

## Business India

### Down but not out

M&A activity in India, likewise in Asia and overseas markets, has dipped significantly in the first half, future could be better

The drought of M&A deals continued in the second quarter of the year. Globally the total number of M&A deals was nearly 43 per cent lower compared to the first half of 2008. Deals by value in the Asia Pacific and Australia region including Japan stood at \$140 billion as per Bloomberg's data. This is roughly 18 per cent of the global value. Amongst the APAC region China, Japan, Australia and Hong Kong accounted for 76 per cent of the deals.

India saw a huge drop in the overall value of deals. But for the Bharti MTN deal, which is still in the preliminary stages of discussion, there were no deals above \$1 billion announced in the 2nd quarter of the year. The takeover of Satyam Computers by the Mahindra and Mahindra group was the largest deal during the period. The coming months could see the battle for the acquisition of Great Offshore hotting up, with both ABG Shipyard and Bharti Shipyard making aggressive overtures for gaining control.

Amongst the most notable deals done during the period was the takeover of Satyam Computers. The fight to gain control boiled down to two bidders, L&T and Tech Mahindra, with the latter, advised by Kotak Mahindra Capital, walking away with the prized assets. Though not the biggest in terms of value, this deal was the most publicised one and also helped in propelling Kotak Mahindra to the top of the league table. Speaking on the deal, Sourav Mallik, executive director, acknowledged that it was certainly a challenging deal with aggressive timelines. The situation changed on a daily basis. Part of the strategy was to keep the market guessing by choosing to keep a low profile, both on the strategy and the funding aspect, he adds. "We also knew our limitations and had to make a bid

which would avoid getting into multiple bidding rounds. I admit that had we got into multiple bidding rounds, L&T would definitely have had an edge over us. Given their strong balance sheet size, an incremental hike in the price in this round would have just meant a few 100 crore more for L&T."

Mallik feels that the overall climate for M&A is likely to improve in the coming quarters. "The second half will definitely be better and the next year could see a rebound." Part of the 90-strong investment banking team at Kotak, he feels that Indian companies will enjoy an edge over big bulge bracket firms, who have been engaged in setting their own house in order. Local firms tend to be more aggressive and are able to react more swiftly than others.



Mallik: M&A to improve in coming quarters

#### Asia Pacific M&A v/s global M&A

(\$ billion)	FH 2009	FH 2008
Australia	19.38	46.21
New Zealand	0.30	1.93
China	43.12	82.28
Hong Kong	8.64	20.05
S E Asia	15.77	53.12
India	18.75	24.90
Japan	33.98	41.38
Total	139.93	269.87
Americas	365.21	601.27
EMEA	244.97	444.45
Global	771.54	1,351.26

Americas include Latin America, North America, Canada and US  
EMEA includes Eastern & Western Europe, UK, France & Germany  
Source: Bloomberg

#### Top deals in FHFY09

Target	Acquirer	Volume (\$ million)
Reliance Infra.	Multiple Acquirers	909
VS Dempo & Co.	Sesa Goa	368
Satyam Computers	Tech Mahindra	352
Satyam Computers	Tech Mahindra	262
Ellel Hotels	Indian Hotels	143

While firms like JPMorgan, Morgan Stanley and Deutsche Bank figure amongst the top three firms in the APAC (excluding Japan) region, in India, Citigroup is the only global firm to figure in the top three firms. Nomura Holdings, which was ranked 1st earlier, does not figure in the top 10. On the private deals front there are five Indian firms which figure in the top 20 firms in the deals announced in the APAC region. These firms include Kotak Mahindra Capital, BMR Advisors and O3 Capital. Nomura Holdings, Deutsche Bank and Goldman Sachs figure in the top five.

The half yearly league table also shows other Indian firms gaining ground. One banker, speaking on condition of anonymity, feels that activity in the Indian scenario is likely to pick up. More so as countries in emerging markets like India and China would be the earliest to see an economic turnaround, even as other countries are in the midst of recession. This, according to him, could see

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BMO group (L-R) Sharma, Barclay, Sangha: gung-ho on cross-border deals in minerals

more Indian firms looking at acquiring assets at distressed valuations.

Given the comfortable liquidity position in the economy, most bankers feel that currently it is not a problem of raising funds but rather a low level of confidence amongst the promoters. Over the next few months things are likely to improve, they say.

### BMO Advisors

The sharp dip in M&A activity has not deterred global investment banks from committing more resources for strengthening their teams in India. The Bank of Montreal-promoted BMO Advisors Pvt Ltd, which had set up its

Indian operations, is gung-ho on cross-border deal flows taking off in the minerals sector. The corporate finance arm which offers a complete suite of advisory and corporate banking solutions had acted as advisors on 54 transactions totalling over \$46 billion in 2008. Daniel Barclay, MD of Mergers and Acquisitions and head Canadian M&A and Bob Sangha, MD of Metals and Mining group, were in Mumbai recently to talk about the opportunities available to Indian companies embarking on their overseas acquisitions. Ashutosh Sharma, MD of the Indian operations confides that "we are seeing new confidence levels amongst clients; definitely better than the sentiments prevailing in the first quarter of the year".

PricewaterhouseCoopers in its recent report on the worldwide mining industry, Mine - When the going gets tough, states that despite the economic downturn in the last quarter of 2008, mining companies capitalised on early-year strong demand and record prices to increase their revenue by 23 per cent last year to \$349 billion from \$284 billion in 2007. But operating costs continued to rise at a greater rate than revenue and net profit for the 40 top miners decreased 14 per cent to \$57 billion from \$66 billion in 2007. The opportunities would arise more in metals

like copper and aluminium.

PwC in its report points out that gold companies were the least affected by the downturn, as prices remained relatively high, compared with copper, aluminium and other metals.

BMO is currently looking at doing deals in mid-size funds in the range of \$50-100 million in India. "We would also be looking at capital for Indian firms outside Indian markets for funding their strategic overseas acquisitions." They are working with Ernst & Young to develop cross-border opportunities between India and North America. E&Y were the financial advisors to 56 deals done in India in 2008. As of now the company is not looking at building up a distribution channel in the country.

### Cross-border deals

Value destruction in global firms is indeed giving rise to opportunities for Indian companies. And there have been a few cross-border deals inked recently.

Aegis, an India-based global BPO, belonging to the Essar group, recently acquired 100 per cent equity of Call Centre Nucleus CCN Group Pty Ltd, one of South Africa's leading BPO companies. CCN, which has been in existence for seven years, has revenues of \$19 million with 1,000 employees operating out of two facilities with the bulk of revenues coming from the UK. The deal was sealed at a consideration of \$18.4 million, which is roughly one time the revenue. Aegis, which has been growing through acquisitions, has acquired 11 companies in the last four years and has revenues of \$500 million. It is planning to invest \$60 million over the next three years and ramp up its employee strength to 5,000 during the same period.

While the cross-border deal is nowhere near a mega deal, bankers are hopeful of smaller deals of this size taking place. The big deals would probably come after the government announces its disinvestment programme. The investments in infrastructure projects would also see more investment firms expanding their presence in the country.

### The top rankers in India

Rank		Volume (\$ million)
1	Kotak Mahindra Capital	2,579
2	Citigroup Inc	2,581
3	J M Financial	2,523
4	Ernst & Young	2,032
5	Morgan Stanley	2,016
6	BOA Merrill Lynch	1,904
7	Barclays Capital	1,700
7	RBS Group Plc	1,700
9	Avendus Advisors	637
10	Goldman Sachs	614

Ranked by announced deals which includes M&A, divestitures, but excludes open market transactions. Source: Bloomberg

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