

Reimagining Asia

# INDIA: Private Equity Opportunities in a Rising Economy



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## FOREWORD: REIMAGINING ASIA

The rapid post-pandemic recovery of Asia's economies offers an opportune time for private equity investors to take stock of the changes unfolding across the region. In our recent engagements, we have often heard questions regarding the future of the world's economic engine<sup>1</sup>: Can Asia continue to drive global growth? Will Asian investments continue to generate attractive returns in an unpredictable economic environment?

In this Carlyle Asia Partners thought leadership series, we seek to curate and illuminate the long-term opportunities we are seeing behind the glare of everyday headlines. Our aim is to provide our partners with a complete picture of Asia to help them reimagine the opportunities of tomorrow and underwrite the region's growth story today.

From our vantage point on the ground across Asia – a region that is home to a majority of the world's consumers<sup>2</sup> and predicted to account for half of global GDP by 2040<sup>3</sup> – we see opportunities arising from two distinct global mega trends:

1. **Asia for Asia:** Focused on capitalizing on a massive and fast-growing regional market
2. **Asia for the World:** Aimed at leveraging the region's growing economic stature on the world stage

We believe strong secular trends ranging from rising incomes to rapid digitalization will drive these themes for years to come and serve as Asia's pillars of resilience against an uncertain global economic landscape. As one of the world's largest allocators of private capital, Carlyle has a tradition of pursuing only the best potential opportunities on behalf of our investors and their beneficiaries, and our conviction in Asia's potential to deliver the consistent returns and long-term value our investors seek, remains as strong as ever.

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1. Srinivasan, K., Helbling, T., & Peris, S. (2023, February 20). Asia's easing economic headwinds make way for stronger recovery. IMF Blog.

2. Buchholz, K. (2021, October 22). Asia's consumer class is growing. This chart shows how. World Economic Forum.

3. Tonby, O., Woetzel, J., Choi, W., Seong, J., & Wang P. (2019, July 14). Asia's future is now. McKinsey.

To that end, we are launching this thought leadership series with a report on India, a country where Carlyle has been present since 2005 and one that we believe personifies the “Asia for Asia-Asia for the World” theme, and will offer opportunities for portfolio diversification and value creation to investors globally in the coming months and years.



**XIANG-DONG (X.D.) YANG**

*Managing Director and  
Chairman of Carlyle Asia,  
Co-Head of Carlyle Asia  
Buyouts*



**GREG ZELUCK**

*Managing Director  
and Co-Head of Carlyle  
Asia Buyouts*



**AMIT JAIN**

*Managing Director  
and Head of Carlyle  
India Advisors*

## EXECUTIVE SUMMARY

We believe India offers attractive exposure – in today’s uncertain macroenvironment – to strong underlying fundamentals. These include a large consumer base, favorable demographics, stable political climate, deep capital markets that facilitate public market exits, and a sizable yet fast-growing private equity landscape aided by high-quality management talent, all of which come together to boost confidence and set the stage for a multi-year growth track.

We believe investors can avail of two long-term investment opportunity sets:

1. **India for India:** Focused on consumer, healthcare, and financial services sectors, which in our view stand ready to capitalize on a massive and fast-growing domestic market and an increasingly favorable consumption pyramid.
2. **India for the World:** Focused on sectors poised to cater to global demand, including the large and highly regarded technology services industry, a manufacturing base increasingly crucial to a re-orienting global supply chain, and a fast-growing pharmaceutical industry.

Given the scale, diversity, and complexity of the Indian economy, we see selectivity as critical to successful private equity investing. In our view, control-driven deals – which offer investors the ability to shape outcomes – supported by deep local and global networks, sector expertise and staying power, offer the greatest scope to potentially generate consistent and predictable alpha and build value over the long-term. And it is our belief that Carlyle’s ability to influence the trajectory of businesses and transform outcomes, will be a crucial differentiator and determinant of success.

## WELCOME TO OUR DEEP-DIVE ON INDIA: ASIA'S NEW GROWTH ENGINE

India's performance as the world's fastest-growing economy in 2022<sup>4</sup> reveals a compelling picture of Asia's new growth powerhouse: we see an economy with robust and resilient fundamentals sitting at the nexus of powerful global secular trends.

As India prepares for an economic renaissance, we expect private capital will continue to play a key role in equipping Indian businesses to capitalize on these emerging growth opportunities. We see the private equity market in India evolving from minority-stake investments towards control-oriented investments, driven by what we believe are factors such as generational changes and divestiture by conglomerates. With the current dynamics in developed markets, it is our view that it is increasingly important for institutional portfolios to be investing in India.

### WHAT'S DRIVING THIS GROWTH?

Several business-friendly reforms undertaken by the Modi administration have, in our view, led to a number of strong macro-economic indicators: deep foreign exchange reserves, strong fiscal revenues, stronger bank balance sheets, and resilient credit growth (Figure I). We believe these factors, together, have prepared India to withstand recent global disruptions and economic shocks.

The Indian government continues to enjoy strong approval ratings, helping it to undertake multiple structural initiatives to build out digital infrastructure, such as (i) a uniform nationwide goods and services tax, which is aiding the formalization of the economy,<sup>5</sup> (ii) a biometric data-based unique identity system (Aadhaar), which is increasing penetration of financial services and digitalization of business processes,<sup>6</sup> and (iii) the Unified Payments Interface (UPI), a real-time payment system developed by the National Payments Corporation of India (NPCI),<sup>7</sup> that is promoting the digitalization of payments across the country. In addition, ongoing capital expenditures to expand physical infrastructure, including the network of roads, ports and airports, have improved domestic trade flows such that local consumption now drives approximately 60% of GDP growth.<sup>8</sup>

*With the current dynamics in developed markets, it is our view that it is increasingly important for institutional portfolios to be investing in India.*

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4. IMF. (2023, January). World Economic Outlook Update.  
5. Goods and Services Tax Council. (n.d.). Retrieved April 20, 2023.  
6. Unique Identification Authority of India. (2022). Retrieved April 20, 2023.  
7. National Payments Corporation of India. (n.d.). Retrieved April 20, 2023.  
8. Reserve Bank of India. (2023, January). RBI Bulletin. Refers to FY2021-22 figures.

