Market Intelligence
& Analytics

CRISIL
An S&P Global Company

# No ifs about AIFs

## Alternative investment funds are clearly gaining traction as private equity and venture capital step up India play

December 2023

Research

OISTER™
GLOBAL

# Contacts


## CRISIL

**Jiju Vidyadharan**
Senior Director
jiju.vidyadharan@crisil.com

**Piyush Gupta**
Director
piyush.gupta1@crisil.com

**Parth Pandya**
Manager
parth.pandya@crisil.com

**Angara Saxena**
Manager
angara.Saxena@crisil.com

**Manish Maloo**
Senior Research Analyst
manish.maloo@crisil.com

**Sakshi Aggarwal**
Research Analyst
sakshi.aggarwal@crisil.com

## Oister Global

**David Wilton**
Chief Investment Officer
david.wilton@oisterglobal.com

**Rachita Jain**
Lead Investment Analyst
rachita.jain@oisterglobal.com

**Sneha Dadrwal**
Head - Brand and Community
sneha.dadrwal@oisterglobal.com

**Himanshu Periwal**
COO and CTO
himanshu.periwal@oisterglobal.com

**Richa Bhagat**
Legal Counsel
richa.bhagat@oisterglobal.com

# Message from CRISIL

**Jiju Vidyadharan**
Senior Director,
CRISIL Market Intelligence & Analytics
CRISIL Ltd

The private equity (PE) and venture capital (VC) markets have transcended the realm of conventional asset classes to bring in capital and financial knowhow to the start-up ecosystem and help drive India's economic growth by fuelling growth of businesses.

These investments have led to the creation of 90+ unicorns[1] in the country in the past five years. Growth of entrepreneurship and innovation, supported by the PE-VC markets, has attracted global interest, bringing in global expertise for Indian businesses.

Alternative investment funds (AIFs) form an important part of the PE and VC deal activity. The segment has gained traction in the past five years, with cumulative commitments clocking a compound annual growth rate (CAGR) of ~38%[2].

AIFs provide a vital source of capital to start-ups or established companies, depending on the fund strategy, and offer diversification opportunities to investors as alphas decline for traditional asset classes.

Despite the recent market downturn, the VC and equity funds outperformed[3] their public market equivalent (PME+) as of March 2023, barring funds belonging to fiscal 2015. AIFs continued to capture investor interest as affluent investors with greater risk appetite sought differentiated products and better returns for their investments.

Majority of the 1,000+ AIFs registered with the Securities and Exchange Board of India (SEBI) as of March 2023 were registered in the past four years. As these funds approach the end of their life cycle, the ability of fund managers to make timely exits from their portfolio companies at favourable valuations will be a key factor to decide the experience that AIF investors will have. This, in turn, will determine their readiness for future investments in the segment.

Recent years have seen the growth of the start-up culture in India, with government data showing the total number of recognised start-ups in the country at more than 1,12,000[4] as on October 3, 2023. This will further boost the investment opportunities available to AIFs and strengthen the segment.

After growing at a healthy pace till fiscal 2021, the PE and VC markets witnessed record activity in fiscal 2022 with more than 260%[5] jump over the previous fiscal.

The following fiscal, however, saw a steep decline in activity as rising inflation exacerbated by the continuing geopolitical conflicts (Russia-Ukraine conflict, strained United States-China relationship), supply chain disruptions, demand-supply gaps, and subsequent tightening of the monetary policy affected investor sentiment.

Despite the global headwinds, India remains an attractive destination for PE and VC investments in the long term. Robust economic growth, rising entrepreneurship, a large consumer base, higher adoption rate of digitalisation, a favourable regulatory environment, and government initiatives and schemes should provide ample opportunities for investors in coming years.

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[1] *www.investindia.gov.in*
[2] *SEBI*
[3] *CRISIL MI&A Research*
[4] *www.investindia.gov.in*
[5] *Oister Global*

# Message from Oister Global

**David Wilton**
Chief Investment Officer
Oister Global

Gathering steam: Evolution of India's private market in a turbulent decade

The size and quality of private market in India has grown significantly over the past decade despite challenges such as the pandemic-induced economic slowdown and interest rate hikes. Indeed, the improved quality of the present opportunity is worth noting for those investors who experienced the pre-2010 domestic private market era. The greater depth of experience of the investment managers' (IMs) community in the country can be gauged from the fact that 44 of them are now managing at least their third fund[6].

Regulatory oversight of the market is improving, offering greater transparency and better protection for investors, as detailed in the report.

Deal flow is broadening and becoming more sophisticated as well, supported by deepening of the technology ecosystem, as noted in the report. The quality of the domestic private market, as evident from the analysis on page 25, highlights its outperformance compared with the public market, a trend that is consistent with those observed in other key global markets.

Expansion of venture capital beyond the shores of the US and the European Union has been a distinct feature within private markets over the past decade. Consistent with the global trend, Indian private market growth has been led by venture capital.

Unlike advanced economies where private equity typically makes up a larger proportion of the private market, venture capital has accounted for a larger share in India for several years. The dominance of venture capital, though, raises issues for large foreign investors owing to their requirement for large minimum commitment sizes. Domestic investors face no such issue and have increased their participation in the private market by ~10x from 2015 to 2022[7].

The dominant position of venture capital in the Indian private market is also linked to favourable deal flow conditions led by government policies over the past decade, such as introduction of the

Goods and Services Tax and expansion of both physical and digital public infrastructure. These measures have led to improved efficiency, lower costs, and access to a wider consumer and user base.

Government policies aimed at enhancing market integration through infrastructure development and digital advancements have not only fuelled growth of venture capital but also expanded market opportunities for private equity in India.

Interactions with private equity funds indicate that companies in their pipeline are experiencing relatively high organic growth irrespective of whether they were previously backed by venture capital. Private equity in India is reaping the benefits of both generally higher organic growth rates and an expanding pool of opportunities as venture capital-backed companies progress along the growth stages.

[6]*CRISIL MI&A Research*
[7]*Global Private Capital Association*

# Executive summary

India's start-up narrative remains strong and optimistic.

The country has become the third largest[8] ecosystem globally with more than 1,12,000 start-ups in existence as on October 3, 2023.

A key contributor to this success has been the PE-VC markets, which have risked capital and sown financial knowhow.

Geographical penetration has deepened as well. PE-VC deal activities have gone beyond Tier 1 cities, deals in these cities have surged ~220x in a decade — from Rs 318 million in fiscal 2013 to Rs 71 billion in fiscal 2023.

Technology has been at the core of investments in the PE and VC markets in India, transforming the sectoral distributions in the past 10 years.

The growth of the private equity markets has also been funnelled by the rising popularity of AIFs. They have become an integral part of the domestic PE-VC market and a vital source of capital to startups. This segment has picked up pace in the past five years, with two-thirds of the 1,096 AIFs registered as on March 31, 2023, having been registered during this period.

Commitments have risen at an annualised 38%[9] in the past five years to Rs 8.34 trillion as of March 2023.

To be sure, the unlisted markets have expanded, as reflected in significant reduction in deployment time indicated by the increase in investments made to funds raised for Category I and II AIFs in the past five years ended March 2023.

The segment has also emerged as an attractive investment destination for high-net worth individuals (HNIs) and ultra-high net worth individuals (UHNIs) as they seek out differentiated products that give them an option to generate better returns on their investments. Notably, as of March 2023, over 40 investment managers manage at least three AIF schemes.

Substantial alpha generated by aggregate AIF benchmarks in the private market compared with the PME+ despite downturn in returns has been a big plus for the segment. As of March 2023, the aggregate benchmark[10] was able to generate an alpha[11] of 13.5% over the public market index (S&P BSE Sensex TRI). This performance is not driven by a few funds — distribution of alpha recorded by funds in the benchmark over their respective public market equivalent reveals that more than 75% of the funds have generated positive alpha.

Robust economic growth, rising entrepreneurship, a large consumer base, higher adoption rate of digitalisation, a favourable regulatory environment and government initiatives should provide opportunities for the AIF segment to grow in the coming years.

Entry of domestic institutional investors, such as retirement funds and insurance companies, in this space, increasing investment opportunities beyond Tier 1 cities and supply surplus from the booming startup culture in the country will further boost AIF growth.

That said, after seeing robust growth in the past few years, PE-VC funding fell ~67% last fiscal as global macro headwinds intensified.

The relatively young AIF industry will also need to go through the test of time as fund managers will be scrutinised for their ability to make timely exits at favourable valuations.

This, in turn, will establish the investor experience with the product, and determine their readiness for future investments in the segment.

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[8] *www.investindia.gov.in*
[9] *SEBI*
[10] *Benchmark comprising VCFs (under Category I) and equity funds investing in only unlisted securities (under Category II)*
[11] *Measured as a difference between the Internal Rate of Return (IRR) of the benchmark and the PME+ values calculated for S&P BSE Sensex TRI*

# Market note from Oister Global

The growth of the Indian private markets in the last decade had been truly impressive. It now presents a large, growing and increasingly institutional quality opportunity in which all investors — both, domestic and foreign — can take an active part. This trend in private markets in India is part of a larger global expansion of the PE-VC markets, outside their traditional bases in the US and Europe, as illustrated in Chart 1[12]. In India and elsewhere, growth in the private markets has been driven by the expansion of VC rather than PE, as shown in Chart 2.

**Chart 1: VC Fund Raising USDm**

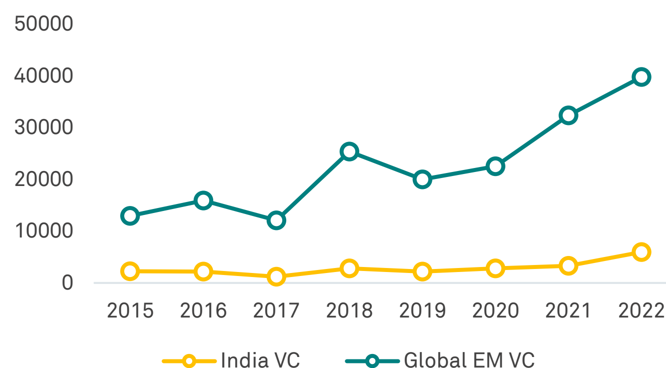
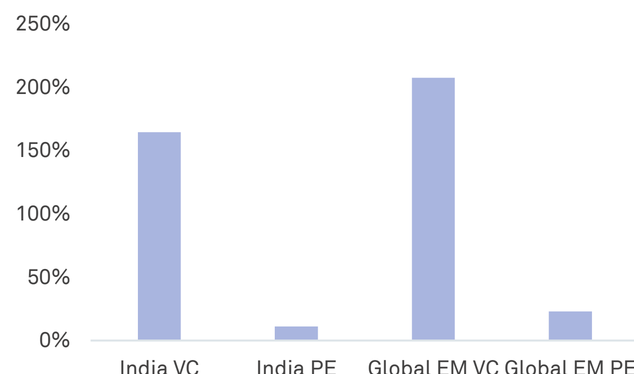



**Chart 2: Change in Annual Fund Raising 2022 vs 2015**




*Source: Global Private Capital Association*

Two factors account for the preponderance of VC. While PE expanded outside its home base and into India and other countries from 2000, its expansion has been constrained by the need for a large amount of debt financing.

VC expanded later, beginning in a sustained way around 2010. The disruptions happening in the digital space facilitated their expansion beyond the US and EU. For deal flow, the VC industry, in its original form, relied on new inventions and products making their way from the research hubs of universities, large corporations and the military, into the commercial sphere. This limited the number of locations in which VC could take root.

However, the rise of programming-based technology untangled VCs from their reliance on expensive labs. Any location with smart programmers and entrepreneurs with a vision to improve efficiency and customer service became a location for them to establish themselves. India has both in abundance.

Investment opportunity for VC funds in India has been significantly boosted by the government policy, which has not been the case with other countries. In the last decade, many government initiatives in India have contributed to a significant expansion in VC deal flow into the country. Some initiatives have cut costs by reducing inefficiencies, others have encouraged digital innovation and yet others have improved the ability to deliver goods to consumers.

The policies that have supported the expansion of VCs have benefited PE too.

From our interactions with PE funds, it was apparent that companies' portfolios are experiencing attractive rates of organic growth. PE funds are also benefiting from an increased pool of opportunities in India as companies previously backed by VCs progress into later growth stages.

Given below are a few examples of the government policies supporting the PE/VC space:

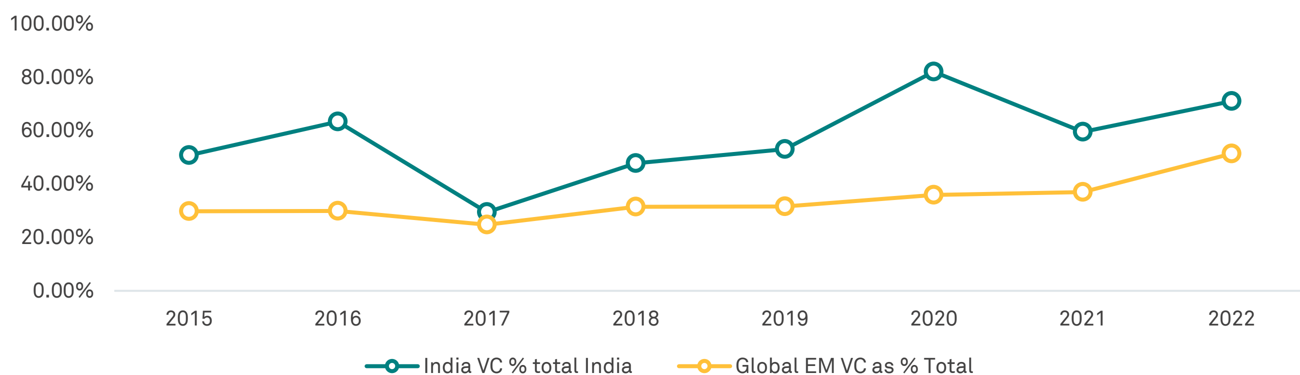
- Introduction of goods and services tax (GST): As a unified tax system, GST removed barriers to inter-state commerce and cut delays in the movement of goods across state borders in India
- Expansion of digital public infrastructure: This includes identity verification (eSign, DigiLocker), payments (Aadhaar Payment Bridge System, Unified Payments Interface) and data sharing (Open Credit Enablement Network). The digital public infrastructure has created

*[12]CRISIL and Oister Global would like to thank the Global Private Capital Association for providing the data used in charts 1 to 5. Due to the use of calendar year format rather than financial year, the data in the charts is not directly comparable to CRISIL data used elsewhere.*

opportunities to reach a wider customer base, cutting across geographies and income levels, across multiple sectors

- Investment in physical infrastructure, such as roads and airports: Better infrastructure increased market access and lowered costs. India has expanded its road network by around 59% in the last nine years. As of June 2023, the country had the second largest road network[13] after the US.
- The number of airports doubled from 74 to 148[14] during the period (until April 2023)
- The commercial opportunities these policies offered will continue to drive robust deal flow for the Indian VC industry.

