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NOW, THAT'S A DEAL

The bang is back in mergers and acquisitions by Raghu Mohan

IT'S not yet Christmas. But for Jaideep Khanna at Barclays Capital, it is. "Big ticket M&A is back. We have already seen $60 billion of deals hitting the headlines. In 2009, it was just $10 billion." And it's just September; Jack Frost is still on the yonder. "Volumes total what you saw in 2007, the previous best year for M&As in India": is what Aisha de Sequeira of Morgan Stanley has to say.

Rohit Chatterji of JP Morgan adds to the cheer: "We just bagged the SAIL equity mandate." That's after grabbing the Manganese Ore and PowerGrid Corporation mandates. It may be for the tombstones. Yet, they are a great calling card — to snap up a deal like infrastructure company HDIL's $250-million QIP (qualified institutional placement) that the investment bank (i-bank) put through last week. Or one akin to the still-in-the works advisory for Vedanta-Cairn (India).

The M&A waves are high and i-banks are surfing. Sanjay Agarwal of Deutsche Bank is categorical: "The equity piece is booming. I have no doubt that this run will continue". Falguni Nayar of Kotak Mahindra Capital calls it a "tremendous revival". She believes "it is nowhere near what was in the previous boom of 2007-08".

A momentous change is also on the cards. As Topsy Mathews of Standard Chartered Bank (StanChart) puts it: "The way M&A deals have happened over the last 15 years is set to change with the New Takeover Code." The moment an entity's shareholding crosses 25 per cent in a company, an open offer has to be made for 100 per cent. So, deals will fall between a strategic investor whose stake is capped at 25 per cent (any higher and it is an open offer). And control deals for 100 per cent. He cites four deals in the latter set — Ranbaxy-Daiichi, Essar-Vodafone, Abbot-Piramal and Anchor-Panasonic in the unlisted space. It is not clear at this point, how many inbound deals (or even local) will be there for control; it's expensive. In any case, India is in the growth phase; not many promoters will be open to a cashout; unless a sector is ripe for it. If that is the case, and given India Inc.'s need for equity capital, we may well be on the road to a stage wherein no single entity calls the shots in a company — shareholders will own it.

Is It For Real? It Is

At end-August of 2010, India Inc. had sucked out Rs 99,800 crore; at end-August 2009, the figure was Rs 64,900 crore, and Rs 1,25,400 crore at the end of the year. Agarwal and Nayar are spot on when they say that there is still more headroom. And with the markets touching heights, things can only get better.

Understandably, the mood is upbeat across i-bank verticals. Says Sanjay Bhandarkar of pure advisory firm NM Rothschild, "It is clear that activity levels are materially better than a year ago when people were still recovering from the impact of the slowdown." His sage voice appears to be in a majority of one.

Gaurav Deepak at Avendeus will tell you not to get startled — the market capitalisation of all listed companies in India is about $1.5 trillion and we just raise about 2 per cent of it. "The amount of capital available globally for India is phenomenal. We expect Indian firms to deliver strong growth with high ROCEs (return on capital employed) over the medium- to long-term."

Deepak's firm has opened offices in London and New York. "This year we have added about 15 per cent more people and will hire from campuses next year." He can well afford it. The

