VENTURE
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PRIVATE EQUITY IMPACT 2017

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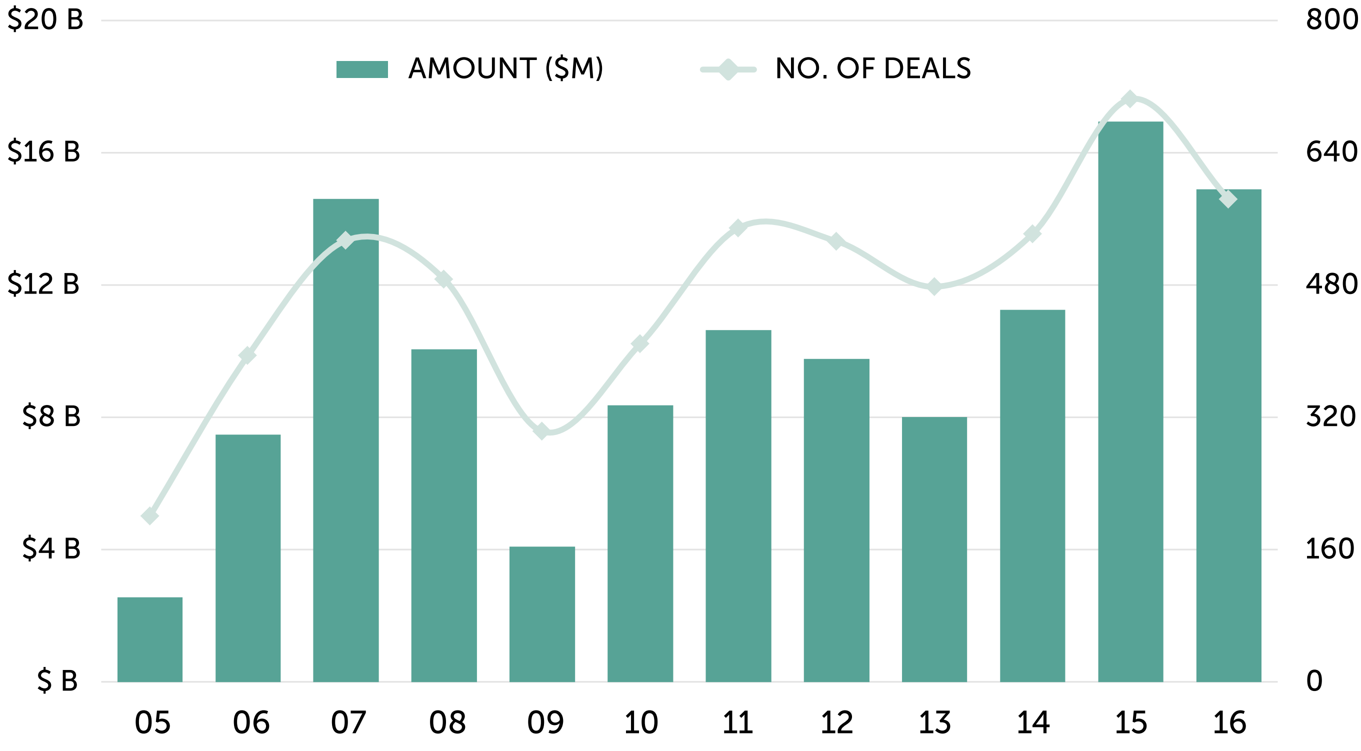
Executive Summary

In recent years, Private Equity (PE) and Venture Capital (VC) funds have played an active role in changing India's corporate landscape. In the six years between 2011 and 2016, PE-VC firms invested over $72 billion in Indian companies – over 6.5 times what Corporate India raised via Initial Public Offerings (IPOs) during the same period. PE-VC investors have been the primary driving force behind many major new industries for the country including IT Enabled Services, Cloud Computing, FinTech, Microfinance and E-Commerce. Almost all the leading companies in these industries were started with PE-VC capital. The fact that these industries have also turned into very large employers, has been a strong bonus.

PE Investments in India



*Excluding investments in Real Estate companies/projects

Source: Venture Intelligence PE/VC Deal Database

How exactly have Indian companies benefited from the billions of dollars of PE and VC firms have invested? What value did PE and VC investors offer to Indian entrepreneurs, besides the capital?

The Venture Intelligence Private Equity Impact study, first conducted in 2007, measured the impact of PE and VC funds on various aspects of the economy using quantitative methods - a first such initiative in India. This year again, with advice and guidance from **Prof. Thillai Rajan A, Department of Management Studies, Indian Institute of Technology- Madras**, we have revisited the theme of comparing PE-VC backed companies vis-à-vis their non PE-VC backed companies on key parameters such as Revenue Growth, Asset Growth, Profitability and Returns, Capital Structure, Asset Turnover, Working Capital Management and Interest Coverage.

Apart from the quantitative study, Venture Intelligence interacted with four entrepreneurs from across different sectors to understand their experiences of obtaining PE-VC investments.

Salient findings from this study are as follows:

- Private Equity and Venture Capital investment in India is more than six times the capital raised through IPOs.
- PE investment is largely associated with smaller companies. The average size of PE funded firms in terms of revenues and assets are about one-sixth of all listed firms.
- Revenue growth of PE-VC backed companies are more than twice that of other benchmarks.
- PE-VC investment is associated not just with top line growth but also with growth in asset creation.
- PE-VC funded companies exhibit a more efficient working capital management as compared to listed peers.
- The profit growth of PE-VC funded companies is the lowest among the benchmarks indicating a predominant focus of such companies on long term growth, sacrificing bottomline focus in the short term.
- Lower asset returns and cash returns on capital invested in PE-VC funded companies indicate a robust growth rate in immediate asset creation, thereby creating a platform for long term growth.
- Lower asset turnover need not seen be as seen as a poor measure of asset efficiency, but more near term large investments in assets whose benefits are yet to be fully realized
- PE-VC investments helps to increase the equity base to attract debt capital. PE-VC investors provide a degree of comfort to lenders as indicated in debt levels and costs
- The primary markets are characterized by significant volatility. PE-VC investors do continue to invest even in times even when there is a squeeze in conventional markets, thereby helping the companies to tide over the industry down cycles. As promoters of small-to-mid sized companies typically face limitations in terms of the quantum of equity contribution they can make, PE-VC investors step in to provide the long term funding require to catalyze growth.
- The entrepreneurs featured in the Case Studies clearly attest the value added by PE-VC investors – beyond merely providing capital.
- Founders of start-ups are often not well versed with "once in a lifetime of a company" processes such as IPO, M&A and so on. Since many PE-VC investors have prior experience in the financial services industry as well as working with other investee companies in their portfolio, they are able to help promoters steer through the complexities.

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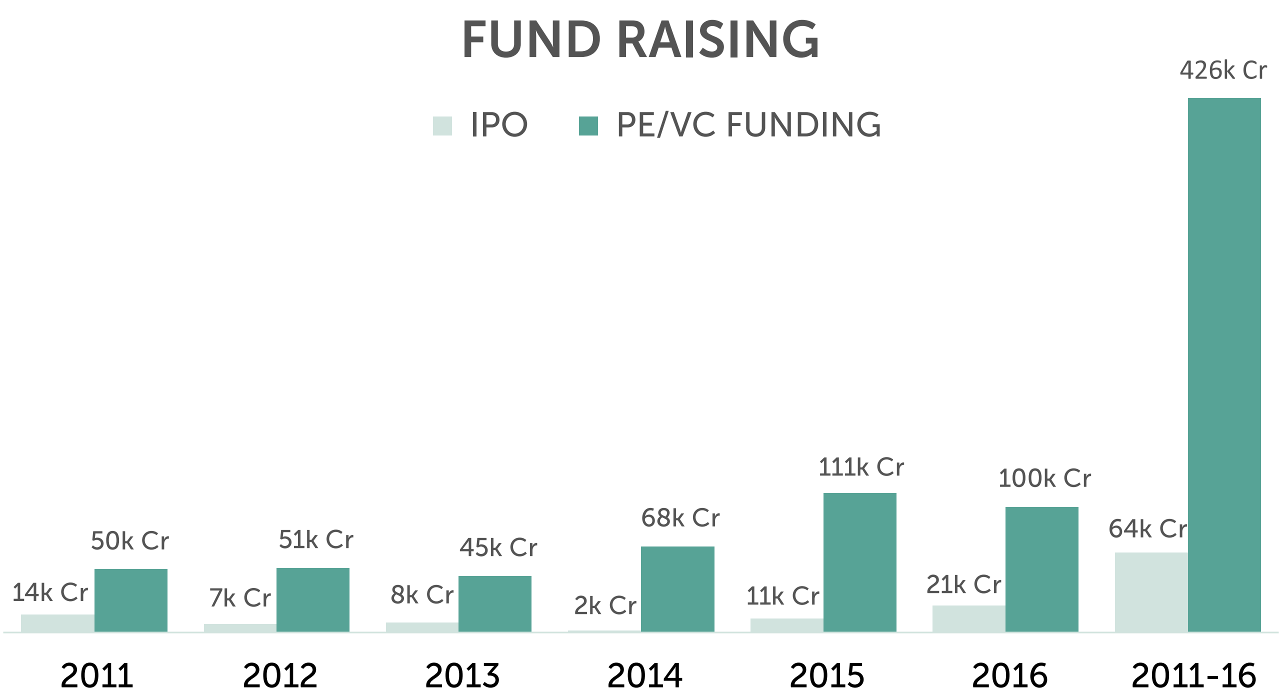
1. PE-VC as a Source of Capital

Private Equity and Venture Capital investment in India is more than six times the capital raised through IPOs.

