

2012 Q3

Continuing to buckle under global pressures, the Indian investing environment maintained a cautious outlook. Against the previous quarter, where outbound M&A activity flourished, on the back of good assets being available at healthy valuations, this quarter has seen a sharp decline in the number of deals and average ticket sizes, as corporates chose to take the wait-and-watch approach on the economic crisis. Similarly, inbound transactions too saw a decline, as global corporations decided to put expansion plans on hold, owing to interest and exchange rate pressures. While domestic activity has remained relatively healthy over the quarter, we believe the negative sentiment shall continue to spill over to Q4 FY12, before seeing any signs of recovery.

Investment Activity

A combination of persistently high inflation, inertia in policy reforms for boosting investments, graft-related investigations and below-par recovery in developed countries, are now beginning to weigh on India's growth projections. Domestic demand is already slowing, as reflected in the investment and consumption indicators.

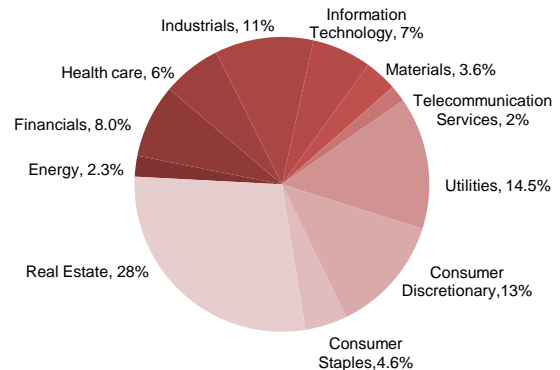
The biggest driver of growth following the credit crisis in 2008 was the Indian government spending, which increased 4% between FY07 and FY09. A large part of this took the form of increased transfers to households, which in turn fuelled consumption. Central government spending grew by CAGR 19% in the three years ended March, 2011. However, the following factors are expected to constrain government led expenditure to support growth, in the future:

- A slowdown in growth, affecting tax revenue collection;
- Reduction in customs and excise duty on petroleum products;
- Absence of one-off revenue receipts;
- Volatile equity markets, making divestitures difficult

Additionally, the high inflation scenario is also impacting private consumption levels. As a result of these factors, India's economy grew at its weakest pace in more than two years in the quarter ended September 2011, revealing the heavy toll that stubborn inflation, rising interest rates and crisis-hit global capital markets are having on Asia's third-biggest economy. GDP growth fell to 6.9% in the second quarter of the financial year, slipping below 8% for the third straight quarter.

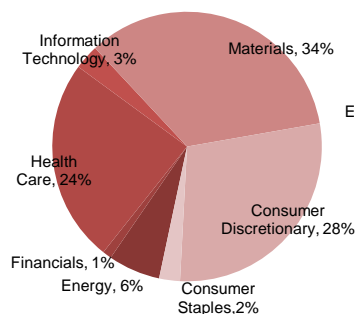
The cautiousness was evident in the investment environment, which slowed significantly this quarter. While the number of PE transactions halved itself to 52 deals in Q3, against 104 deals in Q2, the overall value also declined 60% to USD 1.02 billion from USD 2.6 billion in the previous quarter. The M&A activity too remained subdued with average transaction sizes taking a strong hit. 152 deals were announced in Q3 FY12 with a total value of USD 2.06 billion, as against 168 transactions aggregating USD 5.6 billion in Q2 FY12. While the slowdown was across all types of transactions, outbound M&A saw the biggest impact, falling from USD 3 billion to USD 549 million in Q3.

