YEN CAPITAL
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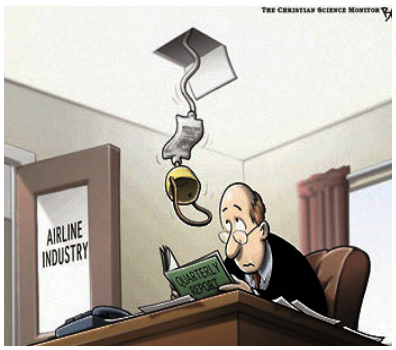
Just Like That!



Watch Out:

India:

Dec. 01 Indian Trade Balance
Dec. 04 WPI inflation
Dec. 12 IIP data (YoY)
Dec. 14 Inflation data (YoY)
Dec. 16 RBI policy meeting

US:

Dec. 02 Unemployment Rate
Dec. 07 Federal Budget Balance
Dec. 09 Trade Balance
Dec. 09 Michigan Consumer Sentiment Index
Dec. 09 Michigan Inflation Expectations

Europe:

Dec. 01 ECB President Draghi Speaks
Dec. 01 Manufacturing PMI
Dec. 02 PPI (MoM)
Dec. 05 Spanish Industrial Production (YoY)
Dec. 05 Services PMI
Dec. 08 Interest Rate Decision
Dec. 08 ECB Press Conference
Dec. 09 GDP (QoQ)

Japan:

Dec. 01 Monetary Base (YoY)
Dec. 07 M2 Money Stock (YoY)
Dec. 07 Bank Lending (YoY)
Dec. 08 GDP (QoQ)
Dec. 08 GDP Price Index (YoY)

USD-INR surprised the 'rupee-bulls' in a big way since end-July. In July 2011, on account of strong FDI and FII flows, the USD-INR had touched a low of 44.20 for the first time since 2008. Sentiments were strong and analysts were talking of the rupee heading to 43.80 as the next target.

But the trouble in Euroland, the U.S. downgrade brought changes in the market outlook in a big way. Emerging markets were suddenly seeing a flight of capital. India seemed to be among the worse affected markets. The fact that the inflation outlook remained negative and rupee interest rates were not going to come down in a hurry were adding to our woes.

Since then, USD-INR has gone on to touch 52.50 and we have seen the RBI Deputy Governor and the Finance Minister trying to talk the rupee up. To be fair, there has not been any irresponsible comment and the RBI has intervened in the forward markets. That helps since a forward sell does not take away Spot liquidity and hence the inflation outlook is not exacerbated.

We have also seen a few other positive measures aimed at arresting the rupee's fall. The open swap limit of USD 10 million given to each bank has been done away with, the FII aggregate debt ceiling has been raised from USD 45 Bn to USD 60 Bn. This has helped improve sentiment to some extent.

So where do we go to from here? Let us highlight the facts first:

- India’s exports fell by 20% MoM to USD 19.9 bn while imports rose by 14.2% MoM to USD 39.5 bn in October.
- On a YoY basis, exports rose by mere 10.8%, the lowest growth rate since Oct 2009 while imports jumped by 21.7%.
- Trade deficit doubled to USD 19.6 bn from USD 9.8 bn in September.
- Economic turbulence in US and Europe coupled with the expiry of the DEPB scheme weighed heavily on India’s exports.
- Meanwhile, elevated levels of crude oil prices continue to keep our imports bill high.
- Industrial production was up by 1.9% YoY in September, in line with expectations, but came considerably lower than the consensus estimate of 3.6% YoY.

To summarize, mounting external risks could exacerbate India's hitherto resilient balance of payments, and by extension, the rupee. A sharp deterioration in the trade balance has put renewed pressure on the currency, which has already been the worst performing one in the region.

Rupee's outlook could however reverse quite quickly if growth slows leading to fall in import demand, capital account surplus rises due to a likely pick up in debt inflows, or global risk aversion eases. Cross country comparison shows India's reserve coverage is more than adequate, suggesting no systemic risk.

We see USD-INR touching 53.25 , if it weakens any more but no further. We see it at a level between 48.75 and 49.25 by March 2012.

By Sandip Basu [sandip.basu@yencapital.com]

Refresher Class: Valuing a Private Company Vs a Public company

In the last newsletter, we discussed the three major approaches to estimate the value of a private company, which were, income approach, market approach and asset-based approach. Now, lets look at the income approach.
The income approach method determines the fair market value by multiplying future income/cash flows by a discount or capitalization rate. The discount or capitalization rate converts the future economic benefits into a present value. There are three forms of income approach.

