



N P T E L O N L I N E C E R T I F I C A T I O N C O U R S E S

MERGERS, ACQUISITIONS AND CORPORATE RESTRUCTURING

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LECTURE: 1
Introduction to Mergers and
Acquisitions – I

- Mergers and Acquisitions (M&A) Defined
- M&A as an Alternate Corporate Growth Strategy
- Mergers and Acquisitions (M&A) Trend in India
- M&A Terminologies



Keywords

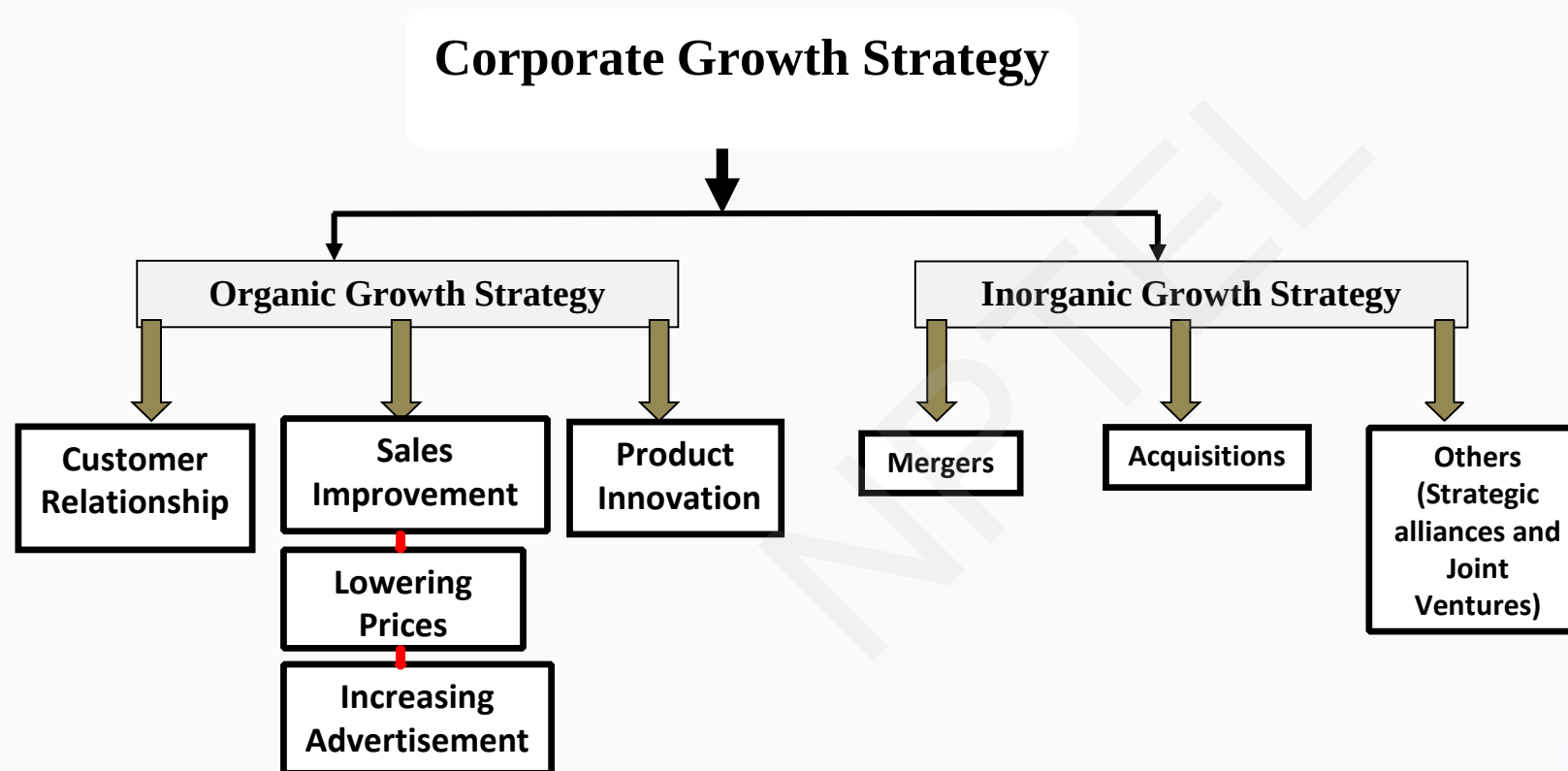


- Mergers
- Amalgamation
- Acquisition
- Corporate Growth

Mergers and Acquisitions Defined

- **Merger:** A transaction where two firms integrate mutually to form a new entity . It is the fusion between two companies for expansion or to get a competitive advantage over other firms or to gain market share. Mergers are also known as **amalgamation**.
- **Acquisition:** A business transaction where one firm buys another firm to gain control over the firm and to use its strengths to expand or capture the market share. It can also be an instrument to reduce the costs in the business and also to reduce competition.

M&A as an Alternate Corporate Growth Strategy



