Bank Limited	GIC Singapore, AIG, Fidelity Investments, Schroder, Blackrock, T. Rowe Price, Investment Corporation of Dubai	991

Top five TMT deals

Sr. no.	Target	Buyer	Deal value (US$ million)
1.	Globallogic Inc	Hitachi, Ltd	9,288
2.	Indiaideas Com Limited	Nasper	4,584
3.	Flipkart Pte Limited	GIC Singapore, CPPIB, Softbank, Walmart Inc, Qatar Investment Authority and others	3,855
4.	Think & Learn Private Limited	MC Global Edtech Investment Holdings, B Capital, XN Exponent Holdings, Arison Holdings, TCDS, Baron Emerging Markets Fund, Baron Global Advantage Fund, Tiga Investments, Silver Lake and others	3,247
5.	Mphasis Limited	Blackstone Advisors India	3,131

Top five life sciences and health care deals

Sr. no.	Target	Buyer	Deal value (US$ million)
1.	Lenskart Solutions Private Limited	KKR India Private Equity, Temasek, Falcon Edge Capital, Bay Capital Partners and others	532
2.	ZCL Chemicals Limited	Advent India PE Advisors	385
3.	Biofourmis Pte Limited	General Atlantic, CVS Health, Openspace Ventures, MassMutual Ventures, Sequoia Capital India, EDBI	307
4.	Krishna Institute Of Medical Sciences Limited	Nomura Funds Ireland Public Limited Company, Polar Capital Funds, Malabar Select Fund and others	286
5.	Manipal Health Enterprises Private Limited	National Investment and Infrastructure Fund, Shears Healthcare India	280

Top five Consumers deals

Sr. no.	Target	Buyer	Deal value (US$ million)
1.	Vini Cosmetics Private Limited	KKR India Private Equity | Westbridge Capital Partners	618
2.	Patanjali Foods Limited	Yas Takaful PJ SS, SBI Life Insurance Company Limited, India Emerging Opportunities Fund, Winro Commercial (India) Limited	573
3.	Vedant Fashions Limited	GIC Singapore, Nomura Funds Ireland Public Limited, Fidelity Securities Fund, Wellington Trust Company National Association Multiple Common Trust Funds	420
4.	Waterwala Labs Private Limited	Amit Mantri, Harsh Deepak Shah, Seema Kothari, DSS Investments, Lavanya Sree Vankadara, Sreeja Sasidharan and others	333
5.	Brainbees Solutions Private Limited	TPG Capital India, Premjiinvest, Apricot Investments Limited, Think Investments, NewQuest Capital Partners	307

Top five real estate deals

Sr. no.	Target	Buyer	Deal value (US$ million)
1.	Macrotech Developers Limited	Nomura India Investment, Societe Generale Private Equity, Abu Dhabi Investment Authority and others	867
2.	Embassy Industrial Parks Private Limited	Blackstone Advisors India	700
3.	Seaview Developers Private Limited	Brookfield India Real Estate Trust	529
4.	Godrej Properties Limited	GIC Singapore, Monetary Authority of Singapore, Goldman Sachs Public Market Fund and others	500
5.	Gardencity Realty Private Limited	Ascendas	192

Top five Infrastructure deals

Sr. no.	Target	Buyer	Deal value (US$ million)
1.	Mumbai International Airport Limited	JP Morgan Securities, Barclays Bank, Standard Chartered Private Equity, Adani Group, Deutsche Bank, Apollo Global Management	1,725
2.	Irb Infrastructure Developers Ltd	Cintra INR Investments BV, GIC Singapore	1,426
3.	Sp Jammu Udhampur Highway Limited	National Investment and Infrastructure Fund	304
4.	Rmz Infinity (Chennai) Limited	CPPIB	200
5.	Livspace Pte Limited	KKR India Private Equity, Jungle Ventures, Ingka Investments, Venturi Partners, Peugeot Invest	179

Exits

Exits worth more than US$36 billion were unlocked in 2021 with strategic sales accounting for 50 percent of exit volumes, while secondary sales, public market exits, and strategic sales accounted for nearly equal shares of exit value. High-end corporations and platforms with PE/VC backing used the pandemic to consolidate market positions and add new competencies, resulting in 2021 witnessing the largest strategic exits at US$16.9 billion across 94 deals.

The value and volume of secondary exits in 2021 reached a record high, aggregating US$14.4 billion over 56 deals. As values appreciated on both public and private markets due to high global liquidity and low interest rates, many PE/VC firms holding older vintage investments took advantage of the opportunity to sell long-held equities at competitive prices. With 44 IPOs raising US$13.1 billion, PE-backed IPOs reached an all-time high and were a significant source of liquidity for PE/VC funds, who made US$5.1 billion on the offer-for-sale component of these IPOs.

Exits had a 57 percent value reduction year-over-year (YoY) in H12022 (US$9.6 billion) compared with H12021 (US$22.3 billion) and a 54 percent decline compared with H22021 (US$21 billion). Smaller deal sizes were the cause of the downturn. In addition, the deal values of 47 deals, or one-third of the total deals, was not revealed, which also impacted the reported total exit value. There were 120 exits in H1 2022, aligning the number from H1 2021, whereas, lower by 25 percent as compared with 161 deals in H22021.

The largest exists in H12022, comprising 42 percent of all exists were through strategic sales, which aggregated US$4 billion over 72 deals. From a sectoral standpoint, the infrastructure industry experienced its highest-ever half-yearly value of exits in H12022, aggregating US$2.8 billion across three deals. With 20 exits aggregating US$2 billion, the financial services sector was the second highest in value of exits.

