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# US-BOUND ACQUISITIONS BY INDIAN COMPANIES

Analysis of 2010 Transactions

April 2011



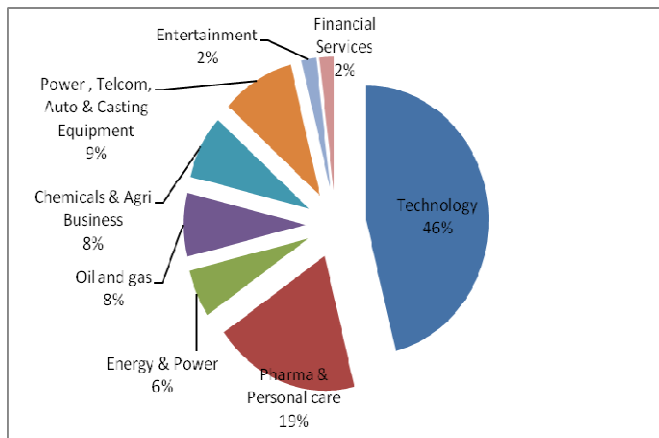
## The year of revival

The year 2010 witnessed a strong momentum in the cross border M & A landscape particularly between India and US. Indian companies accounted for a total of over 50 US bound investments in 2010 compared to 15 in 2009. The cumulative transaction value stands at \$2,200 compared to \$300 in 2009.

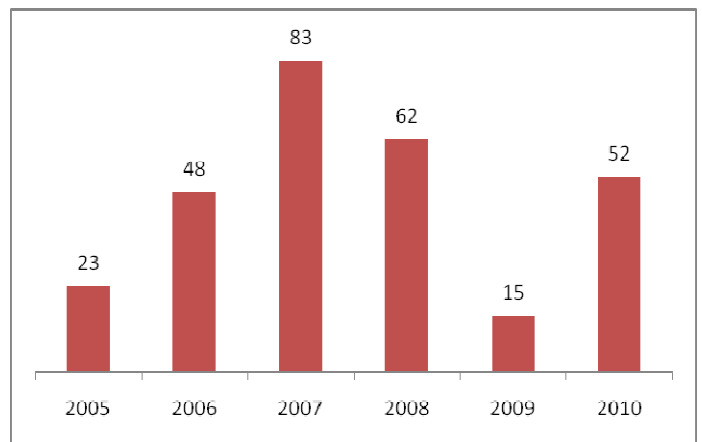
Majority of transactions were full acquisitions with internal accruals as the prominent financing option. High value transactions have been the mainstay of large Indian business groups that are having interest in power, steel and energy. The effort from multinational business houses like Reliance, Essar, RPG and the Tata's has been to consolidate their global business model. In terms of number; IT sector has been in the fore front of cross border activity. Indian companies continue to hunt for niche IT companies with high growth potential.

### KEY HIGHLIGHTS AND TRENDS

- ✚ In 2010, Indian companies accounted for a total of over 50 US- bound acquisitions with a cumulative transaction value of over \$2,200 million compared to 15 US acquisitions and \$ 300 million transaction value in 2009.
- ✚ The outbound deals accounted for 45% of the total M & A deal value in 2010 as against 12% in 2009.
- ✚ The year 2010 presented a mix of financing options with a preference towards internal accruals for outbound investments and although majority stakes are favorites, joint ventures, minority stakes and technology collaborations are also evolving. The paradigm shift in deal structure in 2010 compared to 2009 indicates improved investor confidence.
- ✚ Companies who have successfully integrated their ventures are looking to repeat the process and first timers are aggressively looking for cross border ventures, and with the push from government on key sectors like natural resources and infrastructure more strategic transactions are likely to happen.



**Breakdown of 2010 US-bound Transactions by Volume**



**US-bound Transactions 2005-2010**



## Analysis of Transactions by Industry

### Information Technology

With over 24 US-bound acquisitions in 2010, information technology continues to be the most acquisitive industry in India.

Within the industry, engineering design, technology consulting, knowledge process outsourcing, and multimedia solutions sub-segments were attractive for acquisitions. Expanding client base, augmenting delivery capabilities adding niche practices including consulting have driven M & A in the IT industry.



