YEN CAPITAL
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YEN NEWSLETTER

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Just Like That!

Watch Out:

India:

01-May	Indian Trade Balance
02-May	HSBC Markit Manufacturing PMI
03-May	HSBC Services PMI
04-May	Bank Loan Growth
11-May	Industrial Output March
13-May	WPI April
31-May	CPI April
31-May	GDP Q1

US:

01-May	ISM Manufacturing Index
03-May	Challenger Job Cuts (YoY)
03-May	ISM Non-Manufacturing Index
04-May	Unemployment Rate
10-May	Treasury Budget April
16-May	FOMC Minutes

Europe:

01-May	Manufacturing PMI
01-May	Unemployment Rate
03-May	PPI (MoM)
03-May	Interest Rate Decision
03-May	ECB Press Conference
16-May	CPI (YoY)

China:

01-May	HSBC Manufacturing PMI
03-May	HSBC Services PMI
09-May	CPI April
10-May	Trade - April

Japan:

01-May	Monetary Base (YoY)
10-May	Economy Watchers Current Index
16-May	GDP (QoQ)
16-May	Industrial Production (MoM)
22-May	BoJ Meeting
24-May	Trade March

When FCCB's turn UGLY

In the next few months over US$ 7 billion of FCCB's issued by Indian corporates will mature and many of the issuers will face difficulty. These were issued in the period between 2007 and 2008 at a time when the equity markets were at a high and the premium that issuers got were typically 50 % i.e. the bonds will convert into equity at 50 % higher than the already high prevailing equity price. As such promoters were delighted to receive money in US$ at 0% coupon for 5 years with low dilution, when the bonds convert to equity. Moreover the accounting norms for FCCB's were liberal, for e.g. the interest payable at the maturity was not charged to the Profits and in some cases the debt was not recorded as a liability at all. This was supposedly equity!

Many companies that raised large sums of money were relatively small companies and the money they raised was several times the annual sales at the time. The question is how did banks provide debt for such large amounts that would never meet the credit standards of banks in the normal course? Moreover how did the RBI approve such credits?

The answer lies in the workings of a typical international bank: these FCCB's were treated as investment banking products and were never intended to remain on the books of the bank. The Investment banking department of the Bank underwrote the bonds and committed to sell them down completely. As such the credit department of the bank did not look at it carefully, as long as the bonds are out within 90 days. The markets guys use the option value on the bond to augment the normal debt price to enhance the yield. They can then sell the bond to hedge funds and other investors, at better than normal yields. And they can sell larger amounts than credit standards require.

The end result is that the investment bank is happy as he has made a large fee for no asset remaining on his book, so no risk. The issuer is happy as he has got more money than he normally thought he could raise. He is now flushed with funds in US$'s which if markets behave would convert into equity and he would never have to repay. Now what does he do with this money?

There are several uses of funds but in most cases the money was used to buy a company overseas typically in the US or Europe. This is obviously a huge step for a medium size Indian company and normally requires careful due diligence. History has shown that many large Indian companies have failed to manage their overseas investments. However with this new found wealth all barriers seem surmountable and the FCCB money was used to buy one or more companies overseas, usually at higher valuations.

The market crash in 2008 is to be blamed for the decline of equity prices and the fall in the price of these companies, sometimes as low as 10 % of the conversion price. There is now no hope of conversion and the bond has to be repaid as Debt. To compound the problems the FCCB was drawn at a time when the rupee was around 45 to the US$, it is now 53. The maturity value with the compounded interest is now huge and the operations of the company cannot repay this Debt. They are forced to look at asset values of their overseas acquisitions. Since they bought them at high prices the sale would not be enough to repay the Debt.

The FCCB has now become ugly! The companies are in pain, the investors are anxious but as usual the investment bank is smiling, looking for another deal!

