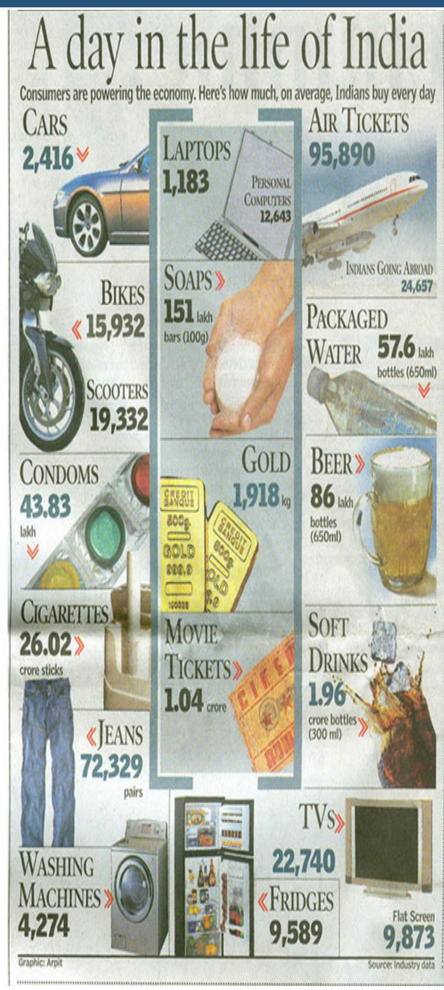
May 2010

India Consumer Story



Forward

Dear Reader,

Greetings!

It is our pleasure to share this sectoral overview on the Indian Consumer Sector, the first in a series of reports that we intend to cover in months to come.

Both Maple Capital Advisors and Cians Analytics are professional entrepreneurship platforms that were conceptualised and created towards the end of 2009/early 2010. They share a belief in the India story, thanks to its consumer potential and its ability to be a very efficient service provider.

We thought it apt to cover the India Consumer story given its significance, which was reaffirmed by our findings in the current global context. As you read through the report, you will find that India is very uniquely positioned; sharing characteristics with the America's of the 60's, the South East Asia of the 90's and the China of 2000's.

We believe this will reflect a significant change in the way the world looks at India, taking it even more seriously, resulting in increased financial commitments through direct and portfolio investments.

While the capital markets somewhat reflect this on the back of increased FII flows, India is likely to be an important strategic market and hedge for key global and regional consumer sector players who are likely to increase direct inbound investments, given the challenges faced in home markets.

We have also attempted to give a different perspective to the Consumer story by covering a wide spectrum of sectors that are seeing strong growth on the back of the change in consumption patterns as a result of a growing middle class and higher disposable incomes. We have also attempted to analyse the sectors from a strategic M&A/PE and Capital markets perspective.

We hope you find this report useful, and it reaffirms your belief in the India Consumer Story!

Sincerely,

Pankaj Karna
Managing Director
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Contents

Executive Summary

Introduction

- It is well known by now that the economic crisis of 2007-09 was one of the most severe in recent history, precipitating long term economic shifts that countries are still figuring out.

- As the world gradually accepts a "new normal" in the US, Europe and other developed economies, investors are actively looking for sustainable high growth hot spots. A lot of attention thus far was centred on the BRIC quadrant, especially China, and with good reason.

- India's resilience, and the re-iteration of its strong fundamentals, is one of the stories of the recession.

- This report is designed to help the reader get a good grip on India's economic strength and to specifically look at the sectors driven directly by India's retail consumers.

Why the Consumer Sector?

- India today is on the cusp of an expansion similar to that experienced by the "baby boomer" generation in the US, as seen by:

    - A large middle class of 300 million people, with rising disposable income
    - A culture of higher education – a strong and consistent supply of skills
    - A young, highly mobile and entrepreneurial workforce
    - A trend towards urbanization and seeking the merits of a "western" lifestyle

- These strengths are reflected in fundamental consumption growth across the following key consumer driven sectors, which is expected to continue at 10% plus in the next 3 -5 years:

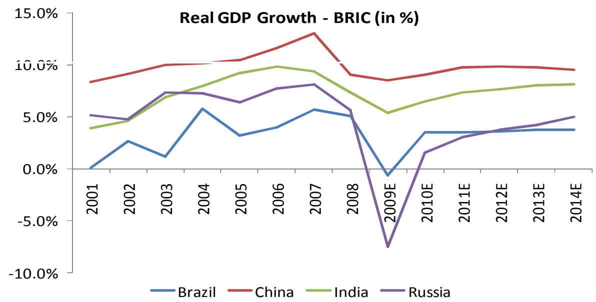
    - Telecommunications – 15.0 % + in wireless
    - Automobiles – passenger cars - 13.0 %
    - Media & Entertainment – 13.8 %
    - Consumer Goods with FMCG – 11.0 %
    - Real Estate – Housing - 20.0 % +
    - Education – Private spending growth 14.0 %+
    - Healthcare – 12.0 %
    - Food Services – 25.0% +

- In the sections that follow, we have delved deeper into these sectors giving an overall perspective from strategic trends, M&A and capital flows

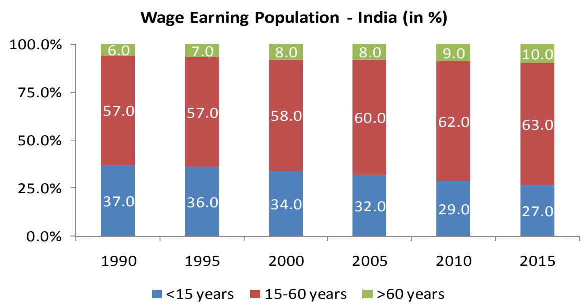
Exchange rate: INR/USD – 44.6

Indian Consumer Market: A compelling growth story

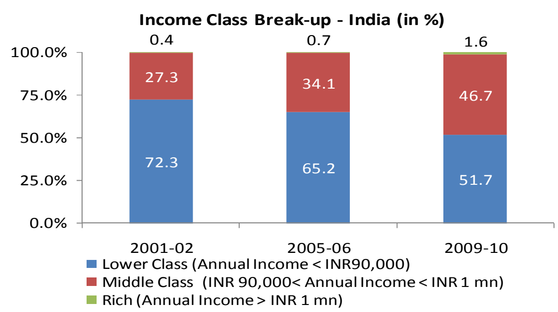
India is at a unique crossroad of consumer explosion, driven by a large population base which until recently was striving for basic sustenance but is now embracing consumption on the back of growing incomes driven by capital flows, urbanization and related factors. This fundamental view is corroborated by McKinsey, which believes India will become one of the top 5 consumer markets globally by 2025, as income levels are expected to rise threefold.



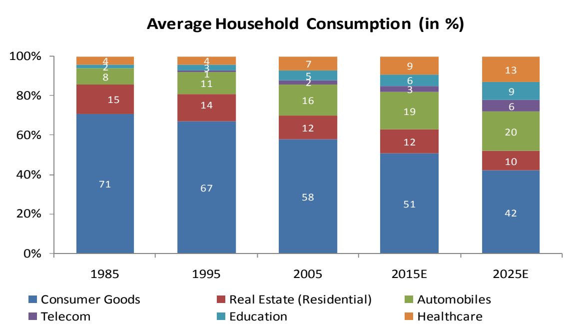
Source: IMF, World Economic Outlook Database, October 2009



Source: Images F&R research, Alchemy Research



Source: NCAER, Alchemy Research



Source: McKinsey Global Institute

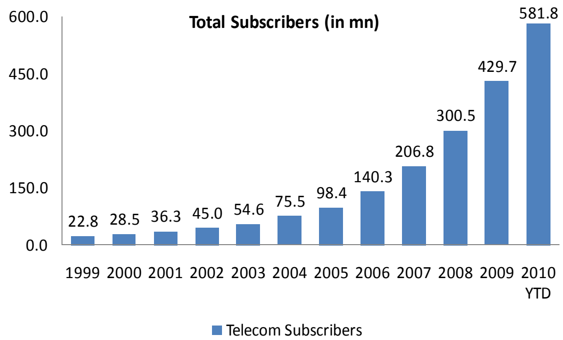
Sector Highlights

- The severe global liquidity crisis and recession of 2007-09 witnessed resilience from BRIC nations – especially India and China
- India's GDP is set to grow at 7.2% in 2010 and exceed 8% in 2011
- Growth expected to accelerate to 9.0% p.a. in the next 2-3 years, driven by:
  - Surge in domestic demand
  - Improving exports
- The consumer sector is undergoing change with the creation of new markets and expansion of existing markets;
  - The Indian population is acting as a favourable driver for consumption growth.
  - The percentage of wage earners (people in the age group of 15 - 60 years) is expected to rise to 63.0% of the total population in 2015 from 60.0% in 2005.
  - Income levels are expanding with the middle class (consuming class) forming 46% of the population, from less than 27% at the beginning of the century.
  - Growing urban population, rising to 32.0% of total population in 2015, from 29.0% in 2005.
  - The rural consumer market is expected to grow to US$ 425 billion in 2011 with 720-790 million customers, almost doubling from US$ 220 billion witnessed in 2005.
- The consumption pattern in the average household now reflects a rapid change to value added food, food service, technology, media, healthcare, automobile and real estate spends from a basic food led scenario at the beginning of the century.

