

# A VIEW FROM

## INDIA STANDS OUT AS NEW M&A DESTINATION

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Mergers and acquisitions are once again being actively considered as a way to strategically spur growth in almost all global economies. The shift began in 2014 as both completed deal volumes and deal values reversed the downward trend of recent years. Looking ahead, investors' increased appetite and capacity for deals is expected to continue.

According to our latest M&A Predictor report, corporate forward P/E ratios (our measure of corporate appetite) are predicted to be 7 percent higher than in the previous year. The capacity to transact, as measured by forecast net debt to EBITDA, is expected to improve 14 percent over 2015 with the largest companies paying down debt and stockpiling cash.

This re-emergence of the global M&A market is being driven by favorable economic and financial market conditions and growing confidence after years of cost cutting and focusing on organic growth strategies.

This renewed focus on M&A, however, is different than in years past. Investors are looking for opportunities that strategically fit within their portfolio. As they do so, they are turning to new markets and technologies for inspiration.

### STRONG M&A GROWTH IN INDIA

India is such a market. In the last year, Thomson ONE reports that India has seen a 26.2 percent increase in deal value and a 10.6 percent increase in deal volume (where the target was based in India). This trajectory continues as the total deal value in the first quarter of 2015 was 31.4 percent greater than last year.

Private Equity exits are expected to be a key theme in 2015 and beyond. According to Dow Jones, this year is expected to result in the highest number of PE exits through IPO in the past three years.

### INTERNATIONAL INVESTOR INTEREST RISES

India's M&A activity has seen strong domestic growth. Thomson ONE reports a 142 percent increase in deal value in India in 2014 (both target and acquirer based in India). Inbound deal numbers also increased by 10 percent last year (acquiring company based outside India). This trend should see significant uptick in 2015 now that the government has opened specific sectors to greater foreign direct investments. The insurance industry, for example, saw its cap on FDIs raised to 49 percent from 26 percent at the end of last year. Similar increases were applied to the railway and defense industries.

As we look ahead, infrastructure, e-commerce, healthcare and technology are each key sectors that are expected to gain the attention of inbound investors this year. These investors will most likely hail from the US, China and Japan as they have both the deal appetite and capacity to take advantage of India's huge growth potential this year.

To further international interest, Modi along with government and business leaders, visited France, Germany and Canada in April to identify opportunities for investment and technology tie-ups.

### COMPLEX DEAL-MAKING ENVIRONMENT

India's economic revival, the budget reforms and the pipeline of regulatory changes and developments in the works are transforming India into a viable M&A market. Plus, the country's fast growing consumer markets offers attractive growth opportunities for investors that are lacking opportunities in their home markets.

However, India remains a tough place for doing deals.

Coverage and availability of information on companies are often patchy. In addition, many completed deals are the result of local relationships and deep understanding of regional operations of potential targets. For many investors unfamiliar with India's complex, fragmented process, issues arise with compliance, tax, historical information and cultural differences.

To realize the lasting results stakeholders expect, investors must recognize the need for superior strategies, comprehensive due diligence and well-developed integration plans. Doing so should better manage the deal process and make investments in India a viable and promising growth opportunity.

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