Q3FY2012 Private Equity Deal Value by Segment (USD 1.0 billion)

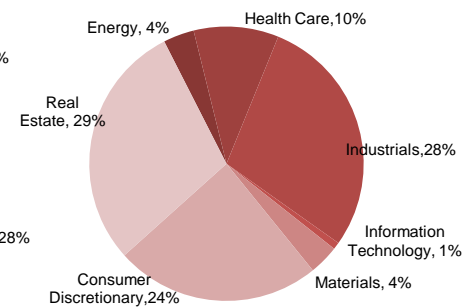


Q3FY2012 M&A Deal Value by Segment (USD 2.1 billion)

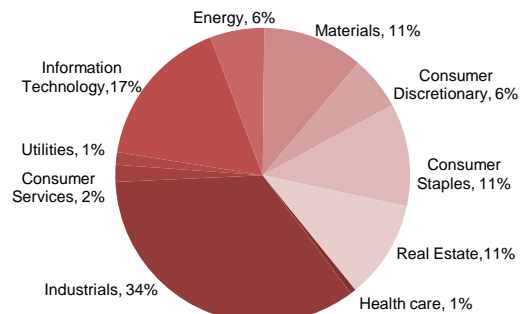
Inbound Transactions (USD 722.9 million)



Outbound Transactions (USD 549.0 million)



Domestic Transactions (USD 794.2 million)



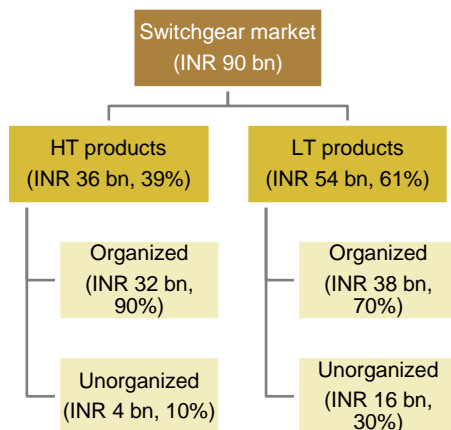
Source: VCCedge, News Articles; The deal numbers include transactions that were concluded at undisclosed values

o3 Capital Quarterly Sector Coverage – Transformers & Switchgears in India

Transformer production in India has more than doubled in the 5 years between FY04-FY09. The production capacity has grown at a much faster rate. The production has grown at a much faster rate (CAGR of 18.4% from FY03 to FY09 as against CAGR of 10.5% from FY00 to FY03) after radical regulatory changes were implemented in the power sector. Production has grown at a healthy rate (CAGR of 15.9%) from FY08 to FY11.

Between FY10 and FY15, the switchgears market is expected to double from its FY10 level which implies a healthy CAGR of 15.6% over FY10 - FY15.

Exhibit 1: Switchgear Market Composition (FY10)



Key drivers of the transformer and switchgear industry in India are:

Addition to generation capacity - 186 GW of power generation capacity is to be added over 10 years from FY07 to FY17.

Development of the transmission network in India - The national grid which forms the transmission backbone in the country would be upgraded to 2.3 times of its capacity at the end of 10th five year plan.

Focus on rural electrification and distribution - The Government of India has undertaken key initiatives such as RGGVY* and R-APDRP* which aim at upgrading sub transmission and distribution network, electrifying all un-electrified villages and habitations, modernization and renovation of the distribution network in the country.

Growing exports driven by demand in global markets - Indian exports of transformers and switchgears have grown steadily as Indian players gain presence in international markets. However, lack of technical capabilities in the domestic market has driven imports. In the short term, we expect India to be a net importer, though imports are likely to stabilize over long term.

Replacement demand – Improvement in technology is creating a replacement demand in switchgear segment. In the transformer segment, installations done in 1980s would be due for replacement in the next 5 years.

Considering the above drivers, we estimate the annual transformer market in India to be INR 144 bn/annum during FY08-12 and INR 161 bn/annum during FY13-FY17.

Exhibit 2: Indian Transformer Market Estimates

Market driver	Avg. annual market (FY08-FY12)	Avg. annual market (FY13-FY17)
Addition to power generation capacity	14	19
Development of transmission network	38	45
Distribution and rural electrification	86	103
Exports driven by global demand	47	72
Imports	41	79
Total	144	160

Source: o3 Capital Analysis; Figures in INR bn

The switchgears market in India was estimated to be INR 104 bn in FY11 and likely to grow to INR 186 bn by FY15.