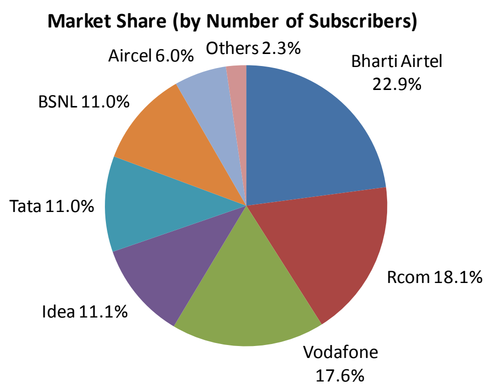
The growing middle class and change in consumption patterns will result in substantial growth in sectors like telecom, media and entertainment, consumer products, automobiles and residential real estate.

Telecom: Wireless to grow at CAGR of 15% till 2015

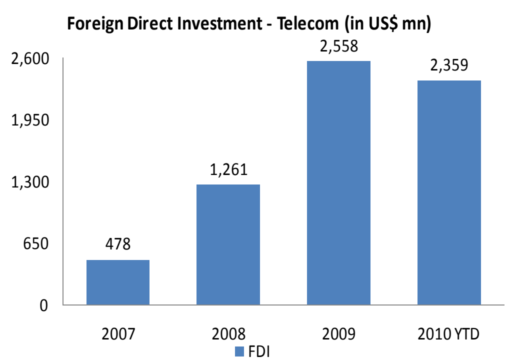
Telecom sector is a classic example of how affordability drives volumes in India. The sector which has changed the way Indians work and socialize, will see a further explosion on the back of increased penetration, and consumers upgrading to value added services and mobile platforms including 3G. This is corroborated by the CII – Ernst &Young report which projects the sector to touch US$ 54 billion in 2012-13, against US$ 31 billion in 2007-08.



Source: TRAI



Source: IFIN Research, COAI, AUSP



Source: Department of Industrial Policy and Promotion, India

Sector Highlights

- The telecom sector has seen record subscriber growth and, recently, the entry of numerous new players on the back of new licenses being granted.
- Subscriber growth should remain strong till 2012 due to network roll-out by new operators and expansion by regional operators across different Indian circles.
- Reduction in tariffs & low cost handsets have further contributed to affordability and thereby increased penetration to the lower income strata.
- Value added services;
  - Increased focus on value added services.
  - By 2010-11, the share of value added services in operator revenue will touch 18.0%, compared to 10.0% in 2008-09.
- 3G introduction - the next big story – by 2013;
  - Government of India will receive USD 15 billion plus through the auction of 3G spectrum.
  - 3G-enabled services expected to garner 275 million subscribers.
  - 3G-enabled handsets expected to touch 395 million.
- Significant investments underway, ranging from network rollouts by new operators and acquisition of 3G licenses.
- Handsets is a 100 million p.a plus market.
- Pricing of spectrum for 2G services, currently under consideration will impact margins significantly.
- The 74.0% Foreign Direct Investment (FDI) policy has supported international investor interest.

Opportunities & Challenges

- **New entrants and increased competition will lead to better service.**
- **Margins to remain under pressure, with intense price-based competition in the short term.**
- **ARPU improvement likely on the back of VAS, data, differentiated pricing and bundling across platforms.**
- **Uptake in 3G services yet to be gauged, can we repeat the 2G success?**

Key M&A Activity (US$ mn)

Date	Acquirer	Target	Deal Size
Mar 30, 2010	Bharti Airtel	Zain	10,700.0
Feb 10, 2010	Telenor ASA	Unitech Wireless	N/A
Dec 21, 2009	Emirates Telecom (Etislat)	Etisalat DB Telecom from Genex Exim Ventures	84.4
Dec 10, 2009	Russian Government	Sistema-Shyam Telecom	676.0
Nov 15, 2009	Essar Teleholdings	Warid Telecom (Uganda & Congo Operations)	160.0
Oct 31, 2009	Singapore Telecom	Bharti Telecom	N/A
Oct 30, 2009	Pastel	Bharti Airtel	N/A
Oct 29, 2009	American Tower Corporation	Transcend Infrastructure	21.1
Sep 29, 2009	MindTree	Kyocera Wireless (India)	6.0
Aug 7, 2009	Prodapt Solutions	Pacific Crest Technologies	N/A
Jul 2, 2009	Kaveri Telecom Products	Trackcom Systems International	N/A
Mar 17, 2009	American Tower Corporation	Xcel Telecom	155.6
Jan 19, 2009	Bahrain Telecom and Millennium Private Equity	S Tel	225.0
Jan 5, 2009	Quippo Telecom	Tata Teleservices	1,300.0

Key PE Activity (US$ mn)

Date	Investor	Investee	Deal Size
May 6, 2009	Sahara India Investment	S Tel	N/A
Apr 29, 2009	Axious Investments	Quippo Telecom	44.4
Mar 15, 2009	Norwest Venture Partners India	OnMobile Global	15.0
Jan 21, 2009	Genex Exim Venture	Swan Telecom	84.4

M&A / PE

- The sector accounted for 14 key M&A deals with an average deal size of ~US$1 billion. The Bharti-Zain deal was the major contributor to the total M&A deal value.
- There were 4 key PE investments made in 2009 with an average size of US$47 million.
- The sector is expected to see consolidation, given the high number of new entrants, and highly competitive scenario with limited pricing flexibility with the operators. Consolidation on tower side is already underway, and expect to see this on retail and handset segments as well.
- Value added and 3G are expected to provide margin expansion opportunities; however incumbents will have an edge owing to scale.
- Cross border M&A activity will increase as demonstrated by the Bharti-Zain deal and ability of Indian carriers to implement the India cost revenue model in emerging and developed nations.

Comparable Company Analysis-Telecom

- The sector is currently trading at a valuation of EBITDA multiple 9.0x, which is expected to remain flat at 9.1x in FY10-11.
- The current industry EBITDA margin is ~26%.
- With a P/E of 16.2x, the sector is trading at a discount to the current BSE SENSEX P/E of 20.6x.
- Stock specific differentiation is expected to show up starkly in the coming months on the back of differentiated cross border and domestic strategies.

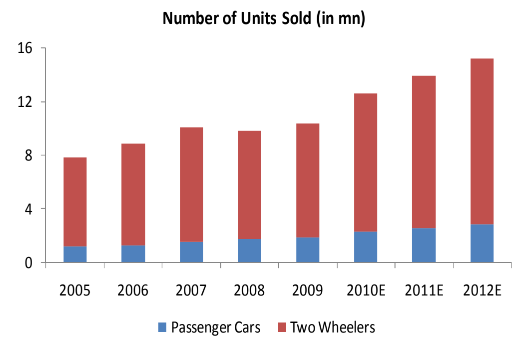
(All numbers in USD millions, except per share data)

			LTM	Enterprise Value Multiple								
	Enterprise	LTM	EBITDA	Revenue			EBITDA			P/E		
Company	Value	Revenue	Margin	LTM	NFY	NFY+1	LTM	NFY	NFY+1	LTM	NFY	NFY+1
Bharti Airtel	USD 26,736	USD 9,399	39.6%	2.84x	2.81x	2.48x	7.2x	7.2x	6.4x	12.3x	13.6x	11.9x
Reliance Communications	16,210	5,000	39.2%	3.24x	3.14x	2.89x	8.3x	8.8x	8.5x	5.6x	8.9x	11.0x
Idea Cellular	5,438	2,277	27.9%	2.39x	1.93x	1.69x	8.6x	7.4x	6.6x	23.0x	25.1x	33.5x
Tata Communications	2,871	2,239	13.7%	1.28x	1.16x	1.04x	9.3x	9.1x	7.1x	24.9x	NM	NM
Mahanagar Telephone Nigam	(74)	1,010	6.8%	NM	NM	NM	NM	NM	NM	21.7x	NM	NM
Tata Teleservices Maharashtra	1,715	436	30.3%	3.93x	3.49x	3.24x	13.0x	16.2x	15.3x	NM	NM	NM
Tulip Telecom	715	363	25.4%	1.97x	1.59x	1.32x	7.8x	6.1x	4.9x	9.6x	9.1x	7.7x
		Mean	26.1%	2.61x	2.35x	2.11x	9.0x	9.1x	8.1x	16.2x	14.2x	16.0x
		Median	27.9%	2.62x	2.37x	2.08x	8.4x	8.1x	6.9x	17.0x	11.3x	11.5x

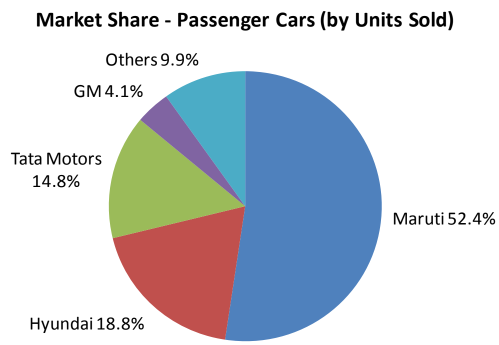
Note:
NM indicates multiples which are either negative or out of range
Source: Bloomberg
Valuation Date: Apr 29, 2010

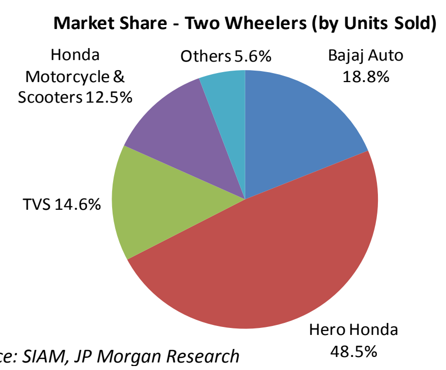
Automobiles: Passenger Cars & Two-wheeler segments buoyant

The Indian market has traditionally been characterized by inadequate infrastructure, public transport and traditional aspirations to ownership of vehicles. Increasing income levels and availability of credit has led to affordability and sharp growth in passenger cars and two-wheelers which constitute > 90% of Indian Automobile sector. The sector's turnover expected to touch US$ 155 billion by 2016 from ~US$40 billion in 2009-10.



