



Overview of M & A

Profile



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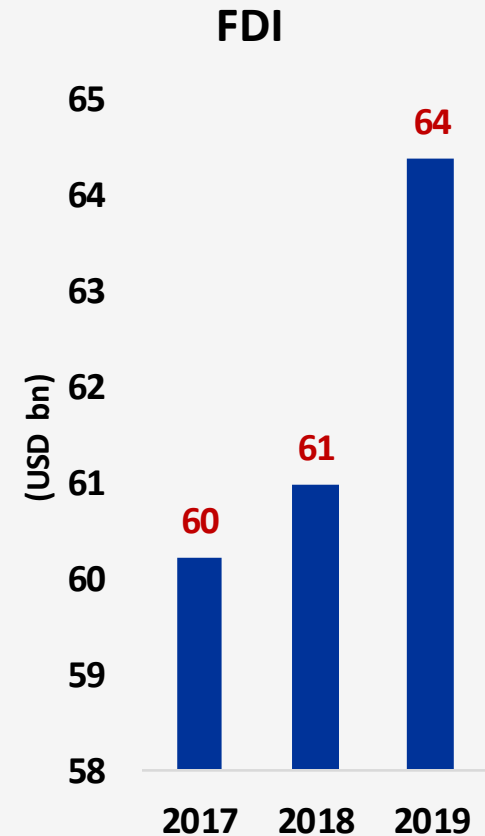
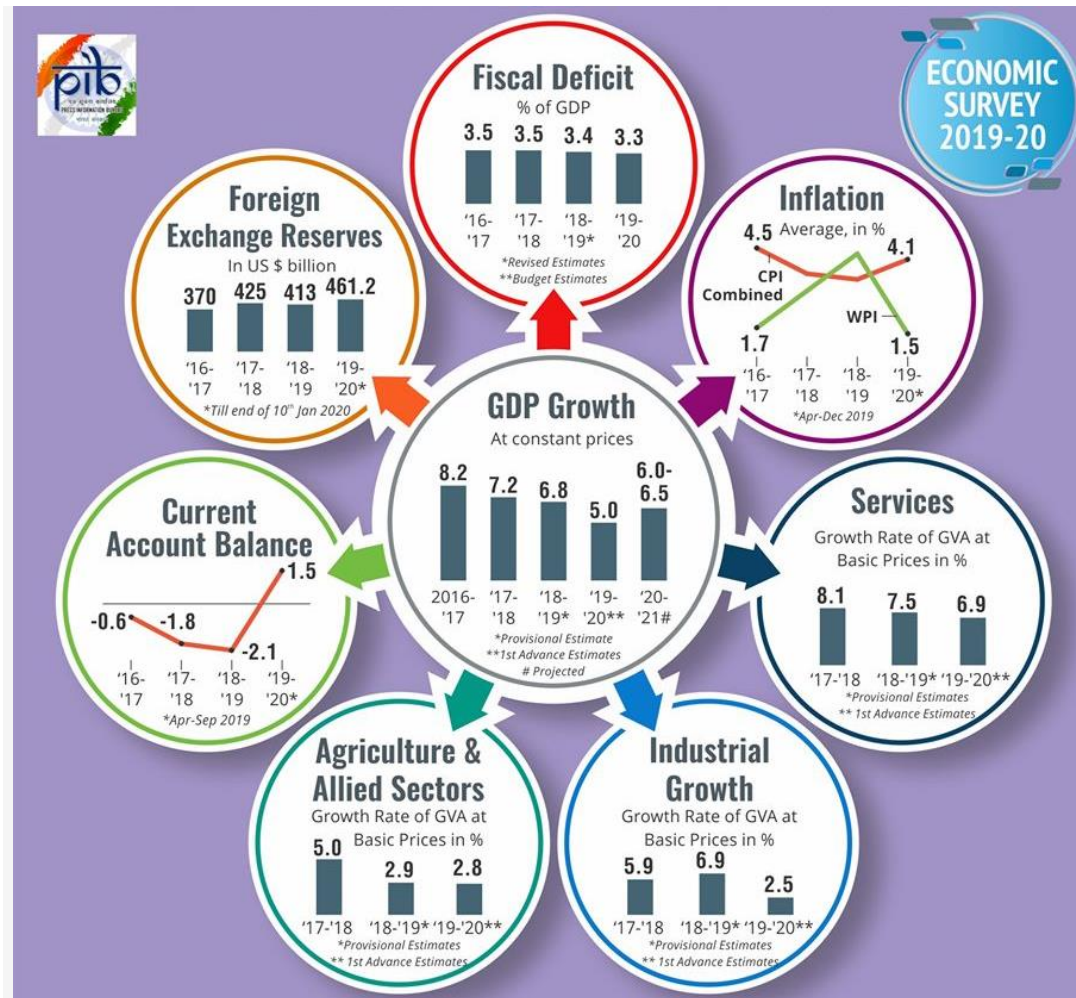
M: +91 98909 44963

- Founding partner at Clearview Consulting Partners.
- Chartered Accountant, Registered Valuer, Company Secretary, CISA and DISA by education. 15 years of post qualification experience.
- **Past:** Senior Manager / Associate Director in PwC (M&A); Deloitte (Audit).
- **Trainings / Faculty:** Deloitte, SIMS, Fintree, IMA, USA (Pune Chapter), Bajaj Incubation Centre, Bhau (COEP), etc.
- **Experience:** Mergers and acquisitions, audit, forensics, Sox and control assurance, etc.
 - Financial (PE, VC, etc) and strategic (corporates) investors on domestic and international transactions.
 - Target companies located in India, US, UK, Singapore and Dubai.
 - Airlines, automotive, cement, chemicals, dairy, media and entertainment, financial services, FMCG, hospitality, IT/ITES, logistics, oil, pharmaceuticals, power, real estate, retail, shipping, steel, telecom, etc.
- **Select clients:** Altran SA, Ambit, BDO, Cerberus Capital, Citigroup, Cummins Group, Emcure Pharma, Fidelity PE, France Telecom, Fourcee Infrastructure, HCL Technologies, Unilever, Idea Cellular, IDFC PE, Kinetic Motor Company, Kirloskar group, KSPG-Pierburg Germany, Mahindra, Marg, Merck, USA, Mitsui and Co, Japan, Mylan, Nexus, Otsuka Pharma, Prysmian S.P.A., Samvardhana Motherson, Sodexo, Tata Motors, Trimble Navigation, Ultratech Cement, UBM, Varde Partners and Vedanta.
- Performance awards from Hindustan Lever Limited and PwC.

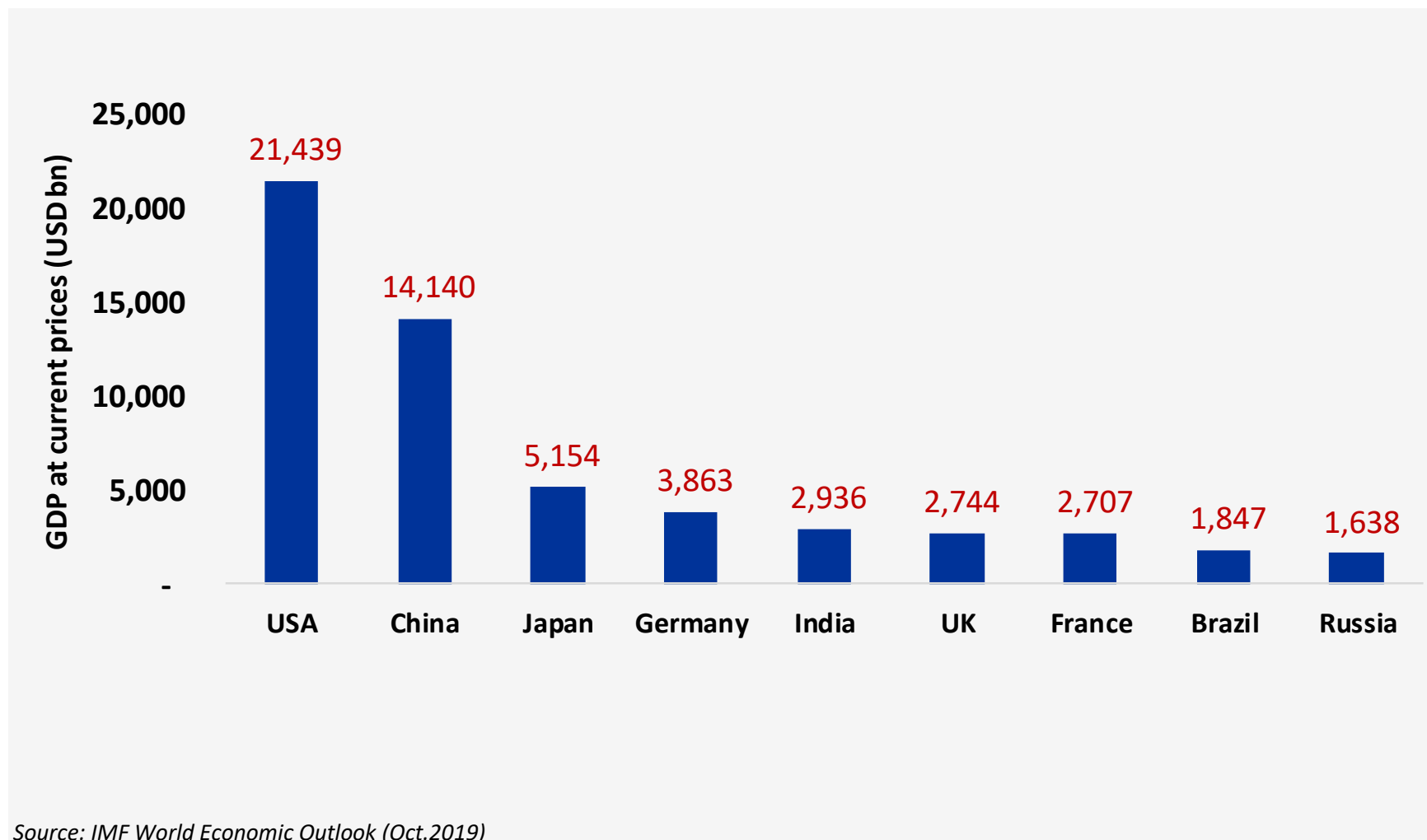
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Sr. No	Topic
1	M&A Basic concepts and Trends
2	Fund Structure and Terminology
3	Reasons for Mergers and Acquisitions and Select Examples
4	Mergers and Acquisitions process
5	Valuations – Basic principles
6	Deal Structuring
7	Accounting for Mergers and Acquisitions Transactions
8	Opportunities for CAs in M&A

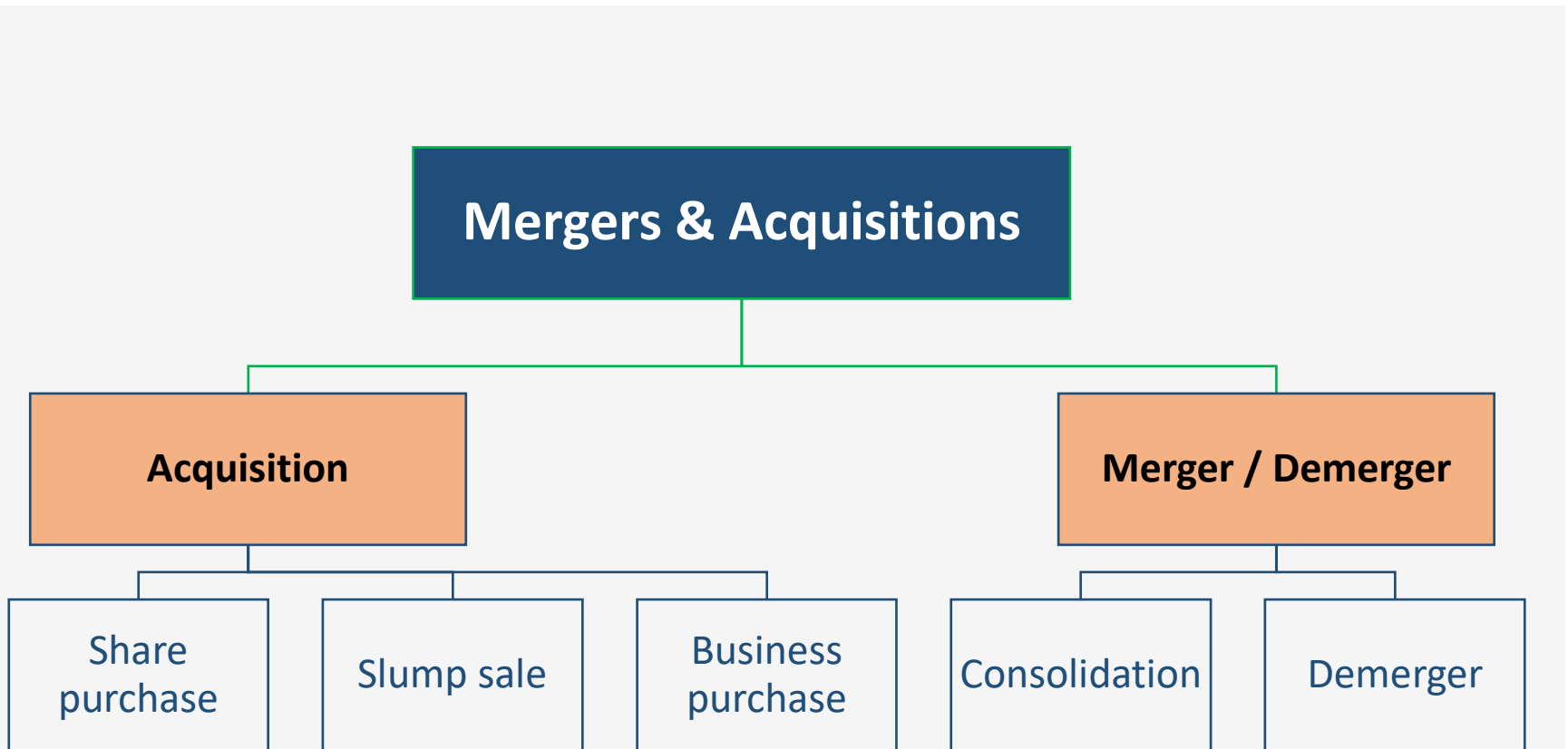
1. What the Numbers denote GDP Target of USD 5 trillion by 2025 (1/2)