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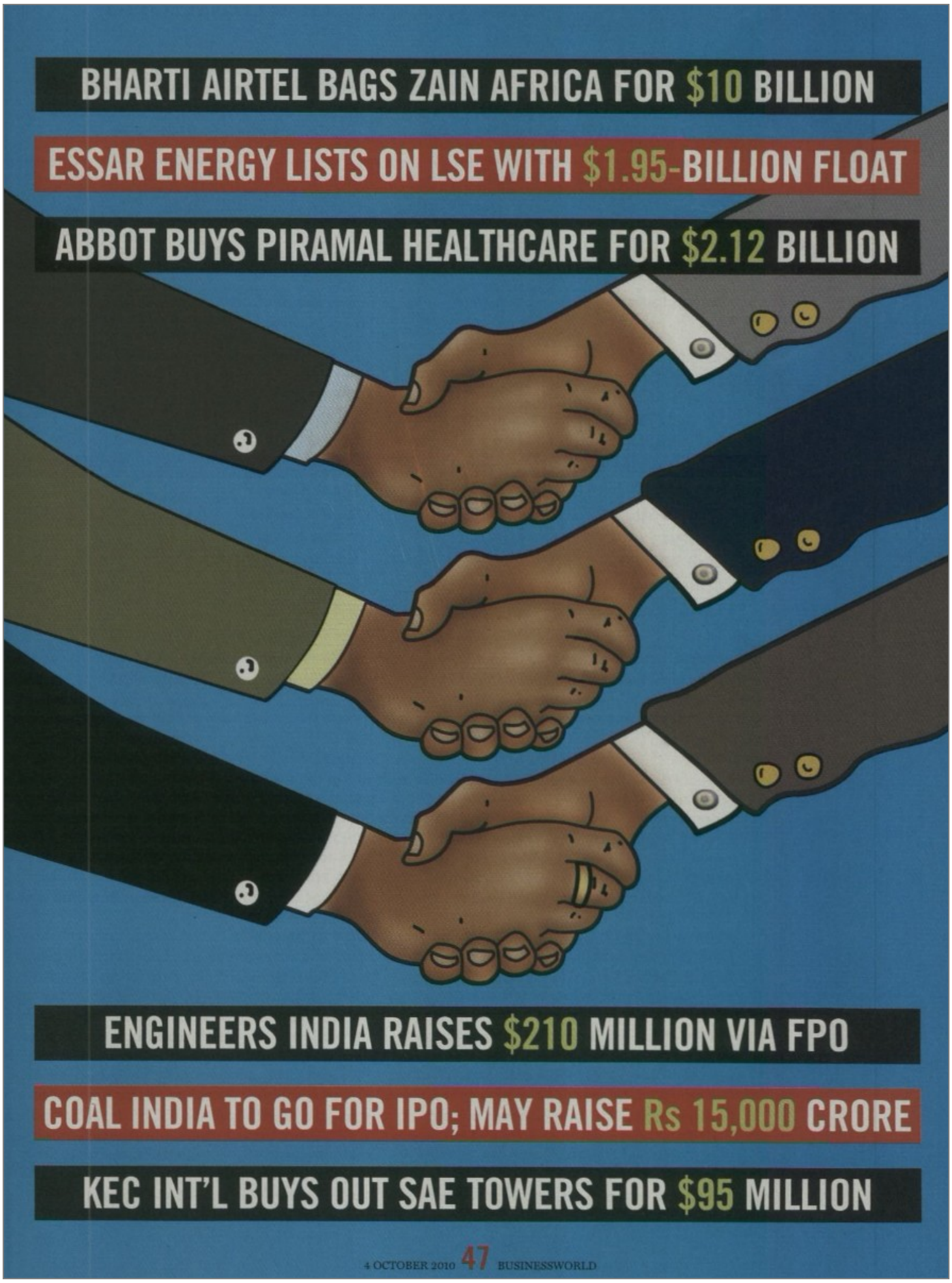

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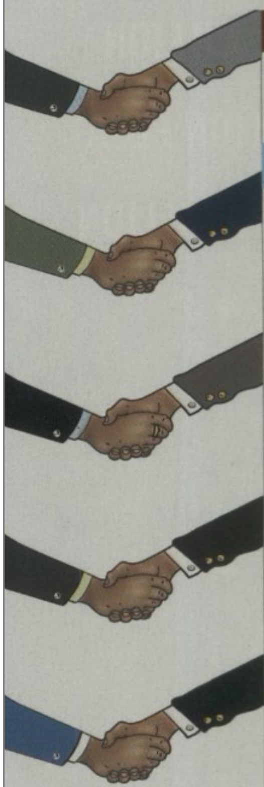

M&A DEALS IN 2010

With three months left to go, M&A deals in 2010 have already crossed 2009's in value

Period: 1 January-17 September

	Volume ($ mn)	No. of deals
Morgan Stanley	23,540	8
Standard Chartered	21,775	6
Bank of America-Merrill Lynch	20,150	8
Barclays Capital	13,993	8
UBS	12,385	6
JM Financial	12,256	5
HSBC Bank	12,056	6
Enam Securities	11,613	10
SBI Capital Markets	10,811	5
BNP Paribas	10,700	1
Global Investment House KSCC	10,700	1
Goldman Sachs	10,331	6
NM Rothschild	10,185	4
JP Morgan	9,048	5
Credit Suisse Group	8,581	2
Deutsche Bank	5,669	3
Ernst & Young	4,857	22
Citigroup	3,358	6
Nomura Holdings	2,841	3
Ambit Corp Finance	2,257	9

