



Evalueserve - Greenfield Online Business Sentiments Survey on Indian M&A Trends



“Is India Inc. justified in going for big-ticket buy-outs across the globe?”



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Executive Summary

When Anglo-Dutch steelmaker Corus accepted the \$ 13 billion takeover bid from India based Tata Steel, questions were raised around the prices and rationale. Many analysts and industry experts felt the buy-out price to be highly unreasonable and inflated. But, the largest Indian deal ever, enabled the 56th biggest steel producer, Tata Steel, to leap-frog from the 56th to the 5th position in the global steel sweepstakes. Steel giant Mittal Steel's buy-out of Arcelor for \$ 32.2 billion redefined the industry further. India-born steel tycoon L. N. Mittal portrayed the ambitions of new age companies aspiring to achieve global leadership.

It's not just steel. This trend is evident in the pharmaceuticals, consumer goods, chemicals, IT & ITeS, automotive, and hospitality sectors to name a few. Would this over-exuberance lead to stormy days for these companies, or are these initial indications of consolidation and signs of emerging giants?

Evalueserve and Greenfield Online conducted a survey among 100 top Indian executives to understand their opinions on the recent mergers and acquisitions ("M&A") by Indian organizations. Aimed at senior finance and strategy executives and M&A analysts, the survey results throw up some interesting insights:

- Most executives felt that the acquisition trends reflect India Inc.'s global leadership aspirations and that M&A is an integral part of companies' globalization strategies. While achieving global market leadership remains the top priority for the acquirers, access to best-in-class technologies and the business imperative to achieve critical scale were also felt to be key drivers of these acquisitions.
- While 56% of survey respondents felt that these deals were overvalued, most of them went on to highlight that given the strategic aspirations of the acquirers, they did the right thing by moving aggressively on these buy-outs. In short, companies have little choice but to pay more than the 'true value' in a highly competitive bid atmosphere, hoping that they would be able to over-achieve on value realization.
- Meeting international regulatory compliance requirements is expected to be the most important challenge ahead for the acquirers.
- While acquisition integration is also viewed as a key challenge, an overwhelming 83% of survey respondents expressed confidence in companies' ability to manage such issues.
- 'New-economy' industries such as IT/ITeS, telecom, pharmaceuticals and biotechnology are expected to be the nurturing ground for future M&A activity.
- Most interestingly, such M&A activities are seen to be indicators of the Indian growth story, and serve to boost market sentiments. With the per capita GDP growth rates approaching double digits, these deals are viewed to be evidences of Indian corporate houses' coming of age. While less than 40% of respondents doubt the ability of Indian business houses to create adequate value from these acquisitions, a resounding 90% of them feel that such trends are symptomatic of their aggressive

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global aspirations. Over 60% of respondents felt that such deals demonstrated a high growth phase in the Indian economy.

M&A Rationale

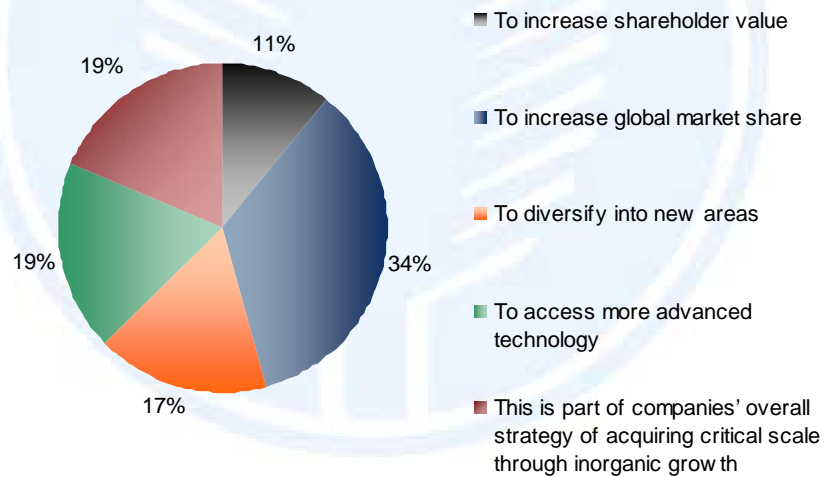
Indian executives are of the opinion that the need for technology and scale are important reasons for companies wanting to expand. However, the overriding priority seems to be increasing global market share. According to a Managing Director of a leading organization *"M&A is a must for any company wanting to grow globally. This not only exposes one to the latest innovations and technologies, but also broadens an organization's global business understanding and presence."*

Interestingly, only 11% of respondents felt that increasing shareholder value was the prime driver behind the recent deals. In the words of a respondent, *"Indian companies are bidding after assessing the benefits in global market share and synergies available, and not just with a focus to enhance share price."*

Top 3 M&A drivers

1. Global market leadership
2. Access to improved technology
3. Diversification

Why do you think Indian companies are looking at acquiring companies in the West?

