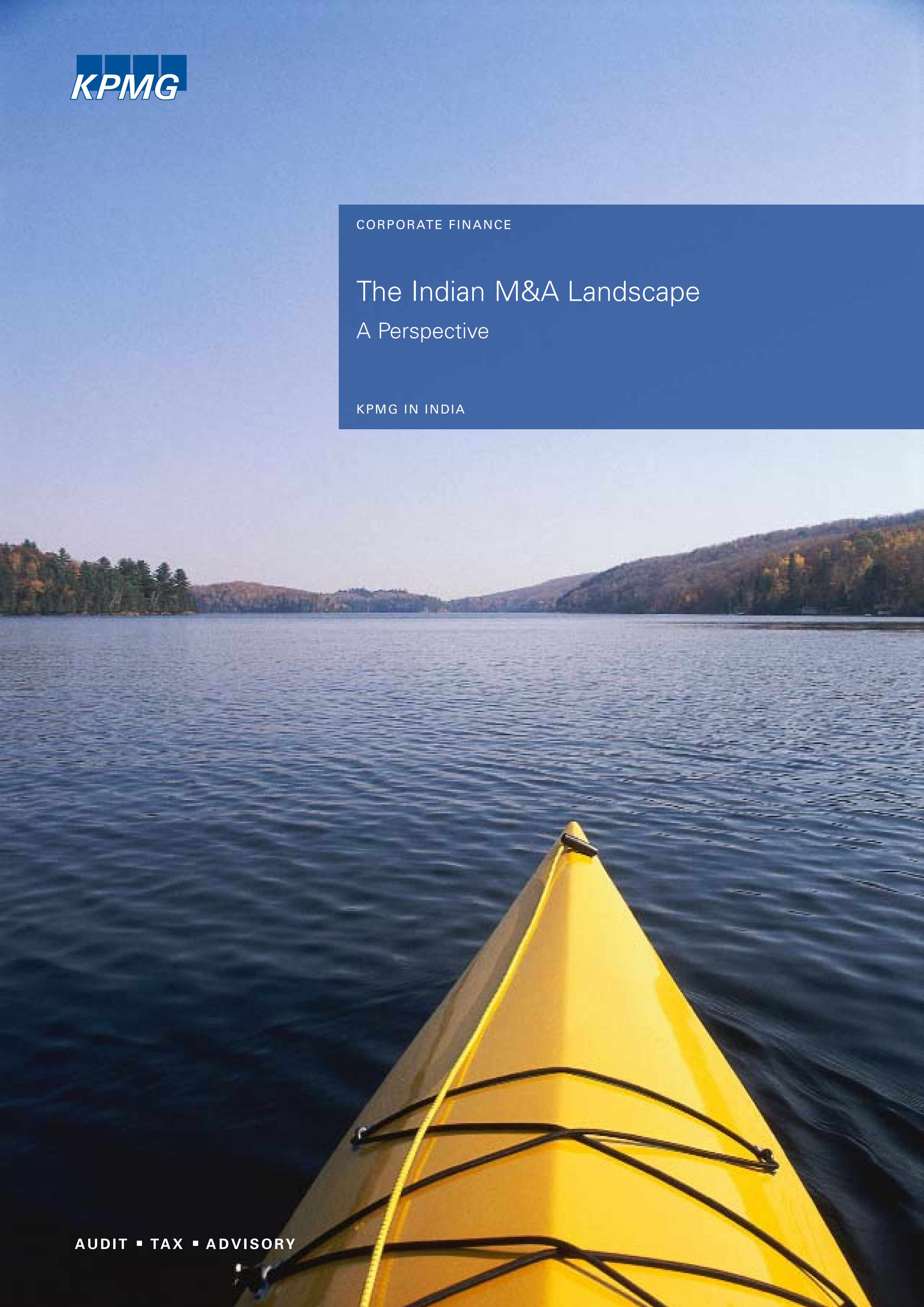

CORPORATE FINANCE

The Indian M&A Landscape

A Perspective

KPMG IN INDIA

AUDIT ▪ TAX ▪ ADVISORY

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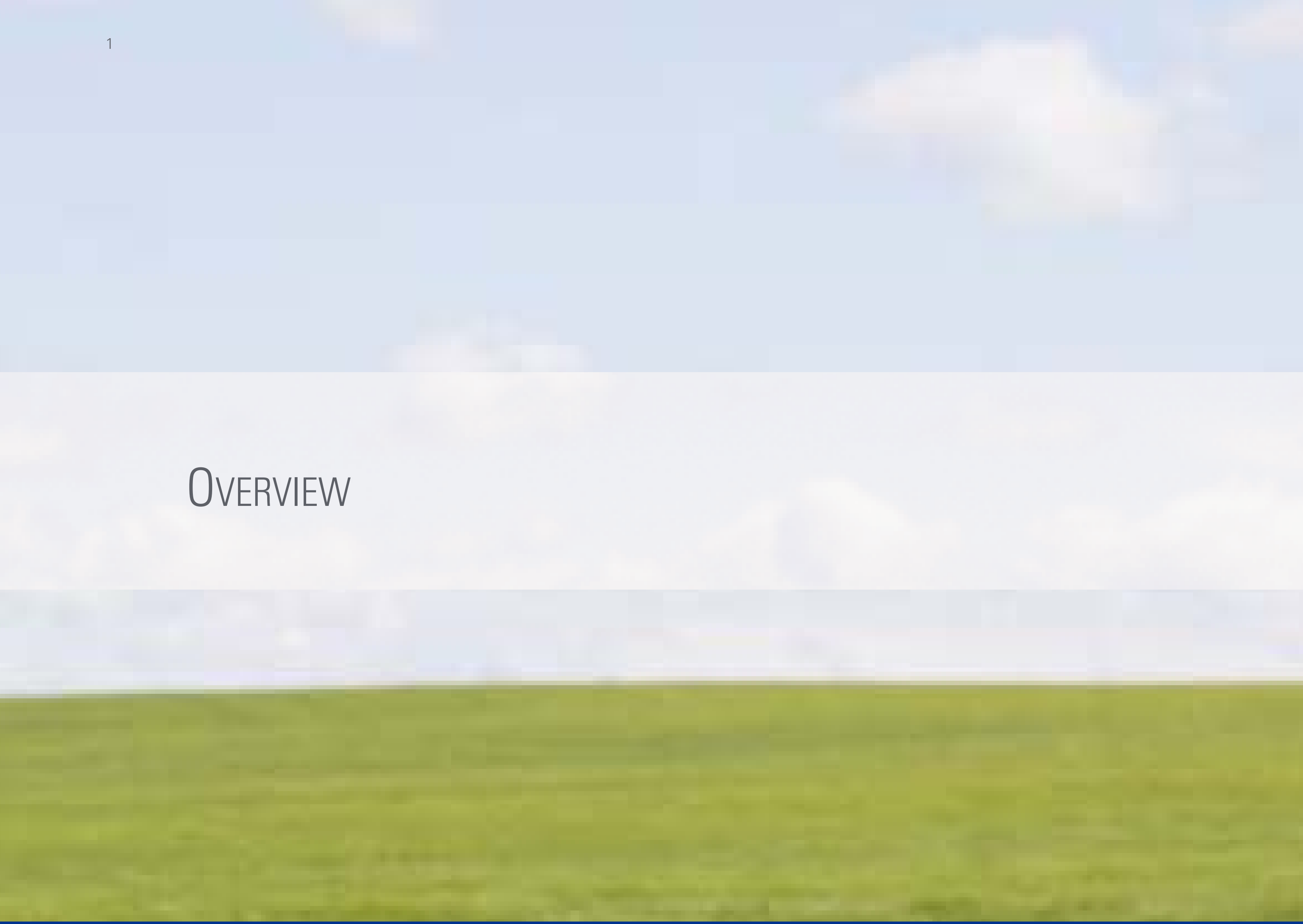

Overview

The last couple of years witnessed an unprecedented rise in M&A activity as Indian companies accepted inorganic growth as a core strategic initiative and were supported by a liberal credit regime and recognition by the international community as credible global competitors. We expect M&A activity to now reflect the changed realities with companies focused on channeling resources to core product offerings and monetizing non-core businesses.

Rohit Kapur
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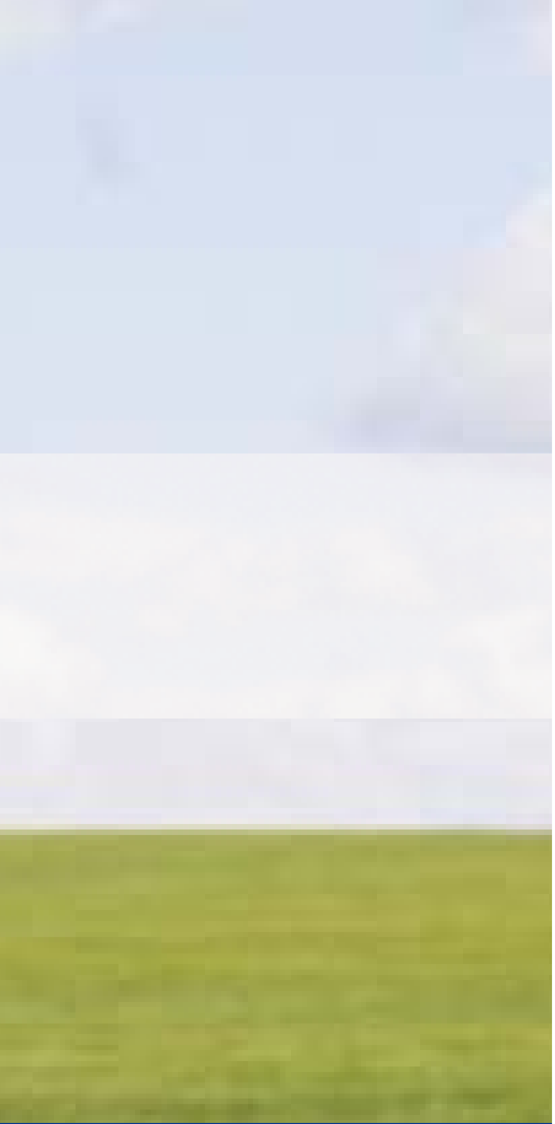

Mergers and Acquisitions (M&A) activity is broadly driven by larger economic themes as companies reconfigure their strategic initiatives to match macro events and adjust to externalities that change the dynamics of their value chain or competitive landscape.

If we were to trace M&A activity throughout history, we can observe such themes. As the rebuilding efforts started after World War II, M&A activity was driven by the need for business entities to achieve economies of scale, both from a geographical and product offerings perspective. In addition, the theme of "diversification" gave impetus to business entities acquiring businesses outside of their direct focus so as to mitigate the impact of the economy on their business portfolio. This trend gave rise to conglomerates for which acquiring disparate businesses was a stated growth strategy.

In the eighties, the trend reversed and M&A activity was dominated by the proposition of achieving dominance and focusing on "core competencies". At this time, many of the conglomerates were disbanded and enterprises were striving for global dominance in the business where they perceived a "real value add". The technology revolution of the late nineties gave business enterprises the ability to disaggregate their traditional value chains and enhance the efficiency of their operations. The emergence of India as a key outsourcing destination was a beneficiary of this ability.

The past several years have seen a heightened level of M&A activity primarily due to the wave of globalization and the traditional decision of buy-versus-build getting skewed towards inorganic initiatives due to the pace of change. Enhanced liquidity and credit products that lowered the cost of capital of business enterprises also helped fuel this trend. However, the global markets and economies faced an unprecedented challenge as the credit markets started to stall in late 2007 and the bearish sentiment percolated into the broader business environment.

Last year saw India Inc. readjust to new market realities after three consecutive years of growth that saw the economy expand by more than 9 percent annually. The sharp fall in markets has dampened the pace of deal activity over the past 15 months. Deal cycles are getting longer due to mismatch over valuation expectations between the buyer and the seller, and greater levels of due diligence being instituted in the aftermath of the Satyam episode.

However, a successful conclusion of the 2009 general elections and the unexpected scale of United Progressive Alliance's victory has renewed confidence among business leaders and entrepreneurs. Indian corporates are now looking forward to a new government which is expected to bring stability, better infrastructure, good governance and a continued focus on liberalisation.

In this report, we have attempted to capture the transaction trends over the past 15 months and give you a view of what might lie ahead for M&A activity in India.

We have analysed and commented on relevant developments within industry sectors which we believe are important to the domestic economy.

Due to the market conditions, we have seen subdued activity, both in terms of the number of deals executed and the value of the overall deals.

Key highlights of our findings within these sectors are presented below:

Consumer Markets

We have seen limited M&A activity in the Consumer Market sector with Sodexho SA's acquisition of Radhakrishna Hospitality Services being the one notable transaction this year*.

Consumer product companies are likely to maintain their interest in outbound acquisitions in order to gain access into new and emerging markets and expand product offerings. However, companies in the retail sector will have to defer their expansion plans and renegotiate with real estate developers on rent and income sharing arrangements.

Foreign Direct Investment (FDI) being allowed in single brand retail may make it easier for Private Equity (PE) to gain access, and open new opportunities for investments in this sector.

Pharmaceuticals

Global Pharmaceutical companies are currently focused on rationalizing costs through outsourcing of research and manufacturing activities to cost effective locations. Therefore, India's USD 14 billion pharmaceutical industry is likely to continue to be an attractive proposition for M&A. This, coupled with domestic consolidation, is likely to be a key theme driving M&A activity in the near future.

Indian companies are expected to remain cautious on outbound acquisitions. However, Japan, Latin America and Eastern Europe will remain markets of interest for acquisitions on account of lower generic penetration and attractive near and medium term growth prospects.

Telecom

The Indian Telecom industry, with a rapidly increasing subscriber base and approximately 10 million new subscriber additions a month, is one of the fastest growing wireless markets in the world.

Market entry and market share consolidation drove M&A activity in the sector. We saw global players such as Telenor ASA, Sistema JSFC-CLS, Etisalat and Bahrain Telecommunications make a successful entry in the Indian markets*. With the regulatory policy limiting FDI to 74 percent, Indian companies can look forward to forming joint ventures and strategic alliances with international investors.

On the domestic front, consolidation is likely to continue, Idea Cellular's purchase of Spice Communications is an example of a transaction that brought together two key regional players*.

The proposed merger of Mobile Telephone Networks South Africa ('MTN') and Bharti Airtel Limited[1] leaves no doubt about the intention of established Indian operators to foray into alternate high growth markets.

Media & Entertainment

Cross border transactions, both inbound and outbound, dominated the sector. Companies that were looking to expand their presence across media platforms drove the M&A market.

Television, which constitutes 41 percent of total industry revenue[2], remained an attractive proposition among PE and global conglomerates (Disney-UTV Global Broadcasting, NBC-NDTV Networks, Merrill Lynch-Zoom Entertainment and News Corporation-Jupiter Entertainment Ventures).

Film Entertainment, on the other hand, despite being the most prominent segment within this sector witnessed a subdued interest from investors last year. This could be attributed to various factors such as over dependence on domestic theatrical collections, piracy, lack of professionally run studios, high entertainment tax, inability to raise average ticket realization and an aversion to taking on creative risk.

With the FDI limits relaxed (from the current limit of 20 percent), radio may see some active interest from large PE players and global radio majors.

Information Technology (IT) and IT Enabled Services (ITES)

The IT-ITES industry, which had enjoyed high growth rates in the past few years, was directly impacted by the global economic crisis due to its export orientation and exposure to the Banking and Financial Services vertical. While there was significant deal activity, especially PE and outbound transactions in 2008, the last six months have been subdued as far as deal volume is concerned.

The year 2009 is expected to be a challenging year for the IT-ITES industry, as is evidenced by the guidance issued by industry leaders. However, there could be some revival in conversations around M&A, following the efficient resolution of the Satyam sale. We expect cash rich players who have raised funding in the last two years, or those that have internally generated funds, to take advantage of prevailing valuations to look for attractive assets. We also expect to see stock transactions as the industry consolidates. Divestment of captive outsourcing and technology units or shared services centers of financial services and other companies is expected to continue. This is an opportune time for international players to bolster their India delivery capabilities as valuations in the segment are attractive.

[1] Businessweek dated May 26, 2009

[2] In the interval, but ready for the next act" -a FICCI-KPMG Media & Entertainment Industry Report

Infrastructure

The emergence of infrastructure as a new asset class in India was evident with 85 deals last year, of which 50 percent were PE transactions*. Driven by significant deal supply constraints, power remained the most dominant generator of M&A activity.

Driven by the growth potential and private sector interest, we expect to see some investments in the social infrastructure (education and healthcare services) sector.

As the Indian economy begins to turn the corner from the market conditions of the last six to twelve months and with the new UPA Government confirming infrastructure provision as a focal point, infrastructure projects which have previously suffered from gaps in both debt and equity financing should once again become viable. Strategic investors looking for opportunities on account of revised valuations in the market are expected to show interest in this sector.

Financial Services

Despite volatile markets, we saw some notable transactions within the sector. These include Centurion Bank of Punjab's merger with HDFC Bank, Standard Chartered AMC's sale to IDFC and HSBC Securities and Capital Markets (India) Private Limited's takeover of IL&FS Investsmart Limited*.

The year ahead is expected to be challenging for most sub segments within the sector. We are likely to see consolidation in the Insurance, Non Banking Finance Companies ('NBFC') and Asset Management Companies (AMCs) space.

Microfinance and distribution companies are expected to remain an attractive sector for investment by Private Equity / strategic investors.

Private Equity (PE)*

Despite starting on a strong note, where the number of transactions in the first three quarters in 2008 was greater than that in the corresponding period in 2007, the year ended with the total investments being 7 percent lower in terms of volume and about 21 percent lower in terms of value. The average deal size in 2008 decreased to USD 24 million from approximately USD 27 million in 2007.

Unlike in 2007, there were no billion dollar deals in 2008. Providence Equity Partners' investment of USD 428 million in Aditya Birla Telecom for a 16.14 percent stake was the largest transaction. Sequoia was the most active investor in 2008 with 19 investments, followed by IFC.

While transactions were witnessed across a wide range of sectors, IT-ITES and Energy remained attractive investment options in terms of volume and value respectively. New sectors like agri-business attracted investments. Subdued capital markets have forced PE funds to defer exits.

The global credit crisis has impacted fund raising in India. It is estimated that out of 84 Indian PE funds that were targeting to raise USD 27.2 billion only 16 managed to raise USD 4.56 billion in 2008[3].