Figure I.  
India's Economy in Five Charts: Fast Growth, Deep FX Reserves, Improving Fiscal Position and Bank Asset Quality

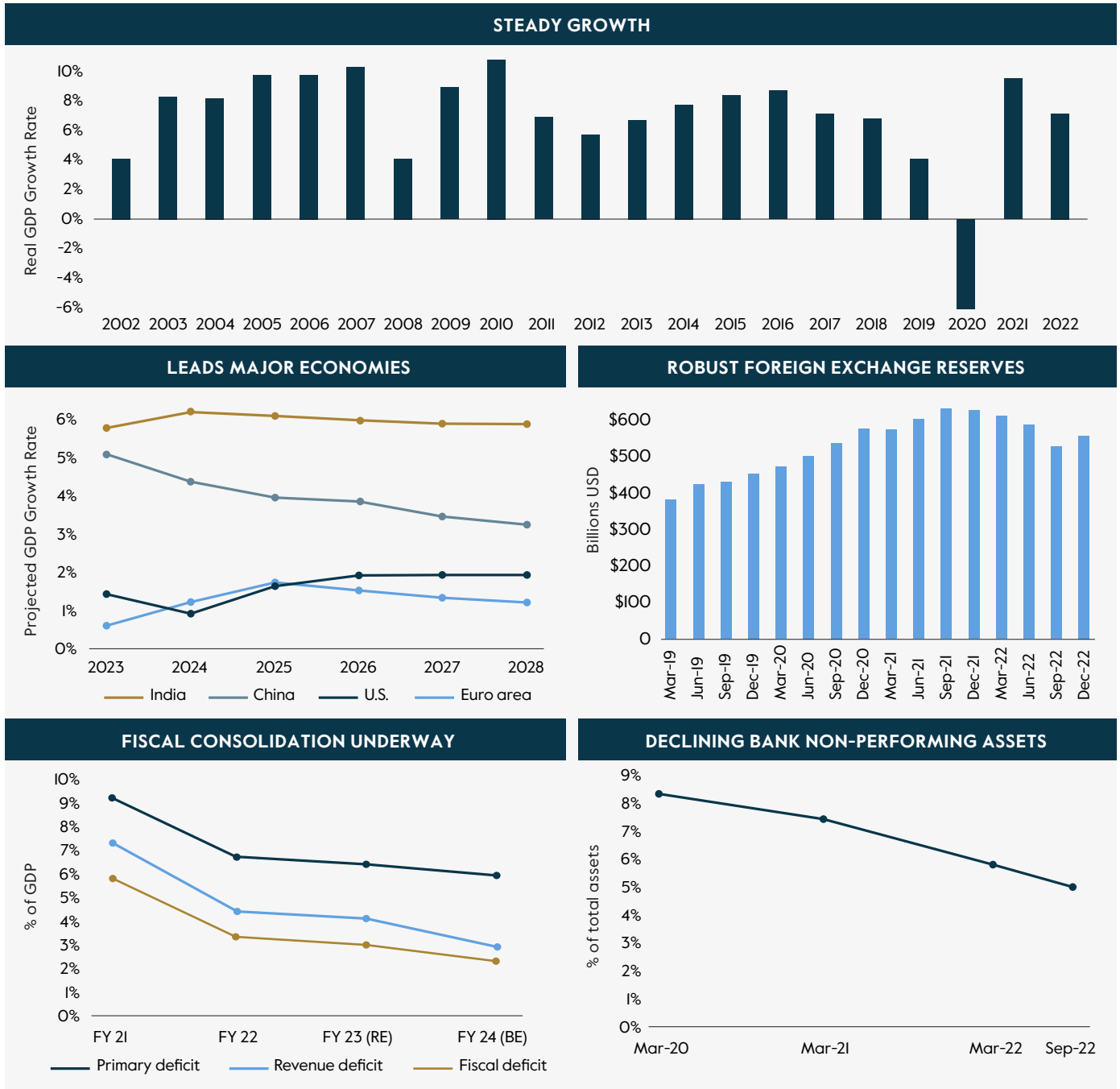


Figure I. Sources: Fiscal deficit figures from India's Ministry of Finance as of January 2023. RE refers to revised estimates and BE to budget estimates. NPA figures from the Ministry of Finance as of January 2023. GDP figures from the IMF Datamapper accessed April 13, 2023 and foreign exchange figures from the Reserve Bank of India as of January 2023. Foreign exchange reserve figures are based on the last week of the quarter and refer to total foreign exchange reserves, consisting of foreign currency assets, gold, Special Drawing Rights (SDRs), and reserve position in the IMF. Foreign currency assets exclude (a) SDR holdings of the Reserve Bank, as they are included under the SDR holdings; (b) investment in bonds issued by IIFC (UK); and (c) amounts lent under the SAARC Currency swap arrangements. There is no guarantee any trends will continue or forecasts will materialize.



The government continues to seek to build on these gains with increased capital expenditure in 2023 and 2024, especially in building out crucial physical infrastructure,<sup>9</sup> to support growth.<sup>10</sup> A stable political climate, reflected in Prime Minister Modi's high approval

ratings,<sup>11</sup> should, in our opinion, further ensure India continues its upward growth trajectory, with annual GDP growth projected to stay at near 6% over the next four years. In comparison, growth in other major economies is likely to stay below 5%.<sup>12</sup>

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9. Sharma, K. (2023, February 1). India pumps up infrastructure spending in last full pre-election budget. Nikkei Asia.  
10. Ministry of Finance. (2023, February). Key features of budget 2023-24.  
11. PM Modi emerges most popular global leader with approval rating of 78%. (2023, February 4). Business Standard.  
12. IMF Datamapper. (2023). Retrieved April 13, 2023.



## SEEKING ALPHA FROM THE NEXUS OF GLOBAL SHIFTS

We believe India's prospects are further bolstered by tailwinds from global transformational trends where we look to seek compelling alpha opportunities over the long-term. In our view, India benefits from four strong, secular trends working in its favor all at once:

**Demographics.** Two-thirds of India's population is below 35 years of age.<sup>13</sup> A large, young and educated workforce anchors India's industrialization efforts with the working-age population far exceeding the number of people in the dependent age group,<sup>14</sup> in contrast to other aging economic giants.<sup>15</sup> We expect this to provide a continuous supply of talent for Indian IT and business services companies and manufacturing plants that cater to global demand.

