

Indian investments in the United States: assessing the positive impacts

Direct investments by Indian enterprises
April 2008 - June 2010

FICCI

Federation of Indian Chambers
of Commerce and Industry

ERNST & YOUNG
Quality In Everything We Do

Foreword



The U.S President, Barack Obama, recently announced that Indo-US relations will be amongst the most defining partnerships for the US in the 21st century, a sentiment which resonates with Prime Minister Dr Manmohan Singh's desire to strengthen the multifaceted relations between both the countries. The shared vision of both leaders is a testimony to what is fast emerging as an indispensable partnership between the world's oldest surviving federation and its largest democracy.

Direct Investments in the US by Indian enterprises, a joint initiative of Ernst & Young and FICCI, is an attempt to highlight the economic contours of this bilateral relationship; the opportunities which lie ahead for Indian companies in varied sectors; insights on the changing regulatory environment in the US and their likely impact. It is the fourth in our series, which started with the first edition in 2006 and has since become a useful read for anyone seeking to do business with the US.

Following a lull in inward investment into the US during FY10, Indian investments in the US are now regaining momentum with the first quarter of FY11 ending June, 2010, seeing USD 3.3 billion of disclosed transactions. During our discussions with entrepreneurs, they tell us that what makes the US most attractive is its high rate of innovation, abundance of natural resources, relatively low valuations arising from the recession and the presence of a large consumer market.

A detailed snapshot of 11 high-growth sectors also forms part of this study, where we have presented high-level insights on specific industry contributions and opportunities for partnership.

For the purpose of this study, we spoke to several leading companies who have successfully forayed into the US. Some common themes which come out include the need for rigorous due diligence on regulatory matters, licensing requirements etc; the need for significant effort in integration in case of acquisitions and a robust balance sheet to name a few.

With the US economy showing signs of recovery and India Inc seeking to accelerate growth, M&A activity from India is poised for high growth. As we look ahead, the nature of collaborations is likely to evolve, with Indian companies seeking more alliances and transactions involving minority stakes and joint ventures rather than focusing only on majority stakes.

This is clearly an opportune moment to present a study on the India-US business partnership and I would like to thank FICCI for giving us this opportunity.

As always, we welcome your thoughts on the report.

Warm Regards,

A handwritten signature in black ink that reads "Rajiv".

Rajiv Memani
CEO & Country Managing Partner
Ernst & Young



Indian companies have been investing abroad for decades. The pace of foreign investments has accelerated significantly since 1991, and especially in the current decade. With the Indian economy growing at 8% per annum, the juggernaut of Indian business has started to roll like never before. The takeover of the biggest steel plant in Europe by the Tatas or a \$ 10.7 billion deal to take over the networks of a telecom company in Africa by Bharti Group are signs of coming of age of Indian companies tackling the complexities of cross border takeovers and business deals.

Notwithstanding the current global uncertainty, Indian private sector has reiterated their faith in the US economy. The United States is the largest recipient of Indian outbound investments. India is the second largest investor in United States after UAE. In the last few years, Indian companies have invested over US\$ 21 billion in the US economy and a sizeable amount of that investment has been in units which were facing problems. India Inc. believes that they can turn around these companies into viable economic entities and hence investing their hard earned profits into large scale rehabilitation programmes.

The bulk of M&A investments by India Inc. in the United States have been in manufacturing and other industrial sectors, instead of services, for which India is well known. The scenario is bound to translate into more job opportunities, tax receipts and capital growth for the US economy. The FICCI-Ernst & Young report is the fourth in the series of publications tracking investments by India Inc. in the different sectors of the US economy.

This report refutes the common perception that India has only taken away jobs from United States through outsourcing. In fact many of the Indian companies who have benefitted from outsourcing have brought their profit shares to the United States and invested there. This is the story our report tries to present.

Warm Regards,

Dr Amit Mitra
Secretary General
FICCI



Section 1

Overview

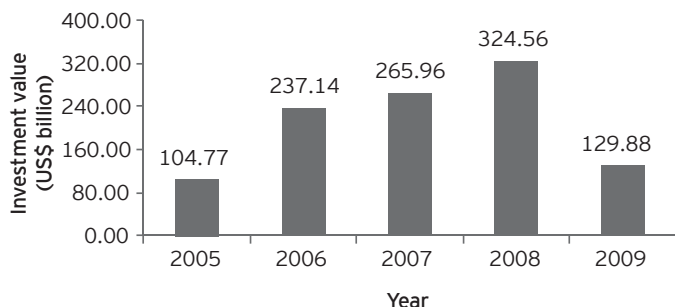
1.1 Background

According to the United Nations Conference on Trade and Development (UNCTAD), global foreign direct investment (FDI) flow witnessed a modest but uneven recovery in the first half of 2010. Further, the UNCTAD expects this recovery to gather momentum in the long term and global inflow to reach an estimated US\$1.2 trillion in 2010.¹

FDI inflow to developed countries decreased from a historic high of US\$1,360 billion in 2007 to US\$566 billion in 2009.² However, modest economic recovery in the first half of 2010 is expected to push FDI inflow to developed countries to above levels in 2009.

Exhibit 1 outlines US's inward FDI flows between the year 2005 and 2009.³

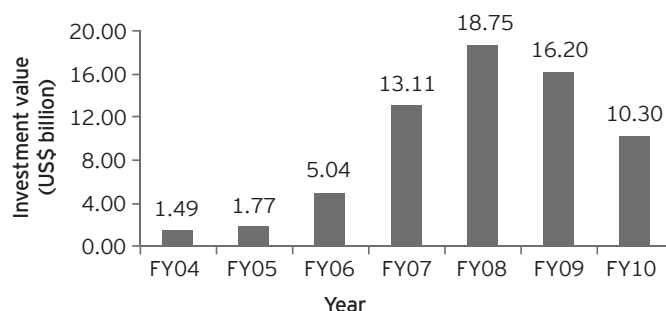
Exhibit 1: US' inward FDI (2005-2009)



The US has continued to maintain its position as the largest recipient of FDI in the world.⁴ It has also started attracting FDI from new avenues such as India, which has emerged as the second-fastest growing investor in the US after the UAE. The US' share in India's outward FDI has increased to 6.5% in FY10 from 5.7% in FY09.

Exhibit 2 outlines India's outward investment positions between FY04 and FY10.⁵

Exhibit 2: India's outward FDI (FY04-FY10)



Through investments, the US played a pivotal role in India's development. India's rapidly expanding economy, along with its thriving consumer market and availability of skilled personnel, was instrumental in attracting several US companies to invest in India. The FDI inflow to India from the US between April 2000 and May 2010 amounted to approximately US\$8.4 billion.⁶ During FY10, FDI inflow from the US totaled US\$1.9 billion.

However, as the Indian economy evolved, and as regulations continued to be liberalized, the focus shifted from simply attracting inbound investments to actually investing abroad. Indian companies became fully aware that their future growth will depend not merely on the export of goods and services, but also on their ability to acquire and integrate overseas businesses and assets. The past few years have seen the growth of India's actual FDI outflow exceed that of global FDI outflow, mainly due to progressive liberalization in India's overseas investment policy. Indian investment and trade in the US (greenfield investments, exports and outbound acquisitions) in the past two financial years stood at approximately US\$50 billion.

¹ "World Investment Report 2010," UNCTAD, July 2010, p.18

² "World Investment Report 2010," UNCTAD, July 2010, p.22

³ "Country fact sheet: United States," UNCTAD, July 2010, p.1

⁴ "World Investment Report 2010," UNCTAD, July 2010, p.20

⁵ "Indian Investment Abroad in Joint Ventures and Wholly Owned Subsidiaries," Reserve Bank of India website, www.rbi.org.in/scripts/BS_ViewBulletin.aspx, accessed 14 June 2010

⁶ "India FDI Fact Sheet - May 2010", Department of Industrial Policy and Promotion, 5 August 2010, p.2

Data released by the RBI indicates that in FY10,⁷ actual outbound FDI totaled approximately US\$10.3 billion. Of this amount, equity investments (not including investments of individuals and banks) were valued at approximately US\$6.6 billion, while loans accounted for approximately US\$3.6 billion.⁸ This figure indicates the flow of funds out of India but does not include the overseas debt financing of companies.

According to the latest available data,⁹ Indian companies' greenfield investments in the US between 2004 and 2009 amounted to approximately US\$5.5 billion (the average investment per project exceeded US\$45 million). The top three destinations during this period were Minnesota, Virginia, and Texas. Metals, IT/ITeS, media and entertainment, industrial machinery, equipment and tools, and financial services were the sectors that received the maximum investments.

Further, 10 Indian companies accounted for more than 70% of the US\$5.5 billion invested in greenfield initiatives in the US. Major investments in the US included JSW Steel's investment of US\$1 billion, TCS' US\$273.4 million investment, Welspun Group's investment of US\$246 million, Reliance Adlabs' US\$161-million investment, Indage Group's investment of US\$160.5 million, HCL Group's US\$148.7 million investment, Tata Communications' US\$102.7 million investment and PSL's US\$100-million investment.¹⁰

On the trade front as well, the Indo-US relationship is strengthening, with bilateral trade between both countries amounting to approximately US\$39 billion in FY10. India is a net exporter to US, with exports amounting to approximately US\$22 billion as against imports of approximately US\$17 billion. Exports to the US constitute 11% of India's exports, while imports from the US contribute 6% of India's total imports.

1.2 Executive summary

During FY09 and FY10, Indian companies made 536 outbound acquisitions globally, of which 105 were in the US.

During the first quarter of FY11 ending June 2010, Indian companies completed 101 outbound acquisitions with a cumulative deal value of US\$14.6 billion. Of these, 25 were in the US (the value of disclosed deals was US\$3.3 billion). As against, only nine deals were concluded in first quarter of FY10 with the cumulative deal value of US\$162 million only. Further, the deal value of US outbound acquisitions in 1Q11 exceeded the cumulative value of disclosed outbound deals in FY09 and FY10.

In FY10, of 226 outbound acquisitions (the value of total outbound disclosed deals stood at US\$23.064 billion, including Bharti Airtel Ltd.'s US\$10.7 billion acquisition of Zain Africa), Indian companies were involved in 41 US-bound acquisitions. The size of the deals was in the US\$1-200 million range.¹¹

In FY09, of 310 deals (the value of disclosed deals stood at US\$14.553 billion), 64 were concluded in the US. The size of the deals was in the US\$0.7-325 million range.

Exhibit 3: Number and value of deals in the US

Year	Number of disclosed deals in the US	Value of deals (US\$ million)
1Q11	11	3,309
FY10	20	752
FY09	38	1,210
Total	69	5,271

In the past two years, certain acquisitions were made by MNCs that were promoted by persons of Indian origin. These have not been included in the report, since they are legally not Indian companies. Some of these select deals include Essar Group's three acquisitions for US\$850 million, the largest being Trinity Coal Corp., for US\$600 million. Further, ArcelorMittal made six acquisitions for US\$1.3 billion.

⁷ Financial year for this report indicates year ending March.

⁸ "Indian Investment Abroad in Joint Ventures and Wholly Owned Subsidiaries," *RBI Monthly Bulletin*, July 2010, p.2

⁹ "How America Benefits from Economic engagement with India," *India-US World Affairs Institute-FICCI report*, June 2010, p.7

¹⁰ "How America Benefits from Economic engagement with India," *India-US World Affairs Institute-FICCI report*, June 2010, p.10

¹¹ MA-Custom Search," Bloomberg, "Deals Analysis-Custom Search," Thomson OneBanker and "Deals-Custom Search," *mergermarket*, accessed 28 April 2010

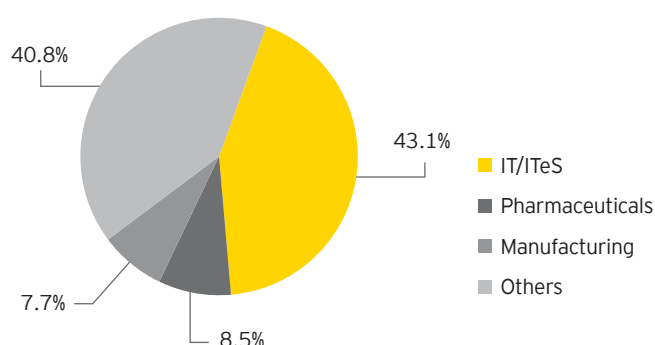
Exhibit 4 lists the five largest outbound deals to the US by Indian companies, either directly or through their overseas subsidiaries, over the past two financial years and the first quarter of FY11.¹²

Exhibit 4: Five largest outbound deals to the US over FY09, FY10 and 1Q11

Acquirer	Target	Sector	Date	Deal value (US\$ million) ¹³
Reliance Industries Ltd.	Atlas Energy, Inc.-Marcellus Shale assets (40% stake)	Manufacturing	April 2010	1,700
Reliance Industries Ltd.	Pioneer Natural Resources-Eagle Ford Shale assets (45% stake)	Manufacturing	June 2010	1,355
Reliance Anil Dhirubhai Ambani	Dreamworks SKG	Media and entertainment	September 2008	325
Religare Enterprises Ltd.	Northgate Capital LLC	Financial services	February 2010	200
Inox India Ltd.	Cryogenic Vessel Alternatives	Manufacturing	December 2009	140

The IT/ITeS, pharmaceutical and manufacturing sectors were the most active sectors (with the largest proportions in the total number of deals) over FY09, FY10 and the first quarter of FY11. The three sectors collectively account for approximately 60% of the total deals completed over the last two years.

Exhibit 5: Three most active sectors (as a % of total number of deals)



1.3 Research methodology

For the purpose of this study, the term “outbound investments” includes publicly disclosed acquisitions made by Indian enterprises in joint ventures and wholly owned subsidiaries. It does not encompass reinvested earnings and funds lent, including debt securities and trade credits. In addition, in order to summarize deal volumes and values, institutional investments and greenfield projects have not been included within the ambit of this term. The analysis in this report covers the period between April 2008 and June 2010.

This report has been compiled on the basis of secondary data sources such as Bloomberg, Thomson OneBanker and mergermarket. Data on Indian outbound investments to the US has been collated on the basis of internet research and validated from reports in the press, which have been relied upon in good faith. We have not undertaken any independent verification or further scrutiny. Several inadequacies in data available in the public domain have severely constrained our ability to ascertain the exact figures pertaining to the volume and value of cross-border deals and investment flows. In the case of several deals (61), deal specifications have not been publicly disclosed. Therefore, a value-based analysis would not be accurate and has not been undertaken. Further, there may be some distortion in data, considering that investments may have been routed through intermediate special purpose vehicles (SPVs) set up in another jurisdiction.

¹² MA-Custom Search, “Bloomberg, “Deals Analysis-Custom Search,” Thomson OneBanker and “Deals-Custom Search,” mergermarket, accessed 28 April 2010

¹³ Figures have been rounded off.



Section 2

Landscape and trends of Indian outbound investments to the US

2.1 Background

Between 2004-05 and 2007-08, annual average growth in India's actual FDI outflows amounted to 100.9%,¹⁴ which was far higher than growth in global FDI outflow. This drastic increase in Indian outbound investments (and overall cross-border M&A activity) was attributed to strong economic growth, progressive liberalization in India's overseas investment policy, the easy availability of debt finance for companies aspiring to enter new markets, and a highly competitive environment that induced Indian companies to expand into new markets, including overseas markets.

