Research Articles

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INDIA 2025: THE EMERGING POWERHOUSE FOR PRIVATE EQUITY AND M&A DEALS

INTRODUCTION

Global deal-making in 2024 faced uncertainties much different from its predecessors: geopolitical instability caused by the ongoing Israel-Palestine and Russia-Ukraine disputes, pivotal elections in superpowers such as USA and India, rising interest rates causing significant risks of an impending global inflation, shifts in data protection laws worldwide, significant advancement of artificial intelligence (“**AI**”), and regulatory crackdowns against large conglomerates.

Despite these headwinds, reports have indicated that the year marked a ‘turnaround’ for global mergers and acquisitions (“**M&A**”), with the top deals of 2024 crossing about USD 1000 billion. India’s story is no different: gross foreign direct investment (“**FDI**”) reached a total of USD 1 trillion since April 2000 (with a nearly 26% rise of FDI to USD 42.1 billion during the first half of the fiscal year 2024).[1] Preliminary predictions showcase a positive sentiment of deal-making in India in 2025, largely attributable to increasing investor confidence, growth of digital infrastructure and increased acquisition opportunities.

We have been consistently monitoring legal, political, and regulatory developments in the last few years to deduce key trends that will shape the future of deal-making and its impact on transaction structuring, negotiation and documentation. Our previous forecasts (for the years 2023 and 2024) are available here and here respectively. Below are some of the trends we anticipate will form the cornerstone of deal-making in India in 2025:

1. CHANGING INDIA-US TRADE RELATIONS: DYNAMIC DUO OF TRUMP 2.0 AND MODI 3.0

India's 2024 general elections brought about an unparalleled political shift. With Prime Minister Narendra Modi securing a third consecutive term, policy continuity is expected to remain a hallmark. Key areas of focus include prioritizing infrastructure capital expenditure, enhancing the business environment, pursuing gradual fiscal consolidation, and driving growth in the manufacturing sector, particularly in automotives and metals. The Modi government has actively engaged foreign companies like Apple and Tesla, encouraging them to establish operations in India as part of their efforts to diversify supply chains away from China.

On the other hand, Trump has made comments on India’s tariffs on trade with USA, emphasizing “reciprocity” as a priority. While India’s relative dependence on bilateral trade from the USA is lower than countries such as China and Canada, additional tariffs could dampen the foreign investment sentiment and warrant “cautious optimism”. However, given India’s diversified foreign investment landscape and the likelihood of favorable diplomatic ties under Modi 3.0, similar to those during Trump’s first term, any potential impact on deal-making may remain limited.

2. INITIAL PUBLIC OFFERINGS’ (“IPO”): BOOM SET TO PERSIST

IPO activity in 2024 has demonstrated resilience of India’s capital markets, with 298 companies raising approximately INR 1.4 trillion in total, a 140% rise from the INR 494.36 billion raised by 57 IPOs in 2023.[2] Favorable listing conditions, strong investor confidence, and robust regulatory mechanisms, including the Securities and Exchange Board of India’s (“**SEBI**”) efforts to streamline small and medium enterprises’ (SME) IPO requirements, drove this growth.

Looking ahead, 2025 is poised for strong activity with potential listings from major conglomerates like LG and Flipkart, an uptick in ‘reverse flips’ into India, and mandatory IPOs for upper-layer non-banking financial companies (“**NBFCs**”) by September 2025.

While global optimism remains high, geopolitical factors like Trump’s election, the Middle East conflict, and governance issues in Europe may impact foreign investment. Nonetheless, India is expected to maintain its prominence in the financial landscape with a strong IPO pipeline in 2025.

3. RECOMMENDATIONS TO EASE PN3 RESTRICTIONS

The Press Note No. 3 (2020 Series) (“**PN3**”), introduced to curb opportunistic takeovers from countries sharing land borders with India, aiming to safeguard national security and strategic interests. However, the policy's lack of a defined threshold for "beneficial ownership" has resulted in ambiguity, leaving many investments—particularly those in non-sensitive sectors—unnecessarily delayed or stalled. This has deterred potential investments from neighbouring countries that could contribute to India's economic growth and job creation. While the Department for Promotion of Industry and Internal Trade’s Standard Operating Procedure (SOP) outlines the process for PN3 applications, the absence of clear timelines and publicly available data on approvals or rejections has further complicated the landscape for investors.