What the Numbers denote GDP Target of USD 5 trillion by 2025 (2/2)

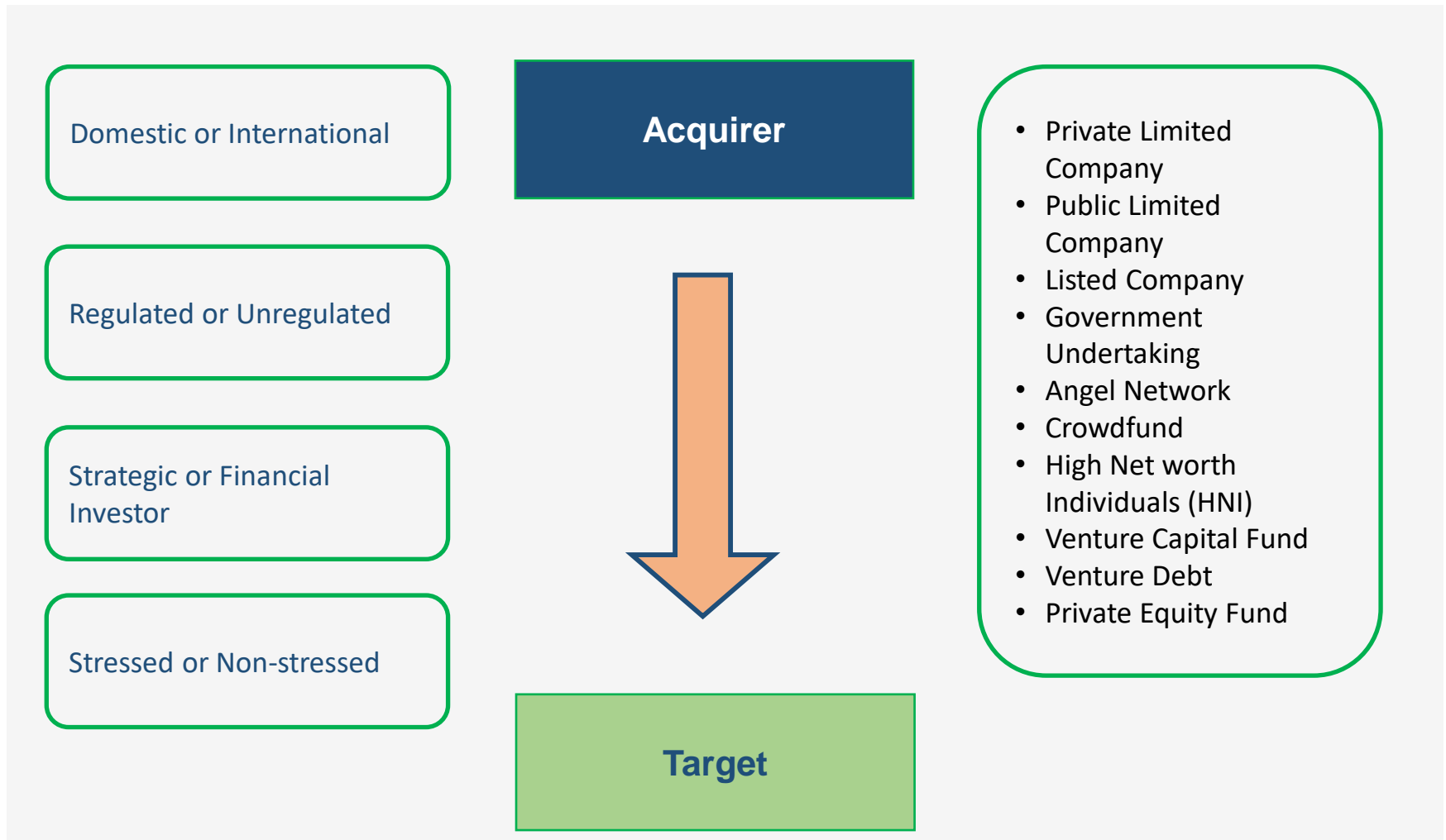


Mergers & Acquisitions overview



Note: Internal restructuring can be undertaken through buyback or capital reduction.

Entity Dimensions

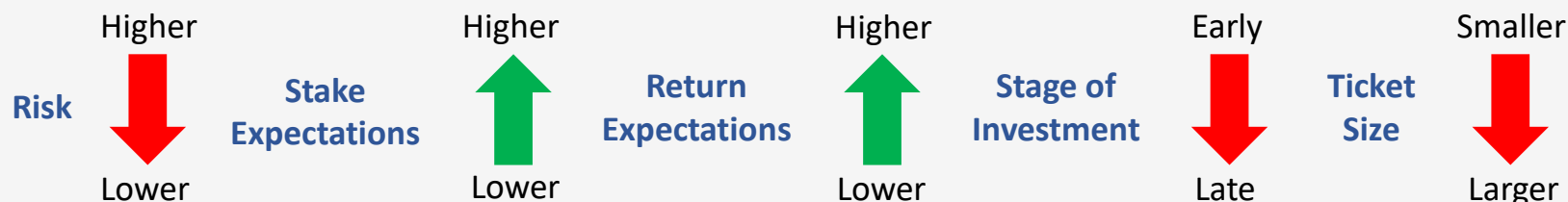


Types of M&A transactions

Sr. No	Type / Key Features	Particulars
1	Nature of Investor	Financial (Primarily VC and PE) and Strategic
2	Geography	Inbound, Outbound and Domestic
3	Stage of Investment	Seed / Friends and Family, Angel, Crowd Funding, Series A, Series B, Series C, Series D, IPO, etc.
4	Level of Stake	Minority, Significant minority, Majority and Buy out / 100% acquisition, etc.
5	Transaction Structure	Amalgamation / merger, Demerger, Slump sale, Primary vs. Secondary Transaction, etc.
6	Assets Being Transferred	Asset Purchase, Business sale, Brand sale, Marketing rights, etc.
7	Consideration	Cash, Stock, Shares and Cash, Share Swap, Deferred Consideration, etc.
8	Accounting Standards	Issued by ICAI/Central Government, Indian Accounting Standards, IFRS, US GAAP, etc.
9	Taxation	Income Tax Act, 1961
10	Stressed	Pre-IBC, IBC and post IBC

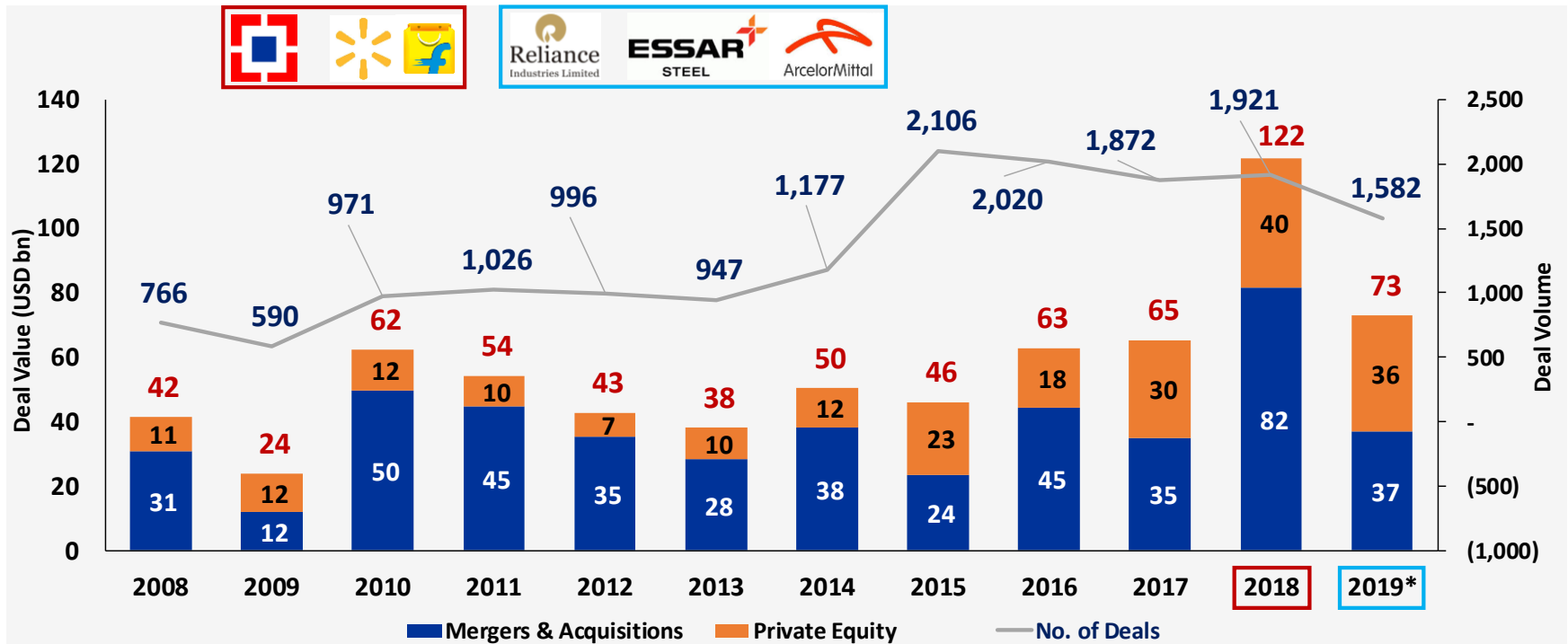
Key Characters Involved

Sr. No.	Type	Particulars
1	Startups / Companies	Zoomcar, Swiggy, BYJUs, etc
2	High Net worth Individuals (HNIs)	Ratan Tata, Mukesh Ambani, Azim Premji, etc
3	Incubators	NCL Innovation Park, Venture Center, Zone Startups India, etc.
4	Accelerators	Edugild, NASSCOM (10000 Startups), etc
5	Crowd Funds	1crowd, Ketto, Milap, etc
6	Angel Investors / Angel Networks	Indian Angel Network, Mumbai Angels, Pune Angels, Chennai Angels, etc
7	Venture Capital	Sequoia, Tiger Global, Nexus, Helion Ventures, Blume Ventures, Kalaari Capital, etc
8	Private Equity / Hedge Funds	The Blackstone Group, Warburg Pincus, KKR, Fidelity Growth Partners, General Atlantic, IDFC PE, etc.



Deal activity in India

M&A activity witnessed sharp decline in 2019 as compared to 2018



2019* : Data available till November 2019.

- PE investments retained their momentum, showing significant activity in technology sector in 2019.
- 12 QIP issues of USD 6.5 billion, which is the highest QIP raised till date.
- 2019 recorded only 11 mega deals as compared to 25 in 2018 each valued at over a billion dollar.
- Total number of deals declined in 2019.

