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US-BOUND ACQUISITIONS BY INDIAN COMPANIES

Analysis of Transactions in the first half of 2008

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 **VIRTUS GLOBAL PARTNERS**



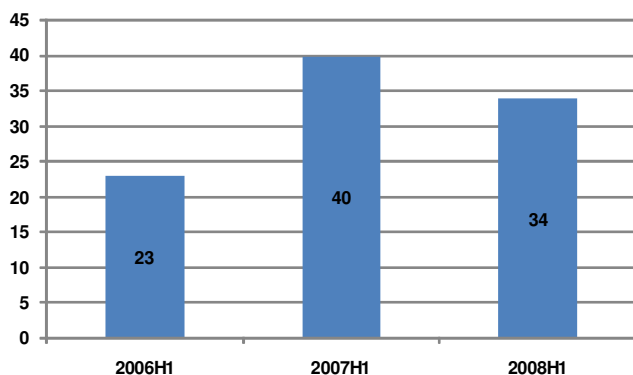
Mega-deals getting a boost in 2008

While the recent economic turmoil in the US appears to have slowed down the pace of US-bound acquisitions, it has also created significant buying opportunities for well-capitalized Indian companies. Compared to only one transaction of over \$1 billion in value for 2007, there were three such transactions in the first six months of 2008 (“2008H1”) alone. Overall, the number of transactions in 2008H1 decreased by 15% and the reported value of transactions fell by 30% compared to the first half of 2007. Mega-size deals, each over \$1 billion in size, accounted for 90% of the total transaction value while deals less than \$100 million in value accounted for 90% of the total transaction volume. This demonstrates the dichotomy facing Indian corporations. Large-size Indian companies with cash reserves and good balance sheets are scaling up and buying value assets in the US to achieve global leadership. In contrast, small to mid-size companies in India are adopting a cautious approach to the US economic slowdown.

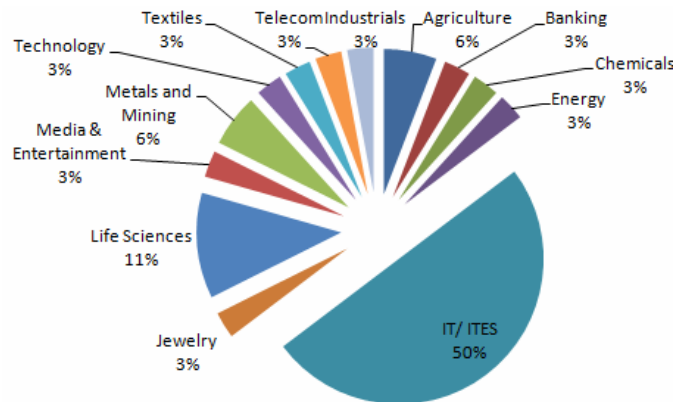
Overall, Information Technology/ IT-Enabled Service (IT/ITES) remains the most acquisitive industry accounting for over 50% of the transaction volume followed by life sciences with 11% of the transactions.

KEY HIGHLIGHTS

- In the first half of 2008, Indian companies accounted for a total of 34 US-bound acquisitions with a cumulative transaction value of over \$5.1 billion. This represents a 15% decrease in terms of volume and a 30% drop in value compared to the first half of 2007.
- Deals less than \$100 million accounted for over 90% of the total transaction volume but only 10% of the reported transaction value. Whereas, it was the opposite for deals greater than \$1 billion in size, which comprised 10% of the total volume and 90% of the reported value. No transactions were reported in the \$100 million to \$1 billion range. This reflects the dichotomy facing Indian companies – well-capitalized large Indian companies are buying value assets for cheap while mid-size firms are adopting a cautious approach.
- Mega-size deals included Tata Chemicals acquisition of General Chemicals for \$1 billion, GMR Energy’s purchase of 50% equity in Intergeren for \$1.1 billion and Sterlite Industries announced bid for Asarco valued at \$2.6 billion.
- IT/ITES remains the most acquisitive industry capturing over 50% share of the total US-bound transactions by volume, followed by life sciences (10%), metals & mining (6%) and agriculture (6%). Other industries accounted for less than 3% each in terms of volume.
- Over 70% of the transactions involved acquisition of 100% stock for cash consideration. These transactions generally had an earn-out structure, where a portion of the deal value is paid on future milestones.



US-bound Transactions 2006H1 – 2008H1



Industry Breakdown of US-bound Transactions in 2008H1

Key Trends

Well-capitalized, large-size Indian companies buying value assets in the US

High debt-to-equity ratio and low earnings combined with rising prices for fuel and raw materials in the US is creating value-buying opportunities for Indian companies. In addition, increasing competitive pressures, emerging global opportunities and the decline in overseas trade and investment barriers are encouraging Indian companies to seek acquisitions in the US.

