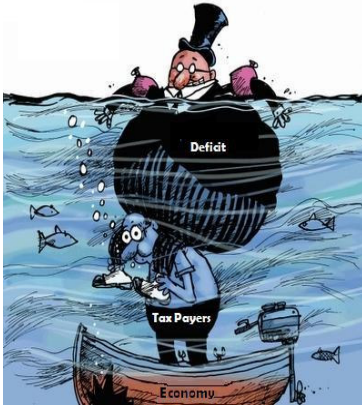


February, 2012

Volume 2, Issue 2

## Just Like That!



### Watch Out:

#### India:

- Feb 01 Indian Trade Balance
- Feb 10 IIP data (YoY)
- Feb 14 WPI inflation

#### US:

- Feb. 02 Nonfarm Productivity (QoQ)
- Feb. 06 Federal Budget balance
- Feb. 07 Consumer Credit
- Feb. 08 FOMC Meeting Minutes
- Feb. 09 Initial Jobless Claims
- Feb. 10 Trade Balance

#### Europe:

- Feb. 01 Manufacturing PMI
- Feb. 01 CPI (YoY)
- Feb. 02 PPI (MoM)
- Feb. 03 Services PMI
- Feb. 09 Interest Rate Decision
- Feb. 09 ECB Press Conference

#### China:

- Feb. 09 Chinese CPI (YoY)
- Feb. 09 Chinese PPI (YoY)

#### Japan:

- Feb. 01 Monetary Base (YoY)
- Feb. 08 BoJ Monthly Report
- Feb. 08 Bank Lending (YoY)
- Feb. 09 Consumer Confidence

**On January 24 in its quarterly policy review**, RBI lowered the cash reserve ratio by 50 basis point to 5.5% from 6.0% thereby injecting Rs 32,000 crore of liquidity into the system. CRR cut was widely expected given the liquidity concerns, falling GDP growth rate (revised to 7.0% for FY 2012) and the declining inflation trend. The infusion of liquidity will provide the necessary impetus at this critical juncture and give the much needed confidence to boost private investment.

While this is a welcome move and is widely hailed as the first sign of policy reversal of monetary tightening, significant challenges to the economy remain. Major policy reforms are expected to be introduced only after the election in 5 states is completed. The RBI steps have to be backed strongly by the Government of India in taking some bolder steps on the reforms front, as well as expenditure cuts to rein in fiscal deficit, since an absence of reforms and burgeoning fiscal deficit would surely take the wind out of the rebound that the markets have seen. FDI policies, GST and DTC implementations, Power sector reforms, Coal and energy related reforms all become very important in setting the direction of the economy in the next 6-9 months and we expect progress on all these fronts.

Inflation remains a key challenge. Although primary food inflation declined sharply reflecting seasonal fall in vegetable prices and high base, high protein inflation continues due to structural demand-supply imbalances. The decline in food inflation is expected to be short-lived as a result. Inflation in non-food manufactured products remains persistently high, reflecting input cost pressures, partly resulting from the rupee depreciation that has offset the impact of softer global prices of some commodities.

Given that the growth-inflation balance has shifted towards growth, we believe that RBI will cut repo rates by 100-125 bps in 2012. As RBI has noted that the timing and quantum will depend on policy measures to induce investments and steps towards fiscal consolidation. Strong signs of fiscal consolidation, which will shift the balance of aggregate demand from public to private and from consumption to capital formation, are critical to create the space for lowering the policy rate without the imminent risk of resurgent inflation.

*By Sumeet Chopra [sumeet.chopra@yencapital.com]*

## Refresher Class: Valuing a Private Company Vs a Public company

In the last newsletter, we discussed the market approach, the second of the three major approaches to estimate the value of a private company. Now, let's look at the Asset-based approach.

The value of asset-based analysis of a business is equal to the sum of its parts. The underlying theory behind the asset-based approach is the principle of substitution, that is, no rational investor will pay more for the business assets than the cost of procuring assets of similar economic utility.

