Transactions Annual

Highlights of 2017 and outlook for 2018

EY
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Contents

Foreword

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The year 2017 was a mixed bag for the Indian economy with a continued reforms push by the Government. The year saw record-breaking stock indices, uncertainty around the Goods and Services Tax (GST) implementation and the lagged effects of demonetization. While the economic growth remained under pressure for the major part of 2017, the year ended on a positive note with improvement across macroeconomic indicators. The recent revision in the economic growth forecasts by the International Monetary Fund (IMF), to 7.4% for 2018 from the earlier 6.7%, also affirms this optimism. During the year, we also saw major regulatory announcements such as the enforcement of the Insolvency and Bankruptcy Code (IBC) and the recapitalization plan for public sector banks. As a result of the pro-business policies, India jumped 30 spots in the ease-of-doing business rankings. The Government is further gearing for upgrades as they chalk out a comprehensive reforms plan for 2018.

In terms of M&A, deal volume witnessed a significant jump, reaching a seven-year high. the deal value declined as compared to the last year. At the same time, the deal value momentum was more pronounced on the domestic front due to the favourable local deal environment. Notably, we saw domestic players engaging in a large number of deals driven by companies' focus on scale and market expansion, heightening competition, and capital recycling exercises. Cross-border activity was tepid during the year, with reduced inbound deals causing the decline in deal value and outbound deals for the decrease in volume.

Another emerging trend during the year was the prominence of strategic mid-to-small sized deals. The year witnessed fewer big-ticket deals (US$500 million and above) as the increased scrutiny by regulators and complex deal structures created a situation of caution and tepidity, thereby delaying decision making on big deals.

For private equity (PE), the year emerged as record-breaking with the best-ever performance in terms of exits and investments. On the investment front, PE deals increased to US$25 billion in 2017, which is the highest ever recorded. It was largely characterized by large value deals (value greater than US$100 million) mainly due to increasing exposure of pension funds, sovereign wealth funds and global buyout funds in India. We expect this momentum to continue, both on the investments and the exit side. Even on the Initial Public Offering (IPO) front, it was a blockbuster year, with several companies such as General Insurance Corporation of India, New India Assurance, SBI Life, Eris Lifscience, Prataap Snacks, Mahindra Logistics etc. going public.

In 2018, we expect the M&A activity to stay healthy on the back of a stable economy, and continued efforts by the Government to remove regulatory hurdles and attract foreign investment. However, we might see certain challenges such as soaring valuations and high capital market benchmarks, which might cause a temporary slowdown in deal-making. Domestic deal activity is likely to reign the overall M&A market, with asset sales and debt reduction deals coming to the forefront as the IBC speeds up the resolution process of distress cases. Also, there will be an increased appetite to undertake disruptive deals across sectors, with digital transformation being the key driver.

Indian M&A remained steady in 2017

Indian M&A ended the year on a positive note with 1,022 deals clocking a disclosed value of US$46.8 billion. While the deal volume reached a record high (as compared to 895 deals in 2016) since 2010, the deal value was lower by 12% from US $53.2 billion in the previous year. Deals aimed at market expansion and entry into new markets, digital disruption and sector convergence, were the primary drivers of deal-making during the year.

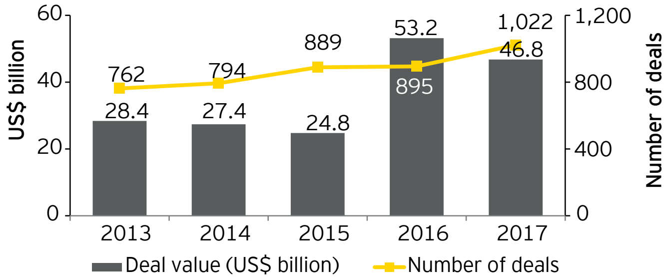
The increase in deal count can be largely attributed to the strong deal activity in the domestic arena throughout the year, showcasing the preference of the local market for businesses, driven by a stable economy and positive deal market fundamentals. The year fared well on the value front as well with the yearly performance being in line with the median average of the previous few years. Keeping in mind last year's outstanding activity in value terms, the decline in deal value during 2017 can be primarily attributed to the fewer number of big-ticket deals (US$500 million and above). The year recorded 13 big-ticket deals as compared to 21 in the last year. Some other factors such as the uncertainty resulting from GST implementation and the lagged effects of demonetization, heightened intensity of diligence in multiple areas and delays in approval processes also had an unfavorable impact on deal timelines.

Domestic deals continued to dominate the Indian M&A landscape, as homegrown companies preferred inorganic route to achieve growth. In terms of volume, the year saw 682 deals constituting around 67% of the total deal volume. The domestic deal value stood at US$37.9 billion, accounting for more than three-fourth of the total disclosed value, a first-time phenomenon ever in the Indian M&A deal market. Interestingly, 127 deals (totaling US$10 billion) out of the total domestic deals were restructuring in nature, constituting around 19% of the domestic deal volume and 27% of the deal value. The local M&A market saw three billion-dollar-plus such deals during the year, totaling US$5.3 billion.

Cross-border activity was muted during the year both in volume and value terms. On the volume front, a subdued outbound activity played dampener taking the deal count down to 340 from 367 in prior year. Deal value declined significantly by 71% year-on-year (y-o-y) to US$8.9 billion from US$30.5 billion in 2016 due to weak inbound activity. The value of inbound deals fell to US$6.5 billion from US$20.9 billion in the previous year, which saw one of the biggest inbound deals in the Indian history — the US$12.9 billion acquisition of Essar Oil Limited and Vadinar port by a consortium led by Rosneft Oil Company.

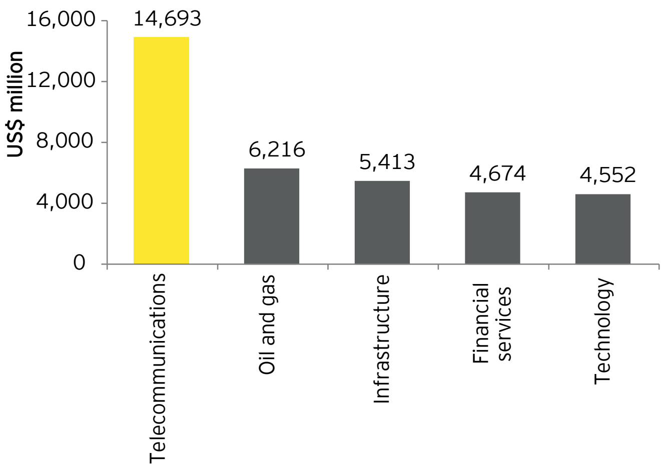
The telecom sector ruled the roost for M&A activity in 2017 in terms of value, largely due to the Vodafone-Idea mega-merger worth US$11.6 billion in which both the parties agreed to combine their Indian operations (excluding Vodafone's 42% stake in Indus Towers) to create India's largest telecom operator by revenue and subscribers. Oil and gas and infrastructure followed the league. From a volume perspective, the financial services sector took the lead followed by technology and retail and consumer products, accounting for nearly one-third of the total announced deals in 2017.

Exhibit 1: M&A activities of Indian companies



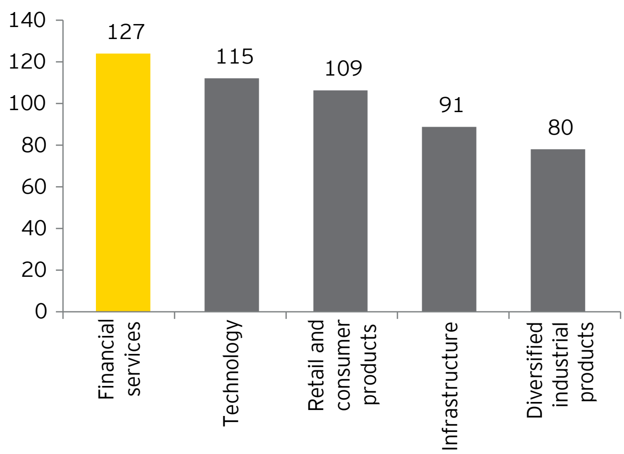
Source: EY analysis of Thomson ONE data

Exhibit 2: Five most active sectors by deal value in 2017



Source: EY analysis of Thomson ONE data

Exhibit 3: Five most active sectors by deal count in 2017



Source: EY analysis of Thomson ONE data

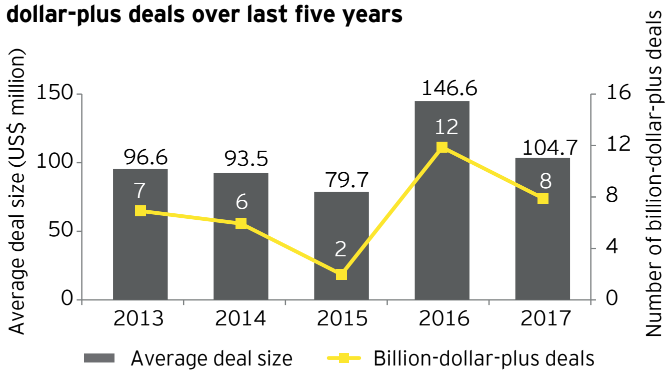
Decline in billion-dollar-plus deals

The current year witnessed only eight as compared to 12 in the previous year, owing to the heightened scrutiny by regulators and complex deal structures having an unfavorable impact on deal timelines. The majority of deals during the year were concentrated in the lower value bands (less than US$20 million) as corporates held back from venturing into big-ticket acquisitions. This also resulted in a significant drop in average deal size to US$105 million in 2017 from US$147 million last year.

For these deals, the domestic market remains a preferred destination with seven such deals contributing 60% in the total M&A deal value of the year. Two of these deals were merger deals (Vodafone India–Idea Cellular and Bharat Financial Inclusion Limited–IndusInd Bank Limited). In the second largest deal of the year, Oil and Natural Gas Corporation agreed to acquire 51.1% government's stake in Hindustan Petroleum Corporation Limited. Another one was the announced sale of the Mumbai power business of Reliance Infrastructure Limited to Adani Transmission Limited, as a step to deleverage its balance sheet. There were three other internal restructuring deals with an aggregate disclosed value of US$5.3 billion.

The only billion-dollar-plus deal on the inbound front was the US$1.4 billion investment in Flipkart Internet Private Limited by a consortium consisting of eBay Inc., Microsoft Corporation and Tencent Holdings Limited for a minority stake in the company. Flipkart will also buy eBay's India business as part of this deal.

