

India – Mere Promise Or Long Term Prospect?

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Presentation Plan

- 1. A conducive ecosystem is driving PE growth in India**
 - Culture of entrepreneurship
 - Growing domestic markets: increasing number of sectors attaining global scale
 - Established laws and regulation; liberal and democratic country
 - Mature financial markets

- 2. India's demographic trends are creating new investment themes**

- 3. Potential for further growth across multiple strategies/sub asset classes**

- 4. Exit options are improving**

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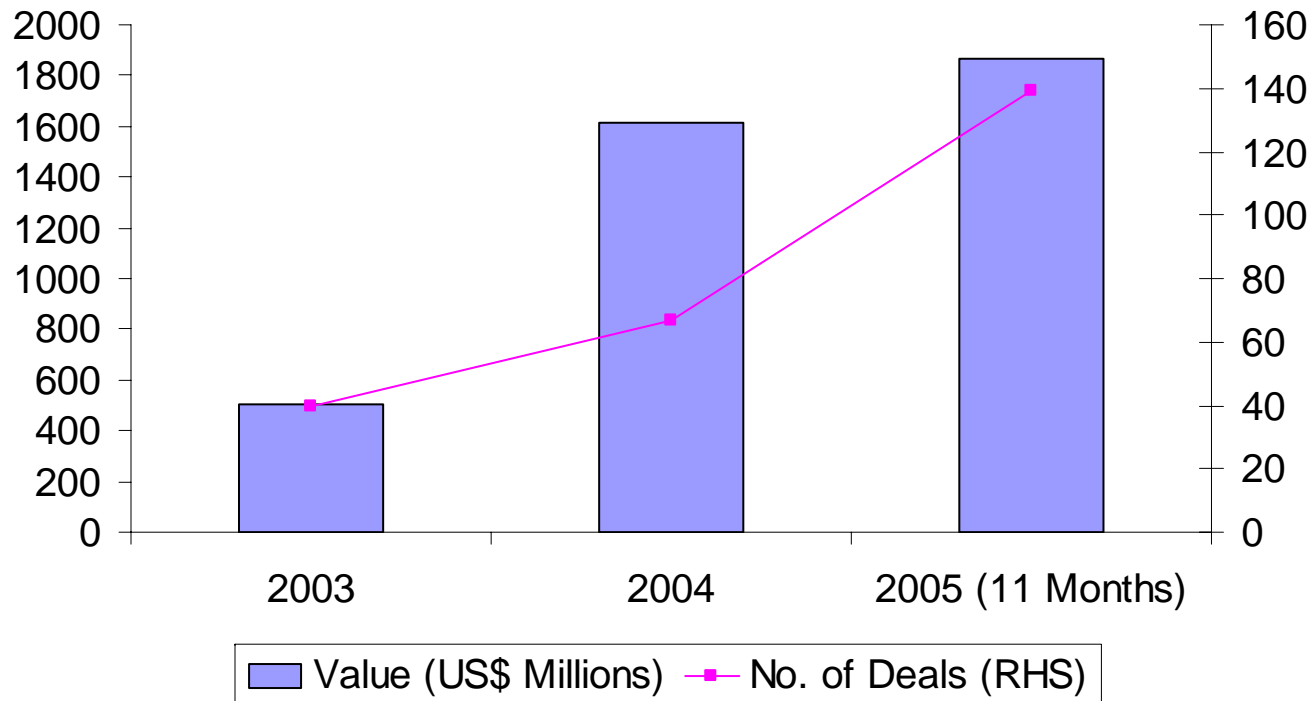
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Growth in Indian PE

1.

2005: 139 deals worth \$1.86 billion



A conducive eco-system is driving PE growth in India

1.

Culture of entrepreneurship

- Private sector predominant in India
- Widespread culture of entrepreneurship
- New breed of entrepreneurs behind emerging growth stories
- Reforms reducing bureaucracy and red tape

Established law and regulation

- Domestic law based on English common law
- Independent judiciary - separate mechanism for company law related issues
- Strong banking and securities regulators
- World's largest democracy, independent judiciary and free press

Environment for Private Equity in India

Growing consumer market

- One of the largest consumer markets in the world is emerging
- Increasing disposable income fuelling consumption
- Businesses are being created to meet the needs of this market