SEBI has enhanced disclosure norms for IPOs including key performance indicators, details of price per share of issuers based on past transactions and fundraising amongst other mandatory disclosures. Compliance with the revised disclosure guidelines may temporarily slowdown the IPO-bound exits in H22022.

Outlook

With its high growth, macroeconomic stability, and political attractiveness, India is expected to remain a popular PE investment destination in the future. However, high valuations, coupled with including rising inflation, strengthening of dollar, US FED’s quantitative tightening, a surge in crude oil prices, and worries about global recessions, are likely to result in slower deal closure compared with previous periods and still be a downside to PE investors.

GP and LP allocations towards India are expected to rise as India remains one of the fastest-growing start-up ecosystems globally. PEs are expected to grow in popularity as a result of a thriving start-up ecosystem, second-generation founders, and maturing exit markets.

We can expect an increase in sector-focussed funds in the future. FinTech, Blockchain, EdTech, Agritech, and Healthtech are a few emerging sectors in India as newly launched 5G services are expected to affect them positively. Rising interest has been observed in PE investors in sectors such as gaming, telecom, and technology, as IPO regulations have been tightened by SEBI. With ESG still evolving in India, Indian PE/VC firms are likely to invest US$125 billion in sustainable investments by 2026.

The RBI hiked the repo rate by 50 basis points to 5.90 percent, the fourth hike in 2022, to control inflation and curb the rupee from depreciating further. The Asian Development Bank has reduced the 2022-23 growth projection for India's economy to 7 percent from 7.5 percent because of anticipated inflation and monetary tightening. It has also raised the inflation forecast for India to 6.7 percent and expect economy growth of 6.3 percent in 2023. However according to IMF, India is expected to be one of the world's fastest-growing economies in 2023 at 6.1 percent.

Given the significant dry powder that is currently available with India-focussed funds, the medium-to-long-term forecast for India is favourable; the country's PE/VC market might grow to US$100 billion in the next two-to-three years, potentially ranking third or fourth globally. As growth is expected to slow down in the future, the Indian economy is likely to remain one of the fastest-growing ones in the world.

Interview with Vikas Nahar, Founder, Happilo International Pvt. Ltd.

Vikas Nahar
Founder, Happilo International Pvt. Ltd.

1. What triggered “Happilo” in your mind? What was the original motive behind setting up Happilo?
   “Big things often have small beginnings”, is something I believe in.
   After my MBA, I launched “Satvik”, a retail store for premium dry fruits and gourmet snacks. The thought of creating a big brand in the gourmet food segment has been there since 2015, when the healthy-snacking space was still nascent in India. As a retailer, I noticed that the demand was significant, although the product options were limited or

were mostly imported, relabeled, and sold at a high price, without any standardisation.

With that thought, the vision was to build an Indian brand that stands for quality, taste, and is pro-health. Happilo was launched in September 2016, with about INR 10,000 in my pocket.

2. **How has the vision for Happilo evolved over the past two to three years?**

At Happilo the focus is always on “quality, healthy, and tasty gourmet food for all”. We offer variants for different days and people, and with brand-assured quality so people can avoid unhealthy snacks and adopt healthy snacking options.

We have only grown in quality and have continued to add multiple products that are truly delicious, natural, and pro-health. We spend a lot of time, effort, and money to create products for the Indian palette, without depending on sugar or hot spices.

We have now reached a stage where multiple investment funds are supporting us in our journey to create a multi-billion enterprise that will make a difference in people’s eating habits and health.

We want Happilo’s products to be the go-to-choice for personal consumption, festive consumption, kids’ and office snacks, and as gifts for every occasion.

3. **Since its inception in 2016, Happilo has grown to about INR 500 crore GMV, and continues to grow fast. What were some challenges that you face today in continuing this growth trajectory? Is demand an issue?**

Based on conservative estimates, India already consumes INR 50,000 crore worth of healthy snacks. I am using a basic calculation of ~3 crore households consuming an average of INR 15,000 – 20,000 worth of snacks annually. I am confident that we have an opportunity to make a >10,000 crore food brand. To my mind, the biggest challenge would come from food processing and supply chain, and that is where we are focussing a lot of our efforts.

4. **What does it take to change the consumer behaviour and move from a local unorganised player to Happilo? Which segments do you believe are ripe for this transition?**

Today, a huge segment of Indians are looking at branded products, even if they cost 20-30 percent more. We have seen how some large brands have created brands across the food segment. We have branded plays for wheat, lentils, rice, salt, and every other staple out there. Even fruits and vegetables are now branded.

Given the consumption of our products is not by the ultra-price-sensitive customer base, I think we can build a big portfolio here. We already dominate solo categories across all nuts and dry fruits, as well as trail and seed mixes. We are now witnessing tremendous success across dry fruit bars, dry fruit brittles, chickpeas, peanuts, etc., and should continue to have successful launches for some amazing new snacking products in the next few months.

5. **Post COVID-19 there must have been a shift towards healthy snacking and that is evident in your growth. Do you see a saturation of this shift at this point? What do you believe are the key reasons for this continuous shift?**

As the Indian economy grows and more people move beyond consuming necessities, food will see a tremendous rise in consumption.

Post-pandemic, there has been a shift in consumer preferences; the segment of mindful eaters has grown significantly, and these consumers seek products that meet their wellness requirements without compromising on taste.

Additionally, people trust a brand such as Happilo; they want to consume more products from Happilo as they are confident about the taste and quality, knowing that the products will be good for their health.

