YEN NEWSLETTER

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Just Like That!

Watch Out:

India:

- Jan. 02 Indian Trade Balance
- Jan. 11 IIP data (YoY)
- Jan. 13 WPI inflation
- Jan. 24 RBI policy meeting

US:

- Jan. 03 FOMC Meeting Minutes
- Jan. 06 Unemployment Rate
- Jan. 09 Consumer Credit
- Jan. 10 Wholesale Inventories (MoM)
- Jan. 12 Federal Budget Balance
- Jan. 13 Trade Balance

Europe:

- Jan. 04 CPI (YoY)
- Jan. 06 Unemployment Rate
- Jan. 11 GDP (QoQ)
- Jan. 12 Industrial Production (MoM)
- Jan. 12 Interest Rate Decision
- Jan. 12 ECB President Draghi Speaks
- Jan. 13 Trade Balance

China:

- Jan. 09 Chinese CPI (YoY)
- Jan. 09 Chinese GDP (YoY)
- Jan. 09 Industrial Production (YoY)
- Jan. 09 Chinese PPI (YoY)
- Jan. 09 Chinese Trade Balance

These are somewhat challenging times for those responsible for fund raising in India. Companies in India are facing the double whammy of decline in sales and increasing input cost pressures. The RBI has increased rates 13 times since March 2010 leading to a high interest burden on companies. We have seen domestic interest rates rise by 3-4 % over the last 18 months. The external credit rating of a number of corporates has been downgraded. The current macro situation in Euro land has not helped matters. Companies that rely on domestic sales as against exports seem to be better off, although the recent depreciation of the rupee seems to be favouring exporters, at least, temporarily. Liquidity seems to be there but banks have become more selective on the customers they lend to as well as the specific end use. The decision making by lenders appears to have become slower. Banks complain that many of the sanctioned loans are not getting disbursed. Marginal and poorly rated companies are finding this environment quite difficult. The availability of long term funds for infrastructure is at a premium. Thermal power projects continue to be plagued by issues of coal linkages. Although policy makers have attempted to address the sharp slide in the Rupee's levels by making a series of changes, the initial response is going to be muted but further weakening of sentiments may be avoided.

Under such market conditions, the long term equity investors, both PE ad strategic players, would tend to view the present times as opportunistic. But the fact that the valuation expectation of promoters is not in alignment with the underlying financial numbers as well as the mood prevailing in the market, is making matters difficult.

A number of medium sized and large companies have made a number of acquisitions overseas in the last five years. Not all of these have been well thought out and planned, as a result the market cap of some of these companies has been under serious strain.

How do corporates face up to the current scenario then? At the outset, let us take note of the broad present themes as under:

- The current volatile times are not going to go away in a hurry since most macroeconomic forces are moving in one direction.
- Period of cheap capital (i.e. low rate of interest) is coming to a close. Substantial deleveraging in Europe will compel banks to reduce their own balance sheet size. Accessing ECB market will get tougher.
- In India, RBI's change from PLR regime to base rate regime has removed the cross-subsidization that existed earlier. To some extent, discipline has been enforced.
- The twin deficits in India are adding to the rupee's woes. Foreign currency borrowing is likely to become more expensive.

A few suggestions on what companies must do as a way forward:

- First and foremost, managing shareholder expectation is most important. Companies need to keep in mind that they may need to approach the shareholders more than once. Hence leaving money on the table for investors is critical.
- Companies can borrow against idle assets, by seeking suitable moratorium, aided by recast cash flows. Unproductive assets must be sold when the markets recover.
- Companies need to fully exploit risk capital in the form of mezzanine. In addition, they can look to borrow against shares in the holding co. – a quasi equity call- has good potential. Explore payoffs / downsides of new transactions.
- Lobby with the Central Bank for making ECB funds available for repayment of rupee working capital loans for those companies that have sizable exports.

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

Refresher Class: Valuing a Private Company Vs a Public company

In the last newsletter, we discussed the income approach, one of the three major approaches to estimate the value of a private company. Now, lets look at the Market approach.

The market approach ascertains the value of a private company by performing a comparison between the subject company with similar public companies. The key assumption is that these comparable public companies do exist. Investment bankers consider the liquidity of equities, size of the firms, company lifecycles, availability of financial data, etc. to identify the comparable company.

