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US-BOUND ACQUISITIONS BY INDIAN COMPANIES

Analysis of 2009 Transactions

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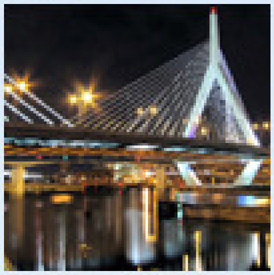

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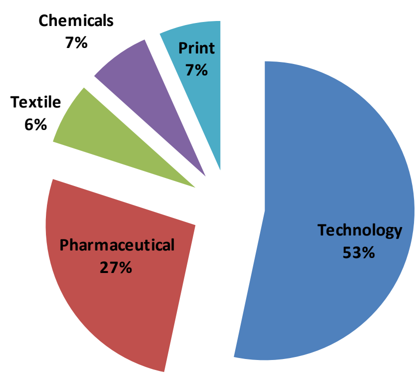
Low valuations drive value buying opportunities in the US for Indian companies

Low valuations, bankruptcy auctions, and distress sales characterized more than half of the US-bound acquisitions by Indian companies in 2009. Lower growth projections, lack of bank financing, and decrease in US wages due to the recession drove valuations lower and created significant value buying opportunities for Indian Companies. Compared to 2008, there were 75% fewer US-bound transactions from India in 2009. Most transactions were less than $50 million in size compared to the three billion dollar plus transaction sizes seen the previous year. Unlike last year, some of these transactions involved minority stake. This reflects how Indian companies adapted to the new economic realities while being still opportunistic about global growth.

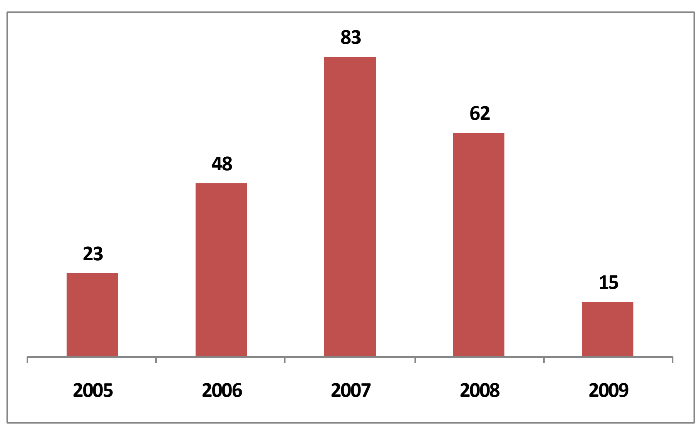
One of the key aspects of this year's transactions involves distress and bankruptcy on the part of the sellers. Examples include S Kumar's acquisition of Hartmax, Lupin's acquisition of US rights for Antara, Cosmo's acquisition of ACCO's print finishing business, and Piramal's acquisition of RxElite.

KEY HIGHLIGHTS AND TRENDS

- Low valuations, bankruptcy auctions, and distress sale characterized over 50% of the US-bound acquisitions by Indian companies in 2009.
- In 2009, Indian companies accounted for a total of 15 US-bound acquisitions with a cumulative transaction value of over $300 million. This represents a 75% decrease over the 62 transactions in 2008 and a 90% decline in terms of transaction value.
- Compared to three one billion plus deals in the first three quarters of 2008, this year's transaction sizes were much smaller. Except for S Kumar's acquisition of Hartmax, all other transactions were less than $50 million in value.
- Unlike last year, majority control was not a key feature of these transactions. Taking new economic realities into consideration, some transactions involved minority stakes and joint ventures.
- A majority of these transactions had an earn-out structure, where a portion of the deal value is paid on future milestones. This is evident in Infosys BPO's acquisition of McCamish and KPIT Cummin's acquisition of Sparta Consulting.



Industry Breakdown of US-bound Transactions in 2009



US-bound Transactions 2005 to 2009

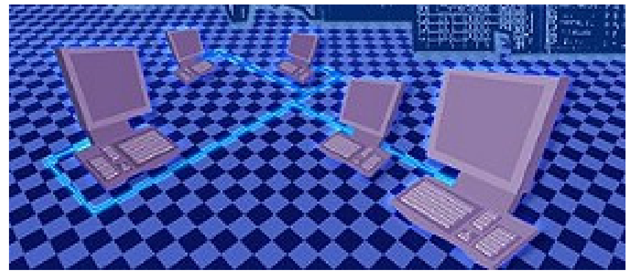
Key factors contributing to the slowdown

The global credit crisis resulted in lack of bank financing available to companies in the US. In addition, the economic recession of 2009 led to a decline in growth projections for US companies and a decrease in US wages and demand. This posed survival challenges for many mid-size companies across various sectors creating a large number of bankruptcy auctions. Several private equity funds facing redemption pressure from their investors in early 2009 decided to exit from their portfolio investments. This created a unique opportunity for Indian companies to acquire synergistic companies at a much lower valuation compared to prior year.

