

## A maturing market

2007 turned into a remarkable year for Indian M&A, both at home and abroad. Spending more money on overseas acquisitions than foreign companies did in their own market, Indian companies have made their presence felt globally. Domestically 2007 saw another record year of deal activity, with total mergers and acquisitions (M&A) and private equity (PE) deals up 82% from Rs. 865 bn (US\$ 21 bn) in 2006 to **Rs. 1,576 bn (US\$ 38 bn) in 2007**. As well as volume, both number (867 against 697) and average size of deals also rose significantly.

International acquirers have continued to account for the bulk of domestic deals at Rs 1,189 bn (US\$ 29 bn). This is 75% of the total domestic deal value as against 71% in 2006. But the real story of the year is overseas, where Indians bought up companies in Europe and the USA, splashing out some Rs. 1,367 bn (US\$ 33 bn).

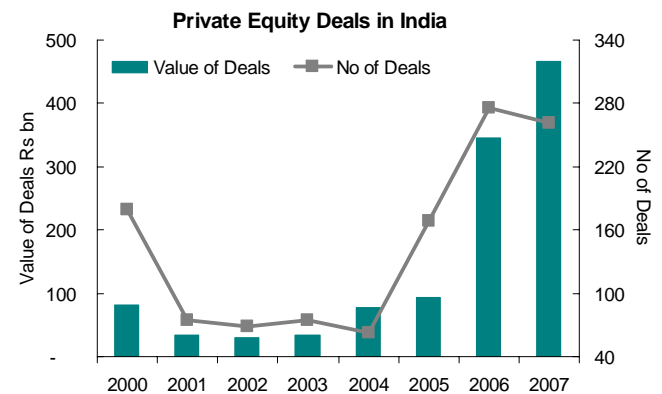
## M&A activity

Strategic investments, as opposed to PE deals, continued to dominate M&A activity with a share of 70%. While the first half was marked by a few big ticket deals, with average deal size being Rs. 2,944 mn (US\$ 72 mn), in strategic investment, the second half saw many more smaller deals with average deal size at Rs. 735 mn (US\$ 18 mn).

## Private equity investments

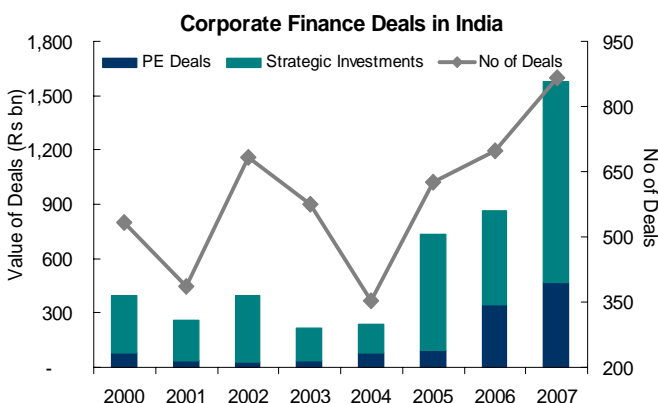
In private equity, 2007 saw the entry of more of the large international players such as Apax Partners. The USA accounted for approximately 45% of the total PE investment into India, followed by 18% from Asia [ex India] and 12% from Europe. The total PE investments into listed companies ("PIPE" deals) stood at 33% as compared to 35% in 2006.

In total in 2007 there were 262 private equity transactions worth Rs. 466 bn (US\$ 11 bn), a growth of 35% over 2006. The financial services sector was the most attractive attracting a share of 33% of the total, followed by telecoms with 13% and media with 6%.



The largest PE deal of the year was Temasek Holdings, along with ICD, Macquarie, AIF Capital, Citigroup and India Equity Partners, acquiring a 10% stake in Bharti Infratel, a telecom tower subsidiary of Bharti Airtel, for Rs. 41 bn (US\$ 1 bn).