Source: PWC & GT Reports

Deal activity in India

M&A activity witnessed sharp decline in 2019 as compared to 2018

Total	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Deal Value (USD bn)	42	24	62	54	43	38	50	46	63	65	122	73
Total Deal Volume	766	590	971	1,026	996	947	1,177	2,106	2,020	1,872	1,921	1,582
Average Ticket Size (USD mn)	54	41	64	53	43	40	43	22	31	35	63	46
M&A as % of total	75%	50%	80%	82%	83%	74%	76%	51%	71%	54%	67%	51%

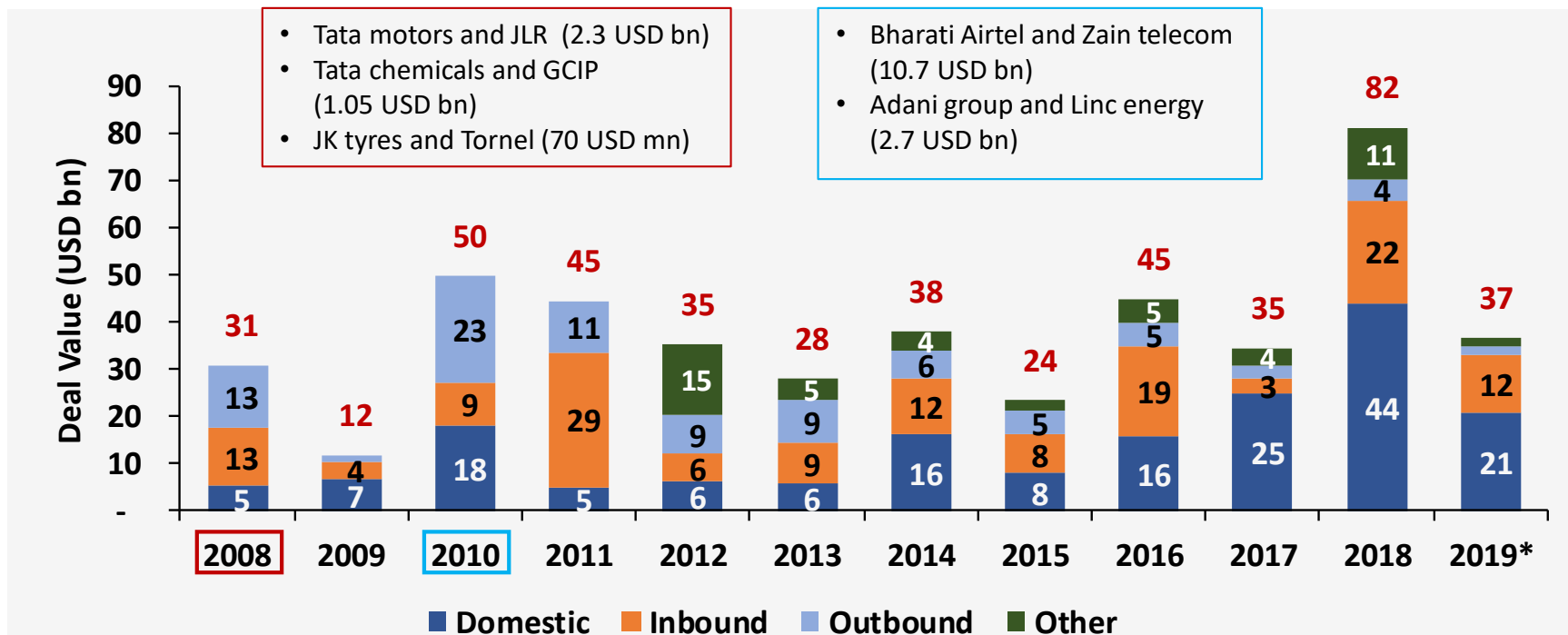
Recent drivers for deals in India

- Valuation concerns
- Sluggish capital market
- Slowing consumption growth
- Liquidity challenges
- Global headwinds
- Stress in the banking space
- Wholesale and retail NPA
- Auto and real estate stress

Source: PWC & GT Reports

M&A activity by deal type (USD billion)

Domestic and inbound transactions went down drastically as compared to outbound activities in 2019



- Tata motors and JLR (2.3 USD bn)
- Tata chemicals and GCIP (1.05 USD bn)
- JK tyres and Tormel (70 USD mn)

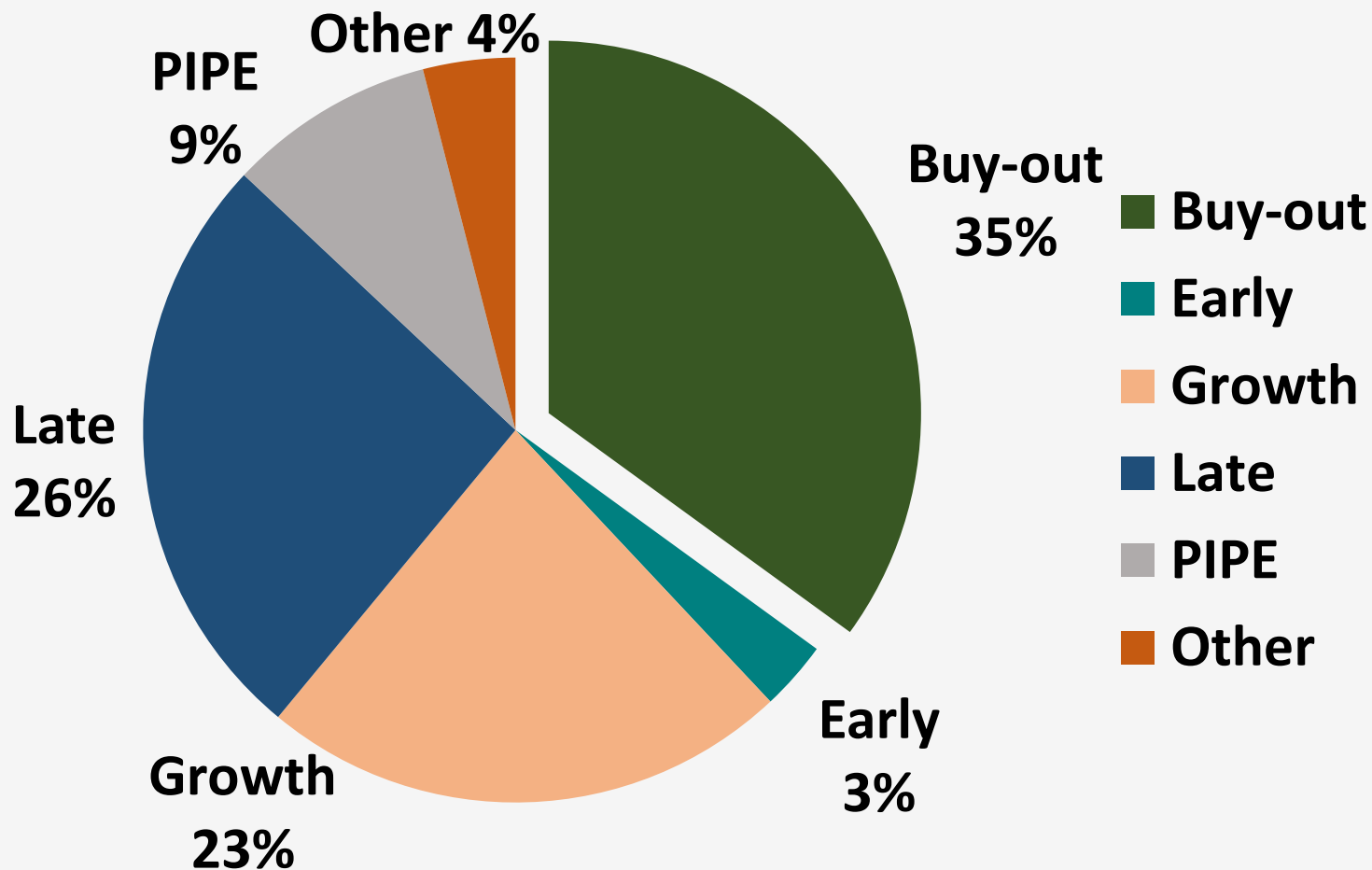
- Bharati Airtel and Zain telecom (10.7 USD bn)
- Adani group and Linc energy (2.7 USD bn)

2019*: Data available till November 2019.

- Domestic transactions form major part of deal activity
- Significant interest from overseas corporates across sectors including steel, energy, infrastructure & financial services

Source: PWC & GT Reports

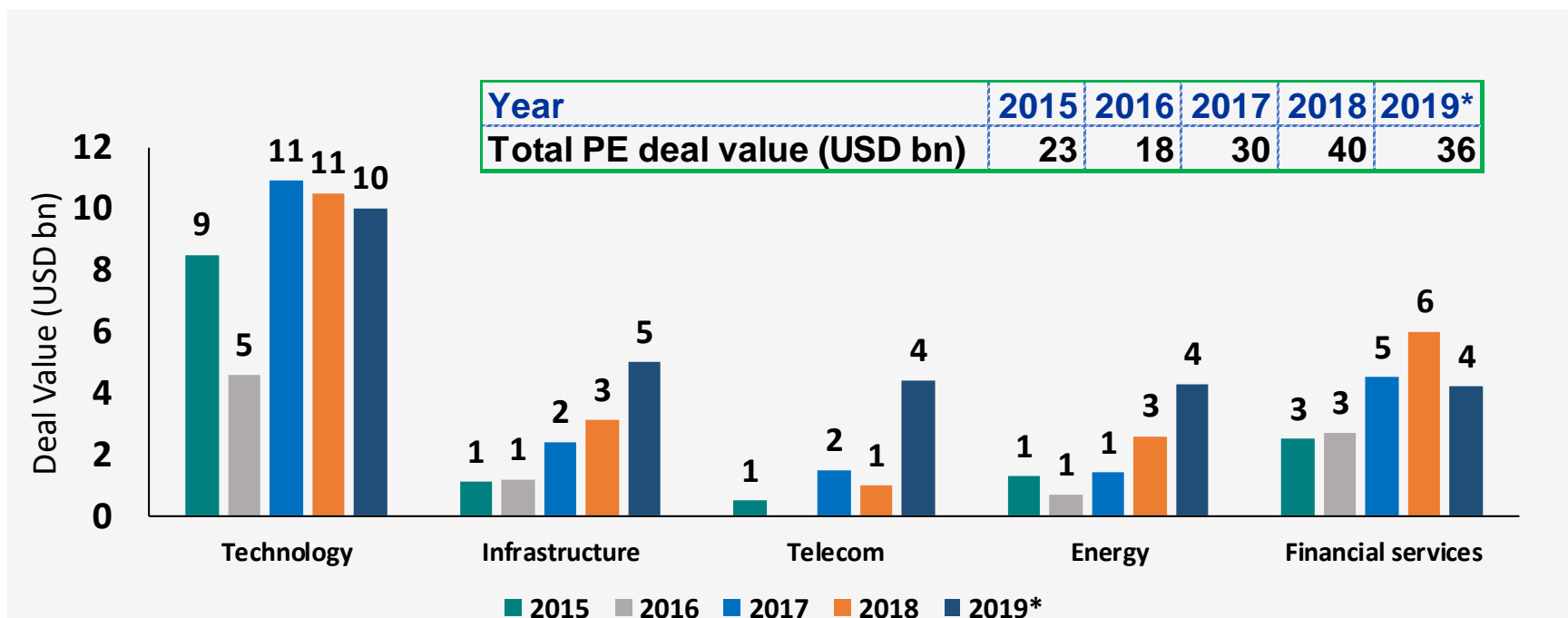
PE investment in 2019 by stage (USD billion)



Source: PWC Report

Top 5 Sectors attraction PE investments (USD billion)

Technology sector saw the highest activity from 2017 till 2019.



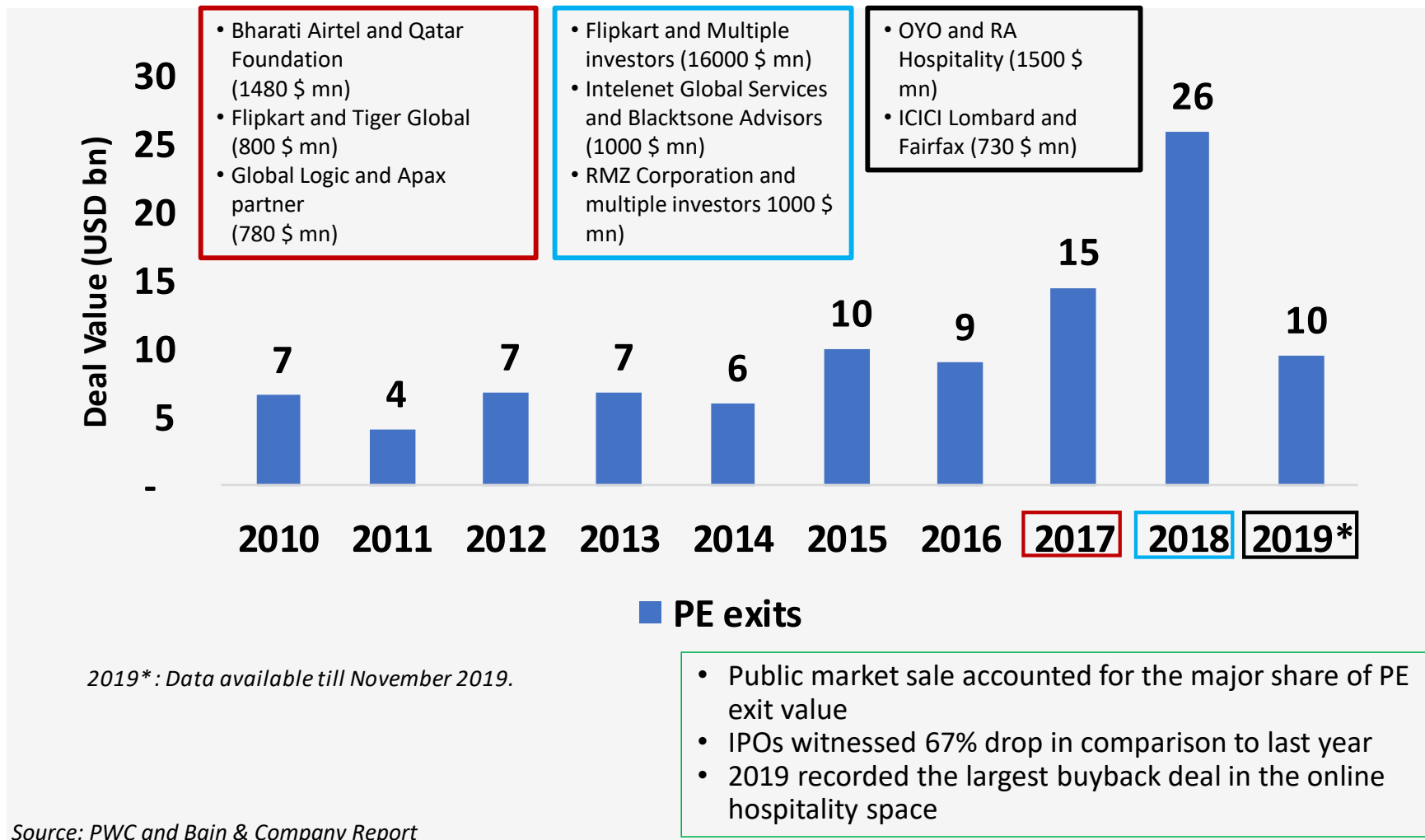
2019*: Data available till November 2019.

