



**M&A expertise
with deep sector
knowledge, are you
getting the best of
both?**

Transactions Quarterly
28 Edition | July to September 2017

■ ■ ■
The better the question. The better the answer.
The better the world works.

EY

Building a better
working world

Foreword



Amit Khandelwal

Managing Partner, Transaction
Advisory Services, EY

Welcome to the 28 edition of Transactions Quarterly, our quarterly review of India's M&A landscape.

The Indian economy is undergoing a relatively soft phase post demonetization and the recent implementation of the Goods and Services Tax (GST), but near-term prospects remain stable. While the economy witnessed a slump in growth rates in the last two quarters, some of the high frequency economic indicators are starting to show tentative signs of revival. Notably, data releases in September showed a rise in exports and industrial output and stability in manufacturing PMI (Purchasing Managers' Index).

Against this backdrop, a sense of caution prevailed within the investor and business communities during 3Q17. The companies adopted a wait and watch approach in pursuing big-ticket acquisitions. However, the market witnessed healthy activity in smaller value deals. Consequently, 3Q17 witnessed a fair increase in deal volume while deal value declined compared with the same period last year.

On the domestic front, the stable deal volume indicated that the local market remained the preferred destination for businesses. However, the deal value declined significantly as majority of the deals were concentrated in lower value bands. Consolidation remained the key theme in the local M&A landscape, with companies acquiring smaller players to expand market share.

On the cross-border front, the disclosed deal value recorded a significant decline of 81% y-o-y, primarily led by lower big-ticket inbound investments. At the same time, a steady rise (6.4%) in inbound volume showed the investors' continuous focus for opportunistic buys. The outbound activity also held steady in terms of both volume and value.

From a sector perspective, technology continued to dominate the deal activity, both in terms of volume and value. The sector remained in focus on the back of digital disruption requiring businesses to adapt to innovative technologies to survive and thrive in today's digital world. Financial services and infrastructure were other active sectors during the quarter.

Overall, M&A is expected to pick up pace in the longer-term with an expected improvement in the economic environment. However, we might see a comparatively quieter period in the near-term for high-value deals amid a delay in capex cycles locally and ongoing policy and political uncertainty globally. Nevertheless, we expect a healthy deal pipeline to be built up in lower value bands with the ongoing consolidation and GST acting as key triggers. On the domestic front, we will continue to see asset sales by highly leveraged companies and technology acquisitions across sectors. The cross-border activity is expected to hover around sectors like oil and gas, technology and pharmaceuticals with players looking for selective buyouts to secure resources, acquire new technologies and expand scale. In addition, factors like an accommodative monetary policy, healthy equity markets and the insolvency and bankruptcy code should also further facilitate the deal-making in the country.

Deal volume rose to **252** deals from 234 in 3Q16, while cumulative disclosed deal value halved to **US\$6.2 billion** in 3Q17

3Q17 witnessed two billion dollar-plus deals, both being share repurchase deals, accounting for **60%** of disclosed deal value

Largest strategic deal was the sale of road assets of Dilip Buildcon to Shrem Group for **US\$250 million**

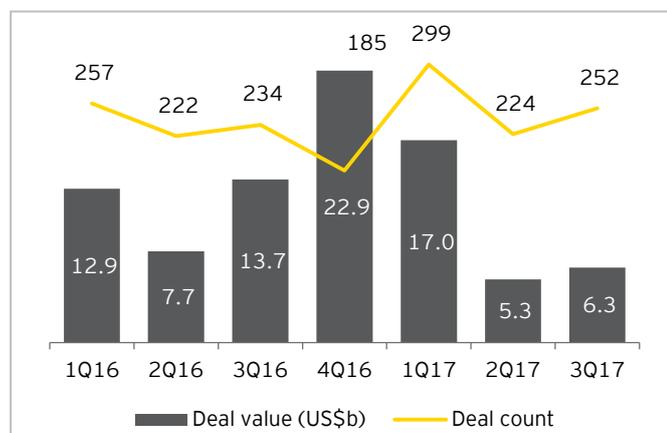
Total inbound value shrunk to **US\$422 million** due to lack of mega deals

Domestic activity dominated the M&A landscape with **163** deals with disclosed deal value of **US\$5.5 billion**

Technology and financial services were the top performing sectors in the current quarter