Exhibit 4: Average deal size and number of billion-dollar-plus deals over last five years



Source: EY analysis of Thomson ONE data

Cross-border activity fizzled out

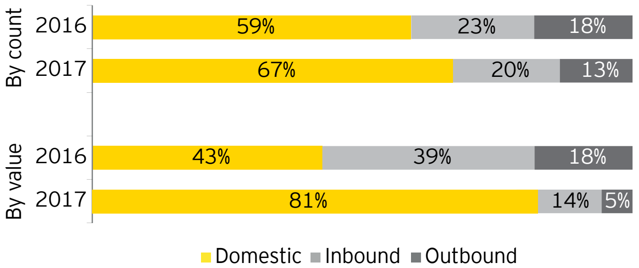
- The year saw 340 cross-border deals with a cumulative disclosed deal value of US$8.9 billion. This translates into into 'a' in stead of an 7% decline, in terms of deal volume, compared with 2016, while cumulative deal value slumped by nearly 71% over the same period.
- Inbound activity weakened in terms of aggregate deal value
  - A total of 203 inbound deals took place in 2017 with a cumulative disclosed deal value of US$6.5 billion. While the deal volume remained flat, the deal value witnessed a steep decline of 69%, from US$21 billion, partially due to a higher base in 2016. Notably, the year 2016 saw one of the biggest inbound deals in the Indian history – the US$12.9 billion acquisition of Essar Oil Limited (98% stake) and Vadinar port by a consortium led by Russia's state-controlled petroleum giant Rosneft Oil Company.
  - There was only one billion-dollar-plus deal on the inbound front in 2017 as compared with two such deals in the previous year.
  - On the volume front, technology was the most active sector for inbound activity in 2017, followed by diversified industrial products, financial services, and the retail & consumer products sector.
- Outbound activity also diminished
  - The year 2017 recorded 137 outbound deals with a cumulative disclosed deal value of US$2.4 billion. When compared with the last year, this implies a 16% decline in deal volume, from 163 deals, and 76% in disclosed value, from US$9.6 billion. The subdued activity can be attributed to a fall in big-ticket (deals having a disclosed deal value of US$500 million or above) outbound acquisitions. The year recorded just one such deal (for US$604 million) as against four (aggregating US$6.7 billion) in the last year.
  - In terms of deal volume, technology and pharmaceuticals continued to be the most active sectors on the outbound front in 2017.
  - In terms of deal value, the automotive sector led the outbound activity this year, driven by Motherson Sumi Systems Limited's acquisition of Finland-based PKC Group plc for US$604 million.
- United States continued to be the most active cross-border partner (71 inbound; 45 outbound), followed by Singapore (18 inbound; 9 outbound) and Japan (23 inbound; 1 outbound).

Exhibit 5: Geographical distribution of deals

	2016		2017	
	Count	Value (US$ million)	Count	Value (US$ million)
Domestic	528	22,658	682	37,939
Inbound	204	20,901	203	6,517
Outbound	163	9,640	137	2,356
Total	**895**	**53,199**	**1,022**	**46,812**

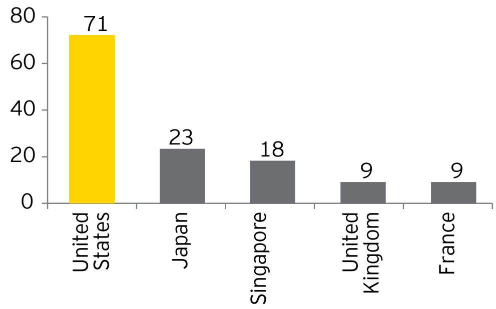
Source: EY analysis of Thomson ONE data

Exhibit 6: Geographical spread of deals in 2017



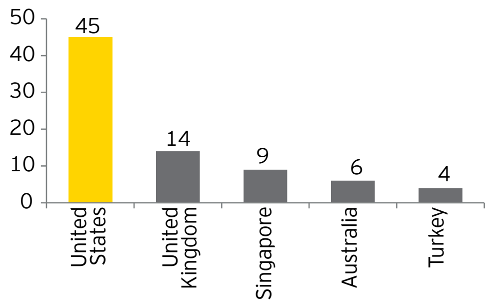
Source: EY analysis of Thomson ONE data

Exhibit 7: Most acquisitions of Indian companies in 2017 by nation



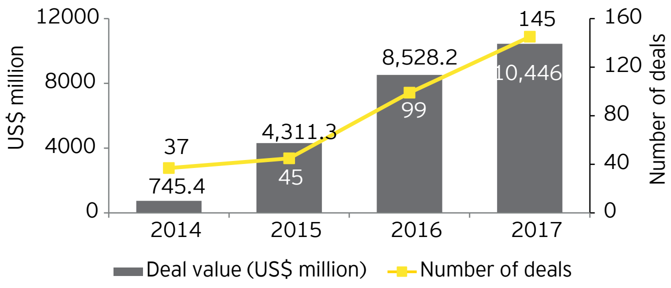
Source: EY analysis of Thomson ONE data

Exhibit 8: Five most targeted nations by Indian companies in 2017



Source: EY analysis of Thomson ONE data

Exhibit 9: Restructuring activities of Indian companies



Source: EY analysis of Thomson ONE data

Restructuring deals increased during the year

In order to achieve portfolio optimization and operational efficiency, restructuring activity was seen as a major driver of domestic M&A activity during the year. Out of the total restructuring deals, 88% were domestic in nature. Stake increase and asset transfers within group companies were common phenomena during the year. A total of 99 deals with an aggregate disclosed value of US$4.8 billion were recorded during 2017, as compared to 56 such deals with a value of US$2.5 billion in 2016. Some supporting deals included the following:

- In an internal reorganization, DHFL Investments Limited, a unit of Dewan Housing Finance Corporation Limited (DHFL), acquired a 50% interest in DHFL Pramerica Life Insurance Company Limited at a sale price of US$308.5 million.
- Indiabulls Infrastructure, a wholly owned subsidiary of Indiabulls Real Estate, has agreed to acquire group company India Land and Properties for US$103.5 million.
- Future Enterprise Limited exited from a group's FMCG firm Future Consumer Limited. The stake was picked up by a promoter group company Future Capital Private Limited.

Share repurchase was also a prominent aspect of many deals. During the year, two billion-dollar-plus repurchase transactions were completed by Indian IT companies to return surplus capital to their shareholders.

The year also saw spin-off deals as the companies wanted to have a focused strategy for non-related businesses and create value for the shareholders. The following are a few examples of spin-offs being concluded during the year:

- Arvind Limited announced to spin-offs its branded apparel business, Arvind Fashions, and engineering business, Anup Engineering, into separate companies.
- Sundaram Finance has decided to spin-off its non-financial services investments, including several investments in automotive and manufacturing businesses, into a wholly owned subsidiary, Sundaram Finance Investments Limited.
- Adani Enterprises has proposed to demerge its renewable energy business into associate company Adani Green Energy Limited as part of a business structure simplification exercise.

Sector convergence and digital disruption — key drivers of M&A activity in 2017

Unrelenting advances in technology and the ongoing digitalization have disrupted business models. This has led to the blurring of sector lines and changing consumer experience, making it imperative for companies to review and reinvent their business models. Companies are looking for innovative acquisitions in their core sector, with an aim to future-proof their businesses to survive and thrive in the digital world.

The convergence of all industries with the technology sector is becoming one of the key narratives of the modern corporate economy. The underlying factors driving sector convergence include catering to changing customer behavior, gaining a competitive edge and maximizing operational synergies. Additionally, rapid innovation and growing use of smart technologies such as artificial intelligence, Internet-of-Things (IoT) and machine learning remain at the center of sector convergence.

FinTech is reshaping the Indian financial industry

The FinTech sector in India is poised for massive growth driven by factors such as increasing adoption of technology, higher internet penetration, unmet financial needs of the consumers and proactive policy support from the Government. There were more FinTech acquisitions in 2017 as financial institutions faced the increasing need to expand their reach and digitize customer experience.

Payments solutions is leading this trend, followed by other FinTech services such as insurance aggregator, bank aggregator sites, peer-to-peer lending platforms, online stockbroking and investment sites.

The results of the recently launched EY's FinTech Adoption Index 2017 also revealed that FinTech adoption in India has increased significantly over the last two years. The results also disclosed that India has the second-highest FinTech adoption rate of 52%, just behind China's 69% and significantly higher than the global average of 33%. Some of the supporting deals during the year were as follows:

- Telecom major Bharti Airtel acquired a strategic stake in Goa-based financial technology startup Seynse Technologies Private Limited for an undisclosed amount. With this deal, Airtel would be able to leverage Seynse's technological capabilities for its financial operations platform, including the payments bank.
- Axis Bank has acquired 100% equity capital of both Accelyst Solutions Private Limited and Freecharge Payment Technologies Private Limited, which together constitute the digital payments business under the "FreeCharge" brand. The acquisition marks the first such acquisition of a digital payments company by a bank in India and is valued at around US$57 million.
- Spice Digital agreed to invest up to US$3.9 million in Luharia Technologies that runs the peer-to-peer lending platform anytimeloan.in.

Tech-retail convergence: A key driver for consumer sector M&A

The retail and consumer products sector has witnessed rapid integration of digital technology by riding on changing customer expectations, greater internet penetration and increasing willingness to transact online. We saw traditional retailers entering the online space to counter rising competition from ecommerce companies. The following are a few examples of this trend:

- Kalyan Jewellers agreed to buy online jewelry firm Candere for an undisclosed amount.
- Wipro Consumer Care, the personal care arm of Wipro Enterprises, agreed to invest an undisclosed amount in online gifting firm Happily Unmarried Marketing Private Limited.
- Marico Limited acquired a 45% stake in Zed Lifestyle (operating under the Beardo brand), a men's grooming firm.

At the same time, existing online players were seen acquiring their rivals to derive synergies and serve a larger customer base.

The key deals were as follows:

- MJVS Fashion Services Private Limited, which operates a used-apparel reselling platform CoutLoot, has acquired Bengaluru-based Stororo Services Private Limited for an undisclosed amount.
- Ola announced a deal to buy Foodpanda's Indian business from its Germany-based parent firm, Delivery Hero Group, for US$31.6 million.

- Zomato Media Private Limited invested an undisclosed amount in Hyderabad-based food delivery startup TinMen, owned and operated by Vicinia Retail Private Limited.

Another emerging trend was the reverse entry of online players such as Flipkart, Amazon (acquiring a 5% stake in Shoppers Stop Limited), Myntra and Lenskart into the offline retail space.

