

Venture Intelligence India Roundup

Annual

2005

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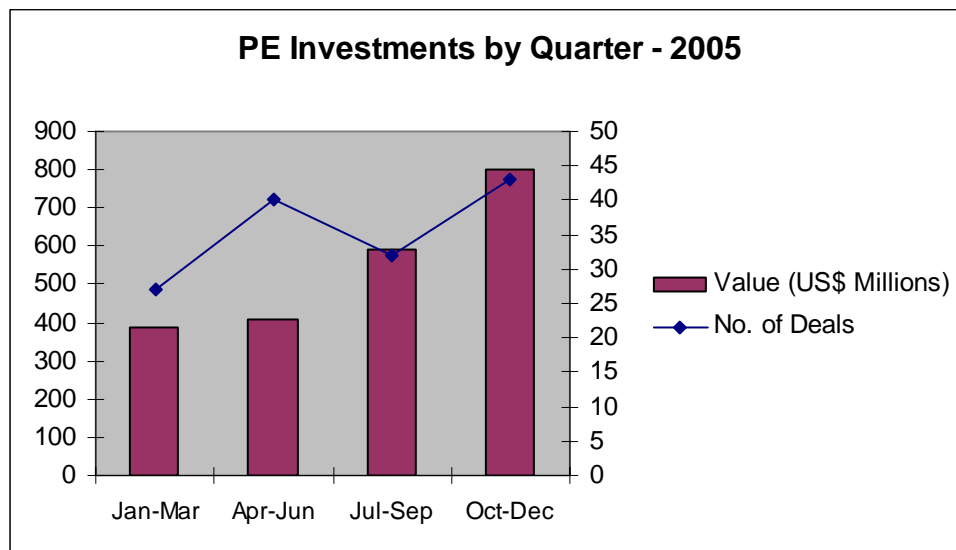
PE Investments in India during 2005: 146 Deals, \$2.2 Billion

Private Equity and Venture Capital firms invested about US\$2.2 billion across 141 Indian companies during 2005.

The amount invested, as well as the number of deals, was significantly higher compared to the \$1.65 billion invested across 71 deals during 2004.

Highlights:

- The \$127 million invested by Dubai Investment Group in Thomas Cook (India) was the largest PE investment during the year.
- Late-stage and publicly-listed companies corner over 60% of PE investments.
- Early-stage companies re-emerge on investors' radar screens.
- IT & ITES retains its status as the favorite industry among PE investors.
- Citigroup PE arms emerge as the most active.
- Companies based in Western India attract the most capital, followed by companies based in South India.
- Among cities, Mumbai emerged as the top destination for PE investments.
- PE firms obtained exit routes for their investments in 43 companies during 2005.
- 17 PE-backed companies pulled off successful Initial Public Offerings (IPOs) during the year raising almost \$950 million.
- PE firms exited their investments in 25 companies via M&A deals or secondary sales, including four transactions worth over \$500 million.
- Warburg Pincus completed its exit from Bharti TeleVentures with \$1.3 billion in gains.
- PE firms faced enhanced competition for late-stage deals from a range of new domestic and overseas players.



Top Investments

The single largest investment announced during 2005 was the \$127 million invested by Dubai Financial LLC, part of state-owned Dubai Investment Group (DIG), to acquire an 80% stake in publicly listed travel services company Thomas Cook (India). Dubai Financial agreed to acquire the entire 60% stake held by Germany-based Thomas Cook AG for \$92 million and follow it up with an open offer to public shareholders for an additional 20% stake costing \$35 million.