There is a clear trend among large established players in transformer segment to focus on enhancing their manufacturing capability to be able to manufacture EHV and UHV range of transformers. Established players are focusing on high margin specialized transformers such as dry type transformers and transformers based on newer technologies.

The switchgears market, largely organized is likely to face competition from the unorganized segment. This is more evident in the LT switchgear segment as compared to HT switchgear segment.

A detailed report capturing the past performance, future potential and key drivers of the transformer segment in India, has been prepared and published by o3 Capital, as part of its sector coverage.

For further details, please mail:

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*RGGVY – Rajiv Gandhi Grameen Vidyutikaran Yojana; R-APDRP – Restructured Accelerated Power Development & Reform Programme

Top 20 Private Equity Transactions

Date	Target	Acquirer	Deal Size	Sector
17 th Nov	Assetz Global Technology Park	Temasek Holdings Advisors India Pvt. Ltd.	156.6	Real Estate
2 nd Nov	SAMHI Hotels Pvt. Ltd.	Equity International	75.0	Consumer Discretionary
22 nd Dec	Endurance Technologies Pvt. Ltd.	Actis LLP	71.0	Industrials
20 th Oct	Moser Baer Clean Energy Italy SRL	GE Energy Financial Services	60.4	Utilities
9 th Dec	Max India Ltd.	Goldman Sachs (Principal Investments)	59.6	Healthcare
3 th Oct	Zenith Monitoring Services Pvt. Ltd.	Summit Partners	50.5	Information Technology
7 th Oct	Greenko Wind Project Pvt. Ltd.	GE Energy Financial Services	50.0	Utilities
15 th Nov	Omkar Realtors & Developers Pvt. Ltd., Slum Redevelopment Project	Red Fort Capital Advisors Pvt. Ltd.	49.6	Real Estate
22 nd Nov	Nitesh Estates Ltd., SPV	JP Morgan Partners	40.0	Real Estate
3 rd Nov	Crystal Crop Protection Pvt. Ltd.	Everstone Capital Management	30.2	Materials
16 th Nov	Religare Finvest Ltd.	Avigo Capital Partners Pvt. Ltd.	29.5	Financials
18 th Oct	VVF Ltd.	Reliance Alternative Investments Fund Private Equity Scheme I	27.6	Consumer Staples
7 th Nov	Soham Renewable Energy Pvt. Ltd.	Macquarie-SBI Infrastructure Fund	25.3	Utilities
28 th Oct	Edelweiss Financial Services Ltd.	Carlyle Asia Growth Partners III	23.7	Financials
12 th Oct	Max Flex & Imaging Systems Ltd.	Reliance Alternative Investments Fund Private Equity Scheme I	22.3	Industrials
20 th Dec	J.S. Hospitality Services Pvt. Ltd.	Everstone Capital Management	20.0	Consumer Discretionary
25 th Oct	Medi Assist India TPA Pvt. Ltd.	Bessemer Venture Partners India	20.0	Financials
30 th Nov	Roots Corp. Ltd.	Tata Opportunities Fund	19.2	Consumer Discretionary
15 th Nov	Alphion India Pvt. Ltd.	Aditya Birla Private Equity Fund I	18.8	Telecommunication Services
14 th Dec	IOT Infrastructure & Energy Services Ltd.	UTI Capital Pvt. Ltd.	18.4	Energy

Note: All figures are in USD mn; Includes transactions that have been announced and are pending closure

Source: VCCedge, News Articles

o3 Capital Transaction Closures

October 2011

**Loylty
Rewardz**

Investment by



Advisor

Our client Loyalty Rewardz successfully completed its Series B funding from Caanan Partners.

