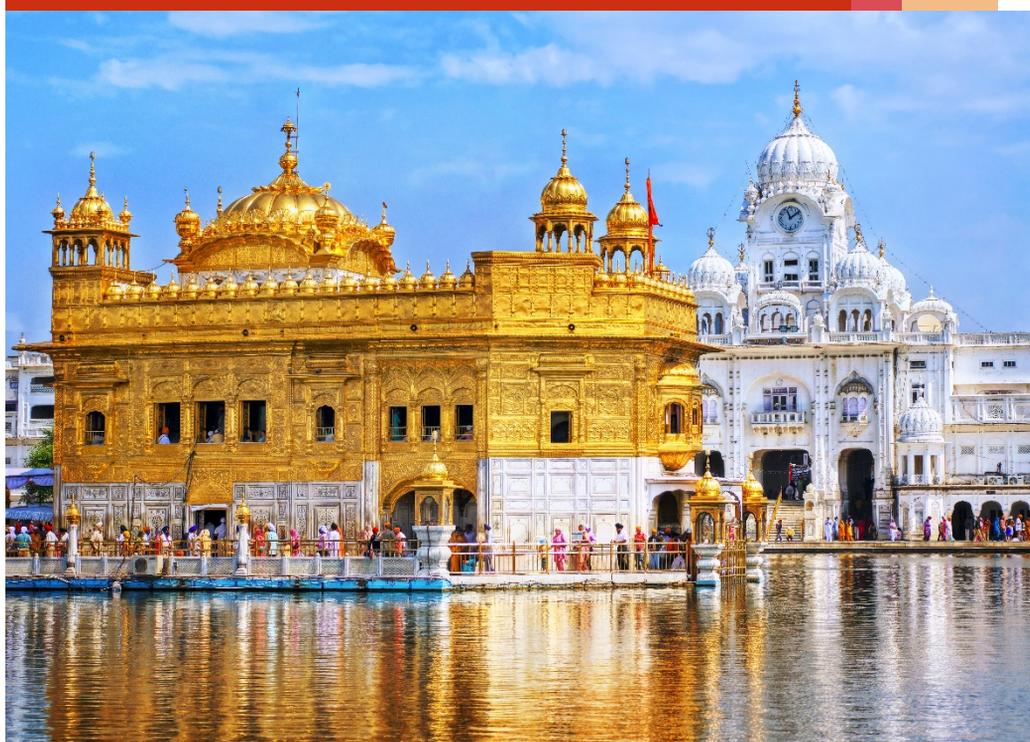


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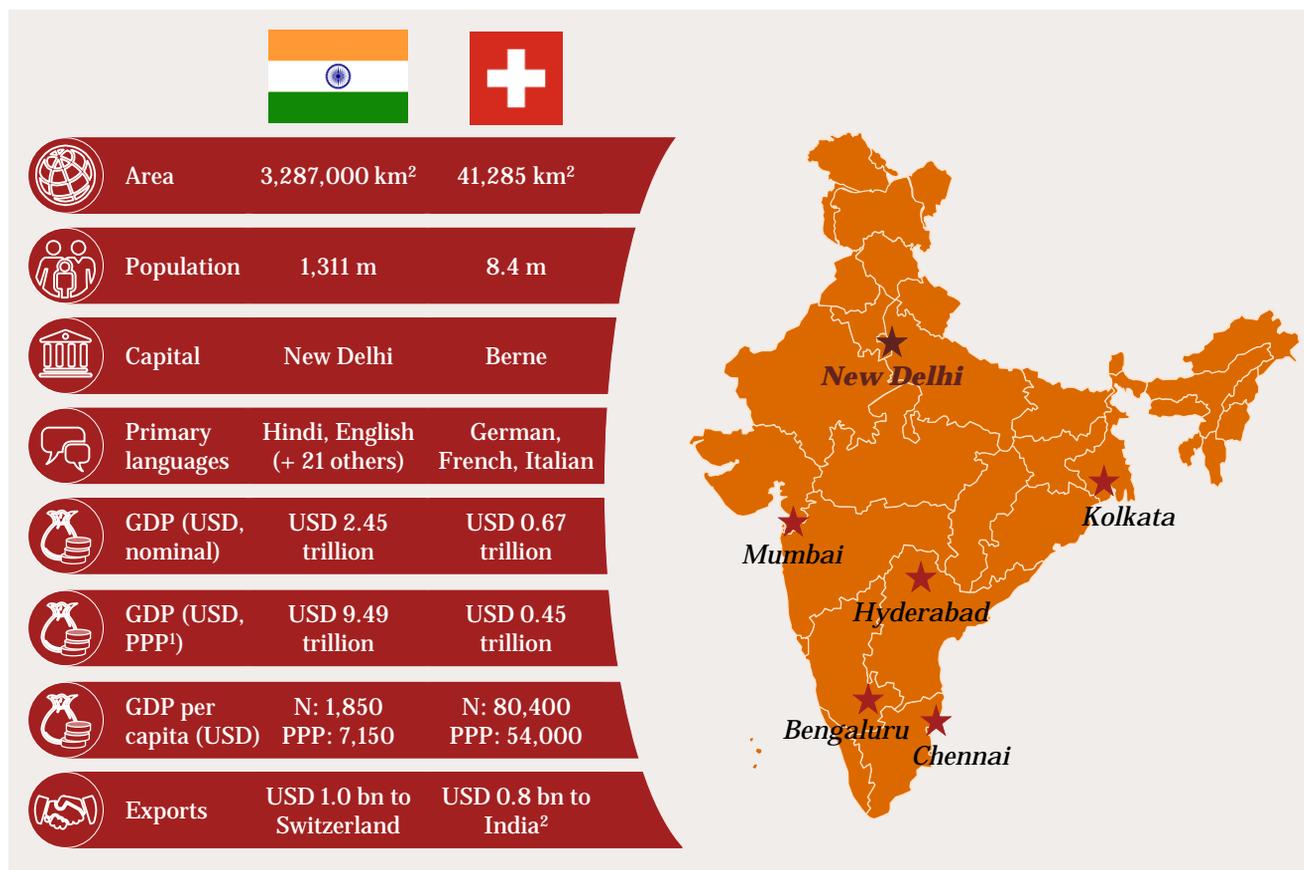
Doing Deals in India from a Swiss Investor's Perspective

Edition: 4/2017



pwc

Key facts about India



¹ Purchasing Power Parity; ² Does not include Swiss exports of bullion worth CHF 18.5 bn

The largest democracy in the world

With a population of 1.3 bn people, India has credibly positioned itself as the largest democratically driven economy in the world. In addition, the extent of diversity that one encounters in India is mind-boggling – be it the number of languages, the different types of geographies or the distinct cuisines.

India has seen significant economic growth in the past two decades averaging at about 7%. But this growth has been restricted, at times, by the size and diversity of the country. However, economists are convinced that the demographic dividend that India has to offer will be the engine of growth for the next two to three decades. In 2016 about 50% of the population was between 20 and 60 years old. By 2030 this group will account for over 60% of the total population. By contrast, by 2030 this group will make up 45% of the population in China and 38% in the EU.