Source: SIAM, JP Morgan Research





Source: SIAM, JP Morgan Research

Sector Highlights

- Automobile sector in India has attained critical mass in the passenger car and two-wheel segments;
  - Over 2 million passenger car units.
  - Over 10 million two-wheeler units.
- Auto manufacturers are making greater inroads into the rural market;
  - Leading players are reporting 50-100% increases in sales from such regions.
- India is attracting large investments by several global car makers;
  - Sharp slowdown in home markets and double digit growth in India are making India an important "to be present" location in MNC maps.
  - Increasingly being favoured as a manufacturing hub given the cost benefits and domestic scale supplementing economies of scale e.g. Hyundai.
- A very strong domestic demand environment for vehicles will result in;
  - Market expansion – launch of several new products.
  - Inventory levels remaining low.
  - Global car makers setting up production hubs to cater to India and their international markets key examples being Suzuki, Hyundai, Ford and Volkswagen.
- The emergence of the Indian auto giants, led by Tata and Mahindra, is an interesting and scalable development.
- Car loans rose 18% in '09-10 compared with '08-09.
- 100% FDI allowed under automatic route, and foreign JV partners in India no longer require consent of Indian partner for new ventures in India.

Opportunities & Challenges

- **India is seen as a manufacturing hub, targeting both domestic and international markets.**
- **New product launches domestically to expand market and increase consumer choice.**
- **Remains a price sensitive market, despite increase in disposable income.**
- **Consumer credit is an important driver of growth and interest rates will thus be an important factor.**

Key M&A Activity (US$ mn)

Date	Acquirer	Target	Deal Size
Oct 20, 2009	Tata Motors	Hispano Carrocera	N/A
Sep 21, 2009	Toyota Group	Tube Investments of India	4.3
Jul 7, 2009	TRF Ltd	Dutch Lanka Trailer Manufacturers	8.7
May 18, 2009	Apollo Tyres	Vredestein Banden	N/A
Apr 17, 2009	JBM Auto	ThyssenKrupp JBM	N/A
Apr 15, 2009	Daimler Trucks	Daimler Hero Commercial Vehicles	22.2
Jan 3, 2009	Motherson Sumi and Samverdhan Motherson Finance	Visiocorp	32.5

M&A / PE

- The sector accounted for 7 key M&A deals with an average deal size of US$17 million.
- The strong growth prospects in the Indian market will see increased investments by International players entering India both on value and premium/super premium segments.
- JV's and select consolidation is likely, especially where domestic players have diversified portfolios and small bases.
- Outbound M&A driven by engineering technology acquisition special situations that have arisen due to the recessionary environment.
- PE interest will mainly be in domestic players, where valuation challenge remains.

Comparable Company Analysis - Automobiles

- The sector is currently trading at a valuation of EBITDA multiple 15.1x.
- The high competition has put pressure on the sector EBITDA margin. The current industry EBITDA margin is ~10%.
- With a P/E of 26.8x, the sector is trading at a premium to the current BSE SENSEX P/E of 20.6x.
- Leaders will consolidate further, and are expected to continue to be valued superior.

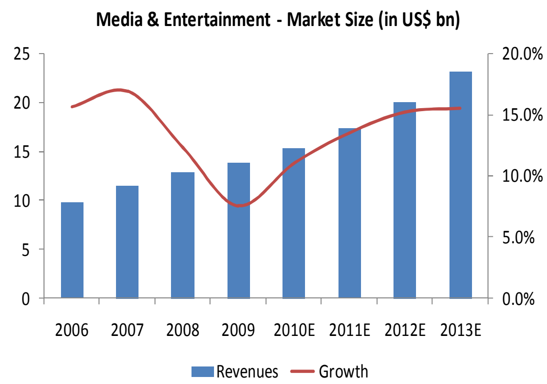
(All numbers in USD millions, except per share data)

				Enterprise Value Multiple								
			LTM	Revenue			EBITDA			P/E		
Company	Enterprise Value	LTM Revenue	EBITDA Margin	LTM	NFY	NFY+1	LTM	NFY	NFY+1	LTM	NFY	NFY+1
Companies with > USD 200 mn Revenue												
Tata Motors	USD 18,790	USD 16,804	9.1%	1.12x	0.96x	0.82x	12.3x	12.4x	8.6x	NM	50.5x	16.1x
Maruti Suzuki India	7,884	6,584	2.9%	1.20x	1.05x	0.92x	NM	8.3x	7.2x	14.2x	13.4x	11.9x
Mahindra & Mahindra	9,249	4,266	19.5%	2.17x	1.77x	1.54x	11.1x	10.7x	9.9x	21.5x	15.1x	13.8x
Hero Honda Motors	7,512	3,541	17.6%	2.12x	N/A	N/A	12.1x	11.1x	10.0x	16.4x	N/A	N/A
Bajaj Auto	7,085	1,898	12.1%	3.73x	2.71x	2.26x	30.9x	13.2x	11.8x	56.1x	18.7x	15.8x
Tvs Motor Co	725	842	1.3%	0.86x	0.64x	0.57x	NM	8.9x	7.2x	NM	17.4x	12.2x
Eicher Motors	328	660	5.4%	0.50x	0.35x	0.28x	9.2x	4.3x	3.1x	25.7x	12.3x	9.3x
Companies with < USD 200 mn Revenue												
Hindustan Motors	124	134	(10.5%)	0.93x	N/A	N/A	NM	N/A	N/A	NM	N/A	N/A
Kinetic Motor Co	29	4	(47.4%)	NM	N/A	N/A	NM	N/A	N/A	NM	N/A	N/A
		Mean	9.7%	1.58x	1.25x	1.07x	15.1x	9.8x	8.3x	26.8x	21.2x	13.2x
		Median	9.1%	1.16x	1.01x	0.87x	12.1x	10.7x	8.6x	21.5x	16.3x	13.0x

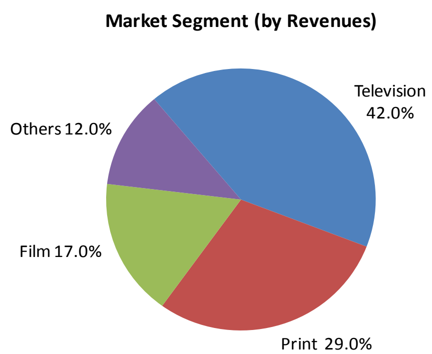
Note:
NM indicates multiples which are either negative or out of range
Source: Bloomberg
Valuation Date: Apr 29, 2010

Media & Entertainment: Tier II & III penetration a big opportunity

With growth in domestic consumption, Media & Entertainment has been able to make significant gains – directly and indirectly. Increased affordability, reach and convergence of platforms are unlocking value in this space, and creating further growth. With limited entertainment avenues, as well as low penetration, the TV, film and print media segments are seeing significant growth. This is corroborated by FICCI and KPMG, who project a 4-year CAGR of 13.8% (from US$ 14 billion in 2009 to US$ 23 billion in 2013).



Source: IndusView



Source: FICCI, KPMG, Ambit Capital Research

Sector Highlights

- Tier II & III penetration are being driven by:
  - Increased literacy rates.
  - Lower advertising to GDP ratio (India – 0.5% and U.S. – 1.3%, UK – 0.9%).
- Share of subscriptions (62.1%) and advertising (37.9%) to total revenue is expected to remain constant in 2013, given penetration is still increasing, especially tier II and tier III.
- Television, Print and Film segments currently account for 88.0% of the India M&E sector's revenues
  - They will face competition, but are expected to retain a strong presence, contributing 85.0% of revenues.
  - The interim, however, will also see rapid expansion in areas such as internet, mobile, outdoor , radio and animation.
- Advertising spend is expected to grow significantly with revival in demand from key verticals – BFSI, Telecom, Automobiles, FMCG.
- Sports media is emerging strongly on the back of the Indian Premier League's (IPL) success, and star endorsements.
- Indian M&E companies are developing an appetite for cross border content driven deals;
  - Also forming tie-ups with global giants to tap interest in Indian content in western markets
- Government reforms;
  - Now allowing 100.0% FDI through automatic route for film & advertising segments.
  - 100.0% FDI now opened up in all non-news. publications and 26.0% FDI in news publications.
  - 20% FDI in FM Radio Broadcasting and DTH.