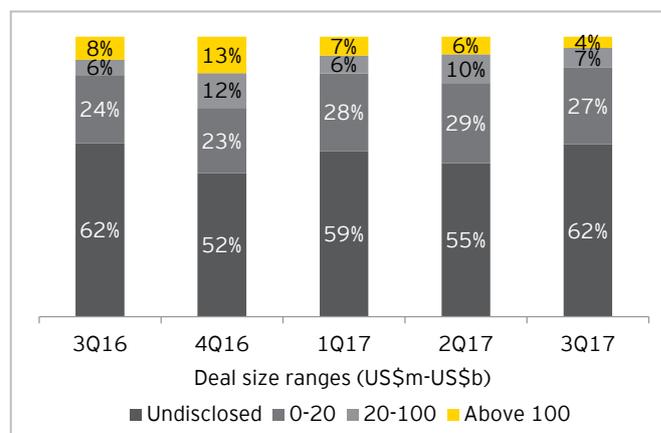
M&A highlights

Quarterly transaction activity in India



Source: EY analysis and ThomsonONE data

Deal size composition



Source: EY analysis and ThomsonONE data

Deal type composition

Deal Value (US\$b)			
Domestic	Inbound	Outbound	Total
5.5	0.4	0.3	6.2

Source: EY analysis and ThomsonONE data

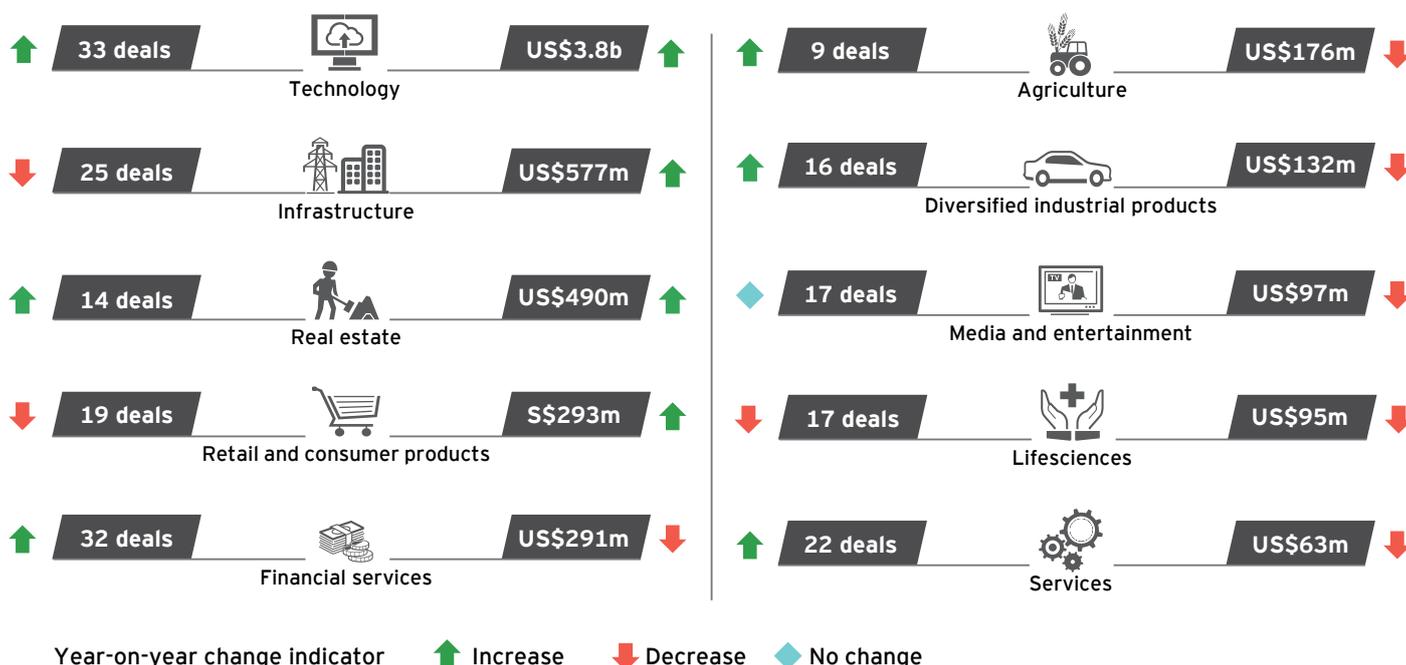
Deal Count			
Domestic	Inbound	Outbound	Total
163	50	39	252

Top 5 Indian deals of the quarter

Deal type	Deal description	Target	Target nation	Acquirer	Acquirer nation	Value (US\$ million)	Sector
Domestic	Asset purchase	Dilip Buildcon Limited's road assets	India	Shrem Infraventure Private Limited	India	250.0	Roads and highways
Inbound	Additional stake acquisition in subsidiary/ associate company	Shree Renuka Sugars Limited		Wilmar Sugar Holdings Pte Limited	Singapore	126.5	Retail and consumer products
Outbound	100% acquisition	Apeldoorn Flexible Packaging Holding BV	Netherlands	JPF Netherlands BV (a subsidiary of BC Jindal Group)	India	94.0	Diversified industrial products
Inbound	Business purchase	Phosphatic fertiliser business - Tata Chemicals Limited	India	Indorama Holdings BV	Netherlands	58.57	Agriculture
Outbound	100% acquisition	Erkunt Traktor Sanayii AS	Turkey	Mahindra Overseas Investment Co (Mauritius) Limited	India	74.6	Agriculture

