

Second quarter 2023

The opportunity for private equity impact investing in India



Radhika Shroff, Managing Director
Private Equity Impact

SUMMARY

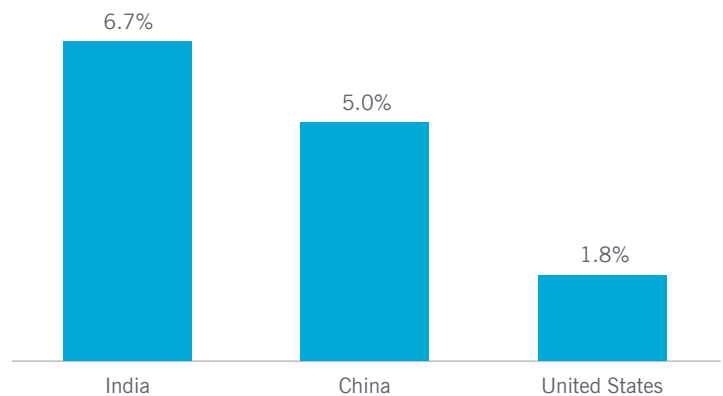
Key themes that support India's investment case:

- Transformational growth underpinned by decades of economic dynamism
- A global center for technological expertise driving innovation worldwide
- Huge unmet opportunity for PE impact investments at the growth stage
- Increasing exit optionality and investor interest on par with developed market peers

TRANSFORMATIONAL ECONOMIC GROWTH AND DYNAMISM

With an average GDP growth rate of 6.2% since 2006, India has sustained the highest rate of economic growth of the largest global economies. Coupled with the country's 30-year long market driven approach to economic liberalization and consistent integration into the global economy, India has become a particularly attractive opportunity for long-term private equity investment.

Exhibit 1: 2022 - 2027 projected average annual GDP growth



Source: World Economic Outlook (2022).

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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As the largest democracy in the world, India is home to 1.3 billion people, 940 million of which are working age, and at least 300 million of which are rising from low-income into the middle class. In fact, the middle class is expected to double over the next 25 years, driving consumer demand equal to that of the United States.¹ Despite this growth and wealth dynamic, large swaths of people across the country lack access to high quality basic services such as financial services, education, healthcare, and reliable renewable energy, introducing an enormous opportunity for commercial businesses to meet their needs.

DECARBONIZING INDIA'S DEVELOPMENT IS A GLOBAL IMPERATIVE

The stunning scale of India's transformation and growth has also driven rapid increases in demand for energy. Every year, India adds a city the size of London to its urban population, requiring vast construction of new buildings, factories and transportation networks. The resulting growth in energy consumption, together with pressures to meet international climate targets has given rise to bold renewable energy targets, including plans to install 500 gigawatts of renewable energy capacity by 2030², equivalent to 15x the size of California's current renewable capacity. Clearly, India's climate mitigation ambitions are not just transformational for India but for the entire planet.

As the nation looks to spend more than \$170 billion to finance this transition and to meet the Sustainable Development Goals, we believe there are excellent opportunities for private equity investors who know and understand the Indian market – in the distribution, financing, and servicing of these essential transition and decarbonization activities.

A THRIVING SOCIAL ENTERPRISE ECOSYSTEM

India is home to one of the most technologically educated populations in the world with the lowest tech talent supply demand gap among major economies, and the third largest start up ecosystem in the world (behind only China and the US) with 107 'unicorn' companies valued at more than \$1 billion as of 2022³. Importantly, the country has the highest fintech adoption rate in the world at 87% versus the global average of 64% which includes payments, lending wealth tech, personal finance, insurtech and others.

A gap in access to financial services for low-income and underserved populations, alongside a large population with a sizable youth demographic, deep smartphone penetration and increased internet access, have all led to the growth and expansion of the Indian fintech ecosystem. Having recognized that the demand for financial inclusion is a key factor in driving economic access, the Indian

PRIVATE EQUITY IMPACT CASE STUDY

Increasing affordability of off-grid solutions to smallholder farmers

Ecozen, an Indian solar irrigation and cold storage manufacturer and marketer, is an example of a profitable company operating at the intersection of inclusion and climate change mitigation and resilience, driven by India's government and regulatory tailwinds. A Nuveen Global Impact Fund I portfolio company, Ecozen is a leader in providing smallholder farmers with reliable off-grid irrigation as well as increasing farmer incomes by allowing them to store their harvest for longer periods of time via a solar powered cold storage system. Nuveen's PE Impact team will work with the company to increase affordability of its product through financing partnerships with other portfolio companies.