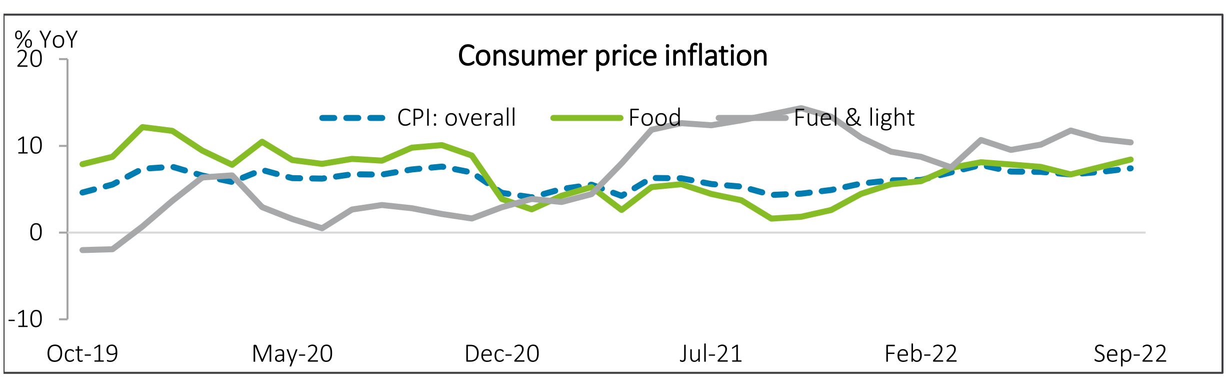
6. While the world has moved from physical brick-and-mortar stores to online retail during the pandemic, what are some key reasons for Happilo launching physical stores?

It is imperative for Happilo to move to an omni-channel network, and this would help the company tap a much wider market. At present, e-commerce/marketplaces account for about >60 percent of our sales. We aim to change this and equalise it to 50 percent—a holistic model for a varied consumer base. While we are a large brand, we need to have EBOs for people to get a complete experience of how Happilo can be part of their daily food habits. Today, maybe 5 percent of the target consumer base could have tried Happilo. With EBOs, we want to enable trial and awareness with 50 percent of our target base.

India economic outlook: Uncertainties cloud the outlook

Over the past six months, the persistent inflation has challenged policymakers in all kinds of ways—not least in the frustrating length of time between policy changes and results. Despite the RBI raising rates by 1.9 ppts since April 2022, inflation has remained above its tolerance range for over nine months. A large part of the inflation has been driven by food and fuel (Figure 1). The rise in food and fuel prices have hurt rural demand the most, which is inelastic. In the past few months, rural inflation witnessed a higher increase compared with urban inflation. This is not good news for rural demand, which has been struggling to revive itself.

Figure1: Food and fuel hurting rural demand

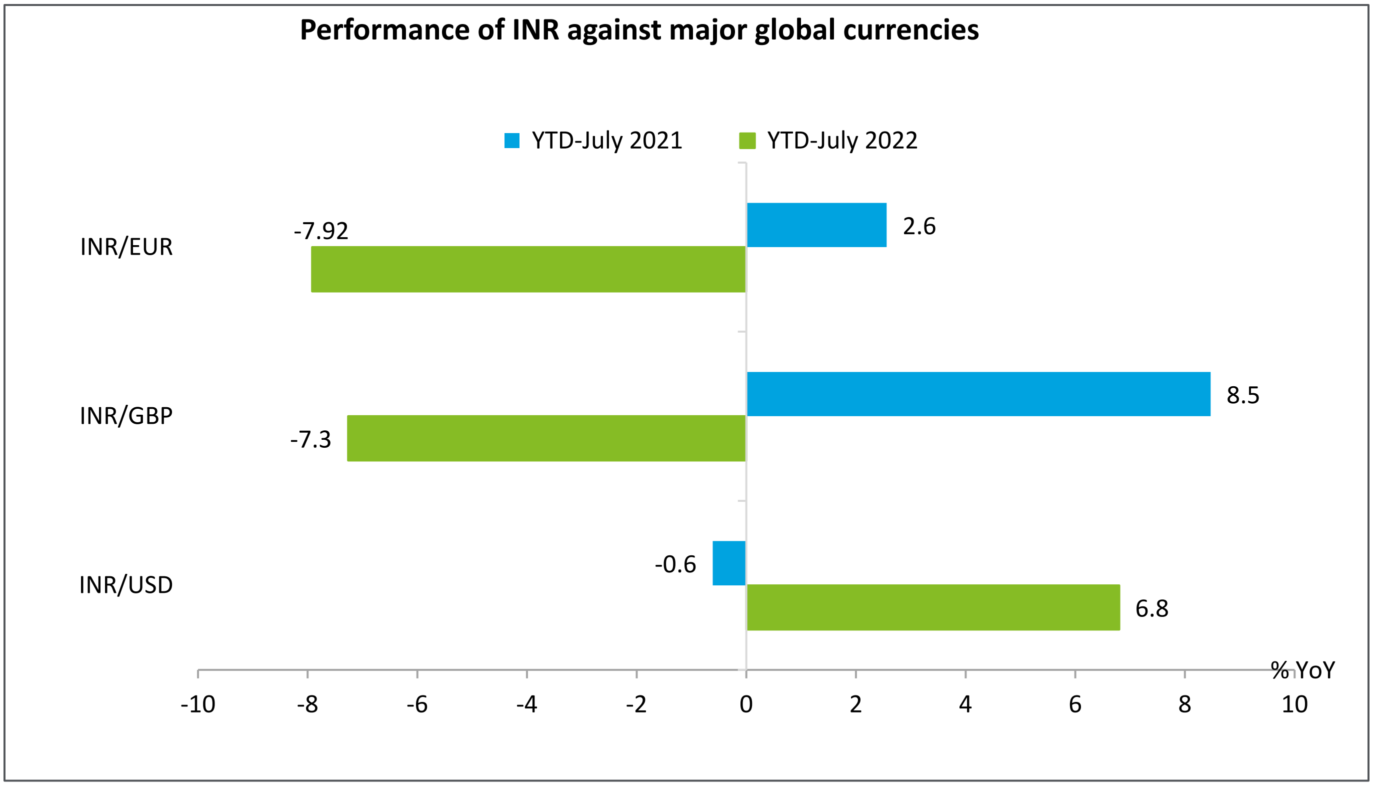


Source: Centre for Monitoring Indian Economy

The other challenge is the rising current-account deficit and currency depreciation against the dollar. A rebounding domestic economy is resulting in higher imports, but moderating global demand is causing exports to slow down. The USD's unrelenting rise and global inflation are further causing India's import bills to rise.

