

Q2

o3capital

The Indian private equity market has shown slow growth during Q2 FY2012, reflecting the global economic uncertainty and subsequent low investor confidence. Investors are now seeking fundamentally stronger investments that provide income and steady growth, rather than capital gains. While strategic investments continue to be of interest, especially in the context of outbound investment opportunities where large Indian companies seek to acquire value assets abroad, the overall investing environment seems to have reacted to the weak economic environment, strong inflationary pressures and moderating growth.

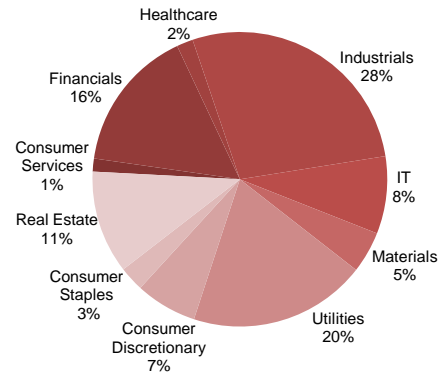
Investment Activity

With the economic situation in the West continuing to reflect slow improvement, the Asian markets have caught the sneeze as the decoupling theory struggles to hold ground in the current crisis. The complex interconnectivity with developed economies has significantly dampened investor confidence as fear of the unknown continues to negatively impact Asia, including India.

Aiding the situation is the slowing GDP growth which moderated to an 18 month low of 7.7% in Q1 (April-June) from 8.8% over the comparable period last year. Additionally, the RBI's steady interest rate hikes since March, 2010 to control persistent inflationary pressures, are yet to see its complete impact. This, together with the display of slow decision making at the Centre, in the wake of the popular Anna Hazare national upheaval, has added to the negative sentiment reflecting in the weak currency and stock market scenario.

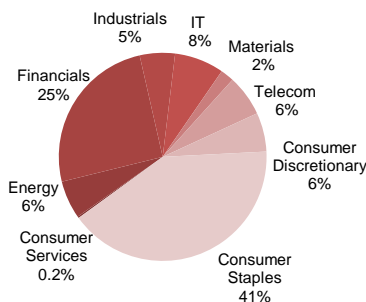
As a result, the investing environment in India has weakened over last quarter with overall deal flow reducing over Q1. Private equity investments declined by 21% to USD 2.6 billion across 104 transactions, in comparison to USD 3.3 billion across 145 transactions in Q1. Similarly, a total of 168 transactions were announced in the M&A segment, with outbound transactions being most affected, declining significantly from USD 7.7 billion in Q1 to USD 3 billion in Q2 – as a result of the weak global market. Domestic transactions however, grew marginally from USD 1.3 billion to USD 1.6 billion in Q2.

Q2FY2012 Private Equity Deal Value by Segment (USD 2.6 billion)

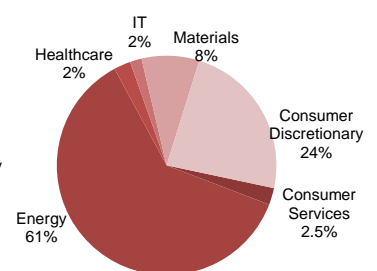


Q2FY2012 M&A Deal Value by Segment (USD 5.6 billion)

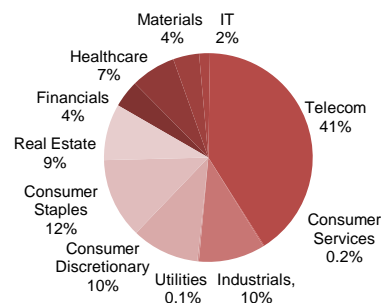
Inbound Transactions (USD 1.1 Billion)



Outbound Transactions (USD 3.0 Billion)



Domestic Transactions (USD 1.6 Billion)



Source: VCCedge, News Articles; The deal numbers include transactions that were concluded at undisclosed values

o3 Capital Quarterly Sector Coverage – Single Speciality Hospitals in India

Background:

Till recently, organized private sector healthcare models in India were largely one-dimensional with a focus on multi-specialty tertiary care in metros, supplemented with a few secondary and primary care set-ups. However challenges such as increasing competition in metros, rising real estate costs and tougher operating environments have paved way for exploring new and innovative business models that tap into less penetrated geographies and patient segments.