Preliminary data. Figures have been rounded off. Includes mergers, acquisitions, divestitures, self-tenders and spinoffs. Excludes open market transactions. Source: Bloomberg

M&A DEALS IN 2009

The number of deals in 2009 was more, but they were of smaller size

Period: Full year

	Volume ($ mn)	No. of deals
Ernst & Young	4,917	33
Bank of America-Merrill Lynch	4,650	8
Citigroup	3,536	9
Kotak Mahindra Capital	3,075	13
Enam Securities	2,926	12
Morgan Stanley	2,919	7
UBS	2,903	5
JM Financial	2,731	11
Bansi S Mehta & Co	2,473	1
Goldman Sachs	588	3
ICICI Bank	573	15
Nomura Holdings	573	4
Standard Chartered	568	3
Avendus Advisors	375	5
Ambit Corp. Finance	368	3
Grant Thornton International	346	5
BMR Advisors	338	11
Deutsche Bank	255	1
Motilal Oswal Invest. Advisors	245	2
NM Rothschild	240	3

Figures have been rounded off. Includes mergers, acquisitions, divestitures, self-tenders and spinoffs. Excludes open market transactions. Source: Bloomberg

fee-pool for equities is seen closer to about Rs 3,500 crore, maybe more; up from the Rs 2,000 crore last year. And M&As will serve up the frothy topping. Bonuses for the top cats are seen ranged between half-a-million and a million dollars; up by a good $250,000. Some lucky whiskers will lap up closer to $1.2 million.

StanChart is like Marshal Mackenna in *Mackenna's Gold*; a convert. It has joined the gold rush, and is rolling out a brand new platform. Says Ravi Kapoor of Citi, "The global slowdown has further accentuated the situation. Banks are sharpening their focus and increasing presence in India." From the origination angle, the focus is on large, well-rated corporate groups; from an execution point, on "joint" or "club deals". "These are more common than before the credit crisis," notes Khanna of Barclays.

HSBC, too, sports a new look, and Sanjay Bajaj is happy. "Historically, we have been known as a bond house. We are now increasingly being seen as a resurgent equities player." The makeover came with Mahindra Holiday's $58-million issue in June 2009; a lung-opener debut after a long shutdown of 15 months. Three months on, it did Oil India's $570-million float. It went on to score on the QIP turf also. It took credit for Opto Circuits ($82 million), Hindalco ($600 million) and for Godrej Consumers Products ($115 million) this June.

What's Changed?

"Until the summer of 2009, our equity markets were shut. Global banks were being shy with their balance sheets. Concerns over global economic fundamentals meant M&A activity was muted," explains Tarun Kataria, an old war horse, now with a new gang: Religare. Clearly, the past has been locked away. There have been at least 10 billion-dollar buyouts in 2010; there were just two in 2009.

But not without hiccups. Issuances flooded the bourses as 2009 folded into 2010; a lull crept in when European sovereign debt concerns saw the daylight. But not for long. "When CEOs are more confident about conditions in

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their home market, the appetite for international acquisitions starts to increase," says Vedika Bhandarkar of Credit Suisse. The Rubicon has been crossed.

Globally, telecom, media, energy and pharma accounted for six of the 10 top deals in the first half this year — Carso Global Telecom-America Movil ($27.4 billion), Qwest Communications-CenturyLink ($22.2 billion), British Sky-News Corp ($13.7 billion), Smith International-Schlumberger ($12.2 billion), Williams Inc-Williams Partners ($11.8 billion), Alcon-Novartis ($11.1 billion) and Bharti-Zain ($10 billion).

At home, Saurabh Agrawal of Bank of America-Merrill Lynch (BankAm-ML) sees telcos in the spotlight. "A discussion paper by Trai (Telecom Regulatory Authority of India) on M&A will be out soon. We will have to see how the issue of spectrum is settled." A telephony firm cannot hold spectrum in two circles; that rules out mergers for now. The trigger will be the debt taken on board by telcos to pay for the third-generation telecom licences.