Impact: By Numbers



Only companies that have reached a certain scale and size are able to successfully tap the public equity markets. Though the government has implemented various initiatives like the SME exchange and trading platforms, they are yet to start making significant impact. In this context, PE-VC investment plays an important role in providing long term capital to small and medium size companies. In the period 2011-16, total capital received by firms from PE-VC investors was 6.6 times more than what was raised from IPOs.

The growth rate in PE-VC funding has also outstripped that of the IPO markets. For example, the CAGR of capital raised from IPOs during the period 2011-16 was about 8%, whereas the CAGR of PE-VC investments was about 14.9%.

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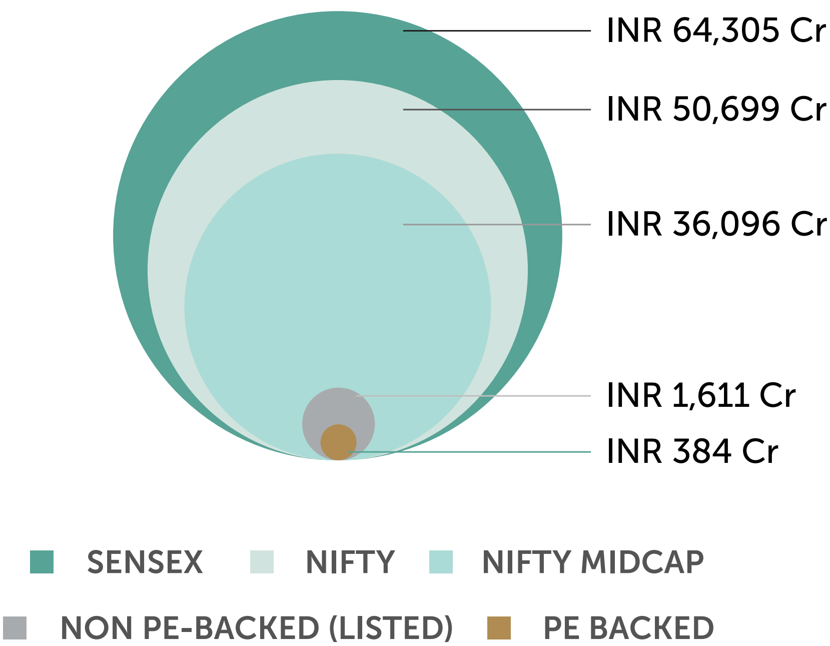
2. Firm Size

Impact: By Numbers

PE investment is largely associated with smaller companies. The average size of PE funded firms in terms of revenues and assets are about one-sixth of all listed firms.

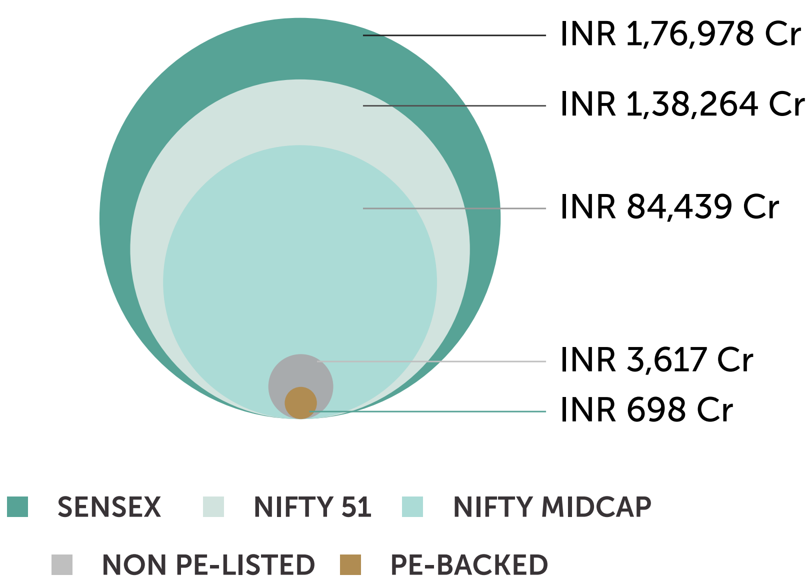
AVERAGE SALES (INR Cr)



Fund raising is a difficult process, depending on the quantum of capital raised as well as the size of the company. In the Indian context, smaller companies have huge barriers to access public capital and equity markets. Accessing debt funding is also limited for technology and growth firms that have several years of negative earnings.

Our finding shows evidence that PE has played an important role in providing capital to smaller companies. While this finding is consistent with expectation, our results give an indication of scale. PE funded companies are just one-sixth the size of all listed companies.

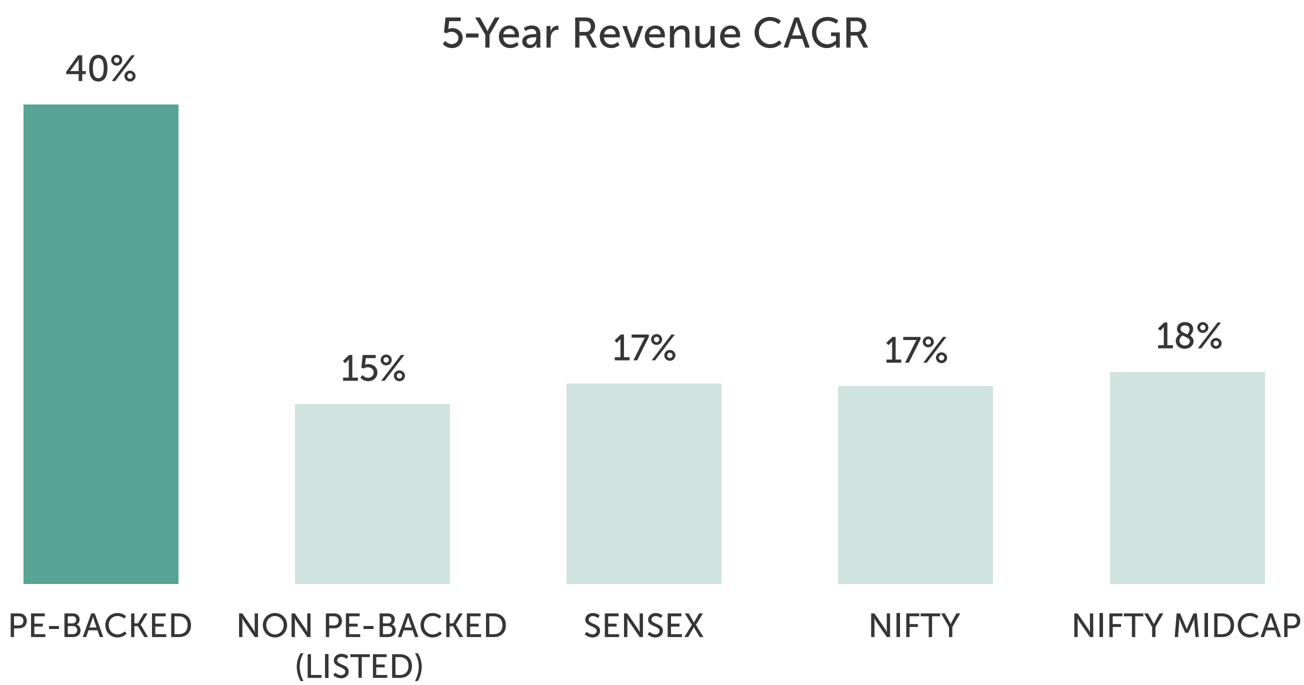
AVERAGE ASSET SIZE (INR Cr)



3. Revenue Growth

Revenue growth of PE backed companies are more than twice that of other benchmarks