Some of the innovative formats include single specialty tertiary hospitals, day care centres, secondary care focused models etc.

What are Single Specialty Hospital chains?

Single Specialty hospitals (SSH) provide care for a specific specialty (e.g., cardiac, oncology, ophthalmology, orthopedic, or psychiatric) or type of patient (e.g., children or women) or type of process (e.g., minimal invasive surgeries). Specialty hospitals tailor their care and facilities to fit the chosen type of condition, patient or procedure on which they focus. SSH chains have evolved from hospitals looking to leverage the credibility generated by offering “best in class” treatment in certain defined therapy areas; thereby positioning themselves as centres of excellence in those therapies.

As SSHs are focused on one field, they can offer end to end services and personalised care in that core area. It is well established internationally that hospitals focused on limited specialties demonstrate superior performance both therapeutically and financially.

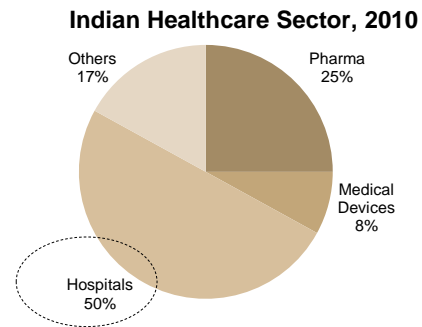
Indian Single Specialty hospitals have significant presence in Ophthalmology. Other therapeutics such as Oncology, Dental and Renal care have been getting traction recently. It should be noted that even within single specialty hospitals, procedures which are more surgery based command premium margins and better returns.

Key Players - Indian Single Specialty Hospitals

Key Players	Specialty	# Centres	Key PE Investors	Deal Size	Date of Investment
Healthcare Global	Oncology Chain	20	Premji, Religare, Evolvence	35	FY 06 – 10
Vasan Eye Care	Eye Care Chain	65	Sequoia Capital	12	FY 09 – 10
Eye-Q	Eye Care Chain	12	SONG Advisors	2	May 10
Centre for Sight	Eye Care Chain	12	Matrix Partners	11	Oct 10
Dr Agarwal's	Eye Care Chain	41	Listed Entity	NA	NA
Medfort	Diabetes and Ophthalmology	NA	TVS Capital, ePlanet Ventures	14	Nov 10
Axiss Dental	Dental Care	17	NA	NA	NA
Vasan Dental Care	Dental Care	12	NA	NA	NA
Narayana Hrudayalaya	Dental Care	25	NA	NA	NA
Nova Medical Centre	Day Care Surgery Procedures	15	NEA, GTI Group	25	May 10
RG Stone	Urology Chain	14	ICICI Venture (exited), IEP	NA	June 11
Beams	Minimal Access Surgery Procedures	NA	Ambit Pragma	NA	Sept 10

Note: All figures are in USD million; Source: o3 research and analysis

Conclusion: Emergence of asset light innovative models has been a recent phenomenon in the Indian Healthcare Industry. Factors such as a strong macro outlook for the Indian Healthcare Industry as well as single specialty chains providing services that were traditionally under-served by tertiary multi-specialty clinics, have generated immense investor interest in this space. Single specialty hospitals, owing to lower capex requirements, are more scalable and hence generate quicker returns when compared to traditional tertiary care hospitals.



Advantages:

Economies of Scale: Given the substantial fixed investments required to provide services such as oncology or orthopedic procedures, specialty hospitals may be better able to exploit economies of scale by consolidating volume that would have otherwise been allocated across multiple diversified facilities.

Functional Silos: Although general hospitals typically have more beds than specialty hospitals, the focused mission of specialty hospitals often results in their treating more patients in their given fields of specialization.

Ownership Structure / Incentives: By allowing physicians to share in the efficiency gains through ownership, specialty hospitals tend to create strong incentives to achieve efficiencies + cost & quality improvements.

Patient Selection: Specialty hospitals have greater discretion over the types of services they provide. The effect of patient selection within a given illness on hospital profits can be quite substantial.