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[3] VC Circle

* KPMG analysis based on deal data sourced from Bloomberg and Mergermarket, and PE data from Venture Intelligence

Key drivers for M&A in the near term

On account of the financial crisis, investors and companies are being conservative and we observed a change in sentiment with the focus shifting from the aggressive growth intent in 2007 to consolidation and re-balancing of business portfolios. We expect increased inbound activity as current valuations attract global investors looking to expand their presence in India.

Consolidation

In the near term, the focus will be on consolidation as some sectors such as Pharmaceuticals continue to face regulatory barriers, pricing and intellectual property challenges. We are also likely to see strategic consolidation within sectors such as IT-ITES and Telecom, wherein larger players will seek growth by acquiring small regional players. Moreover, smaller players, especially those which have been impacted by the downturn would need to merge with or be acquired by larger companies to survive this environment.

Re-balancing of business portfolios

In 2009, we expect to see a re-alignment in corporate strategies. The economic slowdown has triggered a wave of corporate restructuring, as Indian companies align themselves to new market realities. M&A activity in India is likely to gain pace over the next few months with companies preparing to hive-off some of their non-core businesses to raise capital or acquire assets at realistic prices. Asset rationalisation is not just limited to cash-strapped firms. Companies with relatively sound balance sheets too are reorganising their businesses, but for different, and mainly strategic reasons. Some business groups are expected to exit non-core business to be able to focus on their core product offerings.

We may also witness large financial institutions and banks divest some of their non-core businesses and liquidate assets which could provide opportunities to the outsourcing industry.

Inbound acquisitions

Early 2006 saw India Inc. in the throes of economic transformation. Factors like a growing consumer class, compelling demographics and liberalisation of reforms contributed to the India growth story. Business confidence was at a high and India emerged as an important destination not only for private equity funding and inbound acquisitions but also for outbound investments. Marquee overseas acquisitions inspired confidence amongst Indian investors. Almost every large Indian business group had a global plan.

In contrast, 2008 proved to be a year of trials for Indian corporates. We also witnessed Indian business houses being challenged by these very same outbound acquisitions especially due to the economic downturn and integration challenges. Consequently, we now see a cautious approach towards outbound investments.

On the other hand, valuations have significantly scaled down on account of the financial crisis and this provides an opportunity for inbound M&A activity. However, India as an investment destination as taken a beating because of the global liquidity crisis, Mumbai incidents and more recently the Satyam imbroglio. While this may impact investment decisions in the short term, given the strong fundamentals underlying the Indian corporate sector, we expect that the interest may rebound in the next six months.

India M&A Snapshot*

Slowdown in 2008

- The Indian M&A (including PE) market witnessed a 14 percent decrease in volume over 2007 with 863 deals as against 1001 deals in 2007. In terms of value, there has been a 41 percent decrease from USD 71.7 billion in 2007 to USD 42.2 billion in 2008

  The First quarter of 2009 witnessed a 63 percent decrease in volume over the first quarter of 2008. In terms of value there has been a 30 percent decrease with USD 11.8 billion in Q1 2008 as compared to USD 8.3 billion in Q1 2009

- Cross border transactions in 2008 were 14 percent lower in terms of volume and 55 percent lower in terms of value as compared to 2007

- The value of domestic deals completed in 2008 increased by 19.5 percent as compared to 2007, even though volumes saw a decrease by 25.6 percent

- The average deal size in 2008 decreased to approximately USD 50 million from USD 71 million in 2007

- There were 28 PE exits in 2008, which included 9 via IPOs as compared to 67 exits achieved in 2007 with 17 via IPOs

  There were only 9 exits in the first quarter of 2009. These included one IPO, five via public markets and three through strategic sales

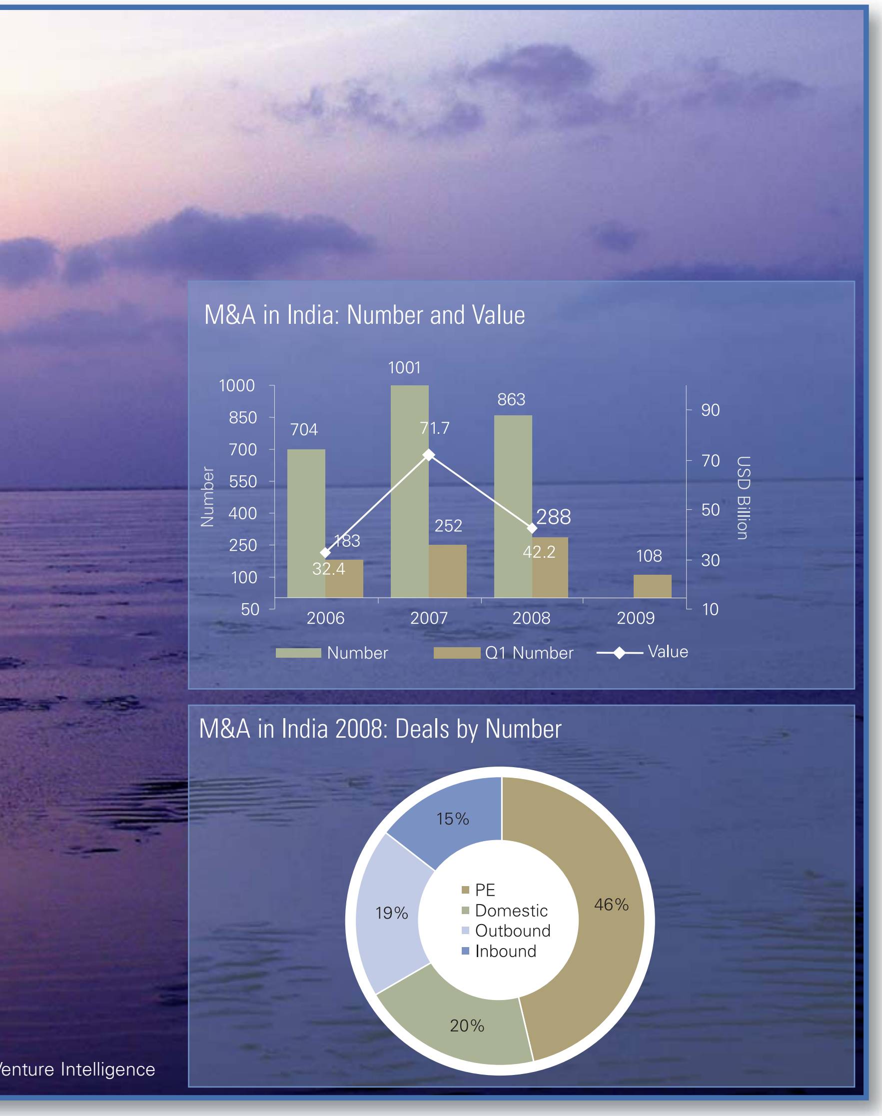
- The number of billion dollar deals increased in 2008– from 7 deals in 2007 to 9 in 2008

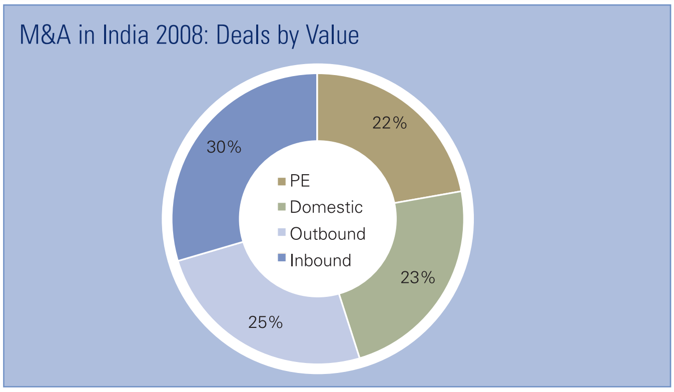
Source: Bloomberg, V

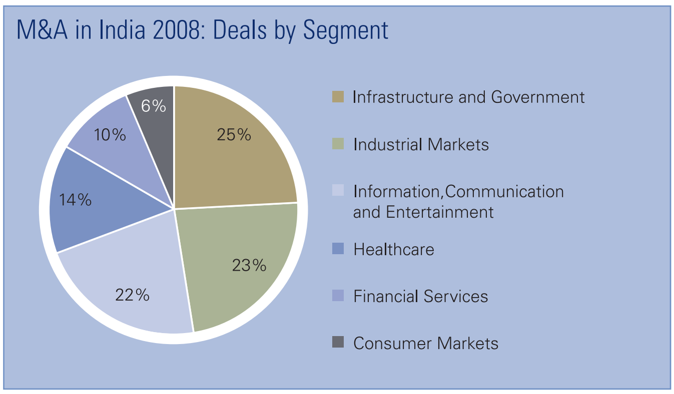
Key Deals

Target Name	Target Country	Sector	Acquirer Name	Acquirer Country	Value (USD mn.)	Stake (percent)
Ranbaxy Laboratories Ltd.	India	Pharma	Daiichi Sankyo Co Ltd.	Japan	4628	64
Centurion Bank Of Punjab Ltd.	India	Financial	HDFC Bank Limited	India	2813	100
Tata Teleservices Ltd.	India	Telecom	NTT DOCOMO Inc.	Japan	2657	26
Imperial Energy Corp plc.	Britain	Infrastructure	Oil & Natural Gas Corp Ltd.	India	2607	100
Jaguar Land Rover	Britain	Auto	Tata Motors Ltd.	India	2300	100
Idea Cellular Ltd.	India	Telecom	TM International Bhd	Malaysia	1707	15
Unitech Wireless	India	Telecom	Telenor Asa	Norway	1249	67
Intergen NV	Netherlands	Infrastructure	GMR Infrastructure Ltd.	India	1100	50
General Chemicals	United States	Chemicals	Tata Chemicals Ltd.	India	1005	100

Source: Bloomberg, Venture Intelligence







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Sector Outlook

Consumer Markets

Pharmaceuticals

Telecom

Private Equity


FINANCIAL SERVICES
MEDIA & ENTERTAINMENT
IT / ITES
INFRASTRUCTURE

CONSUMER MARKETS

Consumer companies are likely to continue to witness consolidation in 2009. Indian promoters are expected to be under continued pressure from high decibel brand spends by multinationals and margin compression from modern trade. On the other hand, some PE-held investments in the sector are expected to come up for sale. Valuations are likely to hold on account of target scarcity. Retail, on the other hand, may witness a shakeout with players facing pressure to rationalize formats and offerings.

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Over the last 15 months we have seen limited M&A activity in the consumer markets and retail sector. One of the notable deals this year was that of Sodexho SA acquiring a controlling interest in Radhakrishna Hospitality Services, an India-based provider of food and facilities services for USD 125 million*.

While acquirers have conserved cash waiting for better bargains, advertising spends were not significantly curtailed as they believed that consumer demand for small ticket and day-to-day purchases would not be affected by the downturn. Deal activity is expected to pick up in the latter half of 2009 as more targets come into play, both from distressed sellers and liquidating PE funds.

Consumer Market companies typically generate substantial free cash flows and are accordingly less leveraged. Leading Consumer Market companies in India also have strong brands and enjoy considerable pricing power. Moreover, demand for consumer staples is fairly inelastic and is consequently less likely to be impacted in the current economic scenario. On the contrary, there may be a slowdown in demand for consumer durables on account of rationalization of disposable incomes, rising interest rates and a tendency of consumers to put off non-discretionary purchases in an economic downturn.

Household and Personal Care (HPC)

In the last few years, Indian consumer product companies have actively pursued outbound acquisitions in order to gain access to new and emerging markets, fill gaps in product offerings and expand into new categories. Examples of these include Godrej Consumer Products Limited's acquisition of Keyline Brands Limited in the UK and Kinky Hair Business in South Africa, Wipro Limited's acquisition of Unza Holdings Pte Limited in Singapore and Marico Limited's acquisition of the consumer division of Enaleni Pharmaceuticals, South Africa*. We expect this outbound trend to continue this year, given the current added attraction of valuations being more reasonable in overseas markets. Markets of interest include Asia, Africa and Latin America, given similar demographic profile to that of Indians as well as the economic strata of the larger population in these geographies.

"I expect the appetite for M&A from Indian FMCG companies to be strong during 2009-2010. The FMCG sector in India continues to do well and will seek to enhance its organic growth with inorganic opportunities. An increased reasonable pricing of companies in the international market might lead to considerable cross border M&A."- Adi Godrej, Chairman of Godrej Group of Companies

Domestic transactions in the HPC segment in 2008 were led primarily by Indian majors including Dabur India ('Dabur') and Emami Limited ('Emami'). Dabur's announcement of the acquisition of Fem Care Pharma, at an enterprise value of USD USD 62.8 million marked its entry in the USD 660 million[1] skin care market in India. With the skin care segment growing at a Compound Annual Growth Rate ('CAGR') of over 20 percent in the last 3 years[2], this acquisition is expected to help Dabur leverage its existing strong distribution infrastructure to make rapid strides in the markets not served by Fem Care Pharma.

In May 2008, Emami acquired a 23.6 percent stake from the Vaidya family, one of the two promoter families of Zandu Pharmaceuticals ('Zandu'), for about USD 28 million. After a period of resistance from the Parikhs, the other promoter family, Emami eventually acquired an additional 38.2 percent from them for about USD 113 million. The deal, executed in three tranches including the open offer, valued the equity of Zandu at USD 228.8 million[3]. Valuations notwithstanding, Zandu Pharmaceuticals' product portfolio comprising chyawanprash, pain balm, honey, etc., has a strong

[1, 2] India Infoline Ltd research report dated November 24, 2008

[3] Sourced from Business Standard dated May 31, 2008, Corporate announcement dated November 3, 2008 on bseindia.com, notification to the BSE issued by Emami dated May 30, 2008 and Oct 15, 2008

ayurvedic product line that fits well within Emami's own product portfolio and also provides distribution synergies.

In a low profile transaction, Estee-Lauder picked up a minority stake in Forest Essentials, a domestic luxury ayurvedic skin care and cosmetics brand.

The HPC segment is likely to continue to witness deal interest from strategic players in 2009. This segment requires significant marketing and advertising spends as well as distribution channel investments to build scale. Players with limited financial muscle and brand portfolio are expected to yield to their larger counterparts such as Hindustan Unilever Limited, Wipro, Dabur and Godrej. However, due to scarcity of targets with scale, and a number of keen acquirers looking for inorganic growth opportunities, valuations will continue to be at a premium.

PE investments in this sector, on the other hand, are likely to be restricted to companies that are highly leveraged or have substantial capital expenditure requirements.

Food & Beverages (F&B)

Deal activity in the F&B sector over the past fifteen months have been significantly lower than in prior years. F&B majors were focused on consolidating and integrating their past acquisitions. Since the MTR Foods Limited's sale in 2007, there have not been many significant M&A deals in the processed foods sector.

Most global foods majors are already present in the country and new market entrants were few and far between. Of note was Tyson Foods ('Tyson') entry in the Indian meat processing market through a joint venture with Godrej Agrovet ('Godrej'), the agri-business arm of the Godrej Group, with the former holding 51 percent stake in the new entity. This venture is expected to help Godrej leverage Tyson's food processing and product development expertise. We also saw Germany-based Dr Oetker announce the acquisition of Delhi-based Fun Foods Private Limited, a processed foods company for USD 22.8 million. With this acquisition, Dr Oetker will establish its footprint in India*.

In March 2009, Sodexho SA, the listed French food and facilities management firm acquired Radhakrishna Hospitality Services Limited ('RHSL'), an India based provider of food and facilities services for USD 125 million. This implied a multiple of 1.1 times RHSL's revenues of USD 110 million for the financial year ended March 2008*. RHSL is regarded as the only organised player in the domestic food service space and is believed to be growing at a rate of 30 percent annually[4].

Beverages witnessed even fewer transactions. In the brewery sector, inbound deals included UK-based Cobra Beer's acquisition of a 76 percent stake in Bihar-based Iceberg Industries and Annheuser-Busch's acquisition of its 50 percent joint venture partner in Crown Beers India. On the other hand, the Champagne Indage Group acquired the assets of Darlington Wines, UK, a leading independent supplier of wine*.

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4 Press article: Economic Times dated March 10, 2009

Agri-commodities

In the agri-commodities space, transactions in the recent past were mainly in the sugar sector. Notable transactions include Mawana Sugars Limited's merger with Siel Limited, Bajaj Hindusthan Sugar & Industries Limited's acquisition of Phenil Sugars Private Limited, as well as Shree Renuka Sugars Limited's serial acquisition of Gokak Sugars Limited, Ratnaprabha Sugars Limited and Godavari Biofuel Private Limited*. With sugar prices at an all time low, companies in this space are likely to be under pressure from lenders and low valuations may necessitate exits by smaller players - thus offering attractive opportunities to potential acquirers. Unlike previous years which witnessed some PE transactions in rice processors, sugar and spices, PE funds stayed away from this sector last year.

Apparel

The year 2009 saw a major transaction in the apparels segment with AAA United BV acquiring a 40.7 percent interest in Bombay Rayon Fashions Limited ('BRFL') for USD 129 million in March 2009. AAA United BV is a Netherland-based investment holding company promoted by private investor Mr Anders Holch Povlsen. The transaction is expected to close in June 2009. The deal valued the equity of BRFL at USD 317 million*.

This transaction will help BRFL raise capital required to finance new projects that the company intends to undertake and also to finance working capital requirements.

Retail

The Indian retail segment has witnessed substantial interest from overseas retail chains as well as domestic and international PE investors. Moreover, there has also been some consolidation in the domestic organized retail segment such as Indiabulls Real Estate's acquisition of the Ashok Piramal promoted Piramyd Retail Limited and Primus Retail Private Limited's acquisition of the Weekender brand*.

We saw some PE activity in premium apparel brands like Reid & Taylor (India) Limited (Government of Singapore Investment Corporation), Provogue (India) Limited (a clutch of PE funds including Sequoia Capital, New Vernon and Altima

> "In retail, there are going to be many opportunities for M&A. The constraints will be that all the businesses are still controlled by families and corporate houses; therefore M&A becomes more complicated at the mindset and control levels. The other challenge will be that both the acquirer and the target company will have liquidity issues, apart from the fact that the size of individual retail businesses is yet very small but complicated, therefore integration risks are higher than consolidation gains."
>
> - B. S. Nagesh, Managing Director and Customer Care Associate, Shoppers Stop

Partners) and Satya Paul (another group of PE funds led by Sequoia). With FDI being allowed in single brand retail, structuring PE investments into retail businesses have become easier than in prior years*.

In the short term, the uncertain economic environment may keep consumers from making non-essential purchases, which may benefit supermarkets and other big box discount formats.

Due to potential liquidity concerns, leading retailers are expected to hold back their expansion plans and renegotiate with real estate developers on lower rents/revenue sharing arrangements. Investments in the segment are therefore expected to be far more modest in the near term. However, there may be consolidation opportunities brought about by the inability of smaller retailers to stay afloat.