Convergence of services sector with technology has become an eminent trend

A large number of transactions were seen in the continuously evolving services industry wherein traditional professional/ travel service players tapped the online market and went digital to counter the increasing competition. The companies were seen exploring novel means of doing business, predominantly through digital channels, to withstand in an increasingly disruptive environment. At the same time, existing online services players acquired their rivals to tap into new areas of growth and scale up their businesses. The following are a few examples deals reinforcing this trend:

- Temporary staffing company TeamLease Services Limited completed the acquisition of a 30% stake in the online job portal Freshersworld.com to strengthen its technology platform.
- Homelane announced the acquisition of Capricoast.com, an online furniture and home design services marketplace, for US$13.8 million.
- US-based Ebix Inc. agreed to acquire Via.com, an online travel portal, for US$74.9 million.
- MakeMyTrip entered into a share purchase agreement with Ctrip.com International Limited and MIH Internet SEA Pte. Limited for the issuance of ordinary shares worth US$165 million.

Healthcare technology emerging as a prominent phenomenon

With the availability of advanced and sophisticated medical technology, the healthcare sector is undergoing a transformation at different stages — prevention, diagnosis, treatment and delivery.

Given the significant demand-supply gap of healthcare services in India, medical technology provides immense growth potential. The convergence of healthcare with upcoming technologies such as cloud computing and wireless technologies is playing a key role in addressing traditional challenges such as low doctor-to-patient ratio, inaccessibility of healthcare facilities and high cost associated with healthcare services. Technological innovations are helping healthcare providers improve the patient experience, enhance the quality of medical services and operate more efficiently. During the year, both domestic and foreign players engaged in inorganic activity to take advantage of this opportunity.

Some of the examples are as follows:

- WNS (Holdings) Limited announced the acquisition of the US-based HealthHelp, for US$95 million to boost its offerings for the healthcare industry.
- Aviacode, a US-based provider of technology-enabled medical coding and compliance services, will acquire an India-based medical coding company for an undisclosed amount.

EdTech firms are revolutionizing the education sector in India

The education sector in India has witnessed a paradigm shift with the emergence of technological innovations such as big data and artificial intelligence. EdTech startups have grown in prominence owing to the growing penetration of smartphone users and the increased reach and convenience these online education service firms offer. Given the significant growth potential of the online education sector, a large number of players were seen exploring the acquisition opportunities, driven by the need to enhance product offerings and expand the customer base. The following are examples of some of the supportive deals:

- CL Educate invested US$1.2 million in 361Degree Minds Consulting Private Limited, a research-led EdTech company.
- EdTech firm AEON Learning announced the purchase of Acadgild, which offers high-end tech skills to mid-career IT professionals, for US$10 million.
- EdTech startup Byju's agreed to acquire the learning guidance tool and student profile-builder Vidyartha, owned and operated by SPAN Thoughtworks Private Limited, for an undisclosed amount.

Sector focus
Telecommunications

The sector topped deal value charts

The sector put up an impressive show in terms of deal value. It led the pack with the highest yearly deal value (US$14.7 billion) recorded in the last 10 years — a more than five-fold increase as compared to 2016. On the volume front, the activity was flat with 19 deals, the same as the last year. The majority of the transactions were domestic in nature, accounting for 92% of the sector's deal value and 58% of the deal count.

The consolidation story unfolds

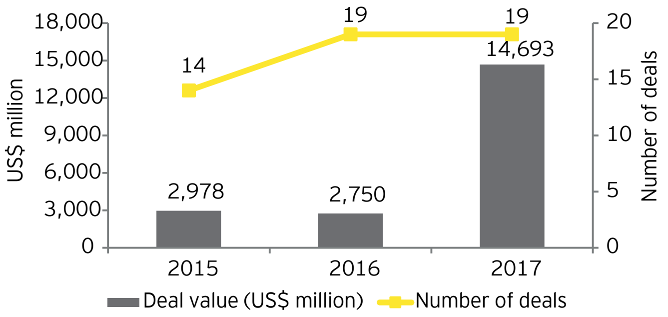
The Indian telecom industry has been facing stiff competition for long, with tariff wars hitting the bottom line of companies. This has exerted a heavy drag on companies' balance sheets especially when they continued spending money aggressively on spectrum acquisition and infrastructure development. The situation was further aggravated in September 2016 by the entry of Reliance Jio, which shook the sector by offering free voice and data services. This forced the incumbents to drastically cut tariffs, further flagging pressure on their revenue and profitability. All these factors triggered the long-awaited consolidation in the telecom sector, precipitating merger announcements by some players and exits/buyouts by a few others.

- The year started with Bharti Airtel Limited agreeing to buy Norway-based Telenor's India unit Telenor India in February to augment its customer base and network.
- This deal came amid fierce competition and followed merger discussions between Vodafone Group PLC's India unit and Idea Cellular Limited. The final US$11.6 billion merger agreement between Vodafone India Limited and Idea Cellular Limited was signed in March in which both the players agreed to combine their Indian operations (excluding Vodafone's 42% stake in Indus Towers). The merged entity will be India's largest telecom operator by revenue and subscribers.
- Just three days after the Vodafone-Idea merger announcement, Bharti Airtel Limited agreed to buy Tikona Digital Networks Private Limited's 4G business, including its broadband wireless access spectrum and 350 cellular sites in five telecom circles, for US$244.5 million.
- At the beginning of the fourth quarter, Tata Teleservices Limited and Tata Teleservices Maharashtra agreed to merge their consumer mobile business with Bharti Airtel Limited, making Tata quit the loss-making consumer mobile business and focus on the enterprise business.

- Toward the end of the year, Reliance Jio Infocomm Limited agreed to buy the wireless spectrum, tower assets, optical fiber network and media convergence node assets of Reliance Communications Limited for an undisclosed amount.

Amid consolidation in the telecom operator space, we also saw some deal activity in the telecom tower segment – Vodafone India Limited and Idea Cellular Limited were seen selling their tower business to American Tower Corporation Telecom Infrastructure Private Limited for US$1.2 billion. Additionally, discussions were held during the year for the potential sale of Reliance Infratel and Tower Vision to PE players.

Exhibit 10: M&A deals in the telecommunications sector



Source: EY analysis of Thomson ONE data

Exhibit 11: Geographical distribution of telecommunications sector deals

	2015	2016	2017
Number of deals			
Domestic	4	8	11
Inbound	7	8	4
Outbound	3	3	4
Total	**14**	**19**	**19**
Deal value (US$ million)			
Domestic	1,018	1,481	13,447
Inbound	1,954	1,142	1,246
Outbound	6	127	-
Total	**2,978**	**2,750**	**14,693**

Source: EY analysis of Thomson ONE data

Outlook

The sector is expected to consolidate further

With the current wave of consolidation, the Indian telecoms market will shift from an otherwise fragmented industry with multiple operators to a more balanced market with three to four strong players in the long run. The industry is likely to be more stable with tariff wars easing out and companies focusing on assembling their merged entities and realizing synergies from them.

The year 2018 is likely to be an important one for telecom players, with consolidation taking firm shape and the new National Telecom Policy about to be launched in a few months. We expect to see acquisitions and tie-ups aimed at gaining new technologies and moving to new business models, such as building IoT capabilities and entering the mobile virtual network operator (MVNO) market to build new revenue streams and fight competition. In addition, driven by significant pressure on cash flows and stretched capital structure, telecom operators are expected to engage in monetization of tower assets as a step to strengthen their balance sheet.

Furthermore, the Government's recent efforts in terms of easing of the spectrum cap (to 35% from 25% and removal of the 50% cap on the holding of the total spectrum), coupled with the plan of allowing 100% FDI through the automatic route, will also drive merger deals and transactions pertaining to changes in existing shareholder patterns.

Sector focus

E-commerce and food and beverage (F&B) led M&A activity

In 2017, the retail and consumer products (RCP) sector witnessed an upsurge in M&A activity clocking a total of 109 deals as against 83 in 2016. The aggregate disclosed deal value at US$2.9 billion, was more than four times the levels seen a year ago (US$637 million), mainly due to one big-ticket deal in which a consortium comprising of Tencent Holdings Limited, eBay Inc. and Microsoft Corp. picked up a stake in Flipkart for US$1.4 billion. As part of this deal, Flipkart also acquired the Indian arm of eBay Inc.

A significant chunk of sector deal activity was centered on consolidation as players acquired complimentary capabilities to strengthen their existing market positions. Additionally, the year also saw deals focused on the convergence of distribution channels to offer a complete shopping experience to consumers. While domestic activity led in terms of deal volume (71% share), inbound activity was the primary contributor to the total deal value (72% share) indicating high levels of global interest garnered by the Indian RCP sector.

Online retail continues to dominate transaction activity

E-commerce has continued to be a sweet growth spot for the RCP sector. In 2017, the segment registered 24 deals for an aggregate disclosed value of US$1.6 billion. Intense consolidation was witnessed in the online retail space as organizations acquired other strategically aligned players in an attempt to gain access to a larger customer base and distribution network. The following are a few examples of deals around this trend:

- Flipkart acquired the Indian arm of eBay Inc. and also received a cash investment from eBay Inc. in exchange for an equity stake.
- Paytm acquired two online deal platforms — Nearbuy and Little — which focus on restaurants and commercial establishments.
- Myntra Designs Private Limited plans to acquire a minority stake in women's fashion online portal 20Dresses.
- Fashion portal Elanic Services Private Limited acquired Secondcry, an online marketplace for pre-owned toys and apparels for children, from Priceless Parenting Private Limited.
- Zomato Media Private Limited invested an undisclosed amount in Hyderabad-based food delivery startup TinMen, owned and operated by Vicinia Retail Private Limited.
- Ola, operated by ANI Technologies Private Limited, entered the online food space by acquiring start-up Foodpanda India from Delivery Hero AG for US$31.6 million.

The year also marked the entry of another global e-commerce giant, Alibaba, in the Indian online retail space. An investor group comprising Alibaba and SAIF Partners acquired a 41% stake in Paytm for US$200 million. With the recent set of events, the Indian e-commerce sector, which is now dominated by three major players — Amazon, Flipkart and Alibaba (through Paytm) — is likely to witness accelerated consolidation as these three attempt to capture additional market share.

With an increase in online shopping, the traditional brick-and-mortal players are actively exploring acquisition opportunities that enable them to provide a blended offline and online shopping experience. In 2017, a number of offline players acquired online firms in similar verticals. The key examples in this space include:

- CEAT Limited, a unit of RPG Enterprises, plans to acquire a 29% stake in Tyresnmore Online Private Limited, a New Delhi-based online retailer of tires for car and bikes and other accessories.
- Kalyan Jewellers India Private Limited acquired the online jewelry firm Candere.
- Emami Limited acquired a 30% stake in Helios Lifestyle Private Limited, thereby entering the online male grooming segment.
- Wipro Consumer Care, the personal care arm of Wipro Enterprises, has agreed to invest an undisclosed amount in the online gifting firm Happily Unmarried Marketing Private Limited.

