

## South Asia

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### **Global bucks chase Indian businesses**

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Indian entrepreneurial talent has caught global fancy in a big way. After a slow start in the early part of 2004, merger and acquisition (M&A) activities in India picked up substantially toward the end. Well before the Sensex took on a life of its own in October and foreign fund managers drove the market to new highs, corporate India was busy cutting deals, some of which would become benchmark transactions.

It is estimated that the total value of the M&A deals out of India in 2004 was over \$7.5 billion, against \$4.5 billion the year before. Investment bankers estimate that the M&A component in FDI last year was higher than even China's. The biggest deal - and the one likely to change the way other firms look at captive Business Process Outsourcing (BPO) operations in India - is the 60% sale of GE Capital International Services (GECIS) to General Atlantic Partners and Oak Hill Capital Partners. Under the transaction, which valued GECIS at \$800 million, GE will retain a 40% stake in GECIS and receive cash proceeds of about \$500 million.

The year also saw the re-entry of foreign mobile companies. The 32.9% holding of Cingular Wireless (formerly held by AT&T) in Idea Cellular was snapped up by Singapore Technologies Telemedia (STT) and TM International (the international investment arm of Telekom Malaysia), for around \$200 million. The two agreed to hike their stake in the company to 47.7%, at a total consideration of \$390 million. The deal also marked the entry of Asian players into the segment.

In one of the largest BPO buys by an international company, IBM acquired Daksh for an estimated value of \$170 million. CDC Capital Partners, Citicorp Venture Capital and General Atlantic had invested around \$29 million over three years for a 60% stake in Daksh. That apart, DHL acquired 68% stake in Blue Dart for over Rs5.50 billion (US\$126 million) - the biggest acquisition in the courier industry. Toward the end of 2004, the UB Group announced the entry of the world's sixth largest brewer, Scottish & Newcastle in UB. The deal, the biggest in the liquor segment, will see the UB Group and S&N holding 37.5% each in UB.

Some more deals could have been finalized had the valuation of the target companies not gone up phenomenally due to the bull run in stock prices, which led to the promoters asking for more. Some of the biggest initial public offerings (IPOs) hit the market in 2004, starting with ONGC, then TCS and NTPC. All of these attracted substantial global interest. NTPC, for example, saw the largest retail demand of 1.48 million applicants and participation from over 350 global and domestic institutional investors. The company raised Rs53.70 billion through the IPO and saw a total demand of a staggering Rs707 billion.

As the dollar slipped, external commercial borrowings by corporates shot up. Among these, SBI's \$400 million fetched the finest-ever pricing by an Indian issuer at US Treasuries plus 117.5 basis points, or Libor plus 73.5 bps. The biggest-ever bond issue of \$500 million by a company with operations in India was by Vedanta. The issue was oversubscribed to around \$1.8 billion. The largest ever FCCB (Foreign Currency Convertible Bonds) issue amounted to \$400 million by Tata Motors.

Indian companies also rose strongly to the challenge of attaining a global footprint and made several notable international acquisitions in 2004. After staging a turnaround, Tata Motors acquired Daewoo Commercial Vehicles (DWCV) in Korea for \$103 million - 50% infused as equity and the balance as debt, directly raised by DWCV in Korea. This was the first overseas buy by an Indian company in the auto sector. Reliance acquired the telecommunications infrastructure company Flag for \$207 million, making it the single-largest overseas acquisition by an Indian company in recent times. Flextronics announced the purchase of DirecTV Group's entire 55% stake in Hughes Software Systems, India (HSS). Overall, it acquired 70% of HSS for \$290 million. This was the largest acquisition of an Indian company by an international one last year. Then VSNL acquired Tyco Global Network for \$130 million and Tata Steel bought NatSteel for \$284 million.

The year also marked big-ticket investments by private equity investors. Other than the GECIS deal, Newbridge Capital and Temasek Holdings acquired 40% in Matrix Lab. The acquisition was priced at \$195 million. During the last quarter of the year (third quarter of the current financial year), money poured in as big-ticket investments were made by venture capital and private equity firms in Indian companies. Over \$443 million was invested in 30 Indian companies during the quarter, significantly higher than in the same period last fiscal, when 10 companies raised about \$243 million.

The previous two quarters saw \$180 million and \$94 million in investments, respectively. According to TSJ Media, a company that tracks venture capital and M&A activities, removal of political uncertainty and a flurry of deals led to a dramatic hike in investments compared to the previous quarters. Investment activity was spread out across diverse sectors - manufacturing, pharmaceuticals, engineering and construction services.

The biggest deal in the last quarter was the \$57 million investment made by Hong Kong-based Asia Debt Management Fund in Chennai-based, publicly listed cement manufacturer India Cements. Following this was the \$50 million each that Jubilant Organosys and Punj Lloyd raised. Jubilant Organosys raised capital from CVC International (a Citigroup unit) and HPC (Mauritius) - a unit of Henderson Investment Management - in exchange for a 9.7% stake. Punj Lloyd was funded by Merlion India Fund (a private equity fund jointly owned by Standard Chartered Bank and Singapore's Temasek Holdings).

The \$40 million investment raised by low-cost airline Air Deccan from ICICI Ventures and US-based Capital International was the third largest investment during the quarter. Other big deals included Suzlon Energy, the Pune-based provider of wind energy turbines, raising \$22.2 million from ChryCapital. There were more. Chinese wireless Internet firm TOM Online acquired around 77% stake in Mumbai-based mobile entertainment firm Indiagames from Infinity Ventures, IL&FS Investment Managers and the management team of Indiagames for about \$17 million. GW Capital paid \$4 million to acquire ICICI Venture's stake in Hyderabad-based retail chain, Trinethra Super Retail, while US-based Conexant Systems acquired chip design services company Paxonet Communications for \$15 million in cash. Paxonet's investors included Raza Venture Fund, Crompton Greaves, Inc3 Ventures, American Express, Alliance Select Investors and Rothschild Technology Partners.

Hi-tech companies founded by Indians in the US also raised over \$216 million in venture capital/private equity financing during the quarter ended December 2004, according to TSJ Media. Of the 23 companies that raised funds during the quarter, at least seven raised \$10 million or more. During the July-September 2004 quarter, 31 such companies raised \$376 million.

Clearly, venture capitals in the US are increasingly looking at companies that have an India-based business plan and managements that have Indians on board. According to TSJ Media, the single-largest investment during the latest quarter was the \$52 million raised by Infinera Corporation, co-founded by

Jagdeep Singh. The company provides optical networking technology. The second-largest investment was the \$16 million raised by Otera Pharmaceuticals Inc, co-founded by Ghanshyam Patil. Two companies, TuVox and Intelligroup, shared the third slot. TuVox, co-founded by Ashok Khosla and which provides natural-language speech recognition systems for call center applications, closed a \$15 million fourth round led by new investor Norwest Venture Partners. Intelligroup Inc, co-founded by Nagarjun Valluripalli, Rajkumar Koneru and Ashok Pandey, raised \$15 million from Softbank Asia Infrastructure Fund and Venture Tech Assets Pvt Ltd.

Partha Bhattacharya-co-founded Protego Networks Inc, provider of security monitoring and threat management appliances, agreed to be acquired by Cisco Systems Inc for about \$65 million in cash. Another company, Murli Thirumale-founded Net6 Inc, provider of secure access gateway and Internet Protocol telephony products, was acquired by Nasdaq-listed Citrix Inc for about \$50 million in cash.

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