Given India's burgeoning middle class, increasing per capita income, a large working population and low organized retail penetration, the sector is expected to continue to attract investments from domestic and international investors alike. The rationalization of FDI will see Indian companies entering into equity alliances and joint ventures with their global counterparts.

* KPMG analysis based on deal data sourced from Bloomberg and Mergermarket, and PE data from Venture Intelligence

Key Deals

Target Name	Target Country	Acquirer Name	Acquirer Country	Value (USD mn.)	Stake (percent)
Reid & Taylor India*	India	GIC	NA	225	25
Klopman	Italy	S Kumars	India	109	100
Subhiksha Trading Services*	India	PremjiInvest	NA	56	14
Fem Care Pharma Limited	India	Dabur India	India	54	92
Fun Foods	Britain	Dr August Oetker	Germany	23	100

*Private Equity Deals
Source: Bloomberg, Venture Intelligence

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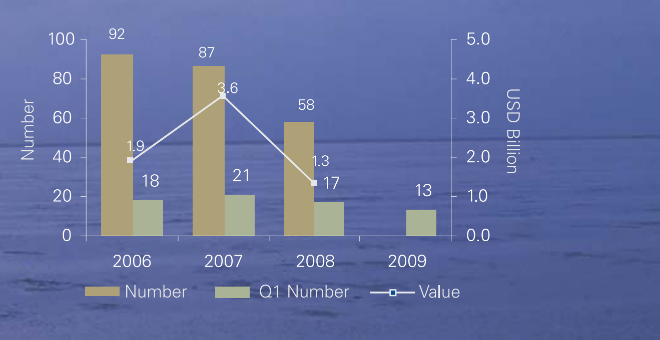
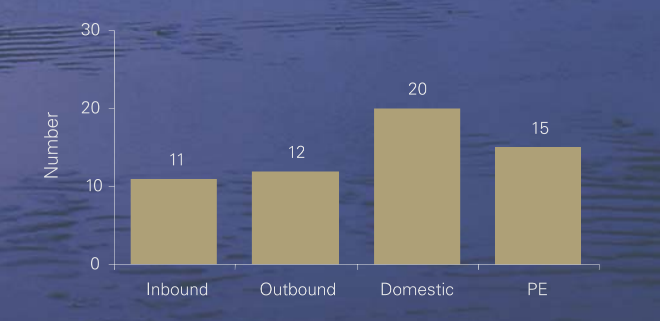
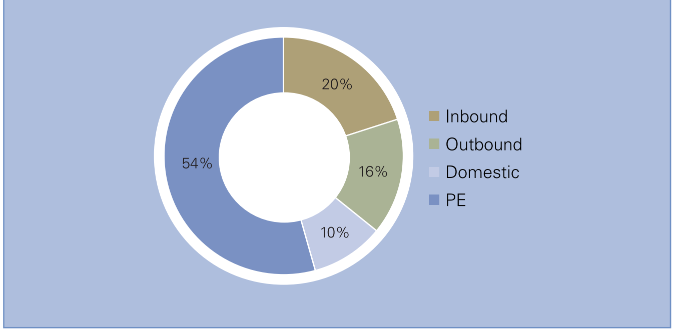
Consumer Markets Deals: Number and Value



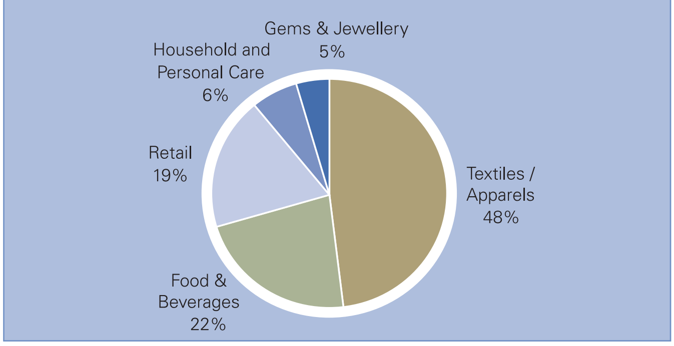
Consumer Markets Deals 2008: Deals by Number



Consumer Markets Deals 2008: Deals by Value



Consumer Markets Deals 2008: Deals by Segment



Source: Bloomberg, Venture Intelligence

PHARMACEUTICALS

Forward thinking Indian pharmaceutical companies have been investing in development of New Chemical Entities and New Drug Delivery Systems to create future step-change growth potential. International pharmaceutical companies continue to evaluate these companies for market access and outsourced manufacturing. Acquirers have to demonstrate their willingness to pay for the scarcity of these assets, future successes, and commit the required R&D and brand-building spend to enable successful transactions to happen.

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The Indian Pharmaceutical industry, over the past two years, witnessed significant M&A activity. The sector[1] has seen 72 transactions in 2008 aggregating USD 6 billion. Of these, 10 inbound and 20 outbound transactions accounted for USD 5.2 billion and USD 320 million, respectively. Domestic and private equity transactions accounted for the balance, USD 546 million*.

The largest transaction in this sector was Daiichi Sankyo Co. Limited's acquisition of Ranbaxy Laboratories Limited*. This acquisition demonstrated the strong interest global companies have in the Indian pharmaceutical market and their willingness to pay high valuations for established Indian businesses.

In the near term, the focus will be on domestic consolidation and inbound deals as domestic companies face regulatory, intellectual property (IP) and pricing challenges. Outbound deals are likely to remain muted on account of the credit squeeze and buyers' lookout for acquiring niche and differentiated assets.

[1] Data includes Pharmaceuticals and Healthcare Services deals

Global Pharmaceutical companies have increased their focus on high growth markets as a consequence of declining Research & Development (R&D) productivity, sluggish growth in developed markets and increasing pressure from governments and managed care institutions to lower drug prices. Their current focus is on rationalizing costs through outsourcing of research and manufacturing activities to cost effective locations that have regulatory expertise and strong IP protection mechanisms.

India's USD 14 billion pharmaceutical industry constitutes approximately 1.8 percent[2] of the global industry, ranking 4th by volume and 13th by value. The industry can be broadly classified into three segments:

Domestic Market: The domestic market is estimated at USD 8.4 billion and forms the largest segment of the industry. It primarily comprises branded generics[3]. The market is highly fragmented with approximately 20,000 companies selling products through 60,000 distributors and 700,000 retailers[4]. This segment has grown at a CAGR of 16 percent during 2002-2008, largely driven by the increasing prevalence of lifestyle diseases, improvement in healthcare infrastructure and increased penetration of health insurance[5].

Generic Exports: The USD 4.7 billion[6] generic exports market has grown at a CAGR of 36 percent during 2002-2008. We anticipate that in the near to medium term, high regulatory barriers, interest costs, foreign currency fluctuations and cost reduction pressures from customers may dampen this segment's growth rate and profitability.

Contract Research and Manufacturing Services (CRAMS): The USD 895 million domestic CRAMS market is still at a nascent stage of development and is expected to grow at a CAGR of 41.7 percent to USD 2.46 billion by 2010[7].

The M&A trends in these three sub-segments have been presented in the following pages:

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[2] Pharma bio World Expo'09, ORG IMS
[3, 4, 5] Cygnus industry report 2007
[6] Pharma bio World Expo'09
[7] Cygnus Industry Report, January 2009

Domestic Market

The domestic market is dominated by Indian companies with 78 percent[8] market share in terms of value. Acute therapeutic segments such as anti-infectives, respiratory and gastro-intestinal contribute to majority of sales, whilst lifestyle disease-related therapeutic segments like cardiovascular, diabetes and central nervous system are recording the fastest growth.

"M&A can catalyze creation of substantial shareholder wealth, but equally, it can also erode value. History is replete with examples of both kinds. One should have an extremely prudential approach towards M&A. Personally, I believe in approaching risk associated with M&A by breaking the M&A process into discrete elements and managing each element systematically. While, as a philosophy, one should not shy away from big ticket acquisitions, I believe that bigger is not necessarily better. M&A should be part of a company's strategic tool kit and should be used judiciously to manage shareholder returns. The underlying theme should be to buy 'for a cost' and not 'at all costs'. There should be no macho spirit associated in doing an M&A deal"

- Dr K K Sharma, Managing Director, Lupin Limited

Indian companies have attempted to build scale and presence in niche therapies, as evidenced by Alembic Limited's acquisition of the non-oncology portfolio of Dabur Pharma Limited for USD 35 million and Shreya Life Sciences Private Limited's acquisition of the prescription business of Plethico Pharmaceuticals Limited and the pharmaceutical business of Rallis India Limited. In addition, Ranbaxy Laboratories Limited acquired a majority stake in Zenotech Laboratories Limited for USD 50 million to gain access to its portfolio of bio-similar and oncology products and Cadila Healthcare Limited acquired Liva Healthcare Limited* to gain access to its niche presence in dermatology products.

Driven by the strategic intent to enter high growth markets, foreign companies have been willing to acquire Indian companies by offering a premium to market valuations. Daiichi Sankyo Co. Limited's ('Daiichi') acquisition of Ranbaxy Laboratories Limited for USD 4.6 billion was at a premium of 38 percent to its last three months weighted average market valuation from the date of announcement*. This acquisition provided Daiichi control over India's largest pharmaceutical company with a global generic footprint, which it can leverage to create an integrated pharmaceutical model with a focus on both IP-driven innovator products as well as cost-driven generics. Likewise, Fresenius SE's acquisition of Dabur Pharma Limited ('Dabur') for USD 337 million was at a premium of 23 percent to its last three months weighted average market valuation from the date of announcement. Dabur's activities across research, development and manufacturing in the oncology segment add significant value to Fresenius's global hospital-driven business model.

Private equity funds primarily invested in companies which are capable of leveraging either their niche presence or cost leadership position. Evolvence India Life Sciences Fund invested USD 30 million in Gland Pharma Limited, a company focused on niche injectibles. International Finance Corporation invested USD 15 million in Hikal Limited, a company with a global platform for

[8] Mckinsey & Co, India Pharma 2015

developing and manufacturing Active Pharmaceutical Ingredients ('API') and providing research services.

We anticipate that smaller companies will find it increasingly difficult to comply with the IPR regime and tightening regulatory standards, making their acquisition by larger competitors more likely. Drying new drug pipelines and patent expiries of several blockbuster drugs are expected to encourage foreign pharmaceutical companies to expand their presence in India through inbound acquisitions.

Generic Exports

Over the past five to seven years, India has emerged as one of the leading generic drug suppliers globally. India's total exports of bulk drugs and formulations increased from USD 2 billion in 2002 to USD 4.7 billion in 2008[9].

Indian companies have built a manufacturing infrastructure at par with global standards, with more than 75 US Food and Drug Administration ('USFDA') approved manufacturing sites across the country[10]. Many have also used the inorganic route to expand their footprint in overseas markets and attain scale. In 2006, Dr Reddy's Laboratories acquired Betapharm Arzneimittel GmbH, Germany, for USD 570 million and Ranbaxy Laboratories Limited acquired Terapia, Romania, for USD 324 million. In 2007, Wockhardt Limited acquired Negma Lerads, France, for USD 265 million and Morton Grove Pharmaceuticals Inc., USA, for USD 38 million*.

Some of these acquisitions have not met shareholder expectations due to a range of factors including change in market conditions and integration issues. In the near term, Indian companies are expected to remain cautious on outbound acquisitions. Their strategic focus is likely to shift towards differentiated assets which provide technical know-how and intellectual property which can be commercialized globally. Markets of interest are likely to be Japan, Latin America and Eastern Europe as they have lower generic penetration and attractive near and medium term growth prospects.

Contract Research and Manufacturing Services (CRAMS)

In the recent past, Indian CRAMS companies have evolved from being pure manufacturers to full-fledged service providers spanning the entire drug development and manufacturing value chain. The Indian industry has benefited from its ability to produce at lower costs and the introduction of product patent recognition in 2005, which raised the confidence of global pharmaceutical companies to outsource from India.

9 Crisil Research and Pharma bio- World Expo'09

10 Merrill Lynch

* KPMG analysis based on deal data sourced from Bloomberg and Mergermarket, BSE India website and PE data from Venture Intelligence

Indian companies have strengthened their market position by actively pursuing overseas acquisitions to expand their customer base. Jubilant Organosys Limited ('Jubiliant') acquired Hollister-Stier Laboratories, USA, for USD 122 million in 2007 and Draxis Health Inc, Canada, for USD 262 million in 2008*. These acquisitions have provided Jubiliant access to new technologies, expanded service portfolios, global manufacturing and research sites, international regulatory approvals and a ready client network.

Private equity funds have invested in Indian CRAMS companies for funding the expansion of their research and manufacturing capacities and planned acquisitions. In 2008, Jacob Ballas and New York Life Investment Management invested USD 43 million in Themis Laboratories Private Limited and Baring Private Equity Partners India invested USD 15 million in Sphaera Pharma*.

Indian Companies are expected to remain interested in overseas acquisitions but may be constrained due to the lack of financing opportunities. Hence, CRAMs companies are likely to include strategic alliances with global companies as part of their growth plans. Private equity funds should continue to look at niche and scalable opportunities.

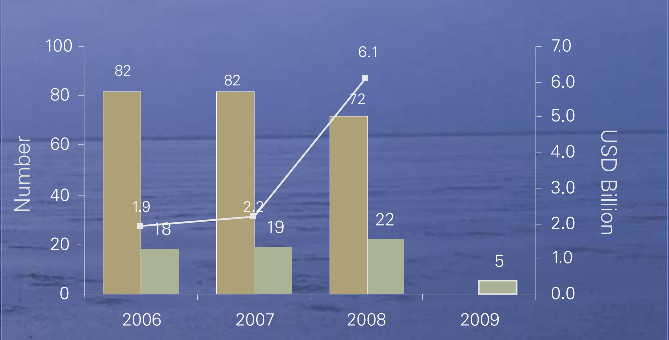
> M&A can catalyze creation of substantial shareholder wealth, but equally, it can also erode value. History is replete with examples of both kinds. One should have an extremely prudential approach towards M&A. Personally, I believe in approaching risks associated with M&A by breaking the M&A process into discrete elements and managing each element systematically. While, as a philosophy, one should not shy away from big ticket acquisitions, I believe that bigger is not necessarily better. M&A should be part of a company's strategic tool kit and should be used judiciously to manage shareholder returns. The underlying theme should be to buy 'for a cost' and not 'at all costs'. There should be no macho spirit associated in doing an M&A deal
>
> **- Dr K K Sharma, Managing Director, Lupin Limited**

Key Deals

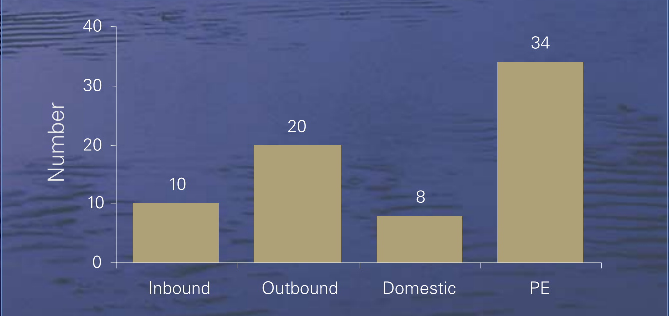
Target Name	Target Country	Acquirer Name	Acquirer Country	Value (USD mn.)	Stake (percent)
Ranbaxy Laboratories Limited	India	Daiichi Sankyo Co Limited	Japan	4628	64
Dabur Pharma Limited	India	Fresenius SE	Germany	337	91
Draxis Health Inc	Canada	Jubilant Organosys Limited	India	226	100
Strides Latina	India	Aspen Pharmacare Holdings Limited	South Africa	153	50
Narayana Hrudayalaya*	India	JP Morgan, AIG	NA	100	25

*Private Equity Deals
Source: Bloomberg, Venture Intelligence

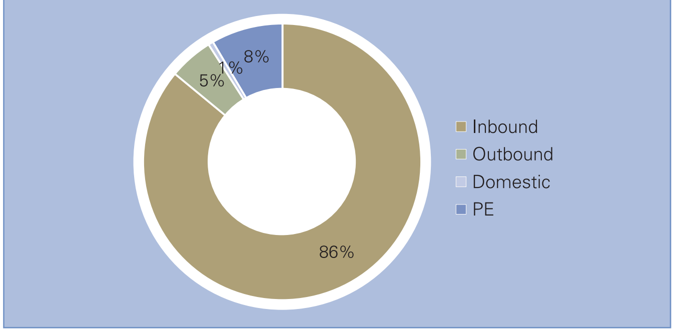
Pharmaceuticals & Healthcare Deals: Number and Value



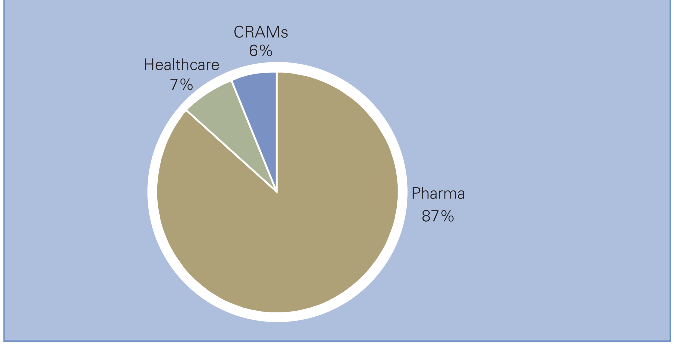
Pharmaceuticals & Healthcare Deals 2008: Deals by Number



Pharmaceuticals & Healthcare Deals 2008: Deals by Value



Pharmaceuticals & Healthcare Deals 2008: Deals by Segment



Source: Bloomberg, Venture Intelligence

Note: The deals collated above include transactions from the Pharmaceuticals & Healthcare services sector.

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TELECOM

Buoyed by an electric pace of subscriber growth, the Indian telecom market continues to elicit interest from international strategic players as well as private equity houses. Recent times have also borne witness to a true globalisation of the sector with large domestic players venturing across borders. M&A activity in the next couple of years is likely to be driven by opportunities arising from 3G and WiFi-related areas as well as from MVNO models coming to the fore.

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KPMG IN INDIA

Following on from the landmark Vodafone-Hutch transaction in 2007*, we continued to witness a number of deals in this sector in 2008.

Among the billion dollar deals in the last 15 months, three pertained to mobile operators looking for strategic partnerships with large international players (Tata Teleservices-NTT Docomo, Idea Cellular-TM International and Unitech Wireless-Telenor)*.