M&A Trend in India

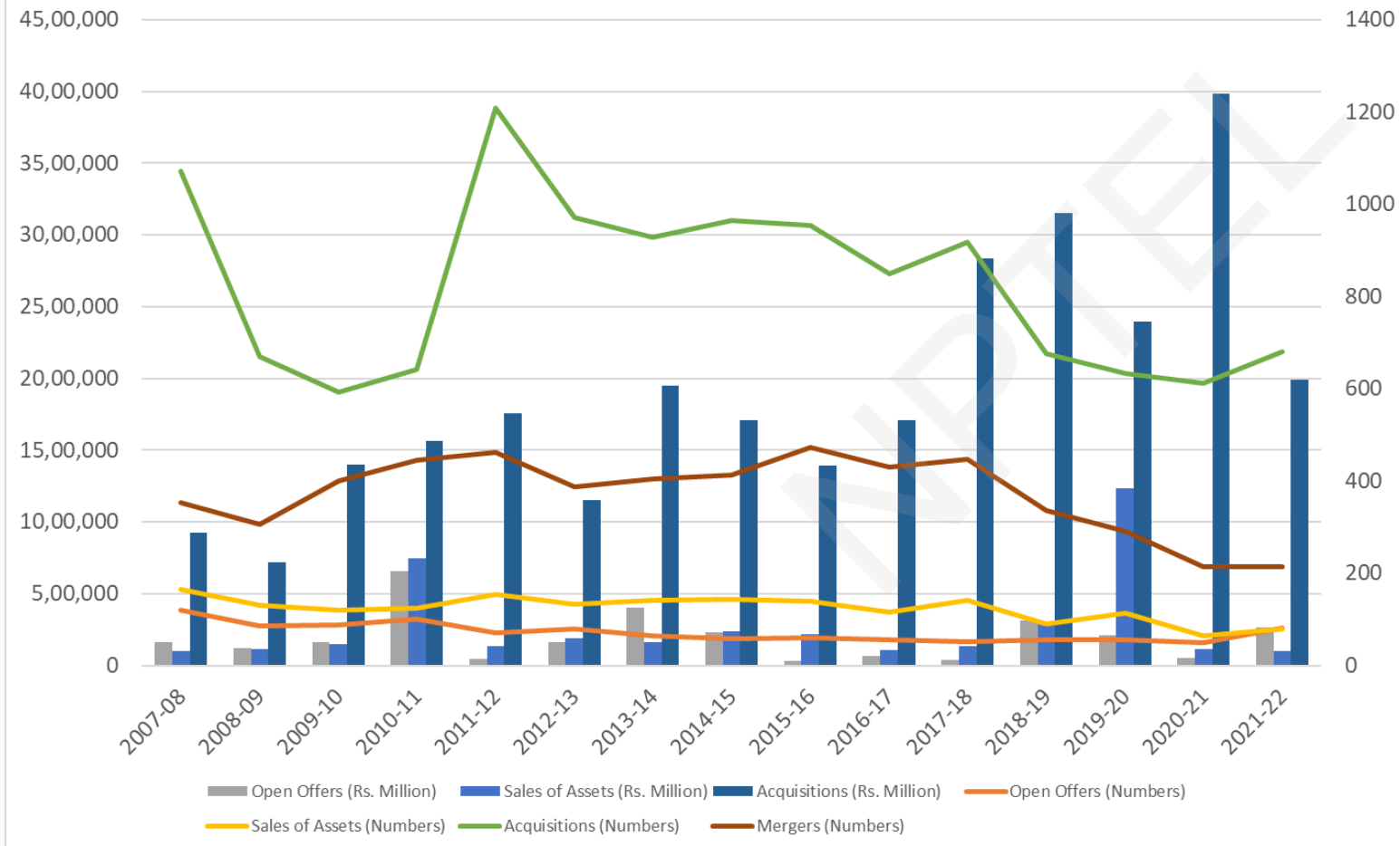
Mergers & Acquisitions Activity in India							
2007-08 to 2021-22							
Year	Open Offers (Numbers)	Open Offers (Rs. Million)	Sales of Assets (Numbers)	Sales of Assets (Rs. Million)	Acquisitions (Numbers)	Acquisitions (Rs. Million)	Mergers (Numbers)
2007-08	120	1,60,377	165	99,054	1,072	9,26,303	354
2008-09	85	1,24,003	130	1,17,074	670	7,16,377	307
2009-10	87	1,60,716	119	1,49,809	592	13,98,587	400
2010-11	101	6,55,934	124	7,44,628	642	15,64,259	445
2011-12	71	45,686	155	1,33,411	1,208	17,57,725	462
2012-13	80	1,63,767	132	1,89,420	972	11,50,588	388
2013-14	65	4,05,887	142	1,59,858	928	19,49,137	404
2014-15	57	2,31,534	143	2,35,473	965	17,11,297	413
2015-16	60	30,318	139	2,18,803	953	13,89,859	473
2016-17	55	68,429	116	1,07,195	849	17,06,707	430
2017-18	51	37,593	141	1,32,972	917	28,37,705	447
2018-19	55	3,12,050	90	3,07,617	676	31,54,119	335
2019-20	56	2,07,355	113	12,35,461	634	23,92,557	292
2020-21	49	53,987	65	1,12,582	612	39,84,053	213
2021-22	81	2,68,361	80	98,393	680	19,88,663	213

