



MERGER VALUATIONS – PRACTICAL ASPECTS

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National Conference on Valuation Standards
Valuation Standards Board, ICAI
Pune Branch of WIRC of ICAI

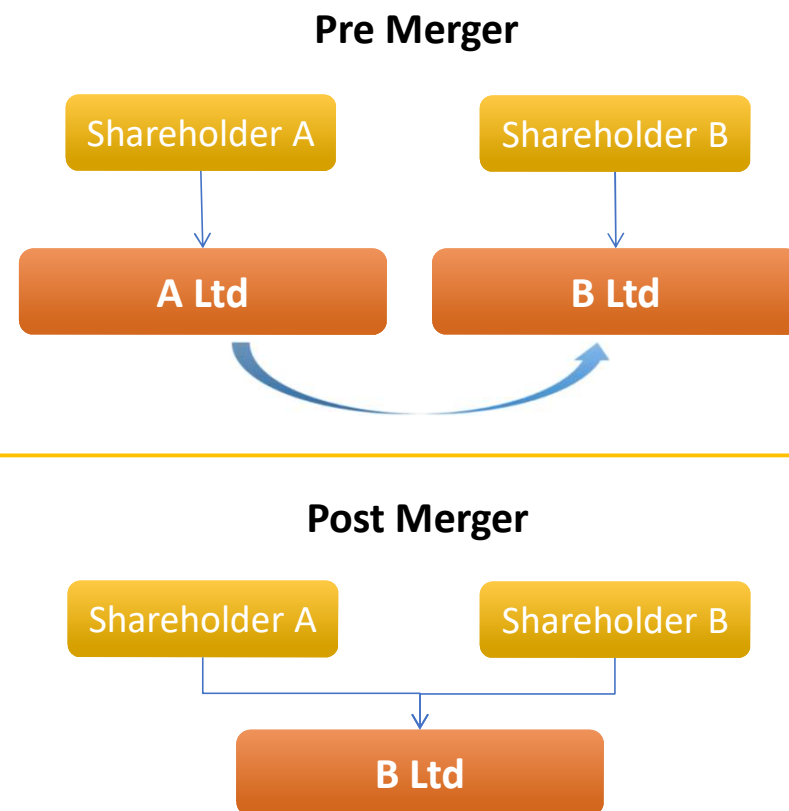


MERGER & DEMERGER



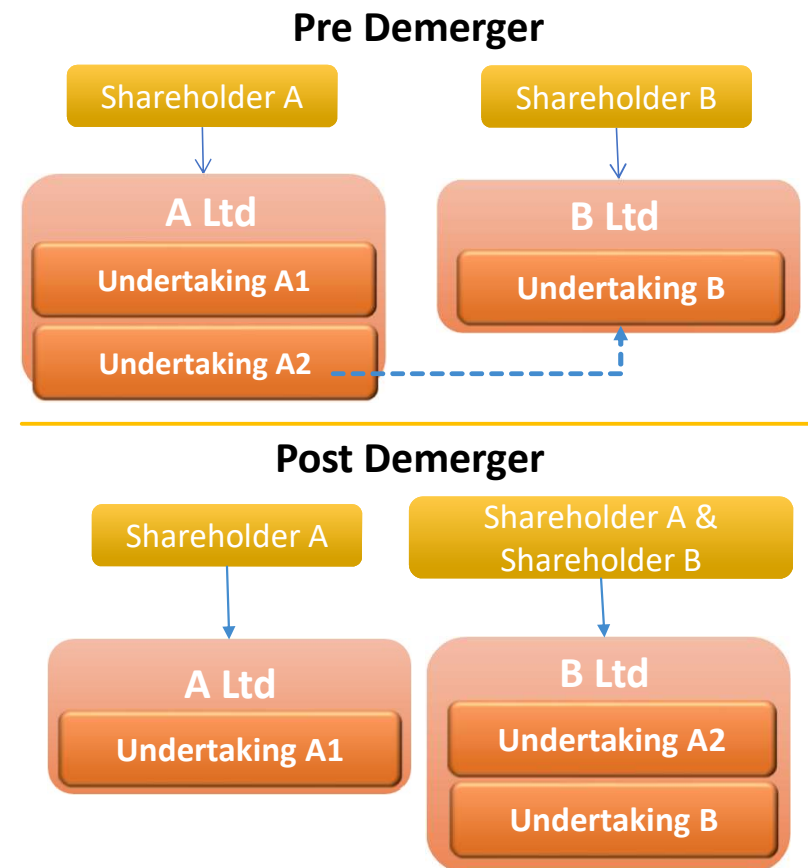
MERGER / AMALGAMATION - CONCEPT

- Merger means combination of two or more companies ('Transferor Co') into one company ('Transferee Co')
- Terms 'merger' and 'amalgamation' are used interchangeably
- Transferor Co loses its separate identity
- All assets and liabilities of Transferor Co are transferred to the Transferee Co
- Transferee Co issues its shares to the Shareholders of Transferor Co
- Purpose of valuation is to recommend 'fair share exchange ratio'
- Eg. – PVR and Inox Leisure