- Technology continued to garner attention from SWFs, PEs & alternative investment platforms
- Telecom recorded two sizable deal in 2019 (one of them in Reliance Industries Limited USD 3.7 bn)
- Energy segment was dominated by renewables
- Financial services witnessed 30% decline in terms of investment value as compared to 2018
- These five sectors constitute 77% of the investment value this year.

Source: PWC Report

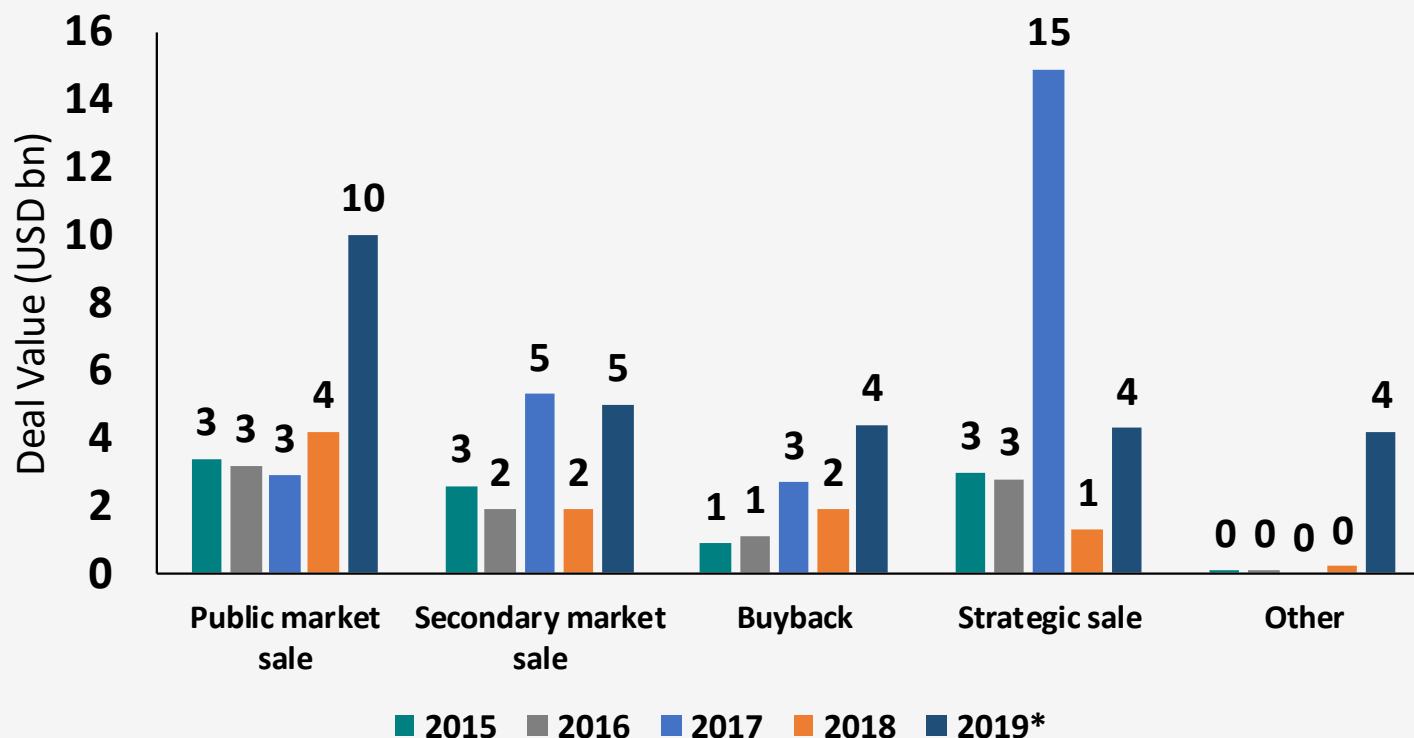
PE exit activity in India (USD billion) (1/2)

2019 witnessed a sharp decline in PE exits in terms of value and volume



PE exit activity in India (USD billion) (2/2)

2019 witnessed a sharp decline in PE exits in terms of value and volume



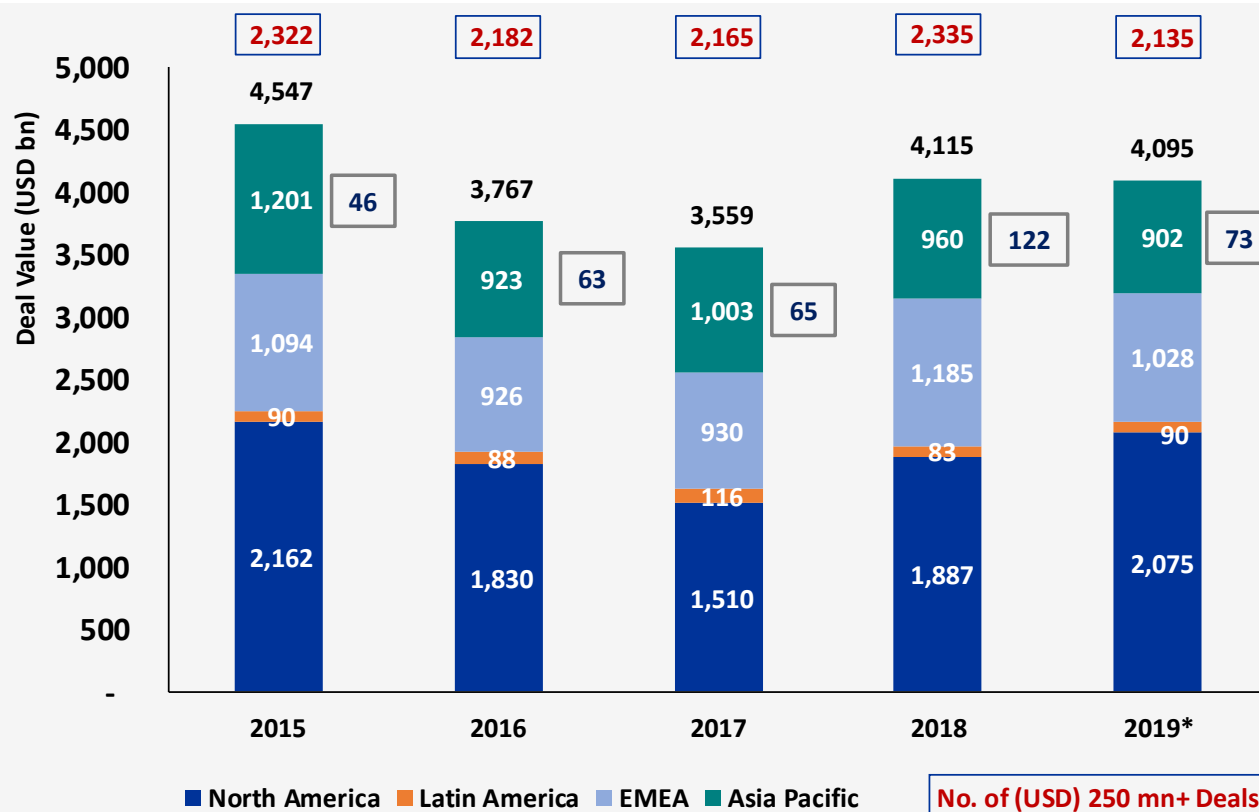
2019*: Data available till November 2019

- Public market sale accounted for the major share of PE exit value
- IPOs witnessed 67% drop in comparison to last year
- 2019 recorded the largest buyback deal in the online hospitality space

Source: PWC Report

M&A trends - Global

Indian contributed around 1.78 % of total global M&A activity in 2019.