While mid-size companies in India are taking a cautious approach to the global slowdown, well-capitalized large-size Indian companies are taking advantage of relatively low valuations in the US market to strengthen their global positions. The acquisition of General Chemicals for \$1 billion makes Tata Chemicals one of the largest soda ash producers worldwide. This acquisition provides a global footprint to Tata Chemicals through access to North America, Latin America and the Far East. It also lowers the cost of production and creates a hedge against the commodity cycle given that over 50% of its combined capacity is derived through a natural process.

The proposed acquisition of the copper mining company Asarco by Sterlite Industries for \$2.6 billion forms part of the broader race by mining companies to secure sources of commodities and raw materials in order to expand their own operations. With three open-pit mines and a copper smelter in Arizona, a copper refinery, rod and coke plant and a precious metals plant in Texas, Asarco supplements Sterlite’s global portfolio.

Similarly, GMR’s purchase of 50% equity in InterGen for \$1.1 billion provides the company the ability to compete in very large scale power projects across North America and Europe.



Information Technology remains the most acquisitive industry

With 17 US-bound acquisitions in the first six months of 2008, Information Technology is the most acquisitive industry in India. The IT/ ITES industry accounts for over 50% of the US-bound transactions by volume from India.

2008H1 - Key Transactions in IT/ ITES (\$mm)

Buyer	Seller	Size (\$m)
3i Infotech, Ltd.	Regulus Group, LLC	100
Satyam Computer Services Ltd.	Caterpillar Inc., Market Research and Customer Analytics Operations	60
Mascon Global Ltd.	Jass & Associates, Inc. and SDG Corporation	55
Rollta India Ltd.	TUSC	45
HCL Technologies Ltd.	CapitalStream, Inc.	40
Mascon Global Ltd.	MGL Finance	35
Satyam Computer Services Ltd.	Bridge Strategy Group LLC	s35
Educomp Solutions Limited	Learning.com, Inc.	25

The high rate of US-bound acquisition activity is being propelled by the need to gain scale in terms of size, product offerings and geography. The 2008H1 US-bound acquisitions also demonstrate an underlying business model change – from a cost-centric approach to a profit-margin focus.

Indian services providers have established themselves as competent providers of lower margin services, such as software maintenance, payroll processing and call center management. Indian IT and ITES companies are climbing up the value chain by focusing on software development, project management, technology consulting and enterprise software implementation.

This is evident in both of Satyam’s acquisitions, Bridge Strategy Group for \$35 million and Caterpillar’s market research and analytics operations for \$60 million. Similarly, Mascon’s acquisitions are targeted at getting entry into clients such as Cisco and General Electric, as well as developing their financial services capabilities.

Acquisitions of Regulus by 3i Infotech and TUSC by Rolta highlight the increased attractiveness of financial services and enterprise resource planning sub-segments in the US.



Life Science deals expected to pick up

The life sciences industry captured 11% of the transaction volume with four US-bound acquisitions in 2008H1. Dr. Reddy’s Laboratories acquisition of BASF’s contract manufacturing facilities and Maneesh Life Science’s acquisition of Syvonics Life Sciences was not only about gaining market access in the US but also accessing firm-specific strategic assets such as internationally certified

manufacturing facilities, new products, research capabilities, brands and benefiting from operating synergies.

2008H1 - Key Transactions in Life Sciences (size not available)

Buyer	Seller
Intas BioLife Sciences Ltd.	Biologics Process Development, Inc.
Maneesh Life Sciences Pvt. Ltd.	Syvonics Life Sciences, Inc.
Protech Biosystems Pvt. Ltd.	SFH I Acquisition Corp.
Dr. Reddy's Laboratories Ltd.	BASF Chemicals Company Ltd., Pharmaceutical Contract Manufacturing Business and Related Facility

As a target location, the US has traditionally lagged behind Europe in pharmaceutical outbound acquisitions from India but this could change based on the upcoming generic opportunities and size of the US market. Relying on third party marketing agents may not be a good strategy in the long run, thus, Indian companies are expected to acquire more export-supporting networks in the US.

Industry participation widens

With two US-bound acquisitions in the last six months, Advanta has positioned itself as a global agricultural products company. These acquisitions enhanced Advanta's capability to service customers in the US and Canadian markets, as well as provide a broader product base such as sunflower seed and sorghum-based products.