Indian IT & ITES (Information Technology Enabled Services) industry has come a long way from being providers of lower margin services, such as software maintenance, payroll processing, and call centre management to providers of high end services like software development, project management, technology strategy consulting, and enterprise software implementation. This has been achieved through a focused approach of moving up the value chain. Now, Indian IT and ITES companies are looking to establish their position

as leading service providers in these high end services.

### Key Industry factors fuelling Transactions in Information Technology -

- Indian IT companies expect more revenues to come from non-linear services - work that yields revenues and profits disproportionately to the coders or back office employees.
- Vendor consolidation and demand for domain-expertise is forcing companies to acquire industry focused solutions not just in traditional segments such as financial services, telecom, manufacturing, but also in healthcare IT, remote infrastructure management, education, and retail.
- Customers are encouraging vendors to be more flexible in their contracts, shifting from fixed fee or time & material payment models to those based on process efficiency and cost savings.
- Cost of Indian delivery model has increased due to wage inflation. Indian IT companies that focus on innovative delivery models combined with high margin services and full services capabilities will likely have an advantage over their competitors.

Date	Buyer	Seller
Jan-10	Cambridge Tech Ent Ltd	Vox Holdings Inc
Jan-10	Infotech Enterprises Ltd	Daxcon Engineering
Feb-10	Comp-U-Learn Tech India Ltd	Astus Technologies Inc
Mar-10	Spectacle Industries Ltd	American Solutions Inc
Apr-10	MphasiS Ltd	Fortify Infrastructure Svcs
Apr-10	Tessolve Services Pvt Ltd	Dynamic Test Solutions Inc
Apr-10	Rolta India Ltd	OneGISInc

Date	Buyer	Seller
Apr-10	GlodyneTechnoserve Ltd	DecisionOneInc
Apr-10	Prodapt Solutions Pvt Ltd	Pacific Crest Technology
Apr-10	Integra Software Svcs Ltd	Silver Editions Inc
Apr-10	Patni Computer Systems	CHCS Services (subs. Universal American Corp)
May-10	Prism Informatics Ltd	TLC Technologies Inc
May-10	Prithvi Info Solutions Ltd	PercentixInc
May-10	Aegis Ltd	SLM Corp-Back Office Unit,TX
Aug-10	Infotech Enterprises Limited	Wellscolnc
Aug-10	Ybrant Digital Ltd	Lycos Inc
Aug-10	Polaris Software Lab	Tyfonelnc
Sep-10	Revathi Equipment Ltd	Satellier Holdings Inc
Sep-10	CORE Projects & Tech Ltd	Keenan & Keenan Group
Sep-10	CRISIL Ltd	Pipal Research Corp
Sep-10	KPIT Cummins	CPG Solutions, LLC (CPG)
Oct-10	Rolta India Ltd	The Mariner-CommanBridge Sec
Nov-10	Zensar Technologies Ltd	PSI Holdings Group Inc (Akibia)
Dec-10	Mastek Ltd	SEG Software LLC

CTE (Cambridge Tech)making inroads into cloud computing by acquiring Vox Holdings

CTE’s acquisition strengthens its position into cloud computing, a sub-sector estimated to be worth of more than \$150 bn by 2013. Voxbrings open source software technologies and expertise in cloud computing, and will also help leverage CTE’s network sites. With this acquisition CTE expects to improve operational efficiencies and accelerate growth in the customer base of fortune 500 companies.

InfotechEnterprises’s acquisition of Daxcon Engineering Incoporration:

Hyderabad based Infotech Enterprises Ltd, a leading techonology solutions and engineering consulting services provider acquired Illinois based Daxcon Engineering Inc. Thisexplains the long term growth strategy of Indian IT companies; growing beyond the mainstream IT domain and focusing on consulting as service suite. The acquisition would augment Infotech’s capability in engineering consulting primarily in the aerospace vertical.

Rolta’s acquisition of One GIS Incorporation

Rolta’s acquisition of Atlanta based One GIS Incorporation shows Indian companies motive to achieve a strategic footprint in the US market. The acquisition would expand Rolta’s credibility as a leading player in the GIS space and extend its access to a large customer base abroad. One GIS Inchas more than one hundred clientele across telecom, power and water utility space in United States.

Goldyneacquires one of the largest Infrastructure Management Services (IMS), DecisionOne Corp

DecisionOne is one of the largest pure-play IMS companies generating \$200mn revenue with EBITDA margin of 8.1%. For the total consideration of \$104 mn, Goldyne to expand its reach into US and Canada market with additional service offerings like data center, networking, server, workstation, storage services and application management services along with more than 2000 highly skilled professionals.