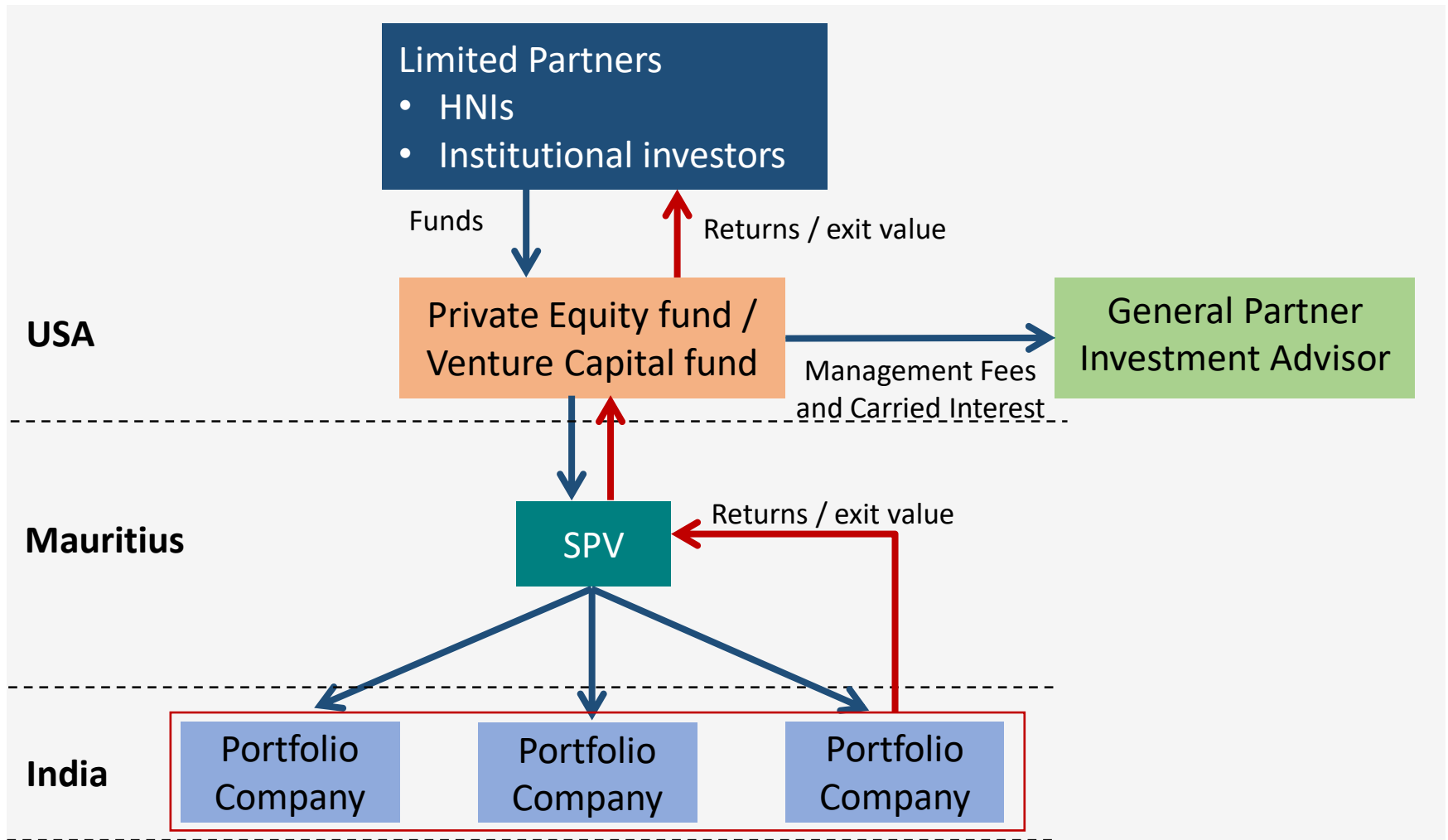


Total deals in INDIA

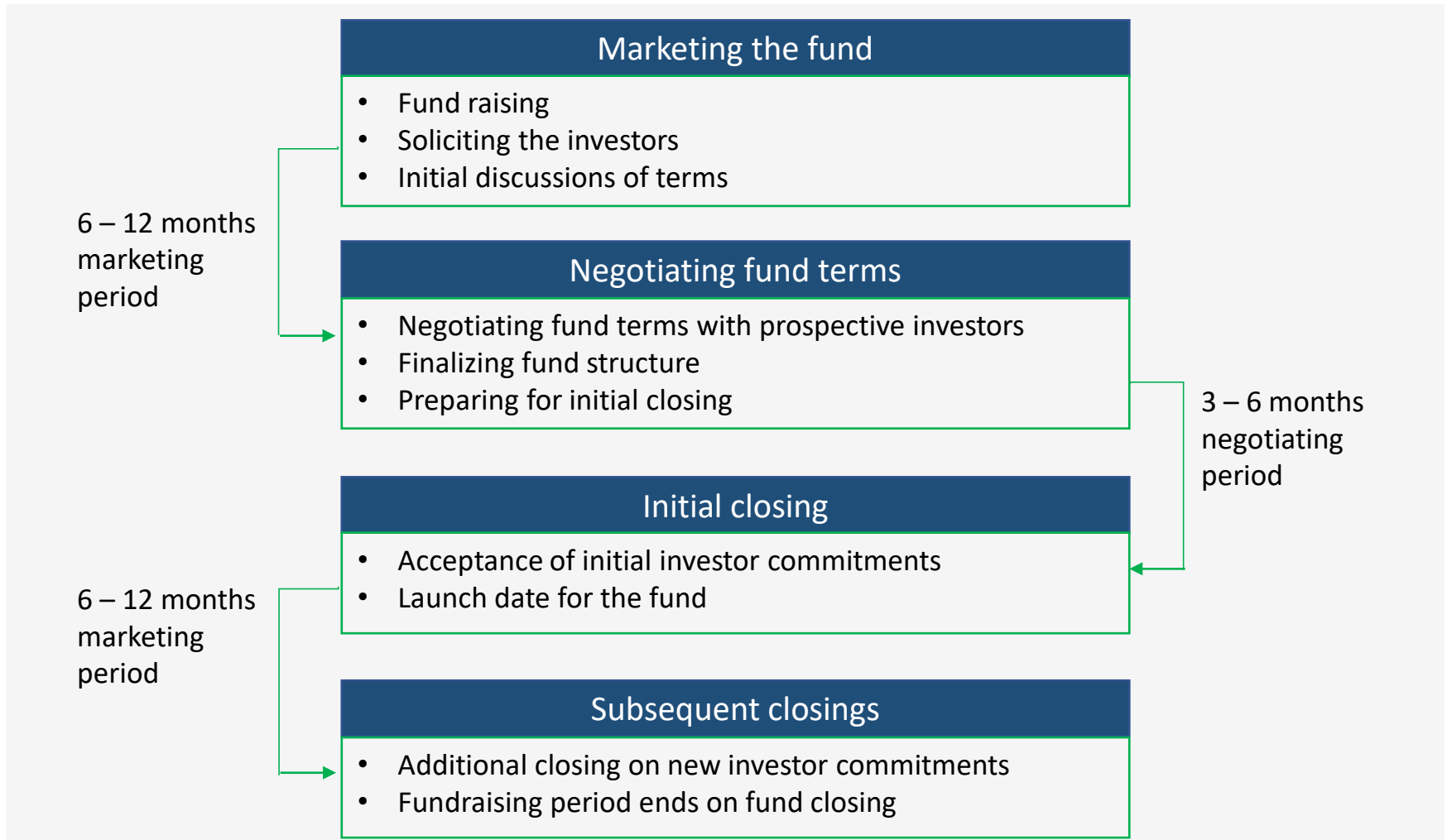
- Deal count for deals greater than \$250 million was down 9% globally year over year
- 47 megadeals were announced globally in 2019 (\$10bn or greater)

Source: JP Morgan Report

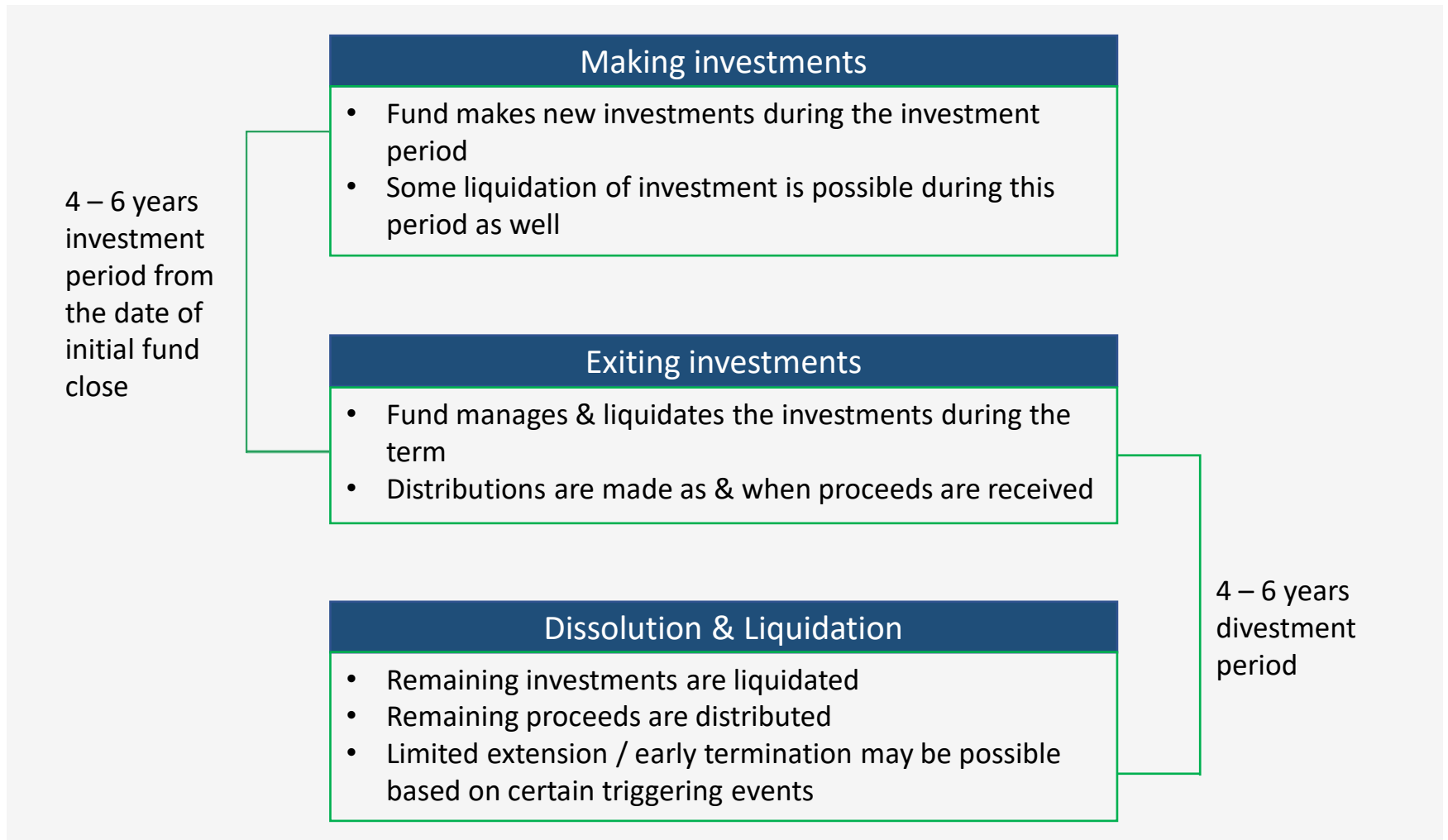
2. Indicative Fund Structure



Indicative Fund raising & fund closing timeline



Indicative Fund term timeline



Key Terms (1/2)

Acquirer / Investor	Deal Flow
Acquisition / Investment	Disbursement
Angel	Discounted Cash Flows
Balance Sheet	Down Round
Buyback	Dry Powder
Burn Rate	Due Diligence
Buy Out	Earn-Out
Capital Gains	Exercise Price
Cash Flow Statement	Exit
Carried Interest	Fund
Chinese Walls	First Round
Common Stock / Equity	Fund Manager
Deal	Fund Raising

Key Terms (2/2)

General Partners	Primary Transaction
Holding Period	Private Equity
Income Statement	Ratchets
Internal Rate of Return	Refinancing
Limited Partners	Secondary Transaction
Lock in	Seller
Management Fee	Seed Financing
Merger, Demerger, Reverse Merger	Shareholders Agreement
Net Present Value	Term Sheet
Option	Tranches
Portfolio Company	Venture Capital
Pre-money Valuation	
Post-money Valuation	

3. Reasons for M&A

- Scalability and Growth
- Economies of scale
- Market share and Competition
- Technology and Innovations
- Intellectual property
- Customer contracts and history
- Raw material linkages
- Risk mitigation
- Market entry and / or expansion
- Vertical and / or lateral integration
- Diversification
- Funding requirements
- Regulatory requirements
- Reduction of Leverage
- Economic environment
- Political environment
- Consolidation
- Other synergies
- Attractive valuation – Opportunistic
- Tax efficiencies
- Stock market trends

Note: *The above list is not exhaustive*

Facebook-Whatsapp (February 2014)

Particulars	Remarks
Business model	WhatsApp is an ad-free mobile application that allows users to send unlimited messages to contacts without using the wireless network or sustaining data fees.
Transaction / Investment rationale and structure	<ol style="list-style-type: none"> 1) The messaging service, which reached 400 million active users in December, generated less than 3 cents in revenue for each one last year. 2) By comparison, Facebook paid \$55 per user when it acquired the company. WhatsApp's net loss was \$138.1 million for 2013. 3) The valuation of the deal was already regarded as lofty, at 19 times projected sales. 4) The world's largest social network paid for WhatsApp mostly with equity, boosted by a rise in its stock price. Those who praised the acquisition said Facebook was knocking out a major competitor by bringing it into the company. 5) Growth:- Over 500 million people use WhatsApp monthly and the service currently adds more than 1 million users per day. Seventy percent of WhatsApp users are active daily, compared to Facebook's 62%. Additionally, WhatsApp users send 500 million pictures back and forth per day, about 150 million more than Facebook users. 6) Facebook does believe it will profit from WhatsApp down the line as phone calls become obsolete and mobile messages reign. This is why Zuckerberg spent one-tenth of his company's market value to buy the text messaging app, nearly doubling Google's bid.
Valuation	USD 22 billion

Pfizer, Allergan scrap \$160 billion deal after U.S. tax rule change (April'16)

Particulars	Remarks
Current Status	<ol style="list-style-type: none"> 1) U.S. drugmaker Pfizer Inc (PFE.N) and Ireland-based Allergan Plc (AGN.N) walked away from their \$160 billion merger, a major win for President Barack Obama, who has been pushing to curb deals in which companies move overseas to cut taxes. 2) Pfizer said the decision was driven by new U.S. Treasury rules aimed at such deals, called inversions. The merger would have allowed New York-based Pfizer to cut its tax bill by an estimated \$1 billion annually by domiciling in Ireland, where tax rates are lower. 3) While the new Treasury rules did not name Pfizer and Allergan, one of the provisions targeted a specific feature of their merger - Allergan's history as a major acquirer of other companies. 4) Pfizer will pay Allergan \$150 million to reimburse expenses from its deal. 5) The decision to call off the deal came in part because Pfizer was concerned that any tweaks to salvage its deal with Allergan might have provoked new rules by the Treasury.
Valuation	USD 160 billion

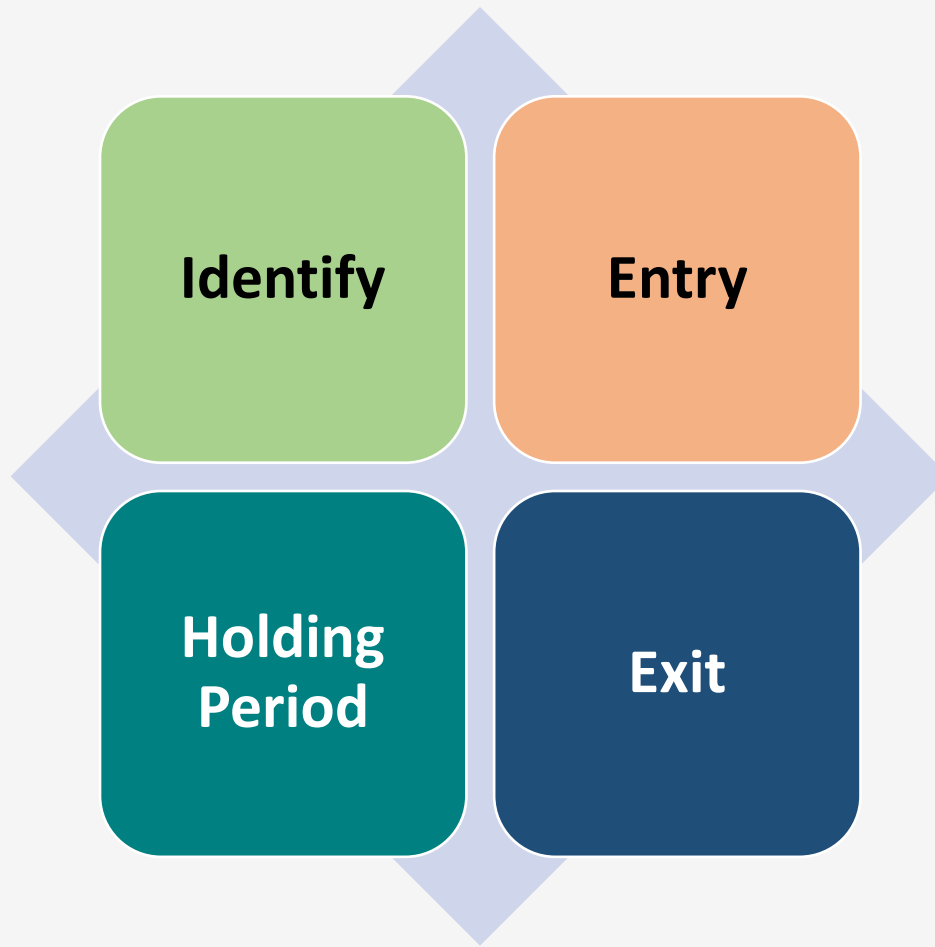
Tata-Corus Deal (2007)

