YEN NEWSLETTER

November, 2011 | Volume 1, Issue 2

Just Like That!

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Watch Out:

India:

- Nov. 01 Indian Trade Balance
- Nov. 11 IIP data (YoY)
- Nov. 14 October inflation data (YoY)
- Nov. 30 Q3 India GDP YoY%

US:

- Nov. 02 Challenger Job Cuts (YoY)
- Nov. 02 Interest Rate Decision
- Nov. 02 Fed Chairman Bernanke Speaks
- Nov. 03 Nonfarm Productivity (QoQ)
- Nov. 03 Unit Labor Costs (QoQ)
- Nov. 03 Factory Orders (MoM)
- Nov. 03 Chain Store Sales (YoY)
- Nov. 04 Unemployment Rate
- Nov. 07 Federal Budget Balance
- Nov. 10 Trade Balance

Europe:

- Nov. 03 Interest Rate Decision
- Nov. 03 ECB Press Conference
- Nov. 04 PPI (MoM)
- Nov. 07 Retail Sales (MoM)
- Nov. 10 ECB Monthly Report

China:

- Nov. 10 Chinese CPI (YoY)
- Nov. 10 Chinese Industrial Production (YoY)
- Nov. 10 Chinese PPI (YoY)
- Nov. 10 Chinese Retail Sales (YoY)
- Nov. 10 Chinese Trade Balance

In 2008, Indian companies had an golden opportunity to prematurely buyback their own FCCBs, which were then quoting at a huge discount. Back then there was a good option to clear the debt, but now with the maturities drawing near, it is a bit of a crisis situation for the companies. More than $7 billion of foreign currency convertible bonds will mature over the next year or so. For many who were lured back then, conversion is not an option as the current stock prices are far below their conversion price.

Investors are quite jittery with mid-cap companies showing signs of weakness. Recently, Zenith Infotech, which had raised two tranches of foreign currency convertible bonds, defaulted on its first tranche of USD 33 million FCCB payment which was due on September 21. The fate of remaining USD 50 million due in August 2012 lies is unclear.

Companies have only a few options to dodge the FCCB boomerang - Repurchase/ Refinance/ Re-price/ Restructure/ Maturity Extension. Companies that have access to credit can pick a repurchase or buyback. However this option looks difficult in the current scenario as not many investors will be willing to take a hair cut on their investments. Also most of the FCCBs issued in the past were zero/low coupon bonds with significant redemption premium, which effectively accounts for yield-to-premium (YTM) for bond-holders. A buyback with redemption premium looks the most likely outcome as the companies do not expect their share price to perk up following a flat-to-negative outlook for Indian markets this year. The final repayment will be significantly higher for many companies after factoring in the redemption premium or the back-ended yield.

Many companies are discussing refinance options in a market facing liquidity and inflationary pressures. The Reserve Bank of India (RBI) has recently allowed Indian companies to raise external commercial borrowings (ECBs) and foreign currency convertible bonds to refinance their existing FCCB liabilities. This should benefit a large number of companies who need an additional source of funding. Well rated companies may look to raise money through a bond issue and use the proceeds to pay off the FCCBs.

For overleveraged companies faced with investors refusing to take a haircut – repricing is another option which may be considered. Earlier RBI had allowed companies to restructure the conversion price based on the average two week high or low of the share price similar to the pricing of the QIP. Here again RBI has made it clear that companies which look at repricing option cannot use the refinancing option through FCCB /ECB.

Companies who have not got into any redemption pressure have gone ahead and sought regulatory approvals and basically extended the maturity of the existing convertible bonds. So bonds that are maturing in 2012 have been pushed out to mature in 2014 thereby allowing companies extra time to look at funding options.

- By Kedar Kingi [kedar.kingi@yencapital.com]

Refresher Class: Valuing a Private Company Vs a Public company

There are several differences between private and public companies that significantly influence the selection of appropriate valuation methods and the valuations. Compared to public companies, private companies are typically small and are at the earlier stages of development. As the future of such companies is quite unpredictable, investors allot a significant discount to the valuation.

Also, private companies tend to have lesser management depth, with mostly family members in the fore front. Typically, there is lower transparency and corporate governance leading to limited financial and other information. Other characteristics like limited liquidity, concentration of control also adversely impact a private company's valuation.

There are three major approaches to estimate the value of a private company. The **income approach,** where in the value of a private company is computed as the present value of future income discounted at a rate of return that reflects the riskiness of the investment. The **market approach**, which employs market multiples of similar public companies to arrive at the total value. And the **asset-based approach,** which values individual strategic units of the business and arrives at the value of a business by summing its individual parts.

It is important to exercise discretion when determining which of these approaches to use. Each approach has advantages and drawbacks, which must be considered when applying these techniques to a particular private company.