Source: EY analysis and ThomsonONE data
All the above deals are announced

Sector highlights



Technology continues to lead deal activity both in terms of value and volume

Within the technology sector, IT consulting and services and software continued to be the active segments for deal activity during the quarter contributing majority (22 deals; US\$3.8 billion) of the sector's deal value and volume. While IT companies have been trying to innovate their offerings through acquisitions in SMAC and digital technologies, the consolidation also continues in the traditional IT consulting segment in a bid to boost competitiveness. The quarter also saw two billion-dollar plus share buyback deals (combined value of around US\$3.7 billion) by technology giants Wipro and Infosys. With the growing relevance of technological innovation in an ever expanding digital world, we expect more organizations to adopt an inorganic route to build capabilities in these areas.

A busy insurance sector, coupled with rising digitization, drive M&A volumes in financial services

The insurance sector continues to be the top favorite since the increase in FDI cap in December 2014. Moreover, given the huge growth potential in the Indian insurance space, on the back of the sheer size and relatively lower penetration in the country, the bigger players have been consolidating their position in the segment for quite some time. FinTech was another active sub-segment in the sector on the back of digital disruption. As the economy moves towards a less-cash model, we expect digital disruption to play an important role in driving the M&A activity in the financial services sector.

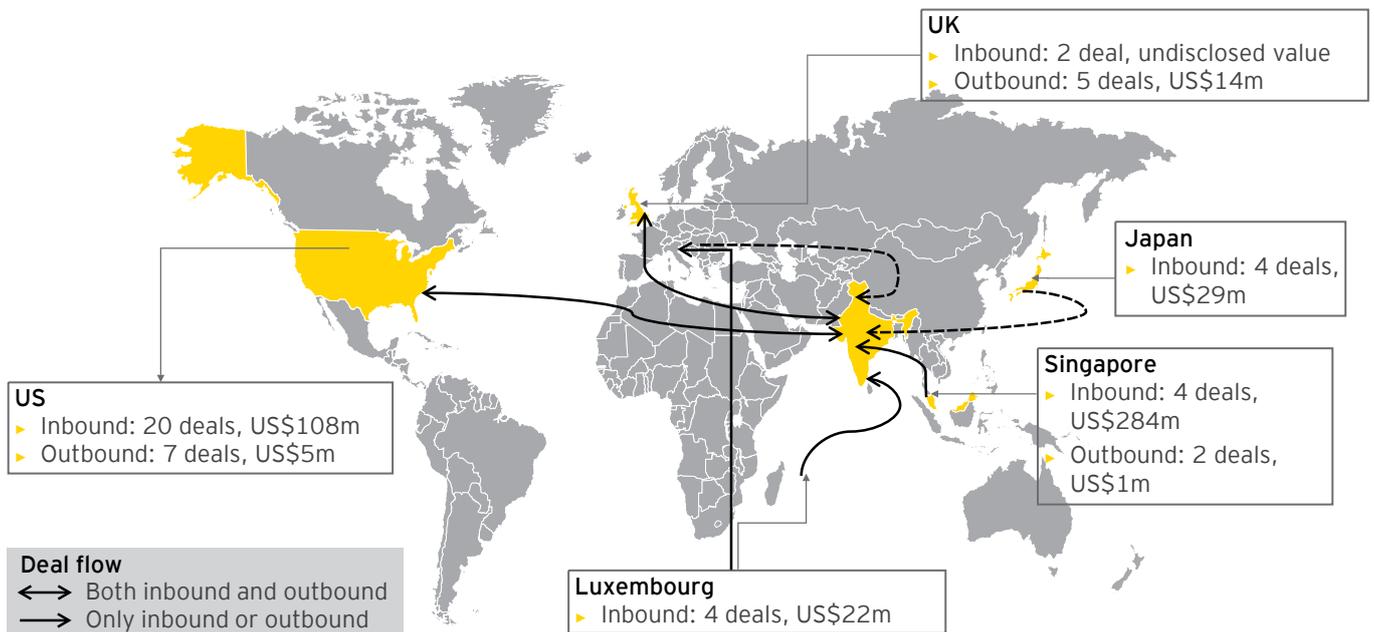
Renewables continue to drive the deal momentum in infrastructure

Power (12 deals; US\$253 million) and logistics and transportation (7 deals) were the dominant sub-segments in the infrastructure space. Significant domestic consolidation was seen in renewables which continued to garner investor interest backed by strong government support and high growth potential (175GW of renewable energy capacity to be added by 2022). Asset monetization was another underlying theme driving M&A activity as players focused on optimizing their capital base by deleveraging balance sheets. Given the significant scope for both consolidation and expansion in Indian infrastructure, the inorganic route is likely to remain a viable growth option for both incumbents and emerging players.