In contrast to the income-based approaches, which require subjective judgments about capitalization or discount rates, the adjusted net book value method is relatively objective. Pursuant to accounting convention, most assets are reported on the books of the subject company at their acquisition value, net of depreciation where applicable. These values must be adjusted to fair market value wherever possible to get a realistic picture.

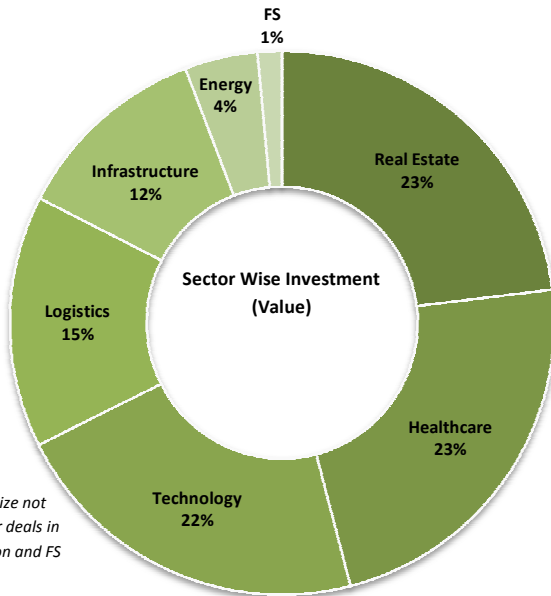
The approach is not commonly used to value a non-controlling equity ownership interest of a profitable going-concern operating business enterprise. This is principally due to the fact that profitable going-concern firms typically have a variety of intangible assets that should be discretely valued in order to properly estimate total asset value.

The approach is appropriate for the valuation of holding companies, very small companies with limited intangible value or early stage companies.

*To be continued in the next issue*

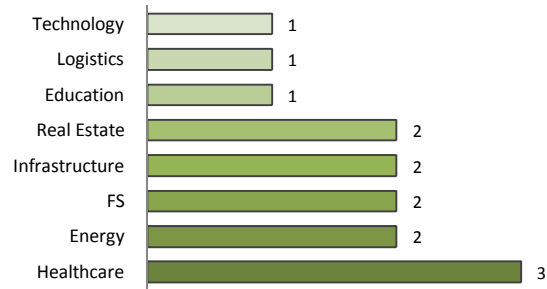
## Private Equity

- In the month of January, 14 PE deals have been completed totaling to an investment of around Rs 3500 crore – which is higher by nearly 4.5x the investments received in the month of December 2011.
- The Healthcare, Real Estate and Technology sectors have received the most funding, while Infrastructure, Energy and Logistics continue to garner investor interest.



Note: Deal size not disclosed for deals in the Education and FS sectors.

### Number of Deals in January, 2012



### Key Deals

- Dubai based healthcare group raised Rs 500Cr from Olympus Capital. The funds will be used by DM Healthcare to set up hospitals in India. The transaction is a combination of Olympus Capital's primary investment into DM Healthcare for the growth and expansion of the Company in India, and secondary purchase of a portion of India Value Fund's shareholding in the company.
- Fourcee Infrastructure raised \$104Mn from. The funds will be used to expand tank terminals, add more containers and to strengthen its infrastructure. Fourcee provides end-to-end logistics solutions for liquid cargo through road and railways using its own specialised designed containers. The company had raised Rs 50Cr from Mayfield India Fund and in March 2010.