The Telecom industry in India, best described as a menagerie of related business streams coming together to create an ecosystem, has borne witness to significant growth over the last few years. With a burgeoning subscriber base, and close to 15 million[1] new subscriber additions a month, India is bound to remain one of the fastest growing wireless markets in the world.

Operator Dynamics

The operator side of the ecosystem witnessed a flurry of activity in 2008 buoyed by a number of in-bound transactions as well as domestic consolidation. The central themes revolved around market entry or market share consolidation. With a number of new licensees up for grabs, international operators such as Telenor ASA (Sweden), Sistema JSFC-CLS (Russia), Etisalat (UAE) and Bahrain Telecommunications Company (Batelco), Bahrain, successfully entered Indian markets. Japan's NTT DoComo picked up a 26 percent stake in the sizeable and established mobile operations of the Tata Group, Tata Teleservices Limited. On the domestic front, Idea Cellular's purchase of Spice Communications brought together two well established regional players*.

In light of the above, the intensity of M&A activity in the Indian telecom domain may witness a slowdown in the coming months. Evolving dynamics in a highly competitive and price sensitive market however, would continue to remain the primary drivers for M&A activity.

The proposed mergers of Mobile Telephone Networks South Africa ('MTN') with Bharti Airtel Limited and then later with Reliance Communications Limited, though unsuccessful, put India firmly on the global telecom M&A map, leaving no doubt about the intention of established Indian operators to foray into alternate high growth markets. Established Indian players are expected to put greater focus on geographical diversification as dependence on a competitive domestic market alone may not remain an attractive proposition in the long term.

The advent of 3G[2] and WiMAX auctions is likely to initiate yet another spell of activity with large capital requirement to fund licence fees and expansion plans. The regulator's policy continues to limit FDI to 74 percent[3], hence joint ventures and strategic partnerships would continue in this sector.

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1 COAI, AUSPI data
2 Full form in Glossary
3 Press articles

Telecom Infrastructure Providers

It is expected that the mobile subscriber base in India will grow to over 500 million by 2010, with penetration rates crossing 40 percent[4].

Yet, India is likely to remain one of the most under-penetrated telecom markets in the world. Thus, beyond 500 million subscribers there would still be a scalable telecom model in the Indian environment. Scalability however, comes with a cost - that of sustainability. This has led to the creation of telecom infrastructure companies.

The first phase of M&A activity in this segment was focused on operators hiving off their passive infrastructure into independent companies and unlocking value therein through the induction of investors. The idea was initiated by three of India's largest operators, Bharti Airtel Limited, Vodafone-Essar Limited and Idea Cellular Limited who formed a 42:42:16 joint venture tower company named Indus Towers Limited ('Indus') by contributing their existing passive infrastructure in 16 telecom circles consisting of over 70,000 towers, to the joint venture[5]. Subsequently, Indus Towers inducted a number of financial investors to unlock value for the promoter entities. By 2008, the telecom infrastructure segment had matured and M&A was more focused on the new independent entities setting up shop and raising capital to fund expansion and associated growth. One of most analysed transactions towards the end of 2008 was Quippo Telecom Infrastructure Limited's ('Quippo') 49 percent acquisition of Wireless TT Info Services Limited, Tata Tele's independent tower company*. Under the terms of the agreement, Quippo acquired over 13,000 towers from Tata and contributed its own 5,000 towers to form one of the largest independent tower companies in the country[6].

In the next round of evolution, we foresee that the need to make new telecom operators viable will drive solutions around active infrastructure sharing. Currently, the regulator does not allow independent infrastructure companies to undertake active infrastructure sharing unless they provide mobile operations in the country. Taking cues from pioneering concepts in Sweden where, in 2001, TeliaSonera AB and Tele2 AB established a 50:50 joint venture that would roll-out and manage a shared Wideband Code Division Multiple Access ('WCDMA') network[7], we believe that the industry in India will also push the regulator to arrive at a workable solution around active infrastructure sharing.

With most of the market in the hands of significant players like Indus, GTL Infrastructure Limited and Quippo, M&A on the passive infrastructure side may be limited. Capital infusion may, however, continue in order to fund active infrastructure sharing as well as to augment passive infrastructure for 3G and WiMAX operations.

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4 Analyst consensus estimates
5 Press articles
6 Industry sources
7 World Cellular Information Service, report published by Informa Telecoms & Media in 2007

Role of Technology

Industry sources peg energy costs of maintaining telecom infrastructure at around 10 percent[8] of revenues. The need to reduce cost of operations is directly linked to the operator's ability of providing basic services (voice and sms) at rock bottom prices to attract new subscribers. This has led to the advent of technology companies that focus on energy management and conservation solutions.

Another area to watch will be the emergence of new technologies that address issues of viability of rural telephony in India. The Indian market is unique, in that 70 percent[9] of the country's population lives in villages where low Average Revenue Per User (ARPU) and subscriber density per mile makes conventional technology largely unviable. While we don't expect established players like Ericsson and Siemens to invest specifically in rural India solutions, there will undoubtedly be activity in this space leading to innovations that are very relevant for India.

We believe that, in the coming years, such viable innovations will attract capital and therefore, strategic investors are expected to show interest in this space.

8 KPMG estimate

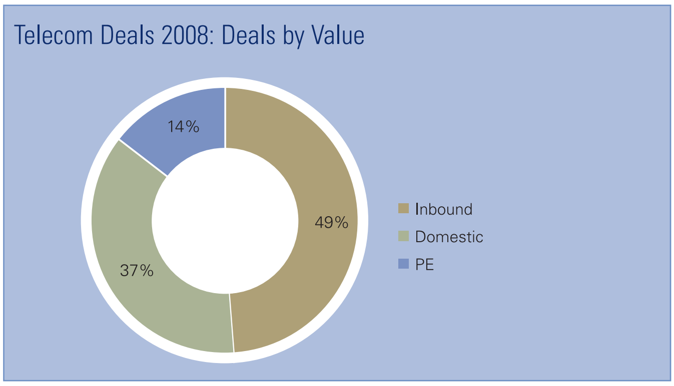
9 HSBC, India Telecom, March 2009

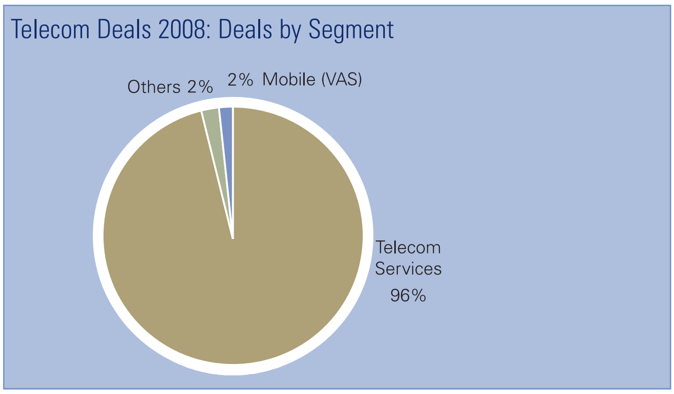
*KPMG analysis based on deal data sourced from Bloomberg and Mergermarket and PE data from Venture Intelligence

Key Deals

Target Name	Target Country	Acquirer Name	Acquirer Country	Value (USD mn.)	Stake (percent)
Idea Cellular Limited	India	TM International Bhd	Malaysia	1707	14.99
Swan Telecom	India	Etisalat	UAE	900	45
Spice Communications Limited	India	Idea Cellular Limited	India	637	41
Q1 2009					
Tata Teleservices Limited	India	NTT DOCOMO Inc	Japan	2657	26
Unitech Wireless	India	Telenor ASA	Norway	1249	67

Source: Bloomberg, Venture Intelligence





Source: Bloomberg, Venture Intelligence

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Media and Entertainment

Until recently, the focus for M&A players was driven by exuberance and a need to vertically expand. The sector continues to be fragmented, both from players' perspective and from consumers' standpoint. The focus will now be on profitable growth and to take advantage of consolidation opportunities. Given the under-penetrated market for M&A in India, players will focus on innovation and market expansion. This will in turn, attract Private Equity into companies which have a clear vision and good execution capabilities.

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The Media and Entertainment sector witnessed 60 closed deals in 2008, with a disclosed value of approximately USD 900 million*. The underlying theme was industry majors looking to create opportunities by expanding their presence across the media value chain.

Last year we saw active private equity interest across sub-sectors in media and entertainment. Key investments include UTI Venture (Warburg Pincus), Laqshya Media Private Limited (UTI Venture), Amar Ujala Publications Limited (DE Shaw & Co LLP's) and Zoom Entertainment Network Limited (Merrill Lynch)*. In the near term, however, private equity participation is likely to be restricted to companies/segments with established business models, a competitive market position and a well-charted path to profitability.

Some of the model profitable media companies worldwide are conglomerates with a presence across media platforms such as News Corporation, The Walt Disney Company ('Disney'), Time Warner Inc. ('Time Warner'), Viacom Inc. ('Viacom') and NBC Universal Inc. ('NBC'). These conglomerates have been able to create value by exploitation of their content libraries across media platforms thereby aggregating their customer base and addressing diverse media consumption patterns.

Globally, the main trends that are driving deal activity in the sector are the creation of specialised media and multimedia holding companies that include print and publishing companies, internet resources, radio, television and a number of other media assets.

In India too, several companies such as UTV Software Communications Limited ('UTV'), Network Eighteen Media and Investments Limited ('Network 18'), Reliance ADA Group ('Reliance ADAG'), Bennett, Coleman and Company Limited ('BCCL') and New Delhi Television Limited ('NDTV') have expanded their presence across media platforms, as summarized below[1]:

- Beginning as a television content producer, UTV has now expanded its operations to include animation, post-production, film production and distribution, broadcasting, gaming and new media businesses.
- Network 18, which began as a producer of news content, has now developed an integrated media play with interests in broadcasting (news, home shopping, general entertainment Channel), film production and financing, web properties and publishing.
- Similarly, Reliance ADAG has expanded its reach across the media value chain through its foray into internet and new media, filmed entertainment, radio and events.

These domestic conglomerates have seen increased interest from their global counterparts as evidenced by:

- Viacom's joint venture with Network 18 to form a multi-platform entertainment company;
- Disney's investment in UTV Software Communications Limited and its step down subsidiary, UTV Global Broadcasting Limited;
- NBC Universal's investment in NDTV Networks plc.; and
- Time Warner's investment in Miditech Private Limited and subsequent joint venture to launch entertainment channels.

[1] Industry sources, company websites

"2009 is a unique year in the economic history of mankind. While 2008 saw wealth erosion of an unimaginable scale, 2009 will see severe income erosion of both corporates and individuals. But 2009 is also a year of great opportunity: especially for the Entertainment and Media industry. While there has been over concentration of capital in the Television and Newspaper industry in the last 3-4 years (and hence requires cleansing), there are segments like Radio, Internet and Cinema exhibition which operate in under-served markets, especially in the context of India. 2009 will also be a year of consolidation and mergers. Half the Television broadcast industry is already in on a fire sale mode in India. Similarly, Cinema exhibition space is poised for consolidation, since economies of scale is a prime value driver in this business."

- Rajesh Sawhney, President, Reliance Entertainment

Television Broadcasting

Television has been the largest value contributor to the Indian media and entertainment industry, accounting for over 41percent of total industry revenues and had a 37 percent share of the total advertising pie. This segment grew at a CAGR of over 13 percent over the last 3 years on the back of increasing advertisement spends and subscription revenues[#]. Therefore, this segment has seen significant interest from private equity and global media conglomerates alike. Key transactions include Walt Disney's acquisition of a 20 percent stake in UTV Global Broadcasting, NBC Universal's acquisition of a 26 percent stake in NDTV Networks plc., for USD 150 million, Merrill Lynch's investment of USD 30 million in Zoom Entertainment Network Limited and News Corporation's joint venture with the Rajeev Chandrashekhar-backed Jupiter Entertainment Ventures (which owns leading South Indian television channels)[*].

We also saw the exit of Thomson Reuters plc., from their 26 percent joint venture with Times Global Broadcasting Company Limited[*] and Peter Mukherjea-backed INX Media Private Limited's sale of its English news channel to NaiDunia[2].

Since broadcasters derive approximately 80 percent[3] of their revenue from advertising, a slowdown in advertising growth in 2009, coupled with steep placement costs is likely to put severe pressure on them. Broadcasters with strong channel bouquets and those that can aggregate niche audiences may continue to see advertiser and investor interest in the near term and also benefit from the imminent digitization of the distribution landscape.

Television Distribution

The television distribution segment has not witnessed much deal activity recently, with Morgan Stanley and India Infrastructure Holdings Fund's USD 60 million investment in Hathway Cable and Datacom Private Limited[4] being the only significant reported investment.

This segment is plagued by a number of inefficiencies which are impediments to value creation. In addition, some of the measures taken by the Government such as implementation of Conditional Access System (CAS) have not seen the level of enforcement and execution as one would have hoped.

With the landscape dominated by conglomerates with deep pockets such as Tata, Zee, Reliance ADAG and the Hinduja Group, imminent digitization may increasingly marginalize the local cable operators with limited financial strength.

M&A activity, going forward, is likely to be driven by the requirements to raise capital to fund ambitious roll-out/customer acquisition obligations and target potential local cable operators for acquisition.

[2,4] Industry sources

[3] KPMG Estimate

Print

India is one of the few growing print markets in the world and is expected to continue to grow at a CAGR of 10 percent through 2013#. This growth is likely to come from strong underlying fundamentals such as growing literacy rates, emergence of business models specifically catering to a particular region (city, town, village etc.), low computer penetration, relative absence of players with a pan-India presence and a promising rural market that has not been fully penetrated.

In terms of private equity investment, DE Shaw's second round of investment into Amar Ujala Publications Limited highlights the importance of the extensive rural reach and regional advertising growth*.

Also, Kotak Mahindra Bank's increased stake in Business Standard seems to support the thesis that readers of English financial news dailies are considered to be in the higher income bracket, thus luring advertisers to channel a larger portion of their advertising spends through them*.

The print industry, however, faces two major challenges – growth of internet/television news consumption and high newsprint costs. The rise of computer and internet penetration is likely to erode print market share in the long term and consequently the return on investment for advertisers. Moreover, rising newsprint costs seen in 2008 could eat into the profit margins since newsprint cost account for approximately 50 percent[5] of the total cost.

As a result, this industry may go through a consolidation phase wherein larger players will seek margin growth by acquiring smaller regional players. Secondly, print companies may also seek to leverage their news distribution model through platforms such as internet, television and mobile.

Film

Filmed entertainment is the most pervasive and visible segment within the media and entertainment industry with approximately a third of industry revenues coming from film and film-related content. Today, the Indian film industry is one of the largest in the world with more than 1,000 releases and over 3 billion moviegoers annually#. Despite this fact, the industry witnessed a lukewarm response from private equity players in 2008. Over dependence on domestic theatrical collections, piracy, lack of professionally run studios, high entertainment tax, inability to raise average ticket realization and an aversion to taking on creative risk have been primarily responsible for the lack of private equity investment in the sector.

Going forward, in the near term, low occupancy rates and inability to support aggressive growth initiatives due to slowdown in demand could force local multiplex operators to pursue consolidation opportunities with global majors or larger Indian counterparts.

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5 KPMG Estimate

In the long term, however, corporatisation of Bollywood, an increasing demand for content with a focus on costs, digitization and the growing need for a state-of-the-art production infrastructure would make Indian film studios attractive investment targets for financial and strategic investments.

Music

The size of the Indian music industry was estimated at around INR 7.3 billion in 2008, down from INR 8.3 billion in 2005, implying a reduction in growth by 4.4 percent during the period[#]. One of the primary reasons for this slowdown has been the erosion of sales of physical formats, a trend which is expected to continue well into the future. The industry therefore will have to bank on revenues from digital distribution, broadcast and public performance licensing revenues, not only to compensate for declining physical sales but also to drive growth, going forward.

In the near future, supportive legislation, strict law enforcement, effective technology partnerships, innovative marketing and adaptation of business models in line with consumption habits are expected to be critical for the growth of the segment.

With uncertainty over the prospects of the music segment, in the near term, deal activity is likely to be restricted to global record labels with limited domestic/ regional catalogues acquiring domestic music companies with attractive libraries.

Radio

The presence of an increasing number of players in this industry vying for a pie of the USD 3 billion in 2010[6] – that too with almost no differentiation, has led to cannibalization of revenues in this sub sector. Hence, this sector has seen limited deal activity in the recent past. The incumbents have focused on strengthening their existing operations and the international players held back investing due to foreign investment constraints faced by this segment.

> "Radio, however, is severely underserved and in fact requires more release of supply of radio frequencies rather than consolidation. Similarly, internet will become big in the next two to three years on the back of 3G/WiMAX and Broadband initiatives and entrepreneurial innovations. A new cycle of value creation has begun already on the back of extreme destruction of 2008. However, this cycle will be different from all previous ones. Smart entrepreneurs and investors will win big."
>
> – Rajesh Sawhney, President, Reliance Entertainment

Regulatory changes such as relaxation of FDI limits (from the current limit of 20 percent), granting

6 IDFC SSKI Research report

permission to operate multiple frequencies in a city, and the permission to air news and current affairs, hold the key to the growth of this segment.

In the near future, relaxation of regulatory hurdles is likely to facilitate active interest from large international private equity players and global radio majors such as Fox, Walt Disney, Hearst, Rogers Communications, Virgin Group and CTV Globemedia.

Out-of-Home

The Out-of-Home (OOH) segment witnessed a reasonable interest from private equity players in 2008. Key deals consummated during the year were Goldman Sachs and Lehman Brothers' investment of USD 50 million in the OOH advertising subsidiary of Entertainment Network (India) Limited ('ENIL'), a subsidiary of BCCL and Warburg Pincus' USD 65 million investment in Laqshya Media*. A number of others were also reported to have been in discussions with private equity investors during the year to raise capital to fund growth initiatives, but these did not materialize.

Long term prospects for this segment remain strong with key drivers being format expansion on the back of airport privatization, public infrastructure projects, upgradation of street furniture and technological advances. The fragmentation of other media and OOH's proposition of providing a localized, low cost medium of advertising enhances the medium's appeal to advertisers. However, near term challenges due to the rationalization of advertising expenditure as a result of the economic slowdown are likely to remain a concern.

Some of global OOH majors such as JCDecaux and Clear Channel have a limited presence in India and may look to scale up Indian operations through inorganic means. However, since most of the Indian companies are in a growth phase and lack sufficient scale, deal activity in 2009 may be limited to growth/expansion capital investments, joint ventures and alliances.