Mumbai-based Loylty Rewardz is engaged in the development and management of consumer loyalty programmes. Currently, it runs multiple loyalty programs including Freedom Rewardz for State Bank Group, myWorldMiles.com for Deutsche Bank, PremierMiles.co.in for Citibank and www.pnbRewardz.com for Punjab National Bank. The company had raised INR 60 million from eYantra Industries Ltd, Ventureast Proactive and Argonaut Private Equity in November 2009.

The fund raise will primarily be used to improve the technology platform and build the sales/client acquisition team.

October 2011



Acquires the
Mortgage
Processing Division



Sole Advisor

Our client CompuGain announced the acquisition of the Mortgage Division of Overture Technologies, Inc., a leading provider of decisioning software solutions. Overture Technologies applies decades of experience in the mortgage finance industry to provide specialized tools that help customers make informed and sound decisions about what to buy or sell and what to approve or refer. Overture's solution suite is a high-performance loan decisioning system that can be used for loan-level and pool risk assessment, eligibility and pricing of new and seasoned assets.

Overture's Mortgage division enables transparent, accurate and responsive lending processes required for the mortgage and finance industries. With the addition of Overture's Mortgage division, CompuGain will be able to leverage its existing service offerings to enhance and implement a world-class decisioning software solution to existing and new clients. Together, CompuGain and Overture Financial Solutions will consult and work as an integrated delivery team to help its business partners make better and more informed decisions utilizing the Overture financial software solutions.

November 2011



Sale of Nutraceutical
Business to



SANOFI
Sole Advisor

Our client Universal Medicare (Universal), maker of popular codliver oil capsules brand Seacod, announced the sale of its branded nutraceutical formulations business, to Aventis Pharma Limited (part of the Sanofi Group).

Universal Medicare, (headquartered in Mumbai, India) manufactures, markets and distributes branded nutraceutical formulations in India through its sales and marketing infrastructure. Universal Medicare's portfolio of over 40 branded formulations represent key categories within the nutraceutical market, that are primarily antioxidants, vitamins and mineral supplements, anti-arthritis, anti-osteoporotics, liver tonics, and other nutrients.

With this acquisition, Aventis Pharma will advance its sustainable growth strategy in India and facilitate the creation of a consumer healthcare and wellness platform. This move is also synergetic with the growth strategy of Sanofi, a majority stakeholder in Aventis Pharma Limited.

November 2011



Acquired by



Sole Advisor

Our client ISTS Worldwide, announced its acquisition by Clear2Pay. ISTS is a leading payment services company with a focus on electronic payments for retail customers with an offshore delivery platform. The company provides end-to-end domain driven technology services and solutions in the form of architecture services, custom application development, integration, testing, support and global execution for the retail payments industry. ISTS has a CMMI Level 3 certified development and project delivery centre in India and an office in France. Its core solutions are focused on the card transaction space and serves top tier payment processors such as Paypal and Euronet.

Clear2Pay is a payments modernisation company that actively supports global financial institutions to meet their payments unification goals through an Open Payment Framework (OPF). Headquartered in Brussels, Belgium, the company facilitates payments services such as Card, ACH and International Payment. Clients include global and major regional financial institutions such as ING and The People Bank of China. Clear2Pay operates out of 10 countries and employs more than 800 people.