CRISIL’s acquisition of Pipal Research Corporation

CRISIL’s acquisition of Pipal Research Corporation further establishes the strong foothold which India companies have in the knowledge process outsourcing space. Indian firms continue to strengthen their capability and delivery model through US bound acquisitions. CRISIL through its

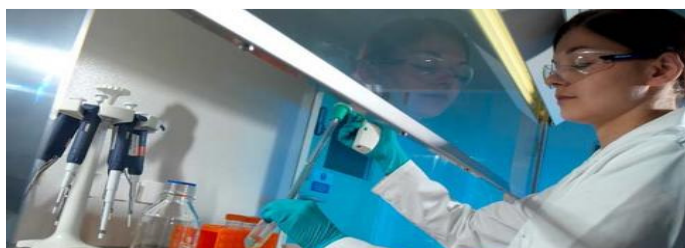
subsidiary firm Irevna commands a leadership position in analytics and investment research outsourcing. The acquisition of Pipal Research would extend CRISIL’s spectrum of offering, customer base and service capabilities.

One more large transaction into IMS and Information security space, Zensar acquires PSI Holdings Inc., USA (Akibia) through merger process

Zensar will get accelerated push to its Remote Infrastructure Management (RIM) offshore services for global clients with Akibia’s United States and European data center practices and add outstanding team of over 300 global associates. And merged entity will be able to bid for projects involving multiple services.

**Pharmaceutical & Healthcare**

The year 2010 witnessed acquisitions beyond the traditional generic space and acquisitions to complement their earlier portfolios. Opto Circuits in acquisition of Unetixs Vascular Inc complements its earlier acquisition of Criticare Systems Inc.



As a target location, the US has traditionally lagged behind Europe in pharmaceutical outbound acquisitions from India. However, this could change based on the upcoming generic opportunities and nonconventional segments including medical equipment and OTC.

**Key Industry factors fuelling Transactions in Pharmaceutical & Healthcare Solutions –**

- Large generic market as several drugs going off patent, it is estimated that drugs sales worth \$80 bn are going off patents during 2010–14 period
- more activity can be seen in small biotech firms are attractive as Biotech drugs are made from complex biological processes and are expensive to develop as compared to molecules produced via chemical processes
- Indian companies are looking for pie of the US market, and small VC-controlled biotech companies with good product pipeline are way to achieve
- The whole biotech sector is now trading on lower P/E multiples

Date	Buyer	Seller
May-10	Avantha Group	Pyramid Healthcare Solutions
Jun-10	Orchid Chem& Pharm Ltd	KaralexPharma LLC
Jul-10	Opto Circuits(India)Ltd	Unetixs Vascular Inc
Aug-10	Transgene Biotek Ltd	Marillion Pharmaceuticals Inc
Oct-10	Jubilant Life Sciences Hldgs	Cadista Holdings Inc
Oct-10	Opto Circuits(India)Ltd	Cardiac Science Corp
Nov-10	Dabur India Limited	Namaste Laboratories LLC
Nov-10	Dr Reddy's Laboratories Ltd	GlaxoSmithKline-PenicillinBusiness
Dec-10	Sun Pharmaceuticals Inds Ltd	Caraco Pharmaceutical Labs Ltd
Dec-10	Surya Pharmaceuticals Ltd	Ameshire Investment Corp

Opto Circuits acquisition of Unetixs Vascular Incorporation

The Indian pharmaceutical and healthcare sector has come out to be amongst the most active in cross border mergers & acquisitions. Opto Circuits has been in the fore front of outbound investments ;it has made four acquisitions in the last four years. Opto Circuits acquisition of Rhode Island based

Unetix Vascular Inc. upholds its effort for international consolidation primarily in the vascular diagnostic equipment space. The deal would augment Opto’s initial acquisition of Criticare Systems Inc ; manufacturer of pulse oximetry sensors and create synergy between its two international subsidiaries.