Important trade partner for Switzerland

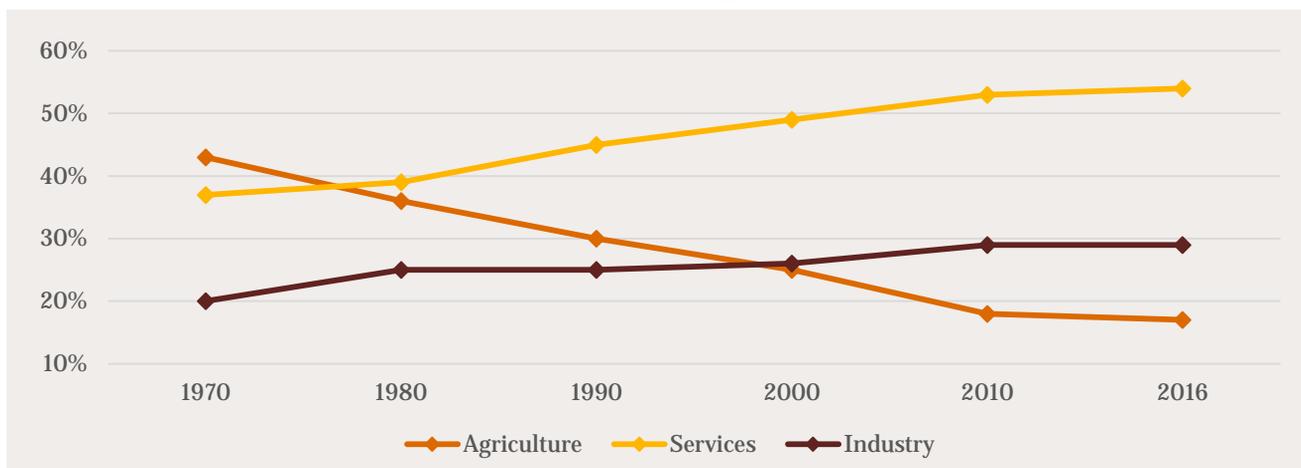
In 2015, Swiss imports from India amounted to USD 1.0 bn, consisting mainly of software and services, textiles, organic chemicals, precious stones and jewellery, watchmaking machinery and parts, leather products, cotton, coffee, tea and hand-knotted carpets. Swiss exports to India (excluding bullion) amounted to USD 0.8 bn and consisted of chemicals, pharmaceuticals, machinery, transport equipment, precision engineering products and watches.

Between 2000 and 2015, Switzerland invested about USD 3.18 bn in India, thus becoming the 11th largest investor and bringing roughly 1.2% of total FDI to India during this period¹. More than 250 Swiss companies have a presence in India with many having been present for over 70 years. About 100 Indian companies invested around USD 1.2 bn from 2012 to 2014 in Switzerland, placing it among the top 5 European investment destinations (top 10 globally) for Indian investors.

Sources: CIA World Fact Book, Government of India, Directorate General of Foreign Trade

¹ As a large part of FDI in India is routed through other countries, the actual Swiss FDI in India was pegged at about USD 7 bn up to 2014

Agriculture continues to be a major source of employment, although its contribution to the GDP has decreased significantly



The agrarian nature of the country has undergone a slow change

Though steadily declining over the decades, the contribution of agriculture to the GDP is still approximately 18%, which is three times as much as the global average. Furthermore, agriculture employed about 45% of the workforce in 2014. On one hand, this points out the relatively low level of mechanisation achieved in this sector in India compared to Western countries. On the other hand, it reflects India's sensitive approach to industrialising this sector too-much-too-fast, and in the process jeopardising the employability of a significant share of the population.

Advances made in the 1960's and 1970's enabled India to achieve a high degree of self sufficiency in food production. Already the largest producer of milk in 1997, it overtook the entire EU milk production in 2014. It has consistently ranked among the top 3 nations in the world for the production of wheat, rice, cotton and a host of other crops. Support sectors around agriculture have also benefitted, with Mahindra becoming the second largest tractor manufacturer in the world.

The next wave of growth is already under way in the field of food processing and agro-exports.

IT and IT enabled services have played a crucial role in shifting the economy to be less dependent on agriculture

India started the liberalisation process in 1991 with the progressive opening up of various sectors of the economy. This boosted the GDP growth rate from an average of 4% in the 1980's to 8% in the 1990's and the first decade of 2000. The sector to benefit most was services, which saw its share increase to 54% of the economy in 2014 from 45% in 1990. Other industries such as financial services, telecom, steel and pharmaceuticals have also benefitted from the opening up of the economy, though at varying rates. Whilst telecom is essentially an "open" industry with no restrictions on foreign investment, insurance, defence, aerospace and real estate continue to have limits in place on the size and nature of foreign investment that can be done.