— Mr. Carl Saldanha, Chairman
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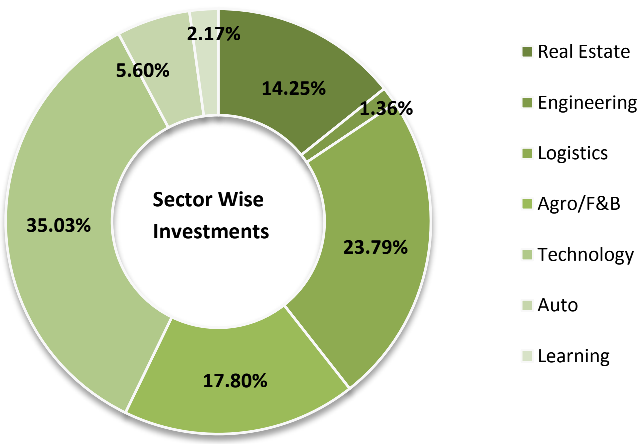
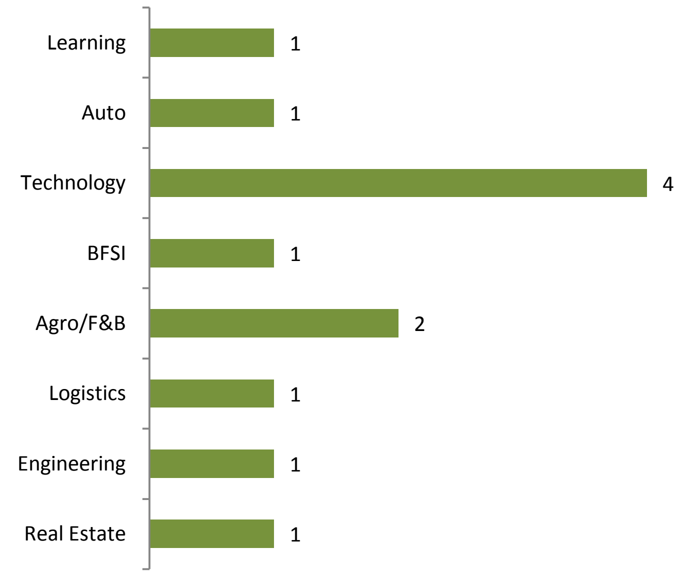
Private Equity

- In the month of April, 12 PE deals have been completed accumulating an approximate investment of US$ 140 million
- Technology sector saw maximum no. of deals with total investment of US $ 50 million.



Number of Deals in April, 2012



Key Deals

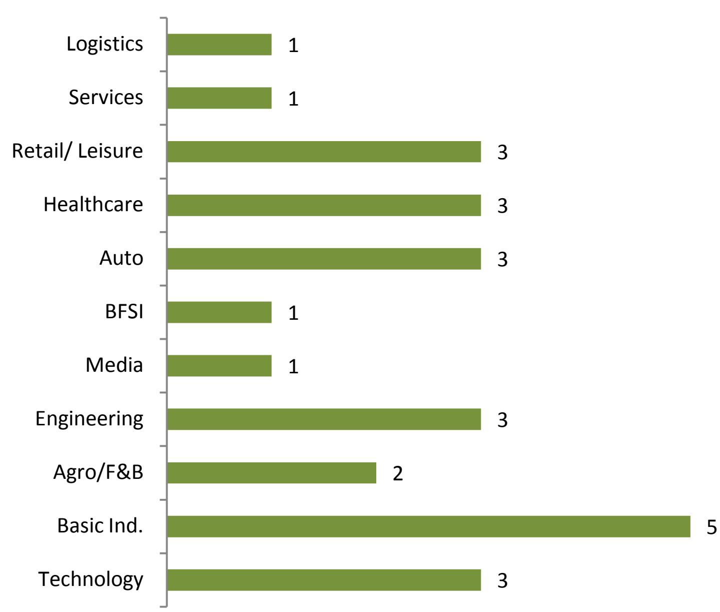
- New Silk Route has invested US$ 35 million in Hubli based VRL Logistics Ltd. The company is in the business of providing goods and passenger transportation services. Proceeds of the investment will go towards expansion of its businesses and stake dilution of the existing shareholders of the company.
- Parcor Capital has invested US$ 29 million in two residential projects of Chennai-based real estate developer Hallmark Infrastructure. It is a diversified group based in Chennai with presence in infrastructure projects, IT parks, townships, hospitality and serviced apartments.

Source: Press releases, Yen analysis

Mergers & Acquisitions

During the month of April, there were a total of 26 M&A deals. Basic Industries, Retail/leisure, Healthcare and Auto were the busiest of the sectors during the month. Basic Industries was the most popular sector with completion of 5 deals.