However, in FY10, the volume of Indian outbound deals to the US witnessed a y-o-y decline of 37%. Volatility in global markets and the credit crunch compelled Indian companies to adopt a more cautious and risk-averse approach to doing business. The concept of "cash is king" became visibly evident. Several Indian companies with strong balance sheets put their global expansion plans on hold and waited for the dust to settle. As evident from the investments made in the first quarter of FY11 ending June 2010, Indian companies' investments in the US is regaining momentum, with around 25 deals being concluded during this period (the value of disclosed deals stands at US\$3.3 billion).

2.2 Drivers of outbound investment

Following are some of the key drivers of Indian outbound investments:

Innovation: The rate of innovation in the US is rapid, due to which the transfer of technology to the market for commercial purposes is high.¹⁵ Further, the US accounts for approximately one third of global R&D.¹⁶ Access to knowledge has been a strategic consideration for Indian firms seeking to strengthen their competitive edge and to move up the value chain.

Natural resources: Since the demand for natural resources in India is on the rise, the US, due to its natural resources, is becoming an increasingly attractive destination for Indian players. Many Indian companies have been trying to acquire assets abroad, focusing especially on natural resources. A case in point is Reliance's recent acquisition of a stake in the shale natural-gas assets of Atlas Energy and Pioneer Natural Resources. Indian companies are also keen to learn the technique of extracting gas from shale formations and transfer such techniques to similar formations globally.

¹⁴ "Indian Investment Abroad in Joint Ventures and Wholly Owned Subsidiaries," *RBI Monthly Bulletin*, July 2009, p.2

¹⁵ "The Great American Yard Sale," *Time website*, www.time.com/time/magazine/article/0,9171,1832861,00.html, accessed 10 May 2010

¹⁶ "Science and Engineering Indicators: 2010," *NSF website*, www.nsf.gov/statistics, accessed 10 May 2010

Value-added strategic growth: The drive for outbound acquisitions among Indian companies continues to mount as they seek to ascend the value chain. More recently, Indian companies have been viewing global expansion in the framework of strategic goals with the aim to improve profit margins and strengthen market reach. They are now aiming at acquisitions that will enhance the value of their business. Accordingly, plans to acquire specific intellectual property rights, research, and manufacturing facilities are driving acquisition strategies.

Low valuations: Current recessionary trends in the US have significantly affected the valuation of domestic companies. Further, they have impacted transaction volumes in the geography. While talks of economic recovery are afloat, many sectors in the US are yet to experience a complete recovery. Even amid the currently optimistic market sentiment, a one-year window for distress sale in some sectors is expected.¹⁷ In this backdrop, few cash-rich domestic companies and overseas companies aiming to expand in the US are looking to acquire strategic assets at bargain prices.¹⁸

Expanding existing markets: Growing competition has also compelled Indian companies to consider new markets. Strategic partnerships and alliances with overseas companies is one of the most convenient options to have emerged in this context. As the US is the world's largest consumer markets, companies look to increasingly expand in this region, either independently or through alliances. Further, this provides them with access to distribution networks to market their products and, sometimes, gain access to emerging technologies.

Increased profitability of Indian corporate organization: Growth in India's economy in the last three to four years has made companies in the country very profitable. This significant increase in income has increased access to capital. Additionally, many companies were traditionally underleveraged and, therefore, had a greater capacity to borrow. They were able to borrow a considerably large amount of cash, which was utilized to fund their acquisitions. Several large Indian multinational companies took advantage of such conditions and expanded their operations in the US.

Increased willingness to take risks: Indian companies are willing to deliver high levels of shareholder value to gain a competitive edge. Further, home market limitations in terms of scale and resources encourage them to take more risks.

Regulatory changes: Indian overseas investment policies have been progressively liberalized and simplified to meet the changing needs of a growing economy. The policy, which was evolved as a strategy for export promotion and to strengthen economic ties with other countries, has expanded significantly both in scope and size, especially following the introduction of the Foreign Exchange Management Act (FEMA) in June 2000. With the introduction of the FEMA, the limit for investments was revised to annual periods from three-year blocks earlier. In 2002, the investment amount for Indian companies investing in joint ventures (JVs) and wholly owned subsidiaries overseas was US\$50 million for three years. Over time, this has been liberalized. The limit of investment permitted since September 2007 is 400% of the companies' net worth.

Ease of entry: Setting up greenfield operations in a new market is far more difficult and fraught with risk than acquiring an existing company. Against the backdrop of a dynamic business environment where global expansions have become imperative to remain competitive, this factor is also urging Indian companies to consider overseas expansion.

2.3 Key challenge in the current scenario

The inadequate availability of financing for overseas expansion remains a key challenge for Indian companies. Indian outbound deals in the US are predominantly debt-financed, with cash being a popular mode of payment. This trend probably extends from India Inc.'s traditional preference for cash transactions in the domestic M&A space.

Further, the regulatory issues associated with obtaining approvals for stock issuance to foreign residents (share swap) has also induced this trend. While some Indian companies, which have issued IPOs in the US markets, could overcome this problem (to date, 16 Indian companies are listed in the US), a large number of Indian companies targeting acquisitions in the US still find it difficult to find overseas sellers that are willing to accept stock, especially considering the volatile nature of the Indian stock markets. These factors continue to encourage companies to enter all-cash deals.

¹⁷ "India Ready For Sustainable Outbound Deal-Making Trend," *VCCircle website*, www.vccircle.com/500/news, accessed 10 May 2010

¹⁸ "2008 Deal volume slows to 2003 levels - valuations fall, cash rich corporations shopping cautiously," *Ernst & Young website*, www.ey.com/US/en/Newsroom/News-releases/Media-Archive-December2008, accessed 11 May 2010

In the past few years, companies were able to raise funds for overseas expansions by issuing foreign currency convertible bonds (FCCBs) and IPOs. Companies have traditionally perceived FCCBs as attractive, since most of them were structured as five-year papers with low coupons. However, the recent volatility in the stock market has caused concern for companies that have issued FCCBs lately. Volatile stock-market conditions witnessing a sharp decline in stock prices may result in stock prices trading at a discount compared with their pre-determined conversion price. This is likely to induce holders of FCCBs to redeem bonds upon maturity rather than convert them to underlying equity shares.

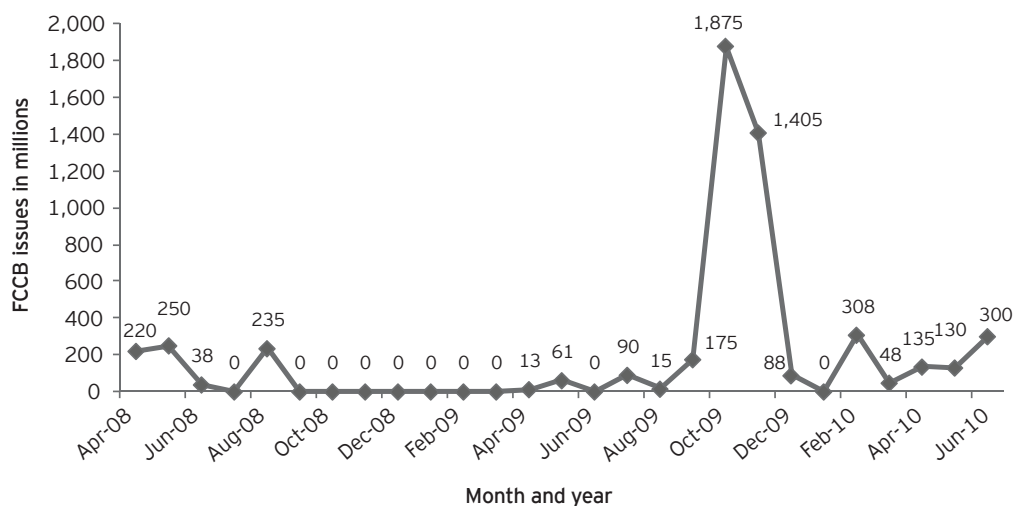
The difficulty that Indian companies face in obtaining capital through the debt route is becoming increasingly apparent. Capital markets have witnessed a revival, and debt markets have eased up, as reflected in the number of deals in the first quarter of 2011. However, this increase in cross-border M&A has primarily been experienced in the mid-market segment. Large deals require access to financing, and nothing but the strongest balance sheets will be able to attract financiers.¹⁹

Between April 2008 and June 2010, 35 Indian companies issued FCCBs with a cumulative value of approximately US\$5.3 billion.²⁰ Of these, 22 were issued in FY10, with a total value of US\$4 billion. The last two quarters of FY09 saw no activity, but the number of companies issuing FCCBs gathered pace in the last financial year.

On the back of a revival in the credit market in the second half of FY10, a number of companies raised funds either to partly finance their growth plans or to reduce earlier high-cost debt. However, to contain the surge in capital flow and reduce liquidity, the RBI tightened FCCB guidelines by discontinuing with the facility of a buyback of FCCBs with effect from 1 January 2010.

Exhibit 6 indicates the trend in FCCB issues in 2009 and 2010. Although large fund issues still seem a distant reality, the debt markets have eased up slightly, and Indian companies have revived their interest in an FCCB as a route to fund overseas acquisitions.²¹

Exhibit 6: FCCB issues April 2008-June 2010



¹⁹ "India Inc's interest in overseas assets growing: Experts," The Press Trust of India Limited, 21 February 2010, via Dow Jones Factiva, © 2010 Asia Pulse Pty Limited

²⁰ Not all of this may be utilized for outbound investments.

²¹ "Data on ECB/FCCB," Reserve Bank of India website, www.rbi.org.in/scripts/ECBView.aspx, accessed 25 August 2010 www.rbi.org.in/scripts/AnnualPublications, accessed 25 August 2010



Section 3

3.1 Sectoral analysis

Our study indicates that IT/ITeS, media and entertainment, pharmaceuticals, education and manufacturing are the key active sectors for US outbound acquisitions. In most deals, both the acquiring company and the target company belong to the same sector. However, in a few cases, where the acquiring company has diversified operations, we have considered the target company's sector for the purpose of classification.

As illustrated in Exhibit 7a and 7b,²² the IT/ITeS sector accounted for the majority of the deals. Further, it accounted for more than 40% of the total number of deals in FY09 and 54% of the total number of deals in FY10.

The manufacturing sector contributed 10% of the total number of deals in FY09. However, its share in the total number of deals in FY10 was only 2%, where only one deal was announced. The pharmaceutical sector also accounted for more than 10% of the total number of deals in FY09 and 5% in FY10. The share of the education sector in the number of deals, which was only 3% in FY09, has increased to 10% in FY10.

Exhibits 7a and 7b compare the deal volumes across sectors between FY09 and FY10. As illustrated, the sector-wise distribution of India's outbound deals to the US was very similar in most sectors in both years, although volumes were in FY10 were comparatively lower.

Exhibit 7a: %age share in deal volumes (FY09)

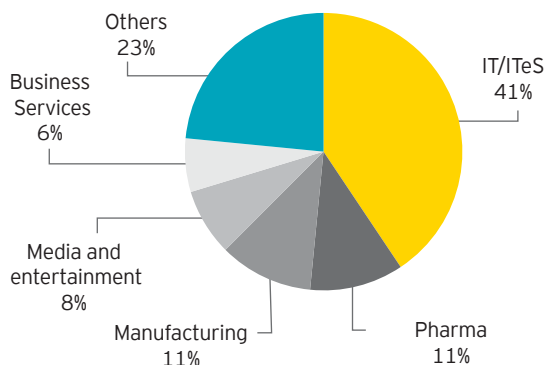
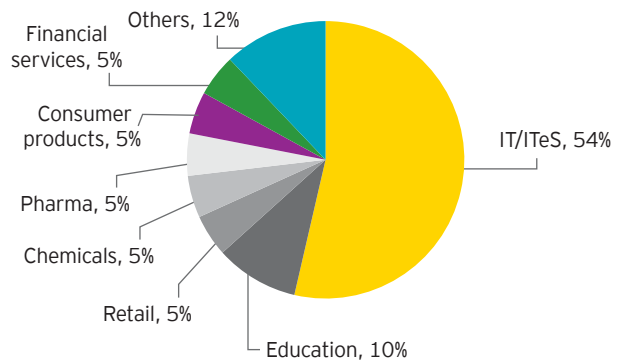


Exhibit 7b: %age share in deal volumes (FY10)



3.2 IT/ITeS

India's IT industry is estimated to have earned US\$73.1 billion in revenues in FY10, with the IT software and services industry accounting for US\$63.7 billion²³. As a proportion of the national GDP, the sector's revenues have grown from 1.2% in FY98 to an estimated 6.1% in FY10. The sector's share of total Indian exports (merchandise and services) increased from less than 4% in FY98 to approximately 26% in FY10. The US accounts for 61% of the Indian IT export market. The US is the biggest market for Indian IT/ITeS companies, contributing more than 60% of their revenue.

Over the years, Indian IT/ITeS companies have aggressively expanded in the US market, and IT/ITeS continues to be the most acquisitive industry. The industry has evolved from a provider of low-margin services such as software maintenance, payroll processing and call center management to a provider of high-end services such as software development, project management, technology strategy consulting, and enterprise software implementation.²⁴

²² MA-Custom Search," Bloomberg, "Deals Analysis-Custom Search," Thomson OneBanker and "Deals-Custom Search," mergermarket, accessed 28 April 2010

²³ "IT-BPO Sector in India: Strategic Review 2010: NASSCOM Analysis," April 2010, p.2

²⁴ "US-bound acquisitions by Indian companies," IMAcS Virtus Global Partners, January 2010, p.3

While the need to naturally scale up in size and increase market share propelled the previously high rate of US bound acquisition activity by IT companies, such players have now sought to establish their position as leading service providers in high-end services. Many mid-cap IT companies make acquisitions overseas to add new service capabilities and position themselves better to compete with large IT companies.

With a strong onshore, near shore and offshore presence, Indian IT companies are well positioned to service the IT needs of US-based companies.

Partnering with the US

US-based companies have grown the most in the Indian technology sector. Of the top 20 IT companies operating in India, 9 are from the US. Adobe, Accenture, Cognizant, CSC, EXL, HP, IBM, Intel, Microsoft, Oracle and Sun Microsystems are among the leading US IT companies operating in India. Most US-based IT companies have set up their delivery operations

centers and R&D centers in India to capitalize on the country's large talent pool. These companies employ more than 200,000 people who either service customers across the globe or help them introduce new software products more quickly. More than 20% of Accenture's global workforce is in India, whereas IBM has second-largest operational base in India, with more than 80,000 employees at its centers.

In recent times, Indian IT companies have been expanding their investment base in the US. Most leading IT companies from the country have set up their sales and marketing offices across various cities in the US. Many have also established delivery operation facilities that serve as onshore centers for servicing US clients. In the last two years, leading Indian companies have invested more than US\$800 million in the form of local IT acquisitions.