Gaming

In 2007, UTV Software Communications acquired Indiagames and the UK-based Ignition Entertainment marking their foray into the mobile, online and console gaming market. In 2008, UTV continued to strengthen its position in this market with the acquisition of True Games Interactive, a US-based developer and distributor of online games*.

Going forward, we believe that Indian gaming companies are likely to seek capital infusion to acquire technology, develop content and ramp up talent. We also believe that incumbents such as Zapak and Indiagames will seek to complement their existing portfolios and technologies through acquisitions in India and overseas. The Indian gaming industry, with a forecast CAGR of 43[7] percent

[7] KPMG Estimate
"In the interval, but ready for the next act" -a FICCI-KPMG Media & Entertainment Industry Report
* KPMG analysis based on deal data sourced from Bloomberg and Mergermarket, and PE data from Venture Intelligence

through 2010, is also likely to witness strategic interest from international players such as Vivendi, Electronic Arts, etc.

Outbound Deals

With more than 25[#] million NRIs spread across the globe, the international market is an important source of revenues for Indian media companies, especially in the broadcasting and filmed entertainment segments. Additionally, the recent success and popularity of “Slumdog Millionaire”, with its Indian locales, artists and music, underscores the growing influence of Indian cinema in the western mainstream markets.

Recently, a number of Indian media companies have extended their presence internationally. Key transactions include BCCL’s acquisition of UK based Virgin Radio for USD 105 million to gain a foothold in the UK radio market , UFO Moviez’s acquisition of Moviebeam, a leading US-based on-demand movie service and UTV’s acquisition of True Games Interactive, a US-based publisher of online games. Reliance ADAG was the most active Indian media acquirer abroad with the acquisition of Willow TV (sports webcaster) and DTS Digital Images (a film restoration company)[*].

Indian media companies will continue to scout for opportunities to establish a global footprint in 2009, especially at attractive valuations brought about by the global economic crisis.

“Internationally, the mobile gaming segment is ripe for another round of consolidation after seeing some significant M&A activity between 2004 and 2006. Some listed companies are trading well below cash and at fractional revenue to sales multiples. This is clearly a buyers’ market. However given the overall market sentiment, the natural instinct of most companies who have cash will be to conserve it and hence we may see some long gestation periods before deals actually get consummated. In India, mobile VAS has survived the last five to six years without any consolidation wave. Barring the odd deal, no VCs have seen any exits and therefore it seems logical that there would now be pretty significant exit pressures in some venture backed companies. However, again given that valuations would be significantly lower than expectations in early 2008, the likelihood of a deal is bleak – except for a fire sale for which it would be hard to find any takers. What could be pretty interesting and a win-win situation is some cross-border activity with strategic equity partnerships between companies looking to diversify markets and/or rationalize costs.”

- Samir Bangara, Chief Operating Officer, India Games

There are significant structural and cyclical challenges facing media companies across the globe in 2009 as the economy experiences a sustained downturn. The economic downturn, exacerbated by structural changes to business models, is already impacting media businesses that are largely dependent on advertising (free to air broadcasters, newspapers, magazines and marketing services) and this is rippling out to other companies in the media value chain. Sub-sectors of Media that have been viewed as resilient in a downturn, B2B business and data companies, are also being impacted. The restructuring of the financial services industry, for example, has seen the number of "buying points" of "must have" information reduced. Digital businesses, in all sub-sectors of media, have over the past five years or so tended to show strong growth as they have challenged traditional business models. Many digital businesses are now coming under pressure as traditional media businesses adapt and embrace new technologies. It is likely that, as businesses focus on more efficient operating models, convergence to integrated 'traditional and new media' models will be accelerated. Indeed, I believe that the businesses which emerge the strongest from the current downturn are likely to be those that have developed fully integrated 'traditional and new media' models

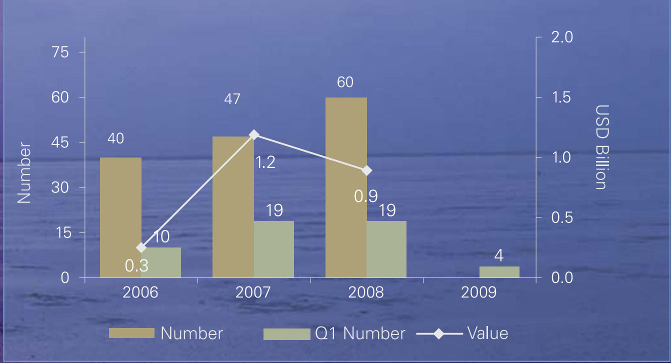
- David Elms, Head - Media, KPMG in the UK

Key Deals

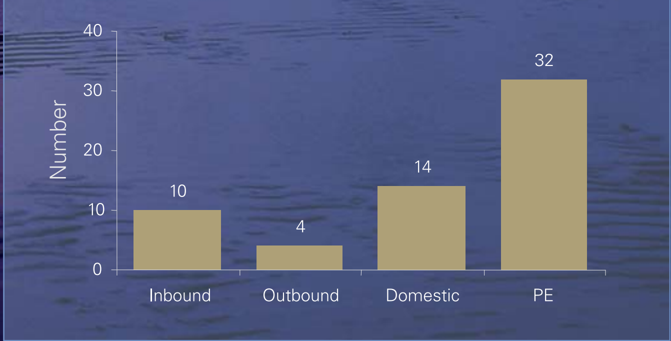
Target Name	Target Country	Acquirer Name	Acquirer Country	Value (USD mn.)	Stake (percent)
UTV Software Communications	India	Walt Disney Company	United States	168	20
NDTV	India	NBC Universal	United States	150	26
Virgin Radio	United Kingdom	Times Of India	India	105	100
Laqshya Media*	India	Warburg Pincus, UTI Ventures	NA	77	15

*Private Equity Deals
Source: Bloomberg, Venture Intelligence

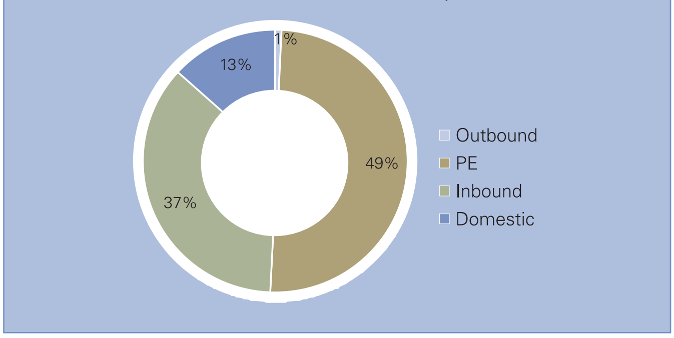
Media & Entertainment Deals: Number and Value



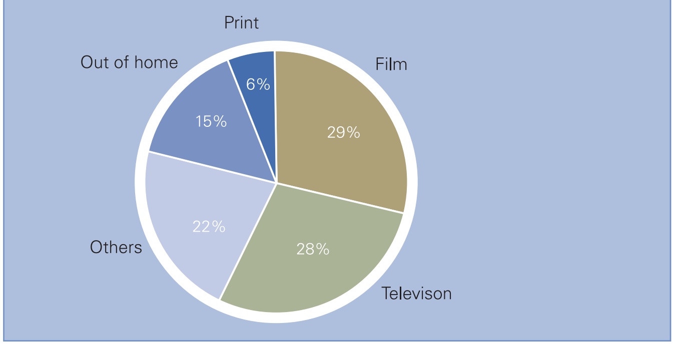
Media & Entertainment Deals 2008: Deals by Number



Media & Entertainment Deals 2008: Deals by Value



Media & Entertainment Deals 2008: Deals by Segment



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Source: Bloomberg, Venture Intelligence

Information Technology (IT) and IT Enabled Services (ITES)

While there will be consolidation amongst the small and mid-tier IT services companies, the stronger mid-sized players that are cash rich should look at transformational acquisitions that will propel them to the next level. This is also an opportune time for global IT services companies to strengthen their delivery capabilities in India through strategic investments and acquisitions. Companies from Europe and Japan, for instance, that have traditionally been slower to offshore, could take advantage of the current valuations by acquiring companies with significant offshore delivery capabilities. Doing so will help these companies lower their cost structure and remain competitive.

Niteen Tulpule
Director - Corporate Finance
KPMG in India

While the IT and ITES segment continued to witness a large volume of transactions in 2008, it is important to note that approximately 75 percent of the transactions were announced before the end of July, indicating a slowdown in M&A activity as the year progressed. Similar trends can be witnessed in the first quarter of 2009 with 50 percent fewer deals closed in this period compared to the corresponding period in the prior year*.

Of the 163 transactions that were completed during 2008, a majority (by volume) were PE deals (92). The total disclosed value of the deals executed in this period was USD 3.2 billion*.

Technology innovations and globalisation have made the Indian IT-ITES sector one of the key drivers of the Indian economy. The sector will continue to play a crucial role as significant portions of western economies become mature outsourcers. As per the recent NASSCOM report[1], the sector revenue as a proportion of GDP has grown from 1.2 percent in financial year 1998 to an estimated 5.8 percent in financial year 2009. The sector's revenue grew at a CAGR of 17.7 percent, from USD 31.6 billion in financial year 2004, to an estimated USD 71.6 billion in financial year 2009.

Till early 2008, growth was never in doubt and the biggest challenge facing the industry was maintaining profitability in the face of a strengthening rupee (against the US Dollar), especially with exports accounting for 66 percent of the industry's revenues[1]. While the rupee was trading at around INR 44 to the US Dollar in January 2007, it considerably strengthened over the year and was trading at around INR 39 to the US Dollar in January 2008. This had a direct impact on the profitability of most companies[2]. Additionally, margins were also affected by high attrition rates in a booming market, and the associated rising wage costs due to higher bench rates and ancillary costs such as recruitment and training.

Further as calendar year 2008 progressed, the sub-prime crises affected all major economies, thereby resulting in a cutback in discretionary IT expenditure. Given that the Banking, Financial Services and Insurance (BFSI) sector accounts for over 41 percent of the industry's revenues, and the US and UK account for 80 percent of the industry's exports, the Indian IT-ITES sector has been directly impacted[3]. Additionally, the new administration in the US has expressed an inclination towards a protectionist regime, as far as outsourcing to India is concerned.

Based on the above, IT-ITES players are looking at lower growth rates in 2009. For instance, Cognizant has estimated growth of at least 10 percent for the year ending December 31, 2009 as compared to the 32 percent revenue growth for the year ended December 31, 2008[4]. While Infosys grew at 30 percent in FY 2009, it has given a guidance of 1.7- 5.7 percent revenue increase for FY 2010 under Indian GAAP and 3.1 percent to 6.7 percent decline under IFRS[5]. Smaller players are expected to be impacted to a larger extent as compared to these top tier companies.

[1,3] NASSCOM Strategic Review 2009

[2] Although the rupee subsequently depreciated and traded at over INR 50 to the US Dollar, for a substantial period after the fourth quarter of 2008, the profitability of IT companies in FY 2009 depended on the hedging policies they had adopted. Source for forex rates: www.oanda.com

[4] Cognizant Technology Solutions Earnings Release for the Fourth Quarter and Year-end 2008 Results

[5] Infosys Technologies Limited, Indian GAAP Press Release dated April 15, 2009

M&A Highlights of 2008[*]

- Outbound acquisitions and financing continued to be the dominant themes in 2008. Fund raising became difficult over the year due to increasing mismatch in value expectations. Of the 92 PE transactions completed during the year, only 9 were completed in the last quarter of 2008. Generic IT and ITES companies saw some PE investments, such as Nalanda Capital's acquisition of minority stakes in WNS Holdings Limited and Mastek Limited (both of these were purchased through bulk deals on the secondary market), Greater Pacific Capital's investment in Mascon Global Limited and Blackstone's acquisition of CMS Limited. However, the larger volume of transactions by PE and VC players were in niche segments such as:

  - data centers and infrastructure management (ctrlS Limited, Netmagic Limited, 7strata);

  - knowledge process outsourcing (United Lex, Premedia Global, Basiz Fund Services);

  - IT product companies (Satnav Technologies, Manthan Systems, Newgen Software Technologies), or services companies with expertise in a particular niche (Aujas Networks, KLG Power, Everonn Systems);

  - internet portals and internet marketing companies (Cleartrip, Consim Info Private Limited, Jivox). There were over 20 deals in this space.

- Tier-one companies focused on acquiring quality assets and leaders in specific verticals or markets. For instance, HCL Technologies acquired Axon Group[x], a leading UK-based SAP service provider and Liberata, a leading Business Process Outsourcing (BPO)[x] company in the UK, with a strong position in the life insurance and pensions vertical. Aegis BPO Services established a significant multi-shore presence through the acquisition of a leading Philippines-based BPO player, PeopleSupport[x]. On the other hand, mid-tier companies used the inorganic route to strengthen their service offerings and acquire a front-end presence. For instance, Mascon Global acquired Ebusinessware Inc. United States and NIIT Technologies acquired Softec GmbH, Germany.

- The ITES segment witnessed captive divestments with Infosys' acquisition of three of Philips NV's[x] finance and accounting shared service centers located in India, Poland and Thailand. Similarly, Citigroup Global Services was sold to Tata Consultancy Services Limited for over USD 500 million and WNS Holdings Limited acquired Aviva Global Services for over USD 220 million. In a similar transaction in the IT services space, Wipro Limited acquired Citigroup's technology and infrastructure outsourcing arm, Citi Technology Services (CTS) formerly called Citos[x], for USD 127 million[*]. Each of the above transactions involved multi-year outsourcing contracts from the former parent.

Trends: First quarter of 2009

Deal flow in the first quarter of 2009 was expectedly subdued (27 deals), as compared to similar quarters of the last two years (54 deals in Q12008 and 48 deals in Q12007). Approximately 50 percent of the transactions were PE investments. PE investors took advantage of prevailing secondary market valuations by acquiring minority stakes in bulk deals on the stock exchanges. For instance, Nalanda Capital bought shares in Mindtree Limited and its subsidiary Aztecsoft and Barings Private Equity bought shares in MphasiS Limited*. PE and VC investors continued to invest growth capital in niche segments.

One of the most significant inbound M&A transaction completed in this period was UK-based BPO player Xchanging plc.'s acquisition of Cambridge Solutions Limited, an Indian IT and BPO company*. The acquisition gave Xchanging a significant India delivery presence and IT capabilities. It also gave Xchanging a stronger presence in the US and Australian market. While there were rumors of a sale for a while, the promoters chose to complete the deal with Xchanging, with whom the company had a commercial relationship for the past two years. The transaction was announced in October 2008 and completed in April 2009.

On a smaller scale, US based CIBER Inc. bolstered its India delivery capability through the acquisition of Iteamic Private Limited[6].

While the fraud hit Satyam Computers has been in the news for last few months, Tech Mahindra's acquisition of Satyam Computers is not included in the deal analysis for the first quarter of 2009. The government appointed Board of Directors of Satyam ensured a swift and efficient sale process that salvaged the company, helped retain staff and restored investor confidence in India. There were three final bidders for the company amidst concerns of liabilities that were not fully quantifiable. Tech Mahindra emerged as the highest bidder by a considerable margin with an offer of INR 58 per share. It has subscribed to 300.27 million shares on a preferential basis representing 31 percent (after issuance) of the share capital for a consideration of approximately USD 351 million (INR 17.56 billion). Additionally, Tech Mahindra is in the process of making a mandatory open offer for an additional 20 percent stake for approximately USD 231 million (INR 11.54 billion). This acquisition has transformed Tech Mahindra into a top tier (fourth largest) Indian IT services company from being a telecom focused player[7].

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[6] CIBER, Inc. press release dated 12 January 2009.

[7] Business-standard.com, May 5 2009 and profit.ndtv.com, April 22, 2009

* KPMG analysis based on deal data sourced from Bloomberg and Mergermarket , and PE deals from Venture Intelligence

x Press release: HCL Technologies dated 16 July 2008, 15 December 2008, PeopleSupport, Inc. dated 30 October 2008, Infosys Technologies Ltd. dated 25 July 2007, VCCircle news dated 23 December 2008

"The IT industry, like many other sectors, is in for some challenging times. We will see traditional business models being changed. The winners from this slowdown will be companies that offer value added services such as Program Management and have Domain Consulting expertise, not just in overseas markets but also in their offshore delivery centers.

As lowering of costs continues to become important, customers will outsource more of their back office / operations-related work. Here again, companies with a knowledge base or companies that have platform-based offerings will have an advantage. While we will see a lot more IT and ITES work going to lower cost delivery locations, the winners could be different. It will be the companies that have an efficient business model, provide value add services and run platform based process outsourcing."

- Arjun Malhotra
CEO and Chairman
Headstrong Corporation

The Year Ahead

While 2009 is expected to be the most challenging year for India's outsourcing industry, companies are now coming to terms with and are responding to the changed environment. A section of the industry has turned cautious as far as acquisitions are concerned. These companies are largely focusing on improving operational efficiencies to preserve their bottom-line and are conserving cash. However, after initial uncertainty, some companies are now looking to take advantage of prevailing reasonable valuations to complete their acquisition plans and fill gaps in their portfolio. Additionally, smaller players, especially those that are severely impacted by the downturn, would need to merge with or be acquired by larger companies to survive this environment. The following themes are likely to emerge:

- Larger IT players that have access to cash will continue to look abroad to acquire in segments such as remote infrastructure management services, engineering services, or companies with leadership in select verticals. Similarly, larger BPO companies in India will look to acquire companies in the non-voice space.
- Select mid-tier companies that have raised PE funding in the last few years or have internal cash accruals will look to take advantage of current valuations to add scale and geographical reach.
- Smaller companies will find it difficult to grow organically as well as to raise funds to grow inorganically. They will, therefore, need to consolidate in order to remain competitive. As a result, this segment is likely to see more stock mergers of similar sized companies. Consolidation will also give these companies a relatively stronger combined balance sheet and allow them to bid jointly for a larger range of projects, rather than compete, especially in these times of falling discretionary spends and vendor consolidation.
- Indian IT-TES sector valuations that were earlier seen as prohibitive have now become more appealing to acquirers due to a re-rating of the sector. Current valuations could result in increased inbound activity, as global players look to expand their presence in India.
- Private equity investments are likely to be around the following themes:
  - Select leading mid-tier services companies, especially those that may want to attempt transformational transactions;
  - Product companies due to their non linear business models and Intellectual Property Rights. Companies with proven product installations and Software-as-a-Service (SaaS) models will attract investments. Most of the VC funding will be in this space.
- With the meltdown in the global financial services industry, it is likely that large financial institutions and banks will look to hive off non-core businesses and monetize assets that may be attractive to the outsourcing industry. We are therefore likely to see more transactions involving captive units and shared service centers.