Source: <https://economicoutlook.cmie.com/> accessed on 17 October 2022

M&A Trend in India, contd..

M&A Trend in India [2007-08 to 2021-22]

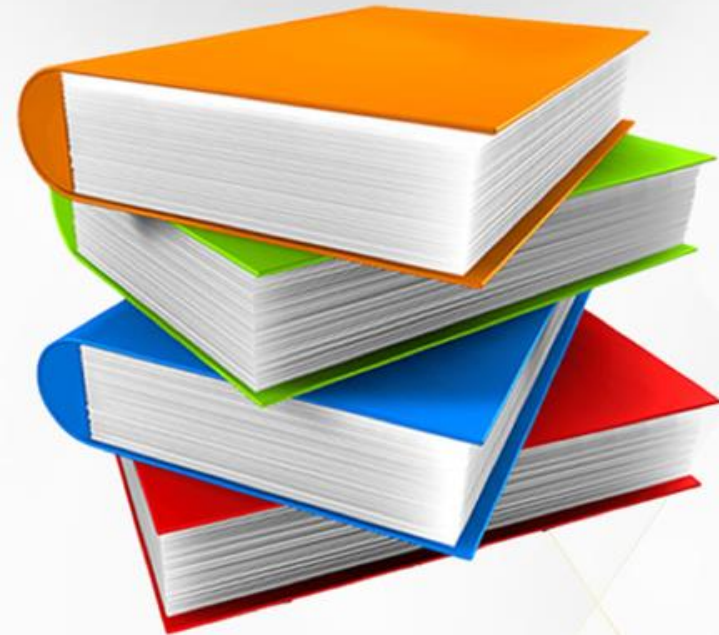
Source of data: <https://economicoutlook.cmie.com/>
accessed on 17 October 2022