To be continued in the next issue

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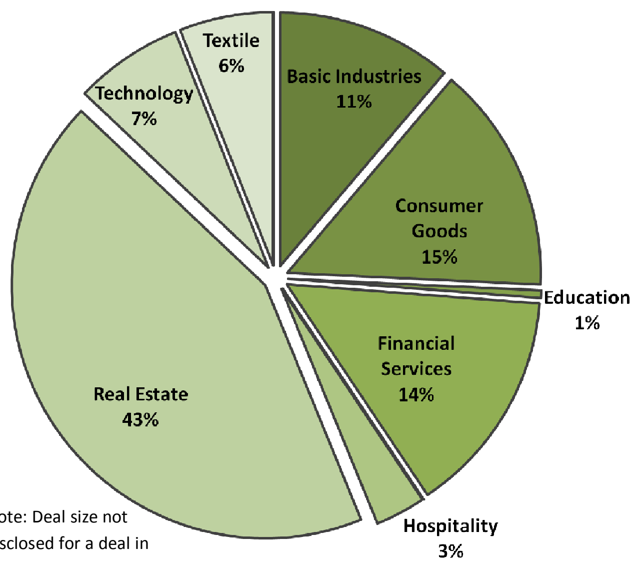
Private Equity

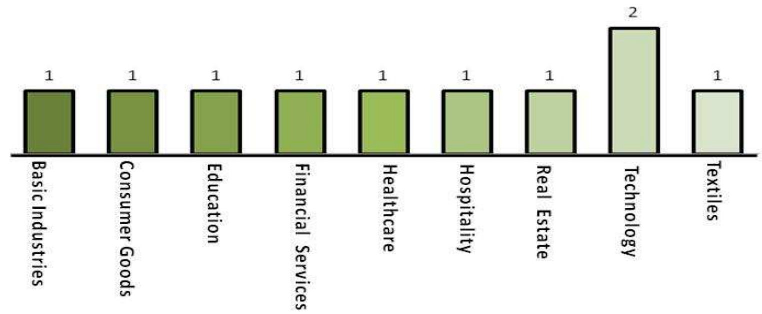
- Overall, the month of October has been quite slow in terms of completed PE deals. There were only 10 deals totaling to an investment of around Rs 925 crore – which is more than 60% lower than the investments received in the preceding month.
- Real Estate has received the most quantum of funding in October, while the IT companies continued to garner investor interest.

Sector Wise Investment (Value)



Note: Deal size not disclosed for a deal in the Healthcare sector

Number of Deals in October, 2011



- **Key Deals**
  - The largest PE investment in October, nearly Rs 400 Crore, was made in Embassy Property Development by HDFC India Real Estate Fund LLC for a upcoming 200 acre IT park near Bangalore airport. Through this investment, the Fund will acquire a 40% stake in the IT Park.
  - Way2Wealth, a boutique financial services firm has raised close to Rs 140 crore from KKR & Co. The funds will be utilised to capitalize its NBFC and strengthen equity financing business. The funding may be a structured financing deal and not a typical private equity placement.
  - VVF Limited, a manufacturer of personal care products and oleochemicals has received funding of Rs 136 crore from Reliance Private Equity. The deal involves investment in different entities of the VVF Group by a combination of equity shares and compulsorily convertible debentures.

Source: Press releases, Yen analysis

Mergers & Acquisitions

During the month of October there were a total of 38 M&A deals. Technology was the busiest sector, consummating 12 during the month. Continuing with the past trend, the Healthcare sector has shown consistent activity with 4 deals completed in October. Other key sectors with significant activity include the Energy and Engineering sectors.

Key Deals:

- The Walt Disney Company acquired balance 42% stake in Indiagames Ltd from UTV, Vishal Gondal, Adobe and Cisco Systems for an estimated $80-100Mn.
- Sahara Group has invested $100Mn for 42.5% stake in Vijay Mallya owned Formula One team - Force India. The team will now be known as Sahara Force India.
- NIIT sold it's US based subsidiary - ElementK Corporation to SkillSoft Corporation for $110Mn in an all cash deal.
- Gaurav Burman is acquiring a minority stake in Formula1 team - Lotus for $10Mn with an option of increasing the shareholding to 50% in next two to three years by investing about $50Mn.

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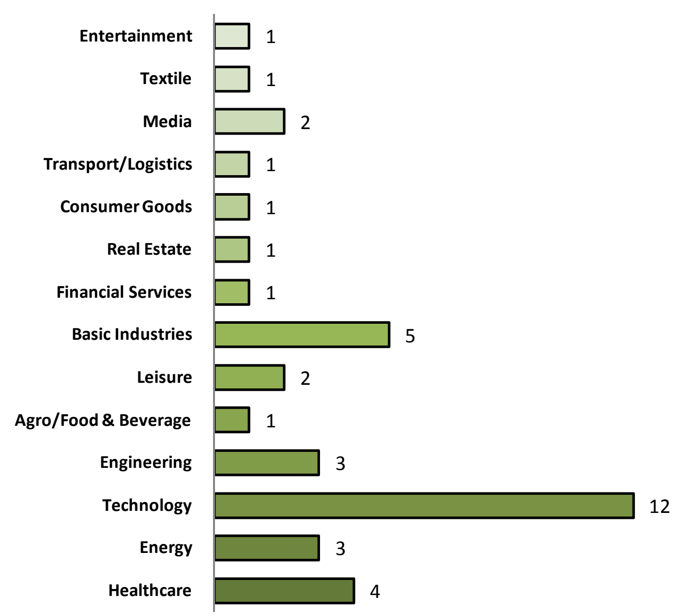

Source: Press releases, Yen analysis