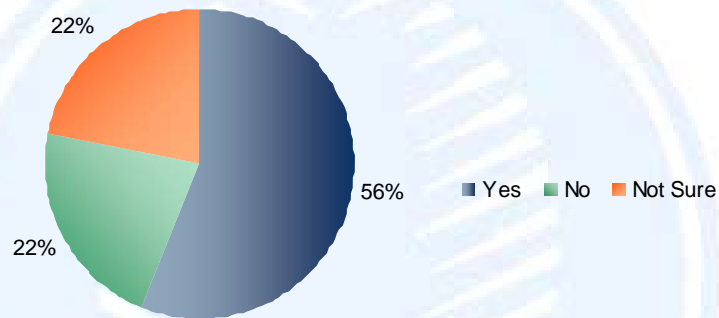




Overvalued?

Analysts and industry experts have raised concerns over the big-ticket deals. Are these actually over-valued or are there indeed opportunities for realizing superior returns from these deals? What do the executives taking those critical decisions feel? 56% of decision makers feel that the companies are paying more than the true value for these acquisitions.

Do you think Indian companies are paying more than the true value for these acquisitions?



56% of survey respondents felt that recent M&A deals were overvalued

However, industry practitioners and analysts opine that in a highly competitive global scenario, growth and geographical expansion could only be brought about through aggressive buy-outs.

Another executive pointed out that the costs of entering a new territory with conventional products is considered very high in terms of time, money and effort. Acquiring a well-entrenched player with a ready market provides a sound base. The high opportunity cost of inorganic growth has always been the classic pro-M&A argument.

Are Indian companies willing to pay whatever it takes to get international presence? Companies are willing to pay higher amounts but definitely not over-the-top prices. An example that definitely depicted such a scenario is Ranbaxy putting its foot down on the Merck deal.

In addition, the price paid by the acquirer can often vary based on a company's own expectations and assessment of the value drivers. A top executive in a leading ITeS company responded that *"...the price paid by Indian companies is high, but worth it, in the sense that they are paying a price keeping in view the long term growth and expansion criteria. Considering the fact that companies have to face global challenges, most Indian companies have shown their maturity and have also acquired the ability to take risks."*

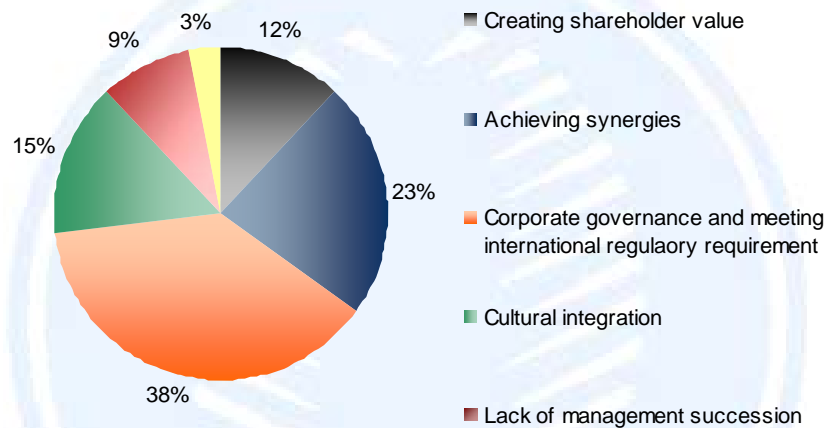


The M&A Challenges

Over a third of respondents thought that the biggest challenge ahead for the acquirers would be their ability to adapt to a new, international regulatory environment.

Achieving synergies was a concern for 23% of the respondents and integration concerns came in third at 15%.

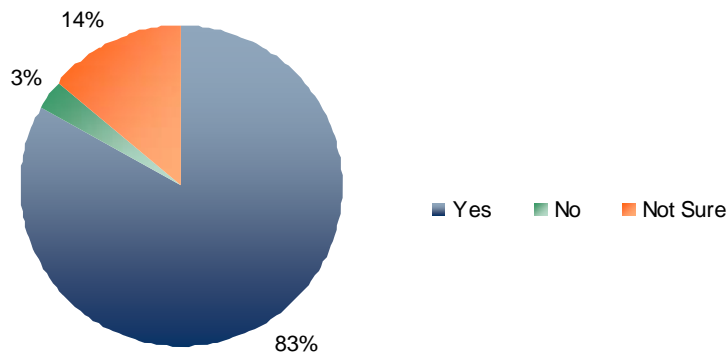
What is the biggest challenge in front of Indian companies making these acquisitions?