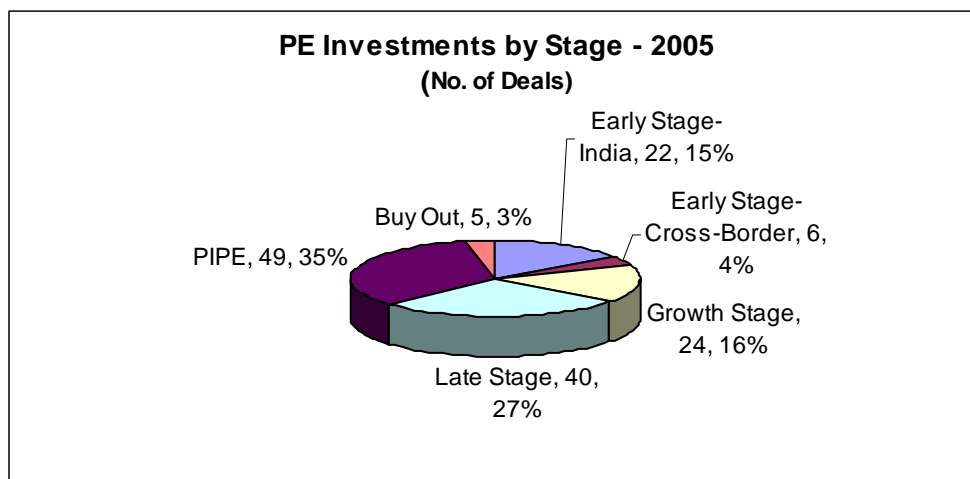
Shriram Holdings (Madras), the truck financing holding company of the Chennai-based Shriram Group, announced a \$100 million investment from US-based PE firm Newbridge Capital in September. The Shriram Group truck finance companies had also raised \$23.3 million from ChrysCapital in January.

The \$86.3 million investment in Mumbai-based publicly listed Centurion Bank of Punjab by GW Capital (about \$30 million), ChrysCapital (about \$30 million) and CVC International (about \$26.3 million) came next. (ChrysCapital's investment was subsequently delayed by the banking regulator.) Centurion Bank of Punjab was created in June 2005 through the merger of Bank of Punjab with Centurion Bank.

Top PE Investments - 2005				
Company	Sector	Amount (US\$ M)	Investors	
Thomas Cook India	Travel Services	127	Dubai Investment Group	
Shriram Holdings	Truck Financing	100	Newbridge Capital	
Centurion Bank	Banking	86.30	GW Capital, ChrysCapital, CVC	
Sify	Internet Services	62.60	Infinity Capital	
Ace Refractories	Refractories	59.8	ICICI Ventures	

By Stage

Private Equity firms continued to prefer investments in the less risky large companies during 2005. So much so that a third of all PE investments during the year went into existing listed companies – i.e., towards “PIPE” (Private Investment in Public Enterprises) deals.



The number of PIPEs, at 49, was double the number of such deals struck during the previous year.

PE Investments by Stage - 2005				
Stage of Company Development	Volume		Value	
	No. Of Deals	% Share	Amount (US\$ M)	% Share
Early Stage (India-based)	22	15	79	4
Early Stage (Cross-border)	6	4	71	3
Growth Stage	24	16	332	15
Late Stage	40	27	638	29
PIPE	49	34	763	35
Buyout	5	3	306	14
Other	-	-	-	-

Eighteen of the PIPE investments went into mature manufacturing companies in a range of sectors spanning auto components to plastics to sugar.

Top PIPE Deals - 2005			
Company	Sector	Amount (US\$ M)	Investors
Centurion Bank	Banking	86.3	GW Capital, ChrysCapital, CVC
Scandent Solutions	IT Services	62.3	ICICI Ventures
Vaibhav Gems	Gems & Jewelry	47	Warburg Pincus
Sintex Industries	Textiles & Plastics	46.4	Warburg Pincus
Leela Hotels	Hotels & Resorts	44.4	IDFC, HDFC, IL&FS

PE firms – including some Silicon Valley VC firms - also jockeyed to make pre-IPO and even IPO investments during the year. Companies like ABG Shipyard, Celebrity Fashions and Sasken Communications raised funds from both PE firms as well as IPOs during the 2005.

Burgeoning Buyouts

Buyout deals also witnessed growth in 2005 with ICICI Ventures leading the charge. The firm acquired the refractories businesses of cement maker ACC and the non-core businesses of pharmaceuticals firm Ranbaxy Labs during the year, as well as backing the management of Water Treatment services firm VA Tech Wabag India to buyout their Austria-based parent.