Dabur’s acquisition of Namaste Laboratories LLC:

Dabur’s acquisition of Namaste Laboratories LLC, a leading manufacturer of ethnic hair care products for a transaction value of \$100 mn in all cash deal has demonstrated the effort of Indian companies to emerge as global players and expand their footprint in international markets particularly Europe and USA. Dabur, one of the India’s largest OTC player has been successfully expanding its product portfolio to capture a wider consumer. Dabur would capitalize on the growing affinity towards ethnic healthcare products in the Western market.

Sun Pharma’s acquisition of Caraco Pharmaceutical Labs:

Sun Pharmaceutical Industries and its subsidiaries are acquiring the remaining 24.2 per cent stake in US-based Caraco Pharmaceutical Laboratories. Detroit-based Caraco develops, markets and distributes generic pharmaceuticals to the nation's largest wholesalers, distributors, drugstore chains and managed care providers. This move will help resolve pending approval of new drug applications withheld by the regulator.

Surya Pharmaceutical Ltd’s acquisition of Amershire Investment Corp:

Surya Pharmaceutical Ltd of India acquired Amershire Investment Corp, a FortLauderdalebased investment company, Amershire has rights to OTC Pain Relief Brand ActivOn, Preferon, Firston and Renewin for an estimated USD22 mil. With this acquisition, company would also get global

marketing rights of Headon, another leading brand outside US.

**Agriculture, Agro-chemicals and Food products**

India’s growth is based on the consumerism and most favorable demographic, although India is among top producers of agriculture products, its yield, productivity and efficient use of technology are areas of concern. And lot of transactions are likely to be technology enhancing ventures. United Phosphorus is expanding its product portfolio and market reach in US by acquiring several crop protection and seeds businesses. In budget, Cold storage is indentified as priority sector and given a status of infrastructure industry, which widens funding avenues for the industry and likely trigger for cross border ventures. Food processing levels in india is just 7%, while similar developing countries have 30% and developed nation have 70%. Indian Food processing industry to grow from \$110 bn to \$330 bn in 5 years, which is an opportunity for large investments in food, food processing technologies and equipments. In this segment ADF Foods is more aggressive, has aquired US-based food company Elena's Food Specialities Inc. and is looking to expand in UK, US and Australia markets, within \$20-25mn through inorganic growth.

Date	Buyer	Seller
Jun 10	United Phosphorous	El du Pont de Nemours & Co – Fungicide Business Assets
Sep 10	ADF Foods Ltd	Elena Food Specialities Incorporation
Dec 10	United Phosphorous	RiceCo LLC

United Phosphorous’s (UPL) acquisition of fungicide business from DuPont:

Acquired businesses includes mancozeb fungicide existing inventory, manufacturing facilities in Barranquilla, Colombia. Mancozeb is a broad

spectrum contact fungicide effective on a wide range of crops. With this acquisition UPL is looking to expand its fungicide business in emerging markets of South and Central Americas.

**Oil and Gas, Energy and Power**

The year 2010 witnessed landmark deals in the energy sector. Multinational Indian groups having diversified interests in energy, steel, power generation have achieved critical milestones through outbound investments in key markets particularly United States. Business groups have evolved over the years to become true conglomerates by successfully integrating their global operations.

Large acquisitions and ventures in oil and gas involve Reliance Industries (RIL) interest in US shale gas assets. Since April, 2010 RIL has entered into three agreements worth \$3.44bn.

**Key Industry factors fuelling Transactions in Oil and Gas, Energy and Power –**

- Proven reserves in US command highest trading price
- From the regional distribution, oil and gas assets in North America is the world's most active areas of mergers and acquisitions in 2010
- Increased activity in unconventional oil and gas assets including shale gas, oil sands
- Transactions likely to get push from government amid uncertain supplies
- High profile CII Recommendations on Overseas Energy Acquisition: Greater autonomy to Indian PSUs, Sovereign energy fund for financial support to Indian companies, Domestic Joint Venture for overseas investments to create financial leverages required to successfully bid for overseas investments, Promotion of private companies to enhance energy acquisition to expand India's competitiveness in international arena

Date	Buyer	Seller
Mar-10	Essar Mineral Resources Limited	Trinity Coal Corporation LLC
Apr-10	Reliance Industries Ltd	Atlas Energy Inc-Marcellus
May-10	JSW Steel Ltd	Undisclosed Coking Coal Mine,
Jun-10	Reliance Industries Ltd	Pioneer Natural Resources Company
Aug-10	Reliance Industries Ltd	Marcellus Shale Natural Gas
Oct-10	Reliance Industries Ltd	Chesapeake-Eagle Ford Asts,TX
Nov-10	Haldia Coke & Chemicals	Undisclosed Coking Coal Mine

Essar's acquisition of Trinity Coal Corporation LLC  
Essar's \$600 million acquisition of Trinity Coal Corporation LLC has been to secure its raw material needs for global steel and power operations.