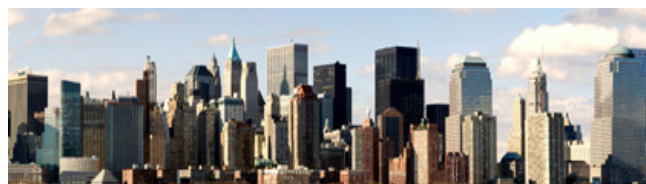
In the field of telecommunication, Essar Communications acquired a strategic stake in US-based Obopay, a service provider for payments via mobile phones. The alliance is expected to significantly benefit both organizations with their product offerings and customer penetration across multiple geographies.

Factors Driving US-bound Acquisitions

Developed economies like the US are attractive for Indian companies because of their large consumer markets, transparent business processes, robust legal environment, advanced technologies, skills and knowledge capital. Moreover, as the markets in these economies tend to be mature and saturated, it often proves difficult for Indian companies to gain market share without acquisitions.

While the strategic rationale for US-based acquisitions varies by industry and the individual company, there are a few common drivers:

- US-based acquisitions provide easy access to the world’s largest market and customer base through marketing and distribution channels of the acquired company. Indian companies are able to acquire well-established brands, a wider product portfolio, and readymade distribution networks, thus, globalizing and augmenting their competitive asset base. An organic approach to building customer base and gaining market access in the US could otherwise take many years.
- With lowering of import tariffs, Indian companies are facing increased competition within the domestic markets. In order to compete effectively, these companies are under pressure to access global markets and operating synergies. US companies provide one of the best global platforms in the world.
- The global slowdown has created opportunities to buy US-based companies at lower valuations. Sustained growth in corporate earnings in the last 5 years has improved the profitability and strengthened the balance sheets of Indian companies. This has, in turn, strengthened their credit ratings and ability to raise acquisition funds.
- Many Indian companies are seeking to expand their distinctive capabilities by acquiring specific skills, knowledge and technology abroad that are either unavailable or of inadequate quality at their home base. Indian companies are able to identify foreign firms with value-added offerings, which complement their own low-cost products and services to create an efficient integrated global business model.
- Regulatory changes in India have made it easier for Indian firms to establish global operations. As foreign exchange reserves have grown, the Reserve Bank of India has progressively relaxed the controls on outbound investments making it easier for Indian companies to acquire or invest abroad.



Cross Border Acquisitions in the US: Key Considerations

Quantitative M&A Considerations

As the acquisition strategy is being developed, consideration should be given to the financial impact that a well constructed and integrated deal can have on the acquiring company.

Valuation – Market Comparables, Free Cash Flow analysis, Synergy Valuation and Earning Power should all be considered when valuing an acquisition target.

Integration Costs – Depending on the level of alignment, integration costs can be substantial. Sales/Revenue dis-synergies can occur as the overall deal process tends to distract key stakeholders during the due diligence and M&A integration process.

Due Diligence – Comprehensive due diligence determines synergy value and uncovers potential issues. US-based companies generally have good management information systems, which create fast information flow.

Financing – Having financing in place during the acquisition process increases the chance of a successful transaction. Financing can be through a combination of internal accruals and debt/equity financing.

Acquisition Structure – While multiple factors need to be considered for determining the acquisition structure, jurisdiction, tax incidence, accounting, access to funds and local regulations are the most important factors. Generally, US-bound acquisition structures include an earn-out clause where a portion of the value is to be paid over a period of time based on milestones.

Qualitative M&A Considerations

Several qualitative issues can influence the success rate of the acquired company within the organization and should be taken into consideration during the early planning phase.

Developing Acquisition Criteria – Having a clear strategic need and acquisition criteria, as well as analyzing the likely impact of an acquisition will help set a robust selection process.

Selecting Advisors – Advisors with prior experience in US-based acquisitions and an understanding of the market will ensure a smooth navigation through the acquisition process.

Legal & Regulatory – A major aspect in cross-border acquisitions is the thorough legal and regulatory analysis of a transaction. A well-planned approach to managing contingent liabilities and contract issues is essential.



List of US-bound Acquisitions by Indian Companies in the first six months of 2008