M&A Terminology

- ❑ Merger
 - ❑ Negotiated deals
 - Mutuality of negotiations
 - Mostly friendly
- ❑ Acquisitions/ Takeover (Tender offers / Open offers)
 - ❑ Offer made directly to the shareholders (friendly takeover)
 - ❑ Hostile when offer made without approval of the board (hostile takeover)
- ❑ Corporate Restructuring
 - ❑ Changes to improve operations, policies, and strategies

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2. Sherman, A. J. (2022). Mergers and Acquisitions from A to Z. HarperCollins
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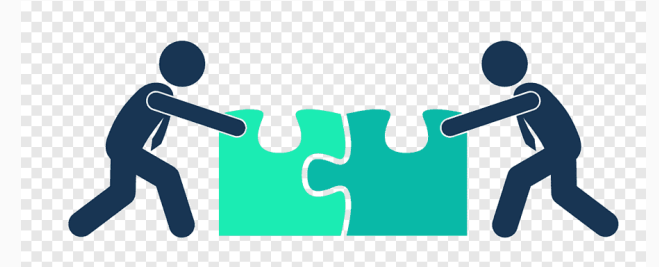
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LECTURE: 2
Introduction to Mergers and
Acquisitions – II

- Types of Mergers and Acquisitions (M&A)
- Motives for M&A



Keywords



- Horizontal Merger
- Vertical Merger
- Conglomerate Merger
- Merger Motives
- Synergies

Types of Mergers and Acquisitions (M&A)

- Horizontal mergers
 - Between firms in same business activity
 - Rationale
 - Economies of scale and scope
 - Synergies (ex. combining of best practices)
 - Operating synergies
 - Financial synergies
- Vertical mergers
 - Combinations between firms at different stages
 - Forward
 - Backward
 - Goal is information and transaction efficiency

Types of Mergers and Acquisitions (M&A), contd..

- Conglomerate mergers
- Congeneric Mergers
- Reverse Mergers
- Buyouts
 - Leverage Buyouts
 - Management Buyouts
- Acquisition of assets vs acquisition of shares

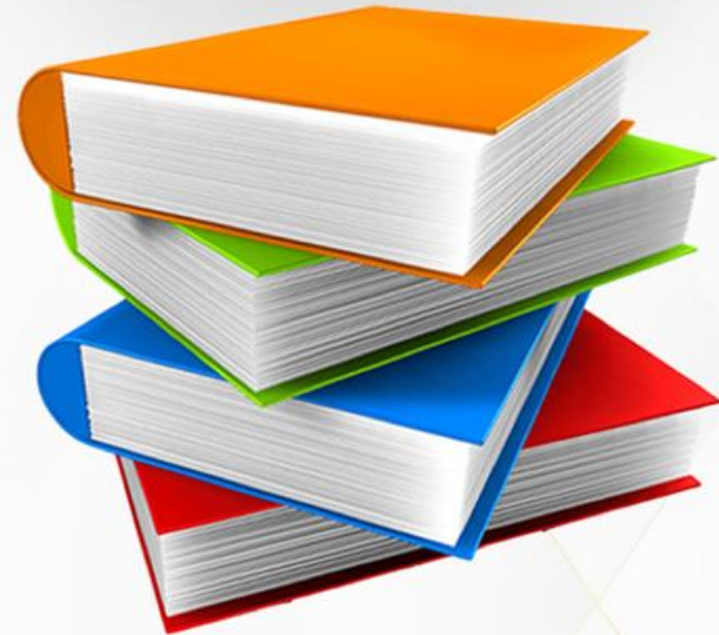
Motivations of M&A

- Economies of scale and scope
- Restructuring Industry value chain and revenue enhancement
- To enhance process engineering and technology
- Desire to reduce the number of competitors (increase market share/ reduce price competition)

Motivations of M&A, contd..