Mature financial markets

- Mature and liquid financial markets- Asia's oldest stock market
- Prevalent equity culture
- Increasing number of exits through IPO's and strategic sales
- Uninterrupted history of repatriation of capital and profits

- More entrepreneurs
 - University level initiatives: changing youth icons and aspirations
 - Reverse brain drain
- Changing face of the entrepreneur
 - Engineering and management graduates from the IITs and IIMs
 - Next generation entrepreneurs from family owned businesses
 - Experienced professionals returning to India
- Increasing number of mature, receptive companies
 - The 'new Indian economy' is now 15 years old (post liberalization of 1991)
 - Emergence of a thriving middle market
- Reducing role of government in business
 - New categories being created for the private sector (examples: private low cost airlines and media companies)
- Key weaknesses
 - Not enough IP creation and innovation related entrepreneurship
 - Bureaucracy and red tape
 - Government role still too large in business (examples: Banking, Transportation); government sometimes plays both roles of being a competitor and a regulator (examples: Telecom, Insurance)

- Rapidly expanding domestic demand
 - Large domestic markets being created
 - Increasing number of sectors assuming global scale
 - Middle-of-the-pyramid & bottom-of-the-pyramid business models emerging
 - India is consolidating its position as a services hub for the world
 - Markets moving beyond validation to scale
 - Outsourcing moving from Fortune 100 to Fortune 1000
 - Increasing integration with global markets
 - Shifting geo-political alignments
- Key weaknesses
- Markets still small in absolute value terms
 - Highly competitive, profits concentrated amongst a few
 - Weak enabling infrastructure
 - Multiple layers of taxation
 - Physical fragmentation of domestic markets
 - High energy prices for industrial consumers
 - Employer un-friendly labor laws

- Debt averse nature of banking and institutional sector
 - Banks still suffering from after-effects of mid-1990s crisis
 - Dormant DFI sector
 - Increased integration with global markets
 - Reducing entry/exit barriers for capital
 - Increasing liquidity/exit options for investors
 - Increased depth in secondary markets
 - Increased IPO activity
 - Increased M&A activity
 - Liberalized norms for foreign investors
 - Foreign capital is being allowed in newer sectors (examples: real estate and distressed assets)
- Key weaknesses
- Exits are an issue
 - Debt markets under developed
 - Significant restrictions on corporate debt, overseas borrowings, high yield instruments

- Emergence of independent sector regulators
 - Capital markets (SEBI), Telecom (TRAI), Insurance (IRDA), and Power (CERB)
 - VC/PE guidelines afford certain concessions to VC/PE investors
- Key weaknesses
- Slow judicial processes
 - Laws have not kept pace with time
 - Lack of fast track dispute resolution mechanisms, especially for commercial disputes

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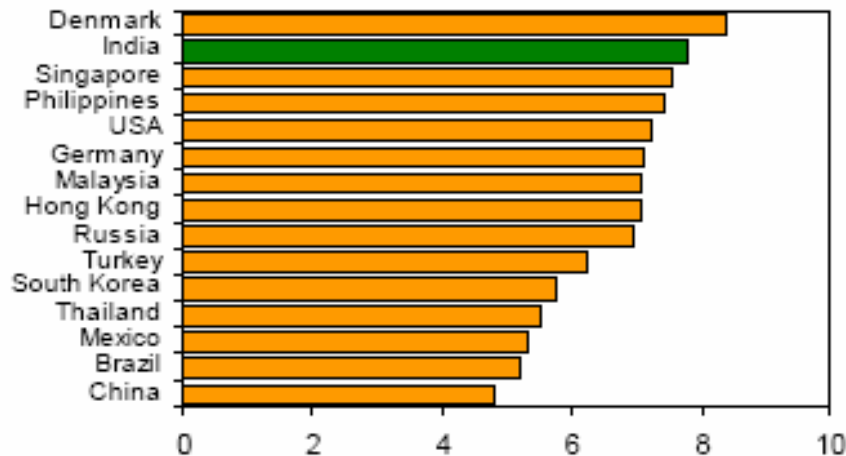
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Impact of demographics on PE opportunities in India – (1)