Impact: By Numbers

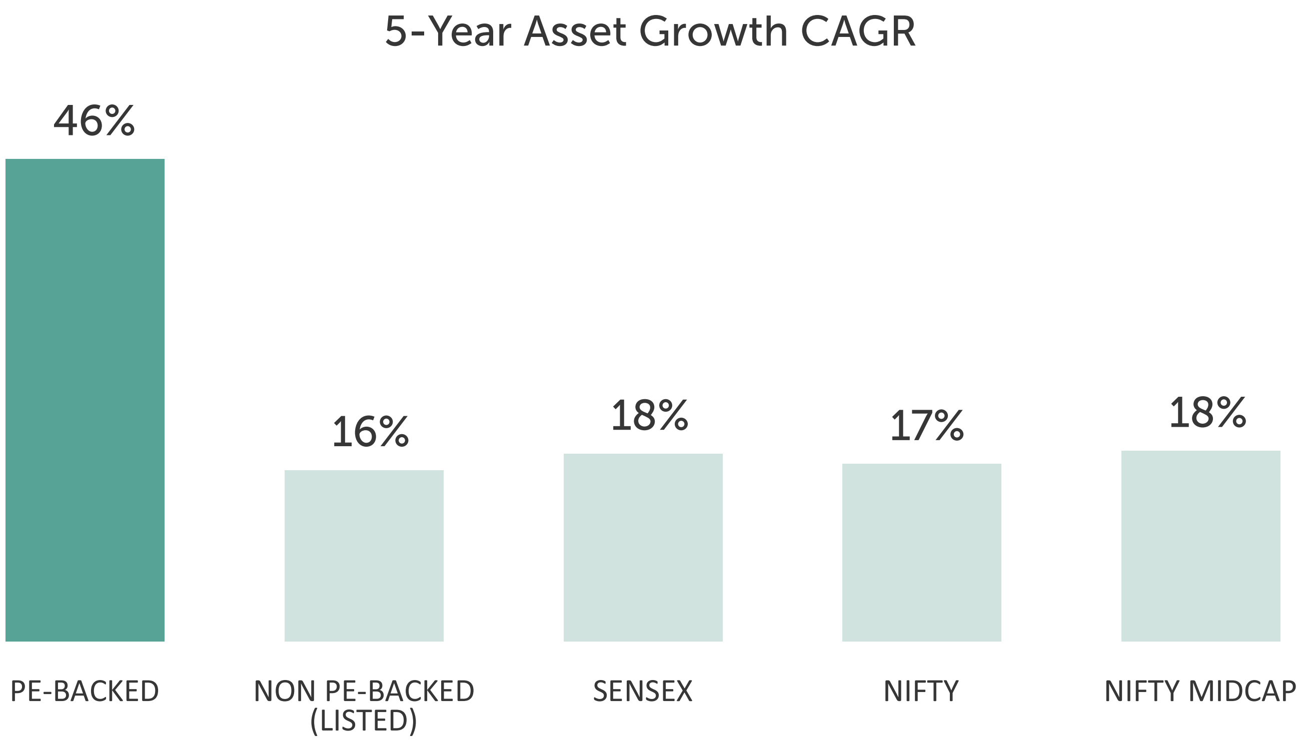


Revenue growth of PE-VC BACKED companies was more than twice that of other benchmarks used in this research. This finding provides compelling evidence to PE-VC being fuel for growth oriented companies. PE-VC firms invest in those companies that have high potential for growth. While smaller companies are likely to clock higher growth rates as compared to the larger firms, the growth spread between PE-VC funded companies and benchmarks is considerable. This indicates an impact beyond the size effect. A significant characteristic of PE-VC funding is the willingness to provide capital not just for organic growth, but also for growth through inorganic routes such as acquisitions.

4. Asset Growth

Impact: By Numbers

Private Equity investment is associated not just with top line growth but also with growth in asset creation



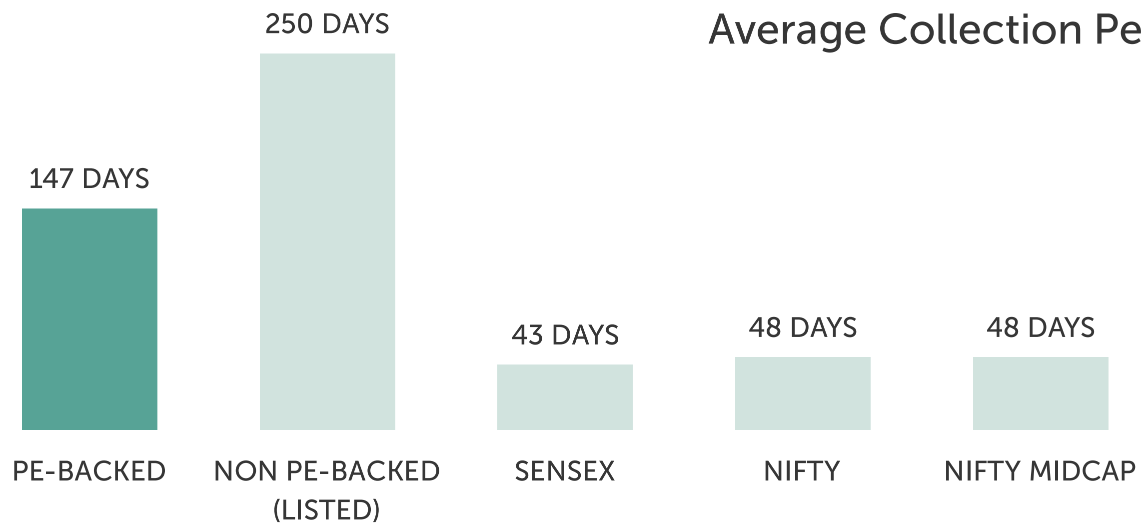
Revenue growth achieved through various forms of promotional measures can only provide short term benefits and cannot be sustainable. Our results show that PE funded firms have higher growth rates in asset creation. The asset growth rate of **PE BACKED** companies was over 2.5 times the corresponding growth rates of **NON PE BACKED** Publicly Listed companies as well as **SENSEX, NIFTY** and **NIFTY MIDCAP** companies. The growth in assets indicates that the higher revenue growth of PE funded companies is supported by tangible investment in assets, thereby ensuring that the revenue growth rates can be sustainable in the long term. Investment in asset creation provides benefits over many years, as compared to “cash-burn” in operational expenses. Asset growth rate outpacing revenue growth rate for PE funded companies also indicate the long term perspective of the PE funded companies.

5. Working Capital Management

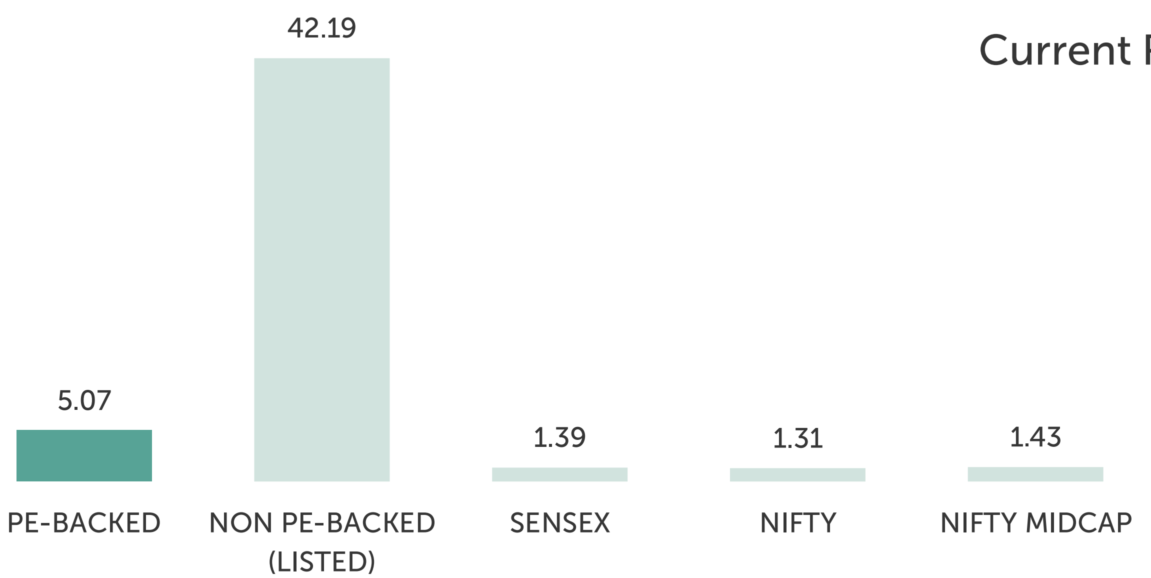
PE-VC funded companies exhibit more efficient working capital management as compared to the listed peers.

Impact: By Numbers

Average Collection Period



Current Ratio



That smaller firms have a difficult time realizing collections is a common refrain. PE-VC funded companies, despite being smaller, have an average collection period that is about 40% lower than that of listed **NON PE BACKED** Publicly Listed companies. This indicates the cushion provided by PE-VC investment against offering unfavourable credit terms. While a certain amount of liquidity is essential, excess investment in working capital can affect returns. Current Ratio of PE-VC backed firms is about one-eighth of that of listed companies, indicating an optimal level of investment in working capital.