Top Buyouts - 2005			
Company	Sector	Amount (US\$ M)	Investors
Thomas Cook India	Travel Services	127	Dubai Investment Group
Sify	Internet Services	62.60	Infinity Capital
Ace Refractories	Refractories	59.80	ICICI Ventures
Ranbaxy Fine Chemicals	Life Sciences	33	ICICI Ventures
VA Tech WABAG India	Water Treatment	23.30	ICICI Ventures

Valley VCs Seek Growth

While PIPE and late-stage investments continued to dominate, 2005 also witnessed several interesting growth-stage investments by both Indian and foreign PE firms. The year saw several Silicon Valley VC firms – including top names like Sequoia Capital and Norwest Venture Partners – make their first direct investments in India.

The famed “Sand Hill Road VCs”, known best for their start-up investments at home, are (at least initially) seeking out growth-stage companies for their Indian investments. While Sequoia chose New Delhi-based Bharti Group’s telecom software firm, Bharti Telesoft, for its first investment, Norwest went with a Pune-based software product development services firm Persistent Systems.

European PE firm 3i made its India entry with a \$45 million investment in Mumbai-based film and entertainment software firm Nimbus Communications. The investment – the largest-ever PE investment in the Media & Entertainment industry – will be used by Nimbus for, among others, sports rights acquisitions, developing global sports events, infrastructure expansion, feature film production and distribution, mobile content distribution and digital content production for wireless and video-on-demand platforms.

Among other growth-stage investments, ICICI Ventures and CVC International equally shared a \$45 million investment in Perlecan Pharma, a new drug R&D-focused spin-out from Hyderabad-based listed pharmaceuticals firm Dr. Reddy's Labs.

While low-cost airlines hogged the headlines, Kotak Private Equity chose to back an airline with a different flavor: Coimbatore-based Paramount Airways which caters – full-fare – to business travelers flying between metros and smaller cities.

Top Growth-Stage Investments - 2005			
Company	Sector	Amount (US\$ M)	Investors
Nimbus Comm.	Media	45	3i
Perlecan Pharma	Pharmaceuticals	45	ICICI Ventures, CVC International
Malladi Drugs	Pharmaceuticals	23.30	ICICI Ventures, IIML, Sander Morris Harris Group
Karvy Stock Broking	Finance Intermediary	19.30	Pacific Century Group
Persistent Systems	IT Services	18.80	Norwest Ventures, Gabriel Ventures

Early-Stage in Comeback Mode

In the last couple of years, whatever little early-stage funding that happened tended to be dominated by Indo-US cross border technology companies – companies which, while headquartered in the US, carry out a bulk of their R&D in India. 2005 marked a break from this trend, with purely India-based early-stage companies attracting more investor interest. While the going was not easy for “seed stage” or pre-revenue companies as well as those seeking less than \$2 million in capital, PE and VC firms provided \$79 million in the first or second of institutional funding to 22 revenue generating (if not profitable) companies in 2005.

While IT & ITES companies accounted for 14 of these investments, investors were clearly willing to look beyond. The top investment in this segment was Softbank Asia Infrastructure Fund's \$10 million second round investment in Internet-based travel services firm Makemytrip.com.

SIDBI Venture Capital invested in over a half-a-dozen early-stage companies during 2005. The Government-sponsored firm continued to invest from its IT-focused first fund into companies like Lattice Bridge Infotech, Eisodus Networks (when it was pre-revenue), Lexsphere and Manthan Software. SIDBI VC also started to invest, from its new SME Growth Fund, into non-technology companies including rental car services firm Carz-on-rent, bio-diesel firm Naturol Bioenergy, and pharmaceuticals firm Bravo Healthcare.

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With its new fund in place, Baring Private Equity India emerged as an active player in the early-stage technology segment. The firm invested in bioinformatics firm Molecular Connections and IT Services firms like Maples ESM and Perputo (founded by former Infosys Technologies executives) during 2005.

While WestBridge Capital made late-stage and even non-technology investments from its \$200 million second fund – it invested \$7 million in IndiaTimes.com and \$5.7 million in Royal Orchid Hotels – the firm demonstrated its continued appetite for early-stage with a \$1.5 million investment in mobile content firm Nazara Technologies.