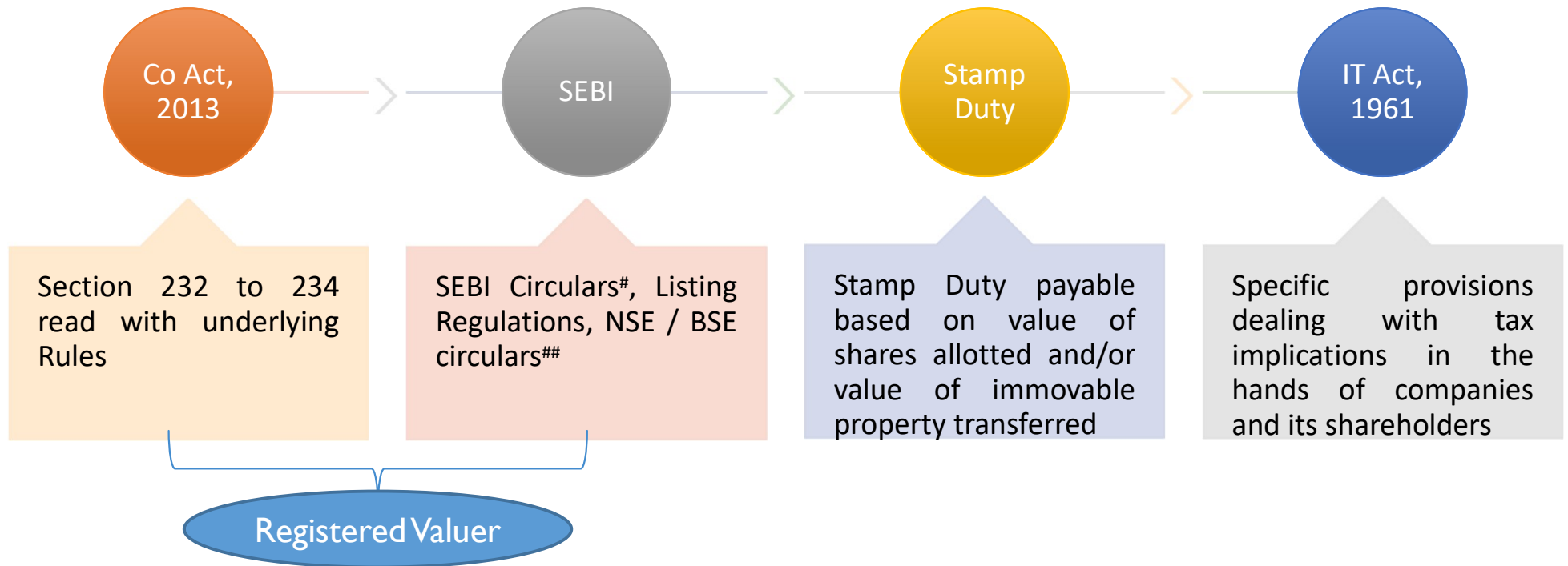


DEMERGER - CONCEPT

- Demerger contemplates hiving off an undertaking ('Demerged Undertaking') of a company ('Demerged / Transferor Co') into a new/existing company ('Resulting / Transferee Co')
- Transferor Co continues to exist
- All assets and liabilities of the demerged undertaking are transferred to the Resulting Co
- Resulting Co issues its shares to the Shareholders of Demerged Co
- Purpose of valuation is to recommend a 'fair share entitlement ratio'
- Eg. – Demerger of Lifestyle Business of Raymond Limited into Raymond Consumer Care Limited



MERGER / DEMERGER – KEY REGULATIONS



SEBI Master Circular - SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated 20 June 2023 ('SEBI Master Circular June 2023')

##NSE Master Circular No. NSE/CML/2023/50 dated 30 June 2023 ('NSE Master Circular June 2023') and BSE Circular No. LIST/COMP/02/201718 dated 29 May 2017



VALUATION APPROACHES AND METHODS



VALUATION APPROACHES AND METHODS

INCOME APPROACH

Discounted Cash Flow Method

MARKET APPROACH

Market Price Method

Comparable Companies Multiple Method

Comparable Transactions Multiple Method

COST APPROACH

Net Assets Value Method

Replacement Value/
Realizable Value Method



RELATIVE VALUE



RELATIVE VALUE - CONCEPT

- Recommendation of share exchange ratio or share entitlement ratio – attempt is to arrive at the relative value
- Relative values usually derived by using similar valuation approaches, methodologies and weightages
- Few exceptions – for e.g.:
 - Merger of investment holding company into operating company