Banking, too, will see play. "The entry of new players will have its impact on some of the older entities," feels Chatterji of JP Morgan.

ICICI Secutities' (I-Sec) A. Murugappan says in-bound interest will be in pharma. A 2005 law, which protects drug patents, is jeopardising local pharma companies' copycat business. The growth in India is attracting global pharma's interest. Indian promoters, too, are willing to cash out, and enter high-return realty and hospitals sectors.

On the outbound, it will be the energy sector (to see much action by Indian and Chinese firms). Reliance Industries-Marcellus Shale is an early story.

Grease Is Back

Chins are up in the less glamorous part of the i-bank's business: debt. At August-end 2010, it topped Rs 3,04,800 crore (Rs 2,44,200 crore same time last year); the figure for the whole of 2009 was Rs 3,37,400 crore. Here is more to cheer about. Foreign debt — convertibles, plain bonds and cross-border loans — for the same periods stood at $11.3 billion ($6.5 billion); it was $12.4 billion last year. "Yields are almost back to the pre-crisis levels," points out JP Morgan's Chatterji.

Deleveraging is no longer a propeller of equity as it was in the second half of the last fiscal year. "Firms are eager to raise capital to fund expansion. Real estate would perhaps be the exception," adds Credit Suisse's Bhandarkar. Realty has aviation for company. The overall debt-to-equity in the system is pegged at just above 1: 1.

So, has India Inc. finally burned off the fat it had put on when it was on a capital binge during the pre-Lehman days? Religare's Kataria is dismissive. "I believe it is a myth that India Inc. was overleveraged. Let us not confuse overleverage with deals that happened on the cusp of the greatest Black Swan event of our time." The good news, he says, is that "activity is picking up across the range of financing options, perhaps with the exception of FCCBs (foreign currency convertible bonds), and cross-border M&A. Actually it is quite circular." Probir Rao of Jefferies, too, is gung-ho. "Continued buoyancy in stockmarkets coupled with historically low funding costs have increased capital creation and refinancing."

The pace, though, is slower. As Anshul Krishan of Goldman Sachs says, "In 2009, the rate of raising funds was more concentrated; the market window only opened after the summer." He points out that while volumes are high, "unlike the peak period of 2007, which saw a wider range of outbound acquisitions being made, it is selective and driven by the disinvestment programme this year."

The funding mix will see a booster. Manisha Girhotra of Union Bank of Switzerland says clients are confident whatever be the relative performance of their listings. "PE will play a big role." In the first seven months of 2010, PE deal flow stood at $5.1 billion ($4.3 billion in 2009). De Sequeira of Morgan Stanley says, "It is an area where we have not seen significant activity in the past."

Not Like Last Time

Good times can end badly. So just how different is it all this time around? Bhandarkar of Credit Suisse is of the view that the main difference is that investors are more selective. "Liquidity was so strong in the years up to 2007 that it was often a case of a rising tide lifting all boats." Retail support, too, has some way to go. "The ramp on the bourses has meant that retail investors have sat out," says Deutsche Bank's Agarwal.

In 2010, till date, it has been 35 per cent by way of follow-on offerings (FPOs), 25 per cent for QIPs and just 15 per cent for IPOs. In 2009, it was QIPs at 45 per cent and IPOs at 22 per cent; the rest were by way of offshore floats.

Of course, as Brijesh Koshal at Daiwa Capital says, "The QIP route is a good substitute for companies going in for FCCBs or GDRs. IPOs, at right valuations, are still a game." Also, QIPs are quick and involve less regulatory approvals. "You can raise a billion dollars overnight," says HSBC's Bajaj. He sees change around the corner: "I have seen a pick-up in the average application size in retail. The average is about Rs 60,000 in recent issues. Earlier, it was a

