

News release

Companies that seek M&A targets to double in India, says Ernst & Young report

- **76% expect acquisition financing for major projects to be available in the next 12 months**
- **Funding of acquisitions not a constraint any more, says India Inc.**

Mumbai, 26 April, 2010 – Optimism is growing in the Indian M&A environment as 54% of businesses state they are likely or highly likely to acquire other companies in the next 12 months, almost double that of the number six months ago, according to the *Capital confidence barometer*, a global study by Ernst & Young. India had close to 60 respondents in the study, the fourth highest response rate at a country level.

Focus is once again returning from divestments to acquisitions. **Ranjan Biswas**, Partner and National Director, Transaction Advisory Services, Ernst & Young India, says, “With greater liquidity, we are seeing companies more willing to make acquisitions that they had previously deferred. With the current environment, we are now observing that there are more potential buyers than willing sellers.”

Confidence in the global economy as a whole is improving – 40% of respondents globally, expect the downturn to end within 12 months, compared to 30% last November. 91% of respondents from India are more optimistic about the local economy, making India the second most optimistic country after Australia (93%). Interestingly, some of the western developed markets were the least confident – France (44%), US (56%) and UK (57%).

Among the industry sectors globally, the survey shows Automotive as the most confident of growth (81%) with Power & Utilities the least confident (59%). Yet it is the Power & Utilities sector, together with Pharma and Life Sciences, that is most focused on inorganic growth. 69% of Oil & Gas companies are the keenest to sell businesses, through planned divestments within the next six months.

Improved credit condition

The study also finds that credit conditions in BRIC countries have improved significantly over the past 6 months as compared to the developed markets which have experienced a marginal improvement. 86% of businesses in India are now focused on growth, compared to 76% six months ago. Further, 22% of respondents from India say that funding major capital projects and acquisitions is not a problem for their organization while 76% of the remaining are expecting it to become available in the next 12 months. Refinancing is a sought after method with close to 40% of the respondents likely to take this route in the next 12 months.

Adds **Ranjan Biswas**, “Cash and debt were the primary sources of funding transactions for the past 12 months. While this will continue to be so, dependency on bank loans is expected to decline and equity will be more likely used as a source of funding.”

Despite the doubling of interest in acquisitions, the focus for Indian companies is internal investment with 81% of respondents from India listing organic growth among their top priorities for allocating capital in the next 6 months. Other priorities would be increased attention on cost efficiencies across assets, liquidity management and customer focus.

New dynamics: buyers focused on future potential rather than past performance

The downturn has had a significant impact on deal dynamics. A new development is that potential buyers are looking more closely at growth opportunities and valuations based on drivers such as revenue growth rate, future market share and new customer markets.

“The deal process is evolving,” says **Ranjan Biswas**. “if a company can actually demonstrate real revenue and market share growth, then it will fetch a higher valuation relative to its peers”.

Post-deal integration is now also critical with 86% respondents in India (77% respondents globally), citing potential synergy identification and realization in transactions as a high priority. Commenting on their latest transactions, 80% of respondents in India said that while they were able to achieve targets in terms of time frame, more than one third (36%) underperformed in terms of value achieved.

Working capital concerns

41% of respondents from India still have core business restructuring high on their agenda.

Ranjan Biswas adds: “Driving operational fitness and working capital management remains absolutely critical. It is clear from the results of the study that most companies have learnt some valuable lessons during the downturn – 90% have reviewed their working capital processes and made some improvements. That said, 51% of these have been tactical and short-term improvements, so ongoing discipline is still needed.”

Overall, the study emphasizes that capital is key. Companies who acted – and continue to act – decisively and swiftly to adapt to the downturn are now moving ahead of the competition and have laid foundations for market leading success. Essentially, how organizations manage their capital today will define their competitive position tomorrow.

- Ends -

About the survey

The Ernst & Young *Capital confidence barometer* is a survey of over 800 senior executives from large companies around the world and across industry sectors. The objective of the *Barometer* is to gauge corporate confidence in the economic outlook, to understand boardroom priorities in the next 12 months, and to identify the emerging capital practices that will distinguish those companies that will build competitive advantage as the global economy continues to evolve. This is the follow up to the first *Barometer* in November 2009.

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