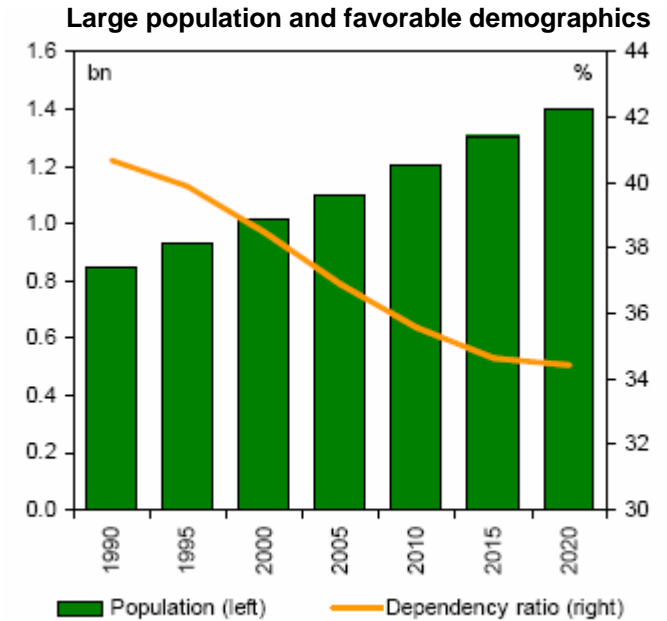
2.

Trends

- India's demographic trends have created a young country
 - Changing attitudes towards consumption; Use of credit
- Large additions to productive work force
 - India will add about 250 million in the world supply of labor
 - Non-linear increase in discretionary spending power
- Urbanization is a key consumption driver
 - Currently less than 30%, could cross 40% by 2030
 - Creates homogeneous markets, aggregates consumption



*) Data are based on response from IMD's annual Executive Opinion Survey. High score equals high availability of skilled labour.
Source: IMD Yearbook, 2004



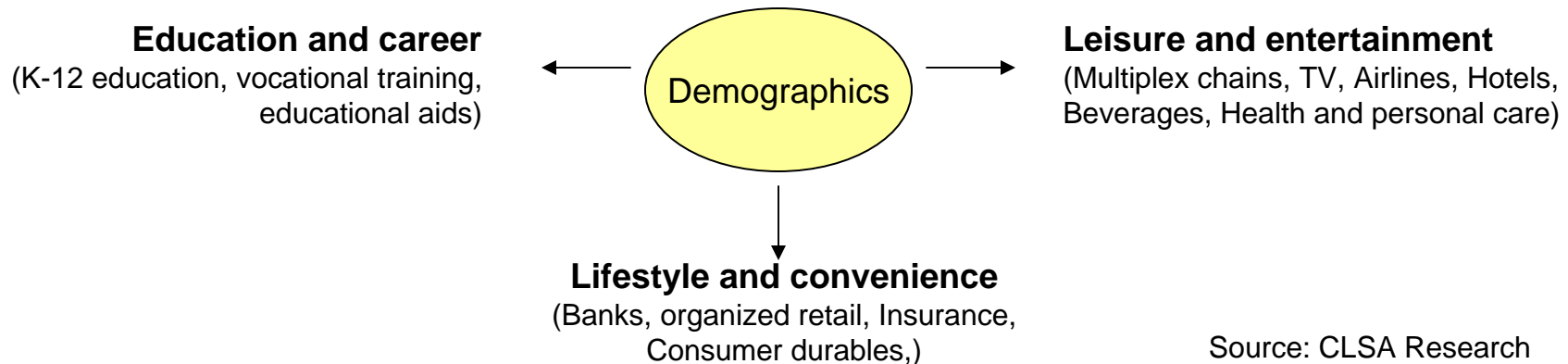
Source: Ministry of Finance

Source: DB research, April 2005

India has the highest availability of skilled labor (Source: DB research, April 2005)

Impact

- Rapidly growing domestic demand driven by a 'real middle class'
- Shift from IT/outsourcing focused investment trends of the 1990s
 - Businesses addressing domestic demand have become attractive
- New businesses are emerging as a response to changing consumer trends