Exhibit 8 lists the top five deals finalized by Indian companies, either directly or through their overseas subsidiaries, in the IT/ITeS sector by deal value.²⁵

Exhibit 8: Top five deals in the IT/ITeS sector, by deal value

Acquirer	Target(s)	Date	Deal value (US\$ million)
Glodyne Technoserve Ltd.	Decisionone Corp.	May 2010	104
3I Infotech Ltd.	Regulus Group LLC	April 2008	80
Satyam Computer Services Ltd.	Caterpillar Market Research and Customer Analytics Operations	April 2008	60
Infosys Technologies Ltd.	McCamish Systems LLC	November 2009	58
Quattro BPO Solutions (P) Ltd.	RSM McGladrey Financial Process Outsourcing	April 2008	45

²⁵ MA-Custom Search," Bloomberg, "Deals Analysis-Custom Search," Thomson OneBanker and "Deals-Custom Search," *mergermarket*, accessed 28 April 2010

3.3 Pharmaceuticals

The Indian pharmaceutical industry was valued at US\$10.8 billion in FY09 and grew at a CAGR of 11.3% between 2005 and 2009.²⁶ The country's pharmaceutical industry ranks third in terms of volume and fourteenth in terms of value globally. By 2014, the sector is estimated to be valued at US\$15 billion.²⁷

While Big Pharma is increasingly looking to shift its focus from the regulated markets (US, Europe, Japan) to "pharmerging" markets such as India to drive growth and improve productivity; increasing "genericization" and health care reforms have provided generic companies with the opportunity to garner a large share of the regulated market.

The Indian pharmaceutical sector has considered acquiring companies in the US to capitalize on the regulatory approvals granted to their technology. US FDA approval of US drugs enhances an acquiring company's market value. India accounts for the highest number of US FDA approvals outside of the US. India also accounts for a third of all Drug Master Files (DMFs) and the highest number of Abbreviated New Drug Applications (ANDAs).

Further, pharmaceutical companies tend to acquire overseas in order to gain access to resources that can enhance their R&D capabilities. India's generic houses enter strategic alliances with global pharmaceutical companies to strengthen their generic portfolios and jointly market these drugs globally.

Partnering with the US

The largest generic market in the world, the US is the biggest pharmaceutical export market for Indian companies, with almost 19% of India's pharmaceutical exports to the US. India already has one company – Lupin Ltd. – featuring among the top generic companies in the US. With the impending patent cliff and health care reforms, the role of Indian companies in the generics market in the US is expected to increase.

Moreover, India's high-quality and low-cost base has contributed to the country's growing visibility among US companies as a market and sourcing hub.

While most large US-based companies such as Pfizer, Johnson & Johnson, Abbott, Bristol-Myers Squibb, Eli Lilly, Merck Sharpe & Dohme and Allergan have a presence in India, they are looking to enhance their footprint in the country by acquiring local brands and companies. Abbott Laboratories, in a recent landmark deal, acquired Piramal Healthcare's domestic formulation business for US\$3.7 billion. This acquisition is expected to propel Abbott to the leading position in the Indian market.

India has also emerged as an outsourcing destination in the following respects:

- a. Indian companies are collaborating with companies such as Johnson & Johnson, Bristol Myers Squibb, Eli Lilly and Pfizer for drug discovery and development, by deploying different models of partnering. In addition, companies such as Quintiles, Thermo Fisher and Albany Molecular Research have established operations in India.
- b. Companies are collaborating with companies such as Pfizer, Hospira and Abbott for both regulated and emerging markets, either entering sourcing deals or acquiring companies to gain access to products for these markets.



²⁶ "Pharmaceuticals in India– Industry profile," Datamonitor, December 2009

²⁷ "Pharmaceuticals in India– Industry profile," Datamonitor, December 2009

Exhibit 9 shows the top five deals in the pharmaceutical sector in terms of deal value carried out by Indian companies either directly or through their overseas subsidiaries.²⁸

Exhibit 9: Top five deals in the pharmaceutical sector, by deal value

Acquirer	Target(s)	Date	Deal value (US\$ million)
Piramal Healthcare Ltd.	Minrad International, Inc.	December 2008	45
Lupin Ltd.	US rights for Antara® fenofibrate capsules	September 2009	39
Maneesh Pharmaceuticals Pvt. Ltd.	Synovics Pharmaceuticals, Inc.	June 2008	19
Panacea Biotec Ltd.	PharmAthene, Inc.	September 2008	13
Piramal Healthcare Ltd.	RxElite Holdings, Inc.	January 2009	4

3.4 Manufacturing

The Indian manufacturing industry is successfully competing in the global marketplace. India has the potential to become a global manufacturing hub, since it possesses requisite skills in product, process and capital engineering. According to a United Nations Industrial Development Organisation's (UNIDO) study, India ranked among the top 10 producers of manufacturing output in 2009. The industry is becoming progressively prominent for goods that are highly placed in the value chain and requires a fair amount of engineering precision and quality.

Indian companies in the manufacturing sector, which, for the purposes of this report, comprises metals, oil and gas, electrical products, industrial material production, other industrial and commercial products, have aggressively pursued expansion in the US.

According to the Ministry of Steel, steel production increased y-o-y by 4.2% to reach approximately 60 million tonnes (mt) and is expected to reach 124 mt by FY12. India is the fifth largest producer of steel in the world today and is expected to

become the second largest producer of crude steel by FY16. The Indian auto component industry which was viewed as low-key supplier has emerged as significant player in the global automotive supply chain. According to Automotive Component Manufacturers Association of India (ACMA), total turnover of industry is estimated at about US\$19.1 billion in FY09 and is expected to reach US\$40 billion by FY16.

Over the past few years, Indian manufacturing companies have built new manufacturing facilities and SEZs. The need to have the efficient value chain has become imperative as these companies look to acquire distribution and retail channels to utilize the additional capacity and establish new supplier relationships. To ensure this, many Indian manufacturing companies are acquiring overseas.

Exhibit 10 lists the leading deals in the manufacturing sector in terms of the deal value carried out by Indian companies, either directly or through their overseas subsidiaries.²⁹

Exhibit 10: Top deals in the manufacturing sector, by deal value

Acquirer	Target(s)	Date	Deal value (US\$ million)
Reliance Industries Ltd.	Atlas Energy, Inc.: Marcellus Shale assets (40% stake)	April 2010	1,700
Reliance Industries Ltd.	Pioneer Natural Resources: Eagle Ford Shale assets (45% stake)	June 2010	1,355
Inox India Ltd.	Cryogenic vessel alternatives	December 2009	140
Everest Kanto Cylinder Ltd.	CP Industries, Inc.	April 2008	66

²⁸ MA-Custom Search," Bloomberg, "Deals Analysis-Custom Search," Thomson OneBanker and "Deals-Custom Search," *mergermarket*, accessed 28 April 2010

²⁹ MA-Custom Search," Bloomberg, "Deals Analysis-Custom Search," Thomson OneBanker and "Deals-Custom Search," *mergermarket*, accessed 28 April 2010

3.5 Media and entertainment

The Indian media and entertainment industry, one of the fastest-growing industries in the country, generated US\$14.8 billion in revenues in 2009, growing at a CAGR of 8.2% between 2005 and 2009.³⁰ Further, the broadcasting and cable TV segment was the industry's most lucrative segment in 2009, generating revenues of US\$5 billion, equivalent to 33.5% of the industry's overall value. The industry in India is expected to touch US\$20.4 billion by 2014.³¹

In recent times, Indian companies in the media and entertainment sector have become active in the outbound acquisition space. Media and entertainment companies look to expand in the US to diversify their product range and strengthen their position globally. Additionally, companies venture into overseas acquisitions to capture the niche online gaming market and establish themselves as leaders. Another reason why companies in this sector acquire in the US is to capitalize on the growing popularity of Indian content in the global marketplace and establish front-end offices in the US to expand their reach to Hollywood.

Exhibit 11 lists the top deals by Indian companies, either directly or through their overseas subsidiaries, in the media and entertainment sector in terms of deal value.³²

Exhibit 11: Top deals in the media and entertainment sector, by deal value

Acquirer	Target(s)	Date	Deal value (US\$ million)
Reliance Anil Dhirubhai Ambani	Dreamworks SKG	September 2008	325
Integra Software Svcs. Ltd.	Silver Editions, Inc.	April 2010	4
Sanraa Media Ltd.	WSG Pictures	September 2009	2

3.6 Real estate

The real estate sector in India is second only to agriculture in terms of employment generation, and it contributes heavily toward the country's GDP. FDI in the Indian real estate and housing sector for FY10 was approximately US\$2.8 billion. FDI in the real estate sector in India stood at US\$8.5 billion since April 2000, of which a major chunk came from the US.³³

Since the opening of Indian real estate to FDI in 2002, the sector has witnessed unprecedented growth. The Government of India (GoI)'s successive liberalization of the sector, along with heightened demand for commercial and residential space as the economy has continued to expand, has fueled this growth. However, the financial crisis of 2008 severely impacted the real estate industry, which resulted in high amounts of debt as money dried up and demand dissipated. Nevertheless, after a year of consolidation and saving, the property markets of emerging economies are on the path to recovery.

It is expected that India's property sector has the potential to attract up to US\$12.11 billion worth of investment over the next five years. Foreign investments in the Indian real estate market have surged since 2005, when 100% FDI was allowed in this sector.

Partnering with the US

Since the liberalization of the sector in 2005, major funds from the US have also been exploring the Indian market and seeking potential investment partners. Following the opening up of the sector, Goldman Sachs' Whitehall Street Real Estate Funds announced its plans to invest up to US\$1 billion in Indian private equity, real estate, private wealth management, and other businesses for its institutional clients. Subsequently, several other major US funds revisited their business strategies to include the Indian real estate market in their investment portfolios. These included Goldman Sachs' Whitehall Street Real Estate Funds, California Public Employees' Retirement System, J. P. Morgan, Warburg Pincus, Morgan Stanley Real Estate Funds, Blackstone Group, Colony Capital, Starwood Capital, GE Capital and Tishman Speyer, among others.

³⁰ "Media and entertainment in India- Industry profile," Datamonitor, December 2009

³¹ "Media and entertainment in India- Industry profile," Datamonitor, December 2009

³² MA-Custom Search," Bloomberg, "Deals Analysis-Custom Search," Thomson OneBanker and "Deals-Custom Search," *mergermarket*, accessed 28 April 2010

³³ "India FDI Fact Sheet - April 2010," Department of Industrial Policy and Promotion, p.2

Exhibit 12 lists the top deals by Indian companies, either directly or through their overseas subsidiaries, in the real estate sector in terms of deal value.³⁴

Exhibit 12: Top deals in the real estate sector, by deal value

Acquirer	Target(s)	Date	Deal value (US\$ million)
Highwoods: DLF Forum LLC	The Forum office park in Raleigh, US	April 2008	113
Acme Group	eSolar, Inc.	March 2009	30

3.7 The financial sector

In 2008-09, when most economies across the globe were feeling the heat of the global financial crisis, the Indian economy was relatively stable and resilient. This can be largely attributed to strong, independent and transparent regulators such as the RBI and the SEBI, which are committed to developing and regulating Indian financial markets systematically. The Indian banking system is robust, and with net NPAs of approximately 1.1% in FY09, the credit-deposit ratio for commercial banks during FY10 stood at 72%. Banking infrastructure consists of approximately 65,000 branches across the country, dominated by public sector banks (85%), private sector banks (14%) and foreign banks (approximately 1%).³⁵

The Indian stock market also is well regulated, where its primary exchange BSE is the world's largest stock exchange in terms of the number of listed companies. The NSE is the world's third-largest stock exchange in terms of number of transactions. Further, the Multi-Commodity Exchange of India (MCX) is among the world's leading three bullion exchanges and the top four energy exchanges.

Partnering with the US

Stable economic growth in India has attracted Fortune 500 companies from the financial services sector, including Morgan Stanley, Goldman Sachs, Bank of America and Franklin Templeton. Many private equity and venture capital firms as well as insurance companies such as Warburg (one of the earliest entrants in India), Blackstone, Carlyle Group, Kohlberg Kravis Roberts & Co., and Apollo have started operations in the country. US-based financial companies are also present in India through their captive knowledge or business process units, leveraging the IT and technical skills of the Indian workforce. The relaxation of expansion norms in banking and the development of corporate bond markets are also expected to attract investments in the financial sector.

Indian financial sector companies such as the State Bank of India, ICICI Bank and Bank of Baroda have just started expanding their footprint across North America and are present in the commercial banking space. However, their operations are limited to the domestic front and the provision of remittance services. This can be largely attributed to the fact that BFSI sector in the US is highly matured and competitive.

Exhibit 13 lists the top deals by Indian companies, either directly or through their overseas subsidiaries, in the financial sector in terms of deal value.³⁶

Exhibit 13: Top deals in the financial sector, by deal value

Acquirer	Target(s)	Date	Deal value (US\$ million)
Religare Enterprises Ltd.	Northgate Capital LLC	February 2010	200
3i Infotech Ltd.	JP Morgan Treasury Services National Retail Lockbox	April 2009	14
Wipro Technologies	Gallagher Financial Systems, Inc.	July 2008	6

³⁴ "MA-Custom Search," Bloomberg, "Deals Analysis-Custom Search," Thomson OneBanker and "Deals-Custom Search," *mergermarket*, accessed 28 April 2010

³⁵ "Report on trend and progress of banking in India," *Reserve Bank of India website*, www.rbi.org.in/scripts/AnnualPublications, accessed 25 August 2010

³⁶ "MA-Custom Search," Bloomberg, "Deals Analysis-Custom Search," Thomson OneBanker and "Deals-Custom Search," *mergermarket*, accessed 28 April 2010

3.8 Telecom

India's telecom sector has grown phenomenally over the past decade. India now has more telecom subscribers than the US. As of June 2010, India was home to 671.7 million telecom subscribers (635.5 million mobile subscribers and 36.2 million fixed subscribers)³⁷ as compared to the US, which had 414 million subscribers (286 million mobile subscribers and 128 million fixed subscribers) as of December 2009.

Partnering with the US

US-based telecom companies such as AT&T, Verizon, Qualcomm, Motorola, Cisco Systems and ATC Tower have had a presence in India since the economy opened up in 1991. Telecom service providers from the US are yet to enter the crowded Indian market, in which close to dozen operators currently operate. However, operators from the UK (Vodafone), Russia (MTS), Japan (Tata DOCOMO), Norway (Uninor), Malaysia (Maxis Aircel), the UAE (Etisalat DB) and Singapore (SingTel has a stake in Bharti) are already present in India. Qualcomm was among the 11 bidders in the auction of broadband wireless access (BWA) spectrum that began in May 2010. The company provisionally won in four circles (Delhi, Mumbai, Haryana and Kerala). In telecom manufacturing too, European companies such as Nokia, Ericsson, Alcatel Lucent and Nokia Siemens Networks have a head start over US-based companies in India.

The US Telecommunications Subcommittee, which oversees telecom regulations around the world, proposed a set of recommendations for the Indian telecom industry in November 2009:

- ▶ Raise the FDI limit from 74% currently to 100.
- ▶ Eliminate the three-year lock-in period for M&A in telecom.
- ▶ Allow 24-hour remote access to global operators.
- ▶ Adopt the open skies policy on satellite connectivity.
- ▶ Open up internet telephony.
- ▶ Allocate spectrum through auctions.

3.9 Insurance

According to the Life Insurance Council, the Indian life insurance industry is valued at US\$41 billion, the fifth-largest life insurance market, which is growing rapidly at 32%-34% annually.³⁸

However, with less than 50 insurers and around US\$50 billion of gross premium written, the industry is still at a nascent stage. In stark contrast, the US insurance market is the largest in the world. It has more than 1,000 insurers with the gross premium written exceeding US\$700 billion. The IRDA Act was passed in 1999 leading to the privatization of the industry in India. At the time, insurance density (measured as the ratio of premium to the total population) in India was one of the lowest at US\$11.5 per person as compared to the US (US\$3,266 per person), UK (US\$3,393 per person) and Germany (US\$1,484 per person). Since the privatization of the sector, the insurance density has gone up to US\$47 per person and the industry has grown rapidly with 26% and 15% being the CAGR between 2001 and 2009 for the life and non-life segments, respectively.