Amidst global uncertainties, the INR's depreciation against the USD is more due to the appreciation of the latter owing to the flight to safety amongst global investors. It is appreciating against the euro, pound, and yen, suggesting that the macroeconomic fundamentals of the Indian economy remain strong (Figure 2).

Figure2: The INR is depreciating against the USD but appreciating against other currencies



Source: Centre for Monitoring Indian Economy

The RBI had to intervene to contain volatility and ensure an orderly movement of the INR. This intervention is leading to a drawdown in foreign exchange reserves. As a result, the import cover from reserves has reduced to nine months from a high of 19 months at the start of 2021 (it remains above the benchmark of three months).

An impending global slowdown or even a recession in a few advanced nations (as early as the end of this year or early next year) is likely to make the situation worse (Figure 3). The seemingly unending saga of global economic uncertainties has begun to negatively impact India's main growth drivers. The volatility of the current economic environment is such that if one is looking for certainties from recent data, it is unlikely that a consistent outlook will emerge.

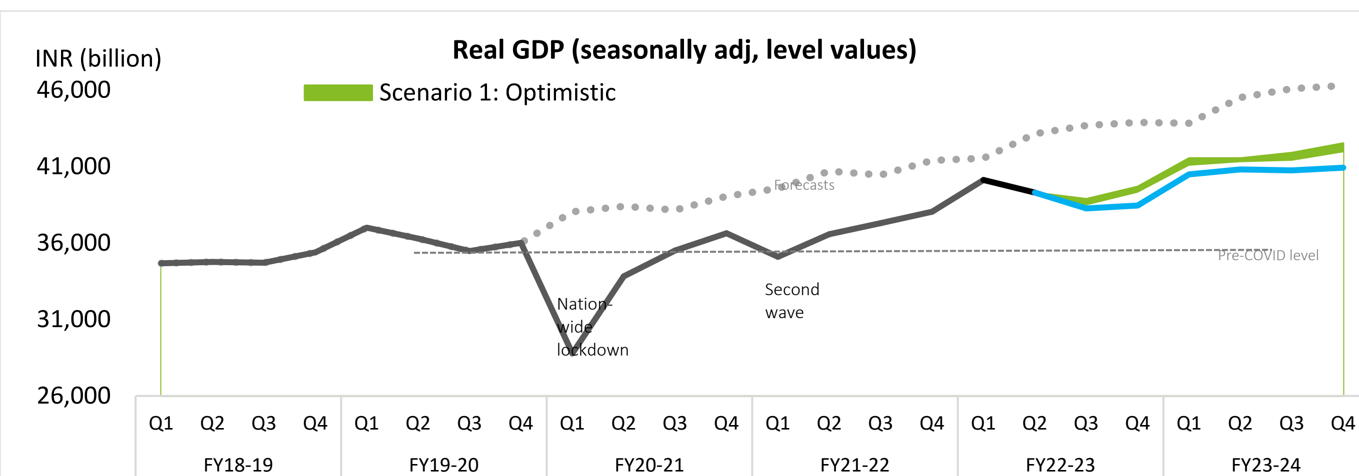
Figure 3: International Monetary Fund (IMF) Gross Domestic Product (GDP) forecasts

	2021	2022 (Forecast)	2023 (Forecast)
US	5.5	0.0	1.0
Germany	1.2	0.6	0.5
UK	6.6	1.0	0.2
Japan	0.5	2.1	0.9
China	3.5	4.3	2.6

Source: The IMF, October 2022

The recent Deloitte report[1] tries to decipher current data with a focus on growth drivers, inflation, currency, and the current account. According to Deloitte, India may showcase a 6.5–7.1 percent growth during FY22–23 and 5.5–6.1 percent the following year, contingent on the revival of the global economy and improving economic fundamentals (Figure 4). The recent festive season and upcoming year-end time could boost consumer spending for the current quarter. The industry and services sector has also seen a rise in credit growth, which suggests that the prospects for capex investments by the private sector are brighter. Sustained demand growth may be the most-awaited cue for a sustained push for investment. Exports and government spending may not support growth as much due to moderating global demand and limited resources at disposal.

Figure 4. Deloitte expects the economy to rebound at a decent pace



Source: Deloitte Research, Centre for Monitoring Indian Economy

[1] Deloitte India economic outlook - October 2022 https://www2.deloitte.com/us/en/insights/economy/asia-pacific/india-economic-outlook.html?id=us:2em:3na:4diIN175893:5awa:6di:MMDDYY:author&pkid=1010960

The downside risks of higher inflation and commodity prices and currency depreciation are significant. We expect global prices to ease by mid-2023 due to possible moderation in crude oil and industrial raw material prices, thereby easing pressures on domestic inflation. The RBI's emphasis to anchor inflation expectations by tightening credit conditions may also thwart increasing prices. However, the fall in prices may be short-lived if a sustained demand improvement exceeds supply (given the low investment and capacity building for a prolonged period), leading to overheating of the economy. Despite easing commodity prices, the current account may remain a concern as India's growth path will likely defy the global slowdown and lead to higher imports than exports.