**Diversification of supply chains.** Supply chains are moving from solving for "Just in Time" to "Just in Case". Meanwhile, we are seeing global corporations looking for an alternative to China increasingly viewing India as a reliable production base – an example being Apple, which is setting up a factory to produce 25% of all iPhones in India.<sup>16</sup>

**Digitalization.** We are seeing a trend where millions of Indians continue to leapfrog from zero telephone access to mobile-based, internet connectivity, driving a revolution in online consumption. The country now has the world's third-largest online shopper base and is set to soon overtake the United States.<sup>17</sup> Booming e-commerce along with regulations on data localization have resulted

in strong demand for data centers, a sector that is expected to see revenues grow at 18% to 19% compound annual growth rate (CAGR) over the next three years.<sup>18</sup>

**Decarbonization.** While currently one of the highest carbon emitters, India's climate change policies are expected to lead to significant changes in the country's energy mix, with investments in renewables growing exponentially over the past few years.<sup>19</sup>

## THE OPPORTUNITY SETS FOR PRIVATE EQUITY

In our view, the secular trends we have referenced here and their scale are creating two distinct investment opportunity sets for private equity investors: **India for India**, focused on domestic demand, and **India for the World**, focused on global demand in industries enjoying significant competitive advantages. In the following sections, we take a deep dive and explore these themes in detail.



13. Deo, P. (2023, February 2). Is India's rapidly growing youth population a dividend or disaster? The Times of India.

14. United Nations Population Division, World Population Prospects (2022). Retrieved April 20, 2023.

15. You, P., Li, G., Tan, C.K., & Obe, M. (2023, March 22). China's aging population threatens a Japan-style lost decade. Nikkei Asia.

16. Reed, J. & Hille, K. (2023, March 10). Apple and Foxconn win labour reforms to advance Indian production plans. Financial Times.

17. Madhukalya, A. (2022, October 12). India has the third-largest online shopper base globally; to overtake US in 1-2 yrs: Bain & Co. Business Today.

18. ICRA (2022, May 24). Massive five-fold increase in capacity in Indian data centres with investments of Rs. 1.05 to 1.20 lakh crore in pipeline: ICRA [Press release].

19. India Brand Equity Foundation. (2022, December 29). India's green energy potential.

## INDIA FOR INDIA: OPPORTUNITIES IN CONSUMER RETAIL, HEALTHCARE AND FINANCIAL SERVICES

Disposable incomes of Indian households are rising, leading to private consumption becoming the single-biggest driver of growth today.<sup>20</sup> At the same time, overall consumption trends are expected to receive a huge boost as regulatory reforms bring consumers from India's massive unorganized sectors into the organized sector.<sup>21</sup>

We expect to see the same or similar trends witnessed in other fast-growing developing economies (i.e., China) emerge in India. In under a decade, middle-income earners are expected to come to represent the largest income group in India, with dramatically fewer households at the lowest income segment (Figure 2). As the country rises up the wealth ladder, we believe

it will likely lead to major growth opportunities in the consumer, healthcare and financial services sectors.

### THE IMPACT OF A CONSUMER SHIFT TO LOCALIZATION AND PREMIUMIZATION

We expect to see consumer preferences shift from mass undifferentiated products and services to brand-based, premium versions offering unique customer experiences and well-defined value propositions. And innovation and localization will be key, in our view, to scaling businesses in a more competitive landscape as consumers look to assert not only their spending power, but their identities as well.

Figure 2. An Expanding Middle Class

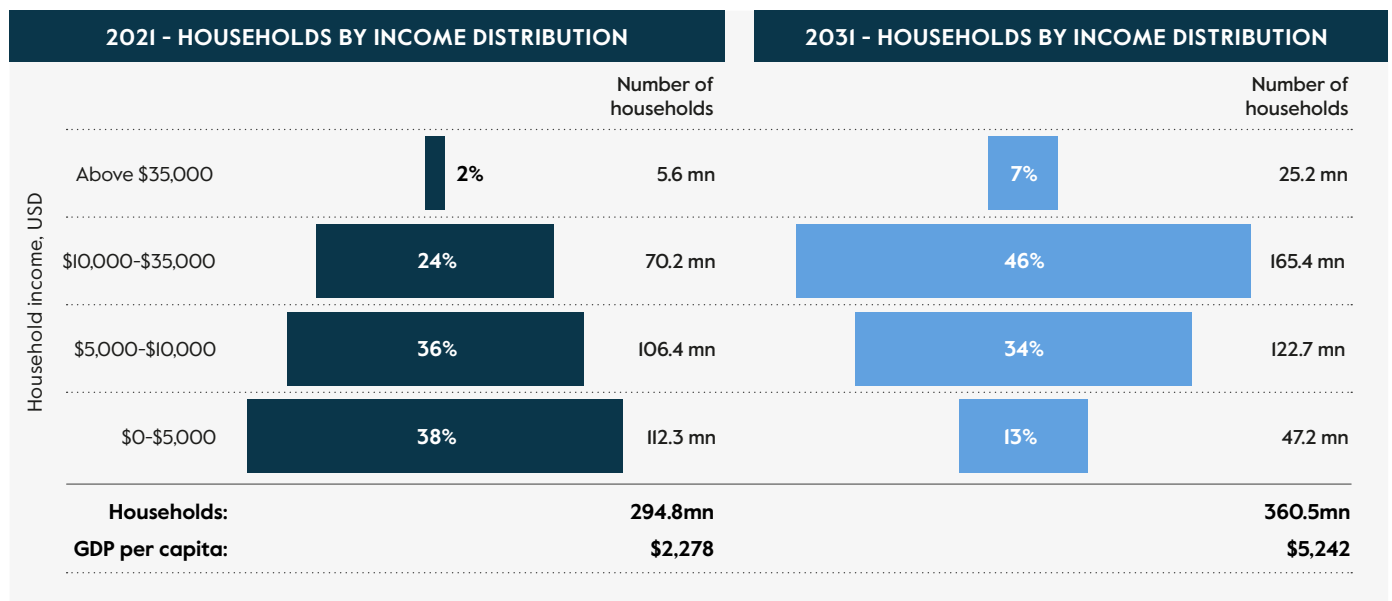


Figure 2. Source: Morgan Stanley Research as of October 31, 2022. There is no guarantee any trends will continue or forecasts will materialize.