 - Merger of unlisted company into listed company
 - Demerger of division into a listed company
- Judicial pronouncements:
 - **“It is fair to use combination of three well known methods - asset value, yield value & market value”**
 - Hindustan Lever Employees ‘ Union Vs. HLL (1995) 83 Com. Case 30 SC
 - **“Exchange Ratio not disturbed by Courts unless objected and found grossly unfair”**
 - Miheer H. Mafatlal Vs. Mafatlal Industries (1996) 87 Com Cases 792;
 - Dinesh v. Lakhani Vs. Parke-Davis (India) Ltd. (2003) 47 SCL 80 (Bom)

RELATIVE VALUE

SHARE EXCHANGE RATIO

Merger of Co A into Co B

Valuation Approach	Co A		Co B	
	Value per share (INR)	Weights	Value per share (INR)	Weights
Asset Approach	25.00	0%	120.00	0%
Income Approach	116.00	50%	285.00	50%
Market Approach	120.00	50%	305.00	50%
Relative value per share	118.00	100%	295.00	100%
Exchange ratio (rounded off)	2.50			

2 (two) equity shares of Co B of face value of INR 10 each fully paid up for every 5 (five) equity shares of Co A of face value of INR 100 each fully paid up

SHARE ENTITLEMENT RATIO

Demerger of 'Undertaking X' of Co A into Co B

Valuation Approach	Undertaking X of Co A		Co B	
	Value per share (INR)	Weights	Value per share (INR)	Weights
Asset Approach	10.00	0%	120.00	0%
Income Approach	58.00	50%	285.00	50%
Market Approach	60.00	50%	305.00	50%
Relative value per share	59.00	100%	295.00	100%
Entitlement ratio (rounded off)	5.00			

1 (one) equity share of Co B of face value of INR 10 each fully paid up for every 5 (five) equity shares of Co A of face value of INR 100 each fully paid up