Top 20 Private Equity Transactions

Date	Target	Acquirer	Deal Size	Sector
13th Sept	SKIL Infrastructure Limited	JP Morgan Partners	400.0	Industrials
26th Sept	ReNew Wind Power Private Limited	Goldman Sachs	203.9	Utilities
1st July	Manyata Embassy Business Park	Blackstone Advisors India	200.0	Real Estate
7th Aug	Bhartiya Samruddhi Finance Limited	Lok Advisory Services, IFC, Stichting Hivos-Triodos Fonds, Matrix Partners India, Axis Bank, HDFC Bank, SIDBI	179.8	Financials
25th July	Visa Power Limited	Blackstone Advisors India	112.3	Utilities
6th Sept	Soma Enterprise Limited	JP Morgan Partners	110.0	Industrials
7th July	L&T Finance Holdings Limited	Capital International Global Emerging Markets, DSP BlackRock, Khazanah India Advisors	108.1	Financials
4th July	Redington India Limited	Standard Chartered Private Equity	97.9	Information Technology
4th Aug	Avantha Power & Infrastructure Limited	Kohlberg Kravis Roberts & Co.	75.0	Utilities
8th July	SPS Ispat and Power Limited	Athena Capital Partners LLP	67.1	Materials
16th Sept	Vishwa Infrastructures & Services Private Limited	New Enterprise Associates, Olympus Capital Holdings Asia	63.1	Industrials
19th July	Varun Beverages International Limited	Standard Chartered Private Equity	55.9	Consumer Staples
28th July	HCC Concessions Limited	Xander Advisors India	54.3	Industrials
19th July	Monnet Ispat & Energy Limited	Blackstone Advisors India	44.2	Materials
4th Sept	Omkar Realtors & Developers Private Limited, Premium Residential Project	INDIAREIT Domestic Fund	44.1	Financials
19th Aug	Karaikal Port Private Limited	Ascent India Fund	41.5	Industrials
28th July	Jasper Infotech Private Limited	IndoUS Capital Advisors, Nexus India Capital Advisors., Bessemer Venture Partners	40.0	Consumer Discretionary
18th July	NSL Renewable Power Private Limited	FE Clean Energy Group Inc.	40.0	Utilities
7th July	Financial Information Network & Operations Limited	Blackstone Advisors India	34.0	Information Technology
9th Sept	People Combine Avenues Limited	Ascent India Fund	32.5	Consumer Services

Note: All figures are in USD million; Includes transactions that have been announced and are pending closure

Source: VCCedge, News Articles

o3 Capital Transaction Closures

July 2011



Investment by



Sole Advisor

Our client Kimaya Fashions Private Limited raised USD 15 million in Private Equity Growth Capital from Franklin Templeton Private Equity Strategy, a private equity portfolio managed by Franklin Templeton Asset Management (India) Private Limited.

Kimaya is India's largest luxury fashion retailer and a couture destination bringing together leading Indian designers and international designers. It pioneered the concept of a fashion destination in 2002 with its first Kimaya store in Mumbai and since then has established presence in Delhi, NCR, Chennai, Bangalore and Surat; it has also set up an international store in Dubai. It is now looking at a rapid roll out of Kimaya stores and also in the process of launching a Pret label through independent and SIS stores.

September 2011



Investment by



Sole Advisor

Our client, Resonance Eduventures Private Limited (REPL) received private equity infusion of USD 22 million from Aria Investment Partners, a fund managed by CLSA Capital Partners.

REPL, headquartered in Kota, Rajasthan, is one of the country's largest engineering test preparation players, training over 25,000 students annually across key courses such as IIT-JEE, AIEEE, AIPMT, etc. The company's geographic presence extends to over 18 cities, offering coaching through various contact programs, technology enabled distance programs and correspondence programs

The current round by CLSA marks the Company's second infusion, post Milestone Religare's investment in early 2010. The Company will use the proceeds to expand its geographic presence as well invest in new business opportunities identified by it.