Partnering with the US

The Indian market holds high growth potential, and insurers and brokers in the US possess the experience as well as the capability to capitalize on this potential. Furthermore, the US insurance industry has provided a US\$1-billion opportunity to the Indian outsourcing industry. American International Assurance Co. Group (AIG), New York Life (NYL), MetLife, Prudential of America, Marsh & McLennan Cos. Inc. and Aon Corp are among the US-based insurers and brokers that have entered the Indian market.

A large number of US entrants are expected in the health insurance segment, one of the fastest-growing segments in the insurance sector. Recording a CAGR of approximately 48% in the last six years, the health insurance segment is currently valued at approximately US\$200 million. Unlike in the US and the other developed economies, out-of-pocket funding for health care in India is still extremely high.

³⁷ "Telecom Subscription Data as on 30th June 2010," *Telecom Regulatory Authority of India website*, www.trai.gov.in/WriteReadData/trai/upload/PressReleases/746/PressRelease23july.pdf, accessed 10 August 2010

³⁸ "Statistical industry data," *Life Insurance Council website*, www.lifeinscouncil.org/industry-information/statistical-industry-data, accessed 27 July 2010

3.10 Automotives

India is expected to become the world's seventh-largest automotive market by 2016 and the third largest by 2030. According to the Automotive Mission Plan 2006-2016, the industry is expected to represent more than 10% of India's GDP, with a total turnover of US\$145 billion, incremental investments of US\$35-40 billion and providing employment to an additional 25 million personnel by 2016. The Indian industry has grown by 25% in FY10, at a time when major developed markets have experienced a significant decline in growth.

Partnering with the US

General Motors initiated business in India in 1928 through the assembly of Chevrolet cars, trucks and buses. Since then, a number of US automotive companies present in India, including Ford, Jeep, Federal Mogul, Purolator, and others, have formed JVs with Indian players. Today, the footprint of US-based auto companies is quite significant and represents all aspects, right from R&D and engineering to manufacturing and sourcing vehicles, components and assemblies. North America is the largest market for Indian component exports, accounting for 20% of exports between April and September 2009.

The Indian automotives industry is also well-poised to evolve as a global small car R&D and manufacturing hub. This provides US firms with the opportunity to revisit at their India strategy and reconfigure their investment and entry plans accordingly. Further, some Indian companies are exploring the US market with a range of light, utility and electric vehicles and for component manufacturing to leverage their low-cost engineering and manufacturing capabilities.

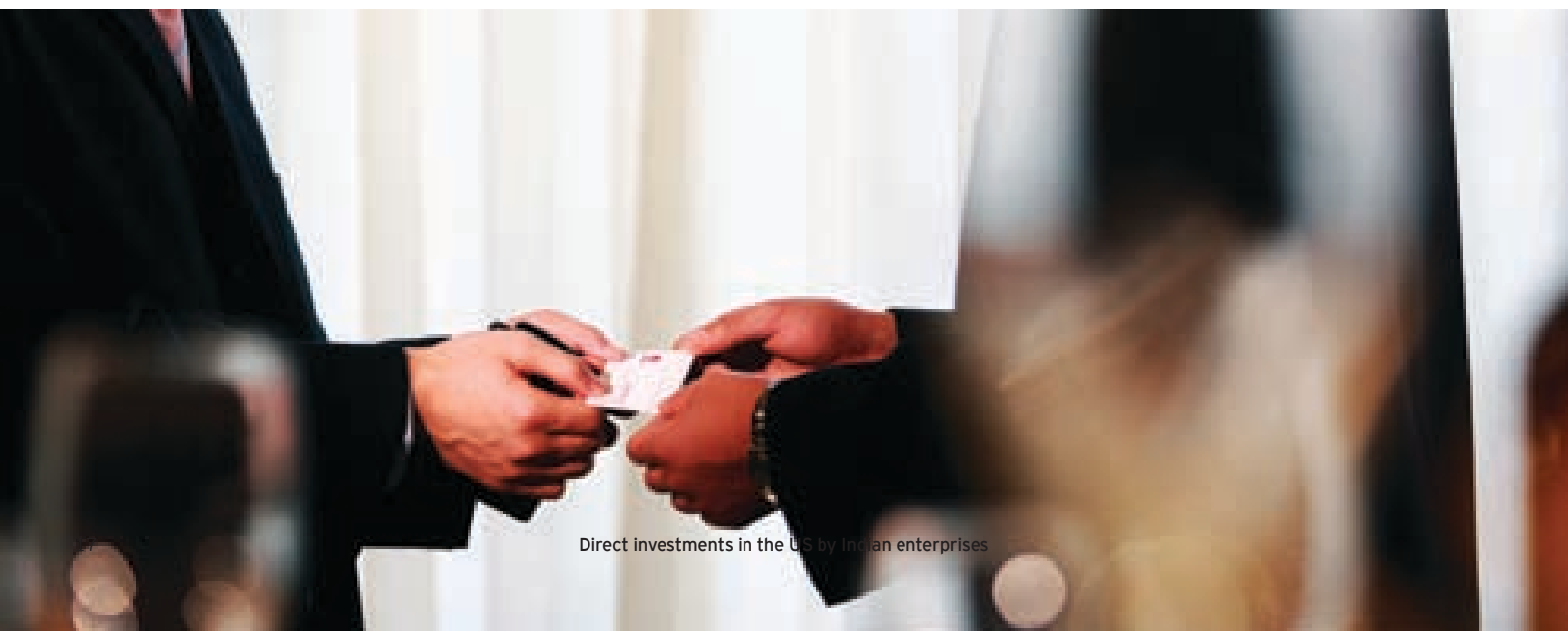
3.11 Defense

India ranks among the top 10 countries in the world in terms of military expenditure, and its cumulative defense budget has grown at from US\$20 billion in FY07 to US\$32 billion in FY11. India has been striving to form strategic partnerships with various countries to enhance its defense capabilities, and in this regard, the India-US defense relationship is of strategic importance.

Partnering with the US

The US is the world's largest producer and exporter of arms, accounting for around 30% of the global delivery of arms. The India-US defense relationship has been driven by India's focus on modernizing its armed forces, building its indigenous manufacturing capabilities and strategically modifying its policy to rely solely on Russia for defense equipment and platforms. India's strategic position began changing dramatically after the disintegration of the Soviet Union, and India-US defense relations grew steadily thereafter.

The 1995 agreement on defense relations was aimed at expanding defense cooperation between the US and India, and laid the foundation of the India-US defense alliance. This follow-up measure enabled the institutionalization of joint mechanisms such as the Executive Steering Group (ESG), the Joint Technical Group and the Defense Policy Group (DPG). This increased the frequency and scope of meetings between policy makers, joint military exercises, seminars and personal exchanges and discussions on military technology sales and cooperation.



With the common issue of terrorism plaguing both nations, the US-India Counterterrorism Joint Working Group (CTJWG) was established in January 2000 and the Cyber Security Forum was incorporated in 2001 to cooperate on counter- terrorism. Next Steps in Strategic Partnership (NSSP), announced in January 2004, focused on easing restrictions on the export of dual-use technology to India, increasing civil nuclear and space cooperation, and expanding dialogue on missile defense.

Both countries signed a 10-year India-US defense framework named New Framework of US-India Defence Relationship (NFDR) in June 2005, which is aimed at collaboration on areas of common interest of maintaining security and stability, fighting terrorism and religious extremism, and preventing the proliferation of weapons of mass destruction and related technologies, data and material.

Since 2008, US-India defense relations have strengthened through the signing of a civil nuclear cooperation agreement, which has provided an entire new dimension to the geo-political relationship between both countries. In July 2009, the signing of the End-Use Monitoring Agreement (EUMA) has cleared the way for the sale of US-made weapons to India, and subsequently, US-based companies such as Boeing and Lockheed Martin have begun participating in bids to supply defense equipment to India either directly or through the Foreign Military Sales (FMS) program.

The year 2009 cemented defense ties between both countries, with India signing a US\$2.1-billion contract with Boeing Co. to procure eight P-81 aircraft for its Navy and a US\$1-billion deal to buy six C-130J Hercules aircraft from Lockheed Martin. In addition, the contract for airborne early warning aircraft Hawkeye E-2D was awarded to Northrop Grumman. Currently, the Ministry of Defence is negotiating with the Government of the United States for the purchase of 10 of Boeing's C-17 Globemaster heavy-lift aircraft for US\$1.7 billion through the foreign military sales (FMS) route. Key upcoming Indian defense deals that have drawn US companies include 15 heavy-lift helicopters (Boeing and Sikorsky are prime contenders), 22 attack helicopters (Boeing, Bell and Sikorsky are contenders) and 3 Boeing business jets.

3.12 Renewable energy

Total installed capacity in the renewable energy sector in India stood at 17,174 MW at the end of June 2010 (excluding large hydropower projects). This is approximately 10% of the total installed power generation capacity in the country. Among renewable sources of energy, wind energy accounted for approximately 70% (with around 12,000 MW of installed capacity). The installed capacity in the renewables sector has grown at a CAGR of 26% between FY06 and FY10. According to India's National Action Plan on Climate Change, 5% of electricity generated in the country is expected to come from renewable energy sources by 2010. Thereafter, this is estimated to increase by 1% annually for the next 10 years.

While wind has dominated the renewable energy sector so far, solar energy holds tremendous potential. In order to realize this potential, the GoI has launched -the Jawaharlal Nehru National Solar Mission (JNNSM) program. The scheme is aimed at significantly boosting solar power-generation capacity in the country and the installation of 20 GW of solar-based power by 2022. The GoI also intends to promote the domestic manufacture of equipment and components required for solar power plants. It has announced various incentives in this regard.

Partnering with the US

The Indian renewable energy sector is witnessing significant activity and offers considerable scope for India and US collaboration. Cooperation could be in the areas of manufacturing, project development and technology development. Indian wind energy equipment manufacturer Suzlon is among the leading suppliers in the US market. India's Azure Power and US-based solar energy services provider SunEdison (a subsidiary of MEMC) plan to jointly develop a 15-MW solar photovoltaic (SPV)-based plant in Gujarat. In the first round of allotment under the JNNSM, US companies Enterprise Solar Solutions and AES Solar were each awarded a 5-MW PV project. First Solar, another large US player in this space, is also currently exploring business opportunities in India. US-based Astonfield is developing both solar and biomass projects.



Section 4

4.1 Views on US outbound deals, business operations and policies

This section outlines the experiences and opinions of business leaders, who conduct business in the US, on the future of outbound spectrum. Following are some highlights from our interviews with these leaders, in the order of their names.³⁹

Alok Agarwal, CFO, Reliance Industries Ltd.

Reliance Industries (RIL) is the flagship company of Reliance Group, India's largest private sector enterprise, with businesses in the energy and material value chain. The company operates in three business segments – petrochemicals, refining, and oil and gas.

RIL recently entered a US\$1.7 billion JV with US-based Atlas Energy by purchasing a 40% stake in its operations in the Marcellus Shale gas project, which spans parts of Pennsylvania, West Virginia and New York. This is expected to enable RIL to expand geographically and diversify into unconventional sources of energy in the North American market. RIL also acquired a 45% stake in Pioneer Natural Resources' Eagle Ford Shale of for US\$1.3 billion in June 2010.

View on doing business in the US: RIL did not face any challenges with forming a JV in the US. The process was relatively smooth, where both parties pooled their interests in working partnerships. The majority of external companies in the US prefer the collaborative approach. The JV model also offers the opportunity to learn various elements of doing business locally in the US.

View on the future scenario: The high-potential hydrocarbon space in the US is expected to attract foreign investments. For RIL, investing in North America is a high priority, and the group continues to evaluate opportunities in this space.

Gautam Doshi, Group Managing Director, Reliance ADA Group

The Reliance-Anil Dhirubhai Ambani (ADA) Group has interests across infrastructure, communications, entertainment, financial services, and the generation, transmission and distribution of power. For the last several years, ADA Group has a presence in the US across a number of business verticals, including telecom and entertainment. The group's greenfield establishments include Reliance Global Call (virtual calling cards), while its

acquisitions, JVs or subsidiaries in the US include Dream Works, Reliance Lowry Digital Imaging Services Inc., BIG Cinemas, Flag Telecom Network USA Ltd. and Yipes.

View on tax and regulatory aspects of doing business in the US: Top priority during the diligence process is regulatory aspects, including licensing requirements, the ability of a foreign enterprise to buy US business, and the ability to sell (any lock-in period). On the tax front, the US tax regime is robust and relatively rigid on the procedural front as compared to India. The process, including the provision of requested information, is managed formally, and timelines are accordingly different from the typical diligence process in India. Companies going abroad for acquisitions should consider local tax planning to reduce the effective tax rate.

View on the future scenario: To support outbound investments, India should consider introducing progressive provisions such as underlying tax credits, which could make the repatriation of profits to India a more attractive proposition.

KK Singh, Chairman and Managing Director, Rolta India Ltd.

Rolta India provides computer-aided designing (CAD), computer-aided manufacturing (CAM), geospatial information system (GIS) solutions, e-business and other related services. Rolta entered the US in 1985, with its branch offices connected with VSAT links. The company made further inroads in the region with the establishment of its 100% subsidiary, Rolta International, Inc. Since, the company has acquired four US companies –TUSC, WhittmanHart Consulting and Piocon Technologies, Inc. in 2008 and OneGIS in 2010.

View on overseas acquisition: For IT companies, the US is an attractive destination largely due to its large market size. Moreover, Rolta is expected to augment its pool of intellectual property to further strengthen its presence in the US market. Through its hybrid model of development, Rolta constantly adds value to its existing portfolio.

View on key learning: Companies venturing into the US should keenly look at both the big picture and the strategic fit of the prospective company (and not only aim to boost its top line). The focus should be to add value to the existing portfolio to optimize on client delivery. For an acquisition to be truly successful, the acquired company should be fully integrated

³⁹ These interviews were conducted in May and June of 2010.

with the existing business. Rolta has deployed its local US team to integrate the company's processes and systems, as the local team has a better understanding of region-specific sensitivities to counter hurdles. Promoters of acquired businesses have actively participated in the company's quarterly strategic business planning sessions held in India.

View on the current and future scenario: The downturn in the US offered M&A opportunities at a better valuation, but the negative market sentiment of the time inhibited prospective players from making investments. With the economic environment regaining its positive momentum, valuations are likely to improve, but opportunities for prospective players to enhance their value creation through inorganic route will always exist.

Siddharth Jain, Promoter and Director, Inox Group, and Parag Kulkarni, Director and CEO, Inox India Ltd.

Inox India Ltd. (Inox) is a global player with product offerings spanning the entire cryogenic value chain, including storage, transportation and distribution. The company is a largest manufacturer of cryogenic liquid storage and transport tanks in India, serving leading gas companies such as Air Liquide, Air Products, BOC, Linde, Messer, Nippon Sanso and Praxair, among others.

Inox ventured into the US through the acquisition of manufacturing facility Cryogenic Vessel Alternatives (CVA) in December 2009.

Views on the objective of overseas acquisition: The intention of the acquisition was to tap the US manufacturing market and expand the company's footprint in this space and geography. The US market is the largest in the world and almost 20 times that of India. It is growing at around 1% but, as the base is much larger, even 1% growth in absolute terms is substantial. The average order size in India is 1 or 2 tanks, whereas in US it is 10-15 tanks. In a nutshell, the volume of business that the US economy can offer is significant.