Analysis of Transactions by Industry

Information Technology

With 8 US-bound acquisitions in 2009, information technology was the most acquisitive industry in India accounting for 53% of the US-bound transactions by volume. Within this industry, engineering design, specialized business process solutions, enterprise resource planning, and multimedia solutions sub-segments were attractive for acquisitions, given their untapped offshore opportunities and relatively higher margins. While mid-size companies, such as Quest Global, Persistent Systems and KPIT Cummins sought to add new service capabilities through US-bound acquisitions, large-size companies, such as Infosys BPO and Sasken Communication sought to strengthen their current capabilities. ICRA Techno Analytics Limited (ICTEAS) and Rediff sought to acquire customers and enter into new segments.



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 Transactions in Information Technology

Date	Buyer	Seller
Jan-09	Quest Global	ASE Technologies Inc
Mar-09	ICRA Techno Analytics	Sapphire International Inc
Apr-09	3i Infotech Ltd	JPMorgan Treasury Svcs-NRLB
May-09	Rediff.com India Ltd	Examville.com LLC
Oct-09	Persistent Systems Ltd	Paxonix Inc
Oct-09	Sasken Communication	Ingenient Technologies Inc
Oct-09	KPIT Cummins Infosystems Ltd	Sparta Consulting
Nov-09	Infosys BPO Ltd	McCamish Systems LLC

Infosys BPO's acquisition of McCamish

Infosys BPO Limited, the business processing outsourcing subsidiary of Infosys Technologies, acquired McCamish Systems LLC, a business process solutions provider, based in Atlanta, Georgia in the United States. The upfront consideration for the deal was USD 38 million with up to an additional USD 20 million payable to the sellers based upon achieving financial targets. The deal establishes Infosys BPO as a key player in business platform services for the insurance and financial services sector, and will enhance the company's capability to deliver end-to-end business solutions. It also contributes positively to Infosys BPO's strategy of growing non-linear revenue.

ICTEAS' acquisition of Sapphire International

ICTEAS' acquisition of Sapphire International shows the propensity of Indian companies to gain scale in terms of size, product offerings, and geography. Their acquisition was targeted not only at cross selling ICTEAS' business analytics service, a niche area in which it has strong expertise, but also delivering on the offshore component of Sapphire's work thorough its development centre in India.

KPIT Cummins acquisition of Sparta Consulting

The all-cash acquisition of US-based Sparta Consulting for $38 million strengthens KPIT's business model to sharply focus on select industries and achieve market leadership by creating best in class practices/offerings that help customers achieve their operational & strategic objectives. With global demand for SAP based services growing at over 20%, the SAP-led consulting practice provides a scalable alternative to Tier 1 companies which usually pursue larger (USD 25 million+) multiservice opportunities. In addition, Sparta's footprint in the Energy & Utilities sector provides KPIT a head-start into this adjacent space.

Pharmaceutical & Healthcare

The Indian pharmaceuticals and healthcare industry sector accounted for over 25% of the transaction volume with four US-bound acquisitions in 2009. This sector has been characterized by special situation and distressed related value buying opportunity.

Piramal Healthcare's acquisition of RxElite Holdings provides Piramal with a sales and distribution network in the US and complements its acquisition of Minrad International, a pain management company, announced in December 2008. At the same time RxElite Inc., the parent company of RxElite Holdings, will use a significant portion of the sale proceeds to retire its existing debts. Similarly, Satellite Overseas' acquisition of a minority stake in Novavax is part of several agreements between Novavax and Cadila, the parent company of Satellite Overseas, and included a master service agreement and a joint venture.

Key Transactions in Pharmaceuticals

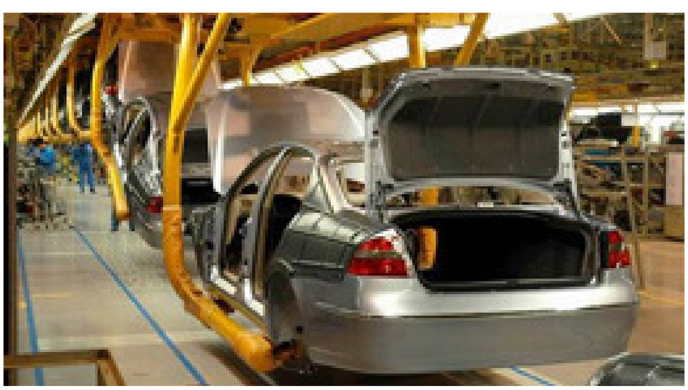
Date	Buyer	Seller
Jan-09	Piramal Healthcare	RxElite Holdings
Mar-09	Satellite Overseas (Cadila)	Novavax Inc
Jun-09	Lupin Ltd	Collegium Pharm-AllerNaze
Aug-09	Lupin Ltd	Oscient Pharm Corp-Antara