On the other hand, some momentum was also visible in the opposite direction with online players entering the offline space. Amazon's investment arm has agreed to acquire a 5% stake in Shoppers Stop Limited, a Mumbai-based retail company, for US$27.7 million. The recent deals indicate that while individual formats (online or offline) will remain important in the near future, omni-channels will increasingly score on convenience and better shopping experience.

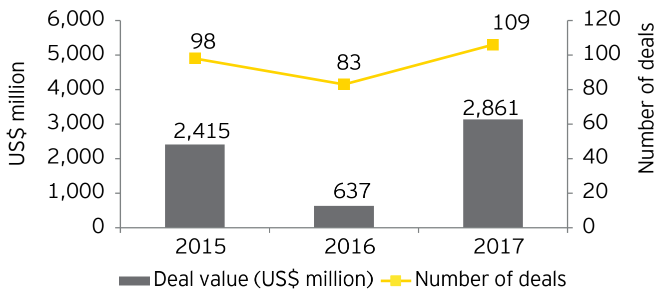
Consolidation driving deal activity in the F&B segment

F&B continued to be one of the most active segments backed by increasing disposable income, favorable demographics and rising per-capita consumption. The segment alone accounted for 38 deals for an aggregate disclosed deal value of US$644 million. Deal activity was seen across the entire F&B spectrum, right from food essentials (sugar, rice, edible oils etc.) to processed foods (snacks, drinks etc.) as players consolidated their positions to capitalize on the growth opportunities in the segment.

To highlight this context, the following are a few examples:

- Adani Wilmar Limited, jointly owned by Wilmar International Limited and Adani Enterprises Limited, plans to acquire the edible oil refinery business of Gokul Refoils & Solvent Limited, an Ahmedabad-based oilseed processor, for US$44.6 million.
- Guiltfree Industries Limited acquired a 70% interest in Apricot Foods Private Limited, a Rajkot-based manufacturer of snack products, in a privately negotiated transaction.
- Varun Beverages Limited plans to acquire the manufacturing facilities of PepsiCo India Holdings Private Limited, a manufacturer of soft drinks, ultimately owned by PepsiCo.

Exhibit 12: M&A deals in the retail and consumer products sector



Source: EY analysis of Thomson ONE data

Exhibit 13: Geographical distribution of retail and consumer products (RCP) sector deals

	2015	2016	2017
Number of deals			
Domestic	69	54	77
Inbound	22	13	21
Outbound	7	16	11
Total	**98**	**83**	**109**
Deal value (US$ million)			
Domestic	1,284	364	732
Inbound	1,131	268	2,054
Outbound	-	5	75
Total	**2,415**	**637**	**2,861**

Source: EY analysis of Thomson ONE data

Outlook

Consolidation and strategic investments to drive M&A activity

With rising discretionary spending, favorable demographics and growing internet penetration acting as triggers, the prospects for the M&A sector look promising. While there may be some short-term residual weakness emanating from demonetization (especially in rural consumption) and GST implementation (largely in unorganized retail), the long-term outlook for the sector is vibrant as players will continue to consolidate their market position through the acquisition of consumer bases and distribution networks. India's recent advancement to the top position (surpassing China) in the Global Retail Development Index, 2017 (by AT Kearney) is a testimony to the growing attractiveness of its retail sector.

As the economy transitions toward a less cash model, time is also ripe for players to acquire leading-edge technologies that support digital transactions. Within distribution channels, while online retail will continue to garner a lot of investor interest, the sector is also likely to witness M&A activity in the offline space as large players further consolidate their resources. Future Retail's announced acquisition of HyperCity, for US$100.7 million, aimed at achieving higher footfalls and operating efficiencies is an example in this regard. Additionally, greater maturity of omni-channel retailing is envisaged for this year as players re-work their distribution strategies to provide a complete shopping experience.

At the same time, Indian consumers' evolving preference for organic/natural products, coupled with an increasing focus on fitness and well-being, is likely to steer deal activity in this niche segment. Patanjali's recent tie-up with eight leading e-commerce platforms to sell its natural products online can be a major game-changer. The year may also see larger players making strategic investments in manufacturers of natural products. Furthermore, deal activity will continue to be healthy in the consumer durables space as players look to expand their footprints. Havell's acquisition of the consumer durables business of Llyod for US$238.6 million is an indication of the attractiveness of this segment.

On the policy front, the Indian Government has recently approved 100% FDI in single brand retail through the automatic route, making it much easier for global players to access Indian consumers. Apart from attracting overseas capital, this move will further intensify competition in the sector, forcing players to adopt the inorganic route to consolidate market positions.

Sector focus

Technology-driven activity continues to reign Indian M&A

The technology sector recorded 115 deals with a cumulative disclosed deal value of US$4.6 billion in 2017. Compared with the previous year, deal volume increased by 5%, while deal value more than doubled on the back of billion-dollar-plus share buybacks by technology giants Wipro Limited and Infosys Limited. The combined value of these deals (around US$3.7 billion) constituted nearly 82% of the cumulative deal value in the sector.

Within the sector, the IT consulting and services, and the software segments continued to be the hotbeds for deal activity, contributing significantly (82 deals; US$4.4 billion) toward the sector's deal volume and value. Emerging technologies such as analytics and cloud software services (which are a part of the social media, mobile, analytics and cloud offering, also known as SMAC) continued to attract attention. SMAC has become one of the most sought-after segments in the technology sector, indicating growing prominence of new technologies in business operations. Both technology and non-technology companies are increasingly using these applications to enhance their product/ service portfolio and capabilities. Also, the increasing number of deals in this space reinforces that inorganic route is the most preferred way of tapping these opportunities.

Rising popularity of SMAC among IT players: Rising penetration of the internet in the consumer and enterprise spaces is pushing technology players to innovate their capabilities. For example:

- Info Edge (India) Limited bought a 21.9% stake in Wishbook Infoservices, a provider of SaaS solutions for managing the marketing, sales and inventory of a traditional B2B business.
- Google Inc. acquired Halli Labs, a Bengaluru-based start-up that is developing artificial intelligence and machine learning solutions.
- France-based Altran Technologies entered into an agreement to buy GlobalEdge Software, a Bengaluru-based product engineering company specializing in IoT connectivity and embedded software.
- Hike Messenger acquired Bengaluru-based tech start-up Creo. The team will work on a developer platform to enable third-party developers to build services on the Hike platform.

Players across various industries increasingly adopting new technologies: SMAC has not just brought transformation in the technology industry, but is also emerging as one of the biggest game-changers across multiple industries, including retail, automotive and healthcare. Its penetration across industries has increased over the years as these solutions enable adopters to strengthen their offerings and enhance operational efficiency. This is driving companies to either develop or acquire these capabilities, thus resulting in flourishing deal activity in the segment.

The key deals highlighting this trend were as follows:

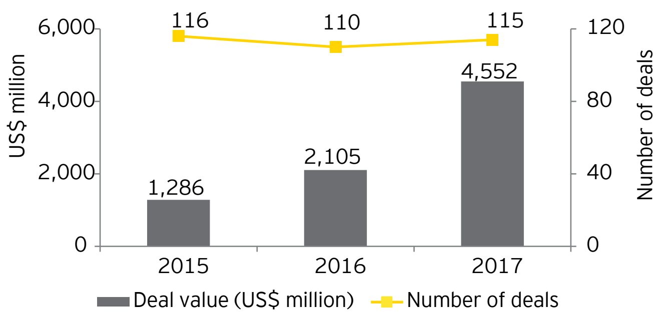
- Auto component maker Minda Corporation, through its subsidiary Minda SAI Limited, fully acquired EI Labs India Private Limited to diversify into a new line of business of connected mobility and IoT.
- Rane Holdings Limited bought a 70% stake in Telematics4U Services Private Limited, a Bengaluru-based provider of analytics-rich end-to-end telematics solutions for various transportation and asset tracking requirements.
- Tata Motors–owned Jaguar Land Rover bought a minority stake in India-based connected car technology firm CloudCar for US$15 million, as automakers seek out new partnerships and investments to build high-tech models.
- Bengaluru-based Omega Healthcare Management Services acquired WhiteSpace Health, a US-based healthcare analytics company, for an undisclosed amount.
- Kalyan Jewellers India Private Limited agreed to acquire Candere, an e-commerce jewelry platform operated by Enovate Lifestyles Private Limited.
- Mumbai-based MJVS Fashion Services Private Limited, operator of used-apparel reselling application CoutLoot, acquired Stororo Services Private Limited, a Bengaluru-based player operating a website called Once Again selling second-hand branded clothes.

- Mobility services gaining prominence with rise in e-retail: Within SMAC solutions, mobility took the spotlight thanks to increasing usage of smartphones and improved internet infrastructure. E-retail players were active in acquiring emerging mobile software developers, as technology innovation is enabling new ways for companies to connect with customers. Examples of such transactions include the following:
  - Online marketplace for wedding venues and vendors Weddingz.in acquired WedCraze, a Mumbai-based player that creates private social platforms for weddings, for an undisclosed amount.
  - Mara Social Media, a diversified African internet and mobile platform focused on emerging markets, acquired the India-based instant messaging and communications platform Nimbuzz.
  - DoubleYou Technologies Private Limited, a Gurgaon-based company operating dating app Woo, acquired Dus Inc., the US-based operator of a dating application, for expansion.

Another segment under the limelight was business process outsourcing (BPO), which witnessed the majority of the activity in the domestic space. Several domestic IT-BPO players have been looking to expand their service offerings by acquiring specialist BPO units that have wide and strong experience in select verticals. The deals in this segment included the following:

- Quess Corp Limited signed an agreement with Tata Sons and Tata Capital to acquire a 51% stake in Tata Business Support Services for US$23.5 million.
- Karvy Data Management Services Limited agreed to acquire Media Matrix Worldwide Limited's wholly owned call center services unit DigiCall Teleservices Private Limited for US$4.7 million.
- Vertex Customer Management India Private Limited bought a portion of Firstsource Solutions Limited's domestic business in India.
- Route Mobile Limited acquired BPO provider Call 2 Connect India Private Limited.