20. Reserve Bank of India. (2023, January). RBI Bulletin.

21. Morgan Stanley. (2022, October 31). Why this is India's decade.

*We expect to see consumer preferences shift from mass undifferentiated products and services to brand-based, premium versions offering unique customer experiences and well-defined value propositions.*

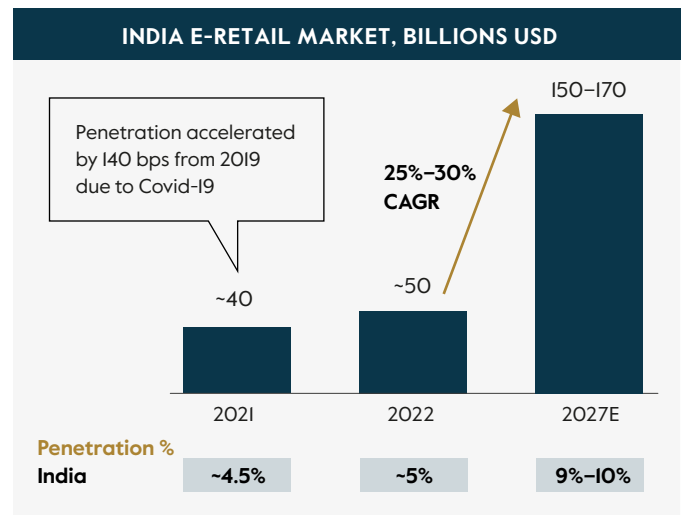
**Innovation is key to success.** We are seeing homegrown brands investing in the personalization of products and services to grow market share and gain customer loyalty. One example is VLCC, a skincare and wellness company and a Carlyle portfolio company in India that has grown to become a regional chain<sup>22</sup> while catering to Indian aesthetics. At the same time, we observe that the Indian consumer is no longer content with “good enough” products, instead seeking more choices and features. We believe this means the ability to innovate will be a key differentiator for success, and building innovation engines and culture at these companies present a strong opportunity for control-oriented investors.

**Trickle-down effect.** Over time, we expect this trend of premiumization to spread across the country as wealth creation expands beyond the metro regions to second-tier cities. In turn, we expect this to open opportunities in areas such as logistics, supply chain optimization and other industries.

**Long tail of opportunities.** Layered upon all of this, we believe, is the rapid adoption of digital technology. India’s online retail market is estimated to at least triple in size to between \$150 billion and \$170 billion by 2027 (Figure 3).<sup>23</sup> We see a long tail of opportunities for businesses across the consumer ecosystem – mainly in

production, distribution (fulfillment centers, logistics services), financing (digital banking services, digital payments), and digital infrastructure.

Figure 3.  
E-Retail Market Set to Triple in Five Years



## FINTECH REVOLUTION FUELS CONSUMPTION AND INVESTMENTS

We’re seeing India’s move to a cashless society being enabled by the government’s focus on digital inclusion and supported by programs such as Digilocker, e-KYC and GSTN,<sup>24</sup> and the rapid scaling up of digital payments platforms like UPI.

Figure 3. Source: Bain & Co. “How India Shops Online 2022.” October 2022. Penetration represents e-retail as a percent of total retail. There is no guarantee any trends will continue or forecasts will materialize.

22. Success story behind VLCC’s founder Vandana Luthra. (2023, April 16). Fincash.

23. Bain & Co. (2022, October). How India shops online 2022.

In turn, we believe these developments have attracted investments and innovations from the private sector and created a new market for traditional lenders as millions of mobile transactions pass through their systems. A staggering six billion payment transactions on average were handled by UPI monthly in 2022 – or 139,000 transactions per minute across more than 300 banks<sup>25</sup> – and Yes Bank, a portfolio company of Carlyle, has the highest market share (38.6%) in UPI merchant payments in India.<sup>26</sup>

We see that trends such as growth in consumption and the digitalization of payments can help create heightened demand for credit products, such as home loans and credit cards, as was the case with Carlyle’s investment from 2017 to 2022 in SBI Card – the second-largest credit card issuer in India<sup>27</sup> – delivering strong growth. At the same time, we have also observed deals in asset management, private wealth and insurance emerge as companies seek to unlock household savings traditionally held in cash or hard assets and channel them into capital market investments.

Over the last few years, millions of Indians have opened securities trading accounts, signaling the increasing maturity of retail investors (Figure 4). The number of active accounts has also grown<sup>28</sup> – an important metric because domestic flows can prop up the local stock market when foreign funds flow out. In our view, these trends are also conducive for initial public offering (IPO) exits over the long run.

We believe growth in the consumer retail, healthcare, and financial services sectors will be fueled by the confluence of secular trends, including higher spending on infrastructure, a stable political environment and increasing affluence across the population that will help build a strong consumption pyramid. From our perspective as a private equity investor, we prefer partnership deals over control stakes in credit businesses – given the cost-of-funding advantage that large partners such as state-owned banks like State Bank of India and Punjab National Bank enjoy – a strategy that we believe has demonstrated to be rewarding in our recent exits.

Figure 4. More Indians Are Trading Equities

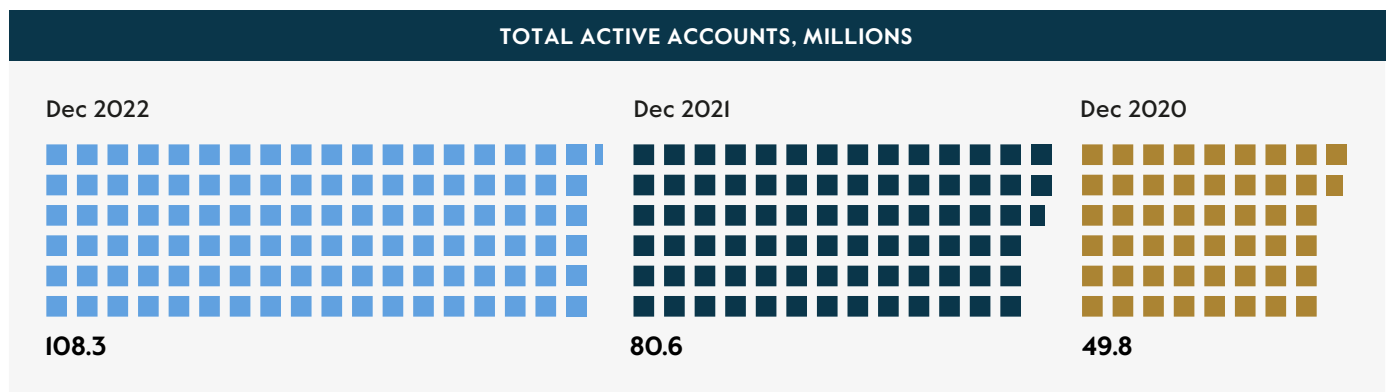


Figure 4. Source: NSDL, CDSL as of 31 December 2022. There is no guarantee any trends will continue.