**Chart 3: VC Fund Raising as Percentage of Total VC and PE in India & Global EM**




*Source: Global Private Capital Association*

The benefit of government policy to VC deal flow may account for the fact that VC represents a larger part of the private market in India than PE. This is highly unusual, If not unique. In other markets, owing to the large deal and fund sizes, PE forms a larger part of the private markets than VC. As Chart 3 shows, VC has mostly represented more than 50% of the capital in the Indian private market. It was around 70% as of end-2022.

The quality of the private market opportunity in India has improved along with the market's growth. There are now about 40+ investment managers who have raised three or more funds, an indication of both the depth of experience and consistency in performance. Deal flow is broadening. For example, as this report explains, the deep technology ecosystem is growing.

Regulatory oversight of the market is improving, increasing transparency and offering better protection for investors (also covered in this report). For investors, the ultimate test of a market is the quality and consistency of returns. The Indian private markets do not disappoint on this front.

In the US and EU, the private markets provide an attractive margin of outperformance over public markets. As a result, private markets form a core allocation in investors' portfolios[15].

This report provides evidence that the private market in India is also outperforming the public market, ensuring its inclusion in portfolios, just like in the US and EU.

CRISIL's analysis of 217 funds belonging to vintages fiscals 2013 to 2022 shows that Indian private markets (category I venture capital funds and category II equity funds investing in unlisted securities combined) outperformed public market equivalent (using S&P BSE Sensex TRI) by 13.5% (as of March 2023). The result is not driven by a few superstars.

A majority of the funds in the sample had internal rate of returns (IRRs) above the public market equivalent.

This performance positions the Indian private market comfortably on par with its international peers.

There is no free lunch, as the saying goes. As in other major markets, the Indian private market has a wide dispersion of returns between the top and bottom performers — much wider than that in the public market. As of March, for vintage years fiscals 2015-2020, the average spread between the top and bottom performance quartiles was 23.3% for category 1 VCFs and category 2 equity funds investing only in unlisted securities, compared with 5.4% for the public market funds[16].

This report also provides insights into the difference in the

[13] *https://pib.gov.in/PressReleasePage.aspx?PRID=1935658*
[14] *https://static.pib.gov.in/WriteReadData/specificdocs/documents/2023/apr/doc2023423184101.pdf*
[15] *For example, see State Street Global Advisors https://www.ssga.com/library-content/pdfs/ic/alternative-investments-the-PE-conundrum.pdf and World Economic Forum https://www3.weforum.org/docs/WEF_Private_Equity_Industry_2022.pdf*
[16] *PME+ for 45 mutual fund schemes in the mid and small cap segments have been considered based on their inception for vintage year wise aggregated benchmarks considered in the report*

return and risk profiles (based on the 1st and 3rd quartile threshold spreads) of the funds that focus on early-stage investments (up to funding round series A) and those that focus on later stage investments (funding round series B and beyond). These investment stages have different return and risk profiles and insights into these differences are valuable for investors.

As such, CRISIL has created two benchmarks from category I VCFs and category II equity funds belonging to vintages fiscal 2013 to 2022 — one focused on funds primarily making more than 50% of investments in seed and series A rounds (early-stage) and the other focused on funds primarily making more than 50% of investments in series B investments and beyond. The benchmarks show that as of March 2023, the pooled IRR of funds focused on early-stage investments was 39% and that on later stage investments 26%. However, as expected, the spread between the top and bottom performance quartiles is wider for the funds focused on early-stage investments than those focused on the later stage investments.

The performance and the improving quality of the Indian private market is truly impressive. It appears that domestic investors are paying more attention to the opportunity in their own backyard.

**Chart 4: INR versus Foreign Fund Raising %**

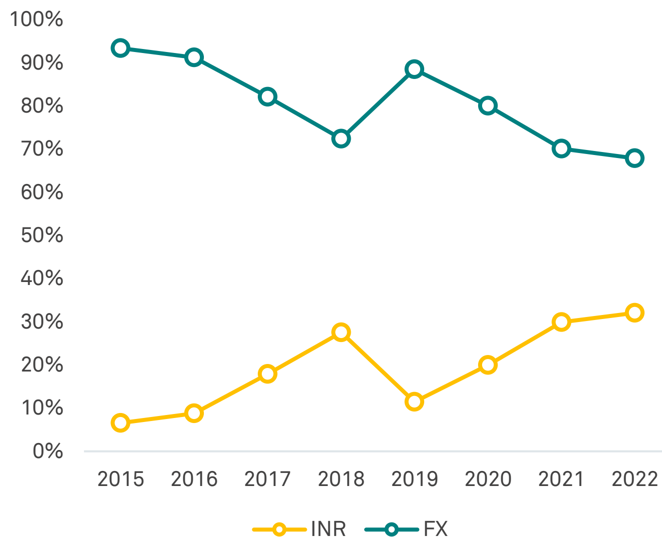
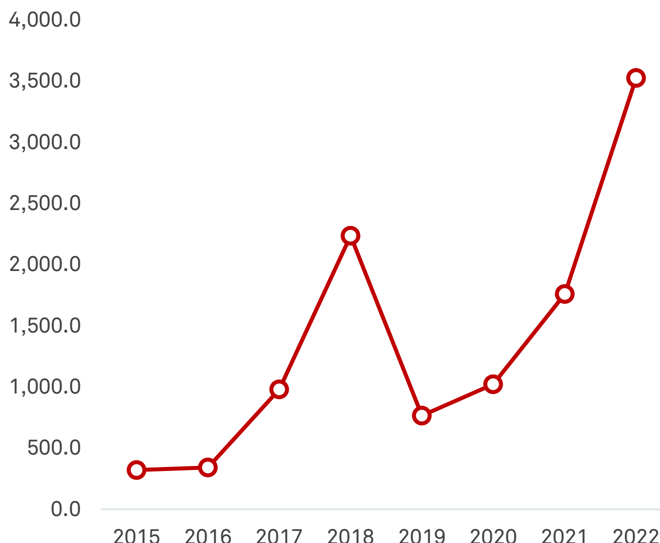



**Chart 5: INR Fundraising USDm**




*Source: Global Private Capital Association*

Chart 4 illustrates the increasing participation of Indian investors in the domestic private markets relative to offshore investors. Giving more perspective to the scale of growth in domestic participation in the private markets, Chart 5 shows that fund raising in Indian rupees has increased by around 10 times since 2015.

Oister Global strongly believes in the private market opportunity in India and is committed to improving both investors' understanding of the Indian private market and their access to quality private assets.

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# PE and VC industry on a steady growth path in India

Private equity (PE) and venture capital (VC) investments are becoming a critical source of funding for Indian entrepreneurs and start-ups.

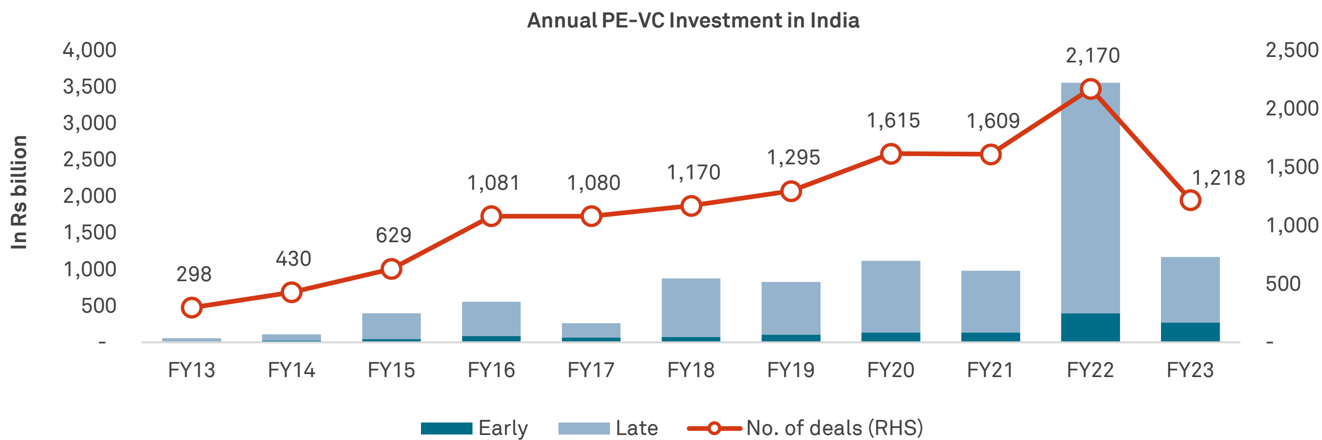
Investment activity in terms of number of deals was on the rise from fiscal 2013 till fiscal 2021, when the pandemic struck. After a temporary collapse, markets rebounded in fiscal 2022, with both, volume and value spiking. But this too proved short-lived, as rising inflation, increasing cost of capital due to interest rates hikes by global central banks, and the continuing geopolitical conflict (Russia-Ukraine conflict, US-China decoupling) led to a decline in fiscal 2023. These factors have severely dented investor sentiment, making them cautious in deal making.

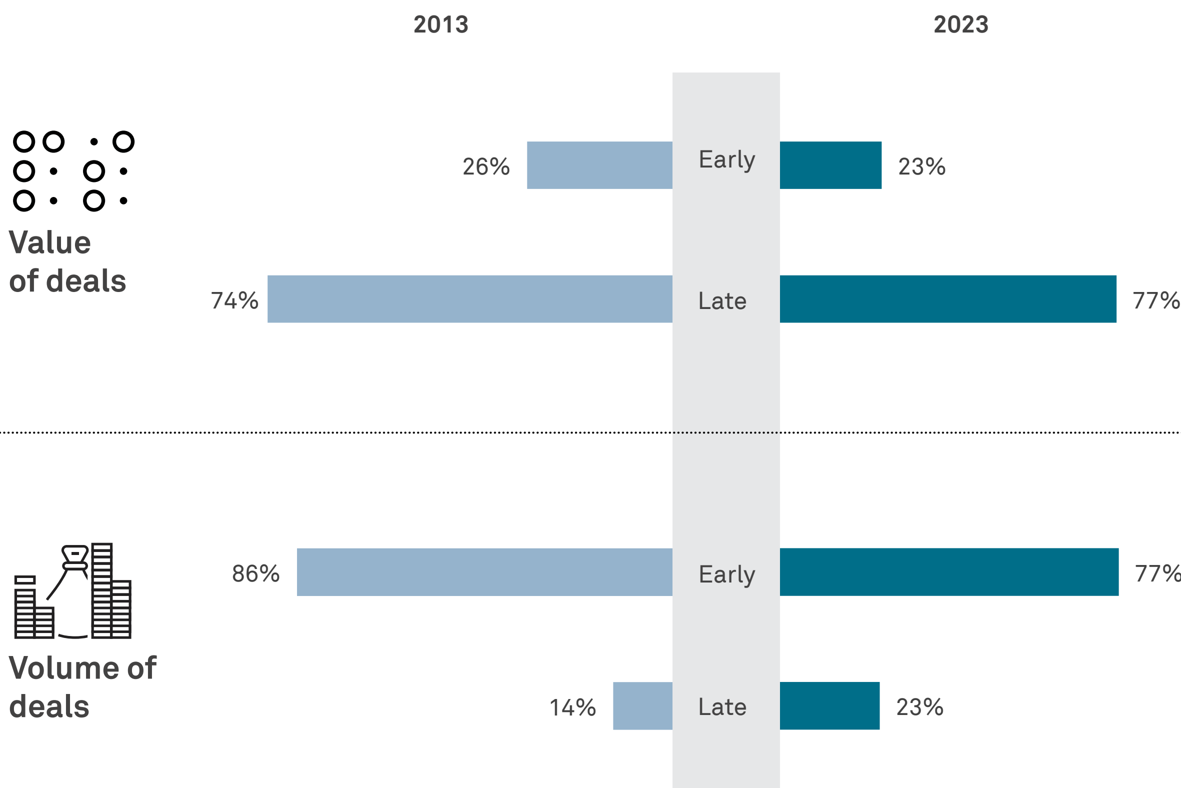
Nevertheless, we believe India remains an attractive destination for PE and VC investments in the long term. Robust economic growth, rising entrepreneurship, a large consumer base, higher adoption rate of digitalisation, favourable regulatory environment and government initiatives and schemes, should provide ample opportunities for investors in the coming years.

## Deal value and numbers on the rise, barring last fiscal

Despite several challenges, India's PE and VC industry has been maturing over the past few years. Deal activity has been robust over the past few years, showing an uptrend in the deal volume and value, except for last fiscal. Notwithstanding the slowdown in funding activity due to the pandemic, fiscal 2022 recorded an all-time high in deal activity, growing ~261% on-year. Investment flows of Rs 3,553 billion was recorded across 2,170 deals. This was mainly due to the sooner-than-expected economic rebound from the pandemic, widely available financing for deals (both domestic and international) and increased consumption levels. However, after record PE/VC investments that fiscal, funding fell ~67% in fiscal 2023 as global macro headwinds intensified. Total funding declined to Rs 1172 billion (1,218 deals).