Date	Buyer	Seller
Aug 10	Crompton Greaves Ltd	Emerson Electric Transformers
Sept 10	KEC International Ltd	SAE Towers Holdings LLC

KEC International's acquisition of SAE Towers Holdings

KEC International which is the power equipment and distribution division of RPG Group acquired Houston based SAE Towers Holdings LLC for \$95 million. SAE Towers Holdings has an annual production capacity of over 100000 metric tonnes.

This is a critical milestone for RPG's international presence in augmenting production capability and expansion in United States.

Over the past years, Indian textile and consumer goods companies have looked to acquire distribution and retail channels globally. Their need to acquire US companies is driven by the desire to expand supplier relationships and distribution channels as well as utilize their additional manufacturing capacities.

## The road ahead...



US-bound acquisitions by Indian companies, in 2009, have been significantly affected by the economic downturn. However, at the same time the economic downturn has presented opportunities for distress related acquisitions at attractive valuations. Factors expected to impact US-bound acquisitions by Indian companies in the near future are discussed below:

- **Financing challenges:** Financing will be one of the most important challenges faced by Indian companies looking to acquire US companies in the near future as banks and financing institutions are already under pressure.
- **Distress related value buying:** We expect to see more deals targeted at acquiring control of the firms struggling in financial crisis.
- **Profitability enhancing and cost saving deals:** We expect deals targeting consolidation, cost savings and improving profitability rather than expansion and increasing scale of operations.
- **Increasingly positive interactions between India and US:** Talks on bilateral investment treaty has already started between India and the US, which is expected to improve investment conditions in both India and the US.

## \*Sources

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## Cross Border Acquisitions in the US: Key Considerations

### Quantitative M&A Considerations

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

**Valuation** - Market comparables, free cash flow analysis, synergy valuation, and earning power should all be considered when valuing an acquisition target.

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

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

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

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

### Qualitative M&A Considerations

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

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

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

**Legal & Regulatory** - A major aspect in crossborder acquisitions is the thorough legal and regulatory analysis of a transaction. A wellplanned approach to managing contingent liabilities and contract issues is essential.



## List of Other US-bound Acquisitions by Indian Companies in 2010

Date	Buyer	Seller	Industry	Tx Val (mn)
May-10	Reliance Big EntPvt Ltd	IM Global LLC	Entertainment Media	-
Sep-10	KEC International Ltd	SAE Towers Holdings LLC	Telcom Equipment	95
Sep-10	IFGL Refractories Ltd.	EI Ceramics and CUSC International	Casting & Refractories	13
Sep-10	Electrotherm India Ltd	Firefly Energy Inc	Auto Ancillary	-
Oct-10	Elecon USA Transmission Ltd (Subsidiary of EleconEngg Co. Ltd)	Gear Motor Buisness of Cone Drive Inc, USA	Power Equipment	
Nov-10	Kiri Holding Singapore Pvt Ltd	DyStar LP	Chemical	10
Dec-10	Religare Enterprises Ltd	Landmark Partners	PE, Real Estate Investment	171.5

*\*Source: Thomson Database*

## About IMaCSVirtus Global Partners

IMaCSVirtus Global Partners, Inc. (IVG Partners) offers advisory services to North American companies and private equity funds seeking India related growth, investment and sourcing opportunities. Our mission is to enable our clients to transform their business by adding India as a key part of their global footprint. Our clients benefit from our local presence, strong relationships, knowledge of local business practice, experience and financial expertise.

We provide India related Strategy & Roadmap Consulting, Partner/ Target Search, Operation Setup & Support, Cross-border M&A Advisory, Project/ Bid Advisory and Transaction Advisory services.

We have an established track record of over 15 years and 900 engagements providing advisory services to a diversified client base across manufacturing, infrastructure, energy, technology, industrial commodities, and retail. We also work with multilateral and bilateral government agencies, banks & financial institutions, and regulators.

We are headquartered in New York with eight offices locations in India.

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