24. Morgan Stanley. (2022, October 31). Why this is India's decade.

25. National Payments Corporation of India. Products statistics. Retrieved April 20, 2023.

26. Yes Bank. (2023, January 21). Investor presentation. Retrieved April 20, 2023.

27. Kapoor, S. (2022, August 25). SBI tops chart in debit card market, HDFC leads credit card. Economic Times.

28. NSDL and CDSL (2022). Depository statistics. Retrieved April 20, 2023.

## INDIA FOR THE WORLD: OPPORTUNITIES IN TECH, MANUFACTURING AND PHARMACEUTICALS

Exports may not have been a primary growth driver for India’s economy in the past but we believe that is changing, in part due to the “Make in India” program started in 2014 to rejuvenate the manufacturing sector and the diversification of global supply chains that has occurred more recently. The government has also launched a Project Linked Incentive (PLI) scheme worth \$24.5 billion offering subsidies for setting up small and medium manufacturing units in select sectors.<sup>29</sup> With domestic production ramping up, India’s global export market share is projected to more than double to 4.5% of world exports by 2031, representing a \$1.2 trillion export opportunity.<sup>30</sup>

We expect the traditional export bastions of information technology (IT) services and pharmaceuticals will continue to benefit as domestic companies take advantage of

technological advances and global shifts to grow market share or create new markets for innovative products. Meanwhile, we are seeing young and nimble Indian companies achieving global market leadership in niche but critical industry areas such as healthcare reimbursements, artificial intelligence (AI), machine learning (ML) services, and engineering research and development (R&D).

### IT SERVICES: NEW AGE SOLUTIONS DRIVING CONTINUED GROWTH

India is increasingly seen as the world’s “office”,<sup>31</sup> catering to an over \$1 trillion global IT services industry. Accounting for about a 55% market share of offshored global IT spend,<sup>32</sup> the Indian IT services sector has been a compounding story, with the sector growing approximately nine-fold between 2005 and 2022 (Figure 5).<sup>33</sup>

Figure 5. India’s IT Services Industry Has Rapidly Grown

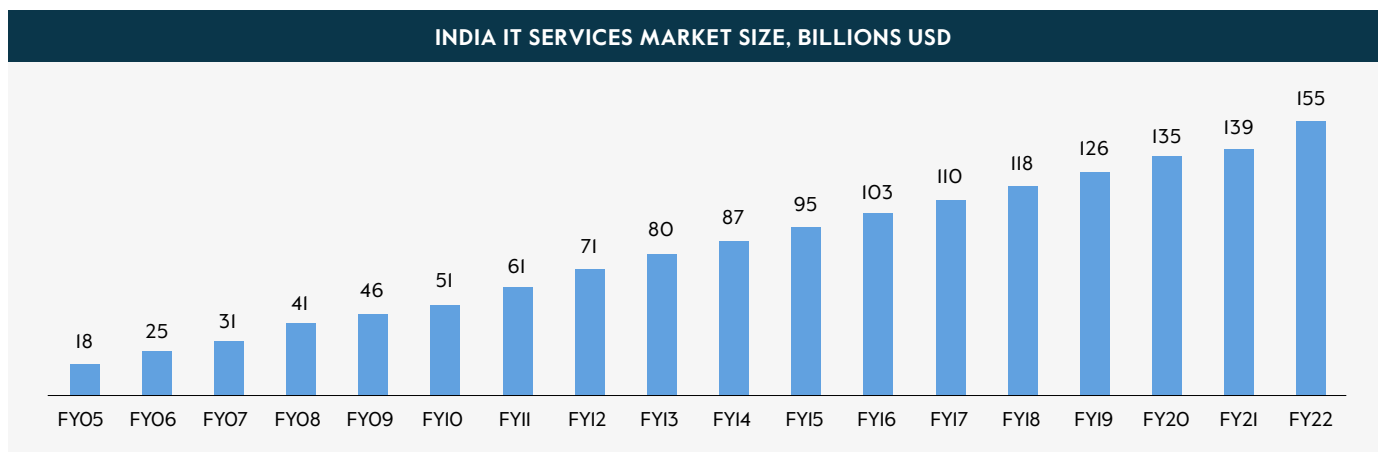


Figure 5. Source: Bain & Co as of April 2023. There is no guarantee any trends will continue.  
 29. Invest India. (2020, March). Production linked incentive (PLI) schemes in India. Retrieved April 20, 2023.  
 30. Morgan Stanley. (2022, October 31). Why this is India’s decade.  
 31. India can be ‘world’s office’ if China is ‘world’s factory’: Uday Kotak. (2020, May 24). Business Today.  
 32. Bain & Co. proprietary analysis prepared for Carlyle  
 33. Ibid.

Aiding this growth, in our view, is India's large and high-quality talent pool available at a competitive cost to satisfy the demands of fast-growing segments such as digital product engineering, cloud transformation, data analytics, and AI/ML services.<sup>34</sup> Customers are increasingly preferring to work with experienced technology players with strong domain knowledge, particularly in industries such as healthcare. Additionally, we believe India is poised to become a leading global hub for the SaaS (software as a system) ecosystem and that there are several fast-growing horizontal and vertical-led SaaS businesses with the potential to leverage global networks for future growth. Indian engineering R&D talent is, in our view, also at the forefront of new product development and innovation across industries such as in automotive, aerospace, energy, technology, and healthcare.

We believe IT services in India is preferred by global private equity firms for the following reasons:

1. Global scale and demonstrated growth track record
2. Long-term customer base with predictable dollar-denominated revenues with local currency costs
3. Asset-light businesses with high operating cash flows that enable acquisition leverage
4. Deep management talent built over decades

Sponsors have consummated large control transactions in this sector with a cumulative deployment of \$22 billion over the last three years, of which approximately 10 deals had an equity investment size of over \$500

million.<sup>35</sup> Investments in this sector have been well rewarded – with 12 exits from 2015 onwards having been considered successful outcomes.<sup>36</sup>

We believe global private equity firms can have a competitive advantage over certain regional and local players in this sector due to their ability to add value through a global network of relationships for customer introductions, channel partnerships, revenue growth and accretive M&A. For example, Carlyle has been able to add \$93 million of business for Hexaware through our network of relationships within the first 18 months of our ownership.



25%

**Manufacturing sector's share of GDP to increase by this amount by 2025**

\$1.2 trillion

**Projected value of India's global export market share by 2031**

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34. Morgan Stanley. (2022, October 31). Why this is India's decade.