### Annual PE and VC investment in India




*Source: Oister Global*
*Notes: 1) Deals with undisclosed values are included in the count but not in the value of deals*
*2) Does not include venture debt, conventional debt, convertible debt, grant (prize money) and post IPO transactions*
*3) Early-stage deals include deals up to series A and late stage covers funding series B and beyond B*

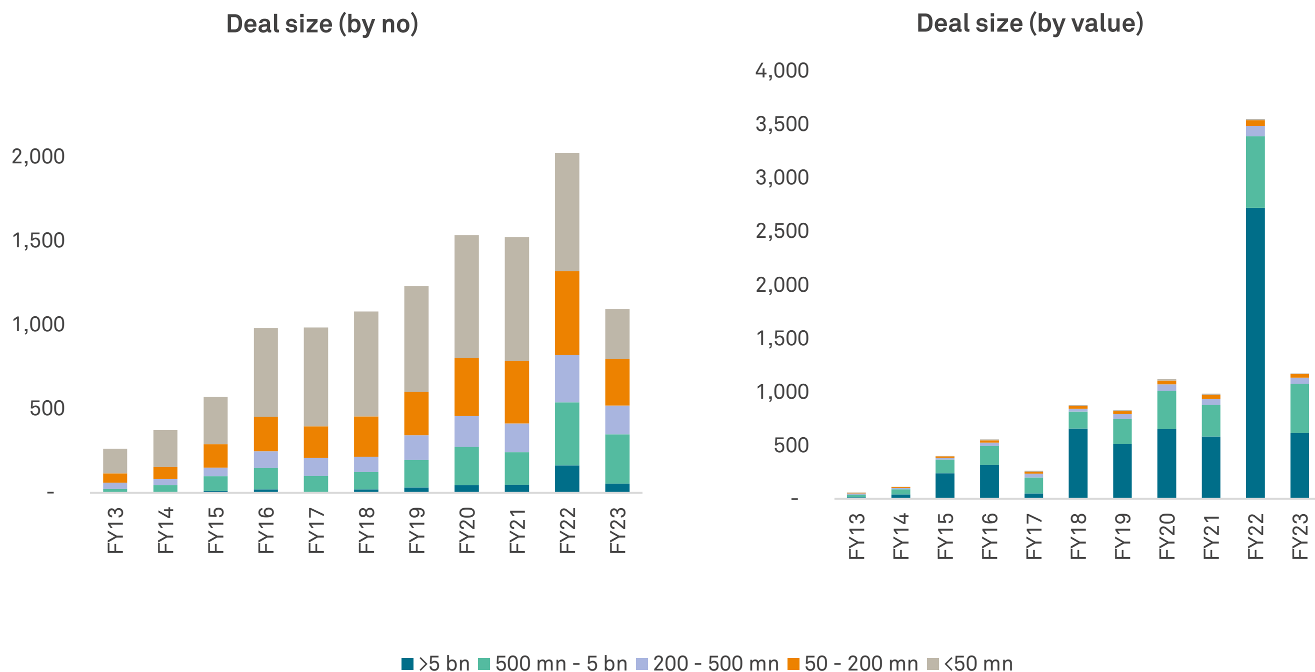
## Investments in late stages have increased, form majority

The Indian startup eco-system is growing rapidly as various early-stage incubation and accelerator programmes such as Startup India, INVENT social incubation programme, and start-up incubator of Indian Institute of Management, Bangalore are being either promoted or launched by the Government of India. In addition, successful startup experiments are emerging in Tier 2 and 3 cities, including inception of impact startups, institutional investments in startups and reduction in barriers for investors through platforms that pools individual investments (e.g., LetsVenture, India Investment Grid, or IIG).

As such, the volume of early-stage deals remains the highest among the PE and VC investment activity. But its proportion of investment in terms of both, volume and value has slightly declined. These deals accounted for 86% of the total volume in fiscal 2013 (26% in terms of value) but form a lower 77% of the total volume in fiscal 2023 (23% in terms of value). Nevertheless, early-stage investments have logged 14% and 33% CAGR in terms of volume and value, respectively, in the past ten years.

Meanwhile, the proportion of volume and value of late-stage investments in the overall PE and VC investments have considerably increased. Late stage deals that formed 14% and 74% of total volume and value of funding activity, respectively, in fiscal 2013, have now increased to 23% and 77%. Funding has grown from Rs 44 billion (42 deals) to Rs 899 billion (277 deals) over the past ten years, given the proven potential of a startup which has grown past the formative years. In CAGR terms, they have logged 21% and 35% in volume and value, respectively.

## Larger ticket sizes boost investments




*Source: Oister Global*
*Notes: 1) Does not include deals where deal value not available*
*2) Does not include venture debt, conventional debt, convertible debt, grant (prize money) and post IPO transactions*

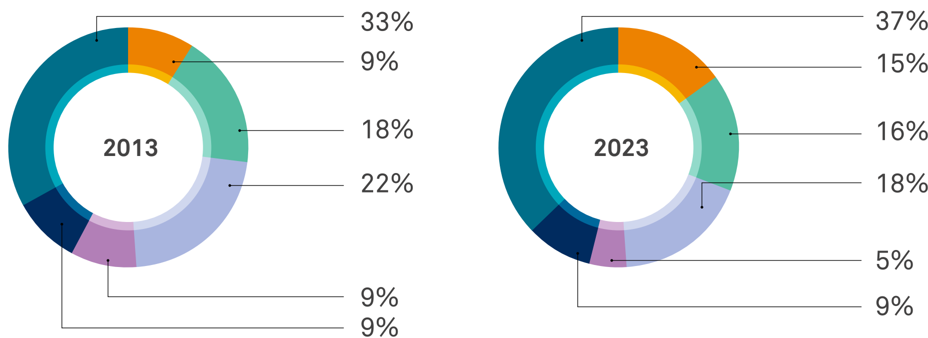
Amid growing optimism regarding the investment opportunities in the Indian PE and VC markets, the share of investments (volume of deals) in higher ticket sizes has increased. The share of deals in the Rs 500 million to 5 billion segment has increased from 8% in fiscal 2013 (20 deals) to 27% in fiscal 2023 (292 deals). On the other hand, the share of small ticket sizes (less than Rs 50 million) declined from 56% to 27%. Other ticket sizes remained largely stable over this time.

In terms of value of deals, 92% of the total deal activity was in the ticket size above Rs 500 million in fiscal 2023, as the year witnessed some mega deals including deals such as BYJU's, Flipkart, Swiggy, Oyo Rooms and Paytm in this bracket. This has grown from a share of 65% in fiscal 2013, showing 45% CAGR over the ten years.

# Technology steering sectoral trends

Technology has been at the core of investments in the PE and VC markets, transforming the sectoral distributions in the past 10 years. Sectors with greater adoption and continued investment in technology have seen more investor interest as they align with the changing needs of the consumers. The top five sectors in the current landscape of PE and VC investments formed ~69% of the total value of investments (763 deals of Rs 811 billion) in fiscal 2023. The share of consumer goods, services, and related tech declined from 39% in fiscal 2013 to 12% in fiscal 2023, while that of financial services and fintech more than tripled.

**No of deals**

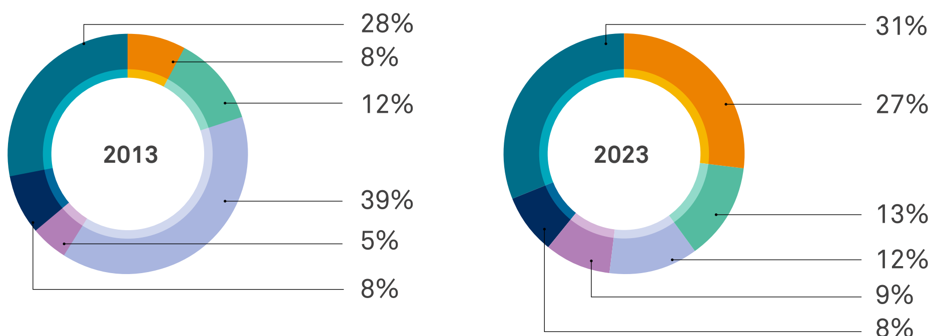


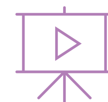
Financial services and fintech

Enterprise services

Consumer goods, services and related tech

**Value of deals**





Media, entertainment and related tech

Healthcare and healthtech

Others

*Source: Oister Global*
*Note: 1) Deals with undisclosed values are included in the number of deals but not in the value of deals*
*2) Does not include venture debt, conventional debt, convertible debt, grant (prize money) and post IPO transactions*

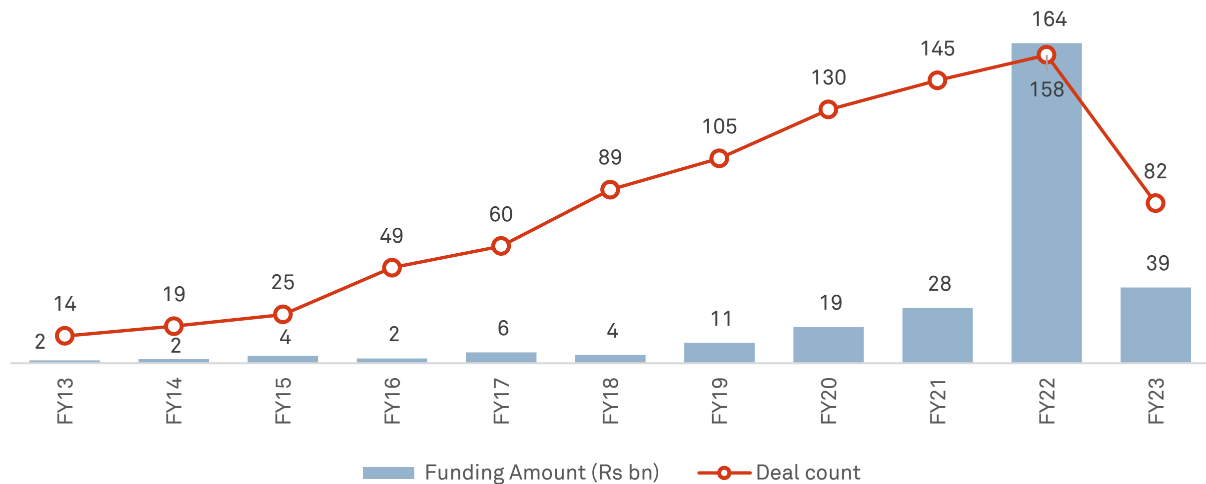
**Adoption of digital modes of banking and payments:** According to the Economic Survey 2023[17], India is aiming to become a $1 trillion digital economy by 2025. In alignment with this vision, the share of financial services and fintech has picked up from 8% (Rs 4,570 million) in fiscal 2013 to 27% (Rs 318 billion) in fiscal 2023. Growth in this sector received a boost in fiscal 2018 post demonetisation when there was a considerable shift to digital modes of payments and transfers. India has also emerged with highest public fintech adoption rate of 87% compared with the world average of 64%, according to the Survey. The rise in adoption of digitalisation was accelerated by the pandemic, along with Aadhaar, Unified Payments Interface (UPI), e-RUPI, e-way bill and regulatory initiatives that further supported financial services and fintech.

**Online education's rise and descent:** With increased focus on online learning, the share of education and edtech sector grew from 4.0% in fiscal 2013 to 6.6% in fiscal 2019. Growth accelerated with the pandemic as virtual learning became the norm. In fiscal 2022, the sector formed 9.4% (Rs 335 billion) in value terms, with several large deals, such as Byju's (Rs 61 billion), Eruditus (Rs 48 billion) and Unacademy (Rs 32 billion) taking place that year.

Fiscal 2023, however, saw a dip — the sector's share in terms of value dropped to 7.5% as several edtech companies faced cash flow issues. Moreover, as the pandemic subsided, virtual learning became less of a necessity, which also restricted its growth.

**Increased focus on climate/environment/renewables and related tech:** In the past few years, this sector has been able to gauge interest of entrepreneurs and investors alike, in addition to the push from the government, which has increased its share in value of deals from 0.4% in fiscal 2013 to 3.7% in fiscal 2023.

## Evolution of Deep Tech Ecosystem in India



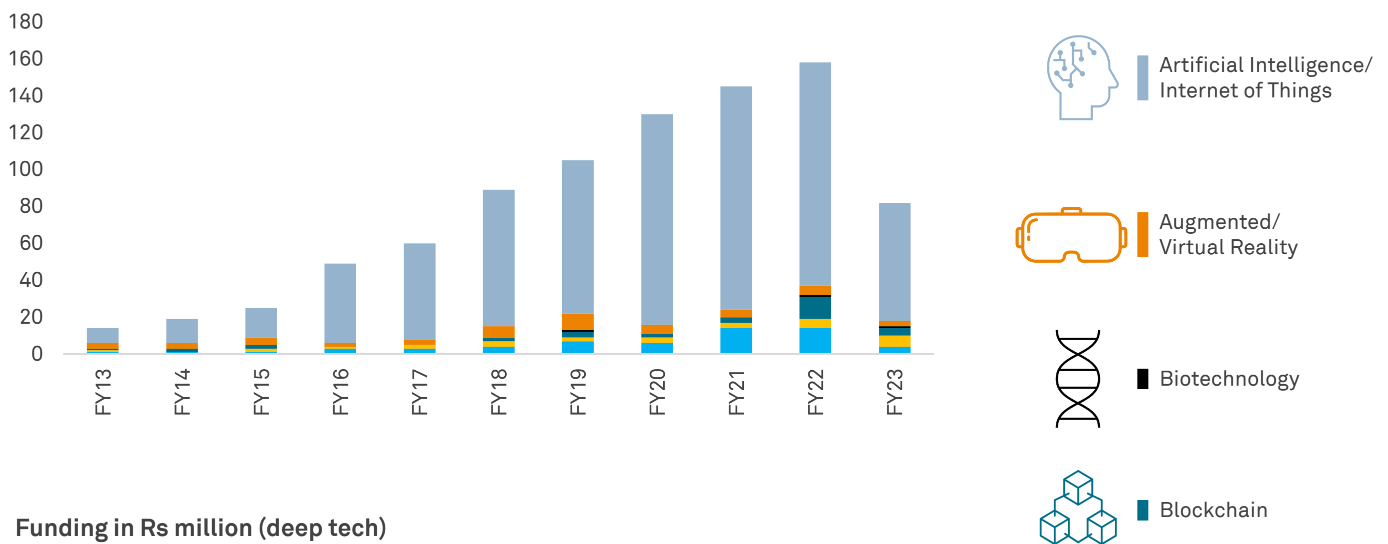

*Source: Oister Global*
*Note: 1) Deals with undisclosed values are included in the number of deals but not in the value of deals.*
*2) Does not include Venture Debt, Conventional Debt, Convertible Debt, Grant (Prize Money) and Post IPO transactions.*

[17] *Source: Chapter 12 of the 'Economic Survey 2022-2023'*

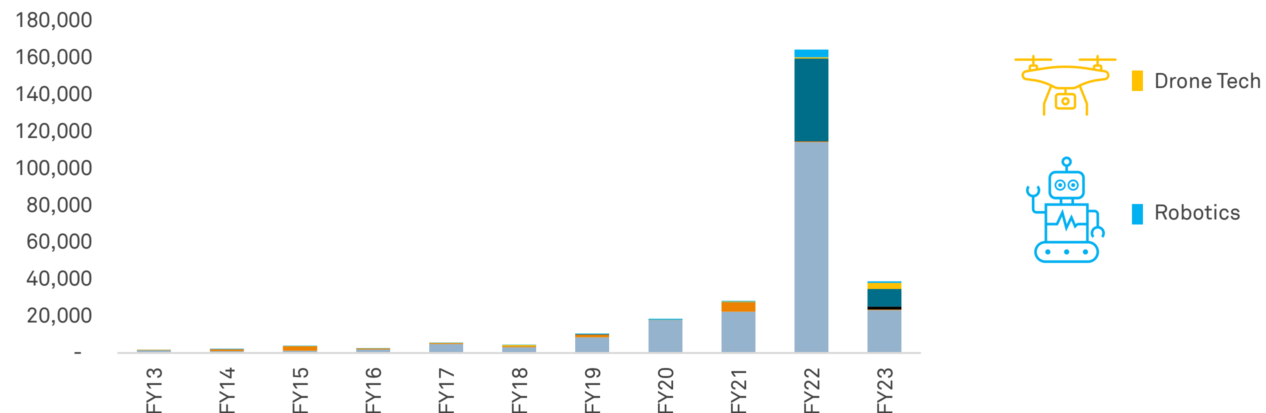
Deep tech[18], or business areas such as artificial intelligence (AI), Internet of Things (IoT), and advances in biotechnology were perceived to be a risky investment in India few years ago. However, this trend has changed significantly and is attracting PE-VC investments both, from India and overseas. The exponential rise is evident from the fact that PE-VC investment in India in deep tech galloped at ~87% CAGR between fiscals 2018 and 2021, with investments increasing from Rs 4 billion (89 deals) to Rs 28 billion (145 deals).