Particulars	Remarks
Background	Corus' stock market value in 1999 was \$6 billion but fell to \$230 million in 2003, prompting Corus to look for a buyer. Many companies, including ArcelorMittal, explored the option. Finally, in 2007, Tata Steel bought Corus in a \$12 billion deal, what was the biggest foreign acquisition by an Indian company till then.
Transaction / Investment rationale and structure	Steel was at the peak of its cycle and Tata Steel paid 608 pence a share, a premium of 34 per cent to the original offer price to ward off a challenge from Brazilian miner and steelmaker CSN. For CSN, however, it might have been different because of the raw material support. Save for one good year, Corus has remained a problem for Tata Steel. In hindsight, doing an all-cash deal funded by debt may have been a big mistake. For one, a part stock deal may have softened the blow a fair bit.
Valuation	USD 12 billion – Now Valued at USD ??.
Current status of operations	A decision to explore all options for portfolio restructuring, including the potential divestment of Tata Steel UK in whole or in part has been taken.
Hindsight 20-20 view	Almost a decade later, however, and Tata Steel has finally conceded it got it wrong. In March 2016, Tata Steel's finance director, admitted the British businesses now had a book value of "almost zero". The Tata's board rejected a turnaround plan for the assets that once made up British Steel.

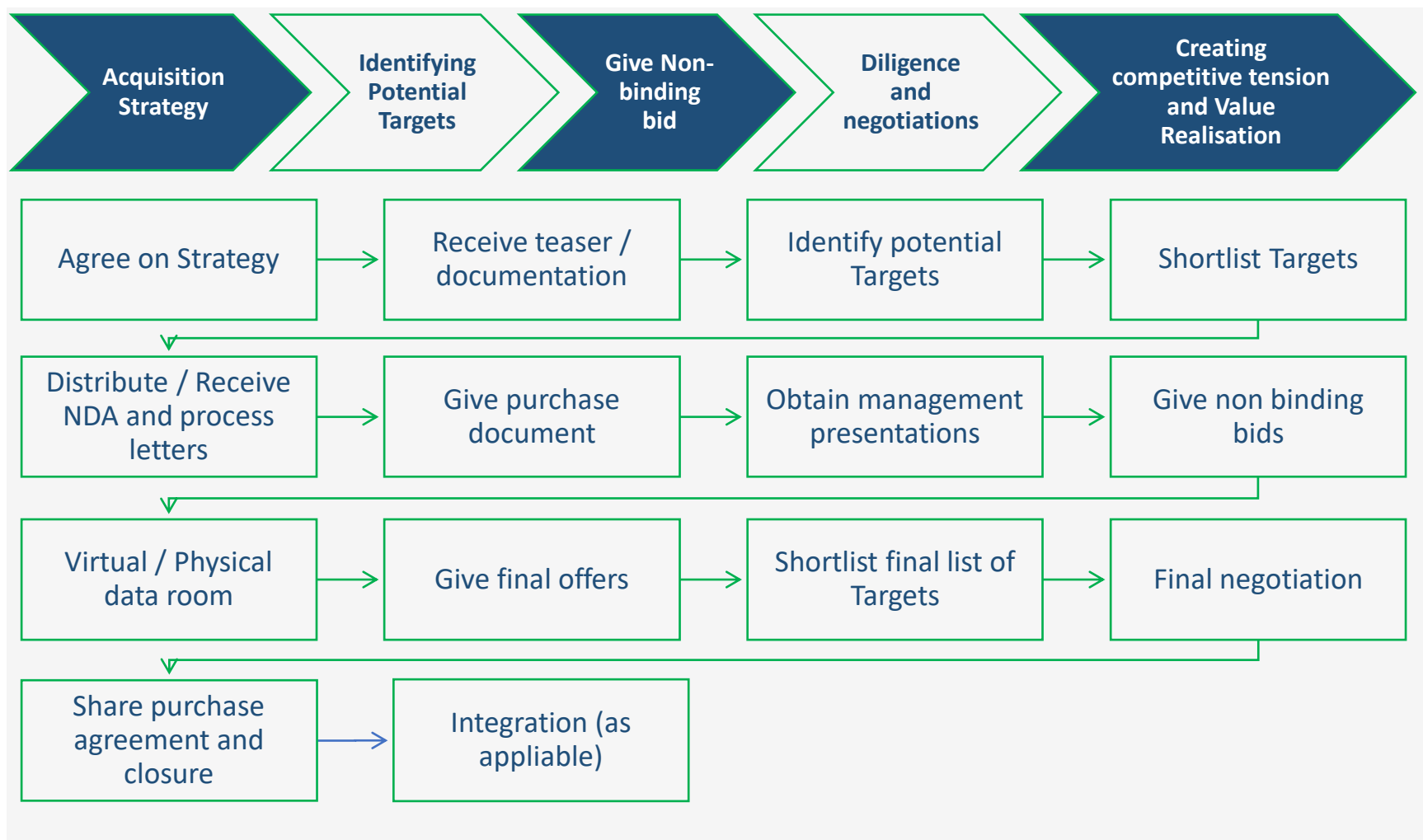
AOL – Time Warner – The Biggest Disaster (2001)

Particulars	Remarks
Transaction / Investment rationale and structure	<ol style="list-style-type: none"> 1) In 2001, AOL completed the USD 164 billion acquisition of Time Warner. 2) However, Time Warner soon realised that the merger was not in its best interest leading to a loss of USD 99 billion in 2002. 3) The entities demerged in 2009. 4) AOL before the merger at its peak had been valued at USD 226 billion, which dwindled to USD 20 billion soon after the merger. 5) The companies did not really merge. 6) The biggest nail was the revelation that AOL had overstated sales for 2000 and 2001 by 190 million.
Valuation	USD 164 billion in 2001

4. M&A Process – Macro View



Indicative Acquisition Process



Defining and Selecting a Target

- Type of Investor
- Investment Philosophy and Return expectations
- Ticket size and Valuation
- Relative sizes of Investor and Target
- Shareholding pattern – Majority / minority, Government, Funds, etc.
- Target Group Structure
- Industry and Geography
- Economic, Business and Investment Cycle
- Transaction Perimeter
- Rationale for Transaction:
 - Customer contracts and history
 - Scalability and Growth
 - Market share and Competition
 - Technology and Intellectual property
 - Risk mitigation
 - Market entry and / or expansion
 - Vertical and / or lateral integration
 - Reduction of Leverage
- Funding requirements and options
- Regulations
- Foreign Currency rates
- Tax incentives / subsidies and efficiencies
- Attractive Valuations – Opportunistic
- No Succession Plan
- Exit options and Timelines

Note: The above list is not exhaustive

Transaction Documents

- Non-Disclosure Agreements and Letter of Intent
- Term Sheet
- Dataroom Information
- Information Request List
- Management Questions and Answers
- Business Plan
- Advisor's Reports and Opinions
- Share Purchase Agreement
- Shareholders Agreement
- Share Subscription Agreement
- Disclosure Documents
- Representations and Warranties
- Other Transaction Related Agreements

Note: *The above list is not exhaustive*

Governing Laws - India

Key Laws/ Regulations*

- Income-tax Act, 1961
- Companies Act, 2013 (to the extent notified)
- Insolvency and Bankruptcy Code
- Stamp duty laws
- Patents Act / Trademarks Act
- FDI Policy
- SEBI Takeover Code
- Copyrights Act
- Special Economic Zones (SEZ) Act
- Labor Laws
- Foreign Exchange & Management Act, 1999
- Accounting Standards and IFRS
- Limited Liability Partnership Act, 2008

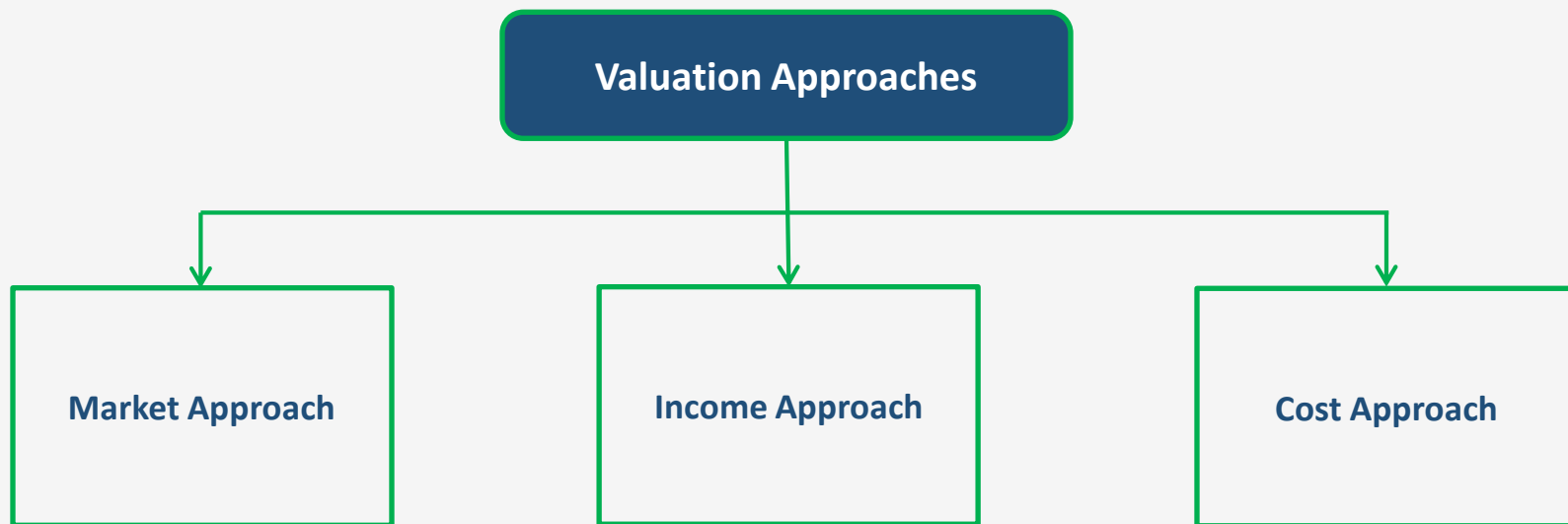
Regulatory Authorities*

- Securities & Exchange Board of India (SEBI)
- Reserve Bank of India (RBI)
- Registrar of Companies (ROC)
- Competition Commission of India (CCI)
- Director General of Foreign Trade (DGFT)
- Insolvency and Bankruptcy Board of India (IBBI)
- High Court / NCLT / NCLAT