35. Carlyle analysis, as of December 31, 2022

36. Bain & Co. proprietary analysis prepared for Carlyle

## PHARMACEUTICALS: FROM VOLUME TO VALUE

India's pharmaceutical industry has grown at an average of 9.5% over the last five years.<sup>37</sup> It is a predominant exporter of active pharmaceutical ingredients (APIs), produces a fifth of the world's generic drugs across dozens of categories, and accounts for 60% of global vaccine production.<sup>38</sup> While already a global player, the industry has set its sights on tripling its export market share by 2030 (Figure 6).

We believe the industry is also well-positioned to capitalize on rising demand for affordable drugs and move up the value chain; and key to this push are recent government incentives, as well as investments in R&D and overseas acquisitions by local companies. Meanwhile, large global pharmaceutical majors have set up sizable R&D centers in India<sup>39</sup> to capitalize on the government incentives, a skilled work force, and world-class ecosystem offered by the country.

Furthermore, we see India emerging as an alternative producer of bulk drugs otherwise sourced from China. A key development on this front is the creation of three mega bulk-drug manufacturing centers, which would create an ecosystem of common infrastructure facilities and help reduce manufacturing costs.<sup>40</sup> This creates investment opportunities in India-based export businesses with sizable revenue growth potential as customers re-orient and diversify their supply chains.

At the same time, digital transformation within the global healthcare industry also continues to grow rapidly, and we believe that leading health-tech providers in India will play an increasingly important role working with global healthcare entities to help them digitally transform their business processes. Carlyle's investment in Indegene, an enterprise health-tech solutions provider, is an example of this investment conviction.

Figure 6. India's Pharma Exports to More than Treble by 2030

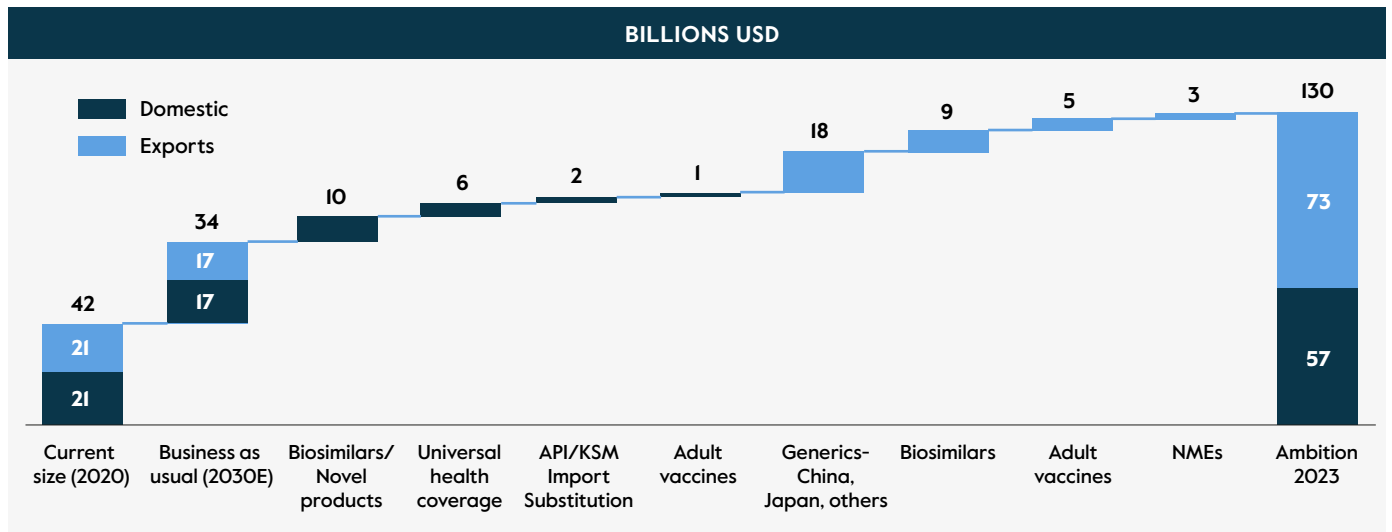


Figure 6. Source: EY FICCI, "Indian Pharmaceutical Industry 2021: future is now," February 2021. There is no guarantee any trends will continue or forecasts will materialize.

37. Ministry of Chemicals & Fertilizers, Department of Pharmaceuticals. (2022). Annual report 2022-23.

38. Ibid

39. Baxter announces global pharmaceuticals R&D Centre in Ahmedabad. (2022, October 18). Economic Times; Chandrababu, D. (2022, May 5). Pfizer sets up global drug development centre in Chennai. Hindustan Times; Merck India inaugurates its R&D Excellence Centre in Bengaluru. (2022, September 2). Economic Times.

40. Press Information Bureau. (2022, September 1). Centre grants 'in-principle' approval of three bulk drug parks to Himachal Pradesh, Gujarat and Andhra Pradesh [Press release].



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S.W.A. under cargo beam  
S.W.A. under spreader  
Head clearance



*The next few years could be pivotal for private equity in India as investors recalibrate their pan-Asia strategies to sharpen their focus on opportunities in the country, particularly as appetite for majority stakes has increased.*

## **ADVANCED MANUFACTURING: A GROWING FOCUS AREA**

We are currently also seeing a more broad-based shift across the manufacturing sector in India, which generated about 17% of the country's GDP before the pandemic.<sup>41</sup> Historically focused on the domestic market, and we believe held back by underdeveloped infrastructure and supply chains, we expect India's government to scale up advanced manufacturing by harnessing cutting-edge technology and leveraging geopolitical factors that make India an attractive alternative production hub in the region – to boost the sector's share of GDP to 25% by 2025.<sup>42</sup> Individual states in India are also pushing to develop their advanced manufacturing sectors<sup>43</sup> while global corporations are preparing for a push in the same direction,<sup>44</sup> in turn creating a market for advanced materials.<sup>45</sup> We view this most visibly in the manufacture of automotive components, consumer electronics and specialty chemicals.

## **DISCOVERING CHAMPIONS: INDIA PRIVATE EQUITY AT A PIVOTAL MOMENT**

Since 2018, it is estimated that private equity investments in India have returned approximately \$100 billion<sup>46</sup> and India has defied the general decline in private equity deals across Asia Pacific, increasing its share of total deal value in 2022 by 23% over the 2017-2021 average figure.<sup>47</sup>

Looking ahead, we expect the next few years to be pivotal for private equity in India as investors recalibrate their pan-Asia strategies to sharpen their focus on opportunities in the country and as appetite for majority stakes increases.