MERGER / DEMERGER OF UNLISTED CO INTO LISTED CO

- Pricing provisions of Chapter VII of SEBI (ICDR) Regulations, 2018 needs to be considered in case of #:
 - merger of an unlisted company with listed company; or
 - demerger of division of an unlisted company into a listed company
- Regulation 164 of SEBI (ICDR) Regulations, 2018 – Price of equity shares shall not be less than higher of :
 - 90 trading days volume weighted average price ('VWAP') preceding the relevant date; or
 - 10 trading days VWAP preceding the relevant date.
- Relevant Date for computing the price - Date of Board meeting in which the scheme is approved#

SEBI Master Circular June 2023

RELATIVE VALUE

SHARE EXCHANGE RATIO

Merger of Unlisted Co A into Listed Co B

Valuation Approach	Co A (Unlisted)		Co B (Listed)	
	Value per share (INR)	Weights	Value per share (INR)	Weights
Asset Approach	25	0%	120	0%
Income Approach	116	50%	285	50%
Market Approach	120	50%	305	50%
Relative Valuer Per Share (a)	118	100%	295	100%
Value per share based on ICDR pricing (b)	NA		330	
Relative Value per share for the purpose of Exchange Ratio (higher of (a) or (b))	118		330	
Exchange Ratio (rounded off)	2.80			

5 (Five) equity shares of Co. B of face value INR 10 each fully paid up for every 14 (Fourteen) equity shares of Co A of face value of INR 100 each fully paidup



REPORT ON RECOMMENDATION OF RATIO



REPORT - CONTENT

- Content of the report to be in line with Registered Valuer Rules / ICAI Valuation Standards 2018
- Summarised workings to be provided separately to the Companies for submission to Stock Exchanges, SEBI and Regional Director
- Following disclosure needs to be made by Registered Valuer ('RV') in the report[#]

Valuation Approach	PQR Ltd.		XYZ Ltd.	
	Value per share	Weight	Value per share	Weight
Asset Approach	x	a	y	d
Income Approach	x	b	y	e
Market Approach	x	c	y	f
Relative value per share	x		y	
Exchange Ratio (rounded off)			xx	

Ratio : "x (xxx) equity share of XYZ Ltd of INR 10 each fully paid up for every y (yyy) equity shares of PQR Ltd of INR 10 each fully paid up"

- In case any approach is not used for arriving at the relative value, rationale for the same needs to be provided in the report

[#]SEBI Master Circular June 2023 and NSE Master Circular June 2023

REPORT – OTHER ASPECTS

- Separate / Joint Report in case two registered valuers are appointed
 - Methodology and value per share may vary
- Fairness Opinion by SEBI Registered Merchant Banker ('MB') also required in case listed company is involved in merger / demerger
 - RV and MB need to be independent of each other
 - Brief review of the valuation workings of RV
 - Carry out independent analysis to provide their opinion on fairness of ratio recommended by RV

SUBMISSION OF REPORT – LISTED ENTITIES

- Presentation to be made to Audit Committee
- Submission of report on recommendation of share exchange / entitlement ratio to the Audit Committee
- Audit Committee to submit their recommendation to the Board
- Presentation to be made to Committee of Independent Directors
- Committee of Independent Directors to submit their recommendation to the Board
- Fairness Opinion by SEBI Registered Merchant Banker also required in case listed company is involved in merger / demerger
- Board will take in to consideration the report submitted by the Audit Committee and Independent Director's Committee before giving their final approval of the scheme and share exchange / entitlement ratio

MERGER / DEMERGER INVOLVING LISTED COMPANY

- Other key points[#]
 - Board of Directors ('Board') of Listed Co to consider the scheme of amalgamation ('Scheme') within 7 days of issuance of valuation report
 - Within 15 days of approval of Scheme by the Board, the documents along with valuation report have to be submitted to the Stock Exchange ('SE')
 - If not submitted within 15 days, fresh approval from Board needs to be obtained after considering fresh financials, *valuation report*, etc
 - Audited Financials of the unlisted entity should not be older than 6 months at the time of submission of the Scheme to SE and the same should have been used for valuation under 'Income Approach'
 - For other than Income Approach, audited financials should not be older than 3 months