Opportunities & Challenges

- **Significant scope remains for new entrants in select segments.**
- **Convergence will be rapid and likely to create numerous opportunities.**
- **Demand for digital media and content is expected to increase rapidly.**
- **Select segments have high fragmentation e.g. TV, and content will be key for sustainability.**

Key M&A Activity (US$ mn)

Date	Acquirer	Target	Deal size
Dec 4, 2009	Turner Group	NDTV Imagine	117.0
Nov 30, 2009	GS Home Shopping	HomeShop18	18.5
Nov 19, 2009	Scripps Networks Interactive	NDTV Lifestyle	55.0
Nov 14, 2009	Network18 Holdings	HomeShop18	5.0
Nov 13, 2009	Major Cineplex	PVR	9.3
Feb 3, 2009	Astro All Asia Networks	Mogae Digital	5.0
Jan 30, 2009	Cosmo Films	GBC Commercial	25.0
Jan 28, 2009	IBN18 Broadcast	Viacom 18 Media	33.6
Jan 10, 2009	Indi Media Company	INX News	11.1

Key PE Activity (US$ mn)

Date	Investor	Investee	Deal size
Dec 10, 2009	Apollo Management	Dish TV India	100.0
Oct 28, 2009	Soft-Bank and India Capital of Hong Kong	Den Networks	11.1
Aug 19, 2009	Warburg Pincus	Synergy Media Entertainment	0.3
Jul 23, 2009	Sequoia Capital India	Just Dial	8.9
July 2009	EMSAF Mauritius	Den Networks	22.2
May 1, 2009	Sequoia Capital, India & Silicon Valley Bank	Ideacts Innovations	5.0
Apr 16, 2009	Oman Investment Fund and 3i Sports Media	Neo Sports Broadcasting	57.3
Feb 2, 2009	Helion Venture Partners	GETIT Infoservices	4.4
Dec 4, 2008	VC Hunt	CashURdrive	0.6

M&A / PE

- The sector accounted for 9 key M&A deals with an average deal size of US$31 million. Turner-NDTV deal is the major contributor to the total M&A deal value.
- There were 9 key PE investments in 2009 with an average size of US$23 million.
- The sector has high fragmentation in select verticals e.g. TV, which may see some consolidation.
- Inbound investments will be on the rise across the media spectrum, as will JV's and partnerships in print media.
- Emerging M&E segments like sports will see increased M&A/PE activity.
- Strong PE interest in the sector, may result in increased deal activity.

Comparable Company Analysis - M&E

- The sector is currently trading at a valuation of EBITDA multiple 19.4x.
- The entry of new players and existing players expanding their operations to new segments may put pressure on the EBITDA margins of some players. The current industry EBITDA margin is ~26%.
- With a P/E of 35.8x, the sector is trading at a premium to the current BSE SENSEX P/E of 20.6x.
- Fundamentals and cash generation, likely to drive values forward.

(All numbers in USD millions, except per share data)

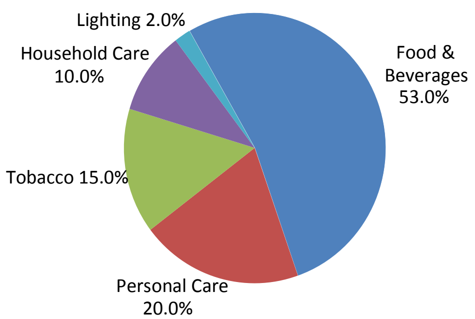
			LTM	Enterprise Value Multiple								
				Revenue			EBITDA			P/E		
Company	Enterprise Value	LTM Revenue	EBITDA Margin	LTM	NFY	NFY+1	LTM	NFY	NFY+1	LTM	NFY	NFY+1
Companies with > USD 200 mn Revenue												
Zee Entertainment Enterprise	USD 2,985	USD 494	27.7%	6.05x	4.68x	4.08x	21.8x	15.9x	13.3x	26.0x	21.2x	17.6x
HT Media	786	303	7.3%	2.60x	2.42x	2.18x	NM	13.2x	10.8x	NM	25.7x	19.5x
Sun TV Network	3,648	234	71.1%	NM	NM	NM	22.0x	16.5x	13.7x	44.8x	32.5x	26.0x
Deccan Chronicle	791	218	31.4%	3.63x	3.47x	3.15x	11.6x	7.7x	7.0x	25.1x	11.9x	10.2x
Companies with < USD 200 mn Revenue												
Jagran Prakashan	816	170	22.1%	4.81x	N/A	N/A	21.7x	N/A	N/A	39.4x	N/A	N/A
Dish TV India	1,094	166	(16.6%)	6.60x	4.47x	3.32x	NM	NM	19.5x	NM	NM	NM
Den Networks	590	160	1.2%	3.69x	3.10x	2.62x	NM	33.6x	19.2x	NM	NM	NM
Reliance Mediaworks	496	149	14.9%	3.33x	N/A	N/A	22.3x	N/A	N/A	NM	N/A	N/A
New Delhi Television	309	101	NM	3.05x	3.50x	N/A	NM	NM	N/A	5.3x	NM	N/A
PVR	101	79	14.6%	1.27x	1.27x	0.85x	8.7x	9.4x	4.6x	46.5x	NM	14.4x
Inox Leisure	102	50	15.8%	2.01x	N/A	N/A	12.7x	N/A	N/A	16.8x	N/A	N/A
D.B. Corp	1,144	49	68.2%	NM	4.70x	4.14x	34.6x	14.2x	12.6x	NM	23.9x	19.8x
IBN18 Broadcast	539	41	(25.4%)	NM	4.44x	3.53x	NM	NM	38.0x	NM	NM	NM
Fame India	76	30	13.3%	2.52x	2.47x	1.76x	18.9x	N/A	N/A	82.4x	NM	NM
Mid-Day Multimedia	56	29	(11.1%)	1.93x	N/A	N/A	NM	N/A	N/A	NM	N/A	N/A
		Mean	26.2%	3.46x	3.45x	2.85x	19.4x	15.8x	15.4x	35.8x	23.0x	17.9x
		Median	15.8%	3.19x	3.49x	3.15x	21.7x	14.2x	13.3x	32.7x	23.9x	18.5x

Note:
NM indicates multiples which are either negative or out of range
Source: Bloomberg
Valuation Date: Apr 29, 2010

Consumer Goods: Will double in 4 years

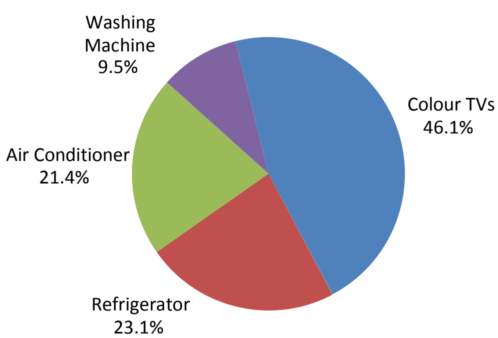
The consumer goods sector, while broad in definition, is seeing significant change on the back of a growing consumer class and change in consumption patterns. We are witnessing higher consumption of value added, personal care products, food, consumer durables as well as mobile phones and consumer electronics. The industry is expected to double in the next 4 years from US$ 25 billion today to US$ 50 billion plus in 2014.

Market Segment-FMCG- (by Revenues)



Source: FICCI and Technopak

Market Segment-Consumer Durables (by Revenues)



Source: IBEF

Sector Highlights

- Majority (70%+) of the USD 25 bn plus market is in the FMCG segment with balance from consumer durables.
- Key characteristics of the Indian consumer goods sector;
  - Well established distribution network
  - Low operating costs
  - Intense competition between organized and un-organized sectors; rapidly changing to organized sector
- Robust growth expected in;
  - Packaged food & beverage segment – to increase 67.5% by 2012 to US$ 21.7 billion.
  - Consumer durables segment, such as;
    - Air conditioners: 60.0%
    - Frost-free refrigerators: 54.0%
    - Washing machines: 20.0%
    - Microwave ovens: 35.0%
    - LCD & flat panel TVs: 100.0%
- Key reasons for such high powered growth include;
  - Changing lifestyles & affordability.
  - Competitive pricing.
  - Easy access to consumer finance.
  - Greater product awareness.
  - Acceptance of International brands.
- MNCs displaying interest in making an India entry owing to;
  - Growth potential.
  - Cost effective & trained workforce.
  - Wide spectrum of successful and highly profitable international players e.g. Nestle, Reckitt Benckiser, P&G, Unilever, LG, Samsung, Sony etc.
- 100% FDI allowed , only limitation being multi brand retail from a sales channel perspective.

Opportunities & Challenges

- **Large graduating base of population across income levels make this sector a long term play.**
- **Creating brands – large opportunities for quality products priced right.**
- **Creating the India solutions on products will be key.**
- **Educated and connected consumers that are extremely value conscious.**

Key M&A Activity (US$ mn)

Date	Acquirer	Target	Deal Size
Nov 5, 2009	Wipro	Yardley Brand's Asia, Middle East, Australasia and African operations	45.5
Jan 19, 2009	Tata Tea	Mount Everest Mineral Water	2.4

Key PE Activity (US$ mn)

Date	Investor	Investee	Deal Size
Dec 1, 2009	Rabo Equity	Daawat Foods	5.2
Oct 2, 2009	Rabo Equity	LT Foods	5.6
Apr 6, 2009	Bennett Coleman	Videocon	44.4

M&A / PE

- The sector accounted for 2 key M&A deals with an average deal size of US$24 million. The Wipro-Yardley deal is the major contributor to the total M&A deal value.
- There were 3 key PE investments in 2009 with an average size of US$18 million.