Recognizing these challenges, the Indian Government has sought stakeholder feedback to ease PN3 restrictions. Industry bodies and corporates have proposed the following key recommendations:

- **Define Beneficial Ownership:** Align criteria with existing laws by prescribing a 10% effective holding threshold on a look-through basis. For structures which have a listed company as a parent or any listed company in the intermediate levels, beneficial ownership identification should stop at the listed entity level.
- **Exempt Pre PN3 investments:** Any further investment (through rights or bonus issue) by the parent entities from land bordering countries into their Indian portfolio entities which were acquired / formed in the pre-PN3 era should be allowed without any approval so long as such further investment is undertaken only to the extent of maintaining the pre PN3 shareholding of such entities. If at all, the government feels that approvals even in such case is a must, then the processing time for these kinds of applications should be fast tracked.
- **Carve-Out for Non-Controlling Stakes:** There should be a carve-out from applicability of PN3 if proposed foreign investment is for a non-controlling stake i.e. 25% shareholding on a fully diluted basis, in Indian companies engaged in specified non-sensitive sectors.
- **Publish Statistical Data:** Release periodic data on PN3 applications, approvals, rejections, and sector-wise details to improve transparency.

If these recommendations are implemented, the easing of PN3 restrictions could unlock significant deal activity specifically involving investments from countries sharing land borders with India. Such reforms would streamline foreign investment inflows from these nations while ensuring the protection of India’s strategic and economic interests. By providing clearer guidelines and a predictable regulatory framework, these changes would enhance investor confidence and encourage greater participation from neighbouring countries in non-sensitive sectors.

4. NEW INDIAN MERGER CONTROL LANDSCAPE: SHIFT TOWARDS INCREASED REGULATORY INTERVENTION

Since September 10, 2024, India’s merger control regime has been significantly amended. Key changes include the introduction of the deal value threshold (“**DVT**”), the enactment of the Competition Commission of India (Combination) Regulations, 2024[3] and revised exemption criteria in the Competition (Criteria for Exemption of Combinations) Rules, 2024[4] (“**Revised Exemption Rules**”).

The DVT mandates that transactions exceeding INR 2,000 crores (approx. USD 238 million) and involving targets with substantial operations in India must be approved by the Competition Commission of India (“**CCI**”). This aims to address gaps in regulatory oversight, particularly in the digital and pharmaceutical sectors, where high-value deals previously bypassed scrutiny due to the de-minimis exemption.[5]

On the other hand, the Revised Exemption Rules make significant changes to the exemption criteria for intra-group acquisitions, blanket exemptions to intra-group mergers, addition of exemption for demergers, etc.[6] Importantly, they change the factors to determine whether exemptions will be available to minority investments through the introduction of factors

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such as access to "*commercially sensitive information*" and the determination of overlaps with portfolio companies and their affiliates.

In 2025, antitrust approval discussions will intensify, particularly for minority investments, digital and pharmaceutical sectors, and interconnected transactions. With limited precedent, parties may seek pre-filing consultations with the CCI for clarity on notifiability.

While it remains to be seen whether this overhaul would also facilitate a reduction in the timelines for receiving approval from the CCI, in the long term, these measures are expected to foster a more equitable market environment, aligning India with global best practices in merger control regulation and attracting sustained FDI.

5. HEIGHTENED SCRUTINY IN THE INDIAN FINANCIAL SERVICES SECTOR: BANE OR BOON FOR FOREIGN INVESTORS?

With the global surge in impact and Environmental, Social, and Governance investing, private equity funds, development finance institutions, and sovereign wealth funds are pivoting towards investing in companies that deliver financial returns and drive meaningful social and environmental change. In the context of India, the financial services sector and specifically NBFCs: a highly regulated but return-yielding sector, naturally emerges as a prime candidate for this investment strategy.

The Indian financial services sector has witnessed significant foreign investments with private equity investments totalling to about USD 931 million in Q1 FY 2024.[7] However, developments in 2024 are expected to impact deal structures in 2025.

Firstly, the Reserve Bank of India ("**RBI**") has begun cracking down on observer appointments in NBFCs, requiring the investors to appoint directors on the board who will assume fiduciary duties and satisfy the 'fit and proper' criteria prescribed by the RBI. This will lead to interesting negotiations on governance rights, as investors wishing to take on a less active role in the governance may have to re-evaluate their portfolio management approach in light of this development.[8]

Secondly, the RBI recently imposed penalties / actions on non-compliant NBFCs, asking them to cease and desist from sanction and disbursal of loans,[9] however remedial actions ultimately led to easing of these sanctions by the RBI.[10] While these actions caused a temporary lull,[11] RBI's increased scrutiny provides reassurance to foreign investors, potentially increasing investments in NBFCs. This will also now enhance the robustness of legal / financial due diligence conducted by incoming investors and lead to more discussions on adding investor protection such as stronger information rights, reserved matters, events of default and exit options, in case the portfolio NBFC's operations are halted.

