Introduction

Welcome to our first of a series of reports on the private equity transactions activity for impact investing in India. We believe that impact investing has now established itself as a key driver of private equity in the India economy. There are a growing number of active domestic and international investors who see the viability of investing in businesses serving the people living at base of the economic pyramid (“BoP”) in India. They are investing in “impact businesses” that are committed to innovation, high-growth, strong profits, and built-in impact on BoP populations. Impact businesses operate in multiple sectors including financial services, healthcare, education, energy, water, agriculture and more. There is a growing consensus that impact businesses have some reduced investor risks (particularly political and customer retention) as they contribute significantly and positively to the communities in which they operate on a consistent basis. We view impact investing as a growth sector.

In this report, we seek to summarize and provide insights on the trends we’re seeing as active day-to-day participants in this market. Our intention is to help share knowledge and be a helpful resource for private equity investors and impact businesses seeking to expand their operations and impact on the BoP in India.

With our first report, we are starting with a look back on 2013. We then plan to release quarterly update reports. You can subscribe to these reports at unituscapital.com.

Executive Summary

In 2013, impact equity investing continued to be an important component of the India private equity landscape comprising 23% of the overall private equity transactions in India. These investments were spread over 80 deals and totaled a quantum of US$ 390 mn.

Some of the key trends in impact equity investing in 2013 included:
- Most investments were in early-stage impact businesses reflecting the youth of this sector;
- Financial services continued to be the leading sector with 22 transactions in 2013;
- Strong showing for agri-business and healthcare with 17 and 13 transactions respectively;
- Significant growth of seed-stage and micro-seed stage investments priming the pump for more investing activity in 2014;
- Participation of new global investors and raising of rupee capital for impact businesses demonstrating growing appeal for investment in impact businesses;
- Some significant exits that will help attract even more investment interest in the impact investing sector.

All of this brings good momentum into 2014 which we expect to be somewhat tumultuous in the first half as the expected Indian national elections transpire. Despite this, we expect to see a 30% increase in India impact investing transactions in 2014.

Investments by Sector

With 22 transactions, financial services saw the highest deal activity in the Indian impact equity segment, followed by agri-business and healthcare, seeing 17 and 13 transactions respectively.

In terms of deal value too, financial services was the leader, with 40% of total investment share. Within financial services, microfinance companies led the pack, with 10 investments, notable ones being Janalakshmi Financial Services, Equitas, Satin Creditcare, and Grameen Koota, plus 3 investments in affordable housing finance companies.

Clean-tech came second in terms of deal value, with 35% share of investments, and healthcare was third, at 12%.
Investments by Stage

Continuing with the trend from last year, two-thirds of the total impact equity investments made in 2013 were in early stage companies.

This is a very positive trend, as it highlights the increasing supply of equity capital for young companies/start-ups, which has traditionally been a problem area.

Investments by Deal Size

In line with the relatively high proportion of impact investments into early-stage impact businesses, deals under US$ 2 mn accounted for more than half of all transactions.

<table>
<thead>
<tr>
<th>Deal Size</th>
<th># of transactions</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$&lt; 500k</td>
<td>14</td>
<td>21.5%</td>
</tr>
<tr>
<td>US$ 500k-2mn</td>
<td>17</td>
<td>26.2%</td>
</tr>
<tr>
<td>US$ 2-5mn</td>
<td>19</td>
<td>29.2%</td>
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<tr>
<td>US$ 5-10mn</td>
<td>9</td>
<td>13.8%</td>
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<tr>
<td>US$ 10-20mn</td>
<td>2</td>
<td>3.1%</td>
</tr>
<tr>
<td>US$ 20-50mn</td>
<td>2</td>
<td>3.1%</td>
</tr>
<tr>
<td>&gt;US$ 50mn</td>
<td>2</td>
<td>3.1%</td>
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Most Active Players

2013 saw more than 62 investors invest/co-invest in impact businesses. Though understandably, impact investors dominated the funding, 18 mainstream financial investors also made investments in impact businesses, showing the growing recognition and relevance of impact businesses.

- **Seed Leader: Unitus Seed Fund**, which makes seed-stage venture investments in startups that create opportunities for large low-income populations, was the leader in seed-stage investments (< $500k) with 8 investments including follow-on investments.
• **Series A/B Leader: Aavishkaar**, a leading early stage impact investment fund, lead the early-stage venture investments segment (US$500k-$5mn) with 8 investments including follow-on investments.

• **Growth Leader: IFC**, a member of the World Bank Group which has a mandate of private sector development in developing countries, were the third most active funds in the impact equity investment space, and led the growth stage segment (>US$5mn) with 6 reported transactions.

• **Advisory Leader: Unitus Capital** led on the advisory side with 13 transactions.

### Emerging Trends

Certain nascent, but positive trends we were very pleased to notice were (i) the confidence shown by investors in microfinance and microfinance-allied sectors, as evidenced by the volume and quantum of transactions, (ii) uptick in investments in agri-business, healthcare and education, (iii) increased inflow of rupee capital into impact investing, (iv) multiple instances of first-time investments by marquee global investors into innovative Indian impact businesses, and (v) successful exits of early investors from impact businesses, and (vi) formation of the Indian Impact Investors Council, which seeks to set standards for impact investing in India and function as the nodal body for impact measurement and reporting, define the boundary conditions for impact investing and create a universally accepted definition of impact investments that aid in standardization of impact measurement methodology and metrics.