Source: Press releases, Yen analysis

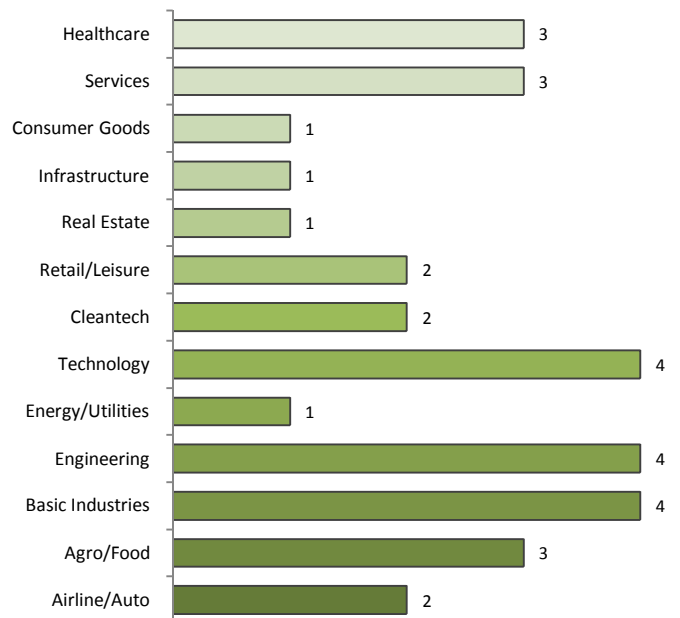
## Mergers & Acquisitions

During the month of January there were a total of 32 M&A deals. Basic Industries, Engineering and Technology were the busiest of the sectors during the month with 4 deals completed in each sector. Other key sectors during the month were Agro, Services and Healthcare with closure of 3 deals in each sector.

### Key Deals

- Strides Arcolab Limited has sold 94% stake in subsidiary – Ascent Pharmahealth Limited with operations in Austria and Southeast Asia to Watson Pharmaceuticals Inc for an enterprise value of AU\$375 Mn.
- Zuari Industries Limited and its JV partner Mitsubishi Corporation has acquired 30% stake in Fosfatos del Pacifico SA, Peru (Fospac) for \$46.12MN (Rs.230 Cr) through Singapore-based JV company - MCA Phosphates Pte Ltd.
- Nippon Life Insurance is investing Rs.1450 Cr for a 26% stake in Reliance Capital Asset Management, valuing the AMC at Rs.5600 Cr. The transaction is subject to necessary regulatory approvals.

### Number of Deals in January, 2012



Source: Press releases, Yen analysis

## Key Indices: January Review

	31st January 2012	30 <sup>th</sup> December 2011	MoM Change (%)	31st January 2011	YoY Change (%)
<b>Sensex</b>	17,300.58	15,454.92	11.94%	18,022.22	-4.00%
<b>Nifty</b>	5,235.70	4,624.30	13.22%	5,417.20	-3.35%
<b>Dow Jones</b>	12,716.46	12,217.56	4.08%	12,040.16	5.62%
<b>Nasdaq</b>	2,848.27	2,605.15	9.33%	2,751.19	3.53%
<b>Hang Seng</b>	20,390.49	18,434.39	10.61%	23,447.34	-13.04%
<b>Nikkei</b>	8,809.79	8,455.35	4.19%	10,274.50	-14.26%

**US:** Consumer confidence unexpectedly dropped in January and a gauge of business activity fell, underscoring forecasts that the US economy will cool after expanding at the fastest pace since the second quarter 2010. Manufacturing in US grew however, adding to signs of a global pickup in the markets worldwide.

**Asia:** China's manufacturing unexpectedly expanded in the month of January on increased new orders, suggesting economy is withstanding Europe's debt crisis and a government-induced property slowdown at home.

**India:** Sensex recorded highest gains in the month of January in 18 years. All the sectoral indices closed in the green with banks, realty, metals and auto leading the upmove. RBI's policy review also pumped in some money in the market leading to positive signs for the month of February.

## Currencies

Currency Market	31st January	30 <sup>th</sup> December	MoM Change (%)
USD/INR	49.53	53.06	-6.65%
EUR/INR	64.83	68.73	-5.68%
EUR/USD	1.31	1.29	1.46%
GBP/USD	1.58	1.55	1.70%
USD/JPY	76.28	76.92	-0.83%

## Key Economic Indicators

	Jan-12	Dec-11
FOREX Reserves (USD Bn)	293.93	296.68
REPO rate	8.50%	8.50%
Reverse REPO	7.50%	7.50%
CRR	5.50%	6.00%
SLR	24.00%	24.00%
Bank Rate	6.00%	6.00%



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