Exhibit 14: M&A deals in the technology sector



Source: EY analysis of Thomson ONE data

Exhibit 15: Geographical distribution of technology sector deals

	2015	2016	2017
Number of deals			
Domestic	47	46	50
Inbound	35	30	33
Outbound	34	34	32
Total	**116**	**110**	**115**
Deal value (US$ million)			
Domestic	97	249	4,025
Inbound	462	461	84
Outbound	727	1,395	443
Total	**1,286**	**2,105**	**4,552**

Source: EY analysis of Thomson ONE data

Outlook

Strong year ahead as companies move on the path of digitization

The Indian tech ecosystem has certainly gained its shine in recent years with increased integration across all industries. The tech industry has seen its focus shifting over the years — initially starting off with the BPO industry boom, then gradually making a shift to back -end IT services and currently witnessing a growing prominence of SMAC technologies.

Deal activity in the SMAC segment is expected to remain strong as these technologies encourage organizations to build and deploy integrated solutions as opposed to the traditional approach of implementing solutions separately. Within SMAC, mobile applications, analytics and cloud-based services will continue to garner a significant share of the market. SMAC will further be complemented by bring-your-own-device (BYOD) and the greater trend of consumerization in driving what products IT will invest in.

Looking ahead, we expect financial and strategic investors will continue to focus on SMAC companies as the global IT spend increases in this segment. There will be more emphasis on platform-based technology companies as the world moves to the cloud and SAAS-based models. At the same time, heightened interest among PE players to look at majority buyouts as compared to traditional minority plays will further boost activity.

Sector focus

Financial services topped the charts in terms of volume

The sector was abuzz with deal activity during the year, registering 127 deals, the highest yearly deal volume recorded in the last eight years. When compared with the previous year, there was a 37% increase in the deal count. On the value front, the sector saw a 14% rise, clocking a cumulative disclosed value of US$4.7 billion, as compared to US$4.1 billion in 2016. Banking and NBFC (36 deals; US$2.7 billion), insurance (10 deals, US$903 million) and online finance services (19 deals; US$468 million) were the most active segments during the year.

Banking and NBFC led the sector's M&A activity on the back of consolidation

Consolidation activity in the banking and NBFC space continues as the players aim to achieve a bigger scale and derive cost and operational synergies amid the ongoing stressed asset crisis. Companies were seen acquiring their peers and increasing stakes in their existing businesses to strengthen market position. The biggest deal in the sector occurred in the microfinance segment, with the US$2.4 billion merger of IndusInd Bank Limited and Bharat Financial Inclusion Limited; it was also the biggest ever deal in the Indian microfinance space. The merger will allow IndusInd Bank Limited to increase its customer base and deepen its reach in the unbanked and underserved regions of the country.

Some of the other successful consolidation deals during the year were as follows:

1. RBL Bank Limited increased its stake in Mumbai-based financial services products distributor Swadhaar Finserve Private Limited to 58.4% from 30%, for an undisclosed amount.

2. Fortune Financial Services (India) Limited (FFSIL) announced the amalgamation of Fortune Integrated Assets Finance Limited (FIAFL) with itself by acquiring the remaining 75% stake in FIAFL from Wind Construction Private Limited. Concurrently, FFSIL agreed to acquire the entire share capital of IRC Credit Management Services Private Limited.

After the merger of State Bank of India with its five associate banks and Bhartiya Mahila Bank announced in 2016, the Government is now exploring other merger options of public sector banks (PSBs). The plans are to consolidate a total of 21 PSBs to somewhere between 10 and 15. For this, the Cabinet has also set up an alternate mechanism that will oversee merger proposals coming from the boards of these banks. This process is expected to strengthen the Indian banking system and will create strong and competitive banks with enhanced capacity to absorb shocks and generate capacity to raise resources, thus reducing dependence on government.

India's insurance sector remained attractive for domestic and foreign players

The insurance sector has been active in terms of deal making since the increase in the FDI cap in December 2014 to 49% from 26%. The Government is now considering 100% FDI in insurance broking to attract more investments.

In addition, given the significant growth potential in the Indian insurance space, on the back of the sheer size and relatively lower penetration, the bigger players have been consolidating their position in the segment for quite some time. The consolidation moves were primarily aimed at achieving cost synergies, scale and expansion of distribution reach by various big players. Following the footsteps of the previous years, two such deals in 2017 were as follows:

1. Tokio Marine Asia Pte. Limited, a wholly owned subsidiary of Japan-based Tokio Marine Holdings, Inc., agreed with its JV partner, Indian Farmers Fertiliser Cooperative Limited (IFFCO), to raise its shareholdings in IFFCO-Tokio General Insurance Company Limited from 26% to 49%, by acquiring an additional 23% stake for US$392.7 million.
2. Kotak Mahindra Bank Limited announced the acquisition of the remaining 26% stake in Kotak Mahindra Old Mutual Life Insurance Limited from its JV partner Old Mutual PLC for US$201.7 million. With the buyout of Old Mutual's stake, Kotak Mahindra Life Insurance will become a 100% subsidiary of Kotak Mahindra Bank.

FinTech deals continued to grab headlines

FinTech firms are transforming the financial services landscape in India. As digital disruption is affecting every business and the country is transitioning to a less-cash economy, companies offering online financial services and operating in the online payments space have become attractive for investors. The key factors driving the growth of the FinTech industry in India include unfulfilled financial needs of the consumers, increasing internet penetration, growing consumer demand for personalized digital experience and a conducive regulatory regime.

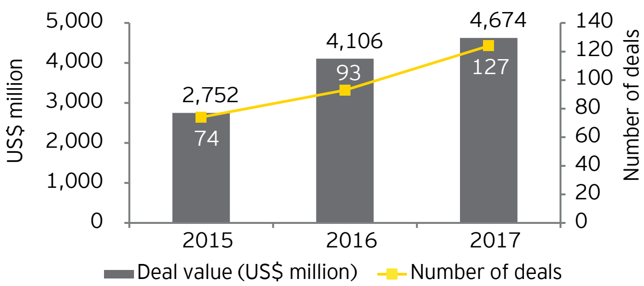
A visible trend is an increasing collaboration between existing players/financial institutions and FinTech firms to help incumbents enhance their online presence. At the same time, FinTech players were seen acquiring their peers to expand their presence and strengthen their product offering. Some such deals during the quarter were as follows:

1. Axis Bank has acquired 100% equity capital of both Accelyst Solutions Private Limited and Freecharge Payment Technologies Private Limited, which together constitute the digital payments business under the "FreeCharge" brand. The acquisition marks the first such acquisition of a digital payments company by a bank in India and is valued at around US$57 million.
2. Flexiloans.com, an online lending platform for SMEs, acquired CreditPeriod.com, a Mumbai-based supply chain financing platform, for an undisclosed amount.
3. Paytm invested an undisclosed amount in online loans firm Urja Money Private Limited.

There is also an increased willingness by foreign players to invest in the Indian Fintech space, to benefit from the country's digital journey. In addition, an increasing need for a strong ecosystem of technology, is further aiding this trend. Key examples of such deals include the following:

- US-based Ebix Inc. acquired an 80% interest in Mumbai-based payment services provider ItzCash Card Limited from Essel Group for around US$120 million.
- Global credit rating agency Experian made a US$30 million investment in Indian credit marketplace BankBazaar.

Exhibit 16: M&A deals in the financial services sector



Source: EY analysis of Thomson ONE data

Exhibit 17: Geographical distribution of financial services sector deals

	2015	2016	2017
Number of deals			
Domestic	39	73	101
Inbound	34	13	21
Outbound	1	7	5
Total	**74**	**93**	**127**
Deal value (US$ million)			
Domestic	718	3,886	3,970
Inbound	1,934	211	670
Outbound	100	9	34
Total	**2,752**	**4,106**	**4,674**

Source: EY analysis of Thomson ONE data

Outlook

The banking and NBFCs segment is likely to see continued consolidation activity as the ongoing stressed assets crisis may prompt stronger and relatively bigger players with a healthy financial profile to bid for the assets/companies at attractive valuations. In addition, the Government's efforts (such as the PSB merger plan) to strengthen the country's banking system and promote inclusive growth will further augment this trend. The recently announced US$1.5 billion merger of IDFC Bank and Capital First signals the pursuance of consolidation, hinting at a strong M&A outlook for the segment.

The insurance sector is also expected to witness further consolidation in the coming months. During 2017, many big players made consolidation attempts, but those efforts saw very limited success. One such instance was the withdrawal of the Max Life-HDFC Life merger, which failed to get regulatory approval. However, given the sector's high growth potential, the players will continue to identify and evaluate acquisition opportunities to drive cost synergies and get access to wider distribution channels.

FinTech will remain the top choice of strategic investors driven by the continuously evolving customer demands, deployment of new technologies and a favorable policy environment. Moreover, the Government's plan to launch its second phase of digital payments promotion in early 2018 will further drive the adoption of cashless techniques. The segment is also expected to see greater innovations and newer business models, which represent a big opportunity for investors/players to delve into a range of novel and unexplored business segments. All these factors will boost the business of digital payment solution companies, thereby providing further momentum to deal activity.

Sector focus

Metals and mining

Portfolio optimization driving M&A activity

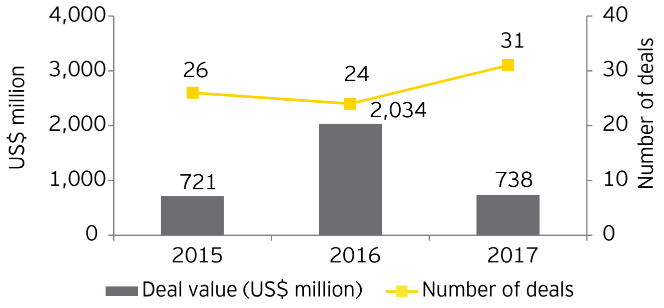
Even though 2017 was marked by an increase in the number of deals at 31 (as against 24 in 2016), the aggregate disclosed deal value at US$738 million was heavily down by 64% from the levels achieved a year ago. This was largely due to the absence of major share repurchase programs, which alone accounted for 91% of the deal value in 2016. The current year included only one buyback of US$220.9 million conducted by NLC India Limited, as against four (NMDC, NALCO, South Eastern Coalfields Limited and Moil India Limited) seen in the year before. Most of the buybacks done in 2016 were part of the Central Government's plan to raise funds through divestment of PSU holdings.

Last year was a challenging one for the Indian metals and mining players as the global commodity markets were still recovering from the lows seen in early 2016. In an industry struggling with overcapacity, muted demand and a weak pricing environment, it became imperative to build leaner cost structures to ease margin pressures. Large players also entered into synergistic alliances to maximize their operating efficiencies. Indian companies also explored inorganic alternatives to manage leverage as price declines further exacerbated the financial stress in their balance sheets, making it difficult for them to service debt.