The company's market share is approximately 90%, but it cannot continue to grow at the same pace in future. Therefore, it must seek growth opportunities in other geographies such as the US and China.

Inox also deals in large tanks, the transportation costs of which are heavily prohibitive. As such, it has become increasingly important for companies in this business to be closer to their customers. Moreover, customers tend to prefer off-the-shelf products, and this makes proximity even more essential.

Views on challenges and strategies: Indian companies cannot simply buy a company in the US. The process involves treading on uncharted territory ridden with various stringent regulations. Consequently, deals can fizzle out. Different companies face different challenges and varied approaches to overcome their challenges. As strategy is unique to the deal and the entities involved, a long-term vision and a robust balance sheet are imperative.

Inox faced several challenges in locating a target. The company pursued an opportunity based in North Carolina, but another company placed a more competitive bid. In the case of CVA, the company held different levels of discussion to motivate sellers to join, as the target was not for sale.

Inox retained its US management, since the only motivating factor for the company was growth. Inox has achieved a turnover of US\$66 million in seven years since its inception. The company did not complete a 100% acquisition; it purchased 70% and left the balance with promoters, along with a three-year window.

View on the future scenario: From an entrepreneur's perspective, it can be said that competitors in the US are facing problems. They are finding it difficult to take the recession in their stride, largely because of challenges such as debt servicing and pension fund payments.

On the other hand, Indian companies possess the requisite capital, due to which Indian entrepreneurs are keen to step in and fill this gap.

Inox is convinced that the US will devise a solution to its woes. As the size of the US economy is the largest in the world, once recession is completely over, business is likely to improve.

The obvious benefit that Inox brings to the table is that while the US-based company is adept with products such as transportation equipment, Inox India's strength lies in stationary equipment and the like. Therefore, with both parties collaborating and restructuring, their association is poised for a successful future.

4.2 US tax legislation and its potential implications on cross-border investments

In a September 2010 report, the National Bureau of Economic Research reported that the recession ended in June 2009. As a result, the Congressional Budget Office (CBO) anticipates that the US economy will soon recover from the sharp recession, but at a modest rate of growth and high unemployment rates for several years.

With this in mind, the US leadership is now faced with conflicting ideals:

- ▶ Stimulating the economy for faster recovery
- ▶ Keeping budget deficits in check

Collectively, these ideals are expected to impact US budgetary decisions and shape the US tax debate in 2010 and beyond. Consequently, Indian investors in the US must remain up-to-date on changes to the US investment landscape as this political debate continues.

Chetan Vagholkar and Scott Sicinski, International Tax Services, Ernst & Young LLP, share their views.⁴⁰

I. US tax environment

New international tax laws

On 10 August 2010, President Obama signed into law the Education Jobs and Medicaid Assistance Act, P.L. 111-226, which provides funds to the states for teachers' salaries and Medicaid costs. To fund this bill, Congress enacted various international revenue offsets. Importantly, the effective dates following the various changes are prospective, generally after 31 December 2010.

The following are the key changes to the tax law:

Foreign tax credit amendments

Foreign tax credit amendments are extensive. Each provision is aimed at reducing opportunities to create excess foreign tax credits that may be used to offset US taxes on low-taxed foreign income. While some provisions such as the anti-splitter provision have been anticipated for a number of years, others, such as the limitation on foreign taxes paid as a result of foreign base differences, were introduced only this year.

- ▶ **Covered asset acquisitions:** Planning for acquisitions of a foreign group under Section 338 was a standard strategy to make an acquisition more affordable for the US acquiror. In addition to a Section 338 election, other strategies, including Section 754 and check-the-box elections, which have the same effect of creating permanent base differences, will not be able to generate excess foreign taxes that may be credited against US tax on other foreign income. Collectively, such transactions are referred to as covered asset acquisitions. Foreign taxes paid on the portion of the higher foreign taxable base will be disqualified as foreign tax credits on the basis of a ratio. However, a deduction will still be permitted for such disqualified foreign taxes.
- ▶ **Anti-splitter provision:** The anti-splitter provision codifies prior IRS-proposed regulations, which would reverse the decision in *Guardian Industries v. U.S.*, 477 F.3d 1368 (Fed. Cir. 2007), and essentially apply a matching rule for foreign taxes and income. Under the new Section 909 matching rule, income will have to be recognized in the US for the foreign taxes imposed on the income to be eligible for a US foreign tax credit. The provision is aimed at planning that uses hybrid instruments and entities. The Joint Committee Technical Explanation, JCX-46-10, (JCTE) does suggest limits on what should be treated as a foreign tax credit splitting event, noting that differences in timing – when income is taken into account for US and foreign law purposes – should not be treated as a splitter event.
- ▶ **Elimination of the hop-scotch provision in Section 956:** Another provision in the new law eliminates the hop-scotch provision in Section 956. Under the current law, when a controlled foreign corporation (CFC) provides a loan to a US shareholder, the loan is treated as a direct distribution of the CFC's earnings to its US shareholder, thereby "hop-scotching" any intervening CFCs. This hop-scotch prevents any dilution of high-tax foreign tax credits with low tax credit pools in intervening CFCs. The new provision will require a hypothetical distribution of the inclusion through any intervening CFCs, which will limit the foreign tax credit attributable to the Section 956 inclusion to the amount of

⁴⁰ The views expressed herein are those of the authors and do not necessarily reflect the views of Ernst & Young LLP or any other member firm of Ernst & Young Global Limited.

foreign tax credits that would have been available if the inclusion had been actually distributed upward through the chain of intervening CFCs. Needless to say, the calculations involved in this limitation will be complex, and record keeping will be of prime importance.

The amendment applies to a CFC's acquisition of US property (e.g., loans to US shareholders) after 31 December 2010. The JCTE explains that any Section 956 inclusions (even if triggered after 31 December 2010) from a CFC loan provided to its US parent before 1 January 2011 will not be subject to the "no hop-scotch" rule. However, in such a case, the "hop-scotch" rule will apply if there is any significant modification to the CFC loan, resulting in a deemed exchange for a modified loan that differs materially from the original loan.

- ▶ **The 80-20 provision: repealed with a grandfather provision for existing 80-20 companies:** The 80-20 provision for US-based companies that earn at least 80% of their income from foreign sources has been repealed, except in the case of existing 80-20 companies that qualify for continued treatment under the grandfather provision. Under this provision, the testing period for income qualification is the three-year period that ends with the close of the taxable year of the corporation preceding the payment of interest or dividends. However, unlike the current law, for purposes of the test, an existing 80-20 corporation must take into account on an aggregate basis of the income of its 50%-or-more-owned domestic and foreign subsidiaries. If an existing 80-20 company adds a substantial line of business after 10 August 2010, it will not meet the grandfather rule. Moreover, according to the JCTE, the acquisition of foreign operating assets or stock of a foreign corporation to meet the 80% active foreign income test will be treated as the addition of a substantial line of business.
- ▶ **Section 304 repatriation planning strategy for foreign multinational companies eliminated:** This legislation did not overlook foreign parent companies of multinational groups. There are now new rules that modify the treatment of Section 304 transactions in a structure, where a foreign parent owns a US corporation, which, in turn, owns a foreign subsidiary. Prior to this provision, under Section 304, the property (other than stock) received by a foreign parent from its foreign subsidiary was treated as a dividend from such a foreign subsidiary to the extent of its earnings and profits

(E&Ps). The result was a foreign-to-foreign dividend that was not subject to US withholding tax under Section 1,442. Under the new rules, however, the foreign subsidiary's E&Ps are not taken into account, and, as a result, such E&Ps may be subject to US tax (including withholding tax) if repatriated to its foreign parent, through the US corporation, as a dividend. It should be noted that in many cases involving such structures, the structure has arisen as a result of acquisitions, and Section 304 transactions are undertaken as part of rationalization of the overall corporate structure. The new rules are expected to adversely impact this kind of restructuring of foreign-parented groups.

On 27 September 2010, President Obama signed into law the Small Business Jobs Act, which includes various incentives for small businesses to expand and hire and creates a US\$30-billion loan fund. The following tax incentives are targeted toward small businesses:

1. **Expand the one-year carry-back for general business credits** to five years for sole proprietorships, partnerships, and non-publicly traded corporations with US\$50 million or less in gross receipts for the previous three years (sunset 12/31/2010).
2. **Provide a 100% exclusion on gain from the sale of small business stock** acquired after the date of enactment in 2010 and held for at least five years (sunset 12/31/2010).
3. **Increase the Section 179 expensing limitation** to US\$500,000 for 2010 and 2011, and extend bonus depreciation through 2010.

The Small Business Jobs Act also includes a new Treasury-supported lending facility for community banks that make certain small business loans. Another provision removes mobile phones from the definition of "listed property" in Section 280F of the Internal Revenue Code.

One of the revenue offsets to pay for the aforementioned incentives is to source guarantee payments similar to interest payments, i.e., the residence of the obligor, and not as services compensation, the source of which is determined by where the services are performed. This provision is expected to impact guarantees by foreign parent corporations and affiliates of US companies through withholding tax.

Potential law changes on the horizon

In addition to the law changes passed above, the President's FY11 proposed budget contain measures that could significantly change the way foreign investors in the US are taxed. Some of the most significant international tax proposals, which may be relevant to Indian investors in the US (should they be passed), include the following:

1. Tighten the "earnings-stripping" rules for certain expatriated entities: The Obama Administration has proposed the tightening of the interest deduction limitation for interest paid by an expatriated entity to related persons. Generally, an "expatriated entity" is a US corporation whose shareholders have inserted a non-US holding company between themselves and the US Corporation.

2. Gain recognition in certain cross-border transactions: If a shareholder exchanges stock in a target corporation for property other than stock ("boot"), the exchanging shareholder must recognize gain that is equal to the lesser of the gains realized, either in the exchange or in the amount of boot received ("boot-within-gain limitation"). Thus, the boot-within-gain limitation sometimes permits shareholders to repatriate earnings and profits with minimal US tax consequences, especially where there is little or no built-in gain in the stock of the target corporation. The Obama Administration has proposed a repeal of the boot-within-gain limitation for certain reorganizations.

In the inbound context, the amount of boot received in a reorganization that is potentially subject to 30% US dividend withholding tax (unless reduced by treaty) will no longer be gain limited.

3. Dividend withholding tax change: The imposition of US withholding tax on certain equity-related swaps, sale-repurchase transactions and securities lending transactions has been proposed. The proposal is in response to concerns that non-US persons were avoiding US withholding tax on dividends through the use of swaps and other derivatives. The proposal is likely to treat these dividend-equivalent payments as US-source dividend income.

4. Defer deductions: Currently, interest expense allocated to foreign source income can be deducted regardless of whether or not the foreign source income is currently subject to tax in the US. The Obama Administration has proposed to defer interest deductions in general for expenses associated with foreign investments until tax is paid on relevant foreign income in the US.

5. Tax-carried interest as ordinary income: Many private investment fund managers receive partnership interests representing a share of future profits from assets under management (i.e., carried interests). Under current law, the character of the income attributable to a carried interest is determined at the partnership level and flows through to carried interest holders. As a result, a significant portion of the income recognized by fund managers with respect to their carried interest is often treated as capital gain. For individuals, this can result in significant tax savings, as capital gains are currently taxed at lower rates than ordinary income. The President's FY11 Budget includes a proposal where carried interest income will be taxed as ordinary income.

Further, the President's FY11 budget includes some additional federal tax proposals, which are both favorable and non-favorable to business. These include the following:

Favorable:

- (i) Expand research credit in addition to making it permanent.
- (ii) Extend bonus depreciation for certain property.

Non-favorable:

- (i) Repeal the last-in, first-out method of accounting for inventories.
- (ii) Repeal the lower-of-cost-or-market method of accounting for inventory.
- (iii) Eliminate many oil and gas company preferences (e.g., repeal percentage depletion and the expensing of intangible drilling costs).

The PERAB tax reform options report

President Obama initiated his Administration with an interest in tax reform, and requested that the President's Economic Recovery Advisory Board (PERAB) consider and submit a report on tax reform options to simplify the tax system, improve taxpayer compliance, and reform the corporate tax system.

In order to meet one of President Obama's campaign promises, PERAB was not allowed to consider any proposal that raises taxes on individuals with an income of US\$250,000 or below.

On 27 August 2010, PERAB issued its much-awaited report. The report broke little new ground, but certain options may be considered in the President's FY12 budget proposals and by the President's National Commission on Fiscal Responsibility and Reform in its deficit-reduction recommendations.

The corporate tax options considered in the report include:

- ▶ Reductions in the statutory corporate tax rate
- ▶ Increases in accelerated depreciation or expensing
- ▶ Limitations on the deductibility of interest expense for businesses
- ▶ Expansion of the corporate income tax to cover large non-corporate businesses (or the integration of the corporate income tax to achieve a single level of tax for corporate entities)
- ▶ Base-broadening options considered by the 2007 Treasury report (including the elimination of the domestic manufacturing deduction included in Section 199, eliminating or reducing accelerated depreciation, and eliminating special rules for employee stock ownership plans and credit unions)
- ▶ International reforms, including a broad range of options, right from the adoption of a territorial tax system to the repeal of deferral (with or without a low corporate tax rate)

The corporate tax section of the report focuses on the inefficiency of the corporate income tax system, noting tax differentials that favor pass-through over corporate entities, debt over equity, and assets with more rapid cost recovery over other investments.

With respect to international tax issues, the report notes that the US is the only major developed country that uses a worldwide tax system, and that all developed countries, except for Japan, have a low statutory corporate tax rate. The report comments that international reforms must take into consideration "sometimes competing" policy goals of increasing the attractiveness of the US as a location for production; reducing the tax disadvantage of US corporations operating in lower-tax jurisdictions than those of their foreign competitors; reducing incentives for corporations to shift income and activities to avoid US corporate income tax; reducing administrative and compliance costs; and reducing tax avoidance.

II. Tax treaty update

Indian investors in the US should also stay informed about the US Treasury's negotiation of income tax treaties. The current treaty (the Indian Treaty) between the US and India was signed in 1989 and is significantly different from the 2006 US Model Treaty and other recently negotiated US treaties. Chief among the differences are higher withholding tax rates and an outdated Limitation on Benefits clause. There is no information with regard to the renewal of treaty negotiations between India and the US, which means that Indian investors in the US will suffer higher withholding tax rates than investors in many other countries.



Exhibit 14 compares key provisions of the Indian Treaty with the provisions of other income tax treaties that the US has recently negotiated.