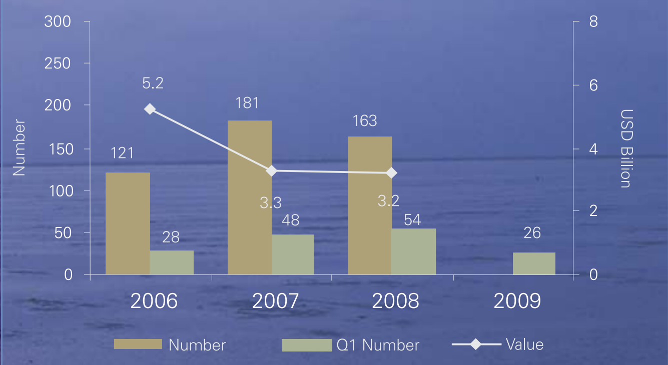
Although, deal volume has been low in the last quarter due to the wait-and-watch strategy adopted by many potential acquirers and the crash in valuations in the sector, we expect to see increased deal flow as the environment starts to stabilise.

Key Deals

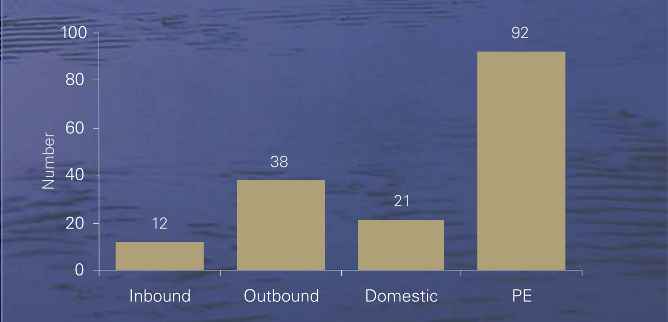
Target Name	Target Country	Acquirer Name	Acquirer Country	Value (USD mn.)	Stake (percent)
Axon Group plc.	United Kingdom	HCL Technologies Limited	India	731	100
Citigroup Global Services	India	Tata Consultancy Services Limited	India	505	100
Aviva Global Services	United Kingdom	WNS Holdings Limited	India	227	100
PeopleSupport Inc.	United States	Essar Group	India	173	100
Q1 2009					
Cambridge Solutions Limited**	India	Xchanging plc.	United Kingdom	146	75

** completed on April 4, 2009
Source: Bloomberg, Venture Intelligence

IT-ITES Deals: Number and Value



IT-ITES Deals 2008: Deals by Number



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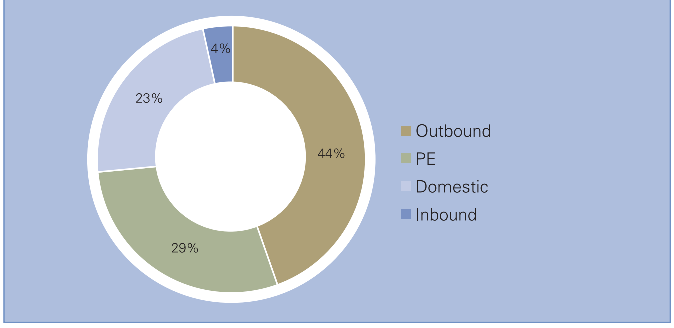
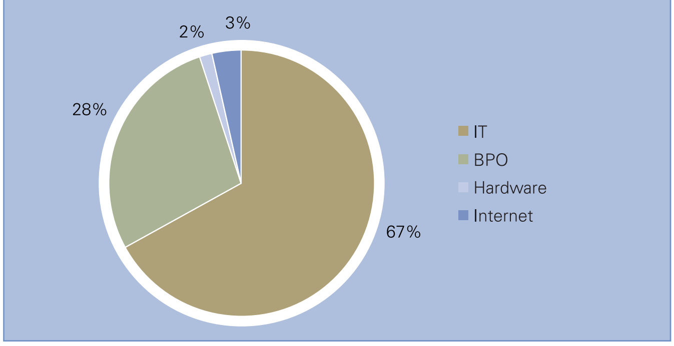


IT-ITES Deals 2008: Deals by Segment



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Source: Bloomberg, Venture Intelligence

Infrastructure

Unlike some of the traditional industry sectors, infrastructure is expected to see an increase in M&A activity. This is driven by continuing government spends to sustain economic growth and less aggressive investor return expectations matching returns on infrastructure projects. Moreover in the overall allocation of funding for transactions, infrastructure sector will seek top attention in the current market scenario.

Ameeta Chatterjee
Director - Corporate Finance
KPMG in India

The year 2008 saw infrastructure developers in India take advantage of the liquidity in the global markets to acquire companies both at home and abroad, thereby increasing their international reach and gaining access to new capacities and markets.

Private equity interest in the sector was high given the global interest in infrastructure as a new asset class and specifically one that would help drive the India growth story. In 2008, 50 percent of all deals (in number and value) in this sector were executed by private equity firms*.

The power sector (electricity, oil & gas, and alternative energy) dominated the overall M&A activity within infrastructure, constituting 70 percent of all deals closed during the year*. 2008 also saw the beginning of investment in an emerging class of infrastructure assets - education and health assets.

As expected, infrastructure M&A activity slowed in the first half of 2009. In the first quarter of the year, there was a 50 percent drop in the volume of transactions, with 15 deals reaching financial closure as against 30 deals during the corresponding quarter of 2008*. However, with the new UPA government confirming infrastructure provision as a focal point for this government and with the improvement in economic outlook, activity is expected to step up significantly.

Global Aspirations

Excessive liquidity in the global market, coupled with aspirations of Indian firms to be recognised as "Global Infra Players" drove outbound M&A activity in 2008.

Indian infrastructure firms acquired companies that would help them increase their geographic presence, provide them with access to new capabilities, and improve their pre-qualification credentials for infrastructure projects in India.

Leading the way was GMR Infrastructure Limited's ('GMR') acquisition of a 50 percent equity stake in the US-based power utility InterGen NV for USD 1.1 billion*. The acquisition bolstered the company's power credentials, providing them with access not only to InterGen's existing order book, but also to new technology that they could use in projects in India. The deal was executed in alliance with the Ontario Teachers' Pension Plan (co-owner of InterGen), one of the most experienced investors in infrastructure assets, further boosting GMR's global reputation.

Private Equity

The Indian government, towards the end of 2007, announced that 9 percent of the country's GDP would be spent on infrastructure by 2012[1], presenting an unprecedented investment opportunity for investors. Attracted by the promise of steady returns with an upside potential driven by growth trends and continued government investment, the private equity invested heavily in the sector.

In 2008, global private equity funds, such as Temasek Holdings (Pte) Limited, Blackstone Group L.P, Warburg Pincus, The Carlyle Group, and Actis Capital LLP mapped out investment strategies for investing in Indian infrastructure*.

Leading these investments was Kohlberg Kravis Roberts ('KKR'), a New York-based private equity firm, with an investment into Bharti Infratel Limited, followed by 3i India Infrastructure Fund's investment in Krishnapatnam Port Company Limited, promoted by the Hyderabad-based Navayuga Group*.

Demand for Energy

A rapidly increasing population and growing urbanisation has put immense pressure on energy and natural resources in India. As demand for energy continues to outstrip production at home, India emerged as a major buyer of energy, either through trade or investment in countries with rich fossil fuel sources around the world.

In the last fifteen months, Indian companies made acquisitions both in the traditional fossil fuel

[1] Press article – Financial Express dated Dec 27, 2007

sector as well as in alternative sources of energy. The underlying theme behind these acquisitions was to secure significant long-term production reserves and supplies of raw materials for their domestic manufacturing units.

Some of the key outbound transactions in 2008 highlighting this trend were acquisitions such as Oil & Natural Gas Corporation's ('ONGC') investment in the San Cristobal Oilfield in Venezuela, Reliance Power Limited's acquisition of coal mines in Indonesia (Srivijaya Bintangtiga Energy, Bryayan Bintangtiga Energy and Sugico Pendragon)[2], and Tata Power Company Limited's acquisition of Geodymanics, a geothermal energy company in Australia*.

There were also strategic inbound investments in the sector - Petroliam Nasional Berhad's (PETRONAS) acquisition of a stake in Cairn India Limited, and ENI SpA's acquisition of 48 percent equity stake in Hindustan Oil Exploration Co. Limited*.

Emerging sectors

Over the past 12 months, niche sectors such as renewable energy and social infrastructure have emerged as promising avenues for investment.

The renewable energy sector is driven in part by the aggressive targets set for renewable energy by the Ministry of New and Renewable Energy (MNRE). Renewable energy generation is projected to increase from current levels of 10,500 MW to 25,000 MW by 2012 requiring an investment of approximately USD 12 billion[3]. Wind and hydro energy and their associated clean-energy technologies hold the most potential in India, and there were two notable wind-related transactions in the year:

- Abu Dhabi's Masdar, which invested USD 174 million in wind turbine manufacturer WinWind for a 40 percent equity stake
- Chiranjeevi Wind Energy Limited (CWEL), a wind turbine manufacturer, sold 40 percent of its equity to Dubai Investment Group (DIG)*

In the hydro energy sector, there are a number of hydro projects in the development and pre-construction stage which have not yet achieved financial closure. It is probable that there will be some consolidation and transfer of asset ownership to larger players in the future.

In social infrastructure, the key growth sectors are health and education. These are driven by the low levels of penetration, the high propensity for households to spend their incomes towards health and education needs, rising income levels, and the opening of these sectors to public-private partnership (PPP) models as means to enhance government spending.

2 Press article – Financial Express dated May 3, 2008

3 India Energy Conclave 2008 – a KPMG-CII publication

In education, key deals highlighting this trend are:

- The IDFC PE investment of USD 31 million[4] in Manipal Universal Learning, an institute for distance education programmes and short term courses on information technology
- The acquisition of Learning.com for USD 24.5 million[5] by a large education sector player, Educomp Solutions
- Everonn's acquisition of Toppers Tutorial
- NIIT's entry into the English training segment with the acquisition of Evolv (48[6] percent stake)

In healthcare, it is estimated that India needs to add 2 million beds by 2027 to the existing 1.1 million, and the Indian healthcare industry is expected to grow from current levels of USD 35 billion per annum to over USD 75 billion by 2017[7]. M&A activity in healthcare is likely to increase with the growth in private hospitals funded by private equity investors and government facilities developed using PPPs.

M&A 2009

Having suffered a major down-turn in the first half of 2009, the outlook for infrastructure companies should significantly improve in the second half of 2009, with the new UPA Government in power. Along with the improved outlook for the infrastructure sector, the outlook for M&A activity is also expected to be improve. Infrastructure companies, along with banks, are expected to be the best performers in the next year. Increased confidence will dramatically improve access to global finance for project companies, and reforms to the banking, pension and insurance industries will all contribute to increased liquidity and tenor in domestic lending, enabling higher equity returns.

Driven by significant supply constraints, power will remain the most significant generator of M&A activity in the infrastructure space. For example, in the first quarter of 2009, ONGC's overseas investment arm, ONGC Videsh Limited ('OVL'), beat rivals to acquire UK-based Imperial Energy Corporation for USD 2.60 billion[8].

> "M&A activity this year will be driven by the corporate sector's need to de-leverage and focus on capital allocation to businesses that are a strategic fit and justifiable on fundamental "cash flow" valuations rather than the past trend of "dressing up" for an IPO. In the infrastructure space, I see most activity in the power sector. The road sector will see some asset divestitures by EPC companies."
>
> - M. K. Sinha, President & CEO, IDFC Project Equity Company Ltd.

Ports and the roads sector are also expected to generate investor interest as promoters will look to divest and liquidate value in their existing assets to position themselves for new rounds of bidding in these sectors.

[4] IDFC Company Website

[5] Article in Financial Express

[6] Reuters

[7] Technopak healthcare report 2008

[8] Bloomberg, Press article: Telegraph dated August 26, 2008

* KPMG analysis based on deal data sourced from Bloomberg and Mergermarket, and PE data from Venture Intelligence

There will be an uptake in activity in health and education sectors in 2009. This activity will be driven primarily by private sector spending and growth potential with a view to future PPP programmes initiated by the government.

Divestment of projects to raise funds

As the domestic economy begins to turn the corner from the market conditions of the last six to twelve months, infrastructure projects which had previously suffered from gaps in both debt and equity financing should once again become viable.

Developers who are currently constrained by high leverage across projects will be seeking additional finance to meet the project flow issuing from the newly invigorated government. To meet this requirement, developers are likely to consider divestment in projects that are in advanced stages of implementation to strategic investors attracted by revised valuations in the market.

Given the above scenario, 2009 should be a good year for strategic investors to acquire assets that are close to start of construction and will be ready for commercial services within 2 -3 years in time for a robust recovery in the business cycle.

New pipeline

Following the slowdown in the final quarter of 2008 and first half of 2009, there is likely to be increase in the issue, bidding for and award of new projects across sectors in the second half of the year. The completion of election process which contributed to the slowdown through the election code of conduct, should now facilitate a substantial increase in deal flow. This increase is only likely to be strengthened by the new government whose focus on infrastructure requires the participation of the market in infrastructure development.

This new pipeline will be coupled with a loosening of the credit markets and a new found confidence on the part of investors should lead once again to the involvement of overseas majors and investors in bidding consortia.

Consolidation

Over the past few years, the sector witnessed an influx of investors making acquisitions in infrastructure companies and assets. After a reversal in late 2008 and start of 2009, it is anticipated that there will be a cautious return to this trend, limited initially to a few key players with large group cash flows and access to funding. These investors will be active in acquiring assets that will strengthen their core portfolio holdings and increase their market position. For example, the larger and more established power players such as Tata and Essar continue to look for attractive opportunities in the energy sector, both internationally and domestically.

Attractive risk-return profiles

Investors, both domestic and international, will look to invest in global infrastructure projects as they provide an attractive risk-return profile on investments across the asset class.

Given the recent turmoil in the global markets, investment in Indian infrastructure opportunities will command a relatively higher significance in 2009. Investor sentiment will be based on two basic premises - the Indian government's renewed spending commitment in the sector; and the higher than average growth rates projected for India reflecting the re-emergence of confidence among domestic and global investors in the India Inc. story.

The Real Estate Outlook

The last 15 months preceding the March 2009 quarter have been challenging for the domestic real estate industry. The industry was affected by rapid interest rates hikes (with strict vigilance from the RBI), rising commodity prices (construction costs), and lowered demand on the back of poor affordability. The realty boom in 2007, fuelled by speculators as opposed to end users, witnessed unprecedented rise in residential prices, rentals and land values. Developers went on a land accumulation spree (mainly in Tier II cities), with execution of projects taking a backseat. The slump in demand, coupled with limited funding opportunities, resulted in developers being strapped for liquidity.

On the demand front, we have witnessed a slow off-take in all asset classes within the real estate sector (residential, IT SEZs/Parks, Retail/Commercial and Hospitality), with commercial property being the worst affected largely due to declining growth in the Financial Services and IT/ITES (key driver for growth) sectors.

Given the capital intensive nature of the real estate industry and the nascent stage of industry evolvement, transactions were largely focused on fundraising as opposed to M&A. M&A activity was largely focused towards joint ventures with international developers / operators for hospitality and retail projects. Some of the key Joint Ventures (JVs)[7] announced last year were:

- The Goldman Sachs-ETA joint venture to launch the Four Seasons hotel in Bangalore
- The Prestige - Marriott tie up to build a luxury resort hotel Prestige Golfshire in Bangalore
- The Vornado-Reliance 50:50 joint venture (individual commitment of USD 250 million) to acquire and operate retail shopping centres across key cities in India
- CapitaLand in 2 separate JVs (with Delhi-based developer Advance India Projects and Prestige Group) to put up 15 malls in the country having a combined asset value of USD 1.46 billon.

Other key investments[8] announced included Sun Apollo investment of approximately USD 60 million in Rustomjee, Kotak Realty's investment of approximately USD 60 million in HBS Developers, Symphony Capital's USD 450 million investment in DLF Assets, Citi picking up a 40 percent stake in BPTP's 4 SEZ projects spanning 206 acres, DE Shaw's investment of USD 250 million in Housing Development and Infrastructure Limited and MPC Synergy (German real estate fund) investment of Euro 200 million in Phoenix Mills Limited.

Given the current scenario for developers and investors, there is a clear preference for investment / projects in metro / Tier 1 cities with residential (mid income/affordable) housing evolving as the preferred asset class. Financing (as opposed to M&A) will continue to dominate in 2009. This could lead to some distressed M&A deals (assets/Special Purpose Vehicle level). Also, faced with high leverage in their books with mounting debt obligations, many real estate companies have

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[7] Press articles: Economic Times dated July 1, 2008, Business Standard dated January 24, 2008, August 15, 2008 and January 10, 2009.

[8] Press article: Business Standard dated August 22, 2008

restructured their assets/loan portfolio. Given RBI's recent initiative of assisting real estate developers to restructure their loan portfolio, the quarter ended March 2009 witnessed most real estate companies like DLF, Unitech, Sobha, HDIL, Orbit amongst others, restructure their debt obligations[9].

Further, Qualified Institutional Placements (QIPs) and promoter stake sale have emerged as the preferred route of fund raising for listed developers. DLF started the trend through a promoter stake sale of approximately USD 780 million in April 2009. On the QIP front, Unitech (USD 325 million in April 2009) and Indiabulls (USD 565 million in May 2009) have raised funds while other players such as Sobha, HDIL, Parsvnath and Puravankara have also announced their intent to raise funds through this route[10].

In terms of the demand, revival is likely in the second half of the year due to reduction in interest rates, lowering of prices by developers and stimulus packages from the RBI. For example, RBI's stimulus package such as External Commercial Borrowings (ECBs) in townships and hotel/hospital projects has provided some respite for developers.

The long term growth of the Indian real estate sector is imminent given the housing shortfall in India of 25 million units[11] and the growth of the manufacturing and services industry. Further, organized retail is in the nascent stage (India is 5 percent of total retail as against 20 percent in China and over 80 percent in developed countries)[12]. The industry outlook for the future remains attractive on account of increasing urbanization, fundamentally strong GDP growth, growing nuclear families, and increasing size of the Indian middle class.