Future growth drivers

Smart Cities: 100 smart cities to be developed through an USD 8 bn investment

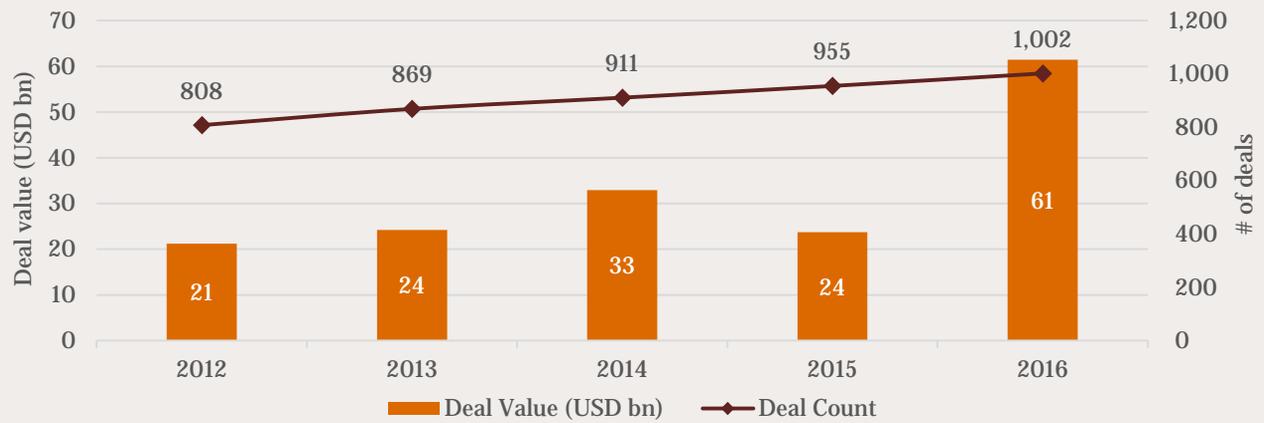
Make in India: Unprecedented incentives for companies as India targets a manufacturing contribution of USD 1 trillion to GDP by 2025

Digital India: USD 18 bn initiative to create an electronically connected economy and attract foreign investment

Swachh Bharat Abhiyan: USD 35 bn government funding (to be executed by private companies) to improve sanitation facilities, clean and adequate water supply and waste disposal facilities

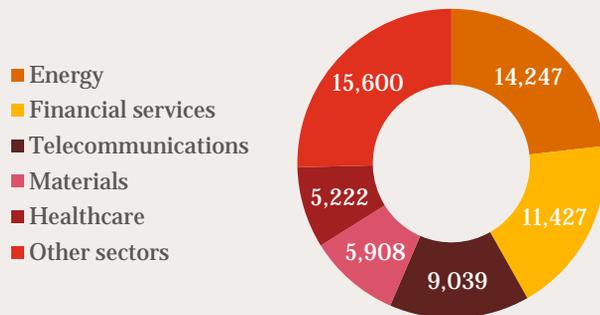
Increasing M&A activity in terms of value and number of deals

M&A activity in India (2012-2016)

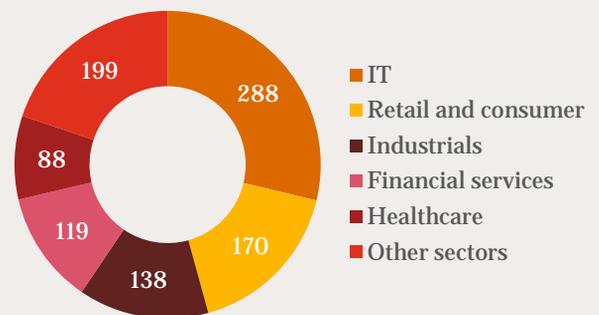


Sector breakdown

Top 5 sectors by deal value 2016 (USD mn)



Top 5 sectors by deal volume 2016



Robust deal flow

M&A activity in India has gradually increased over the last 5 years. 2016 saw the highest M&A activity of this period with 1,002 deals with a total deal value of USD 61 bn. Of these, 3 deals accounted for USD 28 bn in deal value, the largest being the acquisition of Essar Oil by Rosneft, United Capital Partners and Trafigura, for USD 11 bn (all cash deal for a 98% stake).