This forecast comes amidst a lot of debate. The path to recovery has been lengthier than we had expected at the start of the year. There are many variables that blur the outlook; we will likely have some clarity over the next few months as we assess the energy crisis in Europe and the slowdown in China and the US. The strength of all economic drivers will be key for sustainable growth. The latest data suggests that all of them may not reach full steam.

Interview with Pushkar Jauhari, Director Investments, OIJIF- MC

Pushkar Jauhari
Director Investments, OIJIF- MC

Oman India Joint Investment Fund (OIJIF) manages PE funds focussed on mid-market segments in India and have invested across sectors such as consumer, FSI, and pharma.

In your view, what are some key sectors for investment in India in the next couple of years?

As a mid-market PE fund, we believe that sectors such as consumer, BFSI, pharma, health care, and technology have consistently created value for investors. Until a few years back, technology was a vertical but today, we are witnessing an intersection between technology and consumer, pharma, health care, and financial services. There is a genre of new-age businesses that are at the intersection of technology and consumer, such as D2C brands that are using technology to target new market segments or offer stronger value proposition to consumers, health tech, and FinTech businesses.

Another sector that we focus on is niche industrials. We believe that this sector is not as glamorous, but if the picks are right, it can offer good returns. We have had a couple of examples of picks from this sector in our portfolios and they have done well for us. That's how we have constructed our portfolio strategy over the years. We continue to evolve our model to chase new opportunities that create value for shareholders and our investors.

We believe that over the next few years, these four sectors will create good value for investors. All these sectors have various subsegments that will change from time to time. For example, during COVID-19, major electronics or appliances have been the same, but in the electronic accessories segment (headphones, Bluetooth sets, etc.,) new Indian brands emerged and captured the market share.

Every few years, new segments will emerge, and new entrepreneurs will come up. Customers are demanding good-quality products at affordable prices and are open to Indian brands. That is where innovation will come to the fore, and we would like to partner with such firms.

How would you differentiate between various investments?

Our strategy is to do a bottom-up investment selection based on merits of the business and the deal. We believe that any business is about the relationship between the entrepreneur and the customer. Two points that we evaluate are: First, how is the business creating the unique value proposition for the customer and second, in doing so, is there a positive unit economics for the business?

For example, in our portfolio, we have different types of financial service companies that are distinct from each other, yet, have a strong business model and value proposition for the customers they serve in segments including life insurance, NBFCs focussed on MFI and MSMEs, and small finance banks.

In addition to having a proven use case and strong value proposition, sustainability to the business is also important. When we think of investing in a business, we don't just look at a 3-5-year horizon, but the next 8-10 years, because when we exit, the next investor should have a line of sight for the next 3-5 years after their investment.

On the deal-making side, we tend to look at the exit waterfalls after the liquidity events after five years. If the business is doing well, we hold for a longer time.

How do you look at FinTech?

We look at the FinTech in the same way as any other BFSI investment. If the customer adoption is high in the work that they are doing and are able to generate good unit economics, that business is good.

We don't look at FinTech as a separate sector as the underlying customer is the same. Over the past two to three years, FinTech has challenged the status quo. We will prefer FinTech if it generates strong unit economics.

The government has been focussing on "Make in India" and offering great benefits for such firms. In your view, how has the role of the government changed in the mid-market segment in India over the past three years? What are some structural changes that you would like to see to improve the investment environment in the segment?

The government has taken several positive steps. For example, GST, which was painful in the first year, has created a single market with largely uniform taxation. Now, companies can move goods between states much more freely, which is helping mid-size companies serve customers in multiple states.

Also, the government is focussing on de-bottlenecking and streamlining for ease of doing business.

One area where we would like to see more changes is policy consistency and the roadmap. In some situations, the regulatory roadmap is still evolving, which makes it difficult for long-term investors like us to visualise the business models we should invest in. Sudden changes can create disruption for investors. The investor should make money or lose money because of business risks and not because of regulatory changes.

What is your investment mantra? Please share some of your success stories and one underlying factor that worked well for your decision?

Our investment mantra is "we want to invest in businesses in **attractive sectors** with a **strong management team**". We believe that the jockey is as important as the horse. There are smart entrepreneurs, who can create great value for investors. Smart investors are those who can build relationships with smart entrepreneurs. For us, another key aspect of decision making is the ability of the management to be able to create sustainable value in the next 8–10 years. From a sectoral perspective, there should be underlying growth and the management should be able to underwrite the growth well.

Another important aspect is deal making—a deal that is fair for both investors and shareholders. Minority investors such as us rely on strong corporate governance in companies to access information, advise management, and work with the management on many of these issues.

We understand that you invest and then closely work with the investee companies to ensure healthy growth, sustainable management, and environmental practices. With growing focus on sustainability, how have you ensured that the investee companies are balancing growth and sustainability?

In ESG, governance is given. If governance is not there, we don't invest. In terms of environment and sustainability, as a sector-agnostic fund, we are mandated to deploy money in a good range. We have picked 4–5 themes that work in this genre. In many of our investee companies, we have an ESG committee, that tracks the projects, progress, and makes sure it is taken care of. The ESG committee reports to the board. That's how we ensure compliance, and we make sure there is adequate funding and focus on some of these initiatives.

ESG activities depend on the sector/size of the organisation. In some cases, it is easier as compared with others.

There has been frantic pace of deal making in India across deal types, sizes, and sectors. There has been discussion that the biggest challenges for PE funds is competition amongst themselves. How are you dealing with competition, and how do you balance the sentiment and valuation for the investments you consider?