9 Industry Sources, press articles

10 Press article: Business Standard dated May 29, 2009

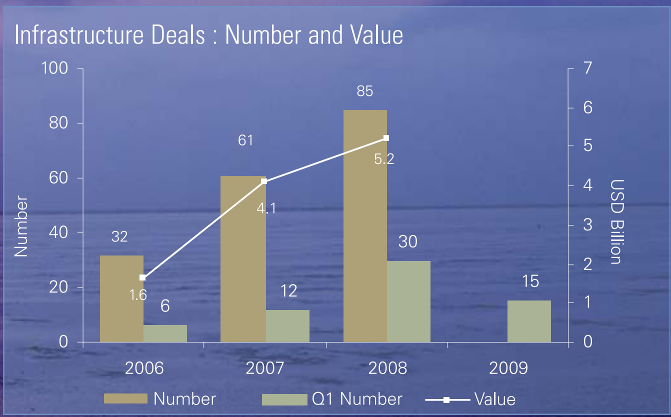
11 Tenth five year plan

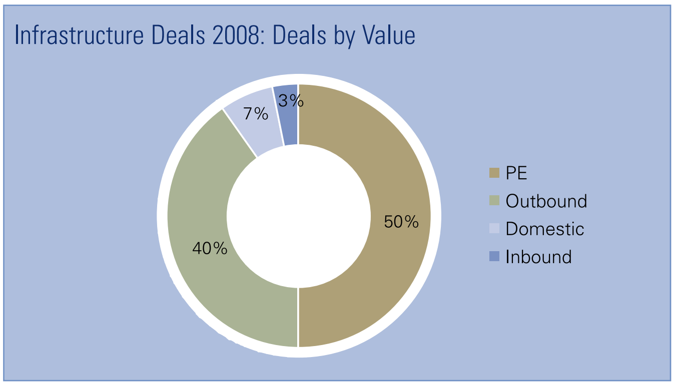
12 Knight Frank and National Council of Economic Research

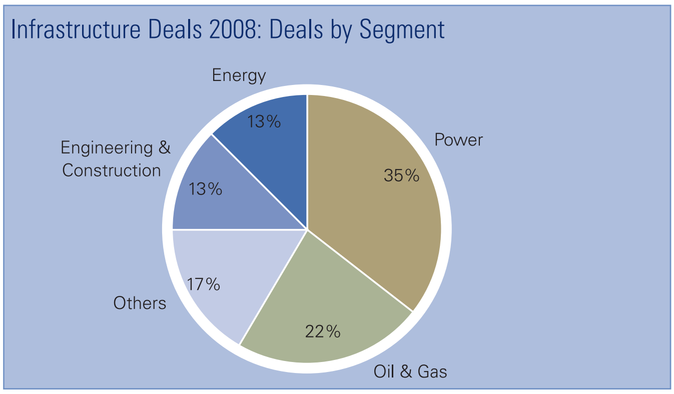
Key Deals

Target Name	Target Country	Acquirer Name	Acquirer Country	Value (USD mn.)	Stake (percent)
Intergen NV	Netherlands	GMR Infrastructure Limited	India	1100	50
San Cristobal Oilfield	Venezuela	Oil & Natural Gas Corp Limited	India	450	40
Cairn India*	India	Orient Global	NA	278	3
WinWind*	India	Masdar	Abu Dhabi	174	40

*Private Equity Deals
Source: Bloomberg, Venture Intelligence







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Source: Bloomberg, Venture Intelligence

Financial Services

The Indian financial services sector would witness consolidation across banking, insurance and asset management as the environment gets more competitive. Further, the need of capital in NBFCs and PSU banks and Life insurance companies cannot be over emphasised. Apart from this, the distribution infrastructure is likely to mature as margins thin and distrubtors need to prove their contributions to the manufacturers. All this is expected to give a significant boost to M&A and financing transactions in the Financial Sector.

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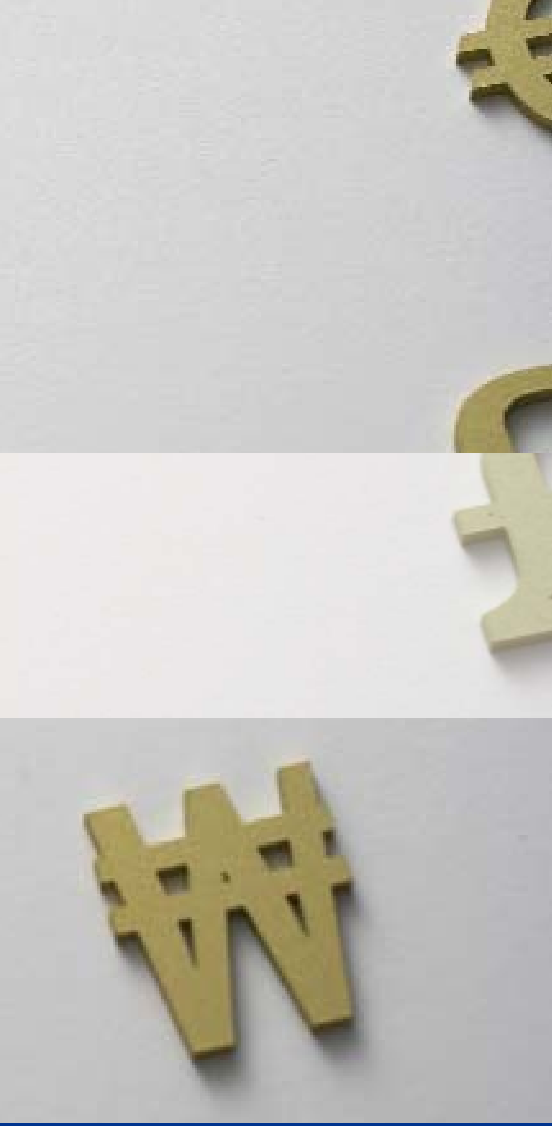

The Financial Services sector witnessed approximately 60 closed deals in 2008, with a disclosed value of USD 4.4 billion. The deal landscape has been dominated by approximately USD 1.1 billion of private equity deals mainly in non-banking finance companies (NBFCs) and stock exchanges and the merger of Centurion Bank of Punjab with HDFC Bank which was valued at USD 2.8 billion*. This was followed by public sector undertaking (PSU) bank related insurance joint venture deals where the deal values are measured in terms of premiums paid and hence are smaller in comparison. The broad theme was consolidation within the private sector banks and investment in select financial institutions, stock exchanges and diversification of PSU banks.

Financial Services is likely to see a challenging year ahead with the consolidation of financially weaker companies with those who hold dominant market positions across sectors be it Banks, NBFCs, Insurance companies or asset managers. Distribution (read wealth management) is likely to see keen interest, be it in the form of financial inclusion or offering of various financial products to tap the large savings pool of the Indian individual. Asset-backed lending to the consumer and commercial segments is likely to see a slowdown in terms of new origination and at the same time, will foster the growth of niche firms on the back of consolidation. With the foreign investment ceiling raised to 49 percent, the insurance sector is expected to witness an increase in foreign shareholding[1]. Liquidity in banks will be good but credit growth will slacken due to a slowdown in the economy.

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1 Press article: Financial Express dated February 5, 2009

The Indian banking sector has been less impacted than its western counterparts mainly as the crisis in India is related to lower global demand and capital flows as against liquidity problems.

Indian banks have historically operated on an advance to deposit ratio of around 60 percent as compared to their global counterparts in the United States (97 percent) and Europe (102 percent). This meant that a significant portion of our bank deposits were held up as reserves with the Reserve Bank of India. These were released effectively to provide liquidity to banks, thus avoiding any asset-liability mismatches in the system.

Further, Indian banks have historically lent based on collateral as against cash flows which had made them more credit risk conscious. This has resulted in robust asset backing of loans and avoided growth of products like securitization where banks were merely sourcing agents. This also reduced the asset bubble creation on the back of bank funding as compared to the west.

However, the same could not be said of the non-banking finance companies (NBFCs) and Asset Management Company (AMC) segments which are dependant on bank funding for credit growth.

Overall, the Financial Services sector is likely to face major challenges in the coming year or two on the following grounds:

- Credit growth would be a challenge given that banks perceive a higher risk in lending given the overall slowdown and have priced credit at higher rates (real interest rates are at unsustainable levels).
- NBFCs and AMCs are starved of liquidity as the corporate and banking sector is not providing any cash to fund their growth or asset redemptions.
- Insurance companies have seen an extension in their pay-back periods due to lower demand and require additional capital infusions. The local Indian partners may not have the capital to commit to a long term business in these times, which would impact growth of the Insurance sector.

However, there would be niches available for M&A and investing in specific opportunities within these businesses, especially in Banking sector consolidation, select NBFC funding, Asset Management consolidation, foreign collaborations and local partner related M&A in Insurance companies.

"The M&A environment in India going forward will be very different from the one we have seen in the last 3 years. The last few years were characterized by several outbound large M&A deals by Indian companies and diversification strategies domestically and internationally. The turmoil and disruption in the financial markets and the slowdown globally and domestically will result in a significant decrease in M&A activity by Indian companies. M&A deals will be driven primarily by the need to consolidate where surplus capacity has been created primarily through asset purchases/sales, the need to get out of non-core businesses that many companies could have ventured into in the last few years and transactions necessitated by financial compulsion given the economic environment"

- Vikram Limaye, Executive Director, Infrastructure Development Finance Company Limited

Banking and Financial Institutions

Recent notable transactions in the banking space include Centurion Bank of Punjab's merger with HDFC Bank, South Indian Cooperative Bank and Maratha Cooperative Bank's merger with Saraswat Cooperative Bank. We also saw some activity amongst banks in the AMC and Insurance sector such as the announcement of State Bank of India's Joint Ventures (JV) with Insurance Australia Group and Standard Chartered Bank's sale of its AMC business to IDFC Limited*.

In 2009, we may witness consolidation of medium sized banks with the Reserve Bank of India encouraging stake sales to stronger domestic or foreign banks and a consequent change in management.

Further, as capital raising is unlikely, banks may release capital by rationalizing their asset base through the sale of non-performing loans (either portfolios or single credits) or sell their franchise in non-core businesses along with portfolios.

Non-Banking Finance Companies (NBFCs)/ Housing Finance Companies

Over the past 15 months, the NBFC space witnessed a lot of traction with significant private equity investment in the sector. Notable transactions were Texas Pacific Group's (TPG) investment in Shriram City Union, Standard Chartered PE and TPG's investments in Mahindra & Mahindra Financial and Sequoia Capital's investment in Manappuram and the strategic investment of BNP Paribas into Srei Infrastructure Finance. Early 2009 saw a few players like Standard Chartered PE entering into Private Investment in Public Equity ('PIPE') transactions to invest into listed companies like Mahindra & Mahindra Financial Services.

The NBFC sector has witnessed a slowdown mainly due to a combination of lack of demand and a not entirely unexpected increase in non performing assets. The slowing demand side coupled with tight liquidity and increasing delinquencies might result in a much needed consolidation within this sector. Private equity investments are likely to slow down significantly given the uncertain outlook. Small and medium sized players without any niche presence might lose competitiveness.

Microfinance

Though most players in the segment are small in size (most players have a portfolio size of less than USD 10 million[2]) with a regional focus, they managed to receive significant investments during 2008.

This sector gained attention amongst private equity players, primarily on account of its high potential for growth. This was evident with SKS Microfinance receiving an investment of USD 75 million, the largest ever raised by a microfinance company, from a group of investors such as Sandstone Capital, Silicon Valley Bank (SVB) India, Sequoia Capital and Kismet Capital. Other notable investments were in Ujjivan Financial Services, Equities Microfinance, Unitus Capital and Swadhaar Finserve*.

Microfinance is considered to be a viable financial inclusion enabler in India. Due to the under penetration of credit in rural India, microfinance is a scalable proposition without any significant compromise on profitability. This is further augmented by rural growth. Microfinance companies are expected to remain relatively shielded from the global financial crisis and are likely to attract further equity investments as well as debt capital.

> "Given the uncertainties in the western hemisphere, for a country like India sitting on the prospect of 6-7 percent GDP growth, markets worldwide offer enormous opportunities. Therefore, good corporates with substantial cash reserves can evaluate opportunities for inorganic expansion within and outside India"
>
> - George Alexander Muthoot, Managing Director, Muthoot Group

Insurance

Recent JVs announced in this sector include State Bank of India - Insurance Australia Group, Dabur Group - Liberty Mutual Group and BUPA Group - Max India[3].

Most insurance companies chose to grow at the cost of profitability which has increased the need for capital and extended payback periods. Further, the economic crises has depleted cash reserves of domestic corporates. This would force many local corporates to dilute their stakes in insurance companies to limit further capital commitments. The opening up of the sector to 49 percent for foreign partners will help the process further.

Further, foreign insurers like AIG, who are impacted by the financial crises, may withdraw from Indian operations by selling their stakes either to strong local parties or other foreign insurance firms who may have India plans.

Broking/Asset Management

Despite volatile capital markets, we continued to see activity in the sector such as HSBC Securities and Capital Markets (India) Private Limited taking over IL&FS Investsmart Limited, Aditya Birla Nuvo Limited acquiring Apollo Sindhoori Capital Investments Limited and IDFC consolidating its stake in

2 Microfinance in India, A State of the Sector Report

3 KPMG analysis based on deal data sourced from Bloomberg and Mergermarket, and press articles – Financial Express dated June 3, 2008 and Economic Times dated July 11, 2008

SSKI Securities ('SSKI'). Notable PE transactions include investments made in SSKI (Barings Private Equity Asia), Globe Capital (CVC Capital Partners) and Unicon Financial Intermediaries (Sequoia Capital)*.

With lower volumes and shrinking revenues, most retail brokerages operating on a franchisee distribution model have seen their distribution reduced significantly. Erosion in volumes have made PE transactions unviable as promoters remain apprehensive about diluting at present valuations and also do not seem to be in a dire need to raise cash until the stock markets revive.

However, brokerages that have created a niche in wealth management and third party distribution are likely to see good growth and therefore likely to attract capital. Generally, most of these brokerages also have their share of institutional business which gives them base revenues without significant marginal costs. These stronger brokerages also have cash on their balance sheets as cash deployed in proprietary trading is now available for consolidation. This cash could be used for acquisition of smaller counterparts to grow either retail distribution or increase institutional empanelment. They could also be used to enter into related businesses of asset management, insurance underwriting or private equity.

The asset management space witnessed one of the largest financial services transactions - Standard Chartered AMC's sale to IDFC. Other key transactions were investments in JM Financial MF, DSP Blackrock, Reliance Capital and the distress sale of Lotus India Asset Management Company to Religare Enterprises*.

India still has a high degree of under-penetration in terms of domestic savings channeled to mutual funds. Majority of these funds have grown during 2007 and 2008 on the back of excess corporate sector liquidity through debt and liquid funds. Most of the new entrants have spent significant cash on brand or distribution build ups either through own branches or high distributor commissions. Though this has resulted in growth of Assets under Management (AUM), it has not improved profitability.

India presently has far too many asset managers who are below an AUM of INR120 billion (of which at least 40 percent is equity[4]), which in our view, is the minimum scale required for sustained profitable operations. Accordingly, there would be consolidation within these asset managers with the larger players or there would be foreign collaborations to fund their growth and buy them distribution.

Further, product innovation (especially on the pension side) is to drive equity asset growth in tier 1 and tier 2 cities whilst penetration will be the growth driver in tier 3 and tier 4 cities. Accordingly, any collaboration with an Indian partner with distribution strengths and a foreign partner with track record and product differentiation capabilities would be a winning proposition to gain penetration and also a profitable market share.

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4 Association of Mutual Funds in India

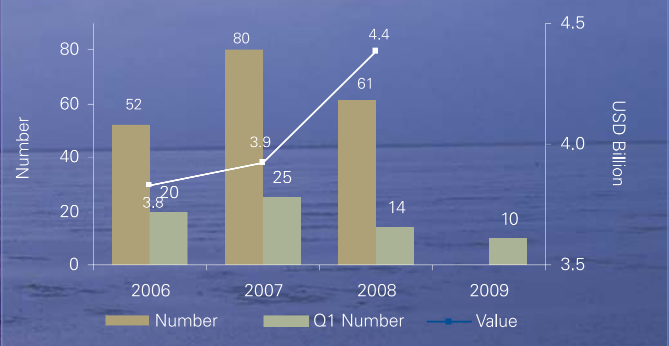
* KPMG analysis based on deal data sourced from Bloomberg and Mergermarket, and PE data from Venture Intelligence

Key Deals

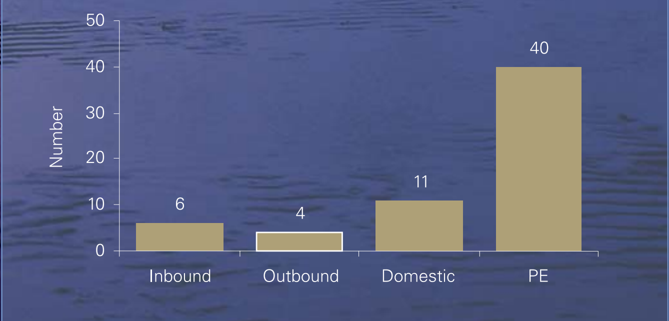
Target Name	Target Country	Acquirer Name	Acquirer Country	Value (USD mn.)	Stake (percent)
Centurion Bank Of Punjab Limited	India	HDFC Bank Limited	India	2813	100
IL&FS Investsmart Limited	India	HSBC Holdings plc.	UK	306	93
Standard Chartered	India	IDFC	India	205	100
Global Trade Finance Limited	India	State Bank Of India	India	132	91
Reliance Capital	India	Eton Park Capital Management	United States	127	5

Source: Bloomberg, Venture Intelligence

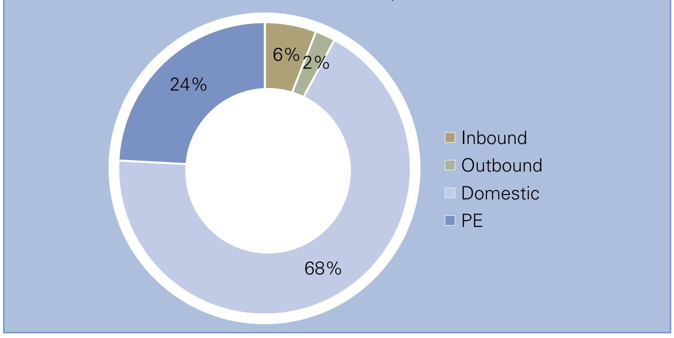
Financial Services Deals: Number and Value



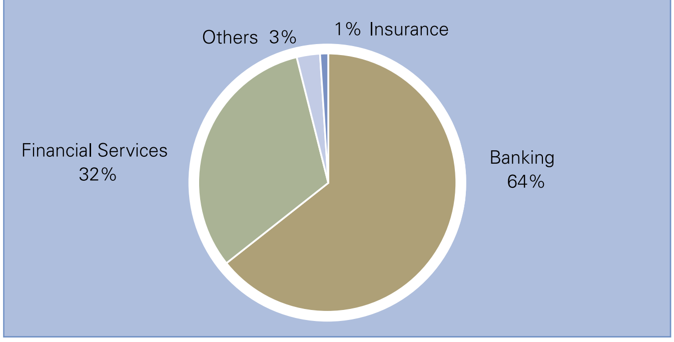
Financial Services Deals 2008: Deals by Number



Financial Services Deals 2008: Deals by Value



Financial Services Deals 2008: Deals by Segment



Source: Bloomberg, Venture Intelligence

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Private Equity

The time for making easy returns on the back of equity markets is gone. PE firms must shift their focus on building and creating value in their portfolio companies. They should also get serious on bringing fundamental changes to the quality of corporate governance in their portfolio companies.

