



Portfolio Valuation and Fund Advisory Services

Growth Equity Valuation India Snapshot

MARKET UPDATE **SPRING 2023**



Houlihan Lokey's Growth Equity Valuation Snapshot

Spring 2023

Houlihan Lokey is pleased to present a summary of India growth equity observations from its valuation professionals based on real-time market and valuation insights.

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1 Tepid exit markets for IPO and M&A with large bid/ask spreads, and structured deals

2 Lower and missed company forecasts in light of slowing growth

3 Risk-off mode toward early-stage and loss-making companies

4 Correction post the tech super-cycle witnessed during COVID-19

5 Portfolio companies facing liquidity issues

VALUATION RESET

Past 18 Months: New Age Co. EV/Rev vs. Market Cap



Based on data for recently listed New Age Companies: Zomato, Nykaa, Policy Bazaar, PayTM, Delhivery, Nazara Technologies, CarTrade, and MapMyIndia

Source: S&P Capital IQ.
Note: EV refers to Enterprise Value.

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Valuation Environment in Spring 2023

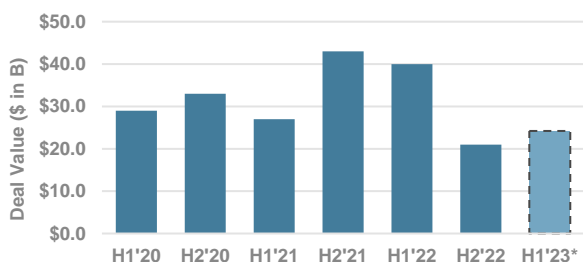
Are private investments in India fairly priced?

- Investors in the India growth story are more circumspect on valuations and are challenging the India valuation premium relative to other emerging and global markets. No new "unicorns" have been created since September 2022.
- Public equity markets in India have reached new highs in June 2023 but private company valuations don't necessarily mimic public company valuations. Correlating valuation trends from the public market to private companies should be a bottoms-up exercise based on comparability, stage of development, transaction activity involving investments in similar private companies in relevant geographies, and, ultimately, financial performance relative to what was underwritten.
- A number of global mutual funds have been slashing the valuations of their India growth equity investments, which is unsurprising since they can be redeemed daily and need to build in a margin of safety. Significant divergences can exist in how different mutual funds value the same private asset, which can be alluded to their internal valuation methodology and potentially differential economic and information rights to what they hold.
- Private markets have seen down rounds in the U.S. and other geographies, though this is yet to fully show up in India. Valuation disagreements in funding rounds are evident when price discovery is pushed out via structured deals on similar "headline" valuations. Highly underperforming companies seeking external capital can expect less favorable terms and, in some cases, incremental downside protection for the investors, or pay-to-play financings in more distressed situations.
- Inflation and a slowing macro environment are directly impacting profitability and scale-ups. There is a discernible shift in the mindset of startups from growth at all costs to improving unit economics. Improving margins at the expense of future growth is not generally viewed as value accretive.
- All signs point to higher rigor involved in valuations of growth equity investments, involving judgment of independent specialists. We also anticipate the cadence of the valuation process to increase. Investors cannot wait for an annual cycle to bake in market volatility, sell-offs, rate hikes, and other idiosyncratic factors into private growth equity valuations.

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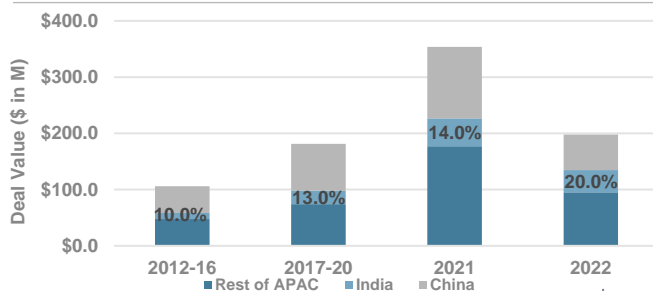
Funding Reports

India VC/Growth Equity Investments Activity



Source: Bain's Asia-Pacific Private Equity Report 2023.
Note: H1 '23 data based on information available till May 2023 based on EV-IVCA PE/VC roundup May 2023.

VC/GE Investors Are Pivoting Toward India



Houlihan Lokey's Growth Equity Valuation Snapshot

Spring 2023 (cont.)

4 Valuation Considerations in a Down Market

■ Preferred Equity Liquidation Preference as a Valuation Floor?

- In the current environment, where valuations for certain companies have declined compared to the prior financing rounds, a common question that is often asked by investment professionals is how a preferred investment can be marked lower than its liquidation preference when the underlying company's equity value exceeds the investment's respective liquidation preference.
- Given fair value is defined as "the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date," one way to answer the question is to think about how a new investor would underwrite the same security today. Assuming the value of the company has declined, perhaps due to underperformance or declines in its sector, a new investor investing in the same security today would require a higher return or lower price per share to compensate for the decline in company value.
- You can also make an analogy to bonds with below-market coupons. The 10-year India G-Sec issued in 2021 is currently trading around 96.8. This isn't because people are ascribing a significant default risk; rather, it's because of the below-market yield on these bonds. Similarly, growth equity assets are long-duration assets (or growth-oriented businesses with long-term cash flow potential) that are sensitive to business growth vs. cash burn in the current increasing interest rate environment, as profitability may be years away.