- Access to key resources like manpower and R&D
- To redeploy excess capital in more profitable or complementary uses and to properly access under utilized resources
- To obtain tax benefits
- A desire to diversify into new products and services or into new geographic markets

REFERENCES



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LECTURE: 3

Theories of Mergers and Acquisitions

- Change forces driving mergers and acquisitions
- Theories of mergers and acquisitions
- Examples of corporate growth through M&A
- Merger as a process of value creation
- Measuring success of M&A



Keywords



- Merger Theories
- Operating synergy
- Financial synergy
- Hubris
- Managerialism
- Post M&A performance

Driving Forces for Mergers and Acquisitions*

1. Technological change
2. Barrier free trade and globalization
3. Changes in industry organization
4. Upcoming of new industries
5. Deregulation and regulation
6. Changes in economic and financial conditions (both favourable and unfavorable)
7. Bad corporate governance

** Adapted from: Mergers and Acquisitions by Weston and Weaver, 2002, Tata McGraw Hill*

What Causes M&A – the Theories**

- ❖ Operational Synergy
 - ❖ Economies of scale
 - ❖ Economies of scope
 - ❖ Complementary technical assets and skills
- ❖ Financial synergy
 - ❖ Lower cost of capital
 - ❖ Coinsurance effect
 - ❖ Lower transaction or floatation cost
- ❖ Diversification
 - ❖ New product / current markets
 - ❖ New product/ new market
 - ❖ Current product/new market

** Adapted from DePamphilis (2019)

What Causes M&A – the Theories, contd..

- ❖ Strategic realignment
 - ❖ Technological change
 - ❖ Regulatory and political change
- ❖ Hubris (Managerial pride)
- ❖ Buying undervalued assets (low Q ratio)
- ❖ Managerialism (Agency problem)
- ❖ Tax consideration
- ❖ Market power

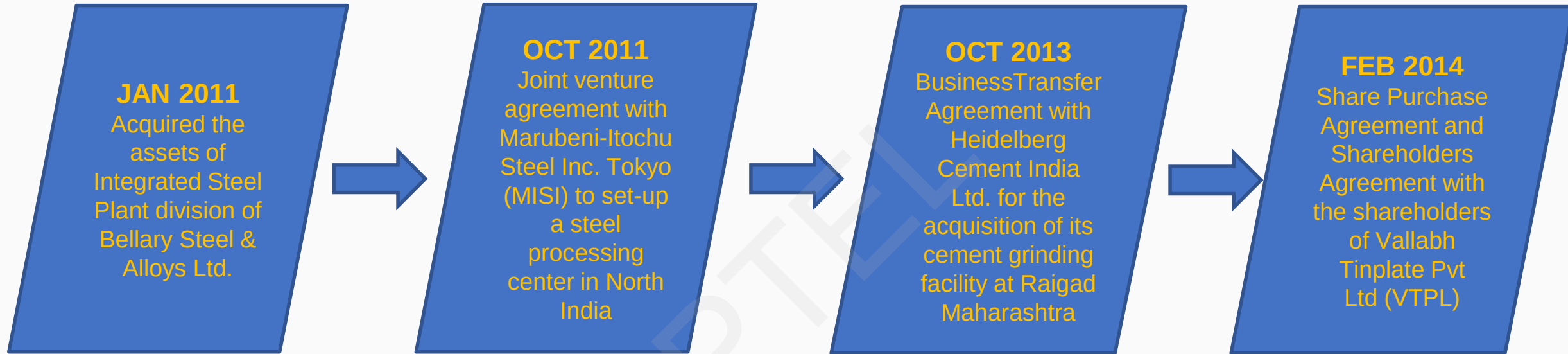
Merger as a Process of Value Creation

- Identifying the right target
- Estimation of synergy and performing due diligence
- Deal negotiation and structure
- M&A integration with efficient communication (internally as well as externally)
- Designing effective roadmaps for future M&A deals (skilled professionals).