Exhibit 14: Key provisions of the Indian Treaty

	Treatment of FTEs (12)	Dividend WHT (13)	Interest WHT	Royalty WHT	Updated LOB (14)	Triangular provision	Arbitration clause
Chile	x	5%/15% (2)	4%/10%/15% (5)	2%/10% (6)	x	x	
France	x	0%/10%/15% (1)(2)	0%	0%	x	x	x
Hungary	x	5%/15% (2)	0%/15% (7)	0%	x	x	
India		15%/25% (2)	10%/15% (11)	10% - 15%			
Italy		5%/15% (8)	10% (9)	0%/5%/8% (10)	x		x
Malta	x	5%/15% (2)	10%/15% (7)	10%	x	x	
New Zealand	x	0%/5%/15% (1)(2)	0%/10% (3)	5%	x	x	
2006 US Model Treaty	x	5%/15% (2)	0% (4)	0%	x		

1. A rate of 0% applies to payors 80% directly or indirectly owned by certain qualified residents.
 2. A relatively low rate applies to 10% shareholders.
 3. The 0% rate applies to certain types of interest payments.
 4. There are certain exceptions to the 0% rate.
 5. A rate of 4% is available in certain fact patterns. The 15% rate will drop to 10% five years after the withholding tax provisions take effect.
 6. The 2% rate applies to the use of industrial, commercial or scientific equipment. The 10% rate applies to payments made for copyrights, patents or other intangible property.
 7. The 15% rate applies to certain types of contingent interest.
 8. The 5% rate applies to more than 25% owners.
 9. The treaty exempts certain types of interest.
 10. The 0% rate applies to certain copyrighted material. The 5% rate applies to computer software and industrial, commercial or scientific equipment. The 8% rate applies to all other royalties.
 11. The low rate applies to interest paid to a bank.
 12. FTE is an abbreviation for fiscally transparent entity.
 13. WHT is an abbreviation for withholding tax.
 14. LOB is an abbreviation for the Limitation on Benefits provision.
- The tension between fiscal restraint and economic stimulus will continue to manifest itself through debates regarding future deficit reduction, tax reform, the President's proposed budget and future treaty negotiations. Thus, Indian investors in the US should remain attentive to the evolving investment landscape.





Section 5

5.1 Benefits to the US from Indian engagement

While Indian companies foresee many opportunities and benefits from investing in the US, FDI from India in the US also plays an important role in the US economy, and this is likely to progressively increase.

In December 2009, H.E. Jose W. Fernandez, Assistant Secretary of State for Economic, Energy and Business Affairs, said "The US has a significant stake, as both the world's largest source and recipient of FDI, in working with its economic partners to implement policies that facilitate global investment flows. Maintaining investment flows is critical to economic prosperity of US; statistics show that the rapid decline in international investment in the wake of the crisis contributed significantly to the depth of the economic slowdown. Correspondingly, sustaining and expanding international investment flows is the key to economic recovery. Many of us are now experiencing unacceptable levels of unemployment and foreign investment will be one of the most important drivers for the creation of new jobs."⁴¹

The key impact of investments in the US has been summarized below.⁴²

Jobs are created and wage levels are boosted: US affiliates of foreign companies provide employment to approximately 5.3 million US workers, which is approximately 4.6% of private industry employment. Between 2003 and 2009, foreign companies announced more than 4,500 new projects, which yielded more than US\$314 billion in investments and created approximately 632,500 new jobs. Further, foreign companies tend to pay higher wages than other US companies. Foreign-owned companies contribute around US\$364 billion to US payrolls annually, with each employee's average annual compensation totaling to more than US\$68,000. On an average, US-based subsidiaries of foreign firms pay 25% more than wages paid by US companies. In the last six years alone, 90 Indian companies have created 16,576 jobs in the US and saved more than 40,000 jobs.⁴³

Indian companies also bring in new research, technology and skills: Multinational companies investing in US also contribute to US economy in the form of new technology and skills. A study by economists William R. Kerr (Harvard Business School) and William F. Lincoln (University of Michigan) indicates that 10% growth in H-1B admissions correlates with 8% growth in Indian innovation.⁴⁴ Affiliates of foreign companies spent more than US\$34 billion on R&D in 2006 and US\$160 billion on plants and equipment.⁴⁵

Investments from India strengthen US manufacturing: Indian companies have set up manufacturing facilities in the US, which has benefited the manufacturing sector. Nearly 30% of all jobs created by US affiliates of foreign companies belong to this sector, and they contribute around 12% of all manufacturing sector jobs in the US.⁴⁶

Indian companies are helping their US counterparts in their restructuring efforts: Indian companies investing in the US also help US companies in their restructuring efforts and companies that have filed for bankruptcy, mostly under Chapter 11 of the United States Bankruptcy Code. They are successfully handling the restructuring process of sick units. For instance, the following deals over the last two financial years involve distress and bankruptcy on the part of sellers:

- ▶ S. Kumar's acquisition of Hartmarx
- ▶ Lupin's acquisition of US rights for Antara
- ▶ Cosmo's acquisition of ACCO's print finishing business
- ▶ Piramal Healthcare's acquisition of RxElite⁴⁷

Indian investments in the US contribute to the latter's capital growth and rising productivity: Multinational companies investing in the US contribute to the country's export revenues. US-based subsidiaries of foreign companies contribute approximately 19% of all US exports. Increased capital and resulting competition increases productivity, which also

⁴¹ "OECD-UNCTAD Global Forum on International Investment," *OECD website*, www.oecd.org/dataoecd, accessed 12 May 2010

⁴² "Invest in America," *Invest in America website*, www.investamerica.gov/home, accessed 12 May 2010

⁴³ "How America Benefits from Economic engagement with India," *India-US World Affairs Institute-FICCI report*, June 2010, p.14

⁴⁴ "H-1B visas by the numbers: 2010 and beyond," NFAP report, p.12

⁴⁵ "Invest in America," *Invest in America website*, www.investamerica.gov/home, accessed 12 May 2010

⁴⁶ "Benefits of FDI," *Invest in America website*, www.investamerica.gov accessed 25 August 2010

⁴⁷ "US-bound acquisitions by Indian companies," IMAcS Virtus Global Partners, January 2010, p.2

strengthens the competitive strength of the US in the global market. Foreign investments also increase tax revenues for the Government of the United States.

India is also a major market for US exports: US exports to India have grown faster than exports to all other countries. In 2009, India was the US' seventeenth-largest goods export market. Exports of manufacturing goods alone can be linked together to 96,000 manufacturing and non-manufacturing jobs in the US in 2009.⁴⁸

Immigrant entrepreneurs, professionals and students from India: Immigrants, other professionals and students from India who move to the US are also likely to benefit from the US engaging with India. Students pursuing higher studies not only contribute to the US economy in the form of their talent, but also by incurring tuition, living and other expenses. India has had the largest number of foreign students in the US among all countries of origin for eight consecutive years. In the 2008-09 academic year, 103,260 students from India were studying in the US (increased by 9.2% from 2007-08).⁴⁹

5.2 Outlook

Last year, the financial slowdown compelled companies to focus on adjustment and on deals that are convincing in terms of investment and pricing. However, with capital markets easing up, liquidity improving and the US economy showing signs of recovery, companies seem geared up to create opportunities in Indian deal-making ventures with the US.

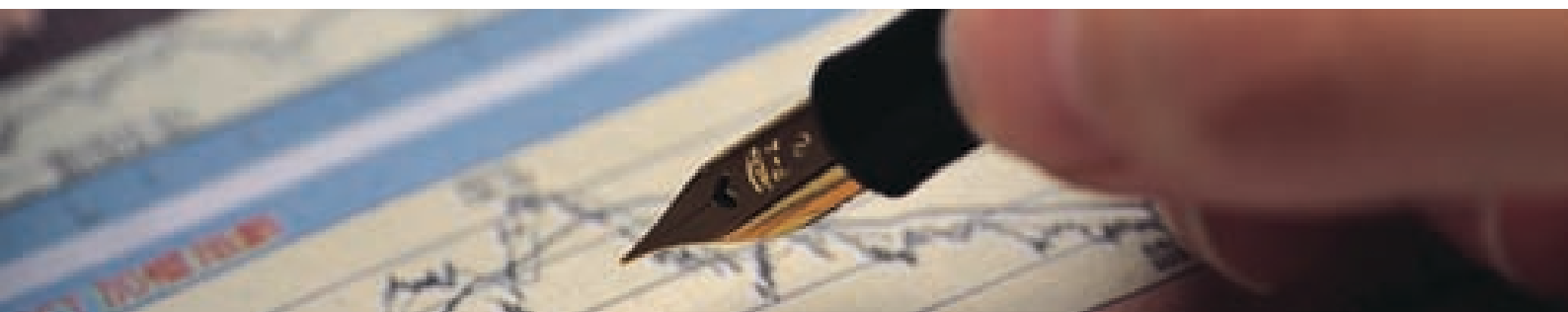
Many economists believe that with the economy well-positioned on the path to recovery, India is poised for M&A activity at the pre-recession level of mid-2008. Although small deals worth less than US\$50 million may dominate in the year to come, acquirers will find them easier to afford, and only those companies that have large balance sheets may go for big-ticket deals.

Power, steel, mining and oil and gas are some of the sectors that are likely to drive deal values in future, as they seek external avenues for the supply of quality raw material. This is largely because of the size of their operations and the large ticket sizes, of more US\$300 million, of deals.

On the other hand, pharmaceuticals and health care are likely to drive deal volumes, primarily because of forthcoming generic opportunities and the size of the US market. Furthermore, IT/ITeS and media and entertainment, which have been traditionally deal-centric sectors, are expected to contribute to deal volumes.

In future, the nature of collaboration is likely to evolve, with Indian companies seeking more alliances and transactions involving minority stakes and joint ventures rather than focusing only on majority stakes. Further, Indian companies are expected to be more experienced in dealing with overseas M&A markets and more innovative in their dealings with their western counterparts.

If we consider the US market, it holds significant growth potential for Indian multinational companies. In 2008, inward FDI flow in the US stood at approximately US\$316 billion,⁵⁰ and India's share was just a fraction of this amount. Thus, it can be said that the future of the long-term strategic relationship between India and the US is bright.



⁴⁸ "How America Benefits from Economic engagement with India," India-US World Affairs Institute-FICCI report, June 2010, p.11

⁴⁹ "Open Doors report 2009," Institute of International Education, November 2009, p.1

⁵⁰ "Country fact sheet," UNCTAD, October 2009, p.1

Annexure 1

Doing business in the US: a regulatory perspective⁵¹

With a growing number of Indian companies either initiating operations in the US or acquiring companies in the US, it becomes critical to strategically structure investments in the US to minimize tax costs and optimize exit options. Further, structuring a transaction efficiently in terms of tax is critical for determining the overall efficacy of a business decision.

Compared with India, the US has a very complex tax system, with many taxes applicable at the federal, state, county and municipal levels. These, when combined, will typically equate to a corporate tax burden that ranges between 38% and 40%. State, county and municipal tax liability is dependent on the locale in which the company operates and earns taxable income.

Structuring business activities in the US

There are numerous ways in which an Indian company can structure its business activities in the US. The preferred option for any given company will depend on its particular business model. It is important to select a structure that is compatible with the way the group anticipates conducting its business in the US.

Typical business models that companies use to establish operations in the US include setting up a branch office or a wholly owned subsidiary.

1. Branch office

A branch office is an appropriate option for a company that initiates operations in the US and does not require the incorporation of a separate legal entity. It is possible to establish a branch office in the US without triggering a federal corporate income tax presence for the Indian head office, as long as the activities that the US office conducts do not rise to the level of a permanent establishment (PE) as defined under the US-India Treaty. States and localities do not need a PE to levy tax. US business profits can only be subject to federal income tax if the foreign person's involvement in the US rises to the level of a PE. Generally, a PE does not include activity that is considered auxiliary and preparatory. Examples of such services include advertising and promotional activities, market research, the purchase of goods, and the storage of goods on behalf of the head office.

To the extent that the activities of the branch exceed the level of a PE, the earnings of the branch will be subject to US net tax at graduated rates. Generally, the branch is subject to a federal corporate tax rate of 35%. In addition, many US states levy income or capital-based taxes in the US. Further, the branches are subject to the branch profits tax. The branch profits tax, which simulates the tax treatment of a corporation that issues dividends (which are generally subject to a withholding tax), is 30% on deemed withdrawals from the branch. However, US tax treaties can reduce this branch remittance tax for example, 30% can be reduced to 15% in the case of a US branch of an Indian company, in accordance with the India-US Double Taxation Avoidance Agreement (DTAA).

A branch structure is suitable when it is anticipated that the branch will incur losses in the near future, or when the repatriation of profits on a current basis is envisaged. The US branch's trading losses can be set off against the Indian head office's trading profits. In a reverse situation, where the branch is profitable, the Indian company should get credit in respect of any corporate income tax paid in the US on the profits of the branch, which will also be subject to tax in India.

A branch may be most appropriate in the very early stages of an Indian corporation's business presence in the US, with the possibility of transitioning to a subsidiary structure if the activities conducted in the US escalate. A periodic review of the company's continued suitability as a vehicle for a company's US activities is crucial.

2. Subsidiary structure

A subsidiary structure is one in which an Indian company incorporates a wholly owned subsidiary in the US. The benefit of an independent subsidiary in the US is that the subsidiary has a separate legal identity, distinct from its Indian parent. This can be used to cap any risks that may be inherent in a branch option. The use of a US subsidiary can also prevent US profits from flowing to the Indian parent, where the former would be subject to Indian tax. The US subsidiary's profits would be liable to tax in the US at graduated rates. The maximum federal rate is 35%. In addition, many US states levy income or capital-based taxes.

⁵¹ Based on applicable US Federal and State tax laws

Further, foreign parents of US subsidiaries are also subject to a gross basis withholding tax on their fixed, determinable, annual or periodic (FDAP) income. FDAP income includes US source interest, dividends, rents and royalties. It typically does not include capital gains. Generally, tax on FDAP income is withheld at source on a gross basis at a 30% statutory rate, subject to reduction by the applicable double tax treaty. Provided the beneficiary of the payment is eligible for the benefits of the US-India Treaty, this tax can be reduced. The credit for US taxes withheld would be available against the Indian tax liability on the foreign sourced income of the Indian parent.

3. Establishment of a US corporation

Corporations in the US are established in accordance with the law of the state of incorporation. Although the corporate laws of most states are similar, those of certain states such as Delaware are considered more flexible than others. It is a common practice to incorporate in a state with liberal incorporation laws and then qualify the corporation in those states in which it will actually operate by applying for a certificate of authority to do business. A corporation generally comes into legal existence as soon as its certificate of incorporation is filed with the Secretary of State's Office of the state of incorporation. Generally, most states do not prescribe a maximum number of shareholders.

Alternatively, many states provide for the formation of an entity described as a "limited liability company" (LLC) in the US. Under the "check-the-box" (CTB) regulations in the US, taxpayers may elect either a corporate or non-corporate status for any domestic (such as an LLC) or foreign entity, provided the entity is not designated by regulations as being a per se corporation (i.e., the entity is specifically treated as "corporate" under US tax laws, with no option available to taxpayers to change the tax status). A US-based eligible entity with two or more members may elect to be classified as either a corporation or a partnership, while a US eligible entity with one member may elect to be classified as either a corporation or a disregarded entity, i.e., a branch.

Transactions that a disregarded entity enters are treated as those which the owner of the disregarded entity has entered. Transactions between a disregarded branch and its owner are generally disregarded for US federal income tax purposes.

As noted, CTB regulations provide a list of entities that are treated as per se corporations, for which a CTB election cannot be made. Entities that are not included on the per se list can generally make a CTB election. Indian public limited companies are per se corporations, and are thus not eligible for CTB elections. Indian private limited companies are not per se corporations and should, therefore, be eligible to make CTB elections. The CTB regulations allow an LLC with a single owner to obtain complete limited liability protection under the state law, and yet be treated for income tax purposes as a sole proprietorship (if the owner is not a corporation) or a branch or division (if the owner is a corporation).

4. Joint ventures (JV)

JVs are any combination of two or more enterprises associated for the purpose of accomplishing a single business objective. For legal and tax purposes, if two unrelated incorporated or unincorporated businesses agree to conduct business as a non-corporate JV, the venture is normally considered a partnership, limited in scope or duration. Corporate JVs consist of two entities that form a corporation to execute a specific business objective.