November 2011

**Amvar Ventures Pvt.
Ltd.**

Secondary Stake Sale in



Advisor

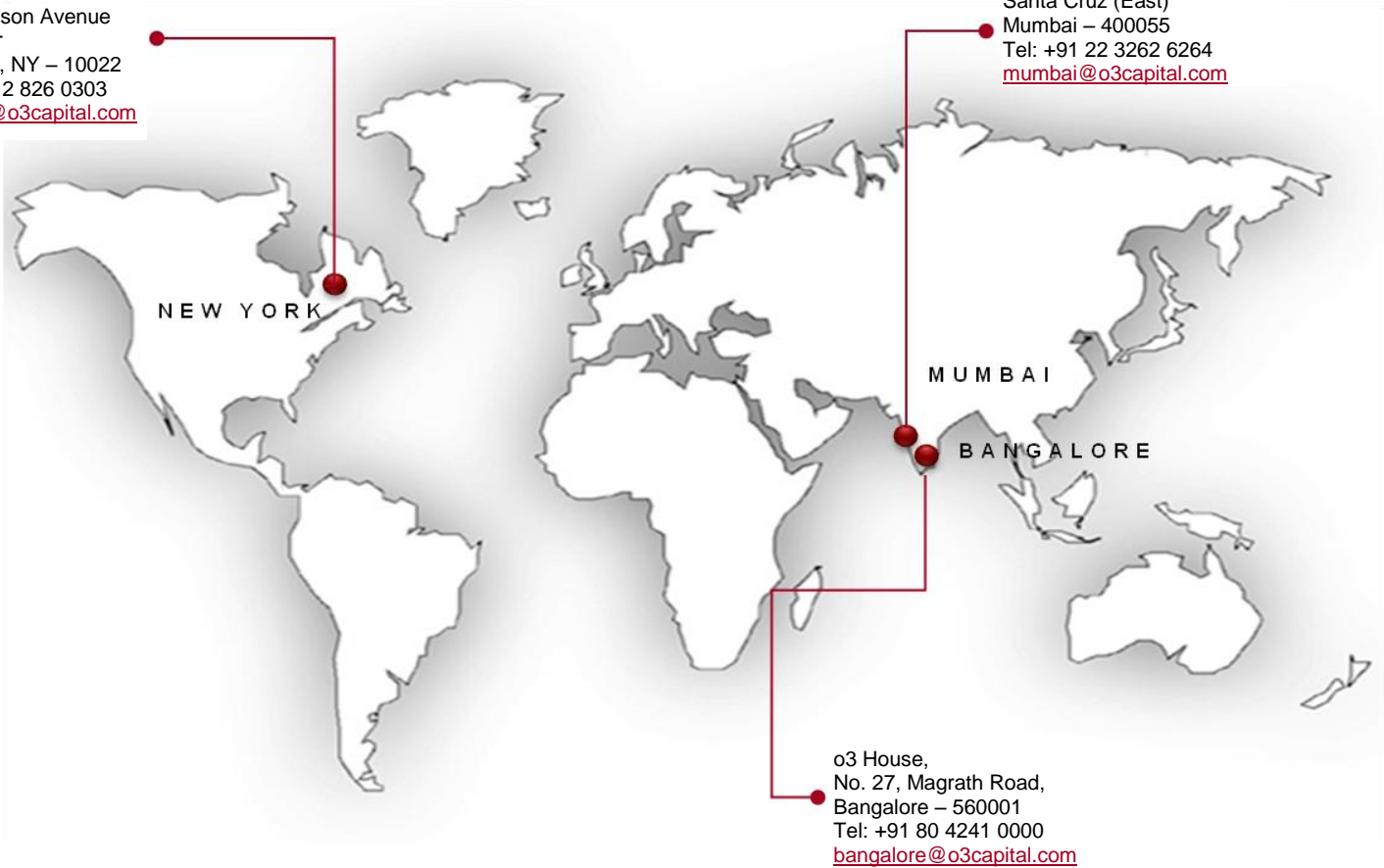
XCyton, a portfolio of our client Amvar Ventures, successfully completed its fund raise from Fidelity Growth Partners, an investment arm of Fidelity International. o3 was advisor to Amvar, which partially exited its investment.

XCyton is a product development company that is designing and developing next generation diagnostics kits. Its uniqueness is in development of molecular diagnostic products for detection of critical care infections. It has developed a pilot DNA macro chip for simultaneous diagnosis of various ailments including Encephalitis Septicaemia, Meningitis, Endophthalmitis, Febrile Neutropenia, Respiratory diseases, Uveitis, infections of OBG and infertility, renal infections, HPV etc.

Fidelity has funded the company to fast-track its product development for commercial exploitation and strengthen its marketing and management teams.

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