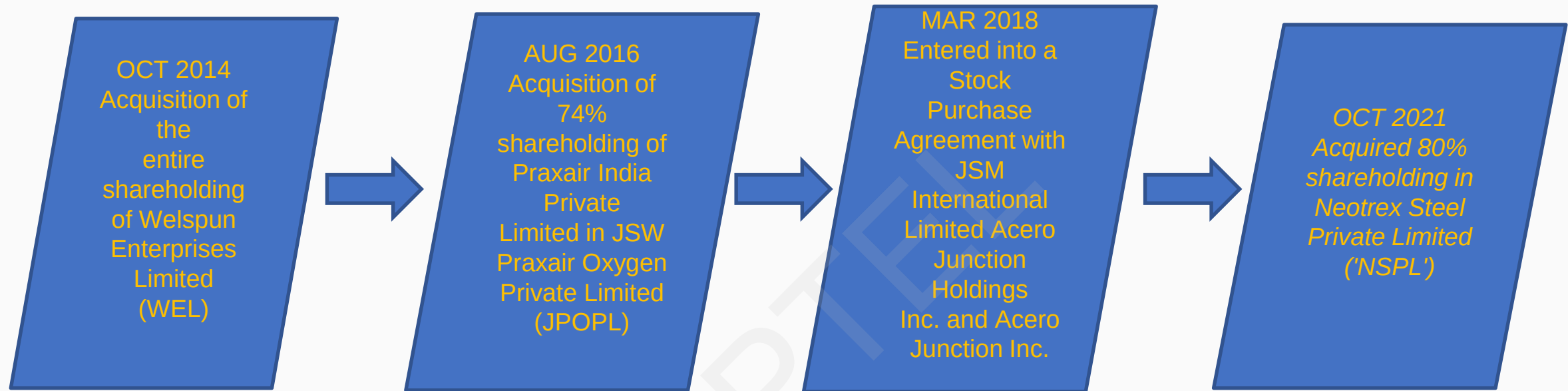
Measuring success of M&A

- Short term performance measures
 - Market return of acquiring as well as target stock
 - Excess return over market
- Long term performance measures
 - Achievement of stated objectives – operating / financial
 - Operating metrics
 - Financial measures with help of financial ratios
 - Long term market return of acquiring company stock vis-à-vis peer group/ market

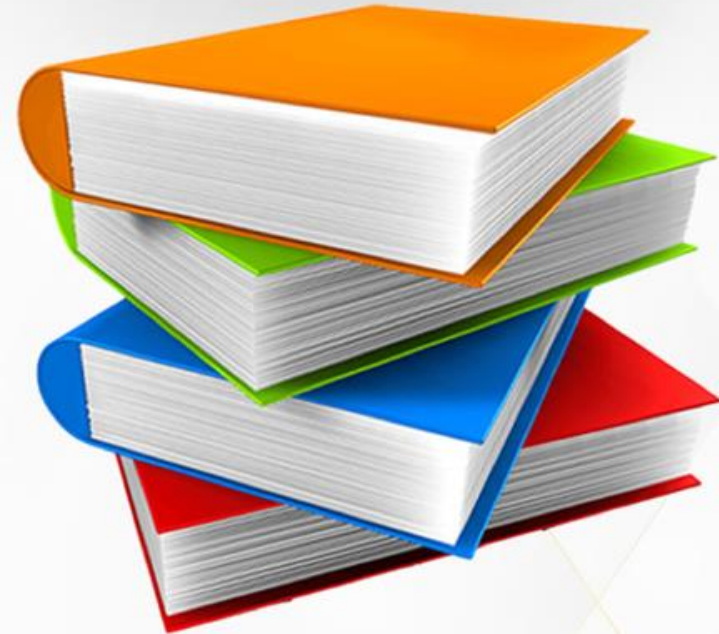
Growth of JSW Steel Limited through M&A



Growth of JSW Steel Limited through M&A, contd..