PE firm GEM India chose two early-stage companies in the Food & Beverages industry - winemaker Samant Soma Wines and Chinese restaurant chain Trak Services – for its first investments in the country.

Top Early-Stage Investments - 2005*			
Company	Sector	Amount (US\$ M)	Investors
Makemytrip.com	Online Travel Services	10	Softbank Asia Infrastructure Fund
Maples ESM	IT Services	4	Baring Private Equity
MeritTrac Services	HR BPO	3.70	HSBC Private Equity
Samant Soma Wines	Winery	3.45	GEM India Advisors
IMISoft	Wireless Technology	3	NewMedia Spark

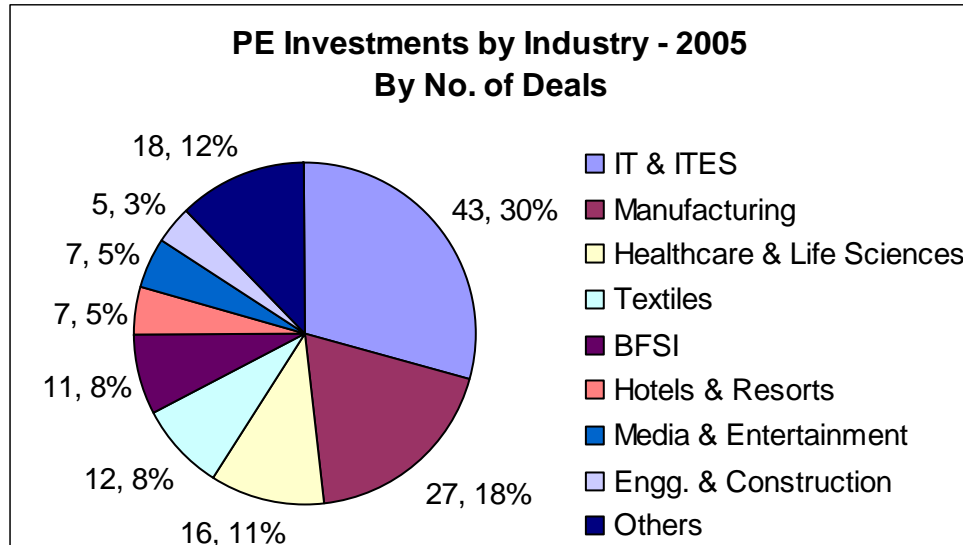
* Ranked by deal amounts on publicly disclosed deals

Indo-US cross-border companies like Telsima, HelloSoft and Astra Business Services – which were backed in their first rounds by specialist cross-border firms like New Path, JumpStartUp and WestBridge respectively – attracted significant follow on investments from international funds during 2005.

Investments in Indo-US Cross-Border Cos. - 2005				
Company	Sector	Round	Amount (US\$ M)	Investors
Telsima	WiMax	2	20	JAFSCO Asia, NewPath, CMEA, NEA, Intel
HelloSoft	Communications Tech	2	16	TD Capital, Mitsui, Entrepia, Venrock, Sofinnova, JumpStartUp
July Systems	Wireless Tech	3	10	Motorola Ventures, Existing Investors
Nevis Networks	Network Security	2-B	12.50	NEA, BlueRun Ventures, New Path
AirTight Networks	Wi-Fi Security	2	12	Trident, Siemens VC, Walden Intl, Blueprint, Granite
Astra Business	Collections BPO	2	9.20	Sierra Ventures (Lead), WestBridge
ConvergeLabs	Wireless Tech		0.9	GVFL

By Industry

With 43 deals worth about \$412 million, the Information Technology and IT-Enabled Services (IT & ITES) industry received the most number of investments during 2005. The \$62.6 million buyout of Satyam Computers' 31.61% stake in Nasdaq-listed Sify, a Chennai-based provider of Internet access and Enterprise Networking services, by US-based Infnity Capital was the largest investment in this industry.