[#] NSE Master Circular June 2023

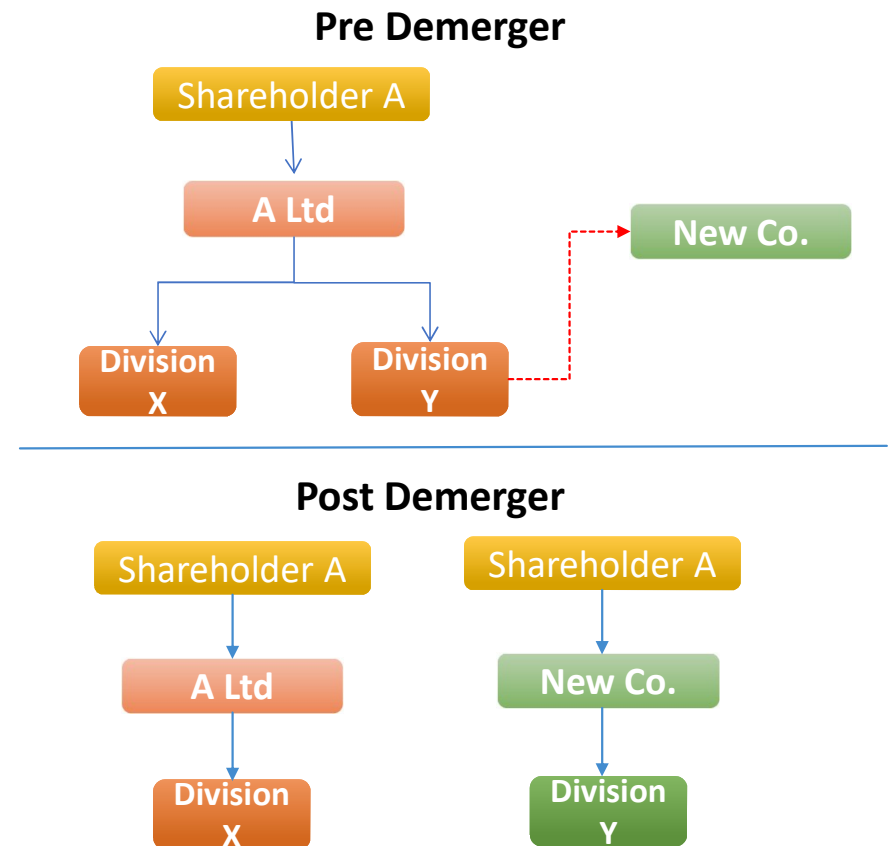
NO REPORT REQUIRED

- No report is required in case of there is no change in the shareholding of Listed Transferee Co#:
 - Merger of wholly owned subsidiary ('WOS') with its listed parent company
 - Demerger of an undertaking of a WOS into its listed parent company