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1. Bruner, R. F., & Perella, J. R. (2004). Applied mergers and acquisitions, John Wiley & Sons.
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LECTURE: 4

LEGAL ENVIRONMENT OF M&A IN INDIA

oncepts covered



1. **Legal Definitions Of Merger And Acquisitions**
2. **Acts and Regulations affecting M&A**
3. **Select information with respect to acquisitions of companies in India by foreign entities.**

Keywords



- ❖ Merger
- ❖ Amalgamation
- ❖ Takeover
- ❖ Companies Act, 2013
- ❖ SEBI Takeover Guidelines

Acquiring/ Merging Companies be Aware



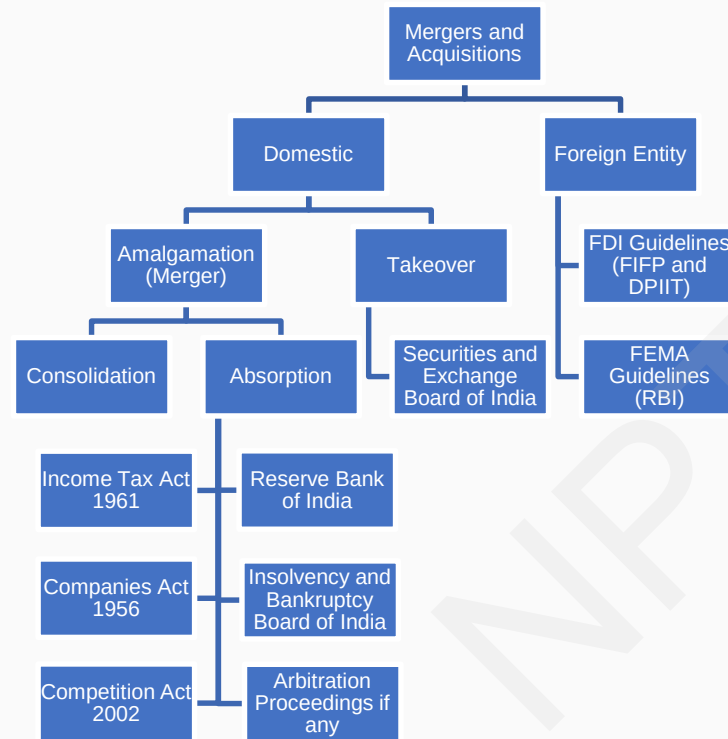
1. Compliance with Companies Act
2. Shareholding pattern and issuance of securities
3. Compliance with tax laws
4. Compliance with financing regulation
5. Contracts entered with employees of the organisation including key managerial personnel and outside parties.
6. Compliance with Competition Act provisions

Acquiring/ Merging Companies be Aware, Contd..



7. Terms and conditions of various loan contracts (pledge, collateral, guarantees, etc.) and legal obligations
8. License and permits involved with business operations
9. License and permits involved with imports and exports
10. Issues on intellectual property rights
11. Special provisions in the legal documents of the company
12. Compliance to environmental law provisions
13. Any outstanding legal cases in the court of law

M&A Regulatory System in India



Source: Adapted from Kapil and Kapil (2017) and websites of different regulators

Legal Definitions of Merger

- **Merger:** According to companies act 2013, the word merger states that “A merger is a combination of two or more entities into one; the desired effect being not just the accumulation of assets and liabilities of the distinct entities, but organization of such entity into one business.”
- However In India, merger is also defined by the term “Amalgamation.”
- Section 230-234 of Companies Act, 2013 govern different aspects in case of merger of companies.

Legal Definitions of Merger, Contd..

- **Amalgamation:** Amalgamation as per section 2(1B) of Income Tax Act, 1961 means merger of either one or more companies with another company or merger of two or more companies to form one company in such a manner that:
 - All the property of the amalgamating company/companies becomes the property of the amalgamated company.
 - All the liability of the amalgamating company/companies becomes the liability of the amalgamated company.
 - Shareholders holding minimum 75% of the value of shares in the amalgamating company (other than shares already held therein immediately before the amalgamation by, or by a nominee for, the amalgamated company or its subsidiary) become share holders of the amalgamated company.