Other major deals included Goldman Sachs, Swiss Re and Nomura acquiring a 6% stake in ICICI Financial Services, a financial services holding company, for Rs. 27 bn (US\$ 646 mn); and Carlyle acquiring a 6% stake in HDFC Ltd., a housing finance company, for Rs. 26 bn (US\$ 643 mn).

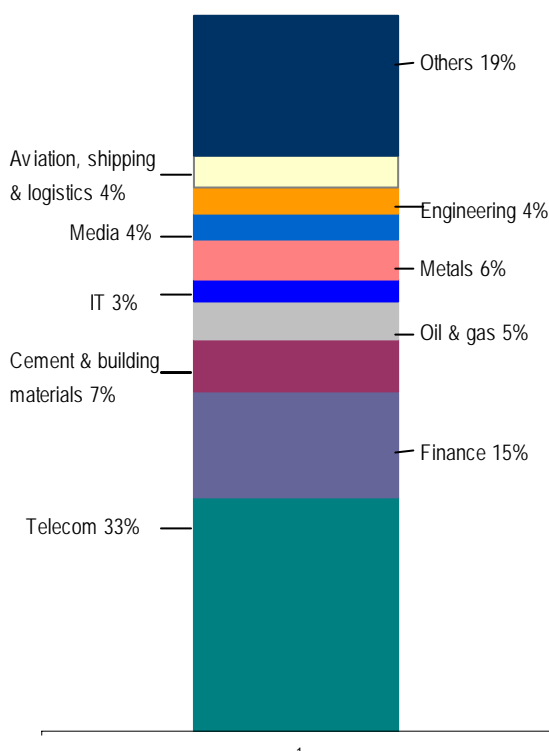


2007 also witnessed a deepening of investment by other major investors in India. Blackstone made investments in Gokaldas Exports (US\$ 160 mn), Nagarjuna Construction (US\$ 150 mn), Ushodaya Enterprise (US\$ 146 mn), Intelenet Global (US\$ 85 mn) and Sparsh BPO (US\$ 16 mn).

## Sectors, Key deals

Unlike in the past when growth was led by a few sectors, 2007 has seen a more broadly based activity. The telecom sector overtook the IT Industry and dominated the M&A scene with a 33% share in the total deal value. It was followed by finance with a 15% share, cement and building material 7%, oil and gas 5% and metals 5%. One of the emerging sectors for this year has been aviation, shipping and logistics accounting for 4% of the total deal value.

**Sector summary**



### Telecom

*23 deals, totalling Rs 514 bn (US\$ 13 bn)*

The largest deal of the sector was Vodafone acquiring a 67% stake in Hutchison Essar, now Vodafone Essar, India's fourth largest telecom player. With more than five contenders, including India's Reliance Infocomm, Egypt's Orascom and Malaysia's Maxis amongst others, the deal

finally concluded in March 2007 after a three month long battle. Vodafone paid Rs. 447 bn (US\$ 10.9 bn) for the stake. It also paid a further Rs. 17 bn (US\$ 415 mn) to Essar Group to secure management control of the company.

With companies' profits from customers being squeezed by stiff competition, selling stakes in their telecom tower businesses or sharing towers became an appealing avenue for mobile telecom companies. The second largest deal of the telecom sector was the sale by Bharti of a 9% stake in Bharti Infratel for Rs. 41 bn (US\$ 1 bn). Other companies that sold stakes in their tower businesses included Reliance Telecom Infrastructure and Aster Infrastructure. Recently Bharti Infratel, Vodafone Essar and Idea Cellular merged their tower businesses to form a new entity Indu Tower Ltd.

### Finance

*164 deals, totalling Rs 233 bn (US\$ 6 bn)*

The Indian financial services sector continued to attract overseas as well as domestic investments taking 15% of the total deal flow by value and 19% by number. The share of PE deals was over 65%. The largest deals in the sector were the in the US\$ 646 mn investment in ICICI Financial Services and the US\$ 644 mn investment in HDFC Ltd.