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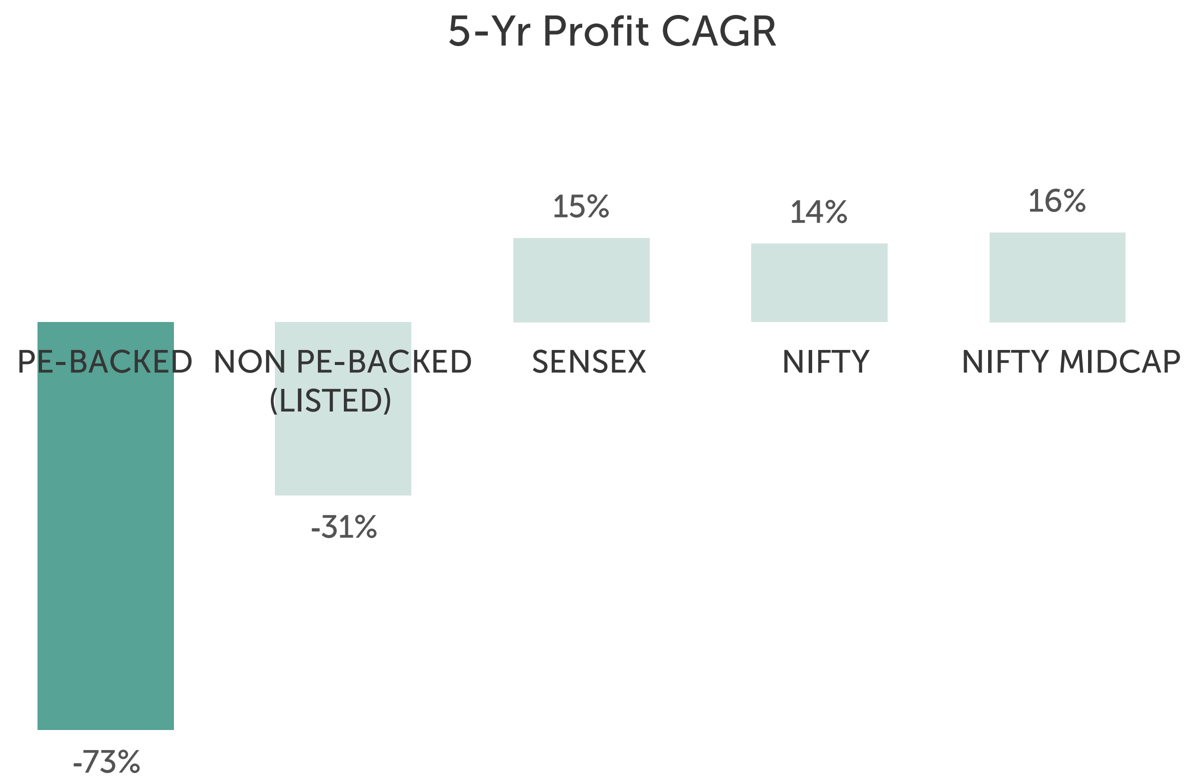
6. Profitability

The profit growth of PE-VC funded companies is the lowest among the benchmarks.

Impact: By Numbers

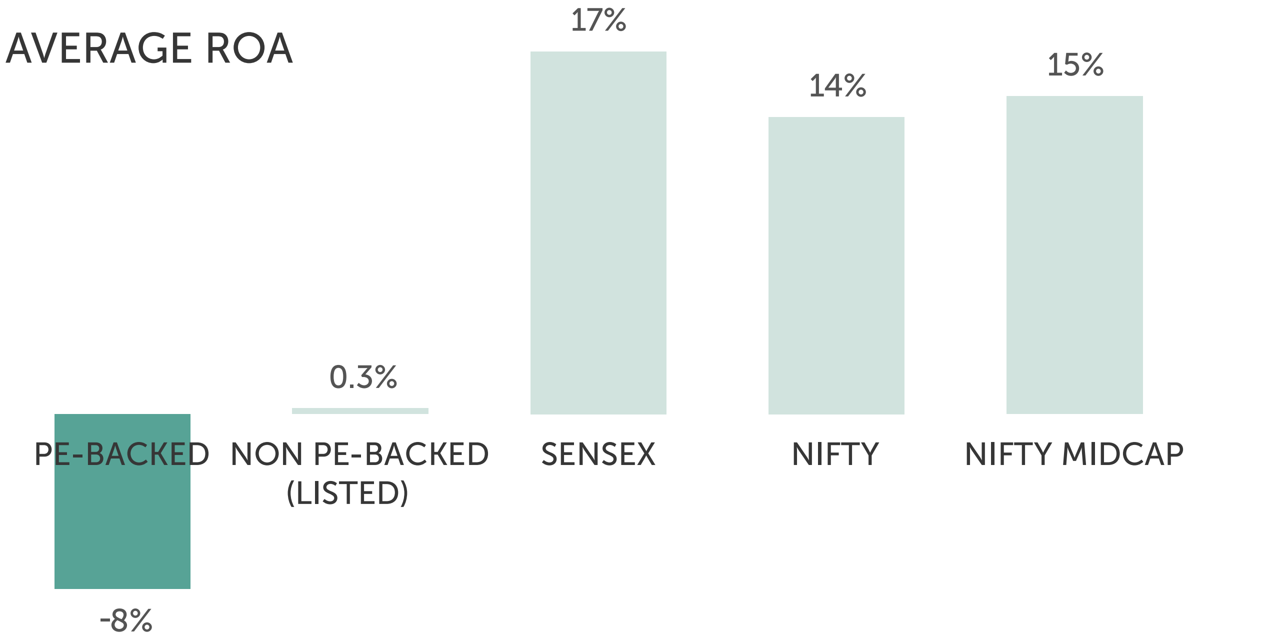


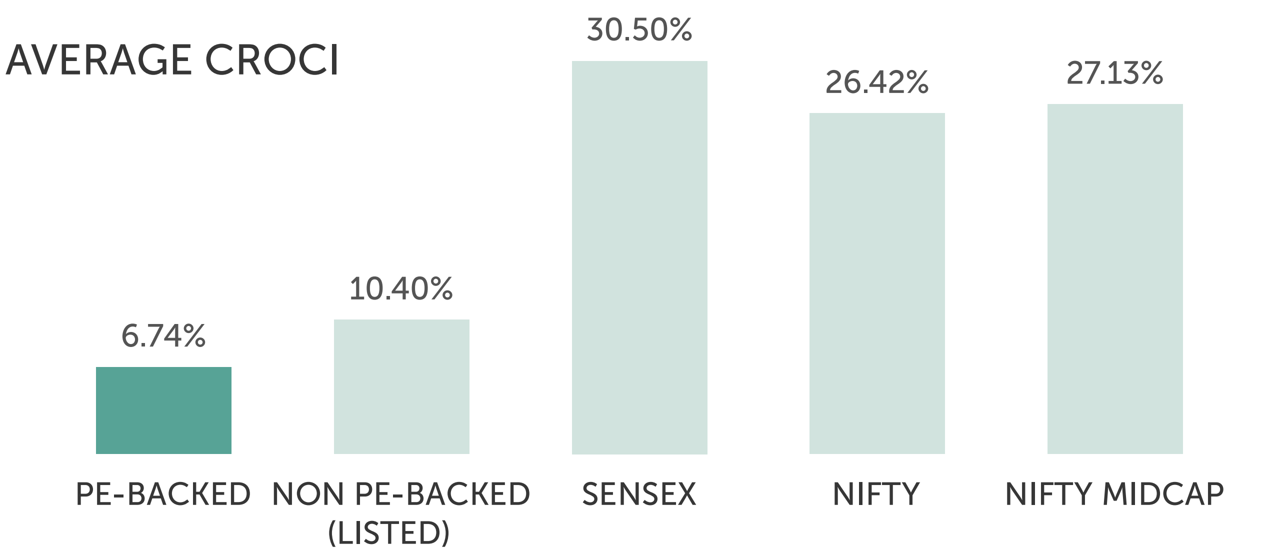
The average annual growth rate of profits for PE-VC funded companies during the period of the study was the lowest at -73%. This is understandable because the firms funded by PE-VC investors are in the growth phase, where the company would have to make significant investments and also incur significant new expenditures, whereas the revenues could be lagging. Given that such companies would find it difficult to access investment from other sources, our findings indicate the crucial nature of the support provided by PE-VC capital during the growth phase.

7. Return on Assets and Cash Return on Capital Invested (CROCI)

Impact: By Numbers

Lower asset returns and cash returns on capital invested in PE-VC funded companies indicate a robust growth rate in immediate asset creation, thereby creating a platform for long term growth.