Some deals that highlight the growing emphasis on portfolio optimization included the following:

- Tata Steel entered into an equal joint venture with Thyssenkrupp AG for its European operations. The deal is expected to yield annual cost synergies of €400–€600 million through the integration of several functions such as procurement, sales and distribution, and R&D.
- Novelis, a subsidiary of Hindalco Industries, sold a 50% stake in a South Korean aluminum facility to Kobe Steel for US$315 million. The transaction proceeds have been earmarked to reduce debt levels.
- Jindal Steel and Power Limited (JSPL) divested the non-core oxygen plants at its Angul and Raigarh mills to SREI Equipment Finance Limited for US$171 million. The deal will help JSPL not only realize cost efficiencies but also strengthen its balance sheet.

Exhibit 18: M&A deals in the metals and mining sector



Source: EY analysis of Thomson ONE data

Exhibit 19: Geographical distribution of metals and mining sector deals

	2015	2016	2017
Number of deals			
Domestic	11	15	15
Inbound	9	6	10
Outbound	6	3	6
Total	**26**	**24**	**31**
Deal value (US$ million)			
Domestic	189	1,905	403
Inbound	126	126	331
Outbound	406	3	4
Total	**721**	**2,034**	**738**

Source: EY analysis of Thomson ONE data

Outlook

Commodities upcycle to fuel optimism

Looking ahead, commodity prices seem to be in an upcycle amid a strengthening demand and tightening supply situation. On the demand front, an increase in private consumption coupled with government initiatives such as the Make in India campaign should support long-term growth in end-use industries such as automotive, infrastructure, construction and power. At the same time, continued supply constraints, such as China's capacity closures on account of environmental concerns, will act as an additional enabler for price recovery. Against this backdrop, we may see significant deal activity in the sector as players further consolidate their market positions and buy strategic assets to enhance their competitiveness.

Additionally, strong policy support in the form of the National Steel Policy (2017), coal deregulation and focus on infrastructure development should help India build a globally competitive metals and mining industry. The National Steel Policy 2017, entailing an investment of INR10 trillion by 2030–31, seeks to boost domestic demand by increasing per-capita steel consumption to 160 kg from the existing 60 kg. Further, commercial mining of coal, a sector which has been state-monopolized for over four decades now, should also lead to a transparent and competitive market-based coal pricing mechanism. Such policy measures will not only encourage domestic investments but also attract foreign capital in the Indian metals and mining sector, which is home to one of the largest reserves in the world.

The Indian steel sector may see further consolidation in the wake of the recent insolvency proceedings launched by RBI against the stressed accounts. A few large players with strong financial positions and debt-raising abilities have an opportunity to increase their market shares by acquiring stressed capacities at attractive valuations. Global majors can also use this opportunity to enter the Indian market given its long-term attractiveness.

Against this background, steady M&A activity is expected in the sector as players continue to explore inorganic avenues to expand portfolios, optimize cost bases and strengthen balance sheets in order to build competitive business structures in an otherwise cyclical industry.

Sector focus

Infrastructure

M&A pipeline in CleanTech and road sectors remains strong

In 2017, the infrastructure sector registered 91 deals with an aggregate disclosed value of US$5.4 billion, as compared to 91 deals valued at US$4.0 billion in the previous year. The increase in value was primarily due to the acquisition of Reliance Infrastructure's Mumbai electricity business by Adani Transmission for US$2.9 billion, the biggest ever infrastructure deal on records.

Within the infrastructure sector, the power segment continued to have the biggest share of deals, recording 39 transactions with a value of US$4.4 billion. Despite a strong performance in value terms, the segment recorded a decline in deal count from 49 deals last year due to cold investor response toward thermal power deals. Roads and highways was another segment that saw a spurt in activity on the back of favorable government policies and asset monetization by companies to deleverage their balance sheets. The segment witnessed an increase in both deal value and volume, to almost double the figures of the last year.

Clean energy continues to hog the limelight

Within the power segment, clean energy accounted for nearly three-fourths (28 deals) of the deal volume and 27% of the value in 2017. The sector continues to enjoy intense focus from both the Government and the private sector. While the Government is trying to mobilize investments from multilateral agencies such as the World Bank and Asian Development Bank, the private sector, both strategic and financial, continues to increase its footprints in the sector.

To achieve the ambitious target of 175 GW of installed renewable energy capacity by 2022, the Ministry of New and Renewable Energy has announced the auction schedule to award 77 GW of solar power projects and 23 GW of wind power contracts by March 2020. The auction also includes a plan to invite bids for setting up 20 GW of solar power capacity, the world's largest solar tender, to spur domestic manufacturing of solar power equipment. The auctioning route has increased competition and reduced the power tariff significantly across both solar and wind projects. Consequently, we witnessed major activity on the domestic front with 21 deals aggregating US$634.6 million. Notably, the two largest deals in the domestic clean energy arena were internal restructuring deals – a US$389.5 million share repurchase by NHPC Limited and a US$220.4 million worth stake increase in Sembcorp Green Infra Limited by Sembcorp Industries Limited

On the inbound front, the segment witnessed significant strategic M&A activity. Notably, three of the top five deals in the segment were inbound deals:

- Foxconn Singapore Pte. Limited, a unit of Hon Hai Precision Industry Co. Limited, raised its stake to 40% from 20% in SB Energy Holdings Limited by paying US$272 million.
- JERA Co. Inc. acquired a 10% stake in ReNew Power Ventures Private Limited for US$200 million.
- GE Energy Financial Services Inc. acquired a 49% stake in RattanIndia's solar power assets for US$90 million.

This year, India has moved up to the second spot, ahead of the US, from the third position in the "Renewable Energy Country Attractiveness Index ," EY, 16 May 2017. This was due to a strong government support and favorable policies toward green energy. The increase in CleanTech attractiveness has dried up investments in thermal power, which witnessed 4 deals in 2017 compared with 15 in the previous year. It is further expected that as additional non-thermal electricity generation capacities come on stream, the capacity utilization of coal-based thermal power plants will fall from 80% in 2007–08 and 60% in the last year to as low as 48% by 2022.

The new government policy is driving roads and highway investments

In order to bridge the infrastructure gap, the Government has accelerated its road and highway development activities. The sector is also expected to have a fresh breath as the National Highways Authority of India (NHAI) has started inviting bids for highway operations under the new toll-operate-transfer (TOT) model. Under the TOT model, NHAI will award projects through international competitive bidding where foreign funds can also take part. This could fuel inbound investments in the sector.

On the back of the earlier announced exit policy, where the Government has made it easier for companies to exit road projects, the sector has seen deals where sellers have monetized their assets. Key examples of asset monetization deals include the following:

- Dilip Buildcon sold 24 road assets to Shrem Infraventure for US$250 million.
- Bharat Road Network Limited acquired a 51% stake in Guruvayoor Infrastructure Private Limited from KMC Constructions Limited for US$15 million.
- Tata Realty and Infrastructure acquired a 51.6% stake in the Durg Bypass road project operator SMS Infrastructure.

Infrastructure Investment Trusts (InvITs) are coming up as an alternative route to monetize assets

The year saw two InvITs hit the market, with IRB Infrastructure Developers Limited creating IRB InvIT Fund and Sterlite Power Grid Ventures Limited forming India Grid Trust to monetize their infrastructure assets. Further, several more infrastructure developers – including Reliance Infrastructure, IL&FS Financial Services, GMR Infrastructure Limited, Larsen & Toubro and MEP Infrastructure Developers Limited – have announced plans to raise money and cut debt via the InvIT route.

Infrastructure developers are expected to continue selling their completed assets to these trusts to fund their future projects. This is evident from the following:

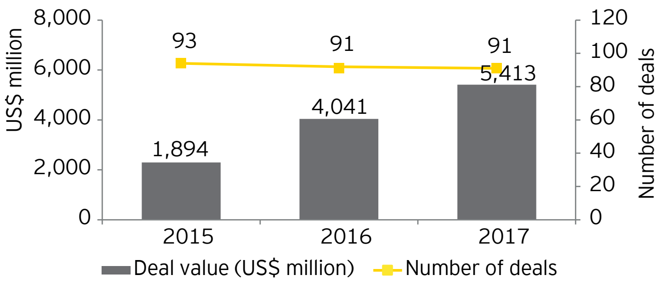
- IRB Infrastructure Developers Limited transferred IRB Pathankot Amritsar Toll Road Limited to its infrastructure investment trust, IRB InvIT Fund, in July 2017.
- India Grid Trust acquired three power transmission assets worth US$228 million from Sterlite Power.

Power transmission is experiencing consolidation

M&A activity in power transmission and distribution increased from four deals in 2016 to seven in 2017. This was largely driven by consolidation of assets, which included the following:

- Adani acquired Hadoti Power Transmission Services Limited, and Reliance Infra's transmission assets and Mumbai electricity business.
- PFC transferred Kohima-Mariani Transmission to Kalpataru Power.

Exhibit 20: M&A deals in the infrastructure sector



Source: EY analysis of Thomson ONE data

Exhibit 21: Geographical distribution of infrastructure sector deals

	2015	2016	2017
Number of deals			
Domestic	67	58	69
Inbound	20	26	15
Outbound	6	7	7
Total	**93**	**91**	**91**
Deal value (US$ million)			
Domestic	1,379	3,397	4,711
Inbound	437	644	687
Outbound	78	-	15
Total	**1,894**	**4,041**	**5,413**

Source: EY analysis of Thomson ONE data

Outlook

Government support for the sector to power the road ahead

Infrastructure is high on the Government's agenda as several initiatives have been taken to ensure the sector's rapid development. The Government is opening traditionally closed held portfolios such as railway lines to private players, providing last-mile funding for stalled infrastructure projects and raising money for new projects through the TOT model. These policy frameworks for innovative models of implementation and financing would facilitate greater private participation and investment in the sector.

The Government is expected to continue focusing on the power sector. This is evident from the recently launched initiatives, the latest of which is the "Saubhagya" scheme. The renewable energy sector, which started as a subsidy-driven, environmentally focused alternative to conventional power, is now the mainstay of capacity additions in the country. The M&A pipeline of renewables, both wind and solar, is expected to remain robust and will attract key buyers, which includes both Indian and overseas developers, as well as financial investors such as pension funds. Furthermore, with the industry moving toward the auction route, previously awarded projects will also become lucrative for acquisitions. The robust auction pipeline, while keeping the companies occupied, will increase competition and put pricing pressure on players. Once this phase of greenfield auction is near its end, the players would focus on achieving economies of scale, thereby triggering a fresh consolidation wave. Further, after achieving the desired size, the players may look to explore alternative exit routes like InvITs or IPO.