Note that Nuveen Global Impact Fund I is closed to new investment.

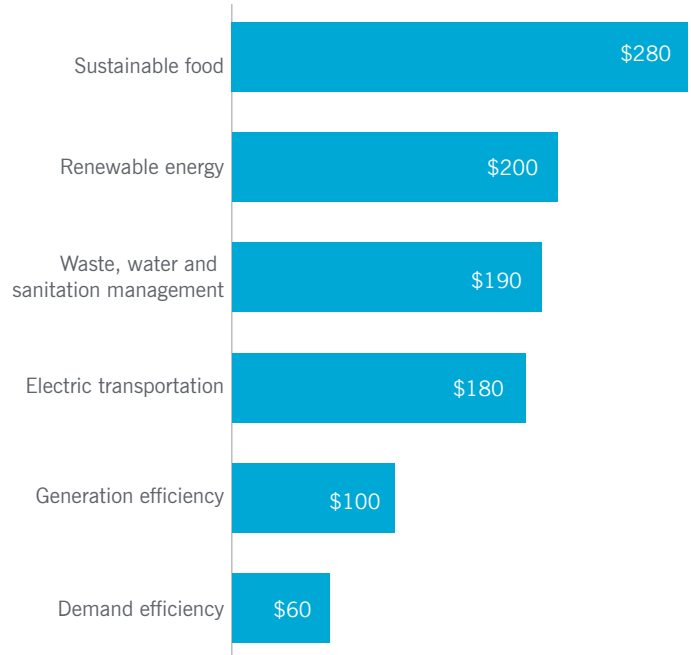
government has been at the forefront of enabling digital transformation and entrepreneurs to address the issue, most notably in 2009 creating the Aadhar, the world’s largest biometric digital ID program. India has begun to introduce revolutionary innovations in the delivery of digital services through a level playing field for data flows regardless of a consumer’s geographic location.

While India’s climate tech ecosystem is still in relative early stages, the country’s backbone of IT talent, innovation and entrepreneurialism is driving the same level of start-up activity and solutions as did fintech a decade ago. Climate tech investments are surging in India, growing 4x in 2021 to \$7 billion, and becoming among the fastest growing tech sectors, largely focused on electric vehicles and renewable energy. Given India’s robust start up and technology ecosystems, we expect that funding will likely grow multiple-fold in the next five years to include agritech, food tech and circular economy.

India is well on its way to leading the way in climate tech innovation, especially in driving solutions for developing economies which face fundamentally different challenges to developed nations – including balancing energy and development needs of a massive and growing population while controlling emissions.

Exhibit 2: Where India needs climate tech investments by 2030

(\$ billion)



Source: 'The State of Climate Finance in India' report by Unitus Capital and Climake (2022).

PRIVATE EQUITY IMPACT CASE STUDY

Driving climate resilience through microfinance

A Nuveen Global Impact Fund I portfolio company, and the third largest microfinance company in India, Annapurna Microfinance serves 2.5 million+ women in India’s rural, climate-vulnerable areas with small working capital loans so they can grow their small businesses, and has been doing so profitably for almost a decade. Having built deep operational and customer level knowledge, Annapurna is uniquely positioned to also deliver to its clients financing products to help their transition to a low carbon economy, including rooftop solar and electric vehicle mobility. Nuveen PE Impact is working with the company to better understand physical climate risks of the business (a first-of-its-kind study) as well as explore building out a scaled green financing unit to drive climate resilience.

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A GROWING PIPELINE OF SCALED, PROFITABLE BUSINESSES IN NEED OF CAPITAL TO SCALE

As the start-up economy grows in India, and companies continue to mature, generate revenue traction, and achieve profitability, the pipeline of growth-stage companies is growing. These business models are more robust – their capacity to generate outcomes more proven – thus they are well positioned to provide more predictable financial and social/environmental impact performance. Many of these companies are profitable, leaders in their sectors, and are three to five years away from a public listing or strategic sale.