Fiscal 2022 saw thriving deals in the deep tech space, with a total funding of Rs 164 billion across 158 deals. Also, the top five deals which were of large ticket size, comprised ~50% of the deals. Fiscal 2023, however, saw a decline in both deal value and numbers on-year, due to global economic factors such as rising interest rates and inflation.

**Deal count (deep tech)**




**Funding in Rs million (deep tech)**




*Source: Oister Global*
*Note: 1) Deals with undisclosed values are included in the number of deals but not in the value of deals*
*2) Does not include venture debt, conventional debt, convertible debt, grant (prize money) and post IPO transactions*

*[18]Deep tech is an area of business or research aimed at providing solutions to complicated problems using technology such as artificial intelligence, Internet of Things, augmented/ virtual reality, drone tech, robotics, blockchain, or advances in biotechnology. It refers to companies, typically startups, whose business models are based on high-tech innovation or significant scientific advances.*

Major investments have been made in AI and IoT, both in value and deals terms, followed by blockchain and augmented reality (AR)/virtual reality (VR).

One of the major drivers of growth in this space is incubation programmes by top institutions in India towards R&D in advanced technology, along with large amount of funding to these institutes. Improved digitalisation/connectivity and adoption of advanced technology by the young population of India is also supporting growth of this sector.

> "The quality of the private market opportunities in India has improved along with its growth. There are now forty-plus investment managers who have raised three or more funds, an indication of both depth of experience and consistent performance. The evolution of the deep tech ecosystem indicates increasing sophistication. Regulatory oversight of the market provides increasing transparency and protection for investors."
>
> **Ashish Fafadia, Managing Partner at Blume Ventures**

# AIFs an integral part of the PE and VC industry in India

Private equity firms started investing in the Indian market shortly after liberalisation of the economy, in 1991.

To encourage the flows, which were primarily early-stage venture capital investment in tech-related companies, the Securities and Exchange Board of India (SEBI) introduced the SEBI (Venture Capital Funds) Regulations, 1996.

To provide benefits to funds, the Foreign Venture Capital Investor Regulations were introduced in 2000. As the segment grew with wide variety of funds investing in different stages of companies, the AIF regulations were introduced in 2012, recognising alternative investment funds (AIFs) such as PE and VC funds as a distinct asset class.

The term AIF refers to any fund established or incorporated in India that is a privately pooled investment vehicle collecting funds from sophisticated investors, whether Indian or foreign, for investing in accordance with a defined investment policy that benefits its investors.

In India, the segment is nascent and evolving, and comprises three categories – Category I, Category II, and Category III – as per the AIF regulations.

Category I AIFs invest in start-up or early-stage ventures, or social ventures, or SMEs, or infrastructure, or other sectors or areas the government or regulators consider socially or economically desirable. These AIFs include venture capital funds, SME funds, social impact funds, infrastructure funds, special situation funds, and such others.

AIFs that do not fall in Category I and III and do not undertake leverage or borrowing other than to meet day-to-day operational requirements are classified under Category II.

Category III AIFs employ diverse or complex trading strategies and may employ leverage, including through investment in listed or unlisted derivatives. These AIFs include hedge funds, private investments in public equity (PIPE) funds, etc.

In barely a decade, AIF has become one of the key segments in private markets in India. It has been growing at a steady pace, with a total commitment of Rs 8,338 billion as on March 31, 2023.

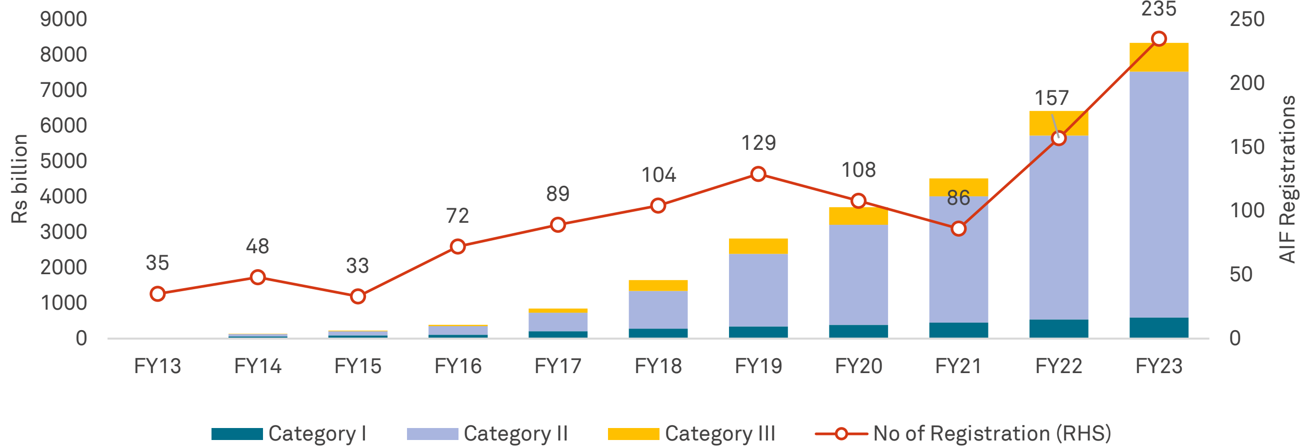
The segment is expected to remain one of the fastest-growing managed products categories over the next few years as more and more high net worth individuals (HNIs) and ultra-HNIs seek out differentiated products that give them an option to generate better returns on their investments.

## AIFs have gained traction in the recent years

As per SEBI, there are as many as 1,096 AIFs registered as on March 31, 2023. Of these, 157 and 235 AIFs have been registered with SEBI in fiscals 2022 and 2023, respectively, which is ~36% of the total number of AIF registrations. About two-thirds of the total AIFs have been registered in the past five years. Moreover, about 58% of the AIFs have been registered as Category II AIFs as of March 31, 2023.

The total commitments raised from the AIF industry has grown from Rs 14 billion in March 2013 to Rs 8,338 billion in March 2023. Total commitment raised has increased five times over the past five years. Category II AIFs have grown at an healthy pace, with total commitments growing from Rs 1,053 billion to Rs 6,939 billion, or ~6.5 times, between March 2018 and March 2023. Both Category I and Category III AIFs have grown over two times during this period.

**Total commitment raised**



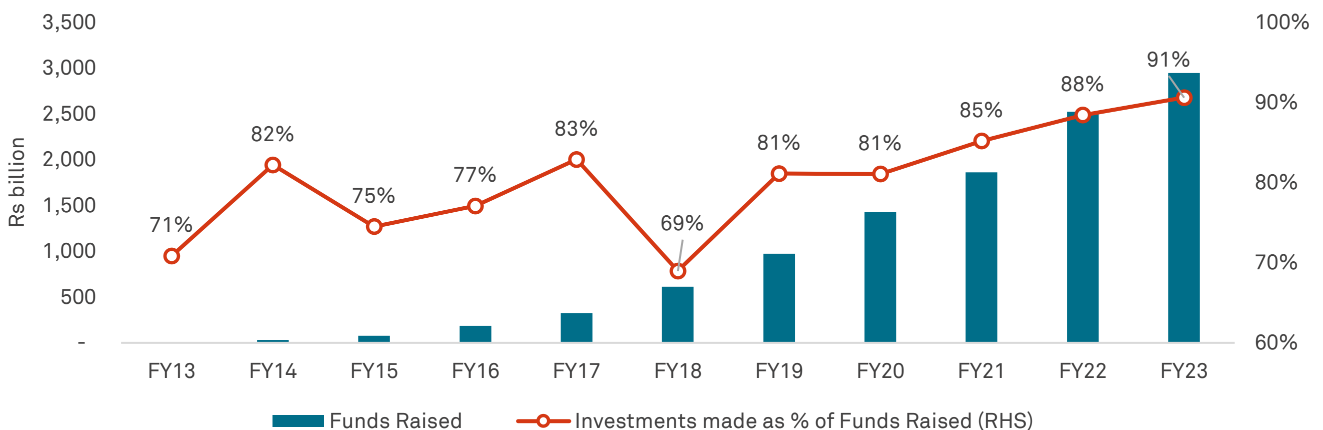

*Source: SEBI*
*Note: 1) Total commitment raised is a cumulative number 2) Number of registrations refers to number of AIFs registered on a yearly basis.*

Total funds raised as on March 31, 2023 stood at Rs 3,656 billion, of which Rs 3,380 billion has been invested. With the increase in capital commitments, the funds raised and invested amount have also increased at a decent pace. They grew more than four and five times, respectively, over the past five years.

### Reduction in deployment time indicating deepening of unlisted markets

Investments made refers to the amount invested by the AIFs. Investments made as a percentage of funds raised in case of Category I and II AIFs rose from ~71% as of March 2013 to ~91% as of March 2023, averaging ~80% over the past 10 years. The increase was steady over the past five years, which would generally mean that after the fund-raising process is completed, the investment managers and AIFs have been deploying the capital and making investments for the investors.

**Investment made as a percentage of funds raised (Cat I and Cat II AIFs)**




*Source: SEBI, CRISIL MI&A Research*

# Investment managers raise higher commitments with subsequent fund launches

Based on data shared with CRISIL for CRISIL AIF benchmarks, IMs of Category I and II funds have been segregated into three slices for this analysis — of the 249 IMs, 151 have launched only one fund, 54 have launched only two funds and 44 have launched more than two funds.

The analysis shows that, with the AIF industry showing robust growth in the past few years, the IMs have been able to raise higher commitments with subsequent fund launches as they are able to position themselves better in the investor community (as shown below).

## Break-up of Cat I and II IMs based on fund launches

## % IMs with Increase in commitment numbers between first and last fund*

*Source: CRISIL MI&A Research*
*Notes: 1) Values as on March 31, 2023*
*2) Schemes that have completed at least one year since their first close as on March 31, 2023, have been considered*
*3) Only Category I and II AIFs have been considered*
** 2 IMs with only two fund launches and 3 IMs with more than two fund launches have not been considered for this calculation because of unavailability of commitment numbers*

# Equity funds in private markets outperform public-market peers

With the evolution of the AIF industry, it becomes important to evaluate their performance especially in the VC and PE markets which is the focus for this report. To understand this better, we have considered data shared with CRISIL for CRISIL AIF benchmarks. These benchmarks gauge the performance of all three AIF categories at an aggregate level as well as 15 sub-category-level benchmarks to enable a like-for-like comparison of a fund's returns with its category. The sub-categorisation has been done based on the type of assets and strategy the funds invest in.

In the following sections, we consider the venture capital funds (VCFs) and equity funds sub-categories to deep-dive into the performance of the VC and PE markets.

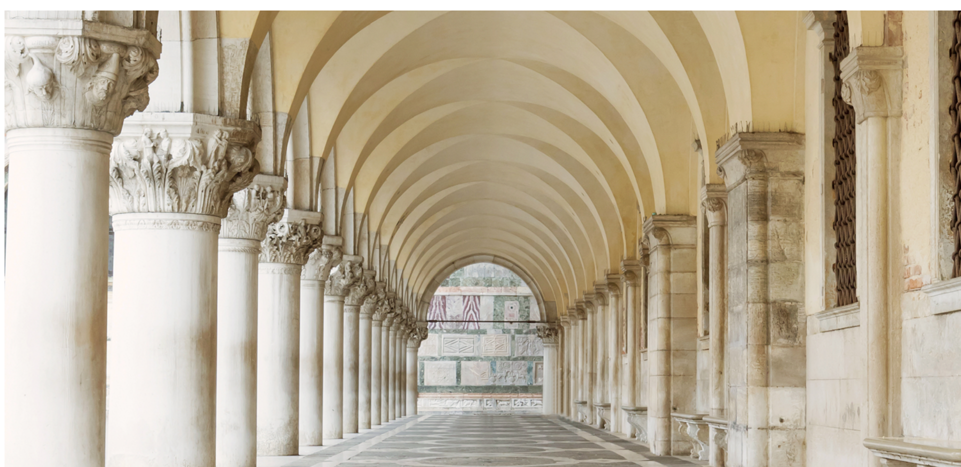
These two segments comprise 268 funds with a total valuation of Rs 2,173 billion as of March 2023.

VCFs are a part of Category I AIFs, which invest primarily in unlisted securities of start-ups and emerging or early-stage venture capital undertakings.

