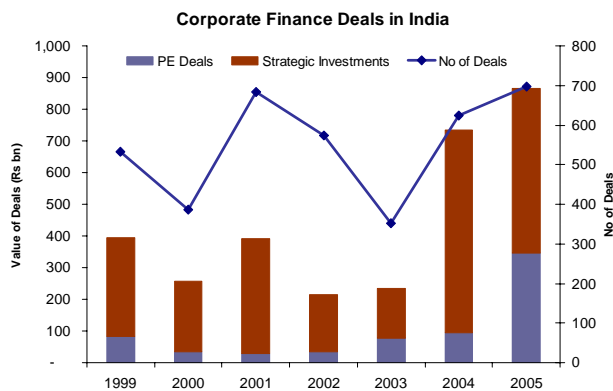


The party continues

The India story continued to attract investors from overseas as well as from within India in 2006. Corporate finance activity in India witnessed 697 deals worth Rs 865 bn (US\$ 19 bn) in 2006, a rise of 18% in deal value over last year. The average deal size for 2006 was around Rs 1,241 mn (US\$ 28 mn).

While there was a slowdown in deal activity in the second half of 2006, the year ended with bidders lining up for the biggest deal yet in Indian M&A, the purchase of Hutchison's Indian telecoms business, which promises to make 2007 a record year.

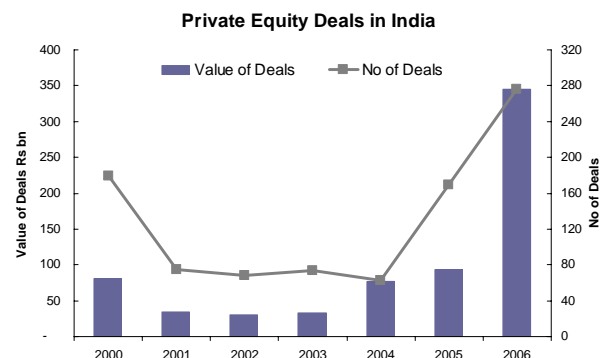


While strategic investments have ruled M&A activity in 2006 with a share of 60% in the total deal value, private equity transactions generated marginally higher average deal values; Rs 1,249 mn (US\$ 28 mn) against Rs 1,235 mn (US\$ 27 mn) for strategic deals.

International acquirers made up a 71% share of total deal value, a substantial increase from 56% of 2005. International acquirers showed a willingness to pay substantial premia to gain control over targets with the average deal values at Rs 1,992 mn (US\$ 44 mn) against an average deal value of Rs 649 mn (US\$ 14 mn) by Indian acquirers.

Private equity investments

2006 had 276 private equity transactions worth Rs 345 bn (US\$ 7.6 bn), a share of 40% in total deal value. This is a massive growth of 271% over the previous year's Rs 93 bn (US\$ 2 bn) worth of investments. 35% of all PE deals were in listed Indian companies.



Various private equity investors put in Rs 44 bn (US\$ 970 mn) in Idea Cellular in the second half of 2006. Idea Cellular is a cellular telecom company with a national presence.

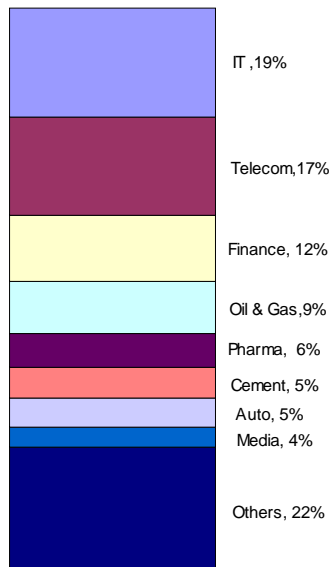
Some private equity players also made profitable exits in the current market. Ashmore Investments & Deutsche bank sold their stake in Spice Telecom to Telekom Malaysia for Rs 8 bn (US\$ 179 mn). The Carlyle Group sold a 15% stake in ShareKhan, an online broking company, for Rs 1.4 bn (US\$ 32 mn) and Citicorp sold a 23% stake in Progeon, an outsourcing company, to Infosys Technologies for Rs 5 bn (US\$ 115 mn).

With the real estate sector being opened up for foreign investors and the potential of the Indian market, real estate development companies will be the new hot spot for investors.

Sectors, Key deals

Information technology, telecom and finance deals have dominated all M&A activity with a share of 48% of total deal value.

Sector Summary



Information Technology

104 deals, totalling Rs 167 bn (US\$ 3.7 bn)

The information technology sector experienced a 115% growth in deal value with some big ticket acquisitions announced in 2006. The outsourcing segment attracted deals worth 29% of total deal value of this sector.