The year also witnessed the separation of several foreign partners from their Indian joint ventures in a quest to go solo. Morgan Stanley acquired JM Morgan Stanley's securities business for Rs. 20 bn (US\$ 480 mn) while JM Financial retained the investment banking business for Rs. 900 mn (US\$ 22 mn). Similarly ASK Investment Financial Consultants bought 50% stake in ASK Raymond James Securities India Pvt. Ltd. from its foreign partner, Raymond James.

The securities broking segment was the largest recipient of the investment with a 26% share. Among the bigger deals were Citigroup Venture Capital's acquisition of 75% in Sharekhan for Rs. 7 bn (US\$ 170 mn) followed by Orient Global Tamarind Fund acquiring a 6.5% stake in India Infoline for Rs. 5.6 bn (US\$ 135 mn) and ICICI Venture and Baring together acquiring 32% stake in Karvy Stock Broking for Rs. 5 bn (US\$ 122 mn).

The second largest segment to attract investors was the stock exchanges, accounting for a 21% share, with National Stock Exchange and Bombay Stock Exchange

attracting investments worth Rs. 25 bn (US\$ 608 mn) and Rs. 24 bn (US\$ 576 mn) respectively from various PE and trade investors.

## Cement and building materials

*23 deals, totalling Rs 112 bn (US\$ 3 bn)*

The sector made up for 7% of the total deal value out of which 87% was driven by a single acquirer, Holcim. Holcim strengthened its position in India by increasing its holding in Ambuja Cement from 22% to 56% through various open market transactions and an open offer for a total investment of Rs. 75 bn (US\$ 1.8 bn). It also increased its stake indirectly by 12% in ACC Cement for Rs. 20 bn (US\$ 486 mn). Imerys from France acquired Ace Refractory from ICICI Ventures for Rs. 6 bn (US\$ 134 mn). The average PE in the sector was 13 x (TTM).

## Oil & Gas

*16 deals, totalling Rs 85 bn (US\$ 2 bn)*

Reliance Industries (RIL) alone accounted for 68% of the total deal value with its two deals. Mukesh Ambani, along with associates, consolidated his holding in RIL through an issue of convertible warrants which, upon conversion, would increase his stake to 55% from current 50% in the Company.

RIL enhanced its already strong position in the sector with the merger of Indian Petrochemicals Corporation (IPCL) into RIL at a deal size of Rs. 42 bn (US\$ 1 bn). RIL had acquired 26% in IPCL in 2002 from the government and an additional 20% through a consequent open offer.

Another important transaction in the sector was by German company Linde AG. Linde increased its holding in BOC India from 55% to 74% through a preferential allotment of equity shares. It paid approximately Rs. 6 bn (US\$ 146 mn) for the stake.

## Metals

*32 deals, totalling Rs 87 bn (US\$ 2 bn)*

The metal sector accounted for 5% of the total deal values. The largest deal in the sector was Vedanta's acquisition of a 71% stake in Sesa Goa, 51% from Mitsui & Co and 20% through an open offer, for a total consideration of Rs. 56 bn (US\$ 1.4 bn). Another major transaction was the investment of Rs. 13 bn (US\$ 320 mn) by Aditya Birla Group companies to consolidate their position in Hindalco Industries through a preferential allotment.

## Other Sectors

The media sector (4%) saw 45 deals and a lot of private equity interest with the largest deal being the investment of Rs. 11 bn (US\$ 259 mn) by Temasek investing in Inx Media, a TV broadcast company. Other deals included an investment of Rs. 7 bn (US\$ 166 mn) by South Asia Entertainment Holdings Ltd. (a group company of Astro All Asia Networks Plc) in Sun Direct TV for a 20% stake and Blackstone in Ushodaya Enterprise taking a 26% stake for Rs. 6 bn (US\$ 146 mn).