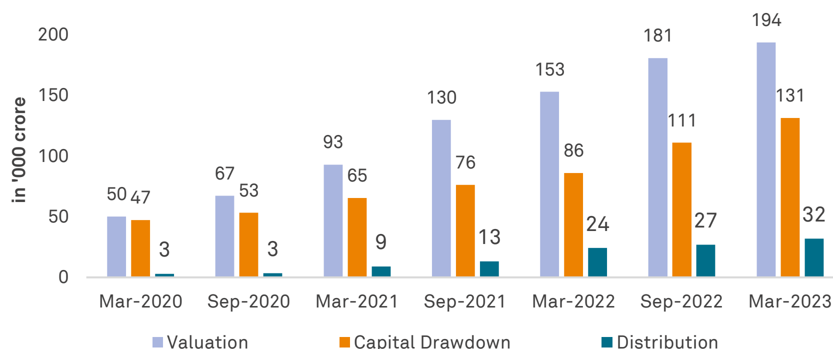
Equity funds form a part of Category II AIFs and comprise funds that invest their complete equity portfolio in unlisted securities and those investing in both listed and unlisted securities.

For this study, we have created an aggregated benchmark comprising the two categories.

The main trends emerging from our analysis are as follows:



## Capital drawdown, distributions, and valuations have consistently increased over the benchmarking cycles




*Source: CRISIL MI&A Research*
*Notes: 1) Values as on the end of each benchmarking cycle*
*2) Schemes that have completed at least one year since their first close as on the end of each benchmarking cycle, have been considered*
*3) Schemes consistent across cycles have been considered in addition to ones which were added owing to their first close eligibility. Twenty-five funds have been excluded for the above graph as data for these was not available consistently*
*4) Includes Category I VCFs and Category II equity funds as per CRISIL AIF benchmarks*

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An S&P Global Company

The valuation of funds in VCFs and equity funds considered in the above chart as per CRISIL AIF benchmarks has grown steadily across benchmarking cycles and so have the capital drawdowns and distributions. The total valuation of these funds stood at Rs 1,936 billion as of March 2023.

# AIF benchmarks post their best performance as of March 2022

The performance of VCF and Equity funds segments as per CRISIL AIF benchmarks in Category I and II, respectively, is determined by cash flows (drawdowns and distributions), which are staggered based on available opportunities of entry and exits identified by investment managers.

Pooled internal rate of return (IRR) is an appropriate measure for performance comparison since the timing of the cash flows is controlled by the fund manager. It denotes the IRR calculated at an aggregate level by pooling the cash flows within all the schemes belonging to the vintage year.

**To compare returns across various vintage years, CRISIL has created benchmarks as described below.**

**Criteria 1 benchmark**

(comprise Category I VCFs and Category II equity funds)

- Peer Benchmark 1 (comprising funds with more than 50% exposure to investments in the funding round up to series A)
- Peer Benchmark 2 (comprising funds with more than 50% exposure to investment in the funding round series B and beyond B)

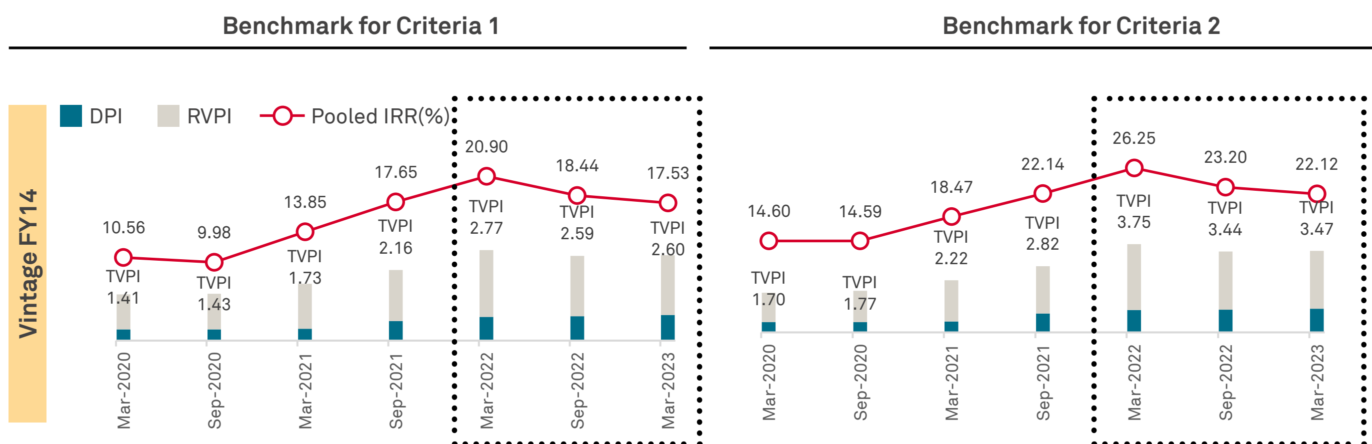
**Criteria 2 benchmark**

(comprise Category I VCFs and Category II equity funds that invest purely in unlisted securities

- Peer Benchmark 1 (comprising funds with more than 50% exposure to investments in the funding round up to series A)
- Peer Benchmark 2 (comprising funds with more than 50% exposure to investment in the funding round series B and beyond B)

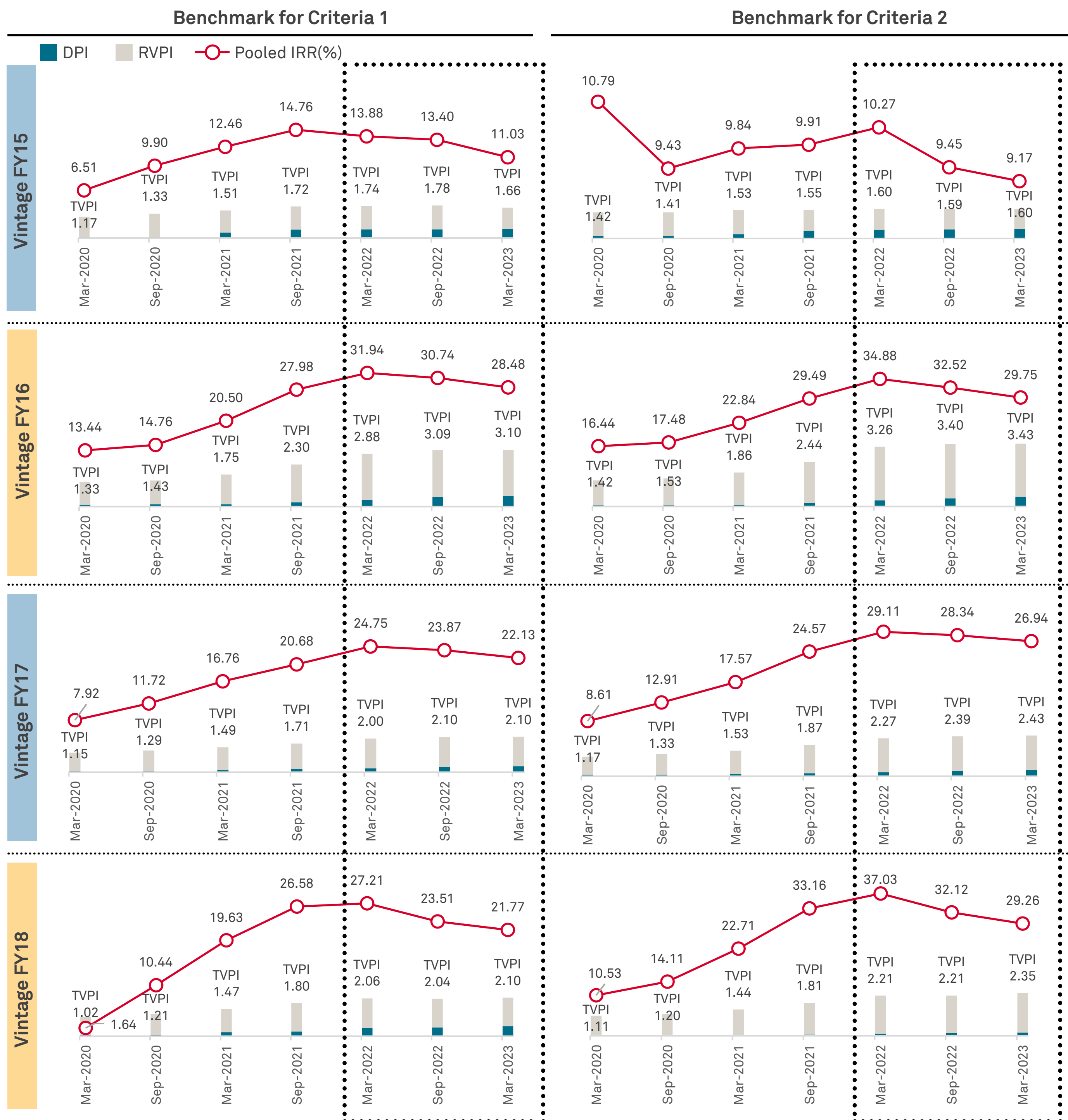
Critera 1 and 2 benchmarks across vintage years (barring fiscals 2015 and 2019) witnessed their best performance as of March 2022 benchmarking cycles but weakened in the following cycle. Having said that, funds belonging to vintage FY20, 21 and 22 have completed limited time of their tenor and their performance may not represent a holistic picture in terms of value creation.

**Decline in benchmark returns since the March 2022 benchmarking cycle**




*Source: CRISIL MI&A Research*
*Notes: 1) Values as on the end of each benchmarking cycle*
*2) DPI: Distributions to paid-in capital, RVPI: Residual value to paid-in capital, TVPI: Total value to paid-in capital*
*3) Schemes that have completed at least one year since their first close as on the end of each benchmarking cycle, have been considered*
*4) Returns and ratios are in Rs terms and refer to post-expense, pre-carry, pre-tax values*
*5) Only those vintage years that have at least three schemes available have been considered*
*6) FY denotes financial year; for example, FY15 refers to period between April 1, 2014 and March 31, 2015*
*7) Criteria 1 Benchmark comprises 267 schemes across vintage years for the March 2023 benchmarking cycle, while Criteria 2 benchmark comprises 216 schemes across vintage years for the March 2023 benchmarking cycle.*

**Decline in benchmark returns since the March 2022 benchmarking cycle**




*Source: CRISIL MI&A Research*
*Notes: 1) Values as on the end of each benchmarking cycle*
*2) DPI: Distributions to paid-in capital, RVPI: Residual value to paid-in capital, TVPI: Total value to paid-in capital*
*3) Schemes that have completed at least one year since their first close as on the end of each benchmarking cycle, have been considered*
*4) Returns and ratios are in Rs terms and refer to post-expense, pre-carry, pre-tax values*
*5) Only those vintage years that have at least three schemes available have been considered*
*6) FY denotes financial year; for example, FY15 refers to period between April 1, 2014 and March 31, 2015*
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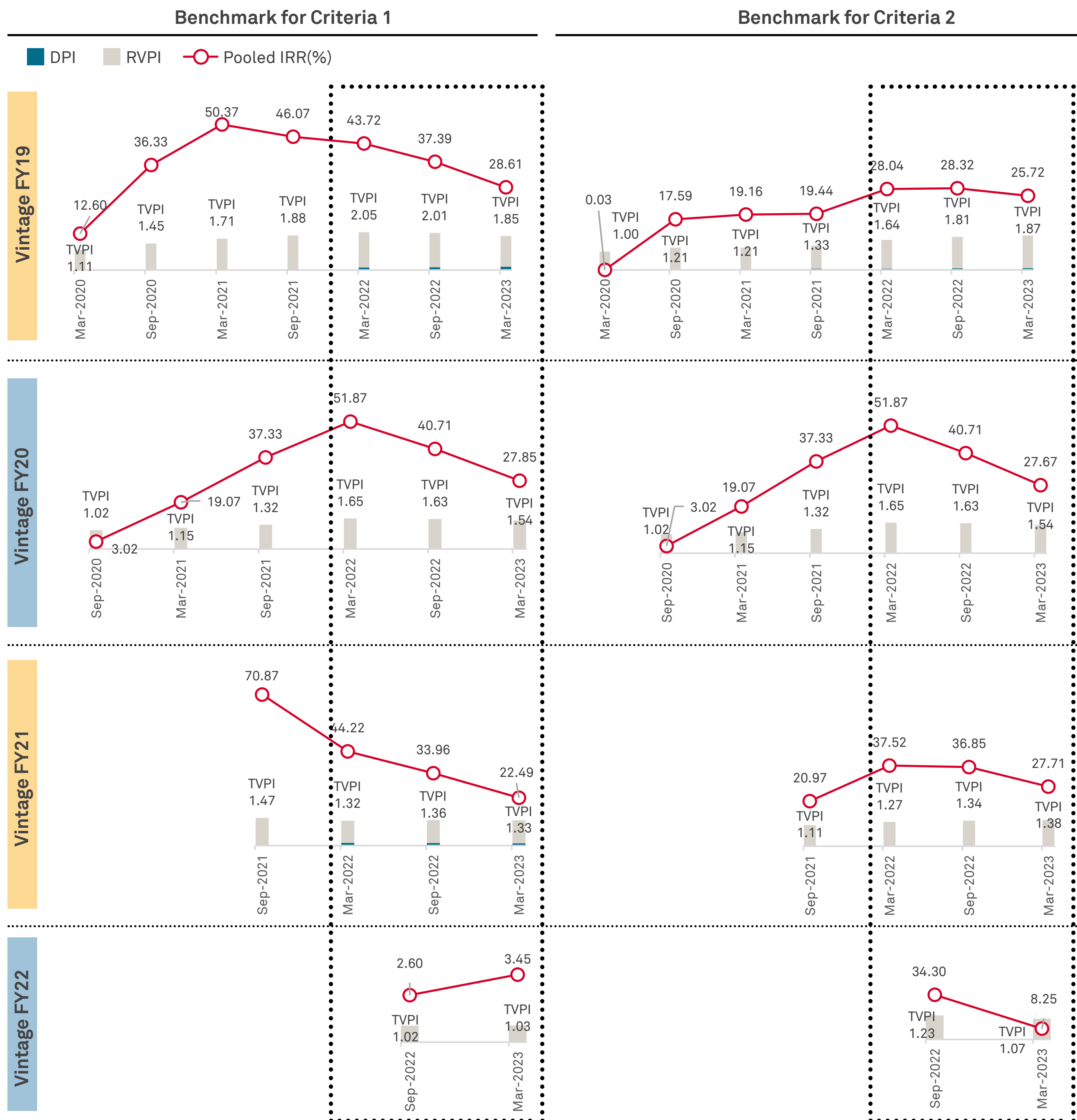
**Decline in benchmark returns since the March 2022 benchmarking cycle**




*Source: CRISIL MI&A Research*
*Notes: 1) Values as on the end of each benchmarking cycle*
*2) DPI: Distributions to paid-in capital, RVPI: Residual value to paid-in capital, TVPI: Total value to paid-in capital*
*3) Schemes that have completed at least one year since their first close as on the end of each benchmarking cycle, have been considered*
*4) Returns and ratios are in Rs terms and refer to post-expense, pre-carry, pre-tax values*
*5) Only those vintage years that have at least three schemes available have been considered*
*6) FY denotes financial year; for example, FY15 refers to period between April 1, 2014 and March 31, 2015*
*7) Criteria 1 Benchmark comprises 267 schemes across vintage years for the March 2023 benchmarking cycle, while Criteria 2 benchmark comprises 216 schemes across vintage years for the March 2023 benchmarking cycle.*

Within the VCF and equity funds segments, as mentioned above, fund managers can look for various strategies, one of them being the development stage of the companies in which the fund invests. The risk and return profile of pre-seed and early-stage companies is different from that of late-stage companies. To provide differentiation by the stage of investment, CRISIL has created two more benchmarks – peer benchmark 1 and peer benchmark 2 for each of the two criteria as mentioned earlier which are based on the stage of investments.