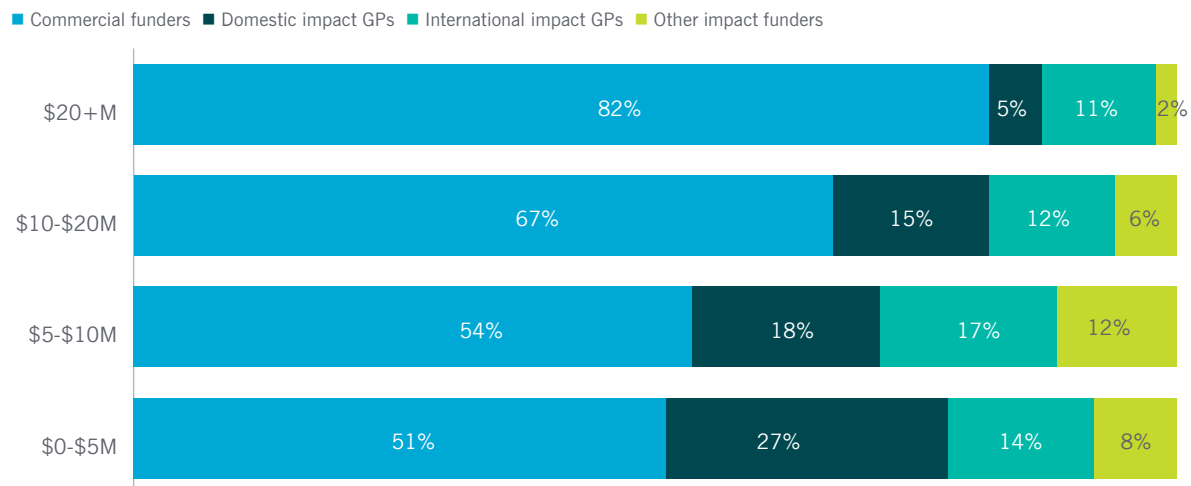
India’s growth stage PE impact investing market has witnessed tremendous growth over the past few years, moving beyond financial inclusion into emerging sectors such as agriculture, health care, education, and climate deals needing investment of more than \$10 million have more than doubled in the past five years. The number of deals topping \$20 million have increased by a factor of 2.3x. As a growing proportion of Indian impact enterprises are scaling up, creating strong investment demand

with a radically different risk-return impact profile suited for growth-stage funds, PE growth investors have a unique opportunity to participate in this “missing middle”.

An Impact Alpha analysis of impact deal data in India shows that the share of capital contributed by impact funders falls sharply as the deal size increases.⁴ In small-ticket deals, impact investors comprise roughly 50% of total invested capital. In the largest deals – \$20 million or more – less than 20% of investment capital comes from pure-play impact investors.

India will continue to witness a proliferation of nascent impact enterprises. But with an increasing proportion of such ventures now maturing, the ecosystem requires more growth equity for the scaling up of operations across the country. In order to leverage the promising potential of India’s burgeoning and rapidly evolving social innovation landscape, it is imperative to crowd-in asset managers that are able to finance larger impact deals.

Exhibit 3: Share of capital by percentage from impact investors in India



Source: Impact Alpha (2022).

STRONG TRENDS OF INCREASED EXIT OPTIONALITY AND MARKET LIQUIDITY

While 2022 PE activity in India has seen a slowdown, reflecting public market volatility, 2021 hit many records⁵:

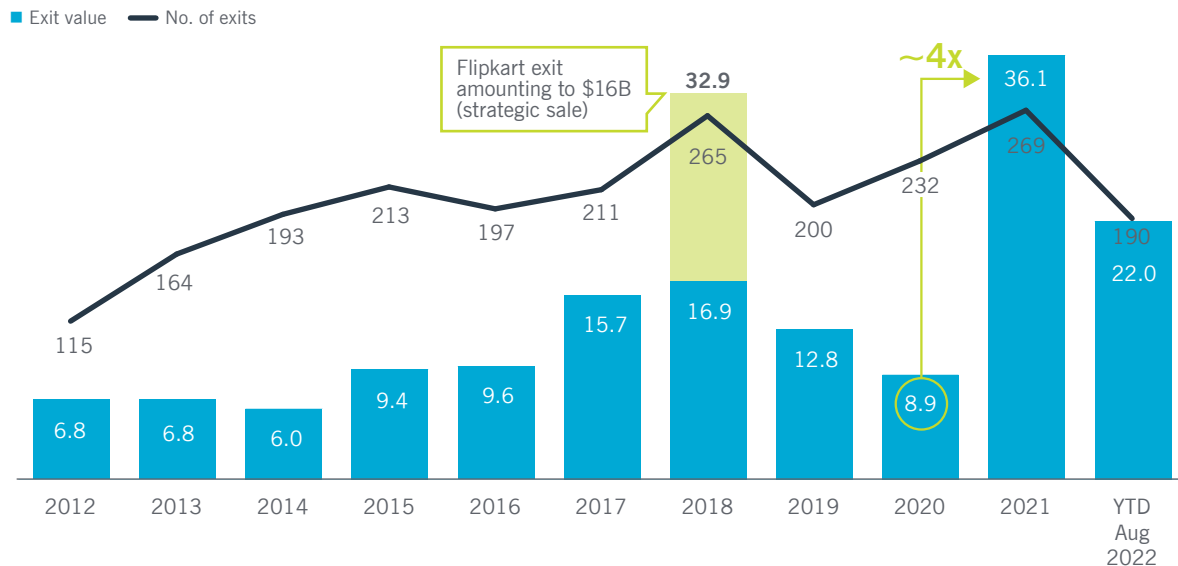
- Record velocity with over 2,000 deals closed compared to almost 1,100 each in the two years prior;
- A quadrupling of exit momentum to \$36 billion, with large exits across sectors as valuations inflated further;
- Key listings on public exchanges, complemented by the appetite shown by Indian retail investors as many IPOs were oversubscribed.