Domestic acquisitions drive deal-making in the services sector

The continuously evolving services sector, comprising of professional and travel services firms, remained in the limelight during the quarter (22 deals; US\$63million). Consolidation activity was eminent in the services space, with domestic players acquiring their peers to strengthen service offerings and capture larger market share. Within the sector, a couple of transactions were seen by the online players along with their offline counterparts, as increasing digitalization and technological innovation has led to the blurring of sector lines. Services firms are exploring new ways of doing business, to survive and thrive in this increasingly competitive and disruptive environment - thus engaging in M&A as a preferred route to grow.

Cross border M&A



Outlook

India's M&A to stay stable

M&A activity in India is expected to remain steady as organizations across sectors look to consolidate their business operations and expand scale and geographical presence. Additionally, to future-proof businesses from the ongoing digital disruption and rising protectionism globally, companies will keep pursuing acquisitions and alliances opportunities pro-actively. Accelerating innovation is compelling companies to look outside their own sectors to remain relevant in an increasingly competitive environment.

Near-term outlook positive for the domestic landscape

Similar to the trend this year till date, the domestic market is expected to remain focused on investments. However, majority of the domestic deals could be concentrated in the lower value bands as the current situation of caution and tepidity may delay the decision making on big-ticket transactions. The movement towards a more organized structure under a new tax regime should also provide a fillip to the consolidation activity and smaller value deals. In addition, we will continue to witness restructuring deals and asset sales as debt-ridden companies look to deleverage their balance sheets and streamline operations.

A selective approach on cross-border front

Inbound activity is likely to gather pace in the coming months. While global buyers are being selective, owing to policy uncertainty in the US, low growth potential in Europe and rising geopolitical tensions globally, their interest in Indian businesses will remain active as they look for growth opportunities outside the US and Europe. On the outbound front, we expect a cautious optimism to prevail among Indian companies. While the companies are reorganizing their regional strategies to protect their global operations from sudden policy changes, we expect them to be very selective in acquiring assets overseas. Notably, cash-rich Indian players, from sectors like pharmaceuticals and technology, will keep looking for opportunistic buys with the aim to seek new technology and access new markets, largely in Europe and Africa.

Select recent deals where EY was the M&A advisor

Recent EY insights

This announcement appears as a matter of record only.

Lloyd Electric & Engineering Limited
sold its consumer durables business to
Havells India Limited
for US\$ 239 million

EY acted as the lead financial advisor



This announcement appears as a matter of record only.

Campus Activewear Private Limited
sold its minority stake to
TPG Growth and QRG Enterprises
for an undisclosed amount

EY acted as the lead financial advisor



This announcement appears as a matter of record only.

La Gajjar Machineries Private Limited
divested 76% stake to
Kirloskar Oil Engines Limited
for an undisclosed amount

EY acted as the lead financial advisor



This announcement appears as a matter of record only.

Asian Paints Group
sold its paints business in the Caribbean region to
ANSA McAL Group
for an undisclosed amount

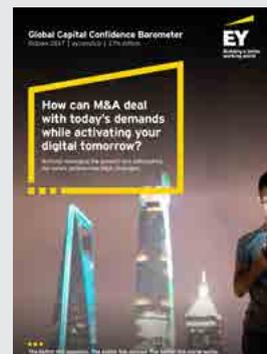
EY acted as the lead financial advisor



Ideate, Innovate, Implement: Invest in India

The global spotlight is on India and investors from around the world are following all the developments happening in India.

Click here for the detailed report



EY's 17th Global Capital Confidence Barometer

Global M&A conditions look set to drive dealmaking for the remainder of 2017, buoyed by strengthening economic activity in the eurozone and growth in China and the United States. **Click here** for detailed report

Ernst & Young LLP
EY | Assurance | Tax | Transactions | Advisory

© 2017 Ernst & Young LLP. Published in India.
All Rights Reserved.

EYIN1711-008
ED 082018

YG

ey.com/in



Contact us

Amit Khandelwal

Amit.Khandelwal@in.ey.com

Managing Partner, Transaction Advisory Services, EY

Ajay Arora

Ajay.Arora@in.ey.com

Partner and Head - M&A | Transaction Advisory Services