Within the market approach three methods are regularly used.

Guideline Public Company Method (GPCM) is a method whereby market multiples are derived from market prices of stocks of companies that are engaged in the same or similar lines of business, and that are actively traded on a free and open market.

Guideline Transactions Method, conceptually, is similar to the GPCM. It considers market transactions involving the acquisition of the total equity of companies and, as such, the pricing multiple more accurately reflects the value of total companies; no control premium adjustment is necessary.

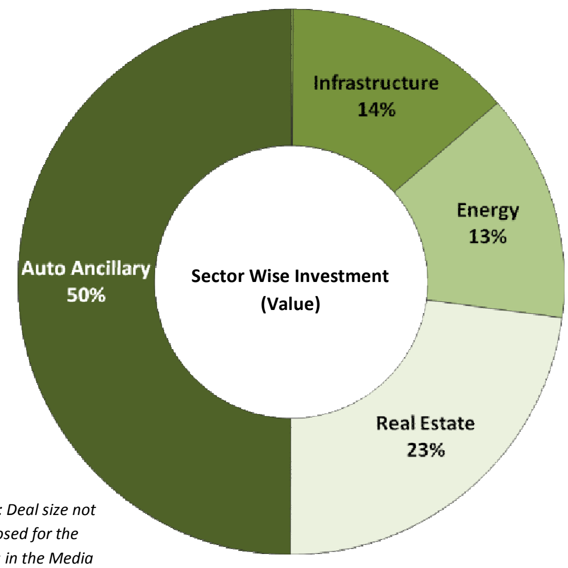
Prior Transaction Method is used for private companies which have received rounds of PE investments in the past. It considers valuation arrived at in the previous transactions as the base and adds/subtracts value depending on the company's current outlook.

The market approach to valuation has its roots in the economic principle of competition, i.e. in a free market the supply and demand forces will drive the price of business assets to an equilibrium, thereby determining the accurate valuation.

To be continued in the next issue

Private Equity

- Overall, the month of December has been quite slow in terms of completed PE deals. There were only 6 deals totaling to an investment of around Rs 750 crore – which is more 4x lower than the investments received in the preceding month.



Note: Deal size not disclosed for the deals in the Media and Logistics sectors

Number of Deals in December, 2011

- **Key Deals**
  - The largest PE investment in December, Rs 370 crore, was made in Endurance Technologies, an auto component maker, by the UK-based Actis Advisors. Endurance Group has 19 manufacturing facilities, located in India, Germany and Italy. Its clients include Bajaj, Yamaha, Suzuki, Honda Motorcycles and Scooters, Royal Enfield, Daimler, Audi, Fiat and Porsche.
  - Kotak Realty Fund is investing R170Cr in BPTP's residential Gurgaon township project - Astaire Gardens spread over 102 acres. Kotak will acquire about 50% stake in a 70-acre part of the project where BPTP is selling plots and villas. The transaction has a hurdle of around 18-20%, which will give Kotak a preferred return first after which the rest of the return will be shared between the fund and BPTP.