IT & ITES was followed by the manufacturing industry, with 27 deals worth about \$371 million. The industry was led by the \$59.8 million buyout of Ace Refractories by ICICI Ventures, followed by Actis' \$29 million investment in AVTEC, a spin-out of the auto-components business of car maker Hindustan Motors. Within manufacturing, automobile components emerged as the favorite sector, attracting eight investments worth \$105 million.

The Healthcare & Life Sciences industry, led by the \$45 million investment in Perlecan and the Ranbaxy Fine Chemicals buyout, came in third with 16 deals worth about \$269 million. Other top investments in this industry included Warburg Pincus' \$26.7 million investment in hospital chain Max Healthcare Institute, General Atlantic Partners' \$25.3 million investment in pharmaceuticals firm Jubilant Organosys, Temasek's \$24.8 million in pharmaceuticals firm Medreich, and the combined \$23.3 million investment by ICICI Ventures, IL&S Investment Managers (IIML) and Sander Morris Harris Group in Malladi Drugs and Pharmaceuticals.

The Textiles & Garments industry came in next with 12 investments worth \$147 million. UTI Ventures made investments in two listed companies – Ambika Cotton Mills and Suryalakshmi Cotton Mills – in this industry.

PE firms took a sudden liking for Hotels & Resorts during 2005, investing about \$106 million in the industry compared to hardly any investment during the previous year. The \$44 million PIPE investment in Leela Hotels – from a group of investors including IDFC Private Equity, IIML and HDFC in February – was the first in a series of seven investments in the industry during the year. Even traditionally technology focused firms like Bessemer Ventures and WestBridge Capital checked into Hotels & Resorts during 2005.

PE Investments by Industry - 2005				
Industry	Volume		Value	
	No. Of Deals	% Share	Amount (US\$ M)	% Share
IT & ITES	43	29	412	19
Manufacturing	27	18	371	17
Healthcare & Life Sciences	16	11	269	12
Textiles & Garments	12	8	147	7
BFSI*	11	8	306	14
Hotels & Resorts	7	5	106	5
Media & Entertainment	7	5	102	5
Engg. & Construction	5	3	92	4
Others	18	12	379	20

* Banking, Financial Services and Insurance

By Region

Companies based in Western India attracted 44% of all PE investments during 2005 (in value terms), followed by their peers in South India which cornered 33% of the pie. While manufacturing companies based in Western India attracted 11 investments compared to the South's five, the South attracted 23 IT & ITES investments compared to the West's 13.

PE Investments by Region - 2005				
Region	Volume		Value	
	No. Of Deals	% Share	Amount (US\$ M)	% Share
West	55	38	949	44
South	54	37	717	33
North	29	20	359	16
East	5	3	74	3
Central	0	0	0	0
Other / Unknown	3	2	80	4

Among cities, Mumbai topped with 38 PE investments worth \$697 million during 2005, followed by Delhi/NCR region with 25 investments worth \$321 million.

Top Cities attracting PE Investments - 2005		
City	No. Of Deals	Value (US\$ M)
Mumbai	38	697
Delhi/NCR*	25	321
Bangalore	19	195
Chennai	16	328
Hyderabad	14	168
Pune	9	91

* National Capital Region

Most Active Firms

Citigroup (including its two private equity arms, CVC International and CIFC) emerged as the most active PE investor in India during 2005, with 10 reported investments. Citigroup invested across a wide range of industries including Manufacturing (JBF Industries, Balrampur Chini Mills, Lakshmi Overseas Industries, Rain Commodities), Healthcare & LifeSciences (Perlecan Pharma, Elder Pharmaceuticals), BFSI (Centurion Bank), IT & ITES (Caritor), Textiles & Garments (Spentex Industries), and Engineering & Construction (Patel Engineering).

IIML followed next with nine investments across Healthcare & Life Sciences (Malladi Drugs, Manipal AcuNova, Arch Pharmalabs), Manufacturing (JBF Industries, Andhra Pradesh Paper Mills), Textiles & Garments (Gokuldas Images), Hotels & Resorts (Leela Hotels), Engineering & Construction (ABG Shipyard), and Aviation (SpiceJet).