Note: The above list is not exhaustive

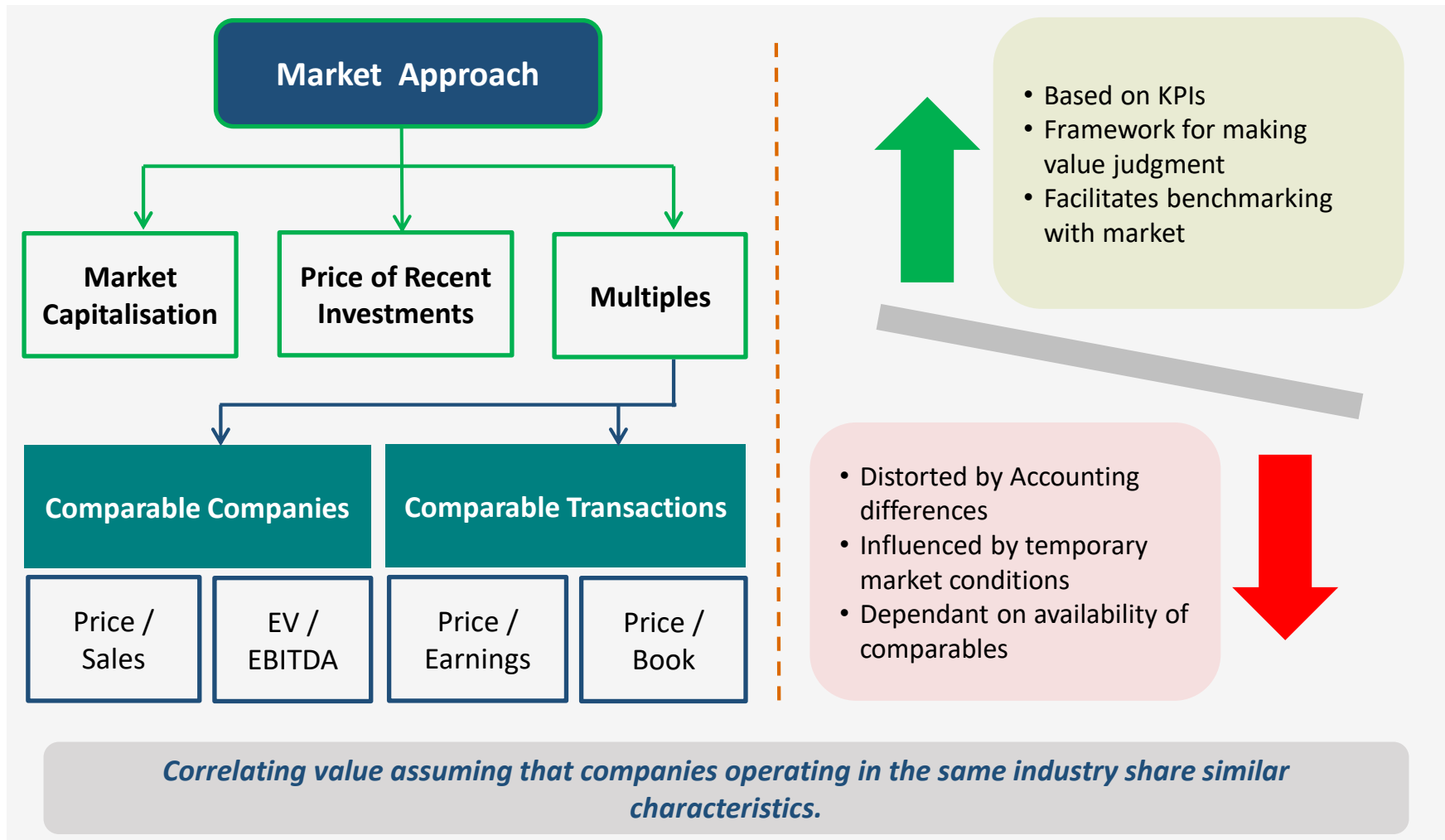
Source: PwC publications and publically available information

5. Valuation Methodologies / Approaches

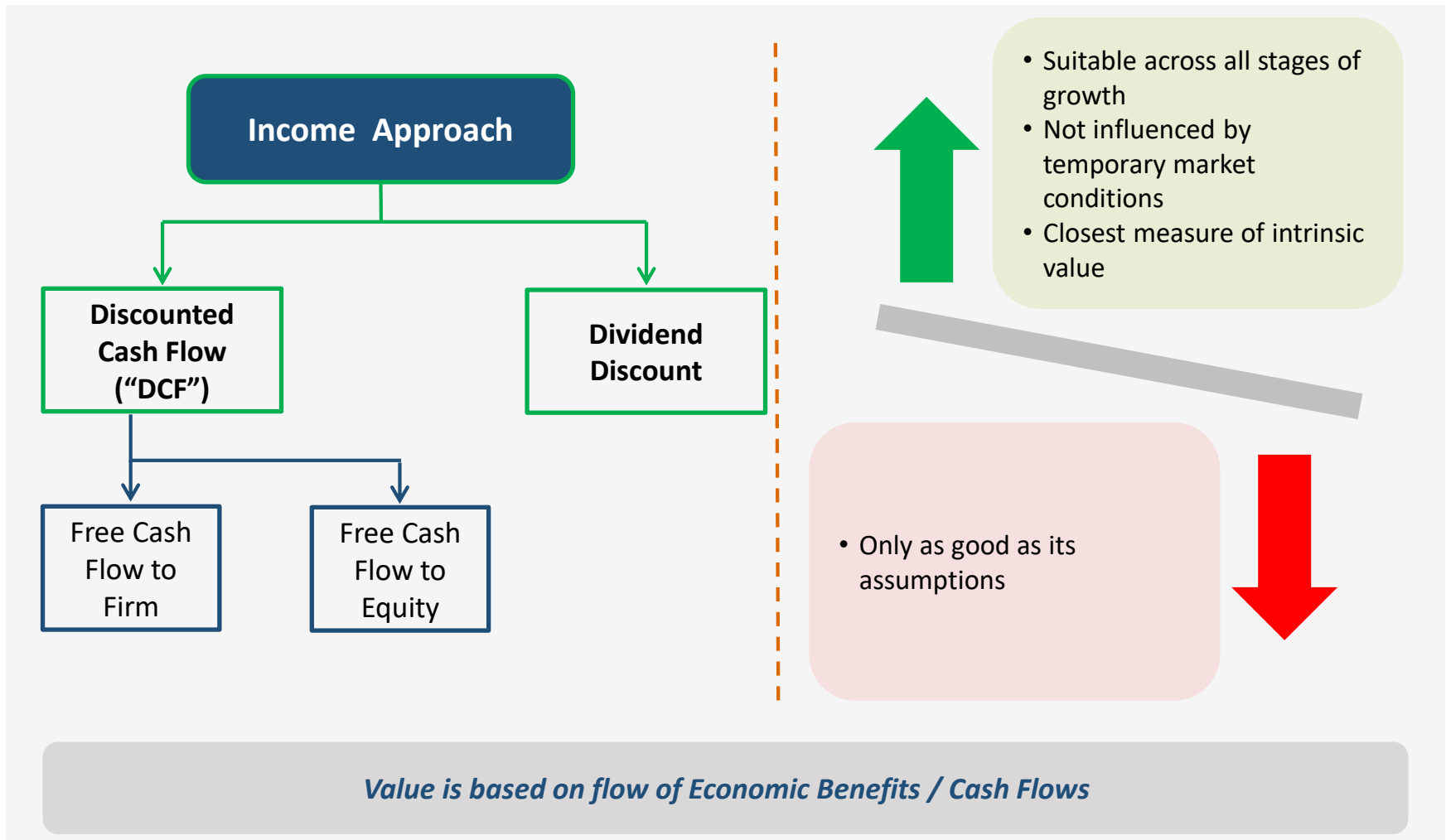


The net amount at which willing buyers and sellers having reasonable knowledge of relevant facts shall close a transaction under normal circumstances.

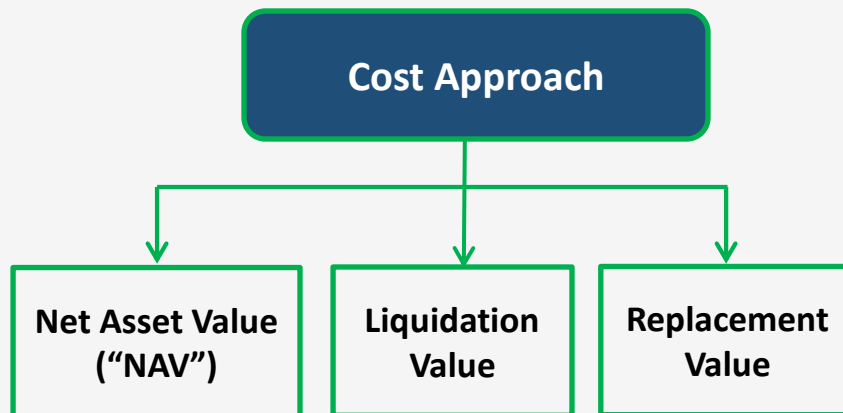
The Market Approach – Relative Valuation



The Income Approach – Intrinsic Valuation



The Cost Approach



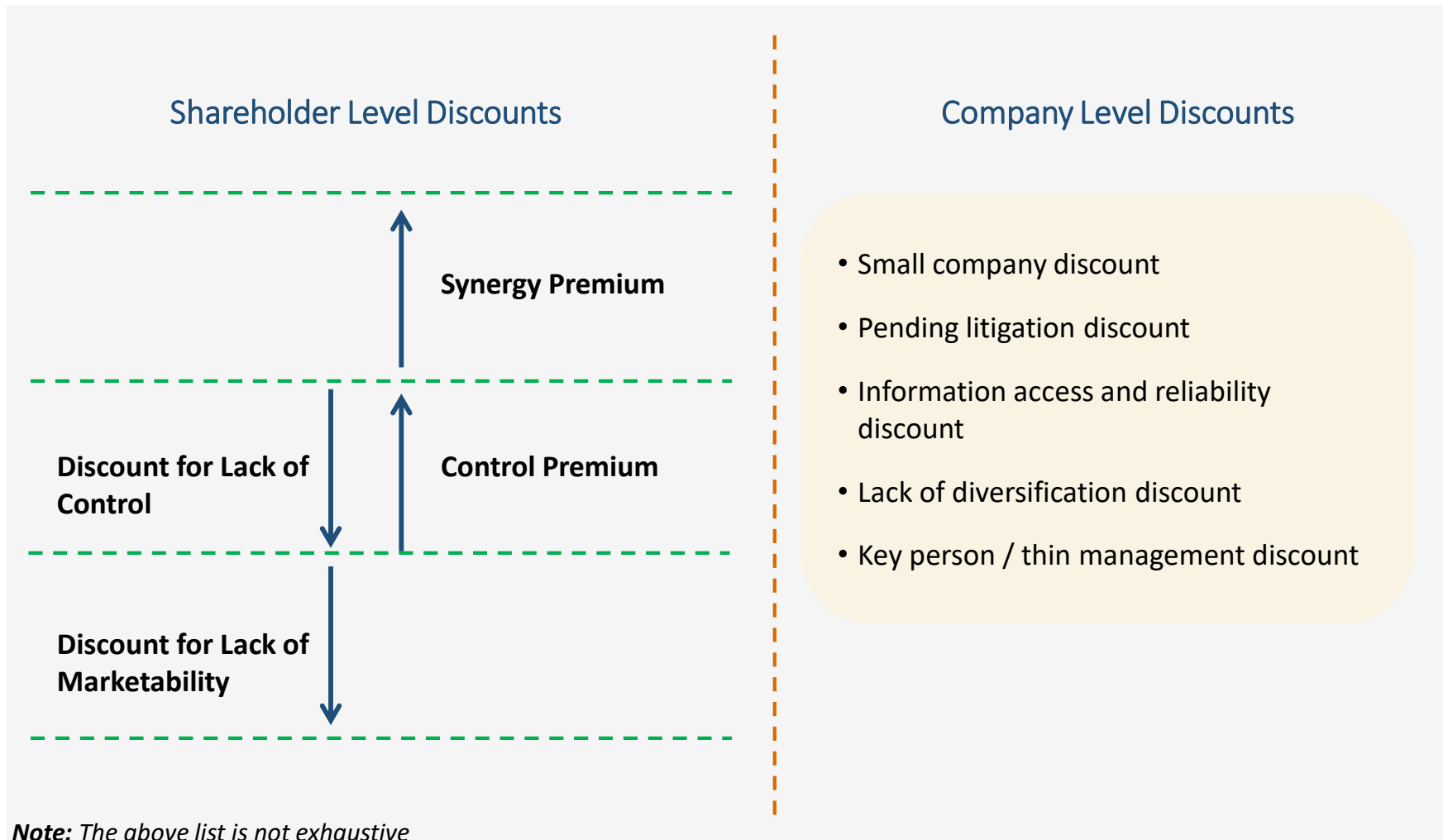
- Suitable for Asset Heavy Businesses

- Limited Use – *Not Going Concern*
- Does not consider value created through development of asset
- Does not consider future earning capability of the asset



Considers reproduction or replacement cost as indicator of value.