### Peer benchmarks under criteria 1

On comparing the results of these benchmarks, we observed that the pooled IRR of the peer benchmark 1 as of March 2023 was 39.02%, while the pooled IRR for peer benchmark 2 was 25.98%. At the same time, the spreads between the first- and third-quartile thresholds for peer benchmark 1 were wider than the spreads between the thresholds for peer benchmark 2.

### Peer benchmarks under criteria 2

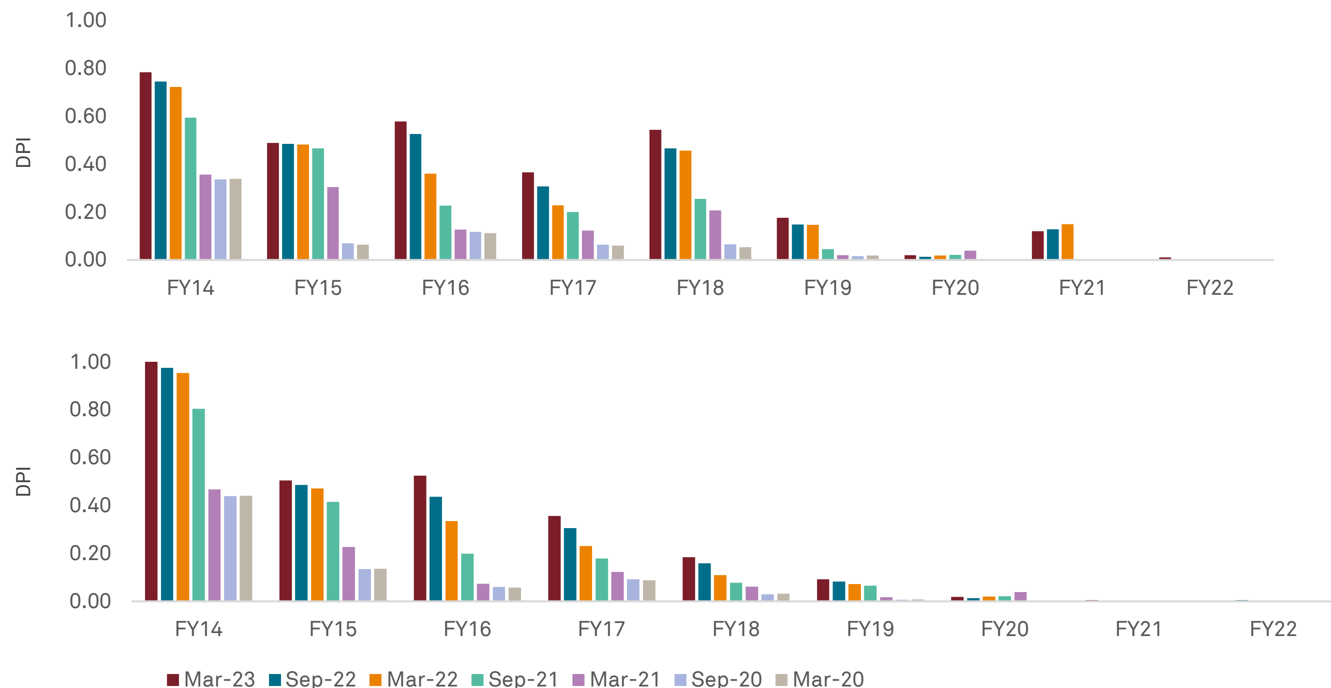
The pooled IRR of the peer benchmark 1 under Criteria 2 as of March 2023 was 39.81%, while the pooled IRR for peer benchmark 2 was 27.02%. There were not enough funds in most of the vintage years for peer benchmark 2 under this criteria to compare the quartile spreads.

## Distributions are higher for older vintages

In addition to performance, another key metric for investors to gauge is distributions to paid-in capital (DPI), which indicates distributions made by the funds. DPI evaluates the money-returned versus money-managed quotient. While internal rate of return (IRR) indicates overall fund performance at any given point in time, timely exits are critical to return realisation and are in the best interest of investors. Money multiples are, therefore, calculated alongside at the peer group level to assess the pattern of investments and distributions of peers in comparison with the fund that is being reviewed.

As can be seen from the chart below in case of both criteria 1 and criteria 2 benchmarks for each benchmarking cycle, funds belonging to older vintage years have higher DPI than the more recent ones, given the nature of investments in these funds.

**Distributions to paid-in capital**

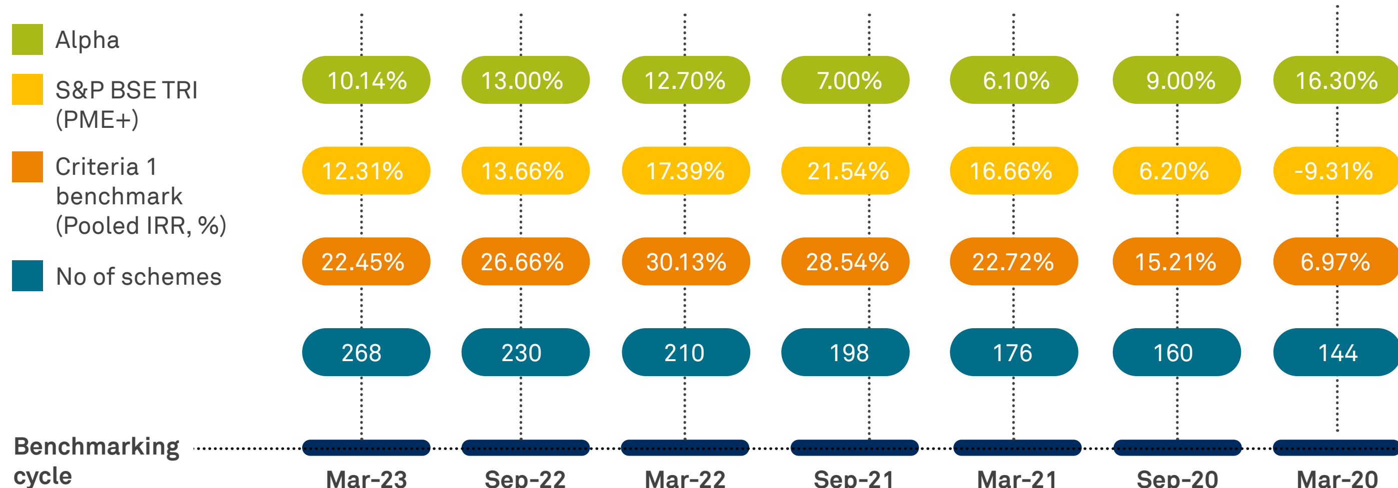


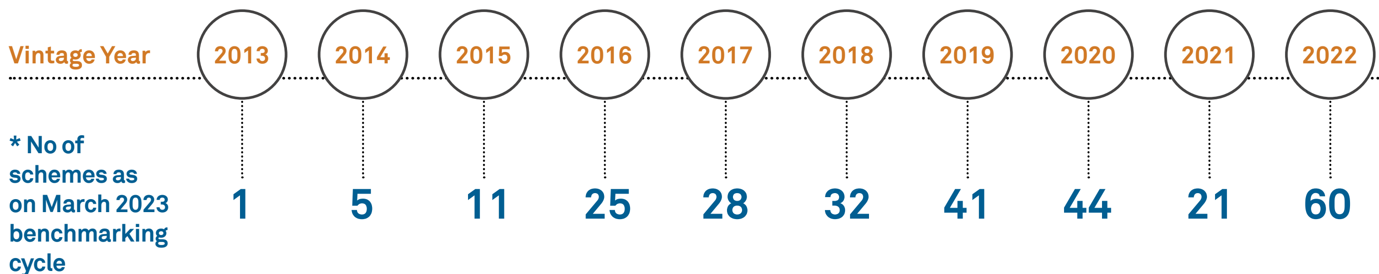

*Source: CRISIL MI&A Research*
*Notes: 1) Values are in INR terms as on the end of each benchmarking cycle*
*2) Schemes that have completed at least one year since their first close as of the end of each benchmarking cycle, have been considered*
*3) FY denotes financial year; for example, FY15 refers to period between April 2014 and March 2015*
*4) Criteria 1 Benchmark comprises 267 schemes across vintage years for the March 2023 benchmarking cycle, while Criteria 2 benchmark comprises 216 schemes across vintage years for the March 2023 benchmarking cycle.*

# Substantial alpha with respect to public market equivalent despite down-turn in returns

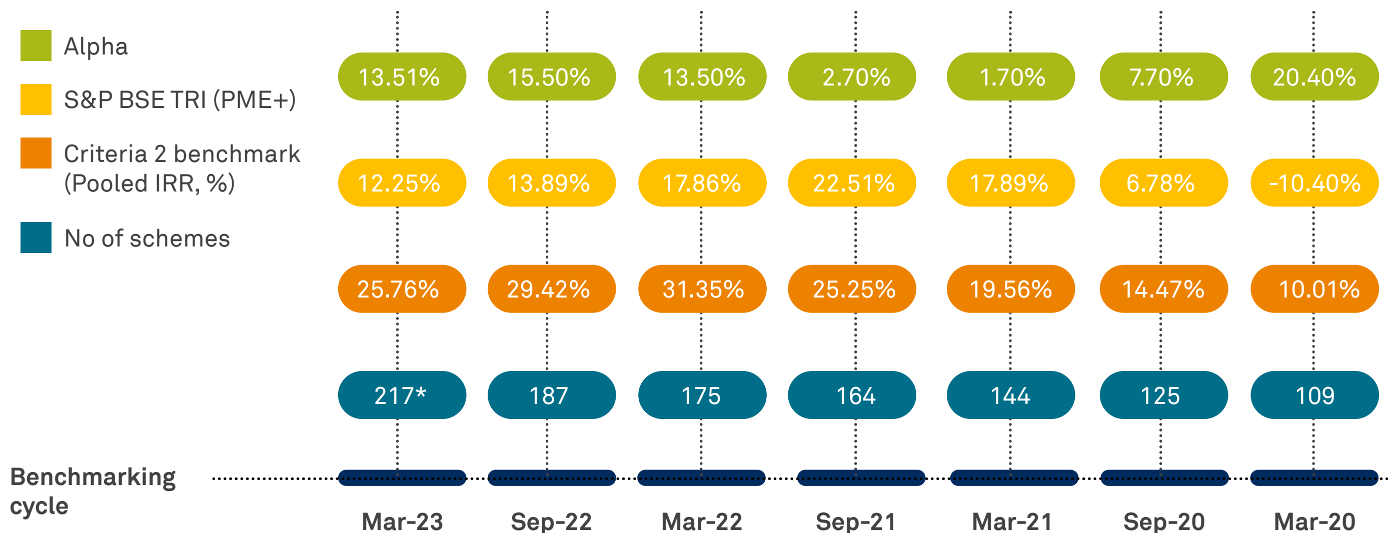
Investments into AIFs also bear an opportunity cost for investors in comparison with investments into listed markets. Public market equivalent methods can be used to understand the alpha generated by an AIF over broader market indices. These methods replicate cash flows of an AIF to a public index to measure how investment in the AIF would have performed in the public market index.
To understand the alpha generated by the benchmarks discussed in the previous sections, we have calculated the difference between the pooled IRRs across vintage years over the benchmarking cycles and their corresponding PME+ values (using S&P BSE Sensex TRI). As of March 2023, the benchmarks were able to generate an alpha of 10.1% and 13.5% over than the public market index across the benchmarking cycles considered, for criteria 1 and 2, respectively, when the amount and timing of cash flow remain the same.