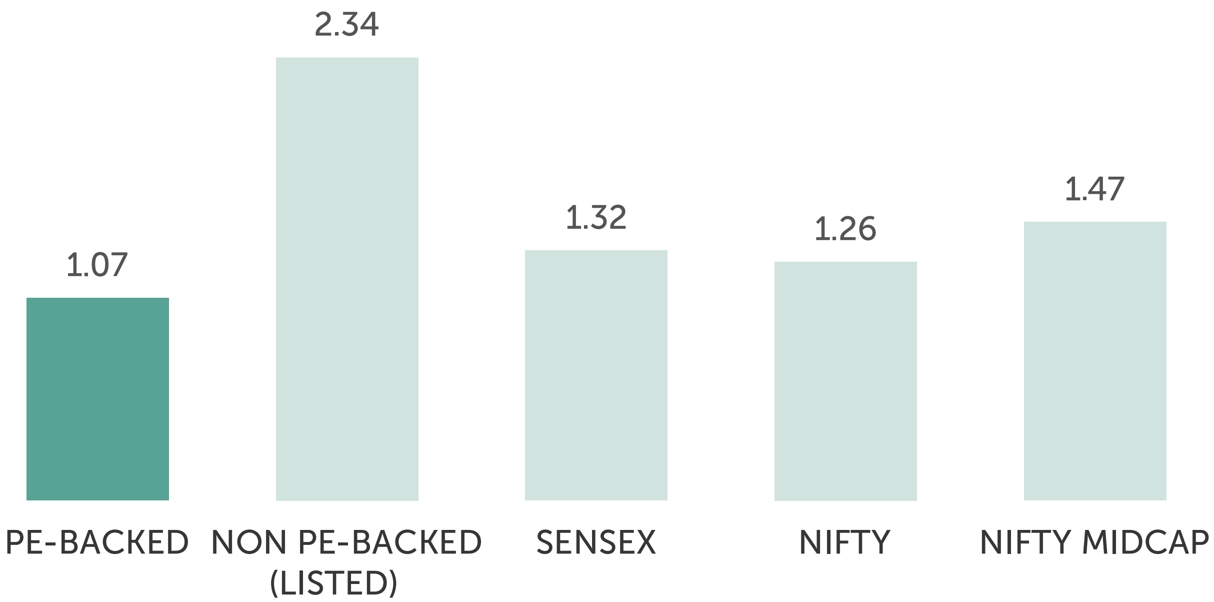
PE-VC BACKED companies display lower return on assets and lower average cash return on capital invested as compared to listed companies. A potential explanation is a lag between revenue realization and asset creation – i.e., PE-VC backed companies in the growth stage need to make substantial investments, the benefits of which are realized over time.

8. Asset Deployment Efficiency

Lower asset turnover indicates large near term investments in assets whose benefits are realized fully over time.

Impact: By Numbers

AVERAGE ASSET TURNOVER

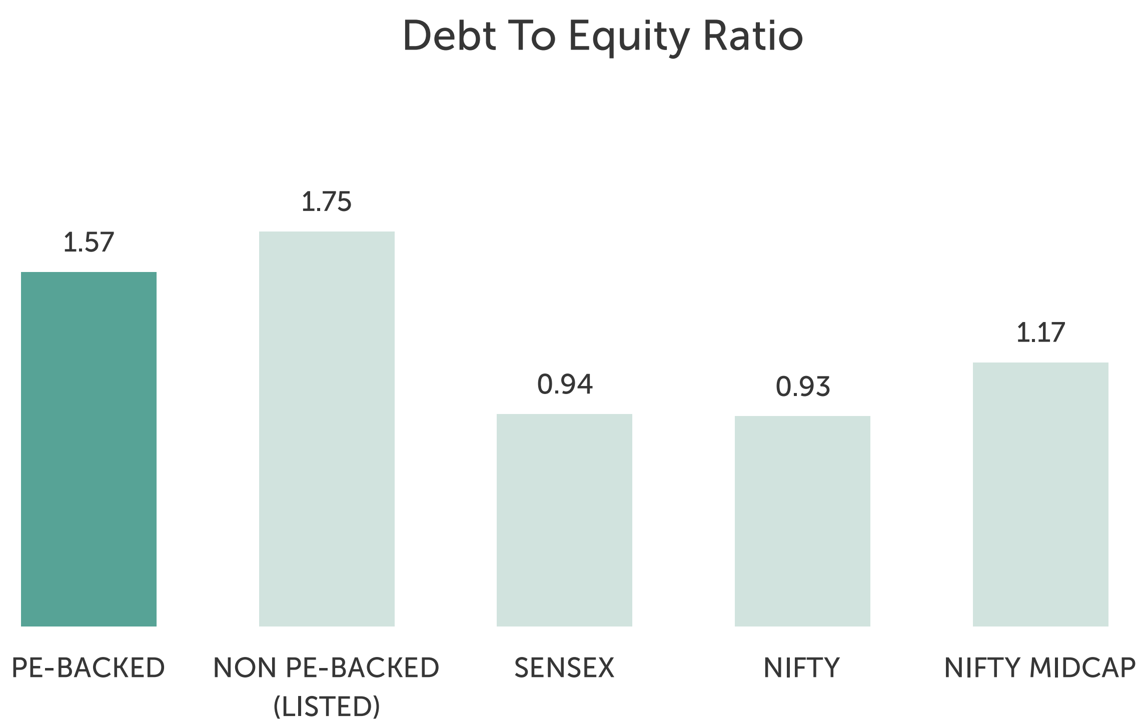


Asset turnover is usually seen as how efficiently the firm makes its investments in assets to generate revenues. But for firms in the growth phase, while the near term investments in assets are going to be higher, there would be a lag in fully realizing the corresponding benefits of the investments made in assets. Seen in that context, the findings on asset turnover are consistent with the results seen on return on assets and cash return on capital invested. The large investment in assets at PE-VC backed firms can be viewed as setting up a platform for robust revenue growth in the long term.

9. Capital Structure

PE-VC investments helps to increase the equity base to attract debt capital.

Impact: By Numbers

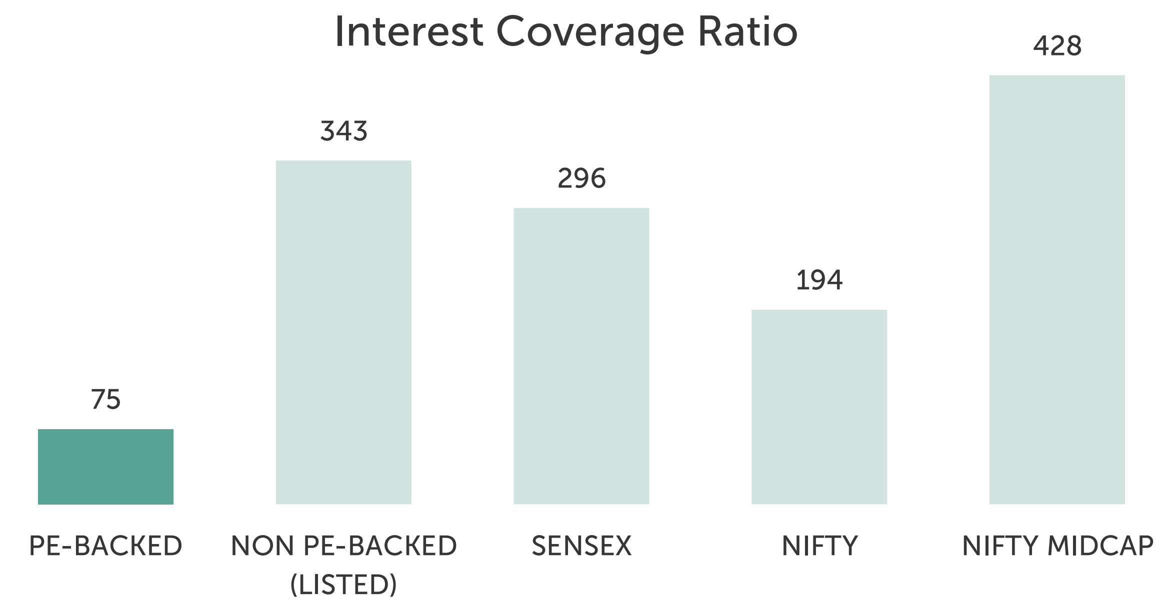


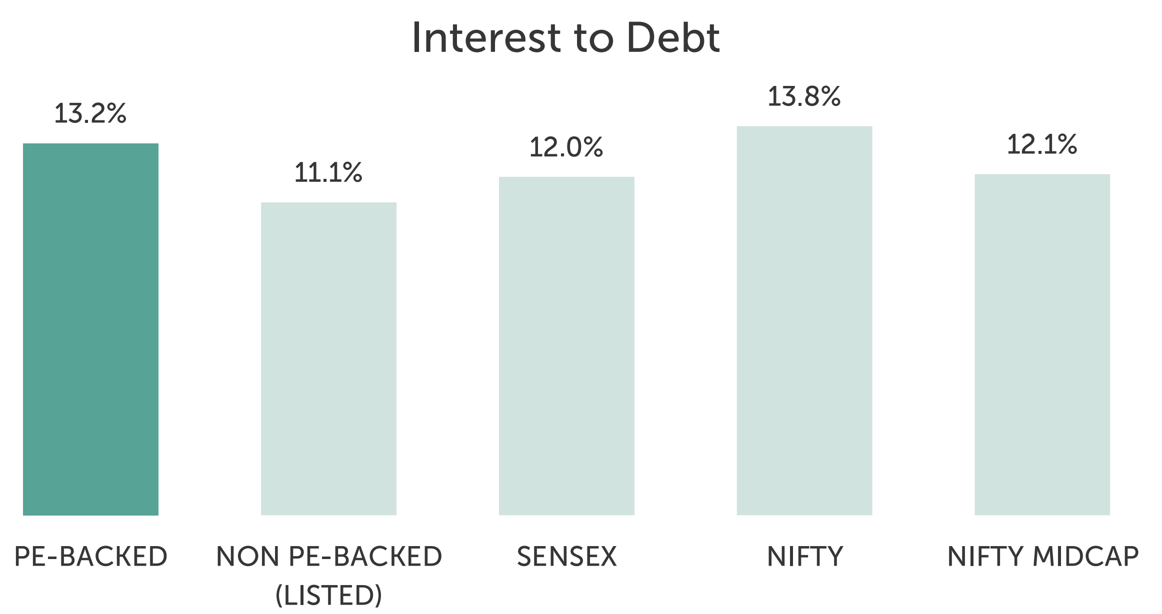
The pecking order theory in corporate finance states that firms would first choose that source of capital that has lower costs. Growth oriented firms need external capital since they would not be in a position to finance the growth through internal accruals. Among external capital sources, debt would be a preferred source to equity. However, debt can be raised only the basis of a certain equity backing. Our results indicate PE-VC backed firms have reasonable levels of debt to equity. Clearly, PE-VC funding expands the equity base, thereby helping companies to raise more debt than would be possible with just promoter funding. The presence of PE-VC investors sends a positive signal to banks and financial institutions about the long term prospects of the firm despite current poor profitability.