Number of Deals in April, 2012



Key Deals

- Riddhi Siddhi Gluco Biols Limited is a Gujarat based co. is engaged in manufacturing of starch. It has de-merged & transferred its manufacturing and warehousing business to its subsidiary, in which the French co. Roquette Freres bought 60% stake for US$ 180 million.
- Japan based Mitsui Sumitomo Insurance Co. Ltd has entered the insurance market in India by acquiring 26% stake of Max New York Life Insurance. The deal size is estimated to be US$ 530 million.
- Nagpur Automotive Industries has acquired 100% in Adhunik Metaliks for an enterprise value of US$ 43.56 million. The transaction is in line with Adhunik Group's overall strategy to divest its non-core assets and focus on its core businesses.
- Rallis India is a subsidiary of Tata Chemicals which is engaged in manufacturing of agrochemicals has acquired 51% stake in Zero Waste Agro Organics Private Limited for US$ 5.5 million. With this deal, Rallis has strengthened its product portfolio with organic manure and soil conditioner products.

Source: Press releases, Yen analysis

Key Indices: April 2012 Review

	30th April 2012	30th March 2012	MoM Δ (%)	29th April 2011	YoY Δ (%)
Sensex	17,318.81	17,404.20	*-0.49%*	19,135.96	*-9.50%*
Nifty	5,248.15	5,295.55	*-0.90%*	5,749.50	*-8.72%*
Dow Jones	13,213.63	13,212.04	*0.01%*	12,810.54	*3.15%*
Nasdaq	3,046.36	3,091.57	*-1.46%*	2,873.54	*6.01%*
Hang Seng	21,094.21	20,555.58	*2.62%*	23,720.81	*-11.07%*
Nikkei	9,520.89*	10,083.56	*-5.58%*	9,849.74#	*-3.34%*

** data as on 27th April 2012*
 # data as on 28th April 2011

India: Sensex fell 0.5% for the month of April to close at 17,318, after rising 12.6% for the first 3 months. The FMCG index gained 6.2%, while high beta sectors like realty and capital goods fell 4.7% and 6.2% respectively.

Due to negative sentiment caused by the perilous external account position and weak rupee and the S&P downgrade, April saw the first monthly outflow from foreign investors this year. After pumping in Rs 44,000 Cr between Mar-Apr 12', FIIs pulled out Rs 1,109 Cr in April 2012.

U.S.: For the month, the blue-chip Dow was almost flat and closed at 13,213. The broader S&P 500 dropped about 0.8%, the worst month since September, while the tech-heavy Nasdaq fell about 1.5%.

Spain's economy contracted 0.3 percent in the first quarter, putting the euro zone's fourth largest economy back into recession. Adding to the pressure, the Chicago PMI dropped to 56.2 from 62.2, below the consensus forecast of 60 and the lowest since November 2009, according to a separate report from the private institute of Supply Management-Chicago.

Asia: Asian markets were mixed after an uneven set of data from the United States, while sentiment was weighed by news that Spain's credit rating had been slashed. Hang Seng was up 2.6% to close at 21,094 and Nikkei was down 5.6% to close at 9520.

The Yen strengthened about 2.5% despite the Bank of Japan announcing another round of monetary easing as it tries to kick-start the torpid economy.

In Tokyo the central bank said it would increase its asset purchase program by Y5 trillion to Y70 trillion, its latest move to breathe life into the world's third-largest economy.

Currencies

Currency Market	30th April	30th March	MoM Change (%)
USD/INR	52.730	50.876	*3.64%*
EUR/INR	69.810	67.871	*2.86%*
EUR/USD	1.3245	1.334	*-0.71%*
GBP/USD	1.6235	1.6012	*1.39%*
USD/JPY	79.92	82.865	*-3.55%*

Key Economic Indicators

	Apr-2012	Mar-2012
FOREX Reserves (USD Bn)	294.60	295.14
REPO rate	8.00%	8.50%
Reverse REPO	7.00%	7.50%
CRR	4.75%	4.75%
SLR	24.00%	24.00%
Bank Rate	9.00%	9.50%

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