IFC (the World Bank's PE arm) and Reliance Capital announced eight investments each during 2005. There were seven reported investments from ICICI Ventures, New Vernon, SIDBI Venture Capital, WestBridge Capital, ChrysCapital and Actis.

Liquidity Events

PE and VC firms obtained exit routes for their investments in 43 Indian companies during 2005, including 17 via IPOs. This compared favorably with the 29 liquidity events (including six PE-backed IPOs) during the previous year.

IPOs

Seventeen PE-backed companies across a range of industries pulled off highly successful IPOs during 2005 raising almost \$950 million.

The largest PE-backed IPO during the year was that of wind energy turbine maker Suzlon Energy, which raised \$342 million via its oversubscribed IPO, fetching spectacular returns for

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its private equity backers. Citicorp International Finance Corp (CIFC), which had invested \$22.5 million in Suzlon in April 2004, sold shares worth \$29.9 million as part of the IPO. ChrysCapital, which had invested \$21.6 million in August 2004, had sold a portion of its holdings in Suzlon to GIC (a PE arm of the Government of Singapore) and T.Rowe Price prior to the IPO.

The \$130 million IPO of Engineering & Construction company Punj Lloyd, which had received investments from Merlion India Fund (a joint venture between StanChart Private Equity and Temasek), NY Life and Jacob Ballas Capital, was the second largest during 2005. Merlion India had invested \$50 million in Punj Lloyd in November 2004.

The \$86 million July IPO of news publisher HT Media provided a highly profitable exit route for Henderson and CIFC, which had invested about \$39.28 million in the company. Henderson, which had invested \$22.10 million in March 2004 and \$4 million in March 2005, sold shares worth \$28.7 million as part of HT Media's IPO. (CIFC had picked up shares worth \$13.18 million in March 2005).

Top PE-backed IPOs - 2005*				
Company	Sector	Month	IPO Size (US\$ Million)	PE Investors
Suzlon Energy	Wind energy turbines	Oct	342	Citicorp, ChrysCapital, GIC, T.Rowe Price
Punj Lloyd	Engg. & Construction	Dec	130	Merlion India Fund, StanChart PE, Temasek, NY Life, Jacob Ballas Capital
HT Media	Newspapers	Jul	86	Henderson, CIFC
YES Bank	Banking	Jun	73.3	CVC International, ChrysCapital, Russell Asian Infrastructure Fund
Shopper's Stop	Retail	Apr	39.5	ICICI Ventures
PVR Cinemas	Multiplexes	Dec	38	ICICI Ventures

*Ranked by IPO Size

M&A and Secondary Sales

Private Equity firms realized some spectacular exits during 2005 via trade and secondary sales – four of which involved transactions worth over \$500 million.

Warburg Pincus completed its exit from Bharti TeleVentures, a New Delhi-based listed telecom services company, during 2005, realizing over \$1.4 Billion during the year.

Warburg Pincus had originally invested \$292 million in Bharti Tele-Ventures (in return for a 19% stake) over a two-year period starting September 1999. (Bharti went public in January 2002. Warburg Pincus started exiting via the public markets in August 2004 when it sold a 3.35% stake for about \$208 million.)

In March, Warburg sold a 6% stake for \$560 million, marking the largest ever transaction in a single scrip on an Indian stock exchange. The fact that the market was able to absorb such a large sale without impacting the Bharti stock price demonstrated the depth and maturity of

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the Indian capital markets and caused the country to emerge strongly on the radar screens of global PE investors.

In October 2005, UK-based Vodafone Group Plc. acquired Warburg Pincus' final 5.65% holding in Bharti for \$847.5 million. At the time of Warburg's final stake sale, Bharti was valued at \$15 Billion – 10 times that when Warburg invested in the company five years ago. Warburg's total realization: about \$1.6 Billion – i.e. over 5.5 times its investment amount.

While the Warburg-Bharti saga was clearly the largest – and most spoken about – exit during 2005, it wasn't the only mega deal during the year. Actis and AIG exited their investment in BPL Communications, when the Essar Group acquired the mobile telecom services company in July at a \$1.56 billion valuation.