Furthermore, with a new RBI governor appointed in December 2024, the impact on foreign investment policies remains to be seen. Nonetheless, the sector's regulatory oversight is likely to continue attracting foreign investment, with more robust due diligence, investor protections, and transaction structuring expected in 2025.

6. CHANGING RULES FOR PUBLIC M&A

SEBI's 2024 amendments to the Prohibition of Insider Trading Regulations, 2015[12] ("**PIT Regulations**") have ushered in transformative changes with significant implications on capital markets and deal-making. Notably, the expansion of the definition of "*unpublished price-sensitive information*" ("**UPSI**"), the expansion of the definition of the term 'relative',[13] amending the 'connected persons' definition to include relative, as opposed to only 'immediate relatives'[14] and the inclusion of: (i) mutual funds under regulatory scrutiny[15], and (ii) additional disclosure requirements under Regulation 30[16] of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015[17] ("**LODR Regulations**") stand out as pivotal developments.

The broader UPSI definition now encapsulates a wider array of non-public information, including material events and disclosures mandated under LODR Regulation 30, increasing the scope of information classified as UPSI. This necessitates heightened vigilance in M&A and private equity transactions. Negotiations and due diligence processes are expected to incorporate advanced confidentiality protocols, with stricter confidentiality measures, digital firewalls and restricted access protocols to prevent inadvertent breaches. As a result, firms will likely invest more in technology solutions and compliance training to meet the revised regulations.

7. WARRANTY AND INDEMNITY ("W&I") INSURANCE: A NEW ERA OF DIVERSIFIED OFFERINGS

The number of insurers offering W&I insurance in Asia, especially India, has grown in recent years. In 2024, we observed certain developments that may shape the landscape for covering unknown risks associated with large-value Indian deals.

Firstly, foreign insurers are showing greater risk appetite, especially for hard-to-assess risks like sanctions and anti-bribery compliance and offering partial coverage for potential tax proceedings by Indian authorities. This signals a positive outlook for deal-making in India in 2025.

Secondly, new foreign and Indian insurers are entering the market, fostering competitive pricing, broader coverage and innovative insurance solutions tailored to M&A deals in India.

Lastly, insurers are adapting to India's regulatory environment, with innovations like the "PN3 Risk Insurance" policy. This covers unknown risks related to regulatory actions under the PN3, which affects foreign investments from land-border countries like China. This is all the more relevant considering recent developments associated with PN3, such as the issuances of employee stock options to employees residing in land-bordering countries requiring the prior approval of the regulator.[18]

8. ARTIFICIAL INTELLIGENCE, BLOCKCHAIN AND CRYPTOCURRENCY: KEY DRIVERS OF DEAL-MAKING

In 2025, sectors like AI, blockchain and cryptocurrency sectors are expected to see significant M&A activity in India.

- **AI**: The AI sector surged in 2024, driven by breakthroughs like large language models and high-profile investments, kickstarted by Microsoft's acquisition of a USD 10 billion stake in OpenAI in 2023. Reliance Industries launched its AI platform, JioBrain, to transform various sectors. The Indian government allocated USD 1.25 billion to AI projects, with a goal of becoming the fifth-largest semiconductor manufacturer. India's AI market is expected to reach USD 17 billion by 2027, fueling M&A activity.

  Specifically considering the steadfast rise of applied AI over the years (in addition to large language models), it is likely that startups in this field will witness increased investments from early stage venture capital investors. Applied AI and vertical integration will also see a rise in investments and M&A activity. Additionally, deal-making in relation to AI for pharmaceuticals and life sciences will continue to intensify and see increased M&A as well. Separately, we anticipate greater investments and consolidation activities amongst deeptech startups.

- **Blockchain and Cryptocurrency**: India remains the top ranked country for adoption of cryptocurrencies globally, despite high taxes and regulatory gaps. Developments from 2024 like (i) the Income Tax Appellate Tribunal of India ruling that cryptocurrencies shall be treated as capital assets and income earned from cryptocurrencies shall be treated as capital gains, (ii) SEBI proposing to establish the multi-regulator framework to regulate cryptocurrency in the country in a more structured manner are likely to have an impact on deal making in 2025. CoinDCX's acquisition of BitOasis in June 2024 and Bitcoin's rise to USD 100,000 signal a bullish outlook for 2025.