■ Value Dispersion Among Security Valuation Methods

- Commonly used private company valuation methods include valuing securities on (i) a common stock equivalent (CSE), or as-converted basis, the typical post-money headline valuation observed in public press releases; (ii) a waterfall basis, which assumes the company is immediately sold or liquidated; and (iii) an option pricing methodology (OPM), which treats equity securities as call options on the company's equity value.
- Understanding the various rights and privileges attached to each security class in a company's capital structure is essential to security valuation. Seniority, liquidation preferences, dividends, ratchets, conversion ratios, and other variables are highly impactful economic features that provide downside protection. Generally, the stronger and more senior these various rights and privileges, the higher the value per share of that class relative to other classes. The reverse is also true: the weaker and more junior the rights and privileges, the lower the relative value per share of that class relative to other classes. Typically, the most recent round of financing is likely to have the strongest rights and privileges and will come at the top of the food chain in the capital structure.
- Let's use ANI Technologies Private Ltd. (Ola) as an example. Ola raised \$150.0 million in a Series J financing at a \$7 billion valuation (on a CSE basis), or \$303 per share in December 2021. However, Ola was recently valued at around \$4.8 billion based on publicly available information. The table below presents the per-share value dispersion reflected in the different classes among the different security valuation methods: OPM, CSE, and waterfall.

ANI Technologies Private Ltd. Implied Per-Share Values: \$4.8B Total Equity Valuation

Class	Original Issue Price	OPM Method	CSE Method	Waterfall Method
Series J	303.15	\$295.14	\$213.36	\$303.15
Series F	111.40	\$203.65	\$213.36	\$200.75
Series B	2.10	\$184.74	\$213.36	\$200.75
Common Stock	-	\$184.53	\$213.36	\$200.75


Source: Capitalization table data per PitchBook.


Note: OPM method reflects a time to liquidity of two years and volatility of 45.0%.

- In the OPM and waterfall methods, the enhanced rights and privileges of the senior securities generally make them more valuable than more junior securities. However, the CSE method reflects the company's securities converted into common stock; thus, any differences in rights and privileges in a company's different classes of equity are ignored. While this assumption may be appropriate if a company sells or IPOs at a sufficiently high value, it may fall apart if the value of the company declines and is then sold or liquidated as shown below.
- Notice how the Series J is under the original issue price of \$303.15 from the December 2021 financing for both the OPM and CSE methods. This is due to the equity value deterioration from roughly \$7 billion at the last round valuation (on a CSE basis) down to \$4.8 billion today.
- Method weighting is also important in security valuation. This can be based on a number of factors, such as business stage, growth profile, company performance, and, ultimately, progress toward an exit event. Has the board of directors set a plan for IPO or M&A? Have investment bankers been hired? Ultimately, this is based on expectations at the given valuation date.


Houlihan Lokey's Growth Equity Expertise

Houlihan Lokey has a successful track record and robust experience in assisting its clients—including private equity, venture capital, hedge fund, sovereign wealth fund, and family office—with ongoing portfolio valuation work and fund-related transactions.


 We have deep **valuation expertise** in investment, NAV reporting, and fund-related transaction matters.


 We advise **boards of directors and valuation committees** as they navigate audit review, regulatory challenges, and new fund formations, including valuation policy and procedures.

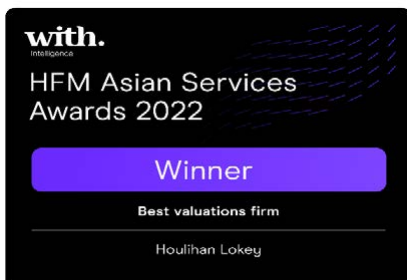
 We value large portfolios of **highly structured, venture-backed “unicorn”** investments for various investors across the globe.

 Our industry-leading Fund Opinions practice provides valuation and fairness opinions to many **financial sponsors** annually in connection with cross-fund, spin-out, and other conflict-of-interest transactions.

 Our Capital Markets team has **substantive private placement experience in structuring and raising capital** with leading industry participants in growth and structured equity.

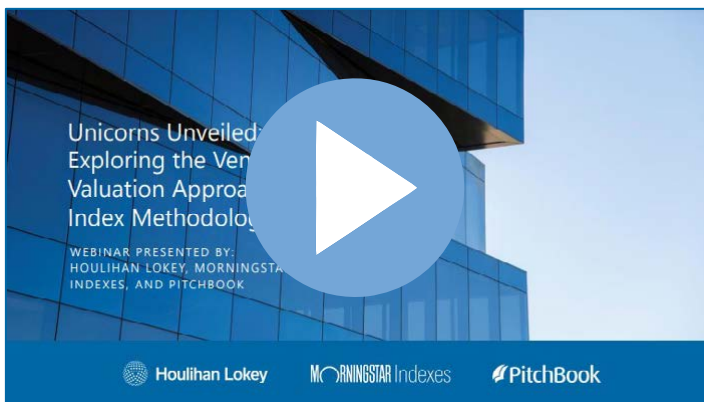
 Our valuation practice has deep technical expertise and market presence across various industries and asset classes. This is further enhanced with access to **the firm's dedicated industry groups**, which provide an unmatched level of expertise and transaction experience to inform the valuation process.

 It is critical to engage advisors early when starting the IPO process. Our **Accounting, Financial Reporting, and Public Equity** teams advise portfolio companies on the best practices for going public, managing the IPO timeline, navigating auditor review, and crafting the equity story.



Webinar Replay—Unicorns Unveiled: Exploring the Venture Market, Valuation Approaches, and Index Methodology

Houlihan Lokey, in partnership with Morningstar Indexes and PitchBook, recently hosted a webinar called **Unicorns Unveiled: Exploring the Venture Market, Valuation Approaches, and Index Methodology**, discussing the current venture/growth equity environment, the framework for and challenges of valuing unicorns, and the newly created Morningstar PitchBook Global Unicorn Indexes. If you are interested in obtaining the presentation or a recording of this webinar, please contact us.



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