Here are some specific transaction highlights in 2013:

• **Record equity investment activity in microfinance**, including Janalakshmi Financial Services raising US$ 56.66mn in the largest transaction in Indian microfinance since the 2010 crisis, and Equitas raising US$ 31.9mn from a group of marquee investors like IFC, FMO, CDC Group and MicroVentures, which marked CDC’s first direct microfinance equity investment in India.

• **Signaling the growing confidence of investors in the microfinance sector** in India, WWB ISIS Fund and IDBI Bank’s investment in Ananya Finance, a microfinance intermediary which lends to MFIs providing loans to low income communities and serves as a link for women with banking institutions, agencies providing managerial and technical support and agencies related to business activities in general. This transaction signaled.

• **KfW’s investment in Invest India Micro Pension Services (IIMPS)**, India’s first-of-its-kind aggregator of regulated micro-pension and long-term micro-saving products for the economically active poor, marked the **first direct equity investment by the German development bank in India**.

• **Within healthcare, ophthalmology is receiving a lot of investor attention** with 6 investments across eye care focused clinics and medical technology companies, notably US$8 mn Series B investment in Forus Health by Accel Partners, Asia Healthcare Fund, IDG Ventures. Forus has developed a unique affordable and portable eye screening solution. Another example is the seed funding in Welcare by Unitus Seed Fund. Welcare provides affordable eye screening services, a trend which is not surprising given that India has the world’s second largest population of visually impaired.

• **Agri-business technology-based solutions saw an uptick**, with investments including Skymet (weather forecasting solutions provider), Reuters Market Light (mobile based agricultural information service), and Eruvaka Technologies (on-farm diagnostic equipment for aquaculture farmers).

• **2013 also saw the emergence of rupee impact investing funds** – a first for the industry. Incube, Charioteer and Unitus Seed Fund obtaining SEBI approval under the AIF regulations – a trend that appears promising.

• **InOpen Technologies**, an Indian education company became the first investee of Benesse Social Investment Facility, a fund established in April 2013 to invest in companies focused on solving social issues in education and child care in emerging Asian countries and Japan. This was a landmark transaction, and the **first time a Japanese education major like Benesse had invested in an early stage Indian education company**.

• **Successful exits** which augur well for impact investors, with Lok Capital and Michael & Susan Dell Foundation getting an exit during the Janalakshmi Financial Services’ investment round highlighted earlier, and Lok Capital getting an exit from Satin Creditcare Network in the company’s US$ 7.6mn investment round in 2013. Lok invested in Satin in 2008.

All of these indicate that the ecosystem for impact businesses is maturing, but arguably more so in microfinance than others, and reaffirms investors’ faith in the potential of this business to create impact and generate returns. Impact investments as a segment is expected to continue growing at 30% in 2014 and expectations for deal activity to remain quite positive.
Methodology and Definitions

The objective of this report is to analyze equity investment activity into impact businesses primarily operating in India.

We have chosen to define impact investments in line with the spirit of the definition stated by the Global Impact Investing Network (GIIN): “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return” encompassing investments in sectors like agriculture, affordable housing, affordable and accessible healthcare, clean technology, financial services and education.

For selecting transactions that are referenced in this report, we have looked at the data on equity investments in BFSI, education, healthcare, technology, agriculture, clean technology and renewable energy, handicrafts and allied sectors. Our sources include Unitus Capital proprietary research and Venture Intelligence data.

For classifying a transaction as an impact investment, we have looked at businesses which either have a significant socio-economic impact on the base of the economic pyramid (“BoP”) populace or environmental impact. We have used McKinsey’s definition of BoP as households with annual income of less than Rs. 2 lakhs (US$3,333) or approximately US$2 per day for a household of 5 people.

For deal value calculations, only investments where the deal quantum was announced have been reported. 2013 refers to calendar year 2013.

We have the following definitions for investment stage:

- **Seed:** Less than US$ 500k
- **Series A:** US$500k to US$2 mn
- **Series B:** US$2 mn to US$5 mn
- **Growth:** >US$5 mn

About Unitus Capital

Unitus Capital is an investment bank specializing in arranging capital for companies benefiting those at the base of the economic pyramid, in sectors including microfinance, health care, renewable energy, agriculture and education. With operations in Bangalore, New York, San Francisco and Sydney, Unitus Capital delivers a range of financial advisory and capital market services to clients across Asia. Since our founding in 2008, Unitus Capital has raised US$950 mn for 48 high-quality impact businesses in India, Indonesia, the Philippines, China and Australia. The capital we have raised for our clients has enabled them to positively impact an estimated 36 mn lives. For more information, see unituscapital.com.

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1. Source: Unitus Capital proprietary research; Venture Intelligence data. Deal sizes available for only 55 transactions, out of the total 80 transactions analyzed.
2. Source: Unitus Capital proprietary research; Venture Intelligence data.
3. Source: Unitus Capital proprietary research; Venture Intelligence data.
4. Source: Unitus Capital proprietary research; Venture Intelligence data.
5. Source: Unitus Capital proprietary research; Venture Intelligence data.
6. Source: Unitus Capital proprietary research; Venture Intelligence data. Round category parameter available for 46 transactions, out of the total 80 transactions analyzed.
7. Source: Unitus Capital proprietary research; Venture Intelligence data. Deal size category estimates available for only 65 transactions, out of the total 80 transactions analyzed.
8. *India Venture Capital and Private Equity Report 2013, Edited by Thillai Rajan A., Department of Management Studies, IIT Madras*