Going for growth in Asia: Navigating the way

Financial Services M&A – India

Key figures

There were 100 deals in the Indian financial services sector last year, with a total value of US$6.9bn – a huge rise compared to the US$1.9bn total in 2006. The biggest deals were:

- Goldman Sachs Nomura International, Sequoia Capital and Swiss Re bought a 5.9% stake in ICICI Financial Services for US$659m.
- Carlyle Asia paid US$650m for a 5.6% stake in Housing Development Finance.
- Dubai International Capital paid US$598m for a 2.87% stake in ICICI Bank.

Summary of 2007 financial services M&A transactions*

Country	Number of deals	Banking	Securities and capital markets	Mutual funds and asset management	Insurance	Value (US$m)
Japan	61	10,615	23,546	1,872	144	36,177
China	94	7,264	6,123	2,604	212	16,203
South Korea	24	10,059	784	1,095	1,069	13,006
Australia	69	1,990	1,497	2,828	725	7,040
India	**100**	**1,486**	**4,345**	**974**	**101**	**6,905**
Malaysia	38	5,373	794	70	324	6,561
Hong Kong	67	1,896	2,015	1,226	1,312	6,450
Taiwan	14	4,522	9	390	145	5,066
Thailand	16	2,239	10	35	6	2,290
Kazakhstan	1	2,175	-	-	-	2,175
Vietnam	13	605	101	217	329	1,252
Pakistan	4	498	504	-	-	1,002
Macau	3	619	-	-	-	619
Indonesia	9	325	93	13	-	431
Singapore	13	-	329	67	6	402
Philippines	9	27	120	14	6	167
New Zealand	7	8	59	21	8	95
Laos	3	19	-	-	-	19
Sri Lanka	1	-	2	-	-	2
Total**	**546**	**49,720**	**40,330**	**11,426**	**4,386**	**105,862**

Source: PricewaterhouseCoopers based on data from M&A Asia.
* Based on deals disclosed.
** Please note that the totals within the tables in this report do not always tally due to rounding and/or multiple responses.

Future dealflow

Indian companies are particularly bullish compared to Asia overall, with 76% expecting to be involved in M&A in the next five years, and 34% expecting to launch a deal in the coming year. The intentions may reflect the prospect of widescale deregulation of banking in 2009.

Do you agree or disagree with the following statements?	Agree	Disagree	Don't know
Our organisation will undergo significant M&A in the next year	34%	41%	24%
Our organisation will undergo significant M&A over the next five years	76%	3%	21%
Our organisation will seek a foreign strategic investor or a partner in a significant new venture in the next five years	69%	14%	17%
Joint ventures and partnerships will be key to our expansion plans in Asia	83%	14%	3%
Our organisation will undergo a significant business disposal over the next five years	21%	52%	28%
Our organisation is already structured in the way we want	38%	55%	7%
Our organisation has a track record of success in M&A and restructuring	55%	24%	21%

The survey reveals that 28% of Indian financial services companies expect to buy stakes in European groups in the next five years and the same percentage intend to enter North America and Singapore.

Drivers of deals

The domestic market is maturing: 69% of companies say pressure from domestic rivals will be a key external factor in their M&A strategies over the next five years.

The need to boost capabilities to exploit the opportunities emerging in the market will be another key driver of M&A in the next five years: 52% say increasing customer demands will drive M&A.

The credit crisis will actually help to increase M&A, according to 59% of Indian firms.

What will be the main external drivers of your organisation's M&A or restructuring activity over the next five years?	
Increasing competition from domestic players (eg, non-financial service market entrants, horizontal expansion of existing financial service players, price cuts, threats to market share)	69%
Increasing customer demands (eg, desire for higher yielding investments, branded product, open-architecture products)	52%
Increasing competition from foreign players (eg, new market entrants)	34%
Economic conditions in home market	31%
Regulatory liberalisation (eg, relaxation of ownership restrictions, convergence opportunities, new competitors)	28%
Access to leading-edge operating practices (eg, better governance, technologies)	17%
Higher costs (eg, staff costs, cost of capital, property costs, IT costs)	14%
Slow growth in developed markets in comparison with emerging markets	10%
Regulatory pressure to restructure or merge	7%
Taking advantage of potential currency movements (eg, Renminbi revaluation, US dollar weakness)	7%
Increasing shareholder demands (eg, demand for transparent reporting and risk profile)	3%
None of the above; we do not expect to undergo M&A restructuring	7%

Deal targets

The vast majority of deals in 2007 were in the fast-growing securities and capital markets sector. Asset management is considered the most likely M&A target for financial buyers this year. In five years' time, financial buyers are expected to focus predominantly on retail and private banking, in addition to asset management.

Obstacles to M&A

Regulation is the biggest impediment to deals, according to 41% of firms surveyed. A further 34% cite high pricing for deals, while just 17% cite defensiveness by owners and managers – a lower figure than in most other Asian countries, implying a willingness on the part of owners to sell stakes in their companies (although 38% cite the potential for corporate culture clashes as an obstacle to M&A).

What are the main obstacles to increased M&A activity in the financial services sector in your country?	
Regulations and regulators' attitudes	41%
Corporate culture; the potential for corporate culture clashes in merged organisations	38%
High pricing of M&A deals	34%
Management goals; managers do not focus on increasing shareholder value	31%
Familiarity; limited history of M&A in our chosen market	28%
Tax issues	28%
Stakeholder opposition; protests from employees and business partners	21%
Defensiveness; owners or managers resort to defence mechanisms to halt M&A activity	17%
Capital/borrowing constraints	17%
Cross-shareholdings; friendly shareholders protect managers	10%
Regulations requiring joint ventures	3%
Public sentiment; fear of the public reaction to M&A	3%
Other, please specify	3%

Contact us

Avinash Kalia
PricewaterhouseCoopers (India)
91 22 66691351
avinash.kalia@in.pwc.com

Deepak Kapoor
PricewaterhouseCoopers (India)
deepak.kapoor@in.pwc.com
91 124 4620502

Jairaj Purandare
PricewaterhouseCoopers (India)
91 22 66691400
jairaj.purandare@in.pwc.com

Ashwani Puri
PricewaterhouseCoopers (India)
91 12 44620501
ashwani.puri@in.pwc.com

Bharti Gupta Ramola
PricewaterhouseCoopers (India)
91 12 44620503
bharti.gupta.ramola@in.pwc.com

Amrish Shah
PricewaterhouseCoopers (India)
91 22 6669 1390
amrish.shah@in.pwc.com

pwc.com

The member firms of the PricewaterhouseCoopers network provide industry-focused assurance, tax and advisory services to build public trust and enhance value for clients and their stakeholders.

More than 146,000 people in 150 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

This PricewaterhouseCoopers Financial Services M&A suite of collateral is produced by experts in their particular field at PricewaterhouseCoopers, to review important issues affecting the financial services industry. This report has been prepared for general guidance on matters of interest only, and is not intended to provide specific advice on any matter, nor is it intended to be comprehensive. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers firms do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. If specific advice is required, please speak with your usual contact at PricewaterhouseCoopers or those listed in this publication.

© 2008 PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers", a registered trademark, refers to PricewaterhouseCoopers Private Limited (a limited company in India) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.