  We expect a large number of companies to follow the microstrategy model by investing in cryptocurrencies. Further, we expect to witness a growth in finance related services such as exchange traded funds. Lastly, we anticipate release of new regulations governing crypto and blockchain in India which may increase strategic consolidation and acquisitions – prompting increased M&A activity over the coming year.

9. SECTORS THAT ARE LIKELY TO GAIN MOMENTUM

(i) **Space: Liberalisation of FDI norms**

Previously, FDI in the space sector in India was permitted only in the establishment and operation of satellites, with the prior approval from Government of India. In April 2024, India's FDI policy with respect to the space sector was amended to introduce the following three sub-activities within the erstwhile category:

- Satellites-manufacturing and operation, satellite data products, ground segment and user segment activities – automatic upto 74% and with government approval thereafter;
- Launch vehicles and associated systems or subsystems, and creation of spaceports for launching and receiving spacecraft – automatic upto 49% and with government approval thereafter; and
- Manufacturing of components and systems/ sub-systems for satellites, ground segment and user segment – automatic upto 100%.[19]

This aligns with the Indian Space Policy of 2023, which seeks to increase private sector participation in the industry so as to generate employment, integrate Indian companies into global value chains, foster technology adoption, and promote domestic manufacturing, thereby supporting the 'Make in India' and 'Atmanirbhar Bharat' initiatives.[20]

According to the Indian National Space Promotion and Authorization Center (IN-SPACe), the Indian space industry was valued at USD 8.4 billion in 2023, representing about 2% of the global market.[21] The sector has seen a rise in private-sector involvement, with startups driving innovation. Notably, in April 2024, Tata Advanced Systems Limited (TASL) and Satellogic Inc. launched India's first private sub-metric high-resolution Earth observation satellite.

In view of this, enabling FDI in the sector will provide Indian companies not just access to global capital but will also help in boosting their manufacturing and production capacity.

(ii) **Insurance: Moving towards 100% FDI under automatic route**

At present, FDI in companies engaged in the insurance business is permitted upto 74% under the automatic route. In November 2024, the Ministry of Finance proposed amendments to raise the FDI limit in insurance sector to 100%, allow insurance companies to engage in multiple classes of business, and reduce the foreign re-insurer's net assets requirement from INR 5,000 crore (approx. USD 577 million) to INR 1,000 (approx. USD 115 million) crore.[22]

These changes will help attract more capital to the capital-intensive insurance sector, enabling foreign investors to increase their stakes and expand into diverse insurance businesses. They also open the door for foreign players previously hesitant to enter the market due to the previous limits on FDI in the sector.

10. SIGNIFICANT BENEFICIAL OWNERS CRACKDOWN

In 2024, the Indian Registrar of Companies ("**RoC**"), passed two landmark orders relating to the declaration and determination of significant beneficial owners ("**SBO**"), in the cases of LinkedIn[23] and Samsung[24]. Interestingly, in these cases, the RoC penalised the managing officials of the ultimate foreign holding company, despite them not having significant "influence" or "control" over the affairs and management of the Indian company.

This has expanded the definition of the term "significant beneficial owner". While it remains to be seen whether these orders will be overturned by the RoC, SBO disclosures may create challenges for foreign investors, especially when (i) the investing entities are part of larger groups where the ultimate parent or its officials have no control or influence over its operations, and/ or (ii) the investor cannot disclose an identifiable individual from the ultimate parent due to confidentiality, structural, or other reasons.

CONCLUSION

As we usher into 2025 with optimism, one thing is clear: deal-making activity in India is accelerating. India has become a safe haven for foreign investors, drawn by its political and regulatory stability.

In 2024, regulatory shifts were central to India's evolving business landscape, with key changes such as the abolition of angel tax and the release of draft data protection rules. These developments underscore India's commitment to improving the ease of doing business, and they will continue to shape transaction structuring and documentation in 2025. Additionally, sectors like technology, media, and telecommunications (TMT), healthcare, AI, blockchain, cryptocurrency, and financial services have seen explosive growth, positioning India as a global leader in these industries due to its combination of high returns and low operational costs.

As we step into 'Generation Beta' era, India is primed to claim the 'alpha' position in global deal making activity!

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You can direct your queries or comments to the relevant member.

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