US domestic taxes: a snapshot

The US tax jurisdiction is divided among the Federal Government of the United States, the region's 50 states, the District of Columbia, and local counties and municipalities. In addition, there are multiple types of tax in the US, including franchise, license, stamp, estate, sales and use, employment and property, among others. Primary taxes in the US for a corporation can be categorized in the following manner:

1. US federal corporate income and capital gains tax

US corporate income tax is levied at graduated rates up to a maximum rate of 35% on net taxable income above US\$10,000,000. The Alternative Minimum Tax (AMT) regime also provides for a certain minimum payment of tax, regardless of the availability of exclusions, deductions and credits. Corporations do not enjoy a low rate of tax on capital gains.

These rates apply to both the worldwide income of US corporations and to that income of foreign corporations that is effectively connected with a trade or business (or attributable to a permanent establishment) in the US.

2. State and local income taxes

The comparison between tax rates levied by states is not entirely meaningful, because the definition of taxable income varies from state to state. Typically, state and local income tax rates range between 0% and 12%. Further, while there are often similarities, there are no uniform rules on the apportionment of income among various state jurisdictions.

A state has the right to impose income tax on a corporation operating in multiple states only if that corporation establishes sufficient presence (a nexus) in that particular state. Soliciting sales or services or the storage of inventory in a state will often create a taxable nexus. However, for state income tax purposes only, a federal statute provides that the solicitation of sales of tangible personal property, if it is the only in-state activity, will not cause a nexus to exist.

Finally, as a general rule, states are not party to tax treaties between the US and other nations. Therefore, a foreign corporation may be subject to state tax despite not being subject to the US federal tax pursuant to a double tax treaty. For example, assume a foreign corporation (FC), which is a resident in a treaty jurisdiction and meets the requirements of any applicable limitation on a benefits clause, stores inventory on a consignment in a state, accepts sales orders in its home country, and completes US sales from the stock of consigned goods. Pursuant to the treaty, the FC's US activities may not rise to the level of a permanent establishment and, therefore, the FC may not be subject to US federal income tax. However, depending on the state, there may be income or other state tax ramifications. State and local tax professionals should be consulted with regard to the state tax ramifications of any activity in a particular state.

3. Indirect tax

There is no federal sales tax or value-added tax in the US.

However, most states and many municipalities levy sales taxes. Combined rates, including local rates, can range as high as 11%. These sales taxes are almost always assessed on the final consumer purchase, with wholesale transactions remaining exempt from tax. As a general rule, all sales of tangible personal property occurring within the state's borders are subject to sales tax, unless specifically exempted by statute.

"Use" taxes are levied on the use, storage or consumption of tangible personal property within a state's borders, and they are effectively a complement to sales tax. All sales of services and intangible property, e.g., software, are not subject to sales tax, unless specifically provided by statute.

It is the seller's responsibility to collect and remit sales tax, with the cost being passed on to the consumer. However, if a state cannot force the seller to collect, i.e., if there is no nexus over the seller, it can force the purchaser to pay upon discovery during audit.

A few states – New Hampshire, Ohio, Washington, Michigan and Texas – levy VAT-type (or gross receipts type) taxes, and this trend may gather momentum in future.

Investment structure: the use of a holding company

Corporations may either opt to invest in the US directly or may evaluate the need to use intermediary jurisdictions for making step-down investments in the US.

Over the past few years, many Indian companies that have made acquisitions overseas have used step-down investments using holding companies based out of intermediary jurisdictions. Intermediary holding companies help plan the effective utilization of various streams of income (from step-down operating companies), either for future investments or for further expansion, from the holding company itself. The Netherlands, Belgium, Luxembourg, Singapore, Cyprus, the UAE and the UK, among others, are key holding company jurisdictions from India's perspective. However, the US does not have a double tax treaty with Singapore or the UAE. International tax professionals should be consulted with regard to the cross-border tax ramifications of using any particular holding company jurisdiction.

Any holding company structure adopted purely for minimizing taxes in the US may be challenged and, thus, the use of such structures needs careful consideration from a business planning perspective. The US has anti-avoidance provisions in many of its treaties as well as under domestic law, which can deny tax treaty benefits to companies that are set up solely or principally for treaty shopping and tax avoidance purposes. Further, states will likely challenge the viability of the structure.

Annexure 2

Exchange-control regulations in India

Overseas investments in wholly owned subsidiaries and JVs are increasingly being recognized as important growth avenues for Indian companies. In keeping with the spirit of liberalization, especially foreign exchange regulations, the RBI has been progressively relaxing its rules and simplifying its regulations for direct investments by Indian residents in overseas JV or wholly owned subsidiaries.

Existing RBI regulation permits automatic investment of up to 400% of the Indian company's net worth. For the purpose of considering the Indian company's net worth, the holding company's net worth (which holds a stake of at least 51% in the Indian company) or its subsidiary company (in which the Indian company holds a stake of at least 51%) may be taken into account to the extent not availed by the holding or subsidiary independently, and has furnished a letter of disclaimer in favor of the Indian company. The Indian company is prohibited from investing in a foreign entity engaged in real estate or banking without prior RBI approval. The 400% ceiling is not applicable where the investment is made out of balances held in the Exchange Earners' Foreign Currency (EEFC) account of the Indian company, or from funds raised through American depository receipts (ADRs) or global depository receipts (GDRs).

The above ceiling includes the contribution to the capital of the overseas JV or wholly owned subsidiary, the loan granted to the JV or wholly owned subsidiary, and 100% guarantees issued to, or on behalf of, the JV or wholly owned subsidiary. The Indian company is permitted to extend a loan only to a foreign affiliate in which it has equity participation.

Investment in an overseas JV or wholly owned subsidiary may be funded through one or more sources, including:

- ▶ Withdrawal of foreign exchange
- ▶ Capitalization of exports
- ▶ Swap of shares
- ▶ Utilization of proceeds of external commercial borrowings (ECBs) or foreign currency convertible bonds (FCCBs)

- ▶ In exchange of ADRs/GDRs issued in accordance with specified schemes
- ▶ Balances held in the Indian entity's EEFC account
- ▶ Utilization of proceeds of foreign currency funds raised through ADR/GDR issues and in exchange of ADRs/GDRs

In the case of either a partial or full acquisition of an existing foreign company, where the investment is more than US\$5 million, the Indian company is required to undertake the valuation of the foreign company's shares from a Category I merchant banker outside India registered with the SEBI or an investment banker or merchant banker outside India registered with the appropriate regulatory authority in the host country; and, in all other cases, by a chartered accountant or a certified public accountant. In the case of an investment by way of the share-swap valuation of shares, in addition to the valuation requirements mentioned above, the specific approval of the Foreign Investment Promotion Board (FIPB) is a prerequisite.

RBI regulations allow an Indian company to disinvest investment in the overseas JV or wholly owned subsidiary without the prior approval of the RBI where the JV or wholly owned subsidiary is listed in the overseas stock exchange; or where the Indian promoter company is a listed entity on an Indian stock exchange and has a net worth of not less than INR1,000 million; or where the investment of the Indian promoter in the overseas venture does not exceed US\$10 million, certain additional conditions need to be complied with for disinvestment without prior approval. These conditions include the JV or wholly owned subsidiary being in operation for at least one complete year.

An Indian party may pledge the shares of the JV or wholly owned subsidiary to an AD Category I bank or a public financial institution in India to avail of any credit facility for itself or for the JV or wholly owned subsidiary abroad. Indian parties may also transfer by way of pledge, the shares held in the overseas JV or wholly owned subsidiary, to an overseas lender, provided the lender is regulated and supervised as a bank, and that the total financial commitments of the Indian parties remain within the limit stipulated by the RBI for overseas investments.

Annexure 3

Details of US-based outbound deals for 1Q11

Sl. no.	Acquirer	Target	Sector	Acquisition price (US\$ million)	Date of deal announcement
1	Reliance Industries Ltd.	Atlas Energy, Inc. (Marcellus Shale) (40% stake)	Manufacturing	1,700.0	9-Apr-10
2	Reliance Industries Ltd.	Pioneer Natural Resources (Eagle Ford Shale) (45% stake)	Manufacturing	1,355.0	24-Jun-10
3	Glodyne Technoserve Ltd.	Decisionone Corp.	IT/ITeS	104.0	12-May-10
4	JSW Steel Ltd.	Undisclosed coking coal mine	Manufacturing	100.0	3-May-10
5	Avantha Group	Pyramid Healthcare Solutions	Business services	20.0	19-May-10
6	Mphasis BFL Ltd.	Fortify Infrastructure Services, Inc.	IT/ITeS	16.0	8-Apr-10
7	Piramal Healthcare Ltd.	Substantially all assets of an unknown firm	Pharmaceuticals	4.2	4-Jun-10
8	Integra Software Svcs Ltd.	Silver Editions, Inc.	Media and entertainment	4.0	27-Apr-10
9	Prithvi Info Solutions Ltd.	Percentix, Inc.	Consumer products	3.0	10-May-10
10	Sequoia Capital India and private investors	Axtria, Inc.	IT/ITeS	2.5	7-May-10
11	Coal India Ltd.	Jellico Coal Project	Metals and mining	0.8	9-Jun-10
12	Aditya Birla Group	Bureau of Collections Recovery	Business services	NA	2-Jun-10
13	Aegis Ltd.	Sallie Mae (customer service center in Texas)	Business services	NA	18-May-10
14	AudienceScience, Inc.	Consorte Media, Inc.	Media and entertainment	NA	5-May-10
15	Corpus Group	PQ Engineering, Inc.	Business services	NA	15-Apr-10
16	Crompton Greaves Ltd.	ADMS Wind SCADA	IT/ITeS	NA	21-Apr-10
17	Jhaver Group	Pacific Crest Technology	IT/ITeS	NA	19-Apr-10
18	Orchid Chemicals & Pharmaceuticals Ltd.	Karalex Pharma LLC	Pharmaceuticals	NA	10-Jun-10
19	Patni Computer Systems Ltd.	CHCS Services, Inc.	Business services	NA	27-Apr-10
20	Prism Informatics Ltd.	TLC Technologies, Inc. USA	IT/ITeS	NA	5-May-10
21	Reliance Big Ent. Pvt. Ltd.	IM Global LLC	Media and entertainment	NA	7-May-10
22	Rolta India Ltd.	OneGIS, Inc.	Business services	NA	12-Apr-10
23	Tessolve Services Pvt. Ltd.	Dynamic Test Solutions, Inc.	IT/ITeS	NA	12-Apr-10
24	Undisclosed bidder	Kaumagraph Flint Corporation	Manufacturing	NA	16-Apr-10
25	United Phosphorus Ltd.	Mancozeb fungicide business	Chemicals	NA	3-Jun-10

Details of US-based outbound deals for FY10

Sl. no.	Acquirer	Target	Sector	Acquisition price (US\$ million)	Date of deal announcement
1	Religare Enterprises Ltd.	Northgate Capital LLC	Financial services	200.0	22-Feb-10
2	Inox India Ltd.	Cryogenic Vessel Alternatives, LP	Manufacturing	140.0	28-Dec-09
3	S. Kumar's Nationwide Ltd. and Emerisque Brands UK Ltd.	Hartmarx Corp.	Retail	120.0	22-May-09
4	Infosys Technologies Ltd.	Mccamish Systems LLC	IT/ITeS	58.0	12-Nov-09
5	Genpact Ltd. (formerly GECIS)	Symphony Marketing Solutions, Inc.	IT/ITeS	43.0	3-Feb-10
6	Dorf Ketal Chemicals India Pvt. Ltd.	Specialty catalysts business of EI du Pont de Nemours & Co.	Chemicals	40.0	29-Jan-10
7	Lupin Ltd.	US rights for Antara® fenofibrate capsules	Pharmaceuticals	38.6	29-Sep-09
8	KPIT Cummins Infosystems Ltd.	Sparta Consulting, Inc USA	IT/ITeS	38.0	30-Oct-09
9	Softpro Systems Ltd.	Cura Risk Management Software Ltd.	IT/ITeS	19.0	15-Jun-09
10	3i Infotech Ltd.	JP Morgan Treasury Services, National Retail Lockbox	Financial services	14.0	27-Apr-09
11	Advanta India Ltd.	Crosbyton Seed Co.	Biotechnology	13.0	4-Feb-10
12	Kaashyap Technologies Ltd.	Logistics Solutions, Inc. USA	IT/ITeS	10.0	2-Apr-09
13	Educomp Solutions Ltd.	Certain Assets of Houghton Mifflin Harcourt Publishing Company	Education	6.0	29-Oct-09
14	Prithvi Information Solution	Protech Consulting LLC	IT/ITeS	3.1	19-Jun-09
15	Mcleod Russel India Ltd.	Olyana Holdings LLC	Consumer products	2.8	25-Aug-09
16	Sanraa Media Ltd.	WSG Pictures	Media and entertainment	2.0	2-Sep-09
17	Comp-U-Learn Tech India Ltd.	Boden Services, Inc.	IT/ITeS	1.5	14-Oct-09
18	Educomp Solutions Ltd.	StudyPlaces, Inc.	Education	1.3	27-Jan-10
19	Logix Microsystems Ltd.	Performance Drive SVC	IT/ITeS	1.1	14-Oct-09
20	Helios & Matheson InfoTech Ltd.	Helios & Matheson North America, Inc.	IT/ITeS	1.0	20-Nov-09
21	Rediff.com India Ltd.	Examville.com, LLC	Education	NA	29-May-09
22	GSS America Infotech Ltd.	Unnamed target	IT/ITeS	NA	22-Jun-09
23	Ajel Technologies Ltd.	GSS America, Inc. (Professional Services business unit)	IT/ITeS	NA	22-Jun-09
24	Lupin Ltd.	AllerNaze	Pharmaceuticals	NA	25-Jun-09
25	Galaxy Surfactants Ltd.	Tri-K Industries, Inc.	Chemicals	NA	1-Jul-09
26	HCL Technologies Ltd.	Undisclosed data center	IT/ITeS	NA	4-Aug-09
27	Gitanjali Gems Ltd.	Diamlink, Inc.	Retail	NA	13-Jul-09
28	Spectacle Industries Ltd.	American Solutions, Inc.	IT/ITeS	NA	29-Mar-10
29	Spectacle Industries Ltd.	United Consultancy Services	IT/ITeS	NA	29-Mar-10
30	Prodapt Solutions Private Ltd.	Pacific Crest Technology, Inc.	IT/ITeS	NA	7-Aug-09

Sl. no.	Acquirer	Target	Sector	Acquisition price (US\$ million)	Date of deal announcement
31	Take Solutions Ltd.	Entcomm, Inc.	IT/ITeS	NA	10-Aug-09
32	Take Solutions Ltd.	PSI Software, Inc.	IT/ITeS	NA	12-Aug-09
33	International Coal Ventures	Undisclosed coking coal mining target	Metals and mining	NA	17-Aug-09
34	Persistent Systems Ltd.	Paxonix, Inc.	IT/ITeS	NA	21-Oct-09
35	Sasken Communication Technologies Ltd.	Ingenient Technologies, Inc. (certain assets)	IT/ITeS	NA	27-Oct-09
36	Intelenet Global Svcs. Pvt. Ltd.	Undisclosed health care records	Education	NA	22-Nov-09
37	Aurionpro Solutions Ltd.	Silicon Tech Corp.	IT/ITeS	NA	24-Nov-09
38	Mascon Global Ltd.	C-SAM, Inc.	IT/ITeS	NA	5-Dec-09
39	Infotech Enterprises Ltd.	Daxcon Engineering, Inc.	Business services	NA	18-Jan-10
40	Comp U Learn Tech India Ltd.	Astus Technologies, Inc.	IT/ITeS	NA	19-Feb-10
41	Milk Specialties Ltd.	Protient, Inc. (dairy processing facility of PGP International Corp.)	Consumer products	NA	30-Mar-10