Source: Press releases, Yen analysis

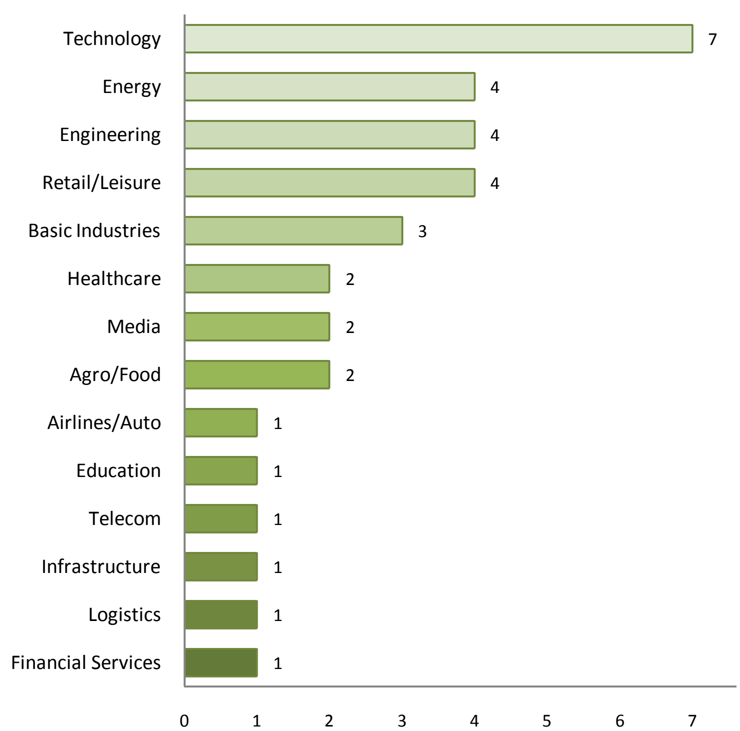
Mergers & Acquisitions

During the month of December there were a total of 34 M&A deals. Technology was the busiest sector with 7 deals completed during the month. Other key sectors were energy, engineering and retail/leisure with closure of 4 deals in each.

Key Deals:

- U.S. based United Technologies Corporation acquired two Chennai based companies - Sauter Race Technologies Private Limited and Agnice Fire Protection Limited for an undisclosed amount. The deal seems to be a part of United Technologies' strategy to increase revenue from Indian operations.
- Cadila Healthcare has acquired Biochem Pharmaceuticals Industries Limited. The financial details of the transaction were not disclosed. This is Zydus Cadila's third acquisition in 2011. Earlier in July, it acquired 100% stake in Germany-based animal drug company, Bremer Pharma GmbH, from ICICI Venture.
- JSW Energy Limited acquired additional 31.53% stake in South African Coal Mining Holding Ltd increasing its stake to 93.27%. Last year, JSW Energy acquired a 49.8% stake in Royal Bafokeng Capital (Proprietary) Ltd that owns shares in South African Coal Mining Holdings Ltd from Strider Holdings (Proprietary) Ltd.

Number of Deals in December, 2011



Source: Press releases, Yen analysis

Key Indices: December Review

	30th December 2011	30th November 2011	*MoM Change (%)*	31st December 2010	*YoY Change (%)*
Sensex	15,454.92	16,123.46	*-4.15%*	20,509.09	*-24.6%*
Nifty	4,624.30	4,832.05	*-4.30%*	6,134.50	*-24.62%*
Dow Jones	12,217.56	12,020.03	*1.64%*	11,577.51	*5.53%*
Nasdaq	2,605.15	2,626.20	*-0.80%*	2,652.87	*-1.80%*
Hang Seng	18,434.39	17,989.35	*2.47%*	23,035.45	*-19.97%*
Nikkei	8,455.35	8,434.61	*0.25%*	10,228.92	*-17.34%*

The performance of major world stock indices in 2011 has been quite topsy-turvy and unexpected. This may be shocking to many, but the deficit ridden, sluggish US markets were one of the best-performing markets in the world. On the other hand, India, which is touted as the blazing emerging market economy with sound public finances and prudent monetary policy was one of the worst performing markets in 2011.

India, obviously has a better growth story than the US, but however, in the last two years, the stock prices have simply gotten ahead of the fundamentals and 2011 was a time of reckoning. While global factors such as the European crisis and slow recovery in the US were the main triggers, inflation in India as well as corruption and delay in government policy-making were the main reasons behind India's disappointing year on the stock market.

Currencies

Currency Market	30th December	30th November	MoM Change (%)
USD/INR	53.06	52.02	2.00%
EUR/INR	68.73	69.33	-0.87%
EUR/USD	1.29	1.33	-3.01%
GBP/USD	1.55	1.56	-0.64%
USD/JPY	76.92	77.94	-1.31%

Key Economic Indicators

	December	November	MoM Change
FOREX Reserves (USD Bn)	300.86	308.62	-7.76
REPO rate	8.50%	8.50%	-
Reverse REPO	7.50%	7.50%	-
CRR	6.00%	6.00%	-
SLR	24.00%	24.00%	-
Bank Rate	6.00%	6.00%	-

Yen Capital Advisors Pvt. Ltd.
146, Jolly Maker Chambers II,
Nariman Point, Mumbai 400 021, India
Tel : +91 22 2288 0318
Fax: +91 22 2288 0328
Website: www.yencapital.com