Activity in roads and highway is also expected to gain momentum under the new TOT model for highway operations, especially projects with an operational track record of at least five to seven years. According to CRISIL, the monetization of the first 75 operational highways, which has around 4,500 km of road assets, identified by NHAI is believed to fetch around US$6.2 billion for the Government. This increased activity will be further supported by healthy growth in highway traffic and a reduction in the interest rates. As the valuations improve, it is expected that asset sale transactions would gather further momentum in the coming days.

Within power transmission, we will continue to see consolidation by the larger developers of power transmission assets in India. Further, 2018 may also see Indian developers eyeing overseas power transmission assets.

Sector focus

Media and entertainment

Quest for expansion drove deals

In 2017, the media and entertainment sector witnessed 63 deals with a cumulative disclosed deal value of US$422 million compared with 58 deals valued at US$1.8 billion last year. The sharp fall in deal value can be attributed to the absence of billion-dollar-plus deals during the year, unlike 2016 when we saw the Dish TV-Videocon D2H merger worth US$1.2 billion.

Overall, deal activity was subdued in 2017 as the industry was adversely affected by a sluggish ad market on account of demonetization and GST implementation. However, consolidation and investments in digital continued to remain the key underlying themes across the various sub-sectors.

Consolidation emerged as a strong trend across traditional media segments where players acquired their peers for market or product expansion

- Among TV networks, marquee deals include Sony's acquisition of Ten Sports (August 2016, US$366 million), Zee Group's acquisition of regional channels Big Magic and Big Ganga (November 2016, US$46 million) and the recently announced acquisition of 9X Media's bouquet of music channels by Zee (November 2017, US$25 million).
- The TV distribution sector has been undergoing digitization for the past few years and has been in an investment phase. Although 2017 was relatively quiet, 2016 witnessed a few deals, including Goldman Sachs' US$21 million investment in Den Networks and GTPL's public listing. We also saw the merger announcement of Dish TV with Videocon D2H in 2016, which created one of the largest DTH companies globally.
- PVR continued to attract interest from PE funds. Warburg Pincus acquired a minority stake in PVR Limited (US$121 million) in a secondary transaction from the promoters and existing PE investors in 2017. UFO Moviez India Limited and Qube Cinema Technologies Private Limited also announced a merger to strengthen their position in digital cinema distribution and in-cinema advertising.
- In gaming and leisure, recent transactions include the investment of IIFL Special Opportunities Fund (US$51 million) and Rakesh Jhunjhunwala (US$28 million) in Nazara Technologies and the acquisition of PVR BluO (US$13 million) and SVM Bowling (undisclosed) by Smaaash Entertainment.

Industry players re-inventing their business model with digital disruptions

Growing digital content consumption, on the back of increasing smartphone penetration and ultra-cheap web-browsing costs, along with changing consumer behavior is not only forcing traditional players to build/acquire competencies in digital space, but also keeping innovative start-ups on their toes to fight the constantly increasing competition. The year witnessed several deals aimed at the strengthening of digital and analytical capabilities to provide tailored-made solutions to customers and gain an edge through data analytics or other high-end competencies. Digital marketing and ad-tech companies were at the forefront in this race. Some of the relevant deals in 2017 were as follows:

- Advertisement agency Madison Media acquired digital marketing consultancy HiveMinds in August 2017 for an undisclosed amount to strengthen its digital capabilities.
- Dentsu Aegis Network acquired SVG Media and Sokrati Technologies in April 2017 and July 2017 respectively.
- 21st Century Fox-owned broadcaster Star India Private Limited picked up a minority stake in Bengaluru-based media-tech company Zapr Media Labs to create technology to help brands better understand mobile audiences. Similarly, Zee Group announced the acquisition of a 12.5% stake in in-video discovery platform Tagos Design.
- Digital ad-tech firm Fork Media acquired a majority stake in audio advertising company Rappio Advertising Private Limited With this acquisition, Fork Media marks an entry into audio-based digital advertising.
- Further, traditional media players are looking to expand into digital infotainment platforms to target the growing mobile and internet-savvy audience base. For example, Zee Entertainment Enterprises Limited acquired the remaining 49% equity stake in India Webportal Private Limited from its existing shareholders for US$31 million. Asianet News Network acquired digital Tamil news publication platform Newsfast.

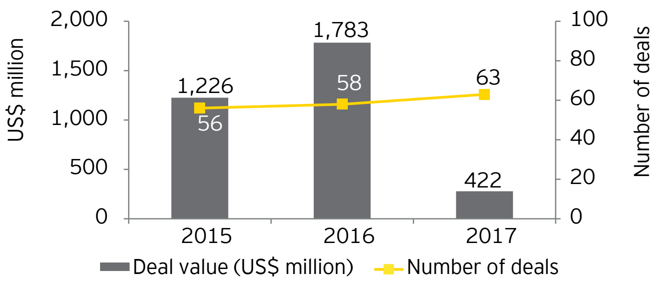
Online ticketing has also been an active segment with inbound and domestic consolidation:

- Chinese internet giant Alibaba Group's flagship entertainment arm, Alibaba Pictures Group Limited, acquired a majority stake in Orbgen Technologies Private Limited, which runs an online ticketing platform TicketNew, for US$19 million.
- Paytm acquired a majority stake in Insider.in, an online ticketing and events platform, for US$5 million.
- Bigtree Entertainment Private Limited's BookMyShow acquired a 75% stake in Pune-based do-it-yourself event registration and ticketing platform Townscript for an undisclosed amount.

Convergence of service providers and content producers (telecom and entertainment)

- The need for escapism, knowledge and infotainment led content will increase manifold going ahead, leading to high interest in the content production space. For example, Reliance acquired a 25% stake in Balaji Telefilms for US$65 million in July 2017.

Exhibit 22: M&A deals in the media and entertainment sector



Source: EY analysis of Thomson ONE data

Exhibit 23: Geographical distribution of media and entertainment sector deals

	2015	2016	2017
Number of deals			
Domestic	29	30	47
Inbound	18	19	11
Outbound	9	9	5
Total	**56**	**58**	**63**
Deal value (US$ million)			
Domestic	733	1,252	395
Inbound	466	464	27
Outbound	27	67	-
Total	**1,226**	**1,783**	**422**

Source: EY analysis of Thomson ONE data

Outlook

Digital disruption, convergence and consolidation remain key deal drivers

The Indian M&E industry is in the middle of a strong digital revolution with each segment of the industry undergoing a rapid digital transformation, both on the consumer side (in terms of media consumption patterns) as well as on the content creation and distribution supply chain. As such, we expect both traditional and new-age players to continue investing in building the digital ecosystem, across content, platform, technology and device. M&A activity will pick up once some of these businesses achieve scale and monetization models are better established. On the same lines, traditional ad agencies are likely to consider acquiring digital marketing companies to avoid the risk of losing their non-creative business to other digital media agencies.

Going ahead, we expect a convergence across the technology media and telecom value chain. B2B media companies, such as cable, will turn into B2C companies and interact directly with the end consumers. Similarly, B2C companies will look for opportunities that will create a strong customer differentiation. For example, telecom operators are looking to invest/acquire content production houses (both traditional and digital) to cater to their large subscriber base. On the other hand, TV broadcasters with their own over-the-top platforms are looking for innovative/disruptive technology companies.

Unlike most developed economies, the Indian M&E industry is still highly fragmented and we expect the consolidation wave to continue ahead. The large media companies in television, motion pictures and news segments will continue to look to further consolidate their operations and plug in gaps in terms of regions or genres via acquisitions. With the acquisition opportunities drying up in the domestic multiplex sector, we expect some of the players to start looking for international expansion as well. We also believe that the domestic consolidation wave is generally followed by strategic inbound investments by large global players, and we can see some inbound activity as well across the TV distribution and multiplex sectors.

Sector focus
Pharmaceuticals

Market and business expansion remains high on the priority list

Overall, it was a bit of a lackluster year for pharma M&A since inbound interest from the traditional western markets has diminished. The sector registered 47 deals (52 in 2016) with a disclosed deal value of US$1.5 billion (US$4.4 billion last year). The sharp deceleration in deal value can be attributed to the absence of big-ticket transactions (just one deal of more than US$500 million). The year witnessed only five deals valued at more than US$100 million, reflecting the market's bias toward lower-value bands.

On the segments front, major action happened in the formulations space with 22 deals with a disclosed deal value of US$1.1 billion. Biotechnology witnessed 10 deals valued at US$264.7 million.

Consolidation continues in the domestic arena

With tightening pricing pressures domestically and increasing scrutiny by regulators, domestic companies are aiming to gain operational and strategic synergies through the inorganic route, making consolidation an obvious theme. The domestic market is also moving to a prescription-based model, pushing the need of specialty and branded drugs. Hence, companies are increasingly looking at acquiring brands and specialty portfolio for sustained growth. Some of the supportive deals were as follows:

- Ahmedabad-based Torrent Pharmaceuticals Limited (Torrent) entered into an agreement to buy Mumbai-based Unichem Laboratories Limited's branded business of India and Nepal for US$557.5 million. In another transaction, Torrent acquired the women healthcare portfolio of Novartis AG for an undisclosed amount.
- Eris Lifesciences Limited (Eris) acquired the India-branded generics business of Strides Shasun Limited for US$76.9 million. Eris also acquired the entire share capital of UTH Healthcare Limited, a Pune-based pharma company, for US$2 million.

Indian pharma majors continued their quest for overseas expansion

Indian pharma companies are looking overseas to increase their customer base, expand distribution network and gain access to new markets and products. Moreover, India's big pharma companies have already attained a critical mass domestically, hence turning attention to the overseas markets for growth is a logical step for them. Although in 2017 we saw a moderated pace of outbound activity in the pharma space as compared to previous years, the players were keeping an eye on opportunity buys.