This can pave the way for more opportunities to invest in unique domestic business models. Additionally, we see high-performing CXOs from multinational corporations (MNCs) across sectors increasingly keen to take up management positions at companies where private equity firms are the controlling stakeholder, so they can create long-term value.

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41. McKinsey. (2020, October 30). A new growth formula for manufacturing in India.

42. US Department of Commerce, International Trade Administration. (2022, March 18). India's advanced manufacturing sector.

43. Punjab State Council for Science & Technology. (n.d.) Retrieved April 20, 2023.

44. Economist Impact. (n.d.). Making India a manufacturing powerhouse.

45. Rao, S. (2023, March 9). Emergence of advanced materials across key manufacturing sectors in India. EY India.

46. Bain & Co. (2023, April 19). India private equity report 2023.

47. Bain & Co. (2023, March 28). Asia-Pacific private equity report 2023.

## KEYS TO SUCCESSFUL INVESTING IN INDIA

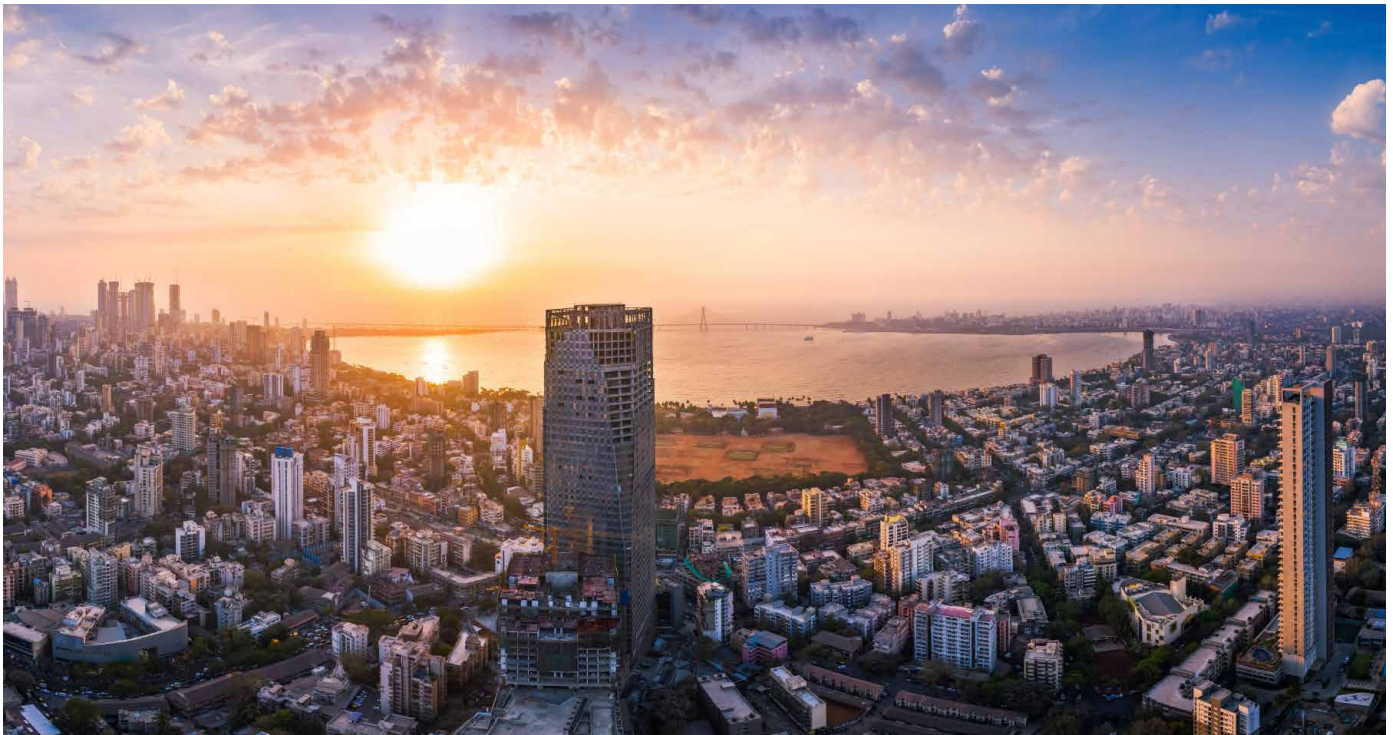
The opportunities and potential notwithstanding, we recognize that India can be a complex market to navigate for private equity investors given its unique characteristics, such as relatively higher equity valuations and historical exit challenges. We believe deep local knowledge combined with global expertise, and a disciplined and patient strategy focused on carefully balancing risk and returns, are key to finding highly rewarding investments.

Carlyle's approach is designed to be selective and identify companies that are strategically well-positioned in sectors primed to benefit from India's long-term growth arc and where our in-depth sectoral expertise and comprehensive global network can build value over

time. This helps us underwrite a strong value creation thesis while evaluating deals.

**Sound unit economics.** In our view, being in the right sector is no guarantee of success. If the business does not deliver appropriate unit economics and we do not fully understand the business model, it is unlikely to turn out to be a rewarding investment. This fundamental calculus cannot be avoided.

**Alpha generation with value creation.** In our view, whether or not to invest in a company crucially hinges on whether we, as stakeholders, believe we can meaningfully add value to the business. This is where we seek to deploy our global sector expertise to identify



*It is our view that the market is too big and too important to ignore for investors seeking secular growth in an uncertain global economic environment.*

areas for significant value creation and implement an execution strategy to achieve that. We believe our global footprint and experience offer the ability to develop ideas and solutions that have worked in other markets with a similar growth path, as well as provide access to teams with a successful track record.

**Strong management team you can lean on.** We believe that getting the execution right is imperative for generating attractive returns. In our experience, it is important to work with quality partners that are aligned with your investment thesis. We also believe having a local network of top-caliber CEOs/CXOs who can be called upon to helm a portfolio company when needed is important – and a strategic differentiator for Carlyle in India.

**Valuation discipline.** Relative to their sectors' publicly listed peers, we believe select Indian companies offer attractive risk-return profiles despite the market's propensity for premium pricing. Investors need to conduct a thorough valuation analysis and be disciplined in adhering to their investment criteria.

