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India Private Equity Report 2024

Resilience amid turmoil: Multiple bright spots emerged in India amidst a globally challenging year for the PE-VC ecosystem.

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Executive summary

The year 2023 continued the H2 2022 trend for Indian private equity and venture capital (PE-VC): Deal activity reduced ~35% from ~$62 billion in 2022 to ~$39 billion in 2023, returning to pre-Covid-19 activity levels. This overall slowdown was primarily driven by global factors, including weakened investor sentiment and persistent macroeconomic headwinds, such as high interest rates, softening consumption, and geopolitical tensions.

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The decline in India was largely driven by a ~60% reduction in VC investments due to their exposure to high-growth businesses with less established economic models. PE investments remained comparatively resilient, declining by a more moderate ~20% as large-scale dealmaking ($500M+ deals) persisted for high-quality assets.

Amidst the overall decline in PE-VC investments, traditional sectors remained comparatively resilient, declining moderately by ~15% as investors continued to deploy capital for businesses with mature operating economics and secular growth characteristics.

Within traditional sectors, healthcare investments reached a record high of ~$5.5 billion in 2023 on the back of provider investments surging to approximately three times that of 2022 levels, fueled by ongoing consolidation in multi-specialty providers and the emergence of scale single-specialty assets with attractive business profiles. Advanced manufacturing also witnessed relatively higher activity, with investments growing by ~20% per annum over 2021–23, driven by global supply chain diversification and government incentives. Notable activity was seen in electric vehicle (EV) original equipment manufacturers (OEMs) (with numerous $100M+ deals driven by growing EV penetration) and packaging (with multiple $100M+ deals into companies with 70%+ sales from exports).

Conversely, software as a service (SaaS) and new-age tech investing declined sharply, by ~60%. This decrease in SaaS investment was partly because assets that were well-funded, had strong operational economics, and had high valuations opted to stay out of the market. Meanwhile, investments in new-age tech decreased as investors increasingly prioritized the viability of the business model and proven economic performance.

Despite the slowdown in dealmaking, 2023 was a marquee year for Indian exits. Exit value soared by ~15% to ~$29 billion, accompanied by a rise in exit volume from ~210 to ~340 exits. This was powered by public market sales (notably block trades) which comprised half of exits by value. These sales benefited from the increasingly deep Indian public markets, which outperformed those of most major economies, with a significant increase in domestic investor participation across sectors and companies.

India is playing an increasingly significant role in Asia-Pacific PE-VC activity. It accounted for ~20% of all PE-VC investments in 2023, up from ~15% in 2018. This has led to a rise in capital from both domestic and global/regional funds, who are now diversifying across various sectors and asset classes within India. As existing investors double down on India and new investors enter the market, India-based teams have expanded significantly; scale funds have almost doubled their teams since 2019.

In recent times, as deal flow slows down and interest rates rise, Indian funds are placing more emphasis on portfolio and value creation. This involves increasing the size of operating teams (expected to double from 2019 to 2023 for top funds) and doing due diligences (DDs) holistically to cover operational and technological aspects.

Looking forward, India remains a comparative bright spot, but PE-VC dealmaking is expected to remain tempered compared to 2021/2022 (amidst global macroeconomic uncertainties). Traditional sectors like healthcare, advanced manufacturing, infrastructure, and renewable energy are expected to continue attracting significant investments due to supportive policies and the emergence of large-scale assets across various sub-segments. Global supply chain diversification is poised to selectively benefit Indian manufacturers in pharma active pharmaceutical ingredients (APIs), electronics, and chemicals with competitive global positioning.