SEBI Master Circular June 2023

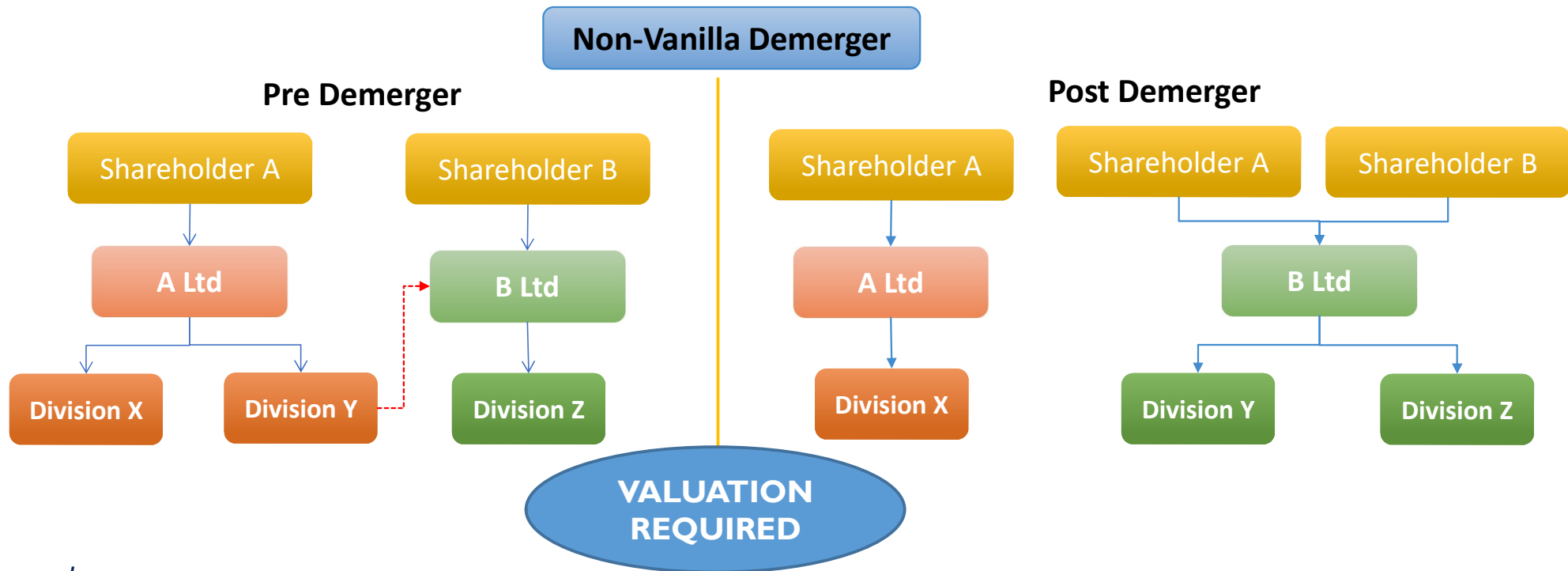
NO VALUATION REQUIRED FOR RECOMMENDING RATIO

- Demerger of an undertaking of a demerged company into a new company
 - Mirror image shareholding ('plain vanilla demerger')
 - Eg. Demerger of Financial Services Business of Reliance Industries Limited into Jio Financial Services Limited.



NO VALUATION REQUIRED FOR RECOMMENDING RATIO

(...CONT)



Example:

Demerger of Cement Business Division of Century Textiles and Industries Limited into Ultratech Cement Limited

Demerger of Consumer Products Business of Tata Chemicals Limited into Tata Global Beverages Limited



PRACTICAL ASPECTS IN MERGER / DEMERGER VALUATIONS




PRACTICAL ASPECTS IN MERGER / DEMERGER VALUATIONS

- Appointed date vs Valuation date
- Benefits of synergies on merger / demerger – Whether to be considered?
- Value of Inter-company holdings
- Group companies' merger – Can only NAV Method be used?
- Market price method
 - duration / period
 - date upto which market prices need to be considered

PRACTICAL ASPECTS IN MERGER / DEMERGER VALUATIONS

(...CONT)

- Difference in face value of shares of transferor and transferee companies 
- Single ratio vs range of ratios
- Impact of proposed bonus/split on the ratio
- Demerger of an undertaking of Demerged Co into a New Co, where New Co is not yet incorporated
- Consideration Clause – Redeemable / Convertible instruments, cash, equity shares

PRACTICAL ASPECTS IN MERGER / DEMERGER VALUATIONS

(...CONT)

- Steps involved in the Transaction – Refer scheme of amalgamation / arrangement
 - Capital reduction / Preferential Allotment prior to or post merger
 - Merger & then Demerger
 - Demerger / Slump Sale and then merger
 - Issue of shares by Parent Co of Transferee Co to shareholders of Demerged Co in case of demerger



Thank You !

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