Momentum in exits and investor sentiment shifting away from China were key trends that emerged in 2021 that will likely continue over the long term. Secondary sales, public market exits, and strategic sales all increased, and the average size

of exits across these routes have seen a significant expansion since 2019, as a seller-friendly market emerged. While early signs in 2022 show exit activity may dip to 2020 levels, there remains significant confidence in India’s fundamentals as global PE players continue to invest and take advantage of a temporary market dislocation in valuations.

Despite global market volatility, inflation, supply-chain disruptions and geopolitical uncertainty, H1 2022 venture capital and PE deal value grew by 25% compared to H1 2021, driven by investments in the financial services and insurance sectors, with a positive trend of expansion of deals across transaction size and fewer mega deals. While deal value is expected to slow in the second half of the year, momentum is still higher than any year before 2021 – demonstrating India investment interest longevity throughout cycles and underlying strength of Indian assets. Importantly, exit momentum has kept pace, driven by strategic interest in healthcare and scaled technology plays.

Exhibit 4: Annual private equity and venture capital exits in India (\$ billion)



Source: Bain PE exits database (2022). Includes real estate and infrastructure exits; no filter on exit value has been applied to the overall figures; number of exits includes deals where exit value is not known.

Exhibit 5: India private equity exit dynamics

| EXIT TYPE | KEY TRENDS | DRIVERS FOR 2023 | OUTLOOK FOR FUTURE GROWTH |
|----------------------------|--|---|---|
| Secondary sales | <ul style="list-style-type: none"> • Deepening of PE market (across all stages) • Increasing number of potential buyers • Large \$1 billion+ impact PE funds investing in India | <ul style="list-style-type: none"> • Price certainty in secondary sales vs. public exits | <ul style="list-style-type: none"> • Expanding but still unaddressed need from global investors in mature and growth equity assets • Portfolio holding periods to further shorten as faster exits are made possible • Focus on profitability through unit economics discipline, commercialization of proven business models vs. pure growth metrics, increasing growth stage investor interest |
| Public market sales | <ul style="list-style-type: none"> • Retail and institutional investor appetite for profitable impact business models • Increasing domestic appetite for impact companies, helping boost price discovery • Evolving regulatory tailwinds on listing and ESG • Liquid public market well covered by equity analysts | <ul style="list-style-type: none"> • Increasing regulator flexibility on public market listings, including increasing focus on professional management vs. founder / promoter-led as well as listings for earlier stage companies • Improved liquidity in public markets due to lower interest rates across developed markets | <ul style="list-style-type: none"> • Public markets muted in the near term, as global uncertainties create volatility, however perform better than other major markets • Pipeline of IPOs likely in 2024/2025 |
| Strategic sales | <ul style="list-style-type: none"> • Emphasis on acquisition of digital/tech capabilities; digital transformation • Trend for consolidation and market access | <ul style="list-style-type: none"> • Strategic focus to scale rapidly | <ul style="list-style-type: none"> • Continued focus on deepening market access through inorganic expansion/consolidation and digital transformation |

For more information, please visit our website, [nuveen.com/impact](https://www.nuveen.com/impact).

Endnotes

- 1 Time Magazine "How India Became the Most Important Country in the World in the Climate Fight" Jan 23, 2023
- 2 <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/india-aims-to-add-500-gw-of-renewables-by-2030-70713616#:~:text=India's%20existing%20power%20generation%20portfolio,203%20GW%20of%20planned%20capacity.>
- 3 People Research on India's Consumer Economy November 2022
- 4 ImpactAlpha Feb 2, 2022 As India's impact ventures grow, so does the need for growth stage impact capital
- 5 Bain India Private Equity Impact Report 2022

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