Free Cash Flow Method The method is similar for private and public companies, project the future free cash flows and discount them to present rupee to estimate their present value. The discount rate should be the company's Weighted Average Cost of Capital (WACC). A terminal value needs to be calculated when a stable growth rate is expected.

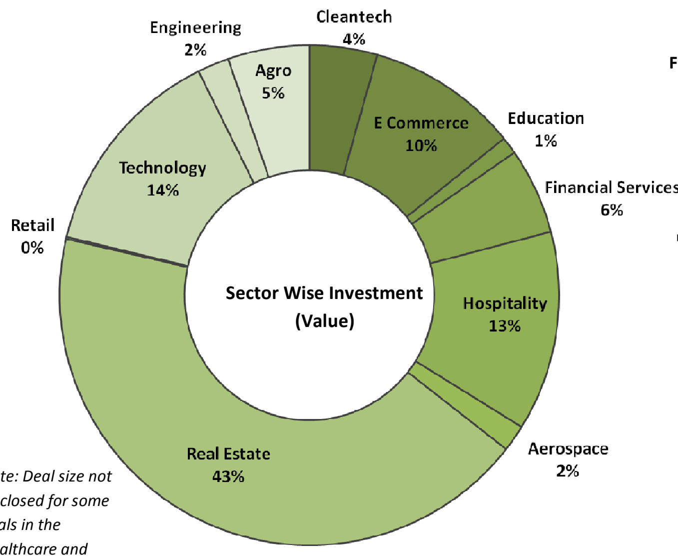
Capitalized Cash Flow Method This method is often used for the valuation of small private companies that are expected to grow at a constant rate. To value a firm, the expected free cash available to the firm in the coming year is divided by the companies growth-adjusted WACC. To value a firm's equity, market value of debt is simply subtracted from the firm’s value.

Excess Earnings Method This method basically values a company in two pieces - the tangible value and the intangible value. The tangible value of the company is simply calculated as the value of the company's net worth while the intangible part is calculated by capitalizing those earnings that are calculated to be in "excess" of what a reasonable amount of earnings would be on the company's tangible net worth. Adding the tangible and intangible values of the company together results in the value of the entire company.

To be continued in the next issue

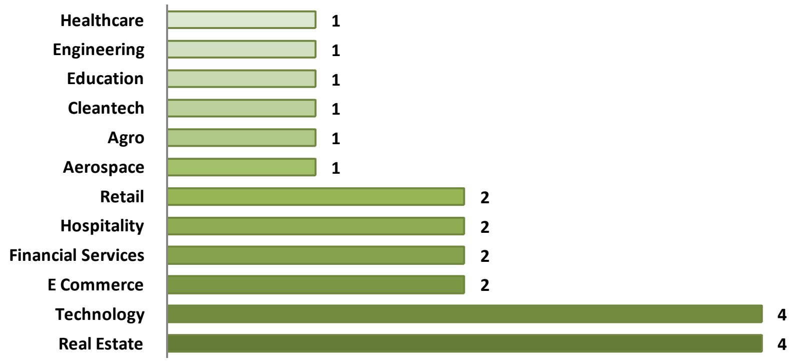
Private Equity

- November has been a good month with respect to completed PE deals. There were 22 deals executed during the month totaling to an investment of around Rs 2,960 crore – which is more than 2x the investment received in the October.
- Real Estate and Technology have been the most active sectors in terms of investments, while the Hospitality, E-commerce and Financial Services continue to garner investor interest.



Note: Deal size not disclosed for some deals in the Healthcare and Hospitality sectors

Number of Deals in November, 2011



- **Key Deals**
  - The largest PE investment in November, Rs 800 crore, was made in Bangalore based Assetz Global Technology Park by Temasek Holdings Pte. Limited. This is the largest PE deal in the city's real estate sector in three years. The completion of the park, stuck due to funding issues, is now expected to move forward.
  - GTI Capital backed SAMHI, a company focused on the development, acquisition and ownership of business-class hotels in India has raised close to Rs 385 crore from US based Equity International. The funds will be utilised for expansion and development of hotels across India.
  - Omkar Realtors has raised Rs 250 crore from Red Fort Capital Advisors for its slum redevelopment project in Malad, Mumbai.