10. Interest Coverage And Costs

PE-VC investors provide a degree of comfort to lenders as indicated in debt levels and costs.

Impact: By Numbers





PE-VC BACKED companies are associated with a lower interest coverage ratio. Despite the low interest coverage ratio (just 21% of the level seen for listed companies), the debt-equity ratio for PE-VC backed companies are similar to that of listed companies. While the cost of debt, as seen in the interest to debt ratio is higher for PE-VC backed companies, the difference between listed companies and PE-VC funded companies is only 2.1%. In fact, the cost of debt for PE-VC BACKED companies is comparable to that enjoyed by NIFTY companies.The presence of PE-VC investors in the equity table, plays an important role in giving comfort to lenders – as seen not only in the level of debt, but also in terms of its cost.

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Impact: Beyond Numbers

11. Providing long term capital when chips are down.

The primary markets are characterized by significant volatility. PE-VC investors continue to invest even in times even when there is a squeeze in conventional markets, thereby helping the companies tide over industry down cycles.

In addition, there are limitations in terms of the quantum of equity contribution by the promoters. PE-VC provide long term funding to growth oriented firms which are not able to access other forms of long term capital.

Atul Ladha, Promoter, Vectus attests this by saying, "By 2013 we were already growing at over 30% per annum. The market opportunity was overwhelming and we realized the need to augment capital. Being first generation entrepreneurs we had limited capital and the choice was either to curtail our growth ambitions or raise external capital."

Adds **Ashish Baheti, Co-Promoter of Vectus,** "We were looking for capital from the right PE partner who are entrepreneurial, share our vision and work with us to take us to the next stage."

The "Andhra Crisis" that rocked the Indian Microfinance industry in 2011 led to a period when no conventional investor wanted to invest in the sector. That was the time when the World Bank's private sector investment arm International Finance Corporation as well as the Development Financial Institution (DFI) arms of the UK Government (CDC Group) and the Netherlands government (FMO) stepped up to make crucial investments in Equitas. **P.N. Vasudevan, Founder & CEO of Equitas** says,"They came in at a time when no mainstream investor was willing to invest or lend to us and they were also willing to stay for the long run – exactly what we needed."

12. Provide Strategic Inputs and Suggestions

A major feature of PE-VC investments is their ability to add value to their investments beyond just the capital. They are not passive investors unlike lenders or public market investors, but can leverage their experience to provide critical inputs that benefit their portfolio companies at different stages.

For example, **Phanindra Sama, Founder of redBus** recalls, "In our initial business plan, we had proposed quite bit of spending towards marketing. But our investor pointed out that great Internet businesses like Google had never needed to advertise and had grown mainly by making their products remarkable. They struck out the entire marketing cost row!" VC investors in redBus also provided strategic inputs on issues like whether the company should go international; whether it should expand beyond bus tickets; whether and how to work with government run bus operators, and so on. "Since investors work with a lot of companies over several years, they bring to the table their experience and perspective on such dilemmas," Phanindra adds.

"Our investor is our sounding board for new ideas and initiatives; at other times they work with our teams to make projects happen. They have brought in analytical rigour and catalyzed implementation of best practices," says Ashish Baheti of Vectus."They provided market inputs for new product development & expansion, support on senior recruitments, support on technology initiatives, and improve governance aspects."

13. Hand-holding Through Important Processes

Founders of start-ups are often not well versed with complex processes such as IPO, M&A and also top management recruitment. Since PE-VC investors have a wide network of contacts and prior experience in working with other investee companies, they provide active help in these situations.

Vasudevan P.N., Equitas Founder, MD & CEO says PE investors, apart from being able to provide larger amounts of capital, were able to add significant value during the company's IPO process. Given their experience with IPOs of other investee companies, these investors provided very active help to the Equitas management to navigate the various legal, regulatory and technical aspects. From selecting the merchant bankers to the pricing of the shares, their inputs were very crucial in helping Equitas pull off the issue successfully.

Phanindra Sama of redBus echoes the above thought. "We had the idea and the technology skills to build a product, but did not know anything about building a company, including go-to-market, sales, hiring and managing a team, and so on. All those inputs came from the VCs,"

14. Ingredients for a successful partnership with PE investors

Entrepreneurs featured in the Case Studies highlighted various aspects for a successful partnership with PE-VC investors.

"Always work with PE Investors who have a long term orientation to business. They should be prepared to stay invested for 10 years if required and have the ability to come up with follow on rounds," recommends **Quess Corp CEO Ajit Issac.** "Under committing and over performing sets up your credibility well. Also, building a personal rapport and relationship with the PE fund managers will help in times of crisis - which are bound to happen to start ups," he adds.

Phanindra Sama of redBus recommends entrepreneurs choose which investor they partner with very carefully. Apart from the fundamental market knowledge and ethical aspects, there should be match between the outlook of the entrepreneurs and the style of the PE-VC investors. A mismatch on this front could even end up killing the company.

Investors want information from their portfolio companies in a prompt fashion. Equitas proactively sent its investors Monthly Reports with exhaustive data and information. While three of the investors had representation on the company's Board of Directors, within 10 days of each quarterly board meeting, Equitas organized an Investors Meeting and apprised the other investors as well about its quarterly performance and outlook. This structured process also helped the management team to focus 100% on investor related communication – including via face-to-face meetings – once each quarter without any intermittent distraction.

Methodology

Impact: By Numbers

Private Equity firms invest in the equity of companies that are, typically, not traded on a public stock exchange. Categories of Private Equity investment include buyouts, mezzanine capital, venture capital (VC) and seed capital. In some cases, Private Equity firms also pick up minority investments in publicly listed companies through PIPE (Private Investment in Public Enterprises) transactions – which have not been included for the purposes of this study.

Quantitative Study

- The time period used for the quantitative comparison was 2011-2015 to maximize the availability of financial data of Privately Held companies.

- The Venture Intelligence PE deals database was used to generate a list of Private Equity-backed companies (which had raised PE infusion prior to Dec 31, 2014) as well as their financials.

- Companies without values (for each parameter) for the end years (2011 & 2015) were eliminated from the resulting sample set

- The "Non PE-backed" companies list was obtained by accessing the total set of Listed companies and subsequently removing the ones that are PE-Backed (the data for the latter being taken from the Venture Intelligence PE deals database).

- Post the above filtration for each parameter, the Private Equity-backed companies (which constitute the "PE-backed "list in the report) were compared to the "Non PE-backed" companies.

- Formula/Definition of various financial metrics used in the study are as follows:
  a. Current Ratio = Current Assets/ Current Liabilities
  b. Debt to Equity Ratio =Total Debt/ Shareholders' Equity
  c. Interest Coverage Ratio = EBITDA/ Interest
  d. Interest to Debt = Interest/Debt
  e. Average Collections Period = Accounts Receivable/(Sales/365)
  f. CROCI (Cash Return On Capital Invested) = EBITDA/(Total Debt +Total Equity)
  g. Asset Turnover = Sales/Total Assets
  h. Return on Assets = PAT/Total Assets

- The companies taken into consideration for calculation of each parameter varies with the availability of data. The cases wherein a company is removed from the list are:
  a. No data for the end years (2011, 2015)
  b. Denominator (for the ratio) becoming Zero
  c. Inappropriate values for sales, equity, and so on

Quess Corp Limited

Founded	September 2007
2008	Revenues (Fy08): INR 3 crores
2016	Revenues (Fy16): INR 3,435 crores; Employee Count: ~1.5 lakh
Profile	Headquartered in Bengaluru, Quess Corp is India's leading integrated business service provider which offers comprehensive solutions across four broad operational segments: Global Technology Solutions, People and Services, Integrated Facility Management and Industrial Asset Management. It serves over 1,300 customers with its pan-India presence (50 offices across 26 cities) and operations in North America, the Middle East and South East Asia.
Investor(s)	India Equity Partners (2008- 2013) & Fairfax Financial Holdings (2013 till date)
Investment Summary	Between 2008 and 2010, India Equity Partners (IEP) invested over INR 47 crores (about $11 million at that time) in Quess Corp. In 2013, Fairfax acquired a majority stake in Quess Corp (through Thomas Cook India Limited).As part of the transaction, IEP exited with over 3x returns on its invested capital.
Status	After concluding a highly successful IPO (which saw the highest over subscription of any Indian IPO in the last 10 years), Quess Corp is currently listed with a market cap of USD 1.2 Billion with Fairfax as a significant stakeholder.