Some of the supportive deals included the following:

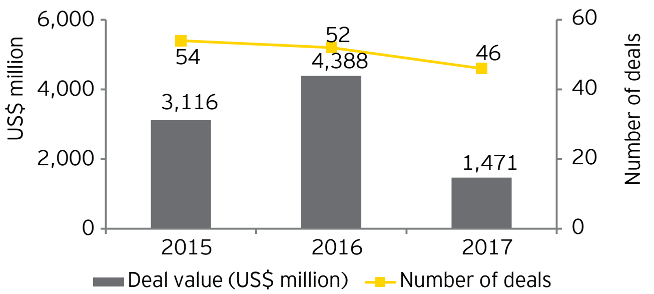
- Piramal Critical Care Limited of the UK, a unit of Piramal Enterprises Limited, acquired the intrathecal therapy business of Mallinckrodt PLC, a Dublin-based pharmaceutical player, for US$203 million.
- Agile Pharma BV, Netherlands, a unit of Aurobindo Pharma Limited, acquired Generis Farmaceutica SA, an Amadora-based manufacturer of pharmaceutical preparations, from Magnum Capital Industrial Partners SL for US$142.2 million.

Growth prospects of the biotechnology segment making it attractive

Biosimilar growth in emerging economies, such as India and China, is expected to be in the range of 25%–30% till 2018, and multi-billion dollars' worth biologics are expected to go off-patent in the coming years. Given the high growth nature of the segment, domestic players are looking at strategic alliances and inorganic routes to build capabilities and expand service offerings. Some examples of this trend include the following:

- Pharma major Lupin Limited's US-based subsidiary Lupin Pharmaceuticals Inc. acquired Symbiomix Therapeutics LLC, a Newark-based biopharmaceutical company, for US$150 million.
- Serum Institute of India Limited announced the acquisition of Czech Republic-based injectable polio vaccine maker Nanotherapeutics Bohumil Sro from Nanotherapeutics Inc. for US$78.3 million.
- Advanced Enzymes Europe BV, a Netherlands-based subsidiary of Advanced Enzyme Technologies Limited, acquired the entire share capital of Germany-based biotechnology research and development services company evoxx technologies GmbH for US$9 million.

Exhibit 24: M&A deals in the pharmaceuticals sector



Source: EY analysis of Thomson ONE data

Exhibit 25: Geographical distribution of pharmaceuticals sector deals

	2015	2016	2017
Number of deals			
Domestic	22	21	24
Inbound	11	9	8
Outbound	21	22	15
Total	**54**	**52**	**47**
Deal value (US$ million)			
Domestic	209	342	818
Inbound	1,155	1,930	51
Outbound	1,752	2,116	602
Total	**3,116**	**4,388**	**1,471**

Source: EY analysis of Thomson ONE data

Outlook

Pharma sector to witness targeted deals

Despite the ongoing challenges such as tough stance of global regulators on prices and quality, the generics business should continue to grow as global health insurers and governments are exploring ways to lower drug prices. However, this will require Indian MNCs to be more disciplined in quality controls and more aggressive in intellectual property rights acquisition and R&D capabilities addition so that they can compete with their global rivals in a complex business environment. On the inbound front, we remain cautiously optimistic, given the policy uncertainty in the US and increasing price controls.

Back home, consolidation in the industry will continue as companies will keep scouting for operational and strategic synergies. The expanding scope of price control and tightening regulations around fixed-dose combinations will force small firms to either sell off their business to a professional set-up or gain the required competencies to do business in a cost-efficient manner.

Outlook

Promising outlook for the year ahead

2018 is expected to witness healthy levels of M&A activity, driven by a stable macroeconomic outlook, positive deal fundamentals and buoyant business confidence. Furthermore, improving corporate earnings should provide companies the necessary firepower to target strategic acquisitions. In addition to traditional M&A drivers, such as consolidation and market penetration, deal activity will be increasingly triggered by disruptive pressures, such as technological innovation and digitalization, which will continue to redefine growth priorities. This view is strongly corroborated by the findings of the 17th edition of EY's Capital Confidence Barometer October 2017, according to which 99% of the survey respondents have a stable or improving outlook for the local M&A market.

The domestic market will continue to be at the forefront of deal activity with demonetization and GST rollout being a thing of the past. Several large players are expected to adopt the inorganic approach to expand/consolidate their market positions. The year may also witness big-ticket divestments as highly leveraged players actively explore opportunities to pare down debt and optimize capital structures. This is especially true for capital-intensive sectors such as real estate, infrastructure, power and cement. Additionally, renewed efforts by RBI for early resolution of stressed cases, for example, movement of 12 such cases to NCLT under IBC, will further push domestic M&A activity as several distressed assets come up for sale at attractive valuations.

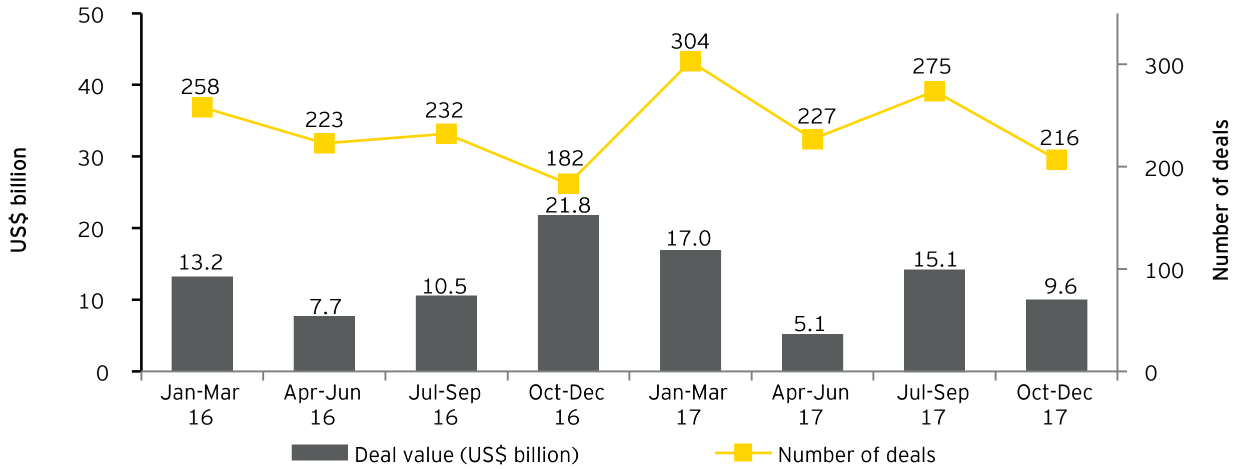
Technological disruption and sector convergence are at the core of the global M&A activity, and India is no exception to this emerging trend. Almost all of the players are proactively reviewing their business models regularly to maintain a competitive edge in a continuously evolving market environment. While a majority of these deals will be small-sized, they will generate considerable investment interest by the market participants. Convergence across sectors will continue to be a key narrative of the economy facilitated by increasing adoption of technology, internet penetration and policy support from the government.

In terms of cross-border activity, a sense of caution is likely to prevail in this year as well, given the global geopolitical uncertainty and volatile trade dynamics. Nevertheless, Indian players, especially in the pharmaceutical and technology sectors, will continue to scout for potential overseas targets that can further complement their existing offerings and provide a platform for incremental growth. Pharmaceutical companies will also look for opportunities to enter new markets such as Japan, Africa and CIS in the wake of the growth slowdown in their traditional export markets. Inbound activity, which took a beating in 2017, is likely to witness a gradual rebound in 2018 as global majors look for growth options beyond the mature markets of the US and Europe.

Overall the outlook for India's M&A remains positive.

Appendices

Exhibit 26: Quarterly deal activity



Source: EY analysis of Thomson ONE data

Exhibit 27: Top 10 deals of 2017

Geography	Month	Target	Target country	Acquirer	Acquirer country	Value (US$ million)	Target sector
Domestic	Mar	Mobile business of Idea Cellular Limited	India	Vodafone India assets of Vodafone Group PLC	India	11,627	Telecommunications
Domestic	Jul	Hindustan Petroleum Corporation Limited	India	Oil and Natural Gas Corporation Limited	India	5,784	Oil and gas
Domestic	Oct	Mumbai electricity business of Reliance Infrastructure Limited	India	Adani Transmission Limited	India	2,932	Power
Domestic	Sep	Bharat Financial Inclusion Limited	India	IndusInd Bank Limited	India	2,394	NBFC
Inbound	Apr	Flipkart Internet Private Limited	India	Investor Group (eBay Inc., US, Microsoft Corp., US, Tencent Holdings Limited, China)	United States	1,400	Retail and consumer products
Inbound	Nov	Idea Cellular Infrastructure Services Limited	India	American Tower Corporation	United States	614	Telecommunications
Outbound	Jan	PKC Group Oyj	Finland	Motherson Sumi Systems Limited	India	604	Automotives
Inbound	Nov	Mobile tower assets of Vodafone India Limited	India	American Tower Corporation	United States	591	Telecommunications
Domestic	Nov	Branded business of Unichem Laboratories Limited	India	Torrent Pharmaceuticals Limited	India	558	Pharmaceuticals
Inbound	June	IFFCO - Tokio General Insurance Company Limited	India	Tokio Marine Holdings Inc.	Japan	393	Insurance

Source: EY analysis of Thomson ONE data

Note: Internal restructuring deals have been excluded

Exhibit 27: Deal activity by industry

Target vertical	2016		2017	
	Deal count	Deal value (US$ million)	Deal count	Deal value (US$ million)
Aerospace and defense	5	325	9	8
Agriculture	15	743	18	251
Airports	-	-	1	47
Asset management	7	9	11	405
Automotives	28	73	28	799
Banking	3	502	5	79
Capital markets	12	83	16	18
Cement and building products	17	5,007	14	122
Chemicals	33	450	46	177
Currency dealers	-	-	5	50
Diversified financial services	24	3,158	25	103
Diversified industrial products	61	831	78	777
Education	19	12	18	49
Engineering and EPC services	12	0	11	133
Government and public sector	-	-	1	-
Healthcare	31	1,177	19	1,284
Insurance	10	123	10	903
Investment companies	4	42	4	112
Logistics and transportation	20	113	23	236
Media and entertainment	58	1,783	63	473
Metals and mining	24	2,034	31	738
NBFC	27	100	29	2,564
Oil and gas	20	19,708	12	432
Online financial services	2	-	10	38
Paper and forest products	6	66	6	79
Payment solutions	8	130	13	465
Pharmaceuticals	52	4,388	46	1,471
Ports and shipping	3	103	3	29
Power	49	3,472	39	4,405
Professional services	63	261	72	249
Railways	1	75	1	-
Real estate	32	461	62	1,463
Retail and consumer products	83	637	106	2,815
Roads and highways	6	278	11	563
Services	1	-	-	-
Technology	110	2,105	114	4,552
Telecommunications	19	2,750	19	14,693
Textiles	16	117	23	41
Travel services	14	2,096	7	293
Utilities	1	-	2	-

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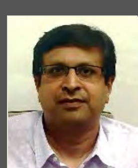

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