In 2016, USD 33 bn (52%) of deal value was linked to domestic transactions. The value of domestic transactions has exceeded the value of inbound or outbound deals in the last three years, signifying an overall trend towards consolidation across sectors.

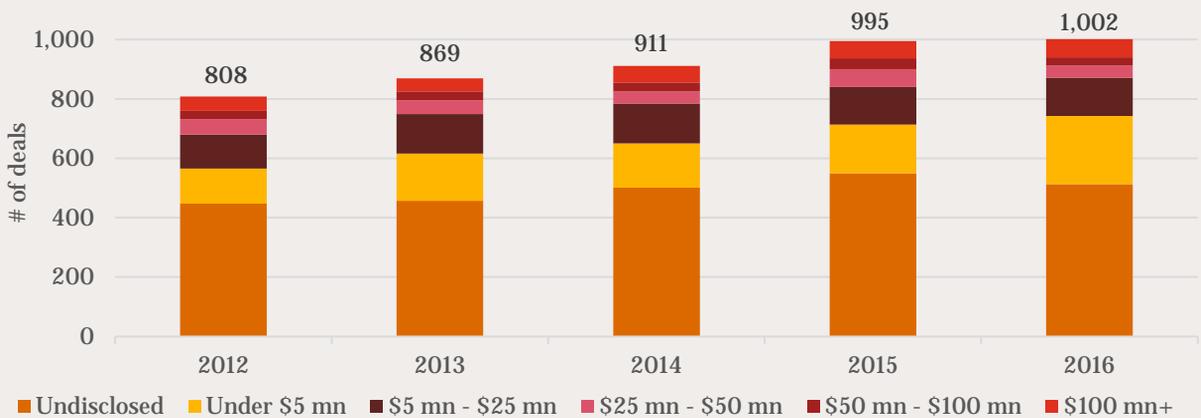
Information technology witnessed the highest number of deals

With 288 deals in 2016, IT led the M&A market activity. It was followed by the retail and consumer, industrials and financials sectors. M&A in the IT sector was led by Internet software and services (192 deals) and IT consulting (46 deals).

With 13 deals with an overall value of USD 14 bn, the energy sector experienced the highest M&A activity in 2016 in terms of value, reflecting 23% of total value. It was followed by the financial sector with USD 11 bn across 119 deals and the telecommunications sector with USD 9 bn across 15 deals.

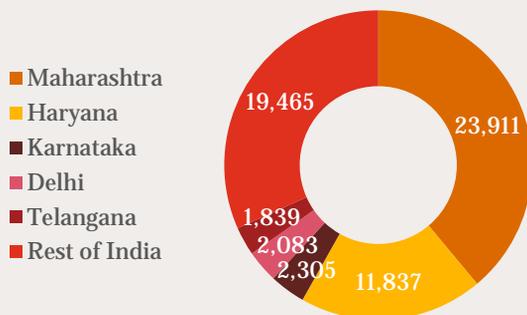
The majority of transactions are focused on small or medium-sized enterprises* (SMEs)

Transactions by deal size

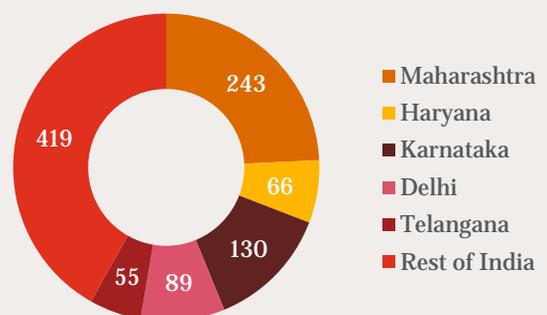


Transactions by location in India

Top 5 states by deal value 2016 (USD mn)



Top 5 states by deal volume 2016



Attractive destination for SME deals

The majority of deals in India over the last 5 years have tended to be of less than USD 100 mn deal value. This makes the country's small and medium-sized enterprises an especially hot target for deal making. Close to 50 transactions every year for the last 5 years were in the range above USD 100 mn.