Ajit Isaac, Chairman, Managing Director & CEO, Quess Corp has partnered with private equity firms since 2000 - when he had raised $1 million from J.P. Morgan for his HR Services startup,People One Consulting. At a time when exits from even IT companies were a rarity, in 2004, PeopleOne provided J.P. Morgan a five times return on its investment when Switzerland-headquartered international staffing services firm Adecco acquired its stake.

When former J.P. Morgan executive Gaurav Mathur co-founded PE firm India Equity Partners (IEP), he sought someone to spearhead their "roll-up / platform play" (creating / acquiring a majority stake in an entity that can then be scaled up rapidly through acquisitions) in the HR Services segment, guess who they tapped for the role? When IEP invested into HR Services firm Ikya Human Solutions in 2009, Isaac came on board as the company's CEO with a 22% stake.

Mr. Ajit Isaac

In 2013, IEP exited Ikya with a three times return on its investment - by selling its stake to Canadian investor Fairfax Financial Holdings (which picked up the stake via Thomas Cook India). Quess executives describe Fairfax – which currently holds a 62.17% stake in Quess – as an accommodative and patient investor.

From its roots as a HR Services provider, Quess has rapidly diversified into a business services provider through an acquisition led strategy that has seen it acquire a dozen entities across 5 countries over the past 3 years. According to the company, its acquisitions have been focused largely on adding capabilities and not only to attain scale. Whatever areas its customers identify as non-core and would like to outsource, becomes a core area of focus for Quess.

"Always work with PE Investors who have a long term orientation to business. They should be prepared to stay invested for 10 years if required and have the ability to come up with follow on rounds," is Ajit's advise to other entrepreneurs who are considering raising PE capital. "Under committing and over performing sets up your credibility well. Also, building a personal rapport and relationship with the PE fund managers will help in times of crisis - which are bound to happen to start ups," he adds.

redBus

Founded	2006
2007	Revenues: INR 40 lakhs
2013	Revenues: INR 51 crore
Profile	redBus is the world's largest online bus ticket booking portal. The company revolutionised India's bus transportation industry with its B2B ticket management software and its B2C bus ticket booking portal. The company has networked over 2,000bus operators covering over 100,000 routes.
Investor(s)	Seedfund, Inventus Capital and Helion Ventures
Investment Summary	In July 2007, the company raised INR 2.5 crore from Seedfund. Between 2009 and 2011, the company raised about INR 40 crore more from Helion Ventures, Inventus Capital and Seedfund.
Status	In 2013, redBus was acquired by Naspers owned Ibibo.com for a reported $100 million

Mr. Phanindra Sama

Phanindra ("Phani") Sama, co-founder of redBus, says VC investors helped shape the company right from inception - when the founders approached them with just an idea. Frustrated by the difficulty in booking bus tickets from Bangalore during a peak holiday, Phani along with two of his college mates founded redBus in 2006 with the mentoring support of the Charter Members of the TiE - Bangalore (the local chapter of the global entrepreneurship support organization, The Indus Entrepreneurs).

Between 2007 and 2011, the company raised a total of INR 42 crore from Helion Ventures, Inventus Capital and Seedfund which helped redBus establish itself as the predominant player in the online bus ticketing sector."We had the idea and the technology skills to build a product, but did not know anything about company building including go-to-market, sales, hiring and managing a team, etc. All those inputs came from the VCs," Phani says. "In our initial business plan, we had proposed quite bit of spending towards marketing. But Seedfund pointed out that great Internet businesses like Google had never needed to advertise and had grown mainly by making their products remarkable. They struck out the entire marketing cost row!" Phani recalls. This encouraged redBus to look at marketing from a different perspective – as a result of which,it focused more on the product, efficiency of conversion and the customer experience – all of which encouraged repeat purchases by existing customers.

Encouraged by its VCs, redBus chose to be capital efficient and did not use discounting as the main way to sell the online model. Instead it leveraged technology based innovations such us allowing customers choose their seats (including offer preferences of Window / Aisle, Ladies Seats, etc.), pickup point locations, etc. – all of which conveniences were not available offline. The VC investors also provided strategic inputs on issues like whether the company should go international;whether it should expand beyond bus tickets; whether and how to work with government run bus operators; etc. "Since investors work with a lot of companies over several years, they bring to the table their experience and perspective on such dilemmas," Phani says.

Lessons Learnt

If at all he could rewind the clock, Phani feels the founders would have been more thoughtful about the extent of their equity dilution. It might also have been a good idea for the founders to have sold a small portion of their shares via a secondary transaction (to newer incoming investors) – since that would have provided them the financial security to take on extra risk and aim the company for even higher goals.

Given the explosion in the number of investors in recent years, Phani recommends entrepreneurs choose which investor they partner with very carefully. Apart from the fundamental market knowledge and ethical aspects, there should be match between the outlook of the entrepreneurs and the style of the PE/VC investors. A mismatch on this front could even end up killing the company. In the case of redBus, the frugal nature of the founders found a match in the specific investors the company attracted. But the approach and investors that was right for redBus might not have worked for a horizontal e-commerce company. Given a choice, it is good to partner with funds which have a larger corpus – so that they can be relied on to provide larger follow-on funding based on the company's requirement, Phani signs off.

Vectus Industries Limited

Founded	1989
Profile	Promoted by Atul Ladha and Ashish Baheti, Vectus is a leading player in the plastic water tanks, pipes and fittings business for domestic plumbing applications. It is a global pioneer and market leader in blow moulded water tanks. Today Vectus retails at over 15,000 counters pan-India with manufacturing at 13 locations for a revenue of Rs 600 crores.
Investor(s)	Creador
Investment Summary	In June 2014, the company raised INR 100 Cr in Growth capital funding from Creador Capital.
Status	Unexited

Why did Vectus raise Private Equity capital?

Atul says, "By 2013 we were already growing at over 30% p.a. The market opportunity was overwhelming and we realized the need to augment capital. Being first generation entrepreneurs we had limited capital and the choice was either to curtail our growth ambitions or raise external capital."

Adds Ashish, "We were looking for capital from the right PE partner who are entrepreneurial, share our vision and work with us to take us to the next stage." After a short search, Vectus selected Creador as its partner in early 2014.

How did you choose the PE partner?

"Creador had in-depth market understanding of the building materials segment and we found their vision was in sync with ours. The speed with which they closed the transaction during a crucial period and Anand Narayan's deep empathy for both the aspirations and challenges of an entrepreneur was amazing," recalls Atul.

Creador has also invested in other building material companies and has evaluated the space in India and South East Asia.

What role does Creador play?

Ashish adds, "Creador has been supportive from day-one. They are our sounding board for new ideas and initiatives, at other times they work with our teams to make projects happen. They have brought in analytical rigour and catalyzed implementation of best practices. Creador provides market inputs for new product development & expansion, support on senior recruitments, support on technology initiatives and improve governance aspects. We firmly believe that the partnership with Creador has made Vectus stronger for the long term."

Mr. Atul Ladha

Mr. Ashish Baheti

> "We had two turning points in our life - in 2004, when we merged our businesses to create the Vectus brand and entered the pipes segment, and in 2010 when we innovated blow moulded water tanks."

Say Atul Ladha and Ashish Baheti, the promoters of Vectus.

What are Vectus' plans for growth?

Vectus will continue to add to its product range and expand capacity. In the last two years alone, apart from brownfield expansions, greenfieldplants at Jammu, Trichy and Banmore have come up. Distribution reach is also being expanded and strengthened across India. These initiatives will enable Vectus to continue industry leading growth and more than double its revenue in the next few years.

Equitas Holdings

Founded	2007
2007	Revenue: INR 75 Lakhs
2016	Revenue: INR 1,115 Cr
Profile	Founded in 2007, Equitas grew rapidly to join the list of top five Microfinance Institutions (MFIs) in India, before converting into a Small Finance Bank in 2015. The company believes that being transparent to its customers has been a strong contributor to its building a strong base with 28.8 lakh loan accounts within a relatively short period of time. The company has a presence across 13 states through 500+ branches. Apart from micro loans, Equitas has also ventured into Vehicle Finance, SME Finance and Housing Finance.
Investor(s)	**Impact Investors** - Aavishkaar Goodwell, Bellwether, Lok Capital, Creation Investments, India Financial Inclusion Fund, MicroVentures. **PE/VC Funds** - CLSA Capital, Sequoia Capital India, Canaan Partners, Helion Ventures, Aquarius **Development Finance Institutions** - CDC Group, DEG, FMO, IFC.
Investment Summary	In 2008-09 (despite the prevailing global financial crisis), the company attracted \$23.5 million from Impact Investors including Aavishkaar, Caspian and MicroVentures. Between 2010 & 2014, the company raised as much as \$173 million from well-known mainstream PE-VC firms and DFIs.
Status	In 2016, Equitas became the first Small Finance Bank to become publicly listed-via a highly successful IPO that provided an exit route to its investors. 11 of the PE-VC investors in the company sold shares worth \$217 million as part of the IPO, fetching themselves returns of between 2.15 times to 13.53 times their invested capital.