Deals in the information technology arena have taken place at relatively high PE ratios with the values ranging from 18 to greater than 40. The takeover of Mphasis BFL by Electronics Data Systems has happened at 43 times its 2006 profits.

The largest deal in this sector was the Rs 53.7 bn (US\$ 1,194 mn) acquisition of i-Flex Solutions Ltd by Oracle. Oracle had acquired a controlling stake in i-Flex Solutions from Citigroup in 2005. This year they attempted to consolidate their holding by acquiring an additional stake through a preferential issue as well as through a tender offer. The preferential issue was for a 5.23% stake worth Rs 5.8 bn (US\$ 129 mn) and the tender offer was for a 35% stake of which they have been able to secure around 28.3% for some Rs 48 bn (US\$ 1,064 mn).

The other large deal in the IT space was the Rs 40.5 bn (US\$ 900 mn) acquisition of Flextronics Software Solutions

by Kohlberg Kravis Roberts & Co that was announced in the first half of 2006.

Also announced in the first half was the Rs 16.9 bn (US\$ 377 mn) acquisition of Mphasis BFL by Electronics Data Systems.

Telecom

19 deals, totalling Rs 151 bn (US\$ 3.4 bn)

The fast growing Indian telecom market saw a fair amount of consolidation in the first half of 2006. The Aditya Birla Group bought out the Tata Group in Idea Cellular for Rs 44 bn (US\$ 979 mn). Hutchison Whampoa increased their stake in their Indian subsidiary by 5% by acquiring Rs 20 bn (US\$ 450 mn) worth of shares from the Hindujas, and Telekom Malaysia was finally able to gain a foothold in India by acquiring a 49% stake in Spice Telecom for Rs 8 bn (US\$ 179 mn).

The attractiveness of the telecom business in India is highlighted by the relatively higher average PE ratio of over 50 in these deals.

Towards the close of the year various private equity players invested Rs 44 bn (US\$ 970 mn) in Idea Cellular for a 34.5% stake. The investors included Providence Equity Partners, TA Associates, ChrysCapital, Citigroup, and others. Idea Cellular plans to list on the Indian stock exchanges soon so these investors have a chance to get a big upside. These deals have happened at a PE ratio greater than 60 times the company's 2006 profits. This offers an opportunity to private equity players to repeat the success Warburg Pincus had on its investment in Bharti Airtel, which is today India's leading cellular telecom company.

The other Indian telecom company that attracted private equity interest was Tata Teleservices, the telecom company of the Tata Group. Temasek Holdings and Sterling Infotech invested Rs 18 bn (US\$ 397 mn) in the company. Tata Teleservices offers mobile and fixed telephony across India and has over 14 million subscribers currently.

2006 has closed on news of the imminent sale of 67% stake in held by Hutchison Whampoa in Hutchison Essar. A number of players, both Indian as well as international, have expressed interest in the stake. Among the leading contenders are Vodafone, Reliance Communications, Essar (the current Indian partner in the business) and several private equity players. Hutchison Essar has 22.2 million subscribers in India and revenues of Rs 58 bn (US\$ 1.3 bn).

At a minimum valuation of US\$ 14 bn for the stake 2007 promises to be the year of telecom.

Finance

109 deals, totalling Rs 101 bn (US\$ 2.2 bn)

The Indian financial services sector has attracted a substantial amount of private equity interest. Private equity investors have contributed 69% of the deal value in the sector. Valuations have also been high with the average PE ratio around 55 and in some deals this has gone over 100.

The largest deal in this sector was the sale of a 12.9% stake held by Standard Life in Housing Development Finance Corporation (HDFC) to Citigroup for Rs. 30.4 bn (US\$ 675 mn).

Franklin Templeton took over their Indian subsidiary in the mutual fund business by buying out the 25% stake held by the Rajan Raheja Group for Rs 4 bn (US\$ 89 mn). Franklin Templeton India has assets under management of Rs 238 bn (US\$ 5 bn) as of December 2006.

The other major private equity transaction was the investment of Newbridge Capital in the Shriram Group. The Shriram Group is a South India based financial services group. Newbridge invested Rs 2.2 bn (US\$ 48.4) in Shriram Holdings (Madras) Ltd, which will give them an effective stake of 49% in the company after conversion of all instruments.

Oil & Gas

15 deals, totalling Rs 80 bn (US\$ 1.8 bn)

The large deals in the oil & gas sector were pre IPO placements by two companies: Cairn India and Reliance Petroleum.

The largest deal was the pre-IPO placement by Cairn India to Petronas International. Petronas invested Rs 28 bn (US\$ 628 mn) for a 9.8% stake. The company raised an additional Rs 5 bn (US\$ 118 mn) from various other investors. The subsequent initial public offering by Cairn India received only a lukewarm response and the shares listed at a 7.5% discount to the IPO price. Cairn India has oil exploration interests in Western and Southern India.