- The Indian market is characterized by a few large branded product groups, and large unorganised segment; therefore brands are at a premium in India.
- Inbound JVs and acquisitions will continue to be of significant interest, as would niche domestic consolidation.
- Select Indian players are aggressively consolidating overseas especially in the Asia-Africa belt to replicate their India success.

Comparable Company Analysis - Consumer Goods

- Consumer goods is a highly competitive sector. The sector is currently trading at a valuation of EBITDA multiple 18.9x.
- Operating expenses are rising to sustain the market share amid cut throat competition. The current industry EBITDA margin is ~13%.
- With a P/E of 30.5x the sector is trading at a premium to the current BSE SENSEX P/E of 20.6x.
- This segment will see the most new entrants, and scarcity of platforms will keep valuation at the higher end.

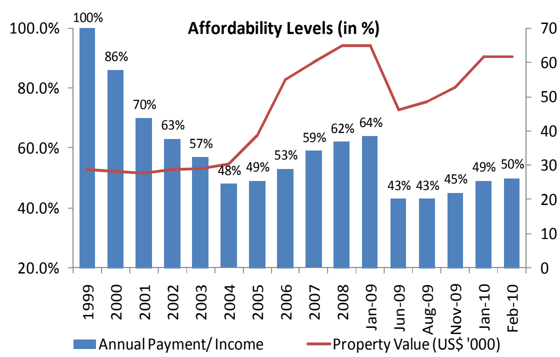
(All numbers in USD millions, except per share data)

			LTM	Enterprise Value Multiple								
	Enterprise	LTM	EBITDA	Revenue			EBITDA			P/E		
Company	Value	Revenue	Margin	LTM	NFY	NFY+1	LTM	NFY	NFY+1	LTM	NFY	NFY+1
Companies with > USD 200 mn Revenue												
Hindustan Unilever	USD 11,484	USD 4,607	15.0%	2.49x	2.86x	2.61x	16.6x	18.6x	17.5x	20.5x	22.8x	21.0x
ITC	22,246	3,670	31.6%	6.06x	5.44x	4.78x	19.2x	16.0x	14.0x	30.7x	25.4x	22.2x
Videocon Industries	3,908	2,349	18.6%	1.66x	N/A	N/A	9.0x	N/A	N/A	12.6x	N/A	N/A
Nestle India	5,963	1,153	20.2%	5.17x	N/A	N/A	25.6x	21.6x	18.5x	41.1x	N/A	N/A
Nirma	985	1,028	12.2%	0.96x	N/A	N/A	7.9x	N/A	N/A	22.4x	N/A	N/A
Voltas	1,262	972	6.6%	1.30x	1.19x	1.05x	19.7x	13.2x	12.3x	23.6x	19.5x	17.8x
Dabur India	3,538	756	19.3%	4.68x	3.96x	3.42x	24.2x	20.8x	17.7x	31.2x	26.5x	22.6x
Godrej Industries	1,498	755	3.0%	1.98x	N/A	N/A	NM	N/A	N/A	45.6x	N/A	N/A
Marico	1,532	598	14.1%	2.56x	2.21x	1.91x	18.2x	15.5x	13.2x	28.2x	22.3x	18.6x
Blue Star	817	567	10.5%	1.44x	N/A	N/A	13.8x	N/A	N/A	20.0x	N/A	N/A
Godrej Consumer Products	1,991	459	20.1%	4.34x	3.74x	3.28x	21.6x	18.5x	16.1x	26.4x	23.2x	19.9x
Bajaj Electricals	565	397	10.5%	1.42x	1.16x	0.95x	13.5x	11.3x	9.3x	24.7x	19.4x	15.3x
Whirlpool Of India	617	386	7.9%	1.60x	N/A	N/A	20.3x	N/A	N/A	34.0x	N/A	N/A
Colgate Palmolive (India)	2,185	381	20.6%	5.74x	4.86x	4.21x	27.9x	22.2x	18.9x	34.9x	25.2x	23.0x
Mirc Electronics	118	326	3.9%	0.36x	N/A	N/A	9.4x	N/A	N/A	31.8x	N/A	N/A
Companies with < USD 200 mn Revenue												
Procter & Gamble	1,456	174	29.2%	NM	N/A	N/A	28.7x	N/A	N/A	36.7x	N/A	N/A
Emami	1,209	168	18.6%	NM	5.29x	4.40x	38.7x	22.7x	19.5x	54.2x	29.7x	23.0x
Salora International	28	162	2.5%	0.17x	N/A	N/A	7.0x	N/A	N/A	NM	N/A	N/A
Gillette India	1,130	149	25.1%	NM	N/A	N/A	30.3x	N/A	N/A	45.3x	N/A	N/A
Henkel India	221	121	(2.4%)	1.82x	N/A	N/A	NM	N/A	N/A	NM	N/A	N/A
IFB Industries	58	110	8.6%	0.52x	N/A	N/A	6.1x	N/A	N/A	NM	N/A	N/A
Hitachi Home & Life Solution	152	106	9.7%	1.44x	N/A	N/A	14.9x	N/A	N/A	28.9x	N/A	N/A
Fedders Lloyd Corp	97	103	6.4%	0.93x	N/A	N/A	14.5x	N/A	N/A	28.1x	N/A	N/A
Jyothy Laboratories	249	85	16.2%	2.92x	2.04x	1.72x	18.0x	12.1x	9.9x	24.2x	16.7x	13.7x
Jindal Photo	55	83	9.1%	0.66x	N/A	N/A	7.3x	N/A	N/A	8.1x	N/A	N/A
Khaitan Electricals	65	64	3.3%	1.02x	N/A	N/A	30.7x	N/A	N/A	NM	N/A	N/A
BPL	158	21	(20.3%)	NM	N/A	N/A	NM	N/A	N/A	48.4x	N/A	N/A
Sharp India	20	21	3.4%	0.98x	N/A	N/A	28.8x	N/A	N/A	NM	N/A	N/A
		Mean	13.3%	2.18x	3.27x	2.83x	18.9x	17.5x	15.2x	30.5x	23.1x	22.3x
		Median	11.3%	2.18x	3.30x	2.94x	18.2x	18.5x	16.1x	28.9x	23.0x	22.6x

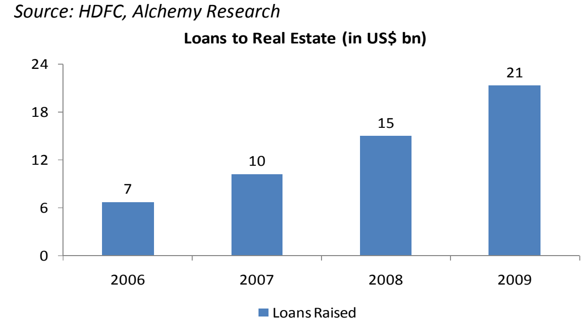
Note:
NM indicates multiples which are either negative or out of range
Source: Bloomberg
Valuation Date: Apr 29, 2010

Residential Real Estate: Set for a post-recession revival

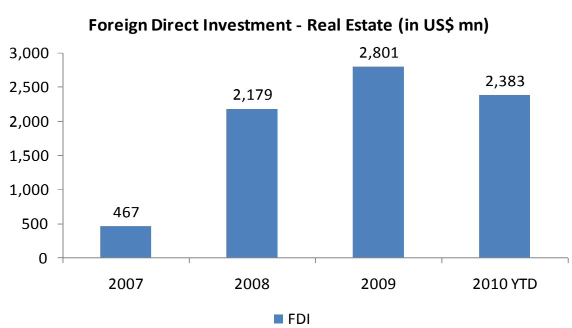
Unlike international markets, India has been able to rebound strongly from the 2009 slowdown and sharp corrections in real estate. This is driven by customized products by the industry that targeted the needs of the consuming class. As the relationship between demand and product price point is well established, we expect strong growth in residential real estate. Strong absorption at the low-medium end should continue and the growing upper and premium segment should result in growth of more than 20.0% in the next 3 years.



Source: HDFC, Alchemy Research



Source: RBI, Anand Rathi Research



Source: Department of Industrial Policy and Promotion, India

Sector Highlights

- Residential real estate expected to witness healthy demand, due to;
  - Improved affordability.
  - Aggressive price cuts.
  - Reduction in mortgage rates.
- Affordability is the lifeline of this sector. Key reasons for enhanced affordability include;
  - Smaller apartment sizes.
  - Lower interest rates.
  - Increased job security.
  - Recessionary impact.
- The recession of 2007-09 had a direct effect on India's housing market;
  - Prices witnessed a sharp downtrend of 25-35% from the peak.
  - Signs of recovery gaining ground.
  - Mumbai/NCR regions have seen residential housing prices strengthen by 10-15% over the past quarter.
- Over the next 10-15 years, around 80-90 million housing dwelling units will have to be constructed for middle and lower income groups.
- Loan growth to the property sector has grown 41.8% Y-o-Y to US$ 21 billion, due to;
  - Growing focus on execution.
  - Developers' balance sheet strength.
- 100.0% FDI allowed in greenfield realty projects subject to approvals.
- Tax holidays on profits from affordable housing projects initiated in 2007-08.

