PRIVATE EQUITY

Reshaping for future success
What’s next for Private Equity in India

September, 2009
### Key takeaways…. The Indian PE Model

<table>
<thead>
<tr>
<th>Situation in =&gt;</th>
<th>Developed countries</th>
<th>Typical developing country</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax</td>
<td>Stable</td>
<td>Unstable</td>
<td>Unstable</td>
</tr>
<tr>
<td>Regulation</td>
<td>Low-cost</td>
<td>High-cost</td>
<td>High-cost</td>
</tr>
<tr>
<td>Cheap debt</td>
<td>Available</td>
<td>Not Available</td>
<td>Not Available</td>
</tr>
<tr>
<td>Portfolio</td>
<td>Public / Private</td>
<td>Largely Private</td>
<td>Largely Private</td>
</tr>
<tr>
<td>Equity markets</td>
<td>Developed</td>
<td>Underdeveloped</td>
<td>Developed</td>
</tr>
<tr>
<td>“Agency conflict” in public companies</td>
<td>Present</td>
<td>Absent</td>
<td>Absent</td>
</tr>
<tr>
<td>Corporate governance</td>
<td>Not a concern</td>
<td>Important</td>
<td>Important</td>
</tr>
<tr>
<td>Economic growth</td>
<td>Low</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>GPs with operating skills</td>
<td>Available</td>
<td>Not available</td>
<td>Not available</td>
</tr>
<tr>
<td>Fund size</td>
<td>Large</td>
<td>Small</td>
<td>Small to medium</td>
</tr>
<tr>
<td>Public markets for exit</td>
<td>Developed</td>
<td>Underdeveloped</td>
<td>Developed</td>
</tr>
<tr>
<td>PE portfolio risk relative to market</td>
<td>At market or lower</td>
<td>Higher</td>
<td>Higher</td>
</tr>
<tr>
<td>Access to deals</td>
<td>Proprietary</td>
<td>Intermediated</td>
<td>Intermediated</td>
</tr>
<tr>
<td>Professional Services Quality</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Holding period of investment</td>
<td>3.5 years</td>
<td>Higher</td>
<td>Higher</td>
</tr>
</tbody>
</table>
GPs sources of deals

<table>
<thead>
<tr>
<th>Source</th>
<th>Expected 2009-10</th>
<th>Actual 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment banker</td>
<td>29%</td>
<td>31%</td>
</tr>
<tr>
<td>Investee advisor (e.g., CA, Lawyer)</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Proprietary</td>
<td>27%</td>
<td>26%</td>
</tr>
<tr>
<td>Co-investment</td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td>Secondary transaction</td>
<td>9%</td>
<td>4%</td>
</tr>
<tr>
<td>PIPEs</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Others</td>
<td>1%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Investment funnel

100 companies to begin with

Initial Scan 39.75

Preliminary analysis 22.25

Investment committee approval 7.90

Due diligence conducted 6.11

Finalized investment terms 3.25

Invested in 2.57

Expected 2009-10

Actual 2008

100 companies to begin with

Initial Scan 24.29

Preliminary analysis 13.88

Investment committee approval 4.97

Due diligence conducted 3.67

Finalized investment terms 2.30

Invested in 1.99

100 companies to begin with

Initial Scan 32.92

Preliminary analysis 20.42

Investment committee approval 7.60

Due diligence conducted 5.93

Finalized investment terms 4.61

Invested in 3.51

Expected 2008
GPs sectors for investment in 2009-10

- Infrastructure, 28%
- Consumer, 18%
- Education, 17%
- Healthcare, 10%
- Financial service, 9%
- Cleantech, 3%
- Telecom, 4%
- Business Service, 2%
- Media, 3%
- Manufacturing, 5%
- IT, 1%
- Other, 1%
GPs assessment of return on capital

- **Expected 2009-10**
- **Actual 2008**
- **Expected 2008**

- **< -10%**
  - Expected 2009-10: 8%
  - Actual 2008: 5%
  - Expected 2008: 5%

- **0 - 5%**
  - Expected 2009-10: 8%
  - Actual 2008: 8%
  - Expected 2008: 7%

- **11-15%**
  - Expected 2009-10: 8%
  - Actual 2008: 10%
  - Expected 2008: 15%

- **16-20%**
  - Expected 2009-10: 10%
  - Actual 2008: 8%
  - Expected 2008: 7%

- **21-25%**
  - Expected 2009-10: 15%
  - Actual 2008: 23%
  - Expected 2008: 29%

- **>25%**
  - Expected 2009-10: 65%
  - Actual 2008: 46%
  - Expected 2008: 57%
GPs post investment issues / challenges

- Performance Below projection: Expected 31%, Actual 30%
- Unrelated expansion: Expected 10%, Actual 6%
- Non-adherence to shareholders agreement: Expected 2%, Actual 1%
- Ethics / compliance / governance issues: Expected 9%, Actual 6%
- Monetary leakage / related party transactions: Expected 4%, Actual 8%
- Quality of management: Expected 19%, Actual 19%
- Inadequate / Inaccurate MIS: Expected 22%, Actual 9%
- Differences between management and investors: Expected 6%, Actual 7%
- Others: Expected 1%
Private Equity environment - GP

- Corporate Governance: 20%
- Domain Skills: 18%
- Innovative business models: 17%
- Deal transaction cost: 3%
- Small town firms attractiveness: 3%
- Project management skills: 11%
- Regulatory Burden / complexity: 4%
- Tax pass through benefits: 4%
- Professional Services: 8%
- Domestic Consumer base: 12%
- Others: 1%
LPs perspective on key issues

- Lack of skilled GPs: 21% (Expected 2009-10), 11% (Actual 2008)
- Excessive competition for deals: 18% (Expected 2009-10), 15% (Actual 2008)
- Regulatory/tax environment: 1% (Expected 2009-10), 5% (Actual 2008)
- Weakness of corporate governance: 2% (Expected 2009-10), 15% (Actual 2008)
- Unrealistic Valuation expectation: 14% (Expected 2009-10), 15% (Actual 2008)
- Staff turnover in funds: 4% (Expected 2009-10), 1% (Actual 2008)
- Inadequate Investee managers: 2% (Expected 2009-10), 2% (Actual 2008)
- Economic slowdown: 9% (Expected 2009-10), 11% (Actual 2008)
- Entrepreneurs desire for control: 2% (Expected 2009-10), 1% (Actual 2008)
- Weak exit environment: 18% (Expected 2009-10), 14% (Actual 2008)
- Volatile capital markets: 7% (Expected 2009-10), 7% (Actual 2008)
- Underperforming Investee’s: 7% (Expected 2009-10), 7% (Actual 2008)
- Others: 2% (Expected 2009-10), 2% (Actual 2008)

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THANK YOU

PANEL Q&A