Source: CLSA Research

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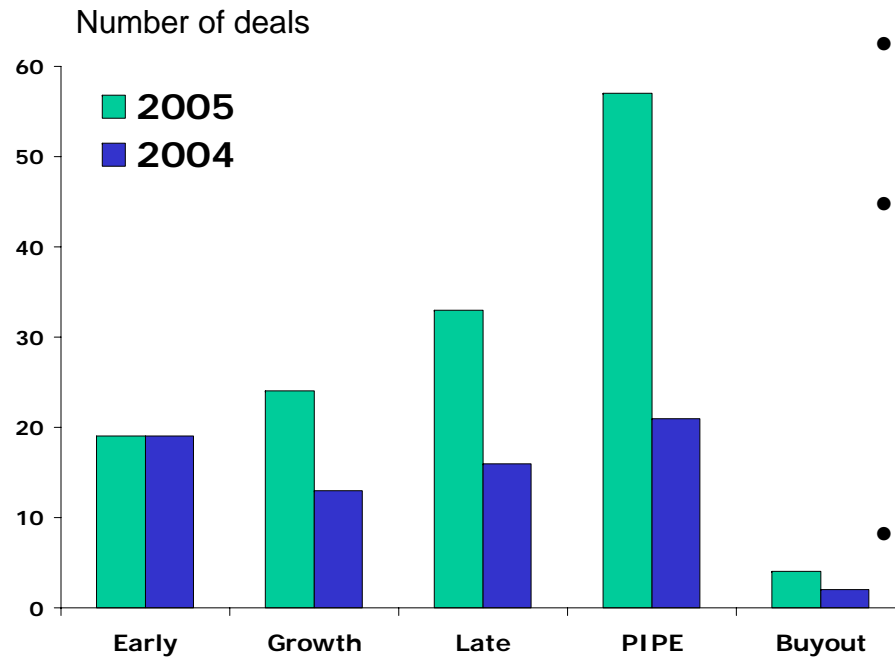
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Source: IVCA

- **High level of PIPEs**
 - Market valuations are rich, will PIPE activity come down?
- **Low level of Buyouts**
 - Structural issues relating to buyouts
 - High control premiums
 - Relatively young management teams
 - Lack of separation of ownership and management
 - High level of fiduciary risk as control investors
- **Stagnating early stage / VC**
 - Small local technology markets
 - Low levels of IP creation
 - Government is not stepping forward as consumer for innovation
- **Low levels of Mezzanine / distressed**
 - Under developed debt markets
 - Regulatory environment needs to evolve further
- **Low levels of foreign PE in real estate**
 - Fairly mature domestic real estate cycle
 - Market archaic from regulatory perspective
 - High level of fiduciary risk
 - Increased activity levels expected going forward 14

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- Revival of domestic IPO markets
 - Emergence of strong institutional participation (600+ FIIIs, emergence of domestic mutual funds)
 - Return of retail investors to equity
 - Rapid growth in domestic M&A market
 - Indian corporates are emerging as strategic buyers
 - Cross border M&A is expanding to domestic demand led sectors
 - Large domestic markets are attracting global strategic buyers
 - India has emerged as the third largest M&A market in Asia
- However, we believe exits still remain an issue and investors have to plan for exits at the beginning of the investment cycle

- PE/VC firms obtained exit routes for their investments in 42 companies, including 17 IPO's during 2005 (compared to 30 liquidity events in 2004, including 6 IPO's)*
- Cross-border secondary sales/M&A were the most attractive exit routes – four transactions above \$500m (including Vodafone's acquisition of Warburg's stake in Bharti for \$1.4 billion)*
- Domestic buyers provided large exits as well – Essar Group (\$1bn, BPL Telecom)*

Warburg's exit of Bharti; 5.5x returns

The Investment (1999-2001)

- Sep 1999 - Jul 2001: \$292M; Valuation: \$1.54B

The IPO (Jan. 2002)

- Raises \$172 million; Valuation: \$1.72-B

The Exit (2004-2005)

- Aug 2004: 3.35% stake for \$208M; Valuation: \$6.21B
- Mar 2005: 6.0% stake for \$560M; Valuation: \$9.33B (Largest ever deal on Indian stock exchange)
- Oct 2005: Final 5.65% to Vodafone for \$847.50 million (Valuation: \$15B (10x original))

Total realization: \$1.62 Billion and > 5.5 times return

**TSJ Media, Venture Intelligence India Roundup, 2005*

- 1. PE growth in India is driven by intrinsic systemic factors**
- 2. India's demographic trends are creating new investment themes**
- 3. Indian alternative asset sector is set to grow significantly both in size and scope**
- 4. Positive exit trends augur well for the future**

About Gaja

- Gaja is an India-focused private equity firm
- We seek to provide growth capital to emerging mid-market companies in India
- Gaja leverages proprietary research and domain expertise to drive deal flow and value creation
- Investment team is based in Mumbai, India

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