We differentiate ourselves with our focus on the founders' relationships. We attend many conferences and events and try to meet companies that we would like to invest in, 6–12 months ahead of their time of raising capital. That works well for the relationship on both sides. Sometimes, it can be a simple call for reference, sometimes for sharing/adding insights/knowledge with them. We believe that unless we are a thought partner to the founder, it is very difficult to build a credible relationship. By the time companies raise capital, they have bankers helping them with the process. Thus, it is difficult to create that rapport with the management.

Valuation is a very important aspect. We generally have a fair idea of the valuations for the companies we are interested in, but sometimes, when expectations don't match, we walk away. But if it's a fair multiple, then we go ahead and make the offer to the company and take the deal through our Investment Committee (IC).

Competition has always been there, but the market is big enough and there are a good number of investors who are coming for their second, third, and fourth round of ventures. Also, the market is moving at a rapid pace. After one round of capital raising, there used to be a gap of 3-4 years, but the speed at which the follow-on rounds are happening has also increased. Companies are growing fast, and we believe that there are enough opportunities for everyone to invest in per their requirements.

Interview with Kartikey Hariyani, Founder and CEO, Chargezone

Kartikey Hariyani
Founder and CEO, Chargezone

1. **The EV car market is expected to reach 12 percent of overall passenger cars in the country by FY26. What are your views on the growing demand for EVs in the country?**

   The adoption of EVs in India over the last past few months has been rapid, and I expect the trend to continue. It will not be surprising if EVs account for a majority of Indian passenger vehicle sales in the next three or four years. It is a combination of multiple factors that has led to the development of the EV ecosystem—the launch of budget EV vehicles, increasing fuel prices, awareness about long-term cost benefits of EV, improved technology offering better range and performance, and of course, the charging infrastructure. The government is also playing an instrumental role by providing significant financial incentives.

2. **The EV segment will require massive development in EV infrastructure. What is the go-to-market strategy for ChargeZone?**
   Access to high-speed charging stations at the right places is, in my mind, a key driver that will enable EV acceptance. On highways, for example, users would generally spend 30-45 minutes for a stop, which includes food, refreshment, and battery recharge, generally going from 30 percent charge to 85 percent charge. Therefore, at ChargeZone, we are carefully evaluating our real-estate partnerships and creating our footprint in utilisation areas where people spend some time away from their vehicles (highways, hotels, malls, apartment complexes).

   We are leaders in the bus charging segment, which is already a profitable segment for us, and we expect to be charging 3000 electric buses every day over the next few quarters.

3. **What differentiates Chargezone from competition? Why is ChargeZone important for realising India's EV goals?**
   ChargeZone is India's largest EV charging infrastructure start-up, with 1,700+ charging points at 400+ locations for electric buses and vehicles. Our USP is our in-house tech platform that provides a seamless experience in operating "un-manned chargers". We operate at 98.5 percent up time, concentrating on operational efficiency, which is significant in the Indian scenario. We are also working closely with key stakeholders (auto manufacturers, bus operators, hotel chains, such as Marriott) and have first-mover advantage in the rapid growing EV charging space.

4. **In September 2021, a production-linked incentive scheme for the automotive sector was approved by the cabinet to boost EV and HFC vehicle manufacturing. How has the regulatory landscape changed over the last past couple of years and going forward, what are your expectations from regulators?**
   Given the country's foreign dependence on petrol/diesel, EV adoption is of strategic importance to the country. The government has recognised this and is pushing for EV growth in India through flexible policies such as, provision of land at promotional rates for setting up public charging stations (PCS) and permission to housing societies, malls, office complexes, restaurants, hotels, etc., to install PCS. Subsidies and tax incentives will go a long way in making India an EV nation. Niti Aayog's massive plan of 50,000 electric buses is commendable and shows that the government is invested in the development of EV space, along with the state governments, as well as local municipal corporations in each city.

5. **Per my understanding, an EV's battery technology impacts the frequency of charge required by that vehicle. Also, there are multiple factors that affect the charging time and capacity. How are you, as an organisation, looking to tackle these challenges for consumers to look at EV as an option?**
   The EV charging network is going to define the usability of EV buses and cars in India, as waiting for 6–12 hours (on the 3KW chargers by other charging networks) is not going to work out for these vehicles. Therefore, we at ChargeZone are focussed on 60 kW+ fast chargers and 240+kW superchargers, primarily targeting the four-wheeler segment. We have seen markets where EV adoption has preceded the EV charging network; these markets are now suffering from long wait times for EV owners to plug their vehicle into fast chargers. For India's metro cities, this would create absolute chaos. Therefore, we are planning to set up a large number of chargers across housing societies, malls, office complexes, restaurants, hotels, etc. It is well known that India will have charging standards for the hardware (or the charging gun, which plugs into the vehicle). Therefore, while the charging speeds for a Mercedes EQS and a budget EV (entry-level EV) may vary, we are sure that the same ChargeZone charging gun can charge both vehicles. Going forward, we will also start using renewable energy to whatever extent we can. We are quite focussed on this aspect.

New Overseas Investment Framework in India

Background

On 9 August 2021, the Reserve Bank of India (RBI) released a draft of Foreign Exchange Management (Non-debt Instruments - Overseas Investment) Rules, 2021 and Foreign Exchange Management (Overseas Investment) Regulations, 2021 for public comments. The purpose is to liberalise the regulatory framework for overseas investment and promote ease of doing business.

Based on the feedback received from various stakeholders, on 22 August 2022, the Ministry of Finance (MoF) and the RBI issued the final set of rules, regulations, and directions, viz., Foreign Exchange Management (Overseas Investment) Rules, 2022 (ODI Rules), Foreign Exchange Management (Overseas Investment) Regulations, 2022 (ODI Regulations), and Foreign Exchange Management (Overseas Investment) Directions, 2022 (ODI Directions) (collectively called as the ODI Framework), with a host of changes.