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IPOs: INITIAL RUSH

As companies gained confidence, they were back to tapping the market

Period: 1 January-31 August, 2010

	Volume (Rs bn)
Kotak Mahindra Capital	28
Enam Securities	17
SBI Capital Markets	9
JM Financial	9
Citi	7
IDFC Capital	6
ICICI	6
Credit Suisse	5
Morgan Stanley	5
Axis Bank	4
Edelweiss Capital	4
IDBI Capital Market Services	3
Bank of America-Merrill Lynch	3
Nomura Holdings	2
Avendus Advisors	2
UBS	2
India Infoline	2
Anand Rathi Financial Services	1
Keynote Corporate Services	1
Saffron Capital Advisors	1
TOTAL	125

Data has been rounded off. Includes all eligible domestic initial public offerings from Indian issuers

Source: Bloomberg

QIPs: PLACING CONFIDENCE

The preferred fund raising route was clearly to go to institutional buyers

Period: 1 January-31 August, 2010

	Volume (Rs bn)
Bank of America Merrill Lynch	23
IDFC Capital	19
Morgan Stanley	18
Kotak Mahindra Capital	12
Enam Securities	11
CLSA	10
UBS	8
Credit Suisse	8
Citi	8
ICICI	6
JM Financial	6
Motilal Oswal Investment Advisors	5
Edelweiss Capital	4
Goldman Sachs & Co	3
HSBC Bank	3
RBS	2
Equirus Capital	2
Nomura Holdings	2
Antique Capital Markets	2
Deutsche Bank	1
TOTAL	162

Data has been rounded off. Includes all eligible Qualified Institutional Placement (QIP) from Indian issuers

good Rs 15,000 less."

"The two key differences in the current round of M&A are that valuations are more reasonable and financing packages are more conservatively structured," says Barclays' Khanna.

Recent M&As have significantly lower leverage to what was seen in the pre-crises era. "Companies have become cautious and don't want to take on very high debt. Secondly, offshore funding, though fairly cheap, is not available easily," notes I-Sec's Murugappan. Many Indian banks nearly doubled their financing interest rates, particularly offshore lending from the UK and Canada. And wherever acquisition leverage was made available, the equity part from the acquirer was increased to twice the level before the crisis. "For the same level of debt today, deals happen at a debt-equity ratio of 60:40 compared to 80:20 earlier," he says.

That makes it tough for a mid- or a small-cap firm to raise capital. Bharti-Airtel was lucky to be able to raise funds for the Zain acquisition. Macro-economic factors have led to concerns of valuation, affected the deal closure time and killed a few deals. Sterlite-Asacro and Reliance-Lyondell Basell, for example, didn't go through due to valuation concerns.

Even out of the M&A space, you have to be smart. Citi's Kapoor highlights a "triple-barelled structure". It helped Bharat Forge raise a $140-million QIP combining equity, non-convertible debentures (NCD) and warrants. The last bit helped subsidise the coupon on the NCD and place the equity at a tight discount to market price.

Daiwa's Koshal feels that only the hard-nosed of financing and growth will be able to go out and buy. "It is going to be a very well thought out M&A business." As VCCEdge, the financial research platform of VCCircle, pointed out in a recent report, nearly nine deals worth $27 billion that were crowed about over the last 14 months have been called off since January. Yet Sanjay Sakhuja of Ambit Corporate Finance sees "a lot of traction in the deals in process".

Not all deals are masthead grabbers. Ambit helped Indo-Asian sell its switchgear business to Legrand for Rs 600 crore; got the seller a valuation three times its turnover and 22 times earnings. It also lent a hand to Borosil to monetise excess land assets, and got them Rs 830 crore.

In the M&A party, the dealmakers are changing hands too. Venkat Anantharaman is back at StanChart from Credit Suisse; Bhandarkar from JP Morgan has taken his place. Her colleague at JP Morgan, Kaku Nakate is at BankAm-ML. Kataria moved from HSBC to Religare. Sunil Sanghai has moved into his office from Goldman Sachs. Jefferies has lost Sidharth Punshi (chatter says it is to Goldman Sachs). Pramit Jhaveri now looks after more than just i-banking; he is boss at Citigroup (India). Kapoor, who has a brand new team, now runs that job. Yet, hires will not flare up soon. The truth may well lie in what Nayar says. "The build-up in teams, which happened in 2007, has still not run its course. Once that happens, we will have fresh hires. We are still sometime away from that."

Last year, Rothschild's Bhandarkar says, he was "twiddling his thumbs". But this year, it's back to business. Cheers!

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