Discounts and Premiums in Valuation



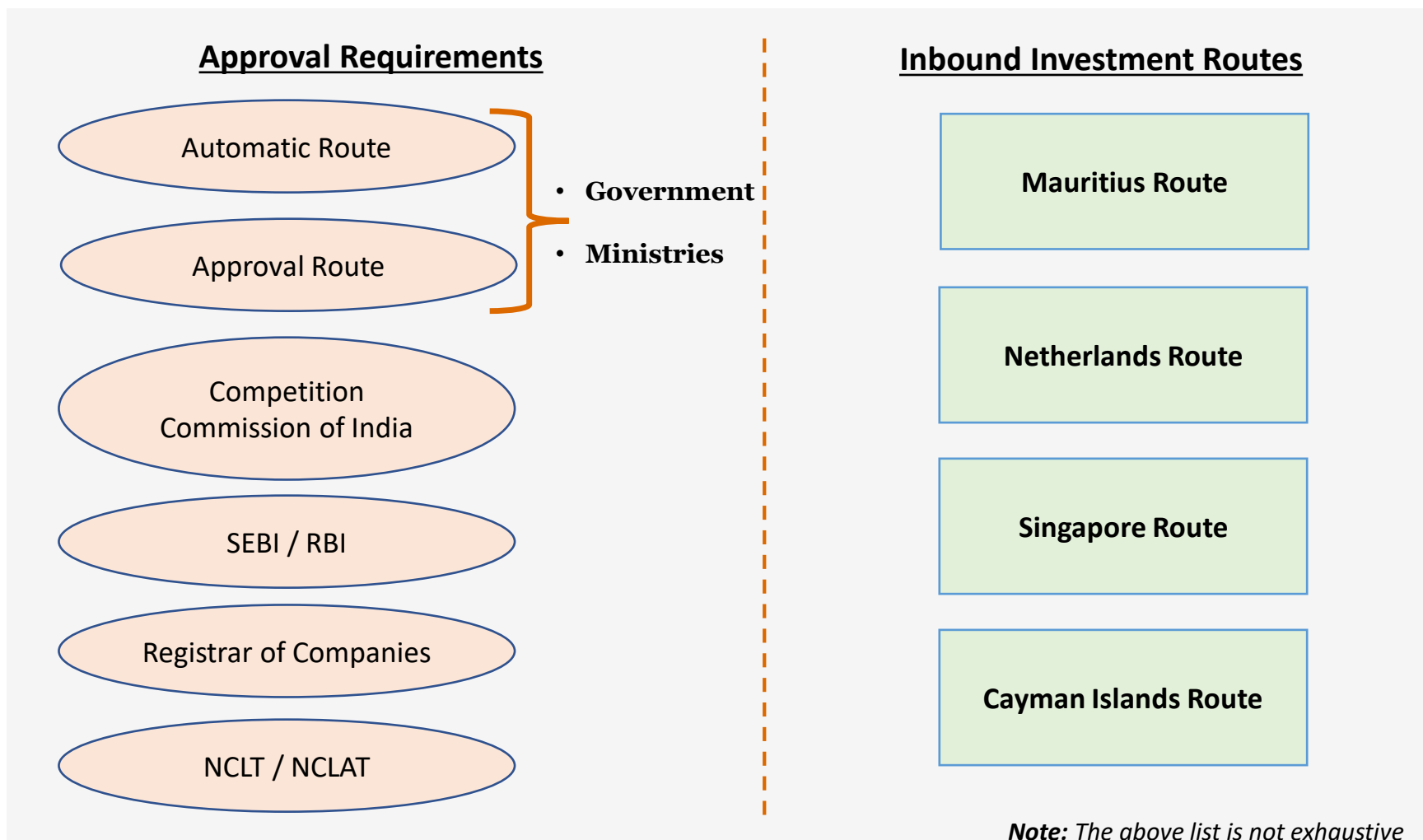
6. Deal Structuring – Key Aspects

- Type of Entities
- Timeline
- Routes of Investments and Tax Implications
- Transaction Perimeter
- Level of Stake:
 - 100%, Significant majority, majority, minority
- Voting Rights and Control
- Transaction Structure
- Type of Security
- Consideration
- Ancillary Agreements
- Regulatory Framework
- Prohibited Sectors
- Currency

“How you come in determines how and at what value you will exit!!”

Note: The above list is not exhaustive

Routes of Investment – Inbound and Domestic



Transaction Structure – Basic Structures (1/2)

Stock Purchase

The buyer acquires a controlling / non-controlling stake in the seller's voting shares.

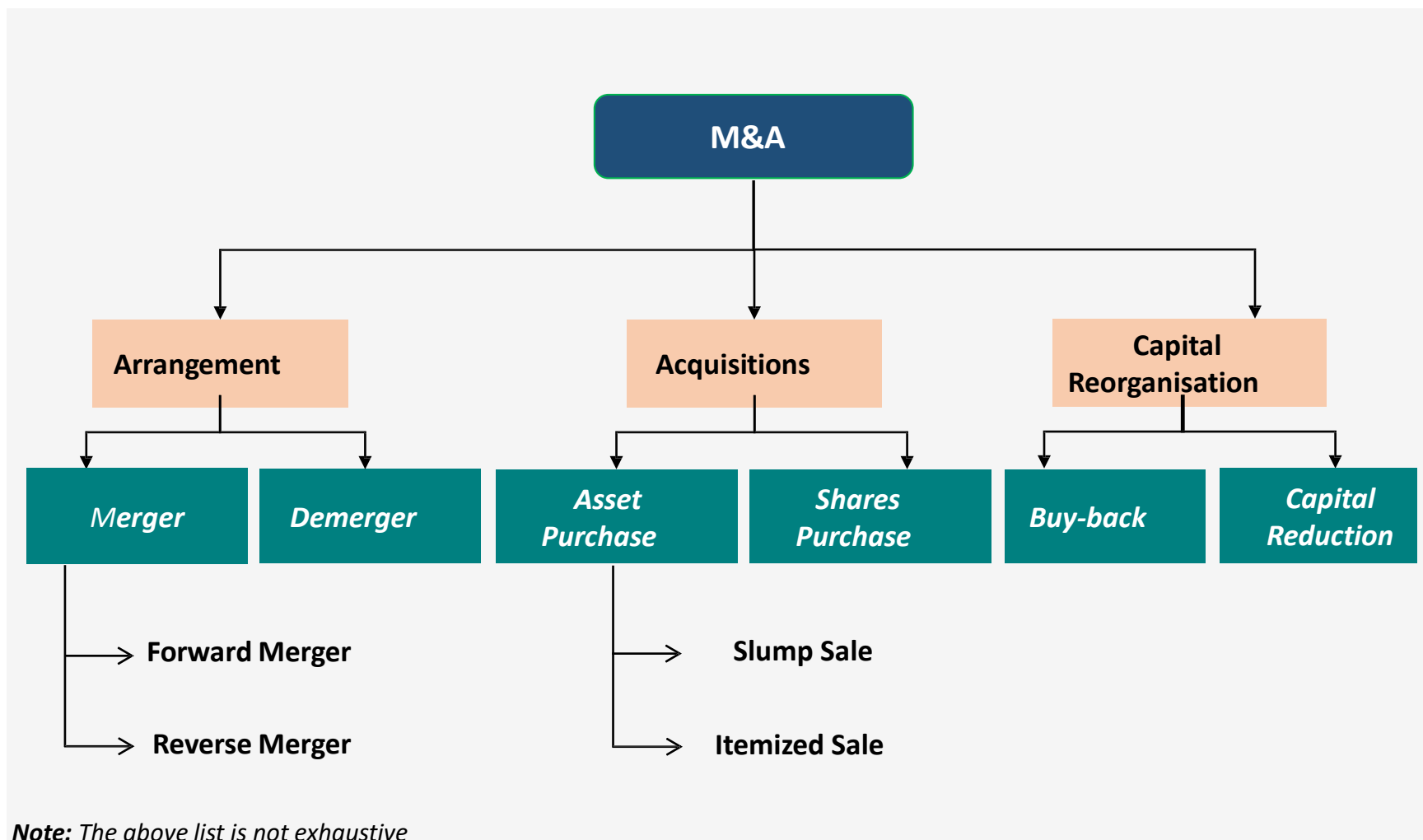
Asset Sale

The buyer acquires the seller's all/part of the assets and assumes all/part of the liabilities associated with those assets.

Merger

A merger occurs when two distinct companies agree to legally become a new, combined entity.

Transaction Structure – Basic Structures (2/2)



Consideration

Cash

- Investor / Investor Group
- Target / Target Group
- Existing / Proposed Entity and Shareholding Structure
- Existing Owners / Shareholders of Target
- Existing Investment Instruments / Proposed Investment Instruments

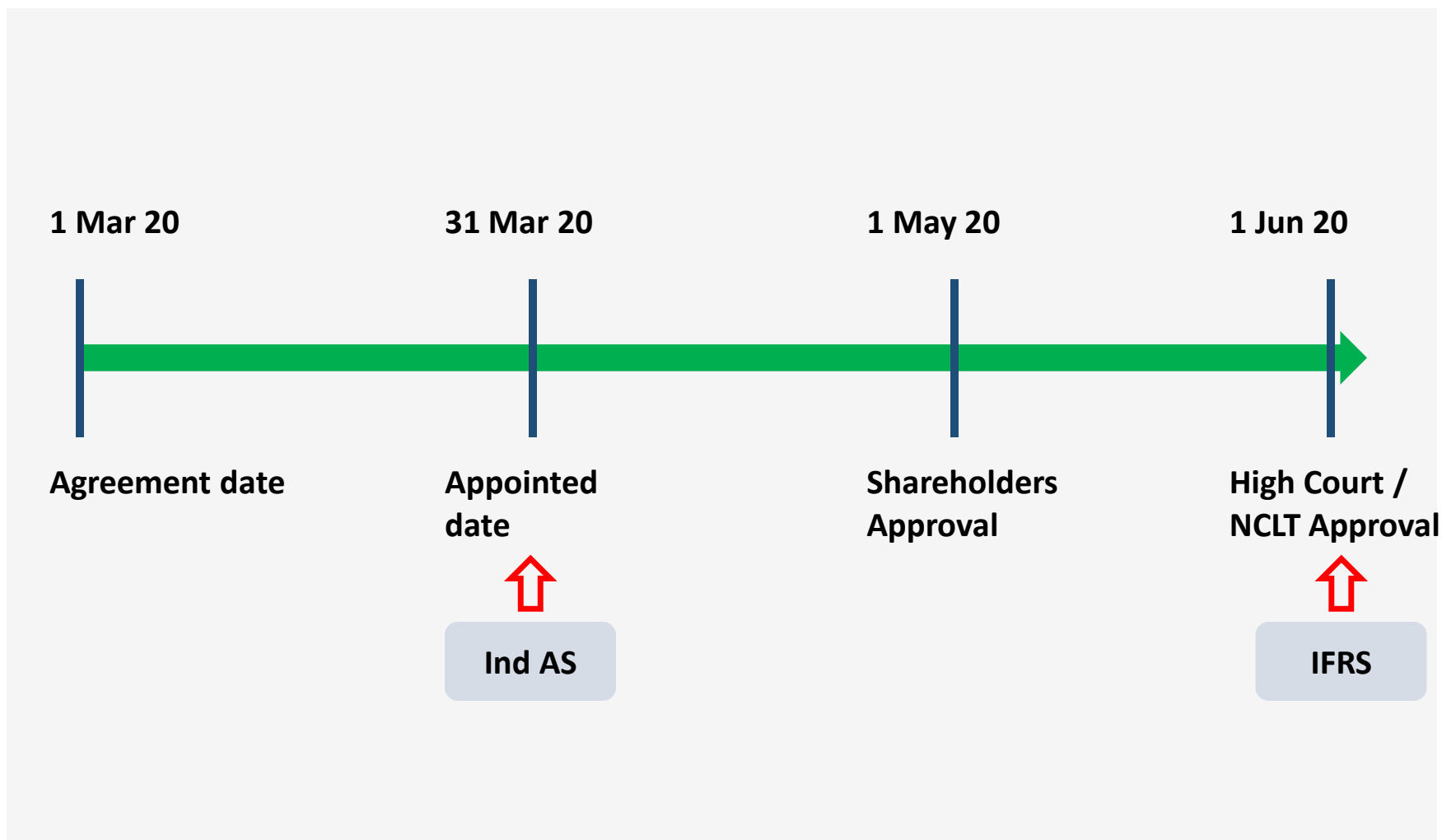
Equity Shares

Preference Shares

Debentures

- Mode / Mix of Consideration (Cash, stock, CCPS, CCD, etc.) and Pricing
- Remittance and Repatriation Modes and Timelines
- Existing Regulations / Proposed Regulations
- Existing Business / Proposed Business
- Target's Country / Investor's Country

7. Effective date of M&A Transaction



Accounting for M&A Transactions

GAAP	Particulars	Remarks
Accounting Standards issued by Central Government	<ul style="list-style-type: none"> AS 14: Accounting for Amalgamations 	<ul style="list-style-type: none"> Purchase Method Pooling of Interest Method
Indian Accounting Standards (Ind AS)	<ul style="list-style-type: none"> Ind AS 103: Business Combinations 	<ul style="list-style-type: none"> Identify the Acquirer (Who obtains control?) Determine Acquisition date Identify and measure Consideration Transferred Identify and measure Identifiable Net Assets Measure Non-controlling interest (NCI) Determine Goodwill or Gain on Bargain Purchase Recognise any measurement period adjustments
International Financial Reporting Standards (IFRS)	<ul style="list-style-type: none"> IFRS 3: Business Combinations 	

Note:

- IFRS 3 and Ind AS 103 is not applicable for acquisition of assets, formation of joint ventures or common control transactions (i.e. merger of 2 subsidiaries).
- The above standards pertain to the accounting of M&A transactions in standalone financial statements of the acquiring company.
- There are separate accounting standards pertaining to Investment in Associates and Joint Ventures / Joint Arrangements and Consolidated Financial Statements.

8. Opportunities for CAs in M&A – Select Profiles

- Fund / Investor team
- M&A team of Corporate
- Investment Banking
- Valuations
- Due Diligence
- Pre and Post Transaction Support
- M & A Tax and Regulatory Advisory
- Forensics and FCPA
- IBC Support
- Negotiation Support
- Roles with Ecosystem Partners

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