Opportunities & Challenges

- **Huge demand supply gap albeit at lower end of the market.**
- **Creating the right product, at feasible locations will be key.**
- **Luxury and premium housing market still attractive in key metros.**
- **International fund flows will remain subdued in the short term for this sector.**

Key M&A Activity (US$ mn)

Date	Acquirer	Target	Deal Size
Dec 11, 2009	Promoters of DLF	DLF Assets	500.0
Dec 6, 2009	GVK Power & Infrastructure	Bengaluru Airport	210.0
Aug 31, 2009	IL&FS	Maytas Infra	33.3
Apr 8, 2009	Gee Kay Finance & Leasing	Sigrun Realities	76.7

Key PE Activity (US$ mn)

Date	Investor	Investee	Deal Size
Feb 5, 2010	Red Fort Capital	3C Company	33.3
Oct 6, 2009	Milestone Real Estate Fund	Godrej Highrises	24.4
Sep 30, 2009	Oman Sovereign fund	Mohtisham Estates	137.8
Aug 20, 2009	Former Old Lane Partners' Fund	Lodha Group	25.0
Aug 13, 2009	Standard Chartered PE	Ramky Infrastructure	44.4
Jun 15, 2009	Fire Capital Fund	FIRE Arcor Infrastructure	250.0
Jun 11, 2009	Red Fort Capital	Parsvnath Landmark	25.7
May 8, 2009	Sun Apollo Real Estate Fund and Mausmi Ventures	Keystone Realtors	66.7
Feb 3, 2009	IL&FS Realty Fund	Infrastructure Ventures India	44.4
Jan 20, 2009	IL&FS Investment Advisors	HBS Realtors	66.7
Jan 1, 2009	Citigroup Venture	Coastal Projects	39.6

M&A/PE

- The sector accounted for 4 key M&A deals with an average deal size of US$205 million.
- The sector will see consolidation of small and marginal developers, many of which may have been in overstretched situations owing to expensive bridge funding.
- Mid size developers are likely to unlock land bank positions selectively.
- Larger players likely to focus on delivery and opportunistic consolidation.
- PE interest continues to be high on the residential side with 11 PE deals with an average size of US$ 69 million.

Comparable Company Analysis – Residential Real Estate

- A surge in demand is expected in the next couple of years, which is a positive sign for the top lines of these companies.
- The sector is currently trading at a valuation of EBITDA multiple 23.3x.
- The current industry EBITDA margin is ~39%.
- With a P/E of 29.8x, the sector is trading at a premium to the current BSE SENSEX P/E of 20.6x.
- Delivery by key players and cash flows will drive valuation and clear segregation of quality developers will emerge.

(All numbers in USD millions, except per share data)

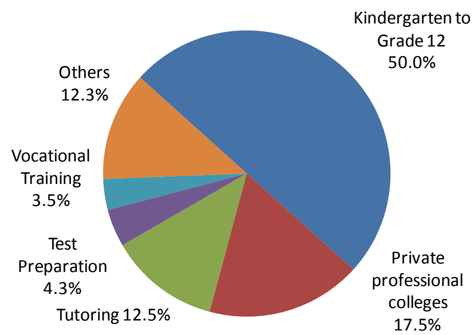
				Enterprise Value Multiple								
			LTM	Revenue			EBITDA			P/E		
Company	Enterprise Value	LTM Revenue	EBITDA Margin	LTM	NFY	NFY+1	LTM	NFY	NFY+1	LTM	NFY	NFY+1
Companies with > USD 200 mn Revenue												
DLF	USD 15,642	USD 1,171	52.6%	13.36x	9.49x	7.67x	13.6x	19.8x	15.8x	11.7x	27.0x	19.4x
Jaiprakash Associates	10,679	1,038	41.2%	10.29x	5.12x	3.95x	25.0x	17.5x	14.5x	74.7x	30.5x	23.9x
Unitech	6,354	639	57.4%	9.94x	10.15x	6.99x	17.3x	21.5x	15.3x	16.5x	24.4x	16.3x
Housing Development & Infrastructure	3,037	388	77.2%	7.82x	9.07x	6.17x	10.1x	16.8x	11.2x	12.1x	16.4x	10.6x
Sobha Developers	1,138	219	29.6%	5.20x	3.52x	2.92x	17.6x	12.9x	9.9x	28.8x	14.9x	11.4x
Companies with < USD 200 mn Revenue												
Omaxe	787	179	47.8%	4.39x	3.86x	2.87x	9.2x	16.0x	13.0x	34.6x	21.2x	17.0x
Parsvnath Developers	935	157	29.7%	5.96x	4.85x	3.52x	20.0x	18.2x	11.1x	22.4x	22.7x	14.4x
DB Realty	2,654	104	49.6%	25.43x	18.22x	8.07x	51.2x	34.7x	10.6x	74.8x	57.0x	20.5x
Puravankara Projects	690	107	28.6%	6.42x	5.68x	4.33x	22.5x	16.9x	13.2x	15.7x	15.1x	13.7x
Vipul	98	94	9.1%	1.04x	1.00x	0.96x	11.5x	9.5x	8.8x	16.7x	13.7x	12.6x
Ackruti City	1,118	89	60.7%	12.58x	4.79x	3.26x	13.0x	7.6x	5.5x	14.9x	7.2x	5.5x
Indiabulls Real Estate	1,354	47	(27.2%)	NM	17.71x	6.77x	NM	NM	26.1x	NM	72.8x	30.0x
Godrej Properties	927	42	38.0%	22.27x	NM	9.23x	58.6x	70.0x	24.1x	46.2x	31.7x	27.4x
Chd Developers	24	9	8.3%	2.75x	N/A	N/A	33.1x	N/A	N/A	NM	N/A	N/A
Anant Raj Industries	732	3	(72.9%)	NM	9.76x	5.75x	NM	12.0x	8.3x	18.0x	15.1x	12.0x
Sunteck Realty	900	0	18.1%	NM	N/A	N/A	NM	N/A	N/A	NM	N/A	N/A
		Mean	39.1%	9.80x	7.94x	5.18x	23.3x	21.0x	13.4x	29.8x	26.4x	16.8x
		Median	39.6%	7.82x	5.68x	5.04x	17.6x	16.9x	12.1x	18.0x	22.0x	15.4x

Note:
NM indicates multiples which are either negative or out of range
Source: Bloomberg
Valuation Date: Apr 29, 2010

Education: Private spending to grow at 14% CAGR by 2012

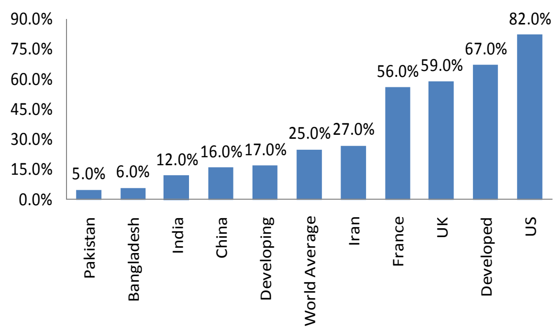
The Indian education market is at a unique crossroads, from being highly regulated and significantly government supported, to now transforming to include private sector and international participation with even greater government support. With one of the youngest, and largest, population bases, the sector has huge potential to unlock value through private investments with increasing affordability for the growing middle class. IDFC-SSKI estimates private spend in education to touch US$80 billion by 2012.

Market Segment (by Revenues)



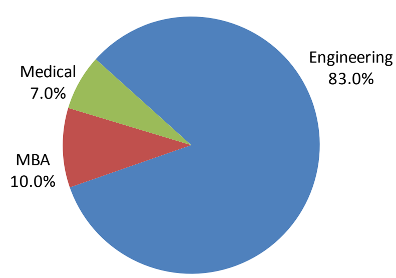
Source: IBEF

Gross Enrolment Ratio - Global (in %)



Source: EFA Global Monitoring Report 2009, IIFL Research

Number of Institutes



Source: CLSA Asia Pacific Markets Research

Sector Highlights

- The system consists of;
  - 380 universities.
  - 11,200 colleges.
  - 1,500 research institutions.
- The Indian private education sector is mainly split into;
  - Kindergarten to Grade 12: US$ 20 billion
  - Private professional colleges: US$ 7 billion
  - Tutoring: US$ 5 billion
- There are 2.5 million new graduates every year – including 300,000 engineers & 150,000 IT professionals.
- The Gross Enrolment Ratio (GER) in India is much lower than that of developed countries and the world average of 25.0%.
- Sector will see huge inflows of investment in the form of government spending and private investment;
  - In past 6 years, the Government has consistently increased public spending and budgetary allocation to improve education.
  - In the Budget for FY 2009-10, the FM proposed to increase plan allocation from US$ 6 billion to US$ 7 billion in 2010-11.
- Regulations are evolving, and restrictive for primary, secondary and higher education especially relating to commercialisation aspects.
- FDI of 100% in education is allowed subject to existing sector regulations applicable to both resident and foreign players.
- 100% FDI and commercial ventures allowed for non degree, professional certifications, training and content creation in education.