In this article, the author has discussed key amendments introduced under the new ODI framework and its impact on cross-border transactions.

Key highlights of the amendments

- Clarity with respect to various definitions relevant for overseas investment, such as net worth, subsidiary, and control
- Introduction of the concept of Overseas Direct Investment (ODI) and Overseas Portfolio Investment (OPI)
- Permissibility of round-trip structures with adequate safeguards, i.e., the RBI approval would not be required if such structures do not entail in more than two layers of subsidiaries

- Introduction of the concept of 'strategic sector'
- Eliminating the requirement of the RBI's approval for deferred consideration, investment/disinvestment by persons residing in India under investigation by any investigative agency/regulatory body, issuance of corporate guarantees to or on behalf of second or subsequent level Step Down Subsidiary (SDS), and write-off on account of disinvestment
- Non-financial entities allowed to invest in financial entities overseas
- Introduction of the late submission fee for delayed filings

Components of Overseas Investments (OIs)

1. **Overseas Direct Investment vs. Overseas Portfolio Investment**
   ODI has been defined to mean investment in the following areas:
   - Unlisted foreign entities: Acquisition of unlisted equity capital of a foreign entity or subscription as part of the memorandum of association of a foreign entity
   - Listed foreign entities: Investment in at least 10 percent of the paid-up equity capital of a listed foreign entity, or investment with control where the investment is less than 10 percent of the paid-up equity capital of a listed foreign entity

OPI has been defined to mean investment in foreign securities that does not constitute ODI.

A detailed investment by the Indian entity and Resident Individual (RI) classified as ODI and OPI is provided below:

Overseas investment by Indian entity

a.) **ODI by Indian entity**
   - **Limit** – It is 400 percent of net worth per the previous audited balance sheet, subject to conditions
   - **Quantum of investment** - For equity shares (listed/unlisted), perpetual/irredeemable instruments, and fully and compulsorily convertible instruments:
     - Investment of more than or equal to 10 percent or investment less than 10 percent with control in listed entity
     - Investments in unlisted entities irrespective of quantum are regarded ODI
   - **Permissible investments -**
     - Subscription as part of MOA/purchase of equity capital of listed or unlisted
     - Acquisition through bidding or tender procedure
     - Acquisition of equity capital by rights issue or allotment of bonus shares
     - Capitalisation of outstanding receivable subject to conditions
     - Swap of shares
     - Merger, demerger, amalgamation, or any scheme of arrangement as permissible in India and outside

b.) **Overseas portfolio investment by Indian entity**
   - **Limit -** Investment should not exceed 50 percent of its net worth based on the previous audited balance sheet
   - **Type of investment -** Other than ODI
   - **Listed company in India -** Permissible to make OPI including re-investment and in units of overseas investment funds duly regulated by financial services regulator in host jurisdiction including IFSC.
   - **Unlisted company in India -** Permissible only in the following cases:
     - Rights issue or allotment of bonus shares
     - Capitalisation within specified time
     - Swap of shares
     - Merger, demerger, amalgamation, or any scheme of arrangement as permissible in India and outside
     - Units of investment funds/vehicle set-up in IFSC

Overseas investment by Resident Individual
a.) Overseas Direct Investment by Resident Individual Limit - Investment up to the Liberalised Remittance Scheme (LRS) limit of US$ 2,50,000 per financial year allowed

- Investment in foreign entities
  - Not in financial services
  - Operating foreign entity
  - Does not have subsidiary/SDS
  - RI has a control in foreign entity

  Where a RI has made ODI without control in a foreign entity that subsequently acquires or sets up a subsidiary/SDS, such RI shall not acquire control in such foreign entity.

b.) Overseas Portfolio Investment by Resident Individual

- Limit - Investment up to LRS limit of US$ 2,50,000 per financial year allowed
- Investment in foreign entities
  - OPI is permissible including re-investment and in units of overseas investment funds duly regulated by financial services regulator in host jurisdiction including IFSC

c.) Permissible investments by RI as ODI or OPI, subject to specified conditions

- Capitalisation (does not require prior permission of the central government/the RBI)
- Swap of securities due to merger, demerger, amalgamation, or liquidation
- Acquisition of equity capital through rights issue or allotment of bonus shares
- Gift
- Inheritance
- Acquisition of sweat equity shares
- Acquisition of minimum qualification shares
- Acquisition of shares or interest under ESOP or employee benefits scheme

d.) Acquisition by inheritance/gift

- RI without any limit can acquire foreign securities by inheritance from a person resident in India who holds securities per the FEMA.
- RI without any limit can acquire foreign securities by a gift from a person resident in India who is relative and holds securities per the FEMA.
- RIs are not permitted to transfer any overseas investment by gift to a person resident outside India.
- RI can acquire foreign securities by a gift from a person resident outside India in line with the provisions of the FCRA

Acquisition of shares/interest under ESOP/employee benefits or sweat equity shares

- Investment is permissible in shares/interest in employee stock option/employee benefits scheme or sweat equity shares.
- The central government has now allowed issuance of ESOPs by a government-owned company.
- No limit on remittance for above though the amount so remitted shall be reckoned towards LRS limits (i.e., US$ 2,50,000 in a financial year).

2. Round tripping (FDI-ODI structure)

   The term round tripping had not been defined under the erstwhile ODI regime. Conceptually, it meant that a person resident in India cannot set up an offshore company if such offshore company then invests back into India. The RBI approval was required for such round-trip structures under the erstwhile ODI regime. Under the new ODI framework, relaxation has been provided to allow such round-trip structures with the condition that the number of layers of subsidiaries do not exceed two. These restrictions are not applicable to banks, systemically important NBFCs, insurance companies, and government companies in India.