Source: Press releases, Yen analysis

Mergers & Acquisitions

During the month of November there were a total of 30 M&A deals. Healthcare was the busiest sector, consummating 6 during the month. Continuing with the past trend, the Technology sector has shown consistent activity with 4 deals completed in November. Other key sectors with significant activity include the Engineering and Basic Industries sectors.

Key Deals:

- Aventis Pharma - part of Sanofi Aventis has acquired Universal Medicare's nutraceutical formulations business for Rs 567 crore. Mumbai based Universal Medicare makes a number of OTC products to treat osteoporosis and arthritis.
- Delhi based Dion Global Solutions Limited has acquired U.K.-based Investmaster Group Ltd, a provider of wealth management and stock broking software. The acquisition is part of Dion's strategy to become a leading provider of a comprehensive, diversified suite of solutions to financial markets worldwide.
- Kavveri Telecom has acquired Rymsa Telecom from Radiacon Microondas, SA. The financial terms of the transaction were not disclosed, however according to the press release, Kavveri's total investment in Rymsa Telecom will be about $27.25Mn. This acquisition will enhance Kavveri's broadband antenna product line.

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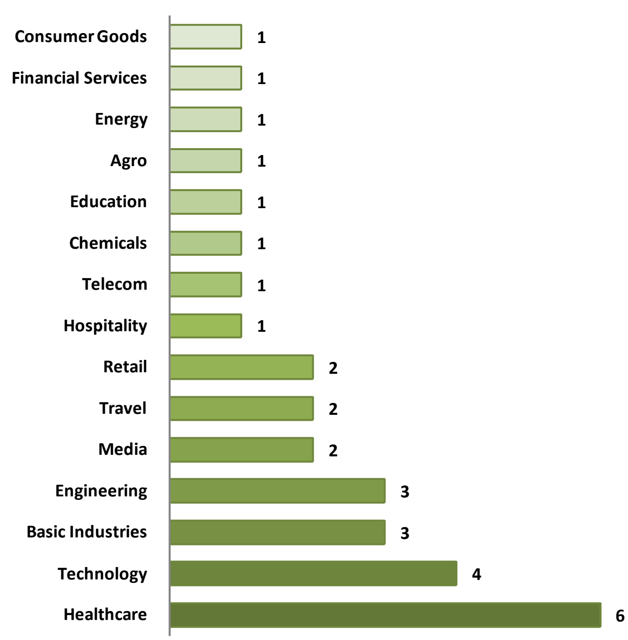

Source: Press releases, Yen analysis

Key Indices: November Review

	30th November	31st October	MoM Change (%)
Sensex	16,123.46	17,705.01	(8.9%)
Nifty	4,832.05	5,326.60	(9.3%)
Dow Jones	12,045.68	11,955.01	0.76%
Nasdaq	2,620.34	2,684.41	(2.39%)
Hang Seng	17,989.35	19,864.87	(9.44%)
Nikkei	8,434.61	8,988.39	(6.16%)

Indian Markets:

In November, Indian equity markets were among the world's worst-performing markets with a fall of nearly 9% MoM. Year to date, the markets have gone down by nearly one fifth. FIIs withdrew over Rs 3,200 crore from the equity market, triggered by the debt crisis in the Eurozone and weakening of the rupee. The economy expanded at 6.9%, its weakest pace in more than two years in the quarter ended September, revealing the heavy toll that high inflation, rising interest rates and crisis-hit global capital markets, are having on Asia's third-biggest economy.

U.S. Markets:

November was another volatile month. The market rose and fell more or less in synch with the rising and falling prospects within the European Union. In a month of 21 trading days, the market rose or fell by more than 1% 11 times. The net effect was that, as the end of the month neared, the market once again looked underwater for the year. The month was rescued by the last three trading days when the markets tacked on gains of around 7%.

Currencies

Currency Market	30th November	31st October	MoM Change (%)
USD/INR	52.02	48.75	6.7%
EUR/INR	69.33	68.96	0.5%
EUR/USD	1.33	1.41	(5.7%)
GBP/USD	1.56	1.61	(3.1%)
USD/JPY	77.94	75.78	2.9%

Key Economic Indicators

	November	October	MoM Change
FOREX Reserves (USD Bn)	308.62	320.39	(11.77)
REPO rate	8.50%	8.25%	0.25%
Reverse REPO	7.50%	7.25%	0.25%
CRR	6.00%	6.00%	-
SLR	24.00%	24.00%	-
Bank Rate	6.00%	6.00%	-

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