The biggest challenge ahead of the Indian buyers lies in meeting international regulatory compliance requirements

Interestingly, the survey data underlines the business community's faith in senior management's ability to integrate their acquisitions. Over 80% of survey respondents mentioned that they did not foresee substantial integration issues.

Do you think Indian companies will be able to successfully integrate the companies acquired in the West?



While integration is also viewed as a key challenge, an overwhelming 83% of survey respondents express confidence in India Inc.'s ability to manage such issues



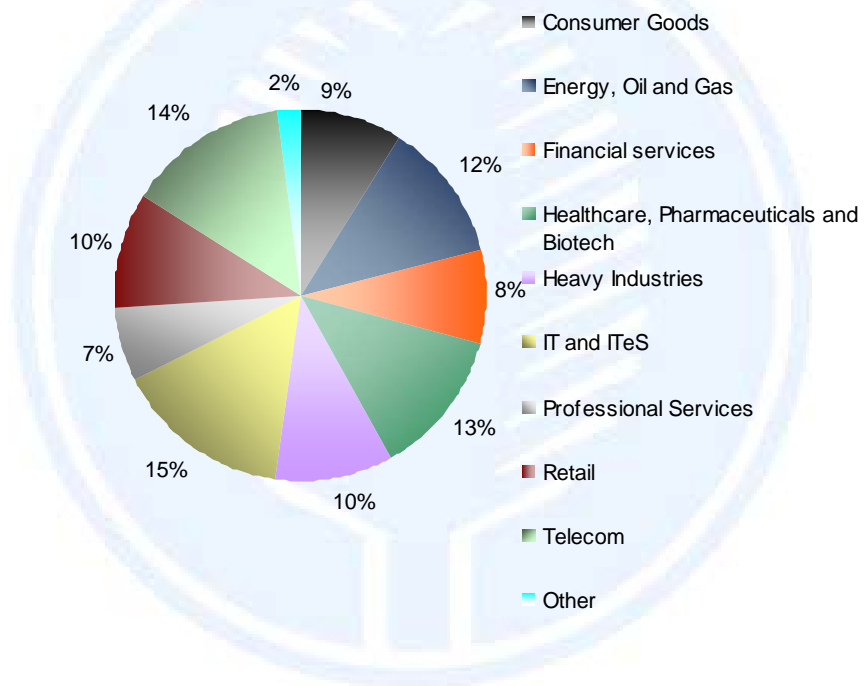
M&A Outlook

Going forward, Indian corporate giants have no plans of looking back. Despite the associated risks, Indian companies want to be in the driver's seat. In times to come, 'new economy sectors' such as IT/ITeS, telecom and pharma and biotech are expected to be the nurturing grounds for M&A activity.

In which sectors do you expect to see heightened M&A activity in the near future?

Key sectors likely to witness M&A activity

- IT and ITeS
- Telecom
- Healthcare, Pharmaceuticals and Biotech



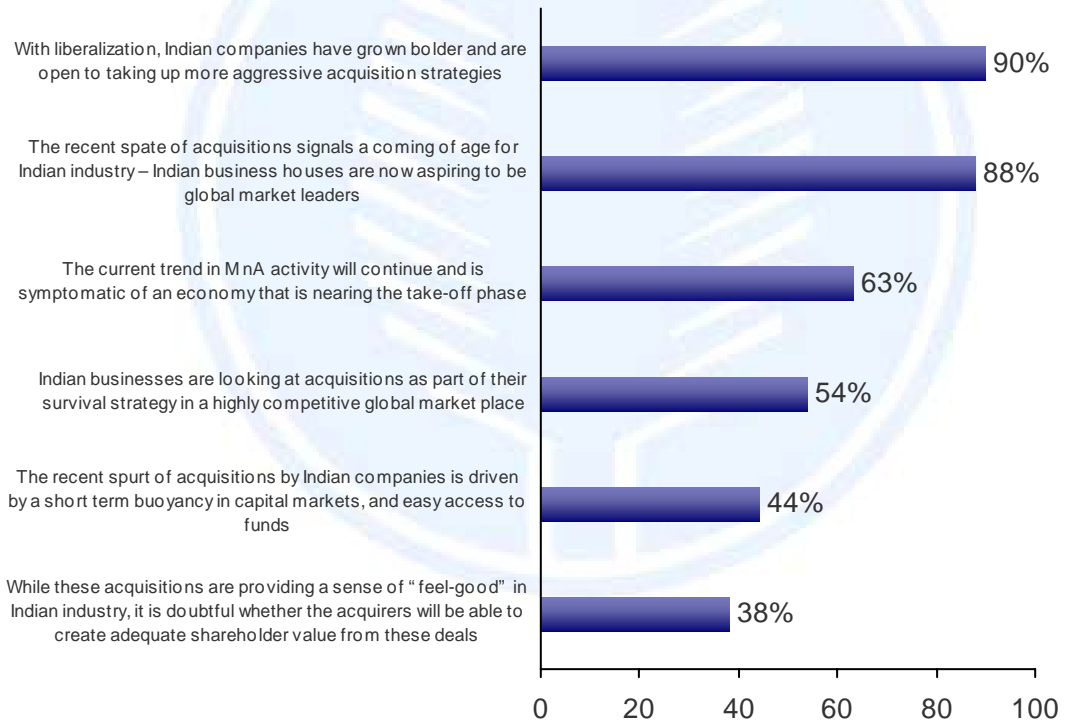


Business Sentiments

The results clearly depict that Indian business houses believe themselves to be capable of taking their pride-of-place within the global scenario.