Opportunities & Challenges

- **Increased funding from PE investors in the non-regulated education stream.**
- **E-Learning market currently at US$ 27 million can grow to US$ 280 million by 2012.**
- **Enhancing the quality of education remains a big challenge as will supply of teachers.**
- **Regulations, though liberalising continue to be restrictive.**

Key M&A Activity (US$ mn)

Date	Acquirer	Target	Deal Size
Mar 8, 2010	Zee Learn	Education Business of Zee Entertainment	N/A
Oct 5, 2009	DMC	Trump & Gates	1.3
Jun 24, 2009	Pearson	TutorVista	13.3

Key PE Activity (US$ mn)

Date	Investor	Investee	Deal Size
Nov 24, 2009	Gujarat Venture Finance	iNurture Education	2.4
Sep 24, 2009	Milestone Religare Investment Advisors	IMS Learning Resources	5.6
Jul 29, 2009	Franklin Templeton Asset Management (India)	Career Point Infosystems	11.1
Jul 20, 2009	Quantum (M) - George Soros' hedge fund	Educomp Solutions	24.9
Jul 7, 2009	Matrix Partners India	FIIT JEE	22.2
Apr 28, 2009	Navis Investment Partners	Edutech India	30.0
Feb 16, 2009	Mumbai Angels	Speakwell English Academy	N/A

M&A/PE

- The sector accounted for 3 key M&A deals with an average deal size of US$7 million.
- Consolidation in segments that require central repository of teaching methods is likely to rise, e.g., K-12 and coaching for entrance exams given the high level of fragmentation and as scale advantages far outweigh the single centre ones.
- Higher education is likely to see partnerships, collaborations and creation of mega centres as in the west.
- High PE interest with 7 PE deals in 2009 with an average deal size of US$ 16 million.

Comparable Company Analysis - Education

- The sector is currently trading at a valuation of EBITDA multiple 19.3x.
- The current industry EBITDA margin is ~37%.
- With a P/E of 31.9x the sector is trading at a premium to current BSE SENSEX P/E of 20.6x.
- The sector has a limited number of players, and is likely to see new entrants accessing the markets. Leaders will continue to outperform significantly.

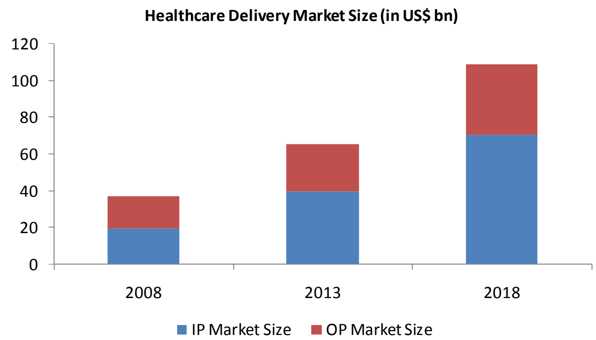
(All numbers in USD millions, except per share data)

			LTM	Enterprise Value Multiple								
	Enterprise	LTM	EBITDA	Revenue			EBITDA			P/E		
Company	Value	Revenue	Margin	LTM	NFY	NFY+1	LTM	NFY	NFY+1	LTM	NFY	NFY+1
Companies with > USD 200 mn Revenue												
NIIT	USD 318	USD 258	10.3%	1.23x	1.14x	1.04x	11.9x	9.2x	7.5x	16.4x	16.1x	12.5x
Companies with < USD 200 mn Revenue												
Educomp Solutions	1,620	143	48.3%	11.32x	6.73x	4.71x	23.4x	14.1x	9.7x	48.1x	22.2x	17.2x
Aptech	140	62	23.2%	2.28x	N/A	N/A	9.9x	N/A	N/A	17.9x	N/A	N/A
Everonn Education	134	33	35.4%	4.11x	2.30x	1.66x	11.6x	6.4x	4.7x	27.4x	15.3x	11.1x
Jetking Infotrain	22	10	43.9%	2.09x	N/A	N/A	4.8x	N/A	N/A	8.1x	N/A	N/A
Edserv Softsystems	60	2	58.9%	NM	N/A	N/A	54.0x	N/A	N/A	73.4x	N/A	N/A
		Mean	36.7%	4.21x	3.39x	2.47x	19.3x	9.9x	7.3x	31.9x	17.9x	13.6x
		Median	39.7%	2.28x	2.30x	1.66x	11.8x	9.2x	7.5x	22.7x	16.1x	12.5x

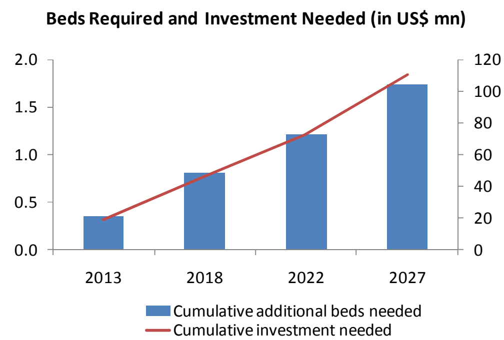
Note:
NM indicates multiples which are either negative or out of range
Source: Bloomberg
Valuation Date: Apr 29, 2010

Healthcare: Sector to grow at CAGR of 12% till 2013

The healthcare sector has been serviced by mostly government assisted infrastructure, which has been significantly lacking in quality, service and capacity. Given the long term nature of financing required, the sector in the recent years saw some significant corporate groups (Apollo, Fortis, Max, Paras, Medicity, Manipal) enter the space, followed by term lending institutions and private equity. With the fundamental demand supply gap for quality healthcare, the momentum is expected to continue strongly, given some of the key private initiatives have turned profitable.



Source: CRISIL Research



Source: CRISIL Research

Sector Highlights

- Lack of medical infrastructure - only 0.9 hospital beds per 1,000 persons as against 3.3 in the U.S.
- Key drivers of the sector include;
  - Rise in the incidence of lifestyle-related and other diseases, e.g. India has leading incidence of cardiac arrests and diabetes globally.
  - A growing elderly population and a rise in income levels pushing for better facilities..
  - Medical tourism is one of the major external growth drivers.
- US$ 50 billion investment needed annually for the next 20 years to meet the growing demand;
  - 3.1 million beds need to be added by 2018 to the existing 1.1 million.
  - Requires immediate investment of US$ 82 billion.
- Annual healthcare expenditure projected to grow at 10.0% and the number of insured likely to jump from 100 million to 220 million.
- Health and wellness sector covering, traditional medicine, wellness clinics & grooming seeing strong growth.
- Health insurance and medical equipments and services likely to see strong growth potential.
- PE funds to invest at least US$ 1 billion in the healthcare sector over the next five years.
- 100% FDI allowed.

Opportunities & Challenges

- **Only 10% of the Indian population has health insurance; scope for growth?**
- **Health and wellness segment focused on wellness, specific cures, traditional medicine, preventive health are likely to grow on the back of disposable incomes and awareness.**
- **The supply chain and services will gain, especially medical equipment, telemedicine, diagnostics.**
- **Long term nature of projects requires strong promoter equity contribution, especially in tertiary healthcare.**
- **Creating the right patient, promoter, doctor balance crucial for sustainable sector development .**

Key M&A Activity (US$ mn)

Date	Acquirer	Target	Deal Size
Mar 11, 2010	Fortis Healthcare	Parkway Holdings	685.3
Sep 8, 2009	PerkinElmer	Surendra Genetic Labs	N/A
Aug 24, 2009	Fortis Healthcare	Wockhardt's 8 Hospitals and 2 Greenfield Projects	202.0
Jul 29, 2009	Abbott Laboratories	Carol Info Services and certain Wockhardt subsidiaries and group companies	130.0
Jun 17, 2009	Mova GmbH	Esparma	N/A
Jan 31, 2009	Fortis Healthcare	Apollo RM Hospital	N/A
Jan 29, 2009	Fortis Healthcare	Clinique Darné	3.5

Key PE Activity (US$ mn)

Date	Investor	Investee	Deal Size
Nov 30, 2009	Milestone Religare Investment Advisors	Krishna Institute of Medical Sciences	13.3
Nov 6, 2009	Acumen Fund	Pushpagiri Health Care Hospitals	2.0
Sep 2, 2009	Aavishkaar India Micro Venture Capital Fund	Swas Healthcare	0.4
Jun 13, 2009	International Finance Corporation	MAX India	33.3
May 20, 2009	Global Technology Investment	Nova Medical Centers	60.0
Feb 26, 2009	India Venture Advisors	Kavery Medical Centre and Hospitals	20.0
2009	Sequoia Capital	Vasan Healthcare	N/A

M&A/PE

- The sector accounted for 7 key M&A deals with an average deal size of US$339 million.
- There were 7 key PE investments in 2009 with an average size of US$21 million.
- The sector clearly is seeing consolidation and scale being a predominant factor; this will continue to be important in the short term especially with numerous nursing home and primary/secondary care establishments.
- Inbound interest likely to rise across the healthcare spectrum.
- PE interest remains high; however deal volumes may be visible in niche (wellness, diagnostics, speciality care), and allied segments (medical equipment/services).

Comparable Company Analysis - Healthcare

- The sector is currently trading at a valuation of EBITDA multiple 24.1x.
- With a P/E of 33.6x the sector is trading at a premium to the current BSE SENSEX P/E of 20.6x.
- Limited quality and scale players in the listed domain and a fair number of medium scale unlisted players, with high investor interest is likely to see more players in health and allied sectors tap the markets for growth capital.