In the first half of 2006 the Mukesh Ambani- controlled Reliance Petroleum sold a 10% stake to financial investors for Rs 27 bn (US\$ 600 mn) prior to its IPO. Chevron has also taken a 5% stake in Reliance Petroleum for Rs 13.5 bn (US\$ 300 mn).

Pharmaceuticals & healthcare

46 deals, totalling Rs 53 bn (US\$ 1.2 bn)

The pharmaceutical sector had private equity investors of up to 19% of total deal value. This relatively lower investor interest has resulted in lower PE ratios with the average at 18.

The largest deal in the pharmaceuticals sector was the takeover of Matrix Laboratories by Mylan of USA. Matrix Laboratories was started by N Prasad and colleagues when they took over a small pharmaceutical company for Rs 80 mn (US\$ 1.7 mn) in 2000. Mylan Laboratories paid Rs 24 bn (US\$ 539 mn) for a 51.5% stake and has made a successful tender offer for a further 20% worth Rs 9 bn (US\$ 210 mn). Matrix Laboratories today has sales of Rs 8 bn (US\$ 177 mn). This deal took place at a PE of around 26 times its 2006 profits, the highest in this sector.

The pharmaceutical sector also saw some notable private equity investments. These include the Blackstone Group's Rs 2.3 bn (US\$ 50 mn) investment in Emcure Pharmaceuticals and Quantum M and Blue Ridge's investment of Rs 1.5 bn (US\$ 33mn) in Fortis Healthcare, operator of a chain of hospitals in India.

Overseas deals

Indian companies are finally stepping out of their comfort zone and are being increasingly adventurous with overseas acquisitions. Against 100 deals worth US\$ 2.4 bn in 2005, 2006 saw 140 deals worth US\$ 8 bn. Not only has the number of deals increased substantially in the last three years, but there is a significant increase in the average deal size as well - from US\$ 7.5 mn in 2002 to US\$ 58 mn in 2006. And this is without the much talked about US\$ 8 bn bid for Corus by Tata Steel.

With the sustained growth of the domestic market it is becoming easier for Indian companies to raise funds for overseas acquisitions without over-stretching their balance sheets.

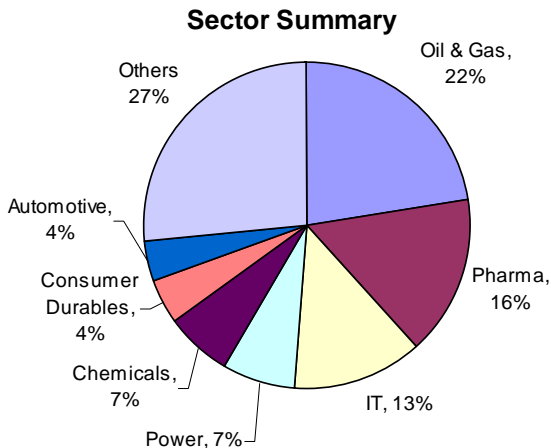
Europe is the favoured destination of Indian corporates with a share of 53% in total deal value.



Sectors

The oil & gas sector has ruled deal activity this year with a share of 22% in deal value. The pharmaceutical and

healthcare sector was aggressive with 20 deals and a share of 16% by value, and information technology was at 13%.



Top Deals

Towards the close of the year Aban Loyd Chiles Offshore announced the mandatory tender offer for Sinvest in which they had acquired a 33.76% stake for US\$ 438 mn earlier in 2006. The US\$ 800 mn tender offer was the largest overseas deal by an Indian company.

The Tata Group, which has been aggressively following an overseas acquisitions strategy in recent years, has added 9 acquisitions to its tally this year, not including the Tata – Corus transaction. The Group's largest deal in 2006 was the US\$ 677 mn acquisition of a 30% stake in US - based Glaceau by Tata Tea. Last year the Group had 10 deals to its credit.

Another significant transaction saw Suzlon Energy, a wind power major in India, acquire Belgium-based Hansen Transmissions International NV for US\$ 565 mn. Hansen is a wind turbine gearbox manufacturer and this acquisition will make Suzlon an integrated wind turbine manufacturer.

The third largest transaction was the US\$ 562 mn acquisition of the German generic pharmaceutical company, Betapharm Arzneimittel GmbH by Dr Reddy's Laboratories. This acquisition makes Dr Reddy's the fourth largest generics company in Germany.

A feature of all of these large transactions was that private equity investors were on the selling side. TSG Capital Partners sold its stake in Glaceau to Tata Tea, while Allianz Capital Partners and Apax Partners Worldwide sold Hansen Transmission to Suzlon. 3i was the private equity investor in Betapharm Arzneimittel.

There is no question that both the quantum and size of deals will continue to increase as more companies look to expand their business and markets. There will be further deals in sectors such as pharmaceuticals, information technology and auto components as Indian companies fulfill their global ambitions.