   Subsidiary or SDS of a foreign entity means an entity in which the foreign entity has control. If the foreign entity does not have control of the investee company, it may not be considered as 'subsidiary'.

   This move by the RBI is appreciated and likely to provide flexibility for externalisation of structures by resident entities.

3. Control

   Definition of control includes the following:
   - The right to appoint most directors
   - Control over management or policy decisions is exercisable by a person or

persons acting individually or in concert, directly or indirectly

- Entitlement by virtue of shareholding or management rights, shareholders' or voting agreements to **at least 10 percent of voting rights** or in any other manner in the entity

This clarifies on foreign entities that can be in control of the India entity and accordingly to apply ODI/OPI provisions

4. Investment in the financial sector

Under the erstwhile regime, an entity not engaged in the financial sector in India was not allowed to invest offshore in the financial sector. Under the new ODI Framework, an Indian company not engaged in the financial sector can also invest in a foreign company providing financial services other than banking and insurance; this is subject to the condition that such Indian entity has posted net profits during the preceding three financial years.

An Indian entity (not engaged in financial services business) is allowed to invest in IFSC (except in banking/insurance sector) even if it does not have net profit. Such investment will be treated as ODI.

5. Other financial commitment

An Indian entity can provide loan or non-fund-based commitment to a foreign entity if it has ODI and control over that foreign entity. This additional requirement will ensure that only bona fide transactions are undertaken in case of foreign remittances towards financial commitment by equity/loan.

RIs cannot undertake financial commitment by debt in respect of the foreign entity in which it has made ODI.

6. Other key amendments

- ODI in start-ups; investment cannot be made from borrowed funds
- Restriction on Indian entities (company, LLP, or a firm) from investing in a foreign company involved in real estate and gambling
- Overseas investment by others
  - Registered trusts and societies engaged only in the educational/hospital sector allowed to make ODI with the prior approval of the RBI subject to specified conditions
  - Investments made by MF, VCF, or AIF shall be treated as OPI
- The issue or transfer of equity capital of a foreign entity from a person resident outside India to a person resident in India or vice versa shall be subject to a price arrived on an arm's length basis.
- Acquisition and transfer of immovable property outside India:
  - Acquisition from person resident in India - By gift, inheritance, or purchased from a person resident in India
  - Acquisition from person resident outside India - By inheritance, out of foreign exchange held in the RFC account, under LRS – Consolidation of LRS limit with relatives possible, jointly with resident relative

Income or sale proceeds of overseas assets other than ODI

- Guarantee to or on behalf of second or subsequent level SDS is allowed under automatic route and approval requirement is done away with.
- In case of pledge or charge in favour of an overseas lender, the lender should be from a country or jurisdiction in which FC is permitted under ODI rules.
- A person resident in India shall not be allowed to make further investment, i.e., fund non-fund based or transfer an existing investment, until any delay in reporting of past transaction is regularised.
- No remittance shall be made by an Indian entity to its overseas branch/office for making any overseas investment.

Conclusion

The new ODI framework aims to simplify the existing framework for OI by person residents in India, covers wider economic activity, and significantly reduces the need to seek specific approvals to facilitate the ease of doing business.

Entrepreneur Summit 2022

Deloitte Private successfully conducted the **Entrepreneur Summit** ("Summit") in India on 13 - 14 July 2022 in Mumbai. While Deloitte has been hosting this event in the US and APAC region for over a decade, this was the first time the Summit was held in India. The Summit was carefully curated and unparalleled in its delivery.

The Summit offered privately-held businesses, represented by their respective founders, an opportunity to engage in one-on-one meetings with investors, which included the most active private equity firms, venture capital firms, and family offices from across India.

The Summit was focussed on learning and networking, as all in attendance understood that only a small number of participating companies came with a defined plan to transact in the near term.

Founders who attended, attempted to build their respective understanding of the private equity alternative, and to receive specific feedback from professional investors on their plans for growth and liquidity options.

The Summit had over 25 high caliber companies engaging with investors in confidential 25-minute one-on-one meetings –"speed dating" of sorts throughout the day. The sectors in focus this year included Tech (FinTech, Consumer Tech, SaaS, etc.), Consumer D2C, Life Sciences & Healthcare, and Industrials. The ballpark ticket size for fund raising was c.$20mn+ and the nature of the potential transactions were predominantly primary deals.

Key event highlights

25+ Investee Companies

20+ Investors

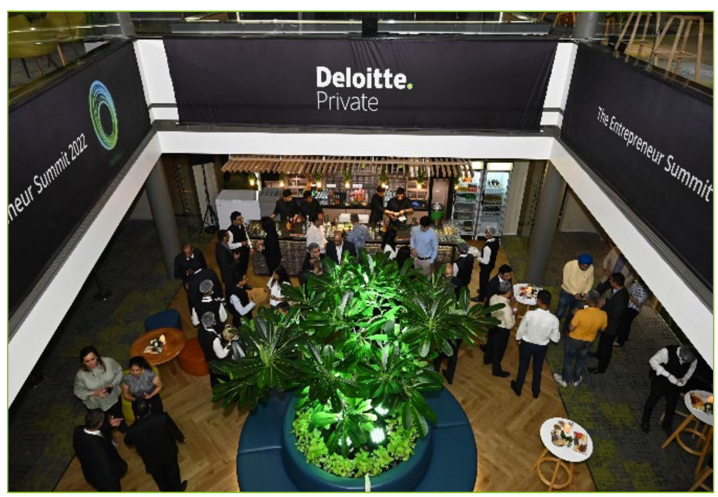
80+ External participants

150+ 1-1 Meetings

$500mn+ worth of fund raise conversations

Numerous BD opportunities for Investee

Entrepreneur Summit



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