September 2011



Investment by

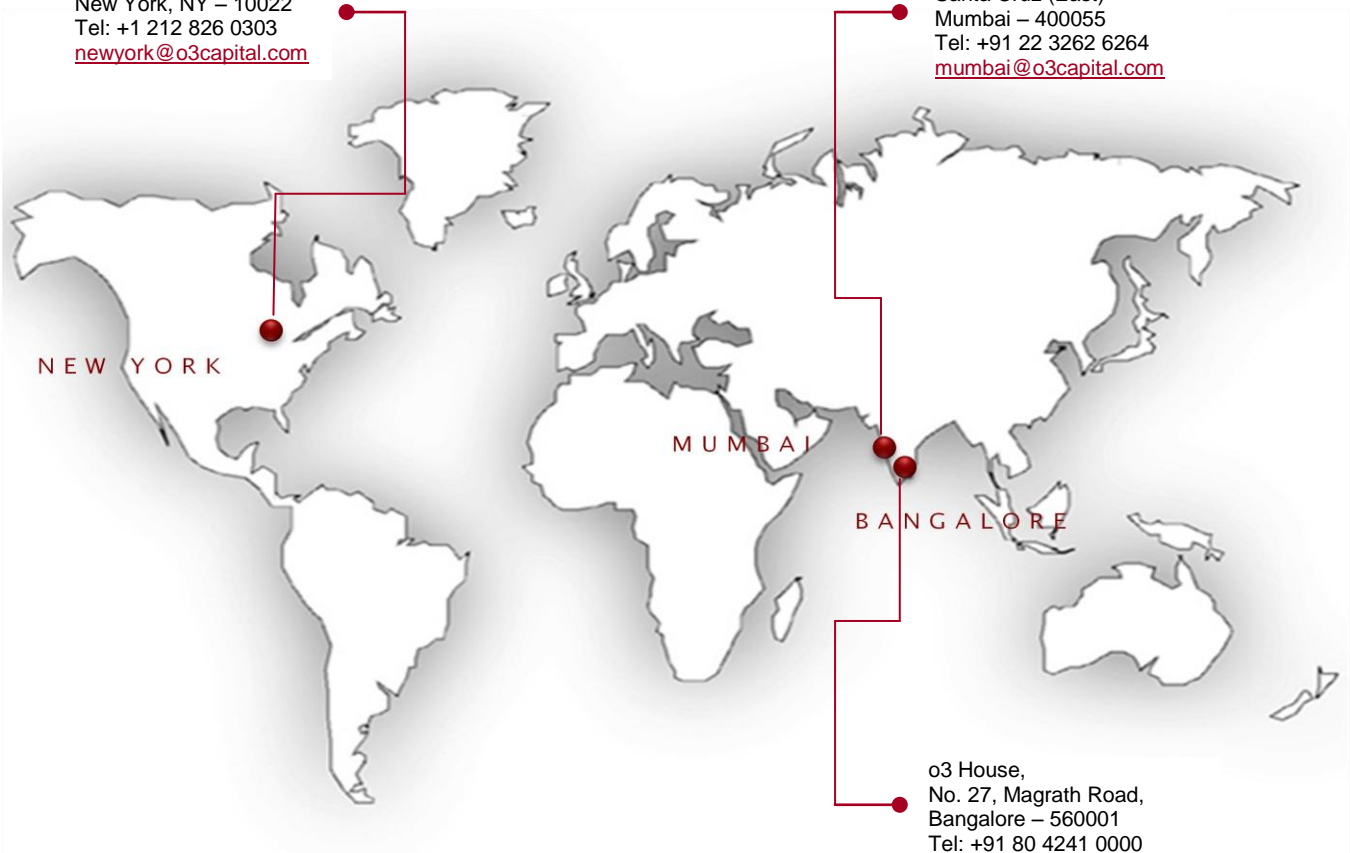


Sole Advisor

Our client, Eye-Q Super Speciality Hospitals (Eye-Q) recently announced a Series B investment by Helion Venture Partners and Nexus Venture Partners. Promoted by a team of qualified doctors and industry experts in January 2007, Eye-Q is in the business of establishing and operating hospitals that offer a variety of treatments for eye disorders, including surgeries (e.g. cataract), vision correction through prescription glasses and general consultancy for eye ailments. The Company currently operates 12 centres in the North India region under a hub and spoke model. In May 2010, the Company had received a Series A investment by SONG Investment Advisors, a fund owned and managed by the Soros Economic Development Fund, Omidyar Network and Google.

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