Respondents strongly agreed to positive sounding statements such as *“The current trend in M&A activity will continue and is symptomatic of an economy that is nearing the take-off phase”* and *“The recent spate of acquisitions signals a coming of age for Indian industry – Indian business houses are now aspiring to be global market leaders”*.

While less than half of surveyed executives perceived the recent deals to be a short term bubble, almost 90% felt that these deals indicated growing maturity and risk appetite on the part of the acquirers.



Not only are these companies adapting to a globalized era, one where the markets are scaling new peaks everyday, but they are doing so in a confident manner. Even more importantly, their peers are cheering for them every step of the way, and hoping to follow in their wake.



About Evalueserve

Evalueserve offers high-quality knowledge services in Market Research, Investment Research, Business Research, Intellectual Property, and Data and Financial Analytics to clients worldwide. Founded in 2000, it has more than 1,600 employees, with operations centres in India, China and Chile, and a strong sales presence across all major global locations. Evalueserve won several awards in 2006, including Red Herring Asia Top 100 Award, NASSCOM IT Innovation Award for Business Model Innovation and the Deloitte Fast 500 APAC Award.

To learn more about Evalueserve, please visit www.evalueserve.com

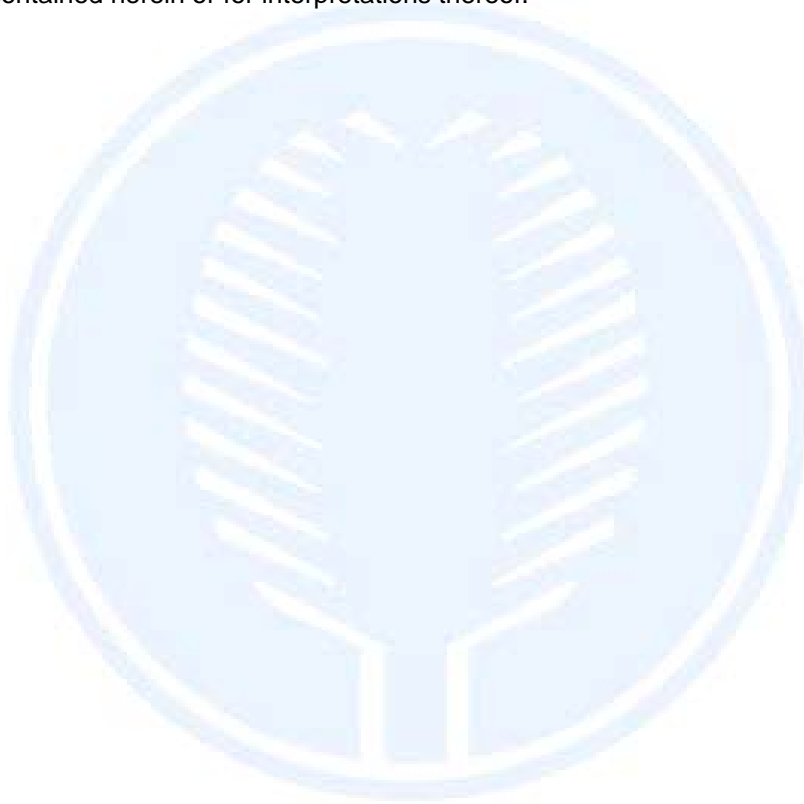
About Greenfield Online, Inc.

Greenfield Online, headquartered in Wilton, CT, is a leading independent provider of Internet survey solutions to the global marketing research industry and industry. Through its subsidiary in Europe, Ciao GmbH, the company operates its European Internet survey solutions business as well as one of Europe's leading comparison shopping portals, Ciao.com. The company has built and actively manages one of the industry's broadest reaching respondent communities comprised of Internet and wireless panels and a proprietary Real-Time Sampling™ communications channel. Our Ciao.com shopping portal allows consumers to write and access detailed reviews about millions of products and compare prices when they are ready to buy. For more information visit <http://www.Greenfield.com> or <http://www.ciao-group.com> . To join the panel to take surveys, visit <http://www.greenfieldonline.com> .



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