Engineering had a 4% share in total deal value with its largest deal being the acquisition of Anchor Electricals by Japan based Matsushita for Rs. 20 bn (US\$ 488 mn). In the automotive sector (automotives and auto components 3%) Robert Bosch acquired an additional 9% stake in its subsidiary Motor Industries Co. through an open offer, for Rs. 14 bn (US\$ 330 mn) increasing its holding to 70%. Also M&M acquired 63% stake in Punjab Tractors for Rs. 14 bn (US\$ 340 mn) which increased its share in the tractors market to 40%.

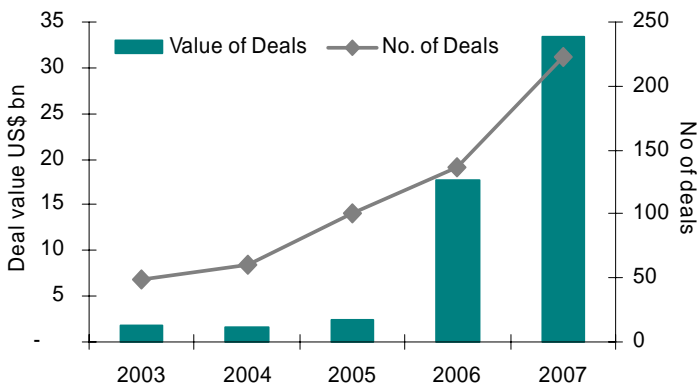
The aviation sector (2%) saw consolidation with a few large deals. Jet Airways, took over Sahara Airline and Kingfisher Airlines acquired a significant stake in Deccan Aviation. Separately, the Government decided to merge the operations of the two state owned carriers, Indian Airlines and Air India.

## Overseas deals India everywhere

2007 proved to be a phenomenal year for India Inc abroad. Full of adventure, it saw some exceptional deals – Tata acquiring Corus and Hindalco acquiring Novelis. This was the first year since INDATA has been recording M&A activity in India that overseas M&A by India companies has exceeded the investment by foreign companies into India.

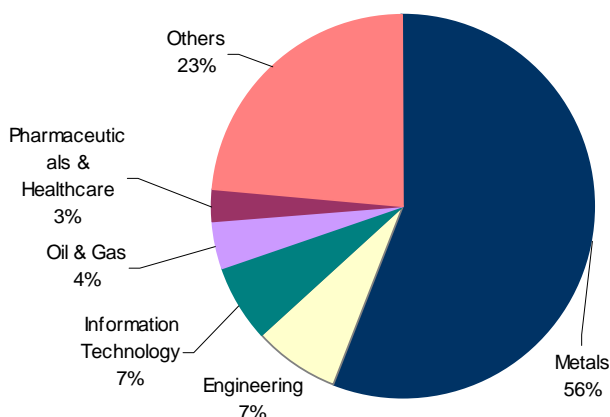
In all there were 223 deals worth Rs. 1,367 bn (US\$ 33 bn) registering a massive growth of 300% over the previous year (140 deals worth US\$ 8 bn). The average deal size increased from US\$ 58 mn in 2006 to US\$ 150 mn in 2007. This underlines Indian companies' readiness, enthusiasm and confidence to go global. Europe and USA, being the favoured destinations, attracted 54% and 27% of the total investments overseas respectively.

**Cross border M&A by Indian companies**



## Sectors

**Sector summary**



The overseas M&A activity was dominated by the metal sector taking 56% of the total investments. Its two large deals were the Tata / Corus deal and the Hindalco / Novelis one. Other sectors attracting large investments were engineering, information technology and oil and gas. The largest deals in the respective sectors were: Suzlon Energy acquiring Repower Systems for US\$ 1.8 bn; Wipro Ltd. acquiring Infocrossing Inc for US\$ 557 mn; and Aban Offshore increasing its stake in Sinvest from 37% to 97% for US\$ 774 mn.