Vikram Utamsingh
Executive Director
Head - PE Advisory
KPMG in India

The last nine months have been difficult for PE investments in India, mirroring a global trend. Until the recent credit squeeze, deal sizes were increasing, the market was highly competitive, high premiums were being paid, many trade buyers were often losing out to PE houses, and many PE houses had enjoyed attractive returns on exits. Today, the landscape has changed.

The global financial crisis has directly and indirectly impacted the PE Industry. From a global perspective, Limited Partners (LPs) are reassessing their allocation to different asset classes. Some LPs are reportedly reducing their allocation to PEs, some have requested PE firms to delay seeking committed capital calls. Global funds like Texas Pacific Group's ('TPG') and Permira have reduced their management fees and have reduced LP commitments in 2009. For the first time, large global funds like Blackstone and 3i have announced employee retrenchment.

The current crisis has impacted fund raising in India. It is estimated that out of 84 Indian funds that were targeting to raise USD 27.2 billion, only 16 managed to raise USD 4.56 billion in 2008[1]. First time fund managers are finding it difficult to raise capital for India. This is perhaps a mixed blessing as some 300 funds were rumoured to be active in India and many of these were small first time funds. The market had thus become overcrowded leading to an oversupply of capital for the volume of quality deals in the market place. Whilst the difficult economic and financial global environment means that many of these funds will find it difficult to survive, a more reasonable balance between the amount of capital available and the volume of deals will be achieved in 2009.

Sector overview[2]

Despite starting on a strong note, where the number of transactions in the first three quarters in 2008 was greater than that in the corresponding period in 2007, the year ended with the total investments being 7 percent lower in terms of volume and about 21 percent lower in terms of value. The average deal size in 2008 decreased to USD 24 million from approximately USD 27 million in 2007. The last quarter of 2008 was greatly affected with deal volume and value being only 15 percent and 11 percent, respectively of the total, for the year. This dropped further in the first quarter of 2009, wherein the investments in terms of value and volume were 60 percent and 34 percent lower, respectively, as compared to the last quarter of 2008 and 89 percent and 70 percent lower, respectively, as compared to the corresponding period of 2008.

Unlike in 2007, there were no USD billion dollar deals in 2008. Providence Equity Partners' investment of USD 428 million in Aditya Birla Telecom Limited for a 16.14 percent stake was the largest transaction. Sequoia was the most active investor in 2008 with 19 investments, followed by IFC, the PE arm of the World Bank. IDFC Project Equity's investment of USD 70 million in Essar Power Limited was the largest transaction in the first quarter of 2009.

While transactions were witnessed across a wide range of sectors in 2008, in volume terms, IT/ITES attracted 91 investments whilst in terms of value, energy attracted investments totalling USD 1.7 billion. A similar trend was observed in the first quarter of 2009 wherein IT/ITES attracted 13 investments, whilst in terms of value energy attracted largest investment of USD 72.7 million. New sectors like agri-business attracted investments in the last quarter of 2008 with five deals amounting to USD 115 million.

Transactions in 2008 clearly shifted to domestic driven industries. Four of the largest five PE deals were in mobile services, power, telecom infrastructure and a fast food chain. Simultaneously, globally dependant industries like automotive and pharmaceutical lost their shine. Real estate which saw a flurry of transactions in 2007 amounting to approximately USD 7 billion decreased significantly.

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1 VC Circle

2 Source for statistics related to the Industry – Venture Intelligence Database

Interestingly, Global PE funds (without an India-dedicated corpus) accounted for 56 percent and 38 percent of investments in India in terms of value and volume, respectively, during 2008, while the India dedicated funds accounted for 28 percent and 49 percent in terms of value and volume, respectively. This is probably a reflection of the increasing difficulty that India focused funds faced in raising funds which either got delayed in closing or closed at much lower amounts.

In volume terms, except for growth stage transactions, all other stages saw a reduction in 2008. Growth and late stage transactions together accounted for 56 percent of total investments. Pre-IPOs and Private Investment in Public Equities (PIPEs) were 18 percent of total investments, reducing from 23 percent in 2007. While 2008 saw a reduced number of PIPE and pre-IPO deals, a number of funds made follow-on investments in their earlier PIPE deals at lower prices to reduce their average acquisition cost by increasing their equity stakes at lower valuations. Given the depressed capital markets in the first quarter of 2009, many funds continue to make PIPE investments which accounted for 27 percent in terms of volume and 32 percent in terms of value of the first quarter 2009 investments. Late stage transactions were the largest accounting for 40 percent in terms of volume and 52 percent in terms of value.

PE firms obtained 28 exits in 2008, including 9 via IPOs as compared to 67 exits in 2007 including 17 via IPOs. Subdued capital markets have forced funds to defer exits through IPO. The total value of M&A transactions providing exits during 2008 was approximately USD 1.2 billion. These included eight strategic sales, seven secondary transactions, two sales via public markets and two promoter buybacks. There were only 9 exits in the first quarter of 2009. These included one IPO, five via public markets and three through strategic sales.

"2009 will be a challenging year for PE funds – portfolio companies will be under pressure to meet targets and remain adequately funded, exits will take longer and fund raising will be difficult. Through this process we will see a shake up in the PE industry in India and the funds and portfolio companies that succeed over the next 18 months will be the winners over the next decade."

- Luis Miranda,

President & CEO, IDFC Private Equity

During the 2006 and 2007, most PE houses were sector agnostic. However, to differentiate in a crowded market place, few sector focused PE houses are now establishing themselves. Some other key strategies being followed by fund managers to hedge their risk include - developing teams with deeper industry focus and expertise, working with portfolio to create value and co-investing to reduce risk.

In 2009, PE firms will need to shift their focus on sustaining and building value in their portfolio companies. This could be a challenge given the relative inexperience of General Partners. PE funds would need to hire experienced operational managers to help them achieve this.

Corporate governance also needs to take centre stage in portfolio companies. PE firms have tended to ignore making substantive improvements in corporate governance instead focusing their efforts on the business of the portfolio companies. Corporate governance improvements will help protect their investments and in time make them more attractive for sale.

A survey conducted by Venture Intelligence[3] amongst leading fund managers predicts a grim outlook for this year. Fund managers expect overall deal volumes, the size of investments, fund raising and exits to all reduce considerably in 2009.

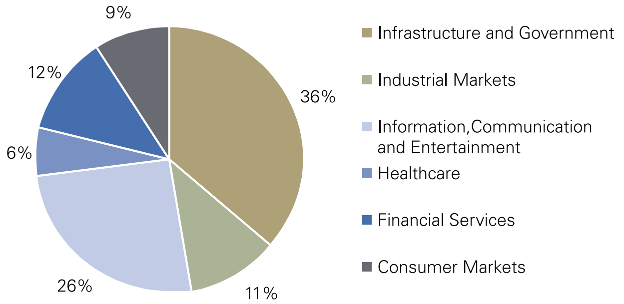
[3] Venture Intelligence India Roundup-Annual-2008

Possible opportunities for PE: 2009

A recent study by Coller Capital[4] showed that India is the most favored investment destination amongst the emerging markets due to its high growth potential. While for those PE firms who have capital available, the environment could not be better, valuation expectation mismatch still continues. Alternative sources of capital such as the public markets, debt, foreign convertible bonds have all but dried up making PE capital one of the very few options available for Indian companies to raise funds from. Some Indian business groups have overstretched themselves with large overseas acquisitions and they would need access to capital to replace their debt obligations which will be due from the end of 2009 to 2012. In the last four years, there also has been a growing and increasing acceptability by Indian business groups of the PE industry as an acceptable source of capital.

PE capital is also needed for India's domestic growth. Despite a global slowdown, India is predicted to continue to grow at a GDP rate of 7 percent in the current year which is expected to drop to 5.3 percent in the next year due to the increasing cost of capital[5]. Moreover, the Indian Government is serious about building India's infrastructure which needs some USD 300 billion of investment. Thus, it is likely that demand for PE capital will be strong in 2009.

PE Deals per Segment 2008 (Value)



Source: Bloomberg, Venture Intelligence

4 Coller Capital, Winter Barometer 2008

5 http://in.reuters.com/article/businessNews/idINIndia-36958920081210?sp=true

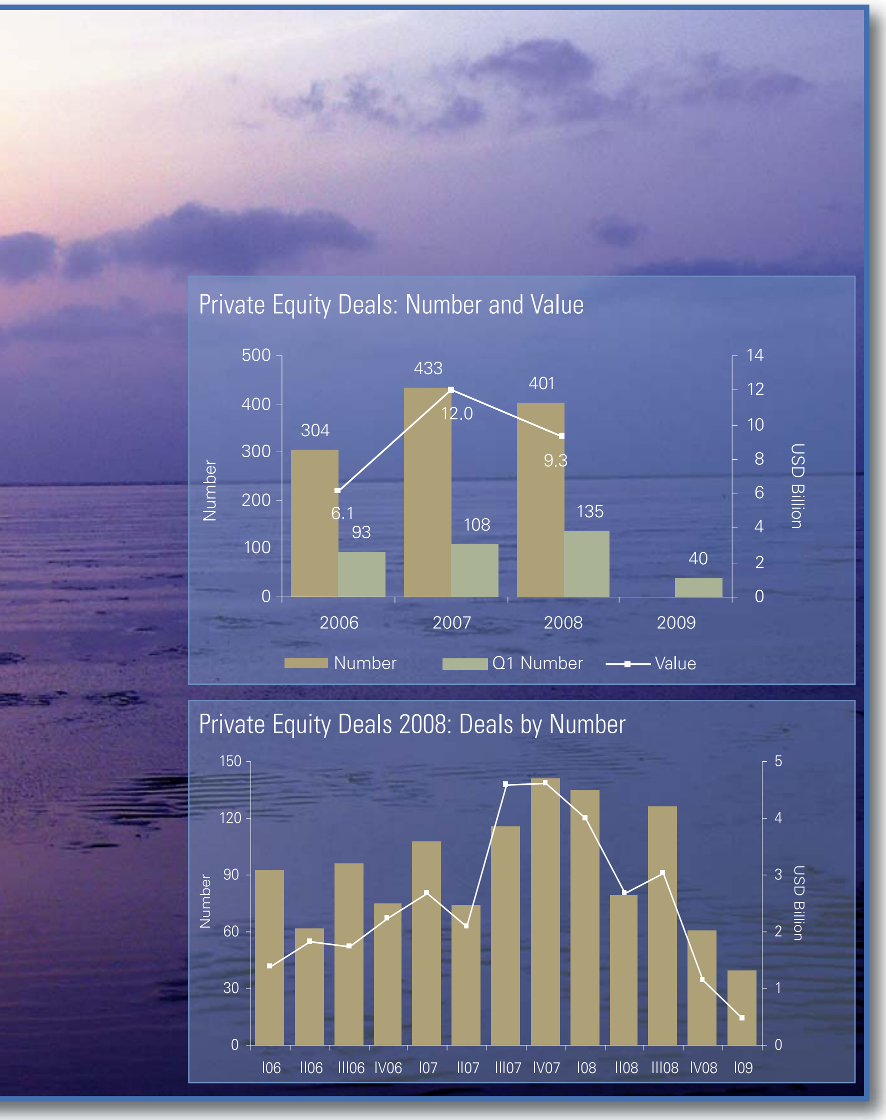
"In this challenging phase of the economic cycle PE fund managers will need to work hard to maintain their returns. In an environment where growth will be significantly lower than the original forecast, returns will depend on the ability of the PE funds to bring about operational improvement in the portfolio companies."

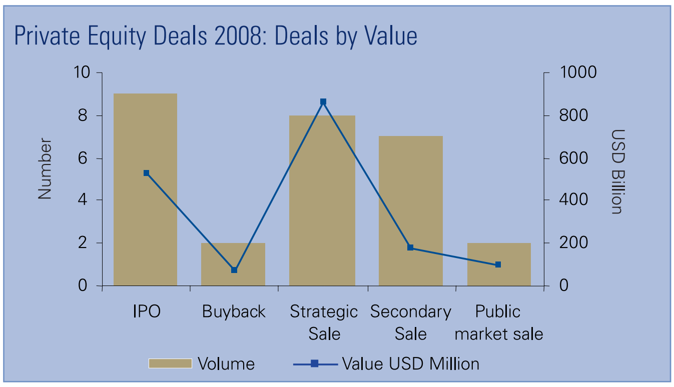
- J. M. Trivedi, Partner, Actis Advisors Private Limited

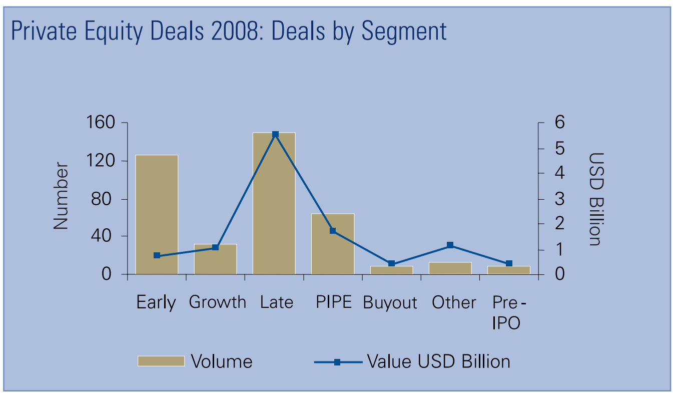
Key Deals

Investors	Investee	Sector	Value (USD mn.)	Stake (percent)	Stage
Providence Equity Partners	Aditya Birla Telecom	Telecom	428	16	Late
Farallon Capital, LN Mittal	Indiabulls Power Services	Infrastructure	395	38	Late
Orient Global	Cairn India	Infrastructure	278	3	PIPE
Kohlberg Kravis Roberts	Bharti Infratel	Infrastructure	250	2	Late

Source: Bloomberg, Venture Intelligence







Source: Bloomberg, Venture Intelligence

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METHODOLOGY

The figures and analysis in this report are based on disclosed information on completed deals in Bloomberg and Venture Intelligence (VI). We have also referred to Mergermarket, selectively. Although the published data has been carefully reviewed for accuracy, you will appreciate that it can be extremely difficult to capture fully reliable M&A statistics[1] , since different data sources indicate different results. Accordingly, the data presented in this report should be regarded as indicative only.

The deals for all the years refer to those which have been classified as completed by Bloomberg during respective calendar years starting January 01 to December 31. We have also analyzed deals completed during the first quarter of 2009. Deals with an announced value of less than USD 1 million have not been considered in the analysis.

Deals have been scrutinized to the extent possible; however, we have used our own judgment to omit certain deals which may be ambiguous or based on rumours.

The deals are classified into different sectors as per KPMG'S Line of Businesses, viz., Consumer Markets, ICE (Information, Communication and Entertainment), Infrastructure, Healthcare and Financial Services.

[1] Deal values as disclosed on Venture Intelligence and Bloomberg

About KPMG in India

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 140 countries and have 135,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

The Indian member firms affiliated with KPMG International were established in September 1993. As members of a cohesive business unit they respond to a client service environment by leveraging the resources of a global network of firms, providing detailed knowledge of local laws, regulations, markets and competition. We provide services to over 5,000 international and national clients, in India. KPMG has offices in India in Mumbai, Delhi, Bangalore, Chennai, Hyderabad, Kolkata and Pune.

The firms in India have access to more than 3000 Indian and expatriate professionals, many of whom are internationally trained. We strive to provide rapid, performance-based, industry-focused and technology-enabled services, which reflect a shared knowledge of global and local industries and our experience of the Indian business environment.

KPMG in India is one of the leading providers of risk, financial and business advisory, internal audit, corporate governance, and tax and regulatory services. With a global approach to service delivery, KPMG responds to clients' complex business challenges with rapid and technology-enabled services across industry sectors and national boundaries.

As one of our core service offerings under Financial Advisory Services in India, Corporate Finance offers a broad range of financial and strategic advisory services to clients across a wide array of industries. We strive to provide insightful and objective advice to our clients as they contemplate mergers and acquisitions, financing options and evaluate strategic alternatives for their businesses.

Our goal is to be seen as a trusted and objective advisor and to be acknowledged as a preferred provider of corporate finance services in the global and Indian markets.

We believe in providing high quality advisory services to our clients that is reflective of our integrity, objectivity and detail oriented approach to the business. We are entrusted with the task of advising our clients on decisions that can have a very important bearing on their future and we take our role very seriously.

Our service offerings under Corporate Finance include advice on:

- Mergers and Acquisitions
- Business Sales and Disposals
- Valuations
- Global Infrastructure and Projects Group Advisory
- Private Equity Advisory
- Structured Finance / Debt Syndication
- Restructuring Advisory.

Our team comprising investment bankers who are qualified engineers, MBAs from premier institutions and chartered accountants is industry focused and brings considerable value to a client's drive for growth, competitiveness and profitability. The domestic M&A league tables have consistently placed KPMG in the top 10[1].

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[1] Thomson Financial

Glossary

3G	-	Third generation of telecommunication hardware standards and general technology for mobile networking, superseding 2.5G.
AMCs	-	Asset Management Companies
AUM	-	Assets Under Management
CAGR	-	Compound Annual Growth Rate
CRAMS	-	Contract Research And Manufacturing Services
FDI	-	Foreign Direct Investment
GP	-	General Partner
IFRS	-	International Financial Reporting Standards
Indian GAAP	-	Indian Generally Accepted Accounting Principles
IPR	-	Intellectual Property Rights
JV	-	Joint Venture
LP	-	Limited Partners
M&A	-	Mergers and Acquisitions
NBFCs	-	Non Banking Financial Companies
PE	-	Private Equity
PIPE	-	Private Investment in Public Equity
PPP	-	Public Private Partnerships
R&D	-	Research and Development
VC	-	Venture Capital
WCDMA	-	Wideband Code Division Multiple Access
WiMAX	-	Worldwide Interoperability for Microwave Access

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