Date	Buyer	Target	Value (\$m)	Industry
24-Jun-08	GMR Energy Limited	InterGen, Inc.	1,100	Energy
20-Jun-08	Advanta India Ltd.	Limagrain Verneuil Holding, US Sunflower Business	NA	Agriculture
19-Jun-08	Intas BioLife Sciences Ltd.	Biologics Process Development, Inc.	NA	Life Sciences
18-Jun-08	Maneesh Life Sciences Pvt. Ltd.	Synovics Life Sciences, Inc.	NA	Life Sciences
18-Jun-08	MosChip Semiconductor Technology Ltd.	Indigita Corporation	NA	Technology
17-Jun-08	Reliance Industries Ltd.	Unifi Kinston, LLC, Remaining Assets in Polyester Manufacturing Plant in Kinston, North Carolina	12	Textiles
17-Jun-08	Protech Biosystems Pvt. Ltd.	SFHI Acquisition Corp.	NA	Life Sciences
26-May-08	o3 Capital Advisors Pvt. Ltd.	Wolet Capital Corporation	NA	Banking
23-May-08	Sterlite Industries India Ltd.	Asarco Incorporated	2,600	Metals and Mining
20-May-08	Educomp Solutions Limited	Learning.com, Inc.	25	IT/ ITES
14-May-08	Mascon Global Ltd.	MGL Finance	35	IT/ ITES
29-Apr-08	Dr. Reddy's Laboratories Ltd.	BASF Chemicals Company Ltd., Pharmaceutical Contract Manufacturing Business and Related Facility	NA	Life Sciences
28-Apr-08	3i Infotech, Ltd.	Regulus Group, LLC	100	IT/ ITES
28-Apr-08	Essar Communications (India) Ltf	Obopay, Inc.	NA	Telecom
21-Apr-08	Satyam Computer Services Ltd.	Caterpillar Inc., Market Research and Customer Analytics Operations	60	IT/ ITES
4-Apr-08	Reliance BIG Entertainment Pvt Ltd.	DTS Digital Images	8	Media & Entertainment
4-Apr-08	Cyber Media (India) Ltd.	CMP-CyberMedia LLC	NA	IT/ ITES
1-Apr-08	Accentia Technologies, Ltd.	Oak Technologies Inc.	4	IT/ ITES
1-Apr-08	The Sanmar Group	Matrix Metals LLC	NA	Metals and Mining
27-Mar-08	IBS Software Services (P) Ltd.	Hotel Booking Solutions Incorporated	NA	IT/ ITES
18-Mar-08	PreMedia Global, Inc.	GGs Book Services	NA	IT/ ITES
13-Mar-08	Cyber Media (India) Ltd.	The TDA Group	NA	IT/ ITES
11-Mar-08	Mascon Global Ltd.	Jass & Associates, Inc. and SDG Corporation	55	IT/ ITES
4-Mar-08	Advanta India Ltd.	Garrison & Townsend, L.P.	11	Agriculture
3-Mar-08	Aurionpro Solutions Limited	SENA Systems, Inc.	NA	IT/ ITES
20-Feb-08	HCL Technologies Ltd.	CapitalStream, Inc.	40	IT/ ITES
18-Feb-08	Everest Kanto Cylinder Ltd.	CP Industries, Inc.	66	Industrials
7-Feb-08	Pradot Technologies Private Limited	GROUPONE Healthsource	NA	IT/ ITES
31-Jan-08	Tata Chemicals Ltd.	General Chemical Industrial Products Inc.	1,005	Chemicals
25-Jan-08	IQMS Software Ltd.	Object Xperts, Inc.	NA	IT/ ITES
23-Jan-08	Rolta India Ltd.	TUSC	45	IT/ ITES
21-Jan-08	Satyam Computer Services Ltd.	Bridge Strategy Group LLC	35	IT/ ITES
9-Jan-08	IQMS Software Ltd.	Tractel Solutions Inc.	NA	IT/ ITES
7-Jan-08	Minal Jewels Ltd.	Selections Inc.	NA	Jewelry

*Source: CapitalIQ Database

About Virtus Global Partners

Virtus Global Partners is a cross-border investment and advisory firm with focus on US and India-based transactions. We have expertise in several core industries, including Information Technology, IT-Enabled Services, Pharmaceuticals, Industrials, Auto Ancillary and Textile. We help Indian companies with US-based business development and strategic alliances and US companies with India entry strategies. Our clients include mid to large-size companies and private equity firms.

We provide a full range of investment banking services, including:

- Cross Border Mergers & Acquisitions
- Private Equity Services
- Strategic Partnerships & Joint Ventures
- India and US Entry Strategy Consulting

Key Transactions:

GITANJALI
GEMS LTD

has acquired
SAMUELS JEWELERS, US
\$45,000,000
Advisor to Gitanjali Gems

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 **Glodyne**
TECHNOSERVE LTD

has acquired
FRONT OFFICE
TECHNOLOGIES, INC
\$3,340,000
Advisor to Seller

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JEAN-CLAUDE
BIGUINE
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Advised this
Company on India
Entry Strategy

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13i Capital

Advised this Fund
on Portfolio
Strategic Options
and India Strategy

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 **THE YASH
BIRLA GROUP**

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Company on US
Strategic Alliances

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Contact Anil Kumar, Managing Director at (212) 297-6107 or akumar@virtusglobal.com for more details or visit our website at www.virtusglobal.com

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