## Top Deals

The largest deal of the year was India's steel giant Tata Steel acquiring Anglo-Dutch giant Corus. After a four month long battle Tatas finally defeated the rival bidder CSN, paying a premium of 34% over the original bid price made in October 2006. Tata Steel paid US\$ 12.1 bn for Corus' 18 mn ton steel capacity. The deal made Tata Steel the world's 6<sup>th</sup> largest steel manufacturer.

Another high-profile, multi-billion dollar deal was by India's leading copper and aluminium manufacturer Hindalco. Hindalco spent US\$ 3.33 bn to acquire Atlanta based Novelis, a leading aluminium sheet maker. The deal brought in the readymade cans and screw-caps market in the US with the two most famous clients — Coca-Cola and Anheuser-Busch. It also provided Hindalco with a significant presence in the automotive and transportation industry making it one of the world's largest aluminium rolling companies.

The third largest cross border deal of the year was Suzlon Energy acquiring Germany based Repower for US\$ 1.8 bn. The deal was finalised only after the withdrawal by the French nuclear energy group Areva after four long months. With this acquisition, following the acquisition of component supplier Hansen last year, Suzlon has further consolidated its position in the international wind energy market.

Some other large cross border deals included Essar Group acquiring Canada based Algoma Steel for US\$ 1.6 bn and United Spirits acquiring UK based Whyte & Mackay for US\$ 1.2 bn.

## Top deals - Indian Targets

Deal Value (US\$ mn)	Acquirer	Target	Seller	Stake acquired (%)	Acquirer Advisor	Target advisor
10,900	Vodafone	Hutchison Essar	Hutchison Telecom, Hong Kong	67	UBS Investment Bank	Goldman Sachs, Kotak Mahindra
1,820	Holcim	Ambuja Cement	N/A	34	Enam (for 8% stake), DSP ML (24% stake)	N/A
1,372	Vedanta Group	Sesa Goa	Mitsui & Co.	71 (20 through open offer)	Nomura, ICICI Securities (for open offer)	JM Financial (excluding the open offer)
1,016	Reliance Industries	Indian Petrochemicals Corp.	Merger	100	JM Financial, DSP Merrill Lynch	-
1,000	Temasek Holdings, ICD, Macquarie, AIF Capital, Citigroup, India Equity Partners, Goldman Sachs	Bharti Infratel Ltd.	N/A	9	Ernst & Young (only to Goldman Sachs for US\$ 25 mn)	N/A

## Top deals - Overseas Targets

Deal Value (US\$ mn)	Acquirer	Target	Stake acquired (%)	Acquirer Advisor	Target / Seller Advisor
12,100	Tata Steel	Corus Plc, UK	100	ABN Amro, Deutsche Bank, Rothchild	CSFB, JP Morgan, Cazenove, HSBC Securities and Capital Market
3,331	Hindalco Industries	Novelis, USA	100	UBS Investment Bank	Morgan Stanley, Evercore Partners
1,794	Suzlon Energy	REpower Systems AG, Germany	100	Yes Bank, ABN Amro, ICICI	-
1,603	Essar Global	Algoma Steel Inc., Canada	100	UBS Investment Bank	Genuity Capital Markets
1,177	United Spirits	Whyte & Mackay, UK	100	UBS Investment Bank, ICICI and Standard Chartered	Citigroup

## Looking ahead

A growing economy, robust financial performance and an exceptionally buoyant stock market have all supported a remarkable expansion of M&A activity, and there seems little to upset this trend in the immediate future. Emerging markets' insulation, to date, from the global credit crisis suggests that domestic M&A activity, strongly supported by foreign investment, will continue, although the tightening of credit could restrain the exuberance of Indian companies overseas.

In the local market, we would expect to see a focus on vertical integration by strategic investors, especially in mining, metal and energy sectors.

PE investors are likely to continue to book profits with valuations at high levels, while continuing to invest in sectors like infrastructure and real estate. We also expect some consolidation in sectors including offshore shipping, logistic, media, and defence, as well as in pharmaceuticals, which has been very quiet in 2007 and may well be due for a revival.



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