Mr. Vasudevan P.N.

Diversification and transparency - whether it is in terms of its investor base or its customer base – has stood Equitas in good stead in its journey. The company, which was founded in 2007 to focus on Microfinance, had raised capital from a diverse set of investors - including Impact Investors to Development Finance Institutions (DFIs) to traditional Private Equity & Venture Capital firms - before its IPO in 2016.

Equitas attracted funding from Microfinance focused Impact Investors like Aavishkaar, Caspian-managed Bellwether Microfinance Fund & India Financial Inclusion Fund, and MicroVentures during the 2008-2009 period. These specialist funds had the understanding and confidence in the sector to be able to invest in the company despite the global financial crisis prevailing at that time. Equitas Founder, MD & CEO Vasudevan P N is grateful for the handholding and industry connectivity that these investors provided. For instance, consultants introduced by these investors helped Equitas design its early systems and processes on a pro-bono basis.

The "Andhra Crisis" that rocked Indian Microfinance in 2011 led to a period when no pure financial returns focused investors wanted to invest in the industry. That is the time when the World Bank's private sector investment arm International Finance Corporation as well as the DFI arms of the UK Government (CDC Group) and the Netherlands government (FMO) stepped up to make crucial investments in Equitas. "They came in at a time when no mainstream investor was willing to invest or lend to us and they were also willing to stay for the long run – exactly what we needed," Vasudevan points out. The regulatory crisis also prompted Equitas to diversify its customer base (across various lending products and portfolios) in order to spread its risk and be better positioned to manage the impact in the future.

Mainstream Private Equity investors, apart from being able to provide larger amounts of capital, were able to add significant value during the company's IPO process. Given their experience with IPOs of other investee companies, these investors provided very active help to the Equitas management to navigate the various legal, regulatory and technical aspects. (In fact, Vasudevan describes getting ready to become a publicly traded as almost "a rebirth" for the company.) From selecting the merchant bankers to the pricing of the shares, their inputs were very crucial in helping Equitas pull off the issue successfully.

Did its varied investor base (with their different return expectations and investment horizons) cause any problems for Equitas? Not really, says Vasudevan. From the beginning, the company proactively sent its investors Monthly Reports with exhaustive data and information. There was also an open invitation to investors in case they wanted to learn anything more, Vasudevan says. "In fact, none of the investors ever came back asking for more information than what we had provided," he adds. While three of the investors had representation on the company's Board of Directors, within 10 days of each quarterly board meeting, Equitas organized an Investors Meeting and apprised the other investors as well about its quarterly performance and outlook. This structured process also helped the management team to focus 100% on investor related communication – including via face-to-face meetings – once each quarter without any intermittent distraction.

Appendix: Data Summary

The following tables provide the aggregate data used in the study.

SALES (in INR Cr)

TYPE	2011	2012	2013	2014	2015
PE	277	337	389	438	480
NON PE	1,185	1,492	1,655	1,827	1,899
SENSEX	46,239	58,456	65,864	74,291	76,677
NIFTY	36,624	46,298	52,046	59,363	61,247
NIFTY MIDCAP	25,955	32,928	37,383	42,550	43,089

ASSET (in INR Cr)

TYPE	2011	2012	2013	2014	2015
PE	491	599	702	797	901
NON PE	2,692	3,135	3,601	4,124	4,533
SENSEX	131,686	152,321	174,929	200,410	225,546
NIFTY	101,297	118,203	137,237	157,681	173,381
NIFTY MIDCAP	60,747	71,967	83,121	96,123	105,429

PROFIT (in INR Cr)

TYPE	2011	2012	2013	2014	2015
PE	8	3	4	5	-1
NON PE	106	102	103	109	95
SENSEX	5,719	6,590	6,770	7,783	7,694
NIFTY	4,073	4,618	4,827	5,631	5,772
NIFTY MIDCAP	2,807	2,893	3,066	3,469	3,310

EBITDA (in INR Cr)

TYPE	2011	2012	2013	2014	2015
PE	69	76	91	104	129
NON PE	214	239	260	287	304
SENSEX	10,740	12,543	13,796	15,889	16,674
NIFTY	8,062	9,396	10,325	11,837	12,459
NIFTY MIDCAP	5,439	6,286	6,789	7,954	8,451

Prof. **Thillai Rajan A.**

Thillai Rajan is currently a Professor in the Department of Management Studies at the Indian Institute of Technology Madras. He is also an international research affiliate at the Coller Institute of Venture at Tel Aviv University, Israel, and an Associate at the Mossavar-Rahmani Centre for Business and Government, Harvard Kennedy School, Harvard University. His teaching and research areas include Private Equity and Venture Capital, Corporate Finance, Project and Infrastructure Finance, and Public Private Partnerships. He received graduate degrees from the Birla Institute of Technology and Science, Pilani and completed his doctoral program from the Indian Institute of Management Bangalore, where he received the Jawaharlal Nehru Fellowship for his thesis work.

Prior to joining academia, Thillai had over 8 years of experience in the industry. At IL&FS Investment Managers, he was the manager for Emerging Technologies Fund, an early stage venture fund set up by the Government of Tamil Nadu along with other financial institutions. His job encompassed the entire spectrum of venture investment activity, viz., deal sourcing, investment, monitoring and achieving exit. At Infosys he joined the life sciences business unit that was set up as an incubation initiative of the company. He was responsible for various activities such as marketing, India business development, and business planning of the unit. Subsequently, he became the Operations Manager of the Insurance, Healthcare and Lifesciences division, the second largest division of Infosys Technologies at that time.

In 2005, he was selected for the UK Governments' Chevening Gurukul Fellowship on globalization and leadership at the London School of Economics and Political Science. In 2008 he was awarded the Australian Governments' Endeavour Executive Fellowship to pursue independent research at the Macquarie Graduate School of Management, Sydney. In 2010, he was selected by the US India Educational Foundation for a Fulbright Nehru Senior Research Fellowship to pursue independent research at the Harvard Kennedy School. His work at Harvard Kennedy School focused on private equity investment in the infrastructure sector.

He has published his research regularly in leading national and international journals. Three of his research papers has received the Emerald Literati Network Highly Commended Award. He has received research grants from international organizations such as DFID, AusAID, and 3ie, as well as national organizations such as ICSSR, AICTE, and HSMI. Since 2009, he has been leading the annual publication of the India Venture Capital and Private Equity Report that is being brought out by IIT Madras. Each and every report of the series focuses on different facets of the Indian Venture Capital and Private Equity industry.Some of his teaching recognitions include the Young Faculty Recognition Award at IIT Madras and the Association of Indian Management Schools' C.P. Ramaswamy Aiyar Award.

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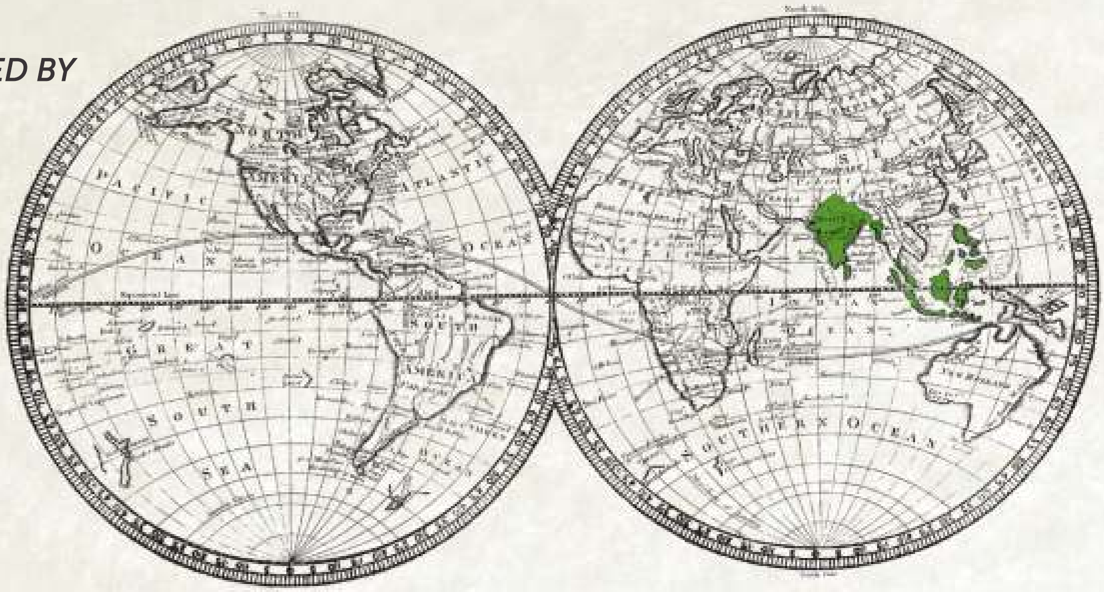

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