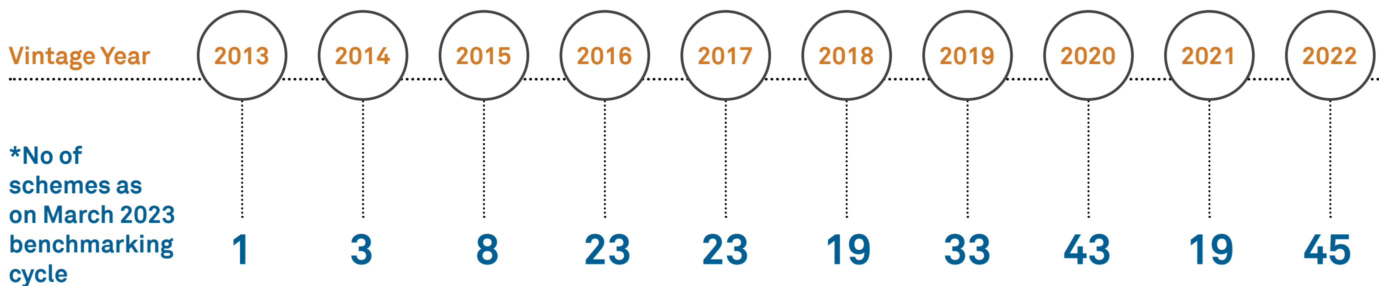
**Criteria 1 benchmark's alpha over public market equivalent**



**Criteria 2 benchmark's alpha over public market equivalent**



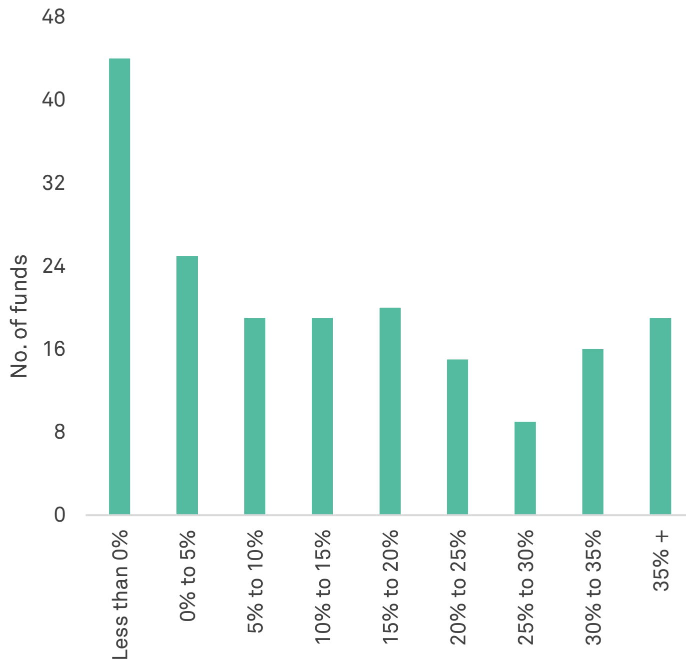




*Notes:*
*1) Values as on the end of each benchmarking cycle*
*2) Schemes as per criteria 1 and 2 benchmarks have been considered from vintages FY13 to FY22. Schemes that have completed at least one year since their first close as on the end of each benchmarking cycle, have been considered.*
*3) Returns are in Rs terms and refer to post-expense, pre-carry, pre-tax values, carried interest (performance fee/carry)will have an impact on the returns of the funds and hence alpha*
*Source: CRISIL MI&A Research*

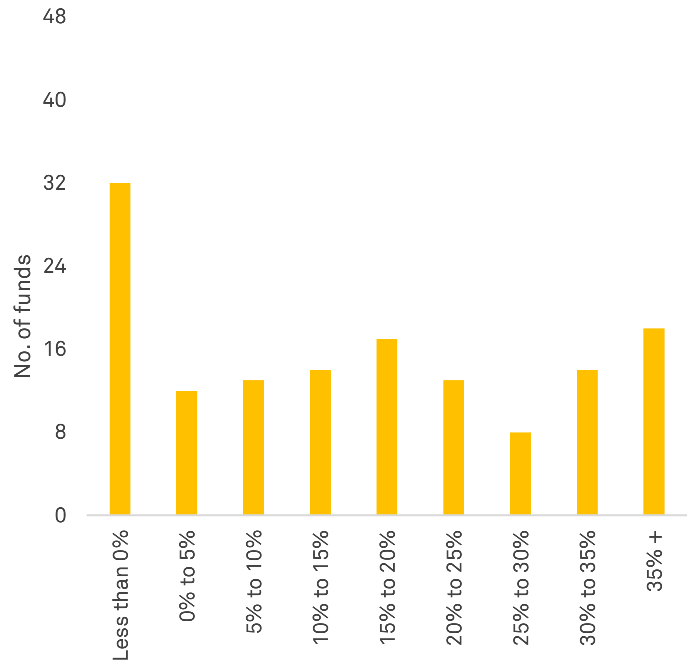
A distribution of the alpha recorded by the funds in the above-mentioned benchmarks over their respective public market equivalent (PME+) reveals that more than 75% of the funds have generated positive alpha.

**Distribution of funds' alpha over their corresponding public market equivalent**

**Alpha for funds in Criteria 1 benchmark**




**Alpha for funds in Criteria 2 benchmark**




*Source: CRISIL MI&A Research*
*Notes: 1) PME+ of S&P BSE Sensex TRI are in Rs terms as on March 31, 2023*
*2) Schemes that have completed at least one year since their first close as on March 31, 2023, have been considered*
*3) Only those vintage years that have at least three schemes available have been considered*
*4) PME+ cannot be calculated for funds that have not made any distributions till March 31, 2023. IRR and PME+ of 186 and 141 funds have been considered for Criteria 1 and 2, respectively.*

# Returns vary widely across vintage years

To understand the distribution of IRR across the peer set, the returns for each fund are distributed in quartiles to arrive at quartile thresholds. While the pooled IRR are dependent on the asset size of funds that are part of the peer group, quartile thresholds are agnostic of asset size, thereby painting a holistic picture of performance in a particular vintage.

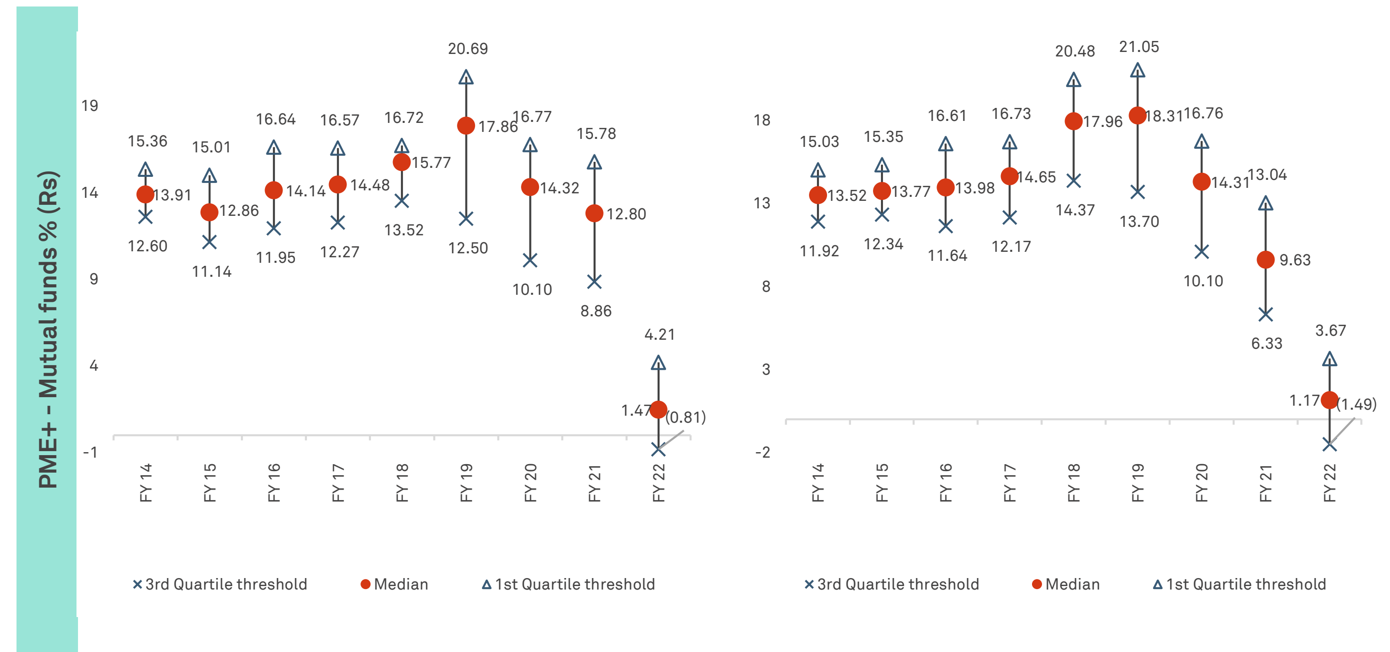
The distribution of fund IRRs across vintage varied widely. For instance, the IRR of funds belonging to vintage fiscal 2021 ranged from 6.91% to 38.4%.

Further, the IRR varied in a narrow range compared with the AIFs when the cash flows of the aggregated benchmarks were replicated over mid and small cap mutual funds as the public market equivalents.

For instance, the spread between the 1st and 3rd quartile thresholds for the funds' IRR under Criteria 1 averaged 23.61% for the vintage years considered in the charts below, while the spread for mutual funds as PME averaged at only 5.07%. The spread for funds' IRR under criteria 2 averaged 25.71%, while the average spread for mutual funds as PME was 5.29%.

For funds in Criteria 1 benchmark | For funds in Criteria 2 benchmark

*Source: CRISIL MI&A Research*
*Notes: 1) Values as on March 31, 2023*
*2) First and third quartiles are the return thresholds for the top 25% and 75% schemes, respectively, based on IRRs of each scheme in each vintage year. First, median and third quartile thresholds are calculated based on the returns for all the individual funds. Please refer to annexure for details*
*3) For quartile analysis, only those vintage years that have at least six schemes available have been considered*




*Source: CRISIL MI&A Research*
*Notes: 1) Values as on March 31, 2023*
*2) First and third quartiles are the return thresholds for the top 25% and 75% schemes, respectively, based on IRRs of each mutual fund in each vintage year. First, median and third quartile thresholds are calculated based on the returns for all the individual funds. Please refer to annexure for details*
*3) PME+ for 45 mutual fund schemes in the mid and small cap segments have been considered based on their inception for vintage year wise aggregated benchmarks considered in this report*

# Growth drivers and regulatory regime for AIFs in India

Indians have traditionally invested in fixed income instruments, especially bank fixed deposits. However, with investors becoming more aware, there has been a slow but steady change in investor attitude with their focus shifting towards capital market products. They are finding these products more attractive. Alternatives as an asset class is also witnessing higher adoption among investors with higher risk appetite, namely the HNIs. The share of alternative products as represented by commitment raised from AIFs grew from 1% of total AUM of managed investment products[19] in March 2017 to 5% in March 2022. As of March 2023, the ratio of AIF industry's commitment to gross domestic product stood at ~3%[20]. It is expected to rise to around 6%[21] by 2027.

More than 53% of the AIFs operating in the country have been registered with SEBI in the past four years. These AIFs are yet to complete their life cycle, and their performance will be a key factor driving growth of the industry.

HNIs, ultra-HNIs and retail investors form the foundation of the domestic AIF industry. AIFs are becoming more attractive for HNIs and ultra-HNI's because the SEBI has been proactively trying to bring in more transparency in the industry.

Below we discuss some of the growth drivers of the domestic AIF industry.

## Domestic capital flow increasing

Currently, foreign investors dominate the AIF industry in India. The shift in focus of the intermediaries, such as distributors and family offices, from traditional products to AIFs, and SEBI's proactiveness in bringing in many regulatory changes are expected to help reverse the investment mix in favour of domestic investors in the coming years. In recent years domestic institutional investors, such as retirement funds and insurance companies, have been allowed to invest in AIFs. This will be a major growth driver for the industry.

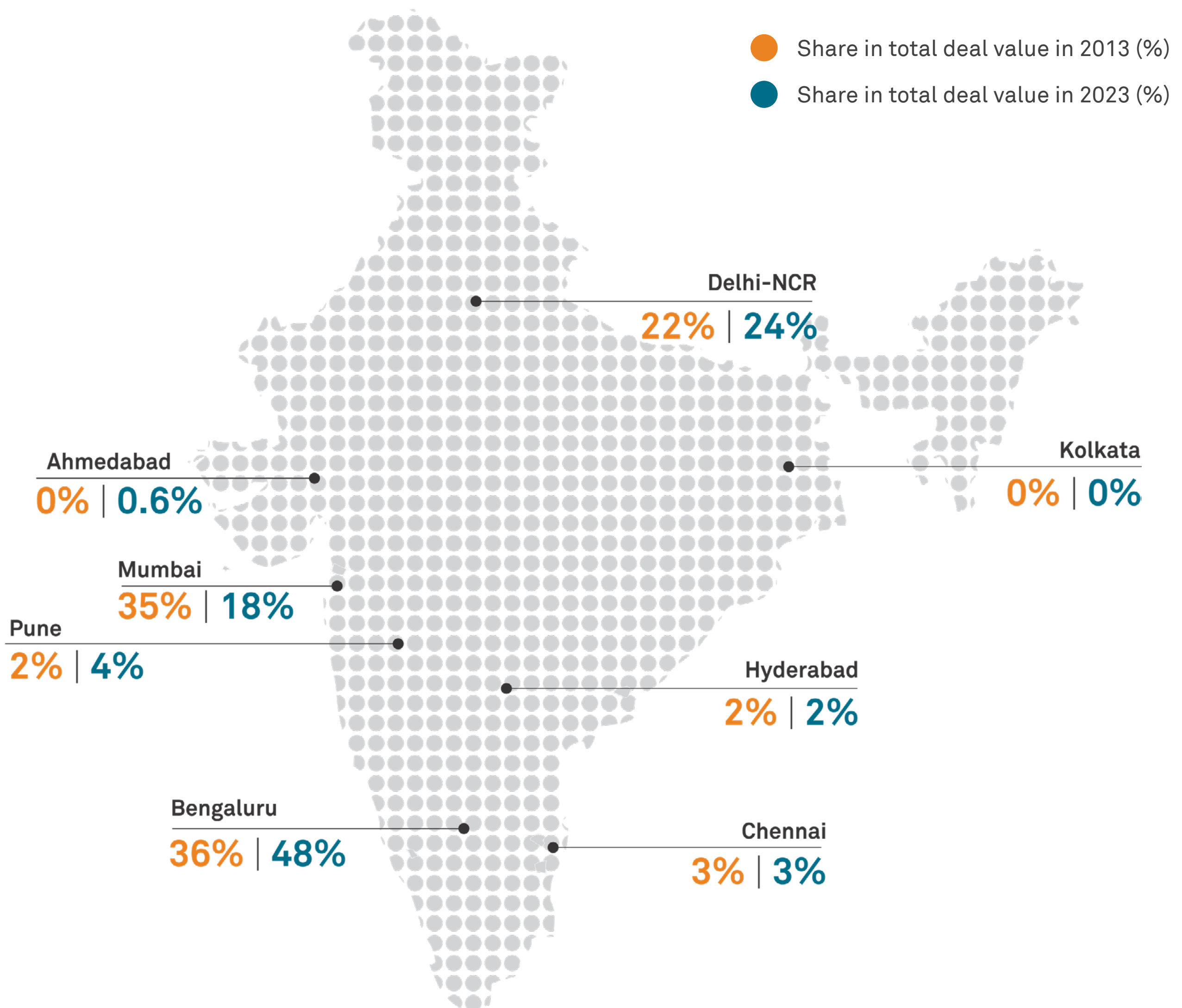
## Increasing investment opportunities in cities beyond Tier 1

Historically, Tier 1 cities have been attracting majority of the VC and PE investments in India as they have well developed infrastructure, stable and growing economy, better technology, and many other advantages. Between fiscals 2013 and 2023, these funds' investments in Tier 1 cities — namely, Ahmedabad, Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai and Pune — increased significantly, both in volume terms and value terms.