(All numbers in USD millions, except per share data)

			LTM	Enterprise Value Multiple								
	Enterprise	LTM	EBITDA	Revenue			EBITDA			P/E		
Company	Value	Revenue	Margin	LTM	NFY	NFY+1	LTM	NFY	NFY+1	LTM	NFY	NFY+1
Companies with > USD 200 mn Revenue												
Apollo Hospitals Enterprise	USD 1,161	USD 363	14.3%	3.20x	2.66x	2.23x	22.4x	18.3x	15.1x	46.3x	38.8x	33.9x
Companies with < USD 200 mn Revenue												
Fortis Healthcare	1,255	139	12.8%	9.00x	6.26x	3.97x	70.2x	39.8x	23.3x	NM	NM	54.4x
Indraprastha Medical Corp	112	95	31.9%	1.17x	N/A	N/A	3.7x	N/A	N/A	14.5x	N/A	N/A
Kovai Medical Center	48	25	16.6%	1.95x	N/A	N/A	11.7x	N/A	N/A	24.0x	N/A	N/A
Fortis Malar Hospitals	18	7	12.2%	2.36x	N/A	N/A	19.3x	N/A	N/A	NM	N/A	N/A
Lotus Eye Care Hospital	14	3	30.2%	5.17x	N/A	N/A	17.1x	N/A	N/A	49.6x	N/A	N/A
		Mean	19.7%	3.81x	4.46x	3.10x	24.1x	29.1x	19.2x	33.6x	38.8x	44.1x
		Median	15.5%	2.78x	4.46x	3.10x	18.2x	29.1x	19.2x	35.2x	38.8x	44.1x

Note:
NM indicates multiples which are either negative or out of range
Source: Bloomberg
Valuation Date: Apr 29, 2010

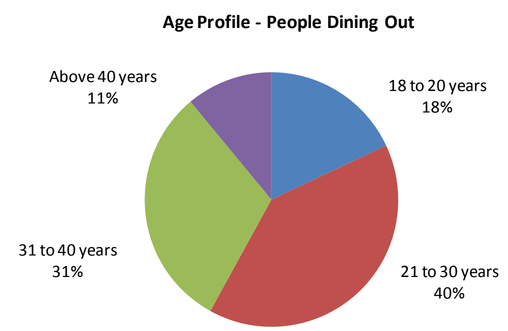
Food Service Retail: Quick Service Retail (QSR) to grow 30%+

The sector is seeing significant growth on the back of established chains that have invested in the last decade and transformed the sector from often single outlet family establishments and street food to pleasant ambience, quality food and variety at attractive price points. The growth potential is significant given the increasing inclination of the middle class to eat out and overall infrastructure development in the country in real estate and public infrastructure e.g. airports, railway stations etc.

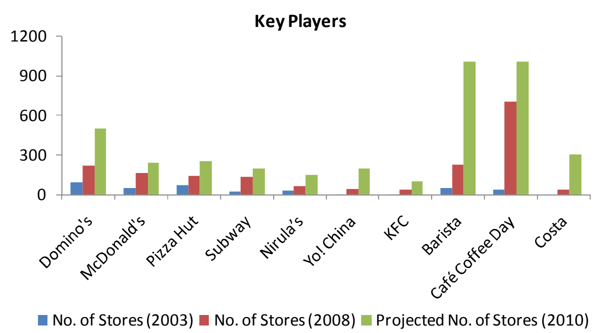
		Population Strata	
Monthly Spends	Tier 1(Towns with 3 million+ population)	Tier 2 (Towns with 1-3 million population)	Tier 3 (Towns with <1 million population)
Avg (in Rs.)	670.6	691	351.3
Upto 50	13	13	20
51-100	12	13	17
101-200	19	17	22
201-300	12	11	13
301-600	18	23	14
601+	26	23	14

Monthly Spends on Food Orders

Source: Technopak Report 2009



Source: Technopak Report 2009



Source: Industry sources

Sector Highlights

- Key Drivers & Trends:
    - The food services industry was estimated to be worth US$ 13 billion in 2008 of which only 7.2%, was accounted for by the organized sector.
    - Increasing out of home consumption on the back of increased incomes and changing lifestyles increasing demand for organised formats.
    - Shift from individual ownership to chain owned outlets due to developing infrastructure and strengthening brands.
    - Home delivery is fast gaining popularity with value sales increasing significantly over the last couple of years.
- The QSR segment (approx. 25.0% of the total restaurant market) is the fastest growing sub-segment;
    - From 281 outlets in 2003, the 10 major QSR operators have increased their number of outlets at an average CAGR of 40.0% to 895 outlets currently.
    - Number of outlets by major players is further expected to increase at an average CAGR of 60.0% to touch 1,995 outlets by 2010.
- New international entrants in the Indian QSR space include Cocoberry, Booster, Sbarro, Cinnabon, The Coffee Bean & Tea Leaf, Gloria Jeans etc; Taco Bell is expected to launch shortly.
- 100% FDI allowed through automatic route in franchisor entities.

Opportunities & Challenges

- **QSR segment (25% of the total restaurant market) is the fastest growing sub-segment and holds significant potential.**
- **Dealing with the collection of food laws and governing bodies is a challenge.**
- **Lack of organized supply chain; food procurement quality and quantity is a challenge.**

Key M&A Activity (US$ mn)

Announcement Date	Acquirer	Target	Deal Size
Mar 10, 2007	Lavazza	Barista Coffee Company	125.0

Key PE Activity (US$ mn)

Announcement Date	Investor	Investee	Deal Size
Nov 21, 2008	Indivision Indian Partners	Blue Foods	N/A
Apr 3, 2008	Darby Overseas Investments	Amalgamated Bean Coffee Trading	N/A
Jan 24, 2008	SAIF Partners	Speciality Restaurants	N/A
Nov 26, 2006	Matrix Partners India	Yo! China	N/A
Jul 19, 2006	Seqouia Capital	Amalgamated Bean Coffee Trading	N/A
Jul 4, 2006	Navis Capital	Mars Restaurants & Sky Gourmet	N/A
Jul 1, 2006	Navis Capital	Nirula's Corner House	N/A

M&A/PE

- The sector accounted only one deal in the recent past where Lavazza acquired a stake in Barista Coffee Company for US$125 million.
- Substantial inbound interest is likely to be seen on M&A, partnerships and franchising across formats.
- Domestic consolidation likely in select segments given fragmentation, on the back of multiple players experimenting in the market, with scale players further consolidating.
- PE interest remains high; however oriented towards scale opportunities eg. Coffee Day 3rd round of USD 200 mn reported underway.

Comparable company analysis – Food Service Retail

- There is only one player in the Food Services sector that is publicly listed in India, which got listed in 2010, reflecting the first signs of sector maturing for capital markets
- Jubilant Foodworks is currently trading at a valuation of EBITDA multiple 64.0x,
- The current EBITDA margin is ~12.5%
- Sector is likely to see additional players accessing the markets in the next 24 months
- Valuations may even out; however, this will reflect strong fundamental growth potential in the sector

(All numbers in USD millions, except per share data)

					Enterprise Value Multiple								
			LTM		Revenue			EBITDA			P/E		
Company	Enterprise Value	LTM Revenue	EBITDA Margin	Debt/ EBITDA	LTM	NFY	NFY+1	LTM	NFY	NFY+1	LTM	NFY	NFY+1
Jubilant Foodworks	USD 506	USD 63	12.5%	2.35x	8.02x	5.54x	4.03x	64.0x	45.9x	29.6x	NM	67.7x	44.2x
		Mean	12.5%	2.35x	8.02x	5.54x	4.03x	64.0x	45.9x	29.6x	N/A	67.7x	44.2x
		Median	12.5%	2.35x	8.02x	5.54x	4.03x	64.0x	45.9x	29.6x	N/A	67.7x	44.2x

Note:
NM indicates multiples which are either negative or out of range
Source: Bloomberg
Valuation Date: Apr 29, 2010

Conclusion

The Indian consumer story is definitely worth following. Many know India as a diverse market where democracy, population, complexity, diversity and entrepreneurship drive hand in hand. This often makes growth look slower than its potential; however, there is a lot more inertia and sustainability.

We see solid fundamentals, low consumer leverage and growing domestic purchasing power that is changing business models rapidly, and in some cases the change and growth has been beyond expectations and on a world scale, as in Telecom. We expect the change and connectivity that Telecom created to be seen in similar proportions across sectors. Today, it is feasible to think that most of the sectors we have highlighted are world scale opportunities.

India thus reflects a very important opportunity that most international players cannot afford to ignore, and significant India interest is likely to be seen as reflected by the capital markets, often a precursor to fundamental action.

We see increased private equity, partnerships and selective consolidation as many sectors will emerge from a fragmented to organized play at a pan India level as visible across sectors e.g. Healthcare, Food service retail

The challenges will be significant as well, such as developing infrastructure while working within existing policies and government framework, and finding the India solution in many cases.

Overall, the fundamentals of a connected, knowledgeable, ambitious and entrepreneurial population, political consensus on economic reforms, and improving economic fundamentals at consumer and country level are reasons that support a long term view on India and its consumer story.

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Cover picture: Times of India, November 25, 2006

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