In a spectacularly profitable exit, CVC International sold its 41% stake in publicly listed banking software company i-flex Solutions to US-based Oracle Corp for \$593 million. i-flex, the largest India-based software products firm, had raised \$400,000 from CVC in 1992.

Top M&A Exits - 2005*					
Company	Sector	Month	Acquirer	Amount (US \$ Million)	PE Investors
Bharti Tele-Ventures	Telecom Services	Mar & Oct	Vodafone Group & Open Market sales	847.5 (for 5.65%) & 560 (for 6%)	Warburg Pincus
BPL Communications	Mobile Telecom Services	Jul	Essar Group	1000 (for 64%)	Actis, AIG
i-flex Solutions	Banking Software	Jul	Oracle	593	CVC International
Ambuja Cements India	Cement	Jan	Holcim	200 (for 40%)	AIG, GIC
Gujarat Ambuja	Cement	Dec	FILS	145.62 (for 5.85%)	Warburg Pincus
Apollo Hospitals	Healthcare	Aug	Khazanah Nasional (Malaysia)	44.2 (for 13.2%)	Symphony Capital
Arvind Brands	Branded Apparels	Apr	Arvind Mills	24.7	ICICI Ventures
Edelweiss Capital	Financial Services	Oct	Greater Pacific Capital	12.6 (for 9%)	Connect Capital
Radio Mirchi	FM Radio Channel	Nov	Buyback by promoters	11.1 (for 10%)	AXA Rosenberg
Plexion Technologies	Outsourced Engineering Services	Dec	Mahindra & Mahindra	10 (for 77.6%)	JP Morgan

* Also includes secondary sales and buyback by promoters.

Last Word: New Competition in the Late-Stage

With the public stock markets soaring during the year (the “Sensex”, the Bombay Stock Exchange’s broad market index, surged by almost 40%), Private Equity firms witnessed late-stage and PIPE deals become more and more expensive. From FIIs (Foreign Institutional Investors) to FCCBs (Foreign Currency Convertible Bonds), late-stage PE firms faced competition from multiple sources. As if these weren’t enough, two cash rich Indian business groups – Bennett, Coleman & Co. Limited (BCCL) and Reliance – picked 2005 to become hyperactive in the private equity space.

More than half-a-dozen private and public companies – from retail firm Pantaloon, consumer electronics maker Videocon, jewelry firm Rajesh Exports to IT services and training firms like SQL Star and IIHT – opted to strike “barter” deals with BCCL, India’s largest media group, during 2005. As part of these innovative deals, BCCL invested cash to pick up between 5-15% stakes in fast growing, consumer focused companies which agreed to plough the money back as advertising in BCCL’s publications (like the Times of India and Economic Times newspapers) and electronic media channels (like the FM channel Radio Mirchi and niche TV channel Zoom). In total, BCCL is estimated to have notched up over 40 such barter investments.

Reliance Group firms, despite an ongoing wrangle in the promoter family, made a series of financial and strategic investments during 2005 in sectors ranging from energy to entertainment. They acquired a majority stake in integrated entertainment firm Adlabs and made significant investments in companies like telecom consulting firm Spanco Telesystems, battery maker HBL Nife (along with UTI Ventures and other investors), ceramics maker Murudeshwar Ceramics, kids wear brand Gini & Jony, and wine maker Champagne Indage.

Both BCCL and Reliance picked up stakes in listed two-wheeler maker, Kinetic Engineering, and Textiles & Garments company, Celebrity Fashions, during 2005.

Such intense competition for deals from a range of new domestic and overseas sources has already prompted some PE firms to look towards real estate and even early-stage investments for succor. As long as the public stock market remains strong and promoters of late-stage companies enjoy a range of financing options, more PE firms will feel the need to look beyond PIPEs and pre-IPOs in 2006.

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Note: The above analysis is based on publicly announced / reported deals and data collected from Private Equity / Venture Capital / Investment Banking firms. The Venture Intelligence India data is updated continuously and is therefore subject to change at any time.

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