Looking ahead

With the continued strength of the Indian economy and stock markets, India is likely to participate fully in the anticipated global M&A bull market in 2007. Indian companies are likely to take ever larger steps globally, particularly into the US and Europe, while the scale of domestic Indian companies will continue to attract both strategic and private equity interest, the latter fuelled by the growing funds raised from Western investors seeking high returns. The party is still in full swing with no sign of a hangover in the near future.

Top deals – Indian Targets

Deal Value	Acquirer	Target	Seller	Stake acquired	Acquirer Advisor	Target advisor
US\$ mn				%		
1,194	Oracle	i-Flex Solutions	Preferential allotment & Minority shareholders	33.5	DSP Merrill Lynch	NA
979	Aditya Birla Group	Idea Cellular	Tata Group	48	NA	NA
900	Kohlberg Kravis Roberts & Co	Flextronics Software Solutions	Flextronics	85	Citigroup, JM Morgan Stanley	DSP Merrill Lynch
748	Mylan Laboratories	Matrix Laboratories	Promoters & Minority shareholders	71	DSP Merrill Lynch	NA
675	Citigroup	Housing Development Finance Corporation Ltd (HDFC)	Standard Life	12.9	Citigroup	NA
628	Petronas International Corporation Ltd	Cairn India	Preferential allotment	9.8	NA	NA

Top deals – Overseas Targets

Deal Value US\$ mn	Acquirer	Target	Seller	Equity stake acquired (%)	Acquirer Advisor	Target / Seller Advisor
800	Aban Loyd Chiles Offshore	Sinvest, Norway	Minority shareholders	66.24	First securities	NA
677	Tata Tea & Tata Sons	Glacéau, USA	TSG Partners	30	Rabobank International	NA
565	Suzlon Energy	Hansen Transmissions, Belgium	Allianz Capital Partners and Apax Partners Worldwide	100	Yes Bank	NA
562	Dr. Reddy's Laboratories	Betapharm Arzneimittel, Germany	3i	100	Rothschild	NA
446	Aban Loyd Chiles Offshore	Sinvest, Norway	Skeie Group	33.76	Motilal Oswal Investment Advisors	NA

League table

Rank 2006	Rank 2005		Number of Deals	Value of Deals US\$ Mn.
1	3	DSP Merrill Lynch	18	3,997
2	8	Citigroup	11	2,861
3	2	JM Morgan Stanley	12	1,348
4	5	Ambit Corporate Finance	18	950
5	1	Kotak Mahindra Capital Company	8	734
6	-	Enam Financial Consultants	16	675
7	9	Ernst & Young	25	625
8	4	Standard Chartered Bank	3	593
9	-	ABN Amro	2	538
10	-	UBS Securities	1	538

Note: This does not include overseas acquisitions by India companies.

The growth in the number and volume of deals in 2006 raised the profile of the Indian investment banking sector and attracted the attention of a number of new entrants. Lehman Brothers and CSFB were amongst the most notable, and both advisors significantly scaled up their presence in India. The boom in M&A helped create significant turnover in the ranks of both domestic and international bankers, with the lure of private equity also contributing. A number of bankers including Amit Chandra, and Munesh Khanna of DSP Merrill Lynch crossed the floor to the "buy side", joining private equity and restructuring funds, respectively. Predictably, the shortage of bankers has been accompanied by a meteoric rise in compensation, with individuals increasingly concerned about their prospective employers' long-term plans and commitment to India (in the case of new international entrants).

In terms of rankings all the advisors saw their position in the league tables shuffled in 2006. Despite losing a number of top bankers, DSP Merrill Lynch topped the table for the first time since 2003. Citigroup has substantially improved its

performance over last year, partly because it has rationalised its investment banking business along its global model and has started 2007 by giving its M&A team significant freedom of action. Uday Kotak split from his foreign partner Goldman Sachs, now a competitor in the advisory business, and despite Kotak's fall in the advisory rankings the firm continues to be a strong performer in the IPO market.

The domestic investment bank, Enam, made it to the top ten this year, a first for the firm. Ambit and Ernst & Young are also notable for the large number of deals completed compared to the larger banks – together these three advisors accounted for half the deal flow of the top ten.

2006 ended with speculation on what promises to be India's largest M&A transaction, the buyout of Hutch. At the time of going to press potential bidders had picked their respective advisors but the field remains wide open. The competition for top billing in the league tables of 2007 promises to be intense



IAP Investment Banking is an independent advisory group that advises international companies doing business in India and Indian companies investing abroad. IAP specialises in providing specific, in-depth information and advice to clients to help build sound strategies and deliver value-adding transactions. The team's skills and experience cover all aspects of entry strategy, investment, M&A and business development.

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