Lupin's acquisition of US rights for Antara

Lupin acquired the US rights for a cholesterol lowering drug, Antara from Oscient Pharmaceuticals under the procedures of the U.S. Bankruptcy Court for $39 million. Antara currently has 4.5 per cent share of the Fenofibrate market worth $1.9 billion and grew 20 per cent in revenue in the last year. Antara acquisition enables Lupin to enter the primary care market with a three-product portfolio. Lupin's Suprax tablets and Allernaze have strong potential in primary care. Unlike most other Indian companies selling generics drugs in the US market, Lupin sells the drugs by marketing to physicians. The company is ranked ninth in the US market in terms of number of prescriptions in a year.

Apart from the special situation deal, Lupin acquired global rights for AllerNaze from Collegium Pharmaceutical Inc in another transaction. This transaction is targeted to expand Lupin's brand business in the US.

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 size of the US market. Relying on third party marketing agents may not be a good strategy in the long run, thus, Indian companies are expected to acquire export supporting networks in the US.



Textiles, Consumer Goods, Print

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.

S. Kumar's acquisition of Hartmax Corporation

A transaction that stands out is S. Kumar's acquisition of the troubled American clothing manufacturer, Hartmarx Corporation for approximately $119 million. Hartmarx had earlier sought Chapter 11 protection amid a group of retail industry bankruptcies brought in by liquidity concern in the credit market, rising unemployment and the economic recession. Hartmarx directly owns or controls 34 brands and the acquisition will enable SKNL Group establish a substantial footprint in the global arena and also bring significant business volumes to the SKNL Group operations in India through a 'front-end back-end synergy' strategy.

Galaxy's Purchase of Tri-K

Alongside, Galaxy Surfactants Ltd., a global supplier of performance products for home and personal care based in Navi Mumbai, India, acquired Tri-K Industries Inc. TRI-K Industries Inc. is a distributor and producer of specialty ingredients to the cosmetics and personal care markets. This acquisition strengthens Galaxy's global presence and gives them an expanded product portfolio, allowing them to better serve their customers in the cosmetics and personal care industry.

Cosmo Films Acquisition of ACCO's Commercial print Finish business

Thermal lamination films manufacturer, Cosmo Films Ltd acquired the GBC Commercial Print Finish business of ACCO Brands Corporation of USA for

$17.1 million. The commercial print finishing business, with approximately $100 million in revenue, was placed into discontinued operations in the fourth fiscal quarter ended December 31, 2008. The acquisition is expected to establish Cosmo Films as a global player in the thermal lamination segment.

*Sources

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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.

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 cross border acquisitions is the thorough legal and regulatory analysis of a transaction. A well planned approach to managing contingent liabilities and contract issues is essential.

List of US-bound Acquisitions by Indian Companies in 2009

Date	Acquiror Name	Target Name	Industry	Tx Value
Jan-09	Quest Global	ASE Technologies Inc	Technology	
Jan-09	Piramal Healthcare Ltd	RxElite Holdings Inc	Healthcare	$4.20 m
Jan-09	Cosmo Films Ltd	ACCO Brands Corp-Coml Bus	Media	$17.10 m
Mar-09	ICRA Techno Analytics Ltd	Sapphire International Inc	Technology	
Mar-09	Satellite Overseas (Hldg) Ltd	Novavax Inc	Healthcare	$11.00 m
Apr-09	3i Infotech Ltd	JPMorgan Treasury Svcs-NRLB	Technology	
May-09	Rediff.com India Ltd	Examville.com LLC	Technology	
Jun-09	S Kumar's Nationwide Ltd	Hartmax Corporation	Textile	$119.00 m
Jun-09	Lupin Ltd	Collegium Pharm-AllerNaze	Healthcare	
Jul-09	Galaxy Surfactants Ltd	Tri-K Industries Inc	Chemicals	
Aug-09	Lupin Ltd	Oscient Pharm Corp-Antara	Healthcare	$39.00 m
Oct-09	Persistent Systems Ltd	Paxonix Inc	Technology	
Oct-09	Sasken Communication	Ingenient Technologies Inc	Technology	
Oct-09	KPIT Cummins Infosystems Ltd	Sparta Consulting	Technology	$38.00 m
Nov-09	Infosys BPO Ltd	McCamish Systems LLC	Technology	$38.00 m

**Source: Thomson Database*

About IMaCS Virtus Global Partners

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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.

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

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