Details of US-based outbound deals for FY09

Sl. no.	Acquirer	Target	Sector	Acquisition price (US\$ million)	Date of deal announcement
1	Reliance Anil Dhirubhai Ambani	Dreamworks SKG	Media and entertainment	325.0	19-Sep-08
2	Highwoods: DLF Forum Llc (JV Between Highwoods And DLF)	The Forum:an office park in Raleigh, US	Real estate, hospitality and construction	113.0	3-Apr-08
3	3I Infotech Ltd.	Regulus Group LLC	IT/ITeS	80.0	29-Apr-08
4	Manipal Education Group	American University of Antigua	Education	80.0	5-Dec-08
5	Everest Kanto Cylinder Ltd.	CP Industries, Inc.	Manufacturing	66.3	21-Apr-08
6	Satyam Computer Services Ltd.	Caterpillar Market Research & Customer Analytics Operations	IT/ITeS	60.0	21-Apr-08
7	Quattro BPO Solutions (P) Ltd.	RSM McGladrey Financial Process Outsourcing	IT/ITeS	45.0	10-Apr-08
8	Piramal Healthcare Ltd.	Minrad International, Inc.	Pharmaceuticals	44.8	23-Dec-08
9	Rolta India Ltd.	WhittmanHart Consulting	IT/ITeS	40.0	29-Jul-08
10	Mascon Global Ltd.	Ebusinessware, Inc.	IT/ITeS	35.0	15-May-08
11	Acme Group	eSolar, Inc.	Real estate, hospitality and construction	30.0	4-Mar-09
12	ITC Ltd.	Pyxis Solutions LLC	IT/ITeS	25.0	19-Aug-08
13	Educomp Solutions Ltd.	Learning.com	IT/ITeS	24.5	20-May-08
14	Allied Digital Services Ltd.	Enpointe Global Services LLC	IT/ITeS	24.0	9-Jul-08
15	HCL Technologies Ltd.	Control Point Solutions Inc.	IT/ITeS	21.0	25-Aug-08
16	Core Projects & Tech Ltd.	Princeton Review, Inc.:K-12	Education	20.0	28-Dec-08

Sl. no.	Acquirer	Target	Sector	Acquisition price (US\$ million)	Date of deal announcement
17	Maneesh Pharmaceuticals Pvt. Ltd.	Synovics Pharmaceuticals, Inc.	Pharmaceuticals	18.5	18-Jun-08
18	Cosmo Films Ltd.	Commercial print finishing business	Manufacturing	17.1	29-Jan-09
19	Crompton Greaves Ltd.	MSE Power Systems, Inc.	Manufacturing	16.0	15-Sep-08
20	Quality Assurance Institute (QAI) India	QAI Worldwide	IT/ITeS	15.0	11-Sep-08
21	California Software Co Ltd.	Undisclosed software development company	IT/ITeS	14.0	25-Apr-08
22	Panacea Biotec Ltd.	Pharmathene, Inc.	Pharmaceuticals	13.1	30-Sep-08
23	Cadila Pharmaceuticals Ltd.	Novavax, Inc.	Biotechnology	11.0	31-Mar-09
24	Essel Propack Ltd.	Medical Engineering & Design, Inc.	Manufacturing	10.0	8-Sep-08
25	Infotech Enterprises Ltd.	Time To Market, Inc.	IT/ITeS	9.0	8-Sep-08
26	EID Parry(India) Ltd.	Valensa International LLC	Consumer products	9.0	21-Nov-08
27	Zylog Systems Ltd.	Fairfax Consulting, Inc.	IT/ITeS	8.0	3-Nov-08
28	Reliance Anil Dhirubhai Ambani	Digital Images Unit	Telecommunications	7.5	8-Apr-08
29	Wipro Technologies	Gallagher Financial Systems, Inc.	Financial services	6.0	2-Jul-08
30	Info-Drive Software Ltd.	Technoprism LLC	IT/ITeS	5.1	25-Aug-08
31	Piramal Healthcare Ltd.	RxEIte Holdings, Inc.	Pharmaceuticals	4.2	28-Jan-09
32	Accentia Technologies Ltd.	Oak Technologies, Inc.	IT/ITeS	4.0	1-Apr-08
33	Kaashyap Technologies Ltd.	Nexage Technologies United States, Inc.	IT/ITeS	3.0	17-Jul-08
34	Tricom India Ltd.	Pacific Data Centers, Inc.	IT/ITeS	2.3	3-Jul-08
35	VMF Soft Tech Ltd.	Iglily Inc.	IT/ITeS	2.0	30-Mar-09
36	Kaashyap Technologies Ltd.	Enterprise Consulting Services Inc.	IT/ITeS	1.0	17-Jul-08
37	ICRA Techno Analytics Ltd.	Sapphire International Inc.	IT/ITeS	1.0	20-Mar-09
38	Mold-Tek Technologies Ltd.	RMM Global LLC	Business services	0.7	21-Aug-08
39	Advanta India Ltd.	Sunflower seed business of US-based Limagrain	Biotechnology	NA	20-Jun-08
40	UTV Software Communications	Mobile content firm in the US	Media and entertainment	NA	29-Jul-08

Sl. no.	Acquirer	Target	Sector	Acquisition price (US\$ million)	Date of deal announcement
41	UTV Software Communications	True Games Interactive	Media and entertainment	NA	18-Aug-08
42	Reliance Big Entertainment Ltd.	Willow TV, Inc.	Media and entertainment	NA	8-Sep-08
43	Rolta India Ltd.	Piocon Technologies, Inc.	IT/ITeS	NA	29-Dec-08
44	o3 Capital Advisors Pvt. Ltd.	Wolet Capital LLC	Financial services	NA	26-May-08
45	Dr. Reddy's Laboratories	BASF's pharmaceutical contract manufacturing business	Pharmaceuticals	NA	29-Apr-08
46	Essel Propack Ltd.	Massage Envy LLC	Real estate, hospitality and construction	NA	13-May-08
47	MosChip Semiconductor	TruVNS™ Technology License	Manufacturing	NA	14-May-08
48	MosChip Semiconductor	IntellaSys, Inc.: Audio-video unit	Manufacturing	NA	18-Jun-08
49	Intas Biopharmaceuticals Ltd.	Biologics Process Development, Inc.	Biotechnology	NA	20-Jun-08
50	Valuable Technologies Group	Moviebeam, Inc.	Media and entertainment	NA	15-Jul-08
51	Bilcare Along With US-based Meadwestvaco Corp.	International Labs, Inc.	Business services	NA	21-Jul-08
52	iDream Holdings Pvt. Ltd.	Strix Systems, Inc.	Telecommunications	NA	30-Jul-08
53	Ontrack Systems Ltd.	IQ Technologies, LLC	IT/ITeS	NA	30-Jul-08
54	Investor Group Inc.	Wythe Will Distributing LLC	Retail	NA	26-Aug-08
55	Shriram EPC Ltd.	Blackstone Group Technologies Pvt. Ltd.	Business services	NA	1-Sep-08
56	Ranklin Solutions Ltd.	Cigniti, Inc.	IT/ITeS	NA	15-Sep-08
57	Dynamix Jewelry Group	JewelAmerica Inc.	Retail	NA	19-Sep-08
58	Polaris Software Lab Ltd.	Seec, Inc.	IT/ITeS	NA	30-Sep-08
59	Neilsoft Ltd.	CADFORCE, Inc.	Business services	NA	22-Oct-08
60	Sun Pharmaceutical Indus	Chattem Chemicals, Inc.	Pharmaceuticals	NA	26-Nov-08
61	Cadila Healthcare Ltd.	Zydus Pharmaceuticals, Inc.	Pharmaceuticals	NA	17-Dec-08
62	WNS Holdings Ltd.: ADR	XiBuy	IT/ITeS	NA	8-Jan-09
63	Quality Engineering and Software Technologies	ASE Technologies	IT/ITeS	NA	12-Jan-09
64	Easun Reyrolle Ltd.	Switchcraft Group LLC	Manufacturing	NA	3-Dec-09



More ways to stay connected to Ernst & Young

Services for you...

Assurance, Tax, Transactions, Advisory

We provide services to help you retain confidence of investors, manage your risk, strengthen your control and achieve your potential.

Read more on www.ey.com/Services

Center of excellence for key sectors

We have specialized teams that bring sector knowledge to you.

Read more on www.ey.com/industries

Sector knowledge

Subscribe to our...

Publications – easy to use subscription form

www.ey.com/subscription-form

Webcasts and podcasts

<http://webcast.ey.com/thoughtcenter/>

The choice is yours!

Go to www.ey.com/india

Have questions about a specific EY service?

Whatever your inquiry, we'll help direct you to the right place.

www.ey.com

FICCI offices

FICCI Head Office

Federation House
Tansen Marg
New Delhi 110001
Tel.: +91-11-2373 8760 -70
Fax: +91-11-2372 1504, 2332 0714

Contact:

Ms Ambika Sharma
Deputy Secretary General and Head -
International
E-mail : ambika@ficci.com

FICCI Offices in India

FICCI Andhra Pradesh State Council

8-2-699/1, # 301, 3rd Floor
K R Towers, Road No. 12
Banjara Hills
Hyderabad 500 034
Tel: +91-40- 2339 5275-76
Fax: +91-40- 2339 5275-76

FICCI Chhattisgarh State Council

JSPL Campus
Mandir Hasaud, Chhattisgarh
Raipur - 492 001
Tel: +91-771-2471400 (D), 2471205-07
Fax: +91-771-2471214/2471404

FICCI Eastern Regional Council

4, Camac Street
2nd Floor, Wing 'B'
Kolkata 700 016
Tel: +91- 33 -32940580, 40035347
Fax: +91- 33 -40035348

FICCI Gujarat State Council

A-311, Safal Pegasus, 100 ft Road,
Prahlanagar, Ahmedabad - 380 015
Tel: +91-79-26937581, 26937582
Fax: +91-79-26937583

FICCI Karnataka State Council

VITC Building, 1st Floor
Kasturba Road
Bangalore - 560 001
Telefax: +91 -80 -2286 1949

FICCI Rajasthan State Council

202 Rajputana Tower
A-27-B, Shanti Path, Tilak Nagar
Jaipur - 302 004
Tel: +91 - 141- 5116464
Fax: +91 -141- 5116 464

FICCI Tamil Nadu State Council

2A, Bajaj Manor
14A, College Road
Chennai 600 006
Tel: +91- 44- 4232 6331, 4232 6332
Fax: +91-44-4232 6263

FICCI Western Regional Council

Krishnamai Cooperative Housing Society Ltd
Ground Floor, Plot No. 33-B
Pochkhanwala Road, Worli
Mumbai - 400 025
Tel: +91 - 22-2496 6633-39, 2496 8000
Fax: +91 - 22-2496 6631-32

FICCI Offices- International

FICCI-USA

1050 17th Street, NW Suite 600
Washington, DC 20036
USA
Tel: +1-202-776 7181
Fax: +1-202-331 8703
Email: ficciusa@ficci.com

Other FICCI offices around the world

Italy, France, China, Malaysia, Singapore,
Thailand, Kazakhstan, UK

Ernst & Young offices

Ahmedabad

2nd floor, Shivalik Ishaan
Near CN Vidhyalaya
Ambawadi
Ahmedabad - 380 015
Tel: + 91 79 6608 3800
Fax: + 91 79 6608 3900

Bengaluru

"UB City", Canberra Block
12th & 13th floor
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 4027 5000
+ 91 80 6727 5000
Fax: + 91 80 2210 6000 (12th floor)
Fax: + 91 80 2224 0695 (13th floor)

Chennai

TPL House, 2nd floor
No. 3 Cenotaph Road
Teynampet
Chennai - 600 018
Tel: + 91 44 6632 8400
Fax: + 91 44 2431 1450

Gurgaon

Golf View Corporate Tower B
Near DLF Golf Course
Sector 42
Gurgaon - 122002
Tel: + 91 124 464 4000
Fax: + 91 124 464 4050

Hyderabad

205, 2nd floor
Ashoka Bhoopal Chambers
Sardar Patel Road
Secunderabad - 500 003
Tel: + 91 40 6627 4000
Fax: + 91 40 2789 8851

Oval Office, 18, iLabs Centre

Hitech City, Madhapur
Hyderabad - 500081
Tel: + 91 40 6736 2000
Fax: + 91 40 6736 2200

Kolkata

22 Camac Street
Block 'C', 3rd floor
Kolkata - 700 016
Tel: + 91 33 6615 3400
Fax: + 91 33 2281 7750

Mumbai

6th floor & 18th floor, Express Towers
Nariman Point
Mumbai - 400 021
Tel: + 91 22 6657 9200 (6th floor)
Fax: + 91 22 2287 6401
Tel: + 91 22 6665 5000 (18th floor)
Fax: + 91 22 2282 6000

Jalan Mill Compound
95 Ganpatrao Kadam Marg
Lower Parel Mumbai - 400 013
Tel: + 91 22 4035 6300
Fax: + 91 22 4035 6400

Block B-2, 5th Floor
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063, India
Tel: + 91 22 6749 8000
Fax: + 91 22 6749 8200

New Delhi

6th floor, HT House
18-20 Kasturba Gandhi Marg
New Delhi - 110 001
Tel: + 91 11 4363 3000
Fax: + 91 11 4363 3200

Noida

4th & 5th Floor, Plot No 2B, Tower 2,
Sector 126, Noida 201 304
Gautam Budh Nagar, U.P. India
Tel: + 91 120 671 7000
Fax: + 91 120 671 7171

Pune

C-401, 4th floor
Panchshil Tech Park
Yerwada (Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 6603 6000
Fax: + 91 20 6601 5900

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Ernst & Young Pvt. Ltd. is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com.

Ernst & Young Pvt. Ltd. is a company registered under the Companies Act, 1956 having its registered office at 22 Camac Street, 3rd Floor, Block C, Kolkata - 700016

© 2010 Ernst & Young Pvt. Ltd.
All Rights Reserved.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.



In line with Ernst & Young's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

www.ey.com/india

EYIN1009-103 Indian investments in the United States.indd (India).
Artwork by Jaspal Singh

About FICCI

Established in 1927, FICCI is the largest and oldest apex business organization in India. Its history is closely interwoven with India's struggle for independence and its subsequent emergence as one of the most rapidly growing economies globally. FICCI plays a leading role in policy debates that are at the forefront of social, economic and political change. Through its 400 professionals, FICCI is active in 52 sectors of the economy. FICCI's stand on policy issues is sought out by think tanks, governments and academia. Its publications are widely read for their in-depth research and policy prescriptions. FICCI has joint business councils with more than 80 countries around the world.

A non-government, not-for-profit organization, FICCI is the voice of India's business and industry. FICCI has direct membership from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 83,000 companies from regional chambers of commerce.

FICCI works closely with the government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialized services and global linkages. It also provides a platform for sector specific consensus building and networking. Partnerships with countries across the world carry forward our initiatives in inclusive development, which encompass health, education, livelihood, governance, skill development, etc. FICCI serves as the first port of call for Indian industry and the international business community.