**More options to exit.** In our experience, deal exits in India have vastly improved over time, driven by access to

public markets (via IPOs), sponsor-to-sponsor trade and strategic sales. We have successfully led five portfolio companies to a public listing in India, and to the extent that the industry and capital markets mature over time and through investment cycles, we believe the options for exits will correspondingly increase.

While the private equity industry in India is relatively young, we see growing confidence from both global institutional investors looking to back businesses in the country and management teams ready to operate in sponsor-backed companies, as well as Indian companies seeking transformational capital. However complex and dynamic the investment environment is in India, it is our view that the market is too big and too important to ignore for investors seeking secular growth in an uncertain global economic environment.

We believe a patient and deliberate approach has rewarded Carlyle Asia favorably over 18 years in India. This continues to remain at the core of our strategy as we continue to identify new opportunities and work with our portfolio companies to help them reach their full potential, and as we ultimately seek to deliver compelling returns for our investors in one of the world's fastest-growing large economies.

## PRIVATE CAPITAL AT WORK: ILLUSTRATIVE LIST OF CARLYLE PORTFOLIO COMPANIES IN INDIA

### CONSUMER PRODUCTS

**VLCC** is one of the leading Indian skincare and wellness product and services brands that operates an extensive network of 210 clinics in 118 cities in India as well as regions with a significant Indian diaspora, such as the Middle East and Asia.<sup>48</sup> In business for over three decades, the company is seeking to capitalize on India's changing demographics, such as increasing incomes and rapid urbanization, as well as a growing desire for healthier lifestyles. We believe VLCC has been instrumental in revolutionizing the domestic beauty and wellness industry by shifting from an exclusively treatment-oriented business to one that offers both services and in-house manufactured personal care products, and the training and development of personnel. These strategies have helped the company achieve a high customer loyalty rate, with 60% of sales in 2021 coming from repeat customers in India.<sup>49</sup> \*

**Varmora Granito** is one of the leading and fast-growing tile and bathware brands. Since its founding in 1994, the company has grown its product line from ceramic tiles to faucets, kitchen sinks and high-grade plastic. We believe this diverse product portfolio and a strong national distribution network - with more than 5,000 retail outlets and 700 dealers - place the company in a strong position to serve the country's rising middle class and growing demand from the housing and construction sectors.<sup>50</sup> Having achieved a solid foothold in India, Varmora now seeks to become the world's largest manufacturer of ceramics - it currently exports to more than 70 countries and has showrooms in 12 markets across Europe, Africa, South America and Asia.<sup>51</sup> ^

### FINANCIAL SERVICES

**Yes Bank**, in our view, is a successful turnaround story in India's financial services industry. Once hobbled by bad loans, most of the nonperforming assets have now been removed from its balance sheet. Since being recapitalized and restructured under new management, we believe the mid-sized lender is well-positioned to expand its retail and transaction banking businesses in line with India's economic growth. The bank is also seeking to strengthen its position as a digital payments leader, processing nearly every third digital transaction - or six billion a month. Yes Bank now ranks first on UPI, India's largest payments platform, and is also one of the pilot partners of the launch of the digital rupee, issued by the Reserve Bank of India as a central bank digital currency.<sup>52</sup> ^

**Legend:** ^minority stake as of April 20, 2023 \*majority stake as of April 20, 2023

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48. Carlyle buys majority stake in India's VLCC for \$300 mln - sources. (2023, January 10). Reuters.

49. SEBI (2021, August 13). Company filing.

50. Carlyle. (2022, June 28). Carlyle to acquire a strategic minority stake in Varmora Granito to build a leading tile and bathware platform in India [Press release]; Varmora website. (n.d.). Retrieved April 13, 2023; India Brand Equity Foundation. (2022, November). Indian real estate industry.

51. Varmora website. (n.d.). Retrieved April 13, 2023.

52. Yes Bank. (2023, January 21). Investor presentation. Retrieved April 20, 2023.

## PHARMACEUTICALS

**SeQuent Scientific** is a global player focused on products for livestock, poultry and companion animals, and is India's only pure-play animal health company. Under the Alivira brand, it is one of the world's largest producers of anthelmintic APIs and one of the largest producers of veterinary APIs in India. The company has focused on R&D and acquisitions to expand its product line and global market share.<sup>53 \*</sup>

## BUSINESS SERVICES

**Hexaware** is a global IT and consulting services provider that leverages automation to help business transformation. With 54 offices in 19 countries, Hexaware's strategic focus areas include digital product engineering services, cloud transformation services for large global enterprises, and growing its AI and business automation solutions services.<sup>54 \*</sup>

**Nxtra** is one of the largest data center providers in India. In operation for more than 20 years, the company has expanded to 120-plus locations and has a capacity of more than 180MW with a strong base of over 400 hyperscale and enterprise customers.<sup>55</sup> In line with Carlyle's focus on ESG metrics, especially the push towards decarbonization, Nxtra's business is committed to securing more than 50% of its power requirements through green energy in the next 12 months and reach net zero by 2031.<sup>56 ^</sup>

**Indegene** is an enterprise health-tech solutions provider that helps biopharmaceutical, emerging biotech and medical device companies develop products, take them to market, and drive sales throughout their lifecycle. The company leverages its deep healthcare and technology expertise to offer digital-first solutions for the commercial, medical, regulatory, and R&D operations of the life sciences industry. More than two-thirds (70%) of Indegene's total operating revenues for FY2020, 2021 and 2022 came from 19 of the world's top 20 biopharmaceutical companies by revenue. With hubs in North America, Europe and Asia, Indegene has also invested in developing in-house AI and ML platforms to offer solutions at scale worldwide.<sup>57 ^</sup>

## LOGISTICS

**Delhivery**, a courier startup founded in 2011, has grown into India's largest fully integrated logistics provider. Taking advantage of India's fragmented logistics market and the low-tech nature of established players, Delhivery has invested significantly in technology and automation in its warehouse and sorting facilities and offers a full range of logistics services from express parcel delivery to freight services.<sup>58 ^</sup>

**Legend:** ^minority stake as of April 20, 2023 \*majority stake as of April 20, 2023

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53. Sequent website (n.d). Retrieved March 30, 2023.

54. Hexaware website (n.d). Retrieved March 30, 2023.

55. Airtel's arm infusing Rs 600 cr to build east India's largest data center. (2022, November 22). Business Standard.

56. Nxtra website. (n.d). Retrieved April 20, 2023.

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58. SEBI. (2022, May 4). Company filing; Delhivery website (n.d). Retrieved April 3, 2023.



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