*[19]Includes AUM of life insurance, mutual funds, National Pension System (NPS), provident funds (PF), portfolio management services (PMS; excluding PF and advisory assets), commitments raised by AIFs, and retirement fund assets as per CRISIL MI&A Research estimates*
*[20]Source: IMF World Economic Outlook April 2023, SEBI, RBI*
*[21]Source: CRISIL report 'The big shift in financialisation', December 2022*

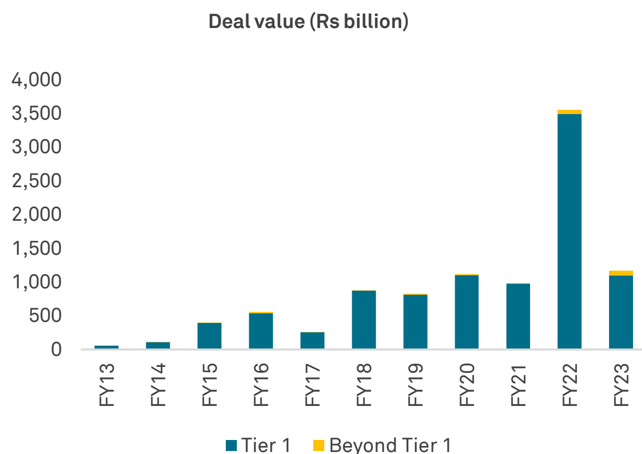
The top three cities that attracted the most investments in terms of value and volume were Bengaluru, Mumbai and Delhi-NCR. Over the period, the share of investments each city got has witnessed slight changes. In fiscal 2013, Bengaluru accounted for 36% of the VC and PE investments made in Tier 1 cities. This increased to 48% in fiscal 2023. The city's share in the total number of deals rose from 35% to 38% during the period. Mumbai, meanwhile, saw a decline in share in both value and volume terms — from 34% to 18% in investment value and from 23% to 17% in number of deals. However, the share of Delhi-NCR remained stable in both value and volume terms in the range of ~22-29% of the total investments in Tier 1 cities. Ahmedabad and Pune saw a minor growth. Pune's share in deal value increased from 2% to 4% and that in deal volume declined marginally from 6% to 5% during the period.

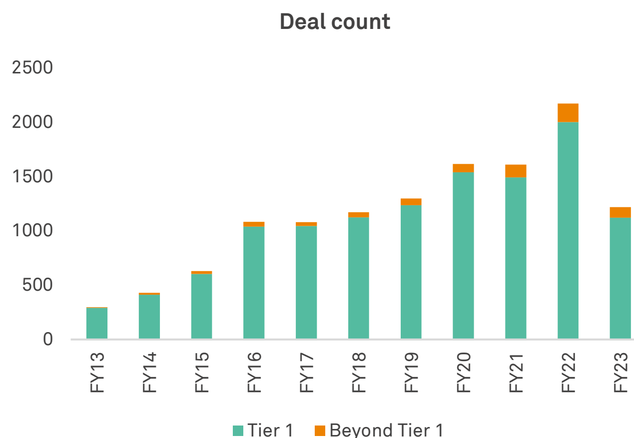
Ahmedabad's share in total deal count increased from 0.3% to 2.2% and that in total deal value from 0.2% to 0.6%. Other Tier 1 cities (Chennai, Hyderabad, and Kolkata) saw their share in investment value and volume both staying stable over the 10-year period.




*Source: Oister Global*
*Notes: 1) Deals with undisclosed values are included in the number of deals but not in the value of deals*
*2) Data do not include venture debt, conventional debt, convertible debt, grant (prize money) and post-IPO transactions*

Earlier, the funds preferred Tier 1 cities for making investments. However, they have now started shifting their focus to cities beyond Tier 1 (include Coimbatore, Salcete in Goa, Patna and Indore). While in value terms their investment is still low in these cities, the number of deals they are entering into has increased considerably mainly due to rise in entrepreneurship and talent in these cities and towns. Also, the Make in India initiative by the Union government, increased digitalisation and educated population are making these regions visible in the start-up eco-system space.




*Source: Oister Global*
*Notes: 1) Deals with undisclosed values are included in the number of deals but not in the value of deals*
*2) Data do not include venture debt, conventional debt, convertible debt, grant (prize money) and post-IPO transactions*

There has been a significant rise in the deal activity in cities beyond Tier 1. In fiscal 2013, these cities saw just eight deals. The number in fiscal 2023 stood at 97. In value terms, the investment jumped from Rs 318 million to Rs 71 billion during the period. Some of the major deals have also happened in these cities. For instance, in fiscal year 2023, Ampere Vehicles based in Coimbatore raised Rs 17 billion and Molbio Diagnostics based in Salcete raised Rs 7 billion.

# Supply surplus

Over the last few years, the start-up culture in India has been thriving. As per the government data, since the launch of startup India initiative in 2016 the total number of recognised start-ups in the country stands at 1,12,718[22] entities as on October 3, 2023. The PE industry has shown strong growth over the last decade with new investors rushing to invest in start-ups in India. The dynamic nature of underlying supply will also ensure there are enough exit options which will also boost investor confidence.

# Regulatory and government focus

Over the last few years, the regulator has taken several important steps, such as standardisation of the private placement memorandum (PPM), PPM audits and mandatory benchmarking of AIFs, which will play a key role in improving transparency and help investors make informed decisions.

AIFs can now be setup in International financial service centre (IFSC) in GIFT city, and avail several benefits like tax incentives, world class infrastructure, proximity to onshore markets, certain exemptions to non-resident investors etc. These will create additional avenues with increased investment opportunities, which in turn will help improve investor participation across the industry.

The AIF sector has been continuously evolving and growing. The steps taken by the regulator have been focussed on compliance and are aimed at building investor confidence, increasing transparency, and bringing in more participants.

[22] *www.investindia.gov.in*

SEBI is also seeking to address various issues faced by AIFs and trying to make the structure investor friendly.

Aimed at bringing in more transparency in regulations governing the AIF industry and streamlining the sector, SEBI has lately published various consultation papers seeking comments from the public. Some of them published in May propose amendments to the SEBI (AIF) Regulations, 2012, such as extending mandate for appointment of custodian to all AIFs, specifying borrowing guidelines for Category I and II AIFs, and making it compulsory for AIFs to hold their investments in demat form. These changes are expected to strengthen governance mechanisms. SEBI is also seeking inputs with the objective of providing more clarity on pro rata and pari passu rights of AIF investors.

Given below is a timeline covering some of the major regulatory changes and their impact on the investors:

## 2012 & 2013

- SEBI (Alternative Investment Funds) Regulations 2012 introduced in May, 2012
- Periodic reporting to SEBI by AIFs
- Risk management framework introduced for Category III AIFs
- Calculation of exposures and NAV, obligation of AIFs & custodians in case of breach of limits

## 2014 & 2015

- Fees, charges, and litigation to be disclosed in PPM for enhanced transparency
- Preparation and submission of compliance test report for increased compliance oversight
- Guidelines released on overseas investment by AIFs/ VCFs to enable more investment options for AIFs

## 2017 & 2018

- Introduction of online system for registration of AIFs, reporting and filing
- Enhanced reporting format for Category III AIFs to capture investments in commodities
- Guidelines for AIFs with respect to operation in IFSC, including requirements, conditions and restrictions

## 2020

- Enhanced and standardised disclsoure norms for AIFs to improve transparency
- Accountability of members of Investment Committee for investment decisions of the AIF, in case it is a decision-making body.
- Mandatory performance benchmarking for AIFs
- Introduction of templates for PPMs
- Mandatory annual audit of PPMs

## 2021

- Introduced framework for AIFs to invest in units of other AIFs to widen the pool of investors
- Applicability of Code of Conduct for Alternative Investment Funds
- Introduction of new class of investors — accredited investors
- Mandatory filing of PPM through a SEBI-registered merchant banker
- Co-investment by investors of AIFs shall be through a co-investment portfolio manager as specified under SEBI (PMS) Regulation 2020
- Enhancement of disclosure practices as follows
  - Introduction of investor charter to provide relevant information to investors
  - Change in KMPs to be disclosed to investors and SEBI
  - Maintain data on investor complaints in a specified format

## 2022

- Introduction of special situation funds for investment in special situation assets
- Appointment of a compliance officer made mandatory to bring AIFs at par with other investment products
- Guidelines for LVFs for Accredited Investors
- To standardise operational aspects, issued guidelines governing first close, calculation of tenure, fees, commitment made by manager/ sponsor or change in manager/ sponsor
- Eliminated the requirement for an Indian connection for overseas investment to provide more overseas investment opportunities
- Priority distribution model to be discontinued to bring all investors on equal footing

## 2023

- Introduction of direct plan for schemes of AIFs and trail model for distribution commission in AIFs
- AIFs shall undertake at least 10% of total secondary market trades in Corporate Bonds by value in a month by using the RFQ platform
- All schemes of AIFs shall dematerialise their units in a specified time frame
- Standardised approach to valuation of investment portfolio of AIFs

"The growth of the private markets in India is part of a global trend — that of expansion of private markets outside the USA and Europe. Within this larger trend, India is in an advantageous position due to government policies that provide a solid platform for commercial innovation, from the GST to the India Digital Stack to expansion of roads and airports. This innovation-rich environment is India's unique advantage and may explain why in India alone venture capital has been the largest part of the private market for some time. This environment is getting support from emerging pools of domestic capital, whether from the state, corporates, entrepreneurs, or family offices, and is expected to only grow from here."

**Ashish Jain, Co-Founder and Partner at WaterBridge Ventures**

# Annexure

## Methodology, definitions and eligibility criteria for CRISIL AIF Benchmarks

### Vintage year

Benchmarks for Category I and II are calculated based on their vintage years. Vintage year is defined as the financial year in which the scheme had its first close, i.e., the vintage year of a fund will be FY14 if it had its first close between April 1, 2013, and March 31, 2014.

Only those vintage years are considered that have at least three schemes available. Those with less than three schemes have been excluded.

### Calculation metrics

The benchmarks for Category I and II are based on the following metrics:

#### Pooled internal rate of return (IRR)

Pooled IRR denotes the IRR calculated at an aggregate level by pooling all the cash flows that have occurred within all the schemes belonging to the category and the vintage year. Here the cash flows are considered according to the date on which they have occurred and the valuation as on the last day is considered as the terminal value for the calculation.

#### Investment multiples and ratios

Three types of ratios are considered for calculation of benchmarks — distributions to paid-in capital (DPI), residual value to paid-in capital (RVPI) and total value to paid-in capital (TVPI). All the three are calculated for each applicable vintage year.

**DPI:** It is the ratio of the total distributions made to the paid-in capital. DPI is also called 'realisation multiple'.

**RVPI:** It is the ratio of the residual value of all investments remaining in the fund after DPI. The residual value refers to the valuation of the scheme as on the date for which the benchmarks have been calculated.

**TVPI:** It is the ratio of the sum of total distributions and residual value, to the total paid-in capital. It is also called 'investment multiple'.

#### Quartile analysis

To understand the distribution of IRR across the peer set, the returns for all the individual funds are calculated. First, median and third quartile thresholds are reported. First and third quartiles are the return thresholds for the top 25% and 75% schemes, respectively, based on the each scheme's IRRs in each vintage year. Thus, any fund with an IRR value above the first quartile threshold belongs to the top quartile. Similarly a fund with IRR value between the first and median quartiles belongs to the second quartile, and so on. Funds with returns below the third quartile belongs to the bottom quartile.

For Category III funds, quartile analysis is based on the individual fund's trailing returns for various timeframes. Only those funds have been considered that have been in existence as on March 31, 2023 and are operational for the entire time period.

For quartile analysis, only those vintage years have been considered where at least eight schemes are available.

#### Public market equivalent

Public market equivalent (PME+) as a metric that helps compare the performance of an AIF against any public index. The PME+ method tries to replicate the cash flows of the AIF to a public index. The cash flows, depending on whether it is an inflow or outflow, are invested and distributed to and from the public index on the same dates as that of the AIF. The distributions are adjusted using a scaling factor to avoid a situation where the public index is oversold and results in the negative terminal value.

### Eligibility criteria

- All AIFs registered with SEBI under the SEBI (Alternative Investment Funds) Regulations, 2012, are considered for the calculation of benchmarks, provided they fulfil the following criteria:
  - The scheme has completed one year from its first close as on the date for which the benchmarks are calculated. For example, AIF benchmark calculated for the period ending March 31, 2023, will have funds that had their first close on or before March 31, 2022
  - Data is provided by the AIF in the required format within the specified deadline
- The following are excluded from calculation of benchmarks:

- Angel funds registered under sub-category VCF under Category I AIF
- Fund of funds
- Any scheme that has not had any transactions or investments anytime in the past
- Any scheme that has not completed one year since its first close as on the date for which the benchmarks are calculated, i.e., March 31, 2023
- Any scheme that has not provided complete data or that has not provided data in the required format

- Schemes are divided based on their vintage years as described in the previous section. Only those vintage years are considered that have at least three funds available. Thus, schemes that belong to vintage years in which less than three schemes were available are excluded
- For quartile analysis, only those vintage years have been considered where at least eight schemes are available

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As a result, accessing this space through seasoned professional fund managers is a prevailing trend in developed markets. Notably, HNIs in the United States allocate a substantial 20%** of their wealth to this asset class, often channelled through investments in VC and PE funds.

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At the heart of Oister is our dedicated team. With years of experience managing alternative investments, we actively navigate the intricacies of the relevant markets. Our method is thorough, identifying and collaborating with only the most reputable and successful fund managers.

Oister India funds are registered with the Securities and Exchange Board of India as scheme/s of alternative investment funds and are committed to acting in strict conformity with the applicable regulations.

** When compared with Public market equivalent (PME+). PME is a metric that helps compare the performance of an AIF against S&P BSE Sensex TRI. The PME+ method tries to replicate the cash flows of the AIF to a public index*

***Source - https://www.titanbay.com/news-and-insights/the-ultra-high-net-worth-private-equity-investing-report-2023*


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CRISIL Limited: CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India
Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com

/company/crisil @CRISILLimited /CRISILLimited /user/CRISILLimited /lifeatcrisil



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