North-West-South corridor continues to remain the favourite location for investors

For a country the size and diversity of India, getting the location right is ever so important. The typical M&A hot spots such as Maharashtra, Haryana and Karnataka have maintained their spot within the top 5 destinations for 2016 too. Missing from this ranking is Gujarat, the state which has attracted tremendous amounts of foreign capital thanks to its well-developed infrastructure. Analysts believe this reflects a plateauing of the state's potential on one hand, and the attractive incentives offered by other states on the other.

What's the deal in India?



Significant exchange control regulations

Foreign exchange transactions that alter the assets or liabilities outside India of an Indian resident, or the assets or liabilities in India of a person residing outside of India, are classified as capital account transactions and are generally not permitted (a number of exceptions to this are provided by the government from time to time). Transactions other than capital account transactions are classified as current account transactions and are subject to a lower level of restrictions. The Indian rupee (₹) is fully convertible for current account transactions.



The right deal structure

India's regulatory framework facilitates M&A through several legal modes, each different in its tax implications and ease of deal implementation. Common modes include direct/indirect transfer of shares, asset transfers (itemised or as a slump sale) and amalgamations/demergers. Foreign buyers typically use entities in jurisdictions which have a favourable tax arrangement with India (such as Mauritius) to execute a transaction.



Taxation can be a minefield

Withholding tax resulting from capital gains on the sale of an Indian business by a non-resident Indian entity or individual has been the object of heated controversies in the past, especially the topic of retrospective taxation. Over the years, the government has tried to temper down such harsh interpretation of laws by the tax authorities in order to improve foreign investor confidence. On a positive note, the recent roll-out of the long anticipated Goods and Services Tax (GST) has been hailed as a landmark event in Indian history. GST aims at eliminating the nightmarish indirect tax structures prevalent on a state by state level to create a seamless pan-India tax regime.



Due diligence is key

Businesses in India hinge a lot upon trust. However, a foreign buyer does not have this advantage upfront, and therefore a thorough due diligence procedure is mission critical. Indian companies have also begun to address this need in the M&A process, a consequence of which has been more and more vendor due diligence reports being made available over the years.



Accounting standards

As of April 1st, 2017, all listed companies, and all un-listed companies with a net worth of more than ₹ 2.5 bn (about USD 38 mn) need to apply the Indian Accounting Standards (Ind-AS). Ind-AS is closely aligned to IFRS with minor differences for some industry-specific topics. In addition, companies need to comply with the provisions under The Companies Act 2013, which regulates the incorporation of a company, the responsibilities of a company and its directors, and the dissolution of a company.



Labour unions

Although there are more than 15,000 labour unions across the country, about 12 of these (categorised as Central Trade Union Organisations – CTUO) represent labour at the national level. Labour unions are closely aligned with political ideologies. The situation with respect to strikes and shutdowns has improved over the decades, though occasional flare-ups do happen in certain parts of the country. India has long been trying to reform its labour laws, which currently shift the balance towards labour unions in some sectors, and allow for exploitation of temporary labour in others. But stiff resistance from CTUOs and public sector enterprises has dampened the pace of any such reforms.

Contacts and credentials

Key contacts



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An Indian national, Dev has worked on numerous Indo-European transactions in the last 8 years with PwC.

Select Indian deals with involvement from PwC Switzerland team members



acquired



Seller advised by



PwC provided vendor due diligence in connection with the sale of Lodestone Partners to Infosys.



acquired



Seller advised by



PwC provided buy-side support to Gategroup on the acquisition of Skygourmet.



disposed of certain assets in India

Seller advised by



PwC provided vendor due diligence support to Holcim in connection with the sale of certain assets in India resulting from its merger with Lafarge.



Acquired 60.3% of Seventh Plane Networks Pvt. Ltd.

Buyer advised by



PwC acted as buy side advisor to MCH Group on the acquisition of a majority stake in Seventh Plane Networks Pvt. Ltd.



Sold its stake in Bengaluru International Airport to



Seller advised by



PwC acted as sell side advisor to Flughafen Zürich in the disposal of its equity stake to GVK.

PwC Corporate Finance in India:

- ✓ **50+ M&A specialists**
- ✓ **100+ deals closed since 2005**
- ✓ **Significant cross-border transaction experience**

