

M&A deals decline 7% in first nine months

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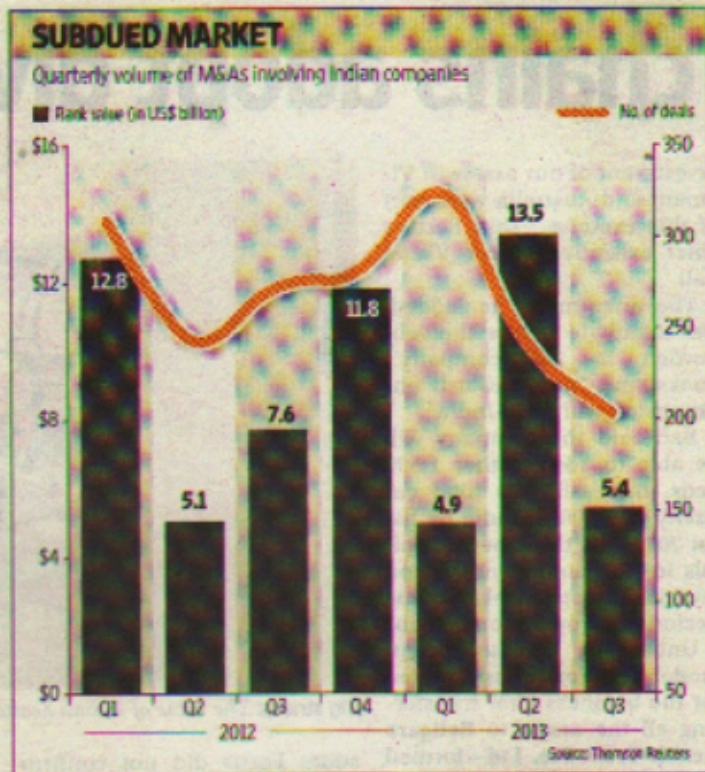
MUMBAI

Merger and acquisition (M&A) deals in the first nine months of this year fell nearly 7% by value and volume, and experts say the market may continue to remain subdued in the next six months with domestic firms holding back on capital expenditure plans, waiting for the economy to improve.

The value of the announced 766 M&A deals involving Indian companies touched \$23.8 billion, a 6.8% fall from the first nine months of 2012, during which 825 transactions worth \$25.5 billion were announced, according to Thomson Reuters estimates.

The average deal size, however, is higher at \$72.8 million so far this year, as more deals were announced in the above \$1 billion value category, compared with \$68.8 million during the first nine months of 2012. "In a weak market, valuations tend to go low. A bad market, however, also leads to a situation when some people may want to exit from their businesses," said Sunil Goyal, managing director and chief executive of Mumbai-based investment bank Ladderup Corporate Advisory Pvt. Ltd.

Domestic M&A deals were worth \$3.6 billion, down 65.4% compared to the same period last year. The bulk of domestic activity was focused on the materials sector with deals worth \$1.5 billion. Though these transactions are 29.4% lower compared with the same period last year, they captured 41.2% of India's



domestic M&A activity this year.

Rajiv Vaid, chief operating officer, Daiwa Capital Markets India Pvt. Ltd, said 2013 could be subdued compared with 2012. "There is a twist in the entire political landscape. We are sitting on general elections. These factors may put a sort of a speed breaker on domestic M&A," he said.

The value of cross-border M&A transactions increased 36.7% to \$19.3 billion compared to the first nine months of 2012, driven by a 178.5% increase in India's outbound M&A activity. Inbound M&A activity slipped

2.3% to \$10.8 billion. Completed M&A deals involving Indian companies totalled \$21.8 billion, a 58.1% increase from the first nine months of last year.

"Inbound M&A has fallen due to the current macro-economic issues and the recent rupee depreciation. When it comes to outbound, the increase has been driven by the companies' desires to diversify and generate dollar-based revenues. In today's times, when domestic revenues are dwindling and rupee falling, having access to other geographies is very attractive," said Vaid.

The energy and power sector

accounted for a majority of the acquisitions involving Indian companies with a 25.5% share worth \$6.1 billion—a 246.7% increase from a year ago.

Mozambique was the most-targeted nation in terms of value, accounting for a 60.3% share worth \$5.1 billion from two deals. The US, however, saw the most number of announced transactions with 18 deals valued at \$2.7 billion (31.9% share).

"Large ticket M&A transactions are opportunistic deals and will continue. Typically they are not dependent on the market conditions but on strategic requirements of a corporate," said Vaid. To be sure, private equity-backed M&A deals in India dropped 48% this year to its lowest since 2009.

Vaid said foreign investors such as the Japanese continue to scout for investment opportunities in India. "The interest from Japanese investors has more than doubled now compared with 2012. They continue to be interested in diversified sectors like financial services, power, technology and pharma."

Meanwhile, according to estimates from Thomson Reuters/Freeman Consulting Co., M&A advisory fees from completed transactions in India totalled \$76.9 million during the first nine months of 2013, a 20.2% rise from a year ago.

Citigroup Inc. took the top spot on M&A fee rankings for advisory work for completed M&A deals in India so far this year with \$14.8 million, and accounted for 19.2% share of the fee pool.