Steps Involved in Merger/ Amalgamation Process

- Observing Memorandum of Association (MOA) of companies involved
- Arrange board meeting and preparation of scheme document and valuation report
- Application to National Company Law Tribunal (NCLT) [*High Court, as per Companies Act, 1956*]
- Notice to Stock Exchange(s)
- NCLT approves time, date, venue of the board meeting for merger
- Schedule of General meeting for passing of scheme document
- Reporting of results of the meeting(s)
- Seeking approval from the NCLT
- Filing of certified copies with the Registrar of Companies

SEBI Guidelines for Takeover / Substantial Acquisitions of Shares in India



- In India the acquisition of a company or takeover is regulated by Securities and Exchange Board of India Act 1992 (SEBI) through substantial acquisition of shares and takeover regulations 1997
- As per the SEBI Act, an acquirer means any person who, directly or indirectly, acquires or agrees to acquire shares or voting rights in the target company, or acquires or agrees to acquire control over the target company by himself or with persons acting in concert, directly or indirectly by virtue of their shareholding or management rights or shareholders agreements or voting agreements or any other manner
- Here “control” includes the right to appoint majority of the directors or to control the management or policy decisions in the company

SEBI Guidelines for Takeover / Substantial Acquisitions of Shares in India, Contd..



- Substantial acquisition of shares or voting rights of the target company can be viewed in two context: From the prospective of threshold limit of disclosure and from the threshold limit for open offer
- **Threshold limit for disclosure of substantial holding in target company:**

When shares or voting rights of an acquirer increases to :

- ✓ 5%,10%,or 24.9% - Target company he is required to disclose his aggregate shareholding at every stage to the concerned target company and stock exchange
- ✓ More than 25% but less than 55% - the acquirer company if trades (buy/sell) about 2% or more in the target company, it is required to disclose about his cumulative shareholding every year to both the concerned target company and stock exchange.

SEBI Guidelines for Takeover / Substantial Acquisitions of Shares in India, Contd..



- **Threshold limit for disclosure of substantial holding in target company (contd..):**

When shares or voting rights of an acquirer increases to :

- ✓ More than 25% - the acquirer company has to disclose his ownership to the target company within 21 days from the end of the financial year for purpose of dividend declaration
- ✓ The target company has to disclose to the concerned stock exchange within 30 days from the financial year ending about the ownership of the acquirer company for purpose of dividend declaration

- **Threshold limit for open offer**

When the ownership of the acquirer company increases to 25% or more of shares and voting rights in the target company, then the acquiring company has to make a minimum public offer of additional 26% of the remaining shareholders of the target company.

Competition Act, 2002



- Its predecessor- Monopolies and Restrictive Trade Practices(MRTP) Act, 1969
- Competition act, 2002 became operational in may, 2009. competition commission of India (CCI) regulates the law and operated by the competition appellate tribunal (CA)
- Any agreement between companies in areas of procurement, production, distribution of goods and services, acquisition or control of knowledge and information that leads to monopoly has adverse impact in the competition atmosphere of the Indian market
- It regulates anti competitive agreements, abuse of dominant position in the market, and consolidation leading to monopoly creation

Competition Act, 2002, Contd..



As per the Act, combination means :

1. The acquisition of control, shares, or voting right or assets by an acquirer or an enterprise
2. The acquisition, merger, or amalgamation among the enterprise
3. Acquiring of control by a person over an enterprise when such a person has already direct or indirect control over another enterprise engaged in production, distribution, or trading of a similar or identical or substitutable goods or provision of a similar or identical or substitutable service.

Competition Act, 2002, Contd..

The act stated following financial thresholds for the subject of combination:

1. Both parties to the acquisition, jointly have assets of the value more than INR 15 Billion or a turnover more than INR45 Billion in India or India and outside India combining, the assets of the value of \$750 Million of which at least INR7.5 Billion are in India, or Turnover more than\$2250Million of which at leastINR22.5 Billion should be in India
2. Acquisition or Merger, the group to which the enterprise whose shares, control, assets, or voting rights have been acquired or being acquired, would belong after the acquisition, combining have assets worth more than INR 60 Billion or a turnover of more than INR180 Billion in India or in India and outside India, combining, the assets of the value of more than \$3 Billion of which assets worth INR 7.5 Billion should be in India or a turnover of more than \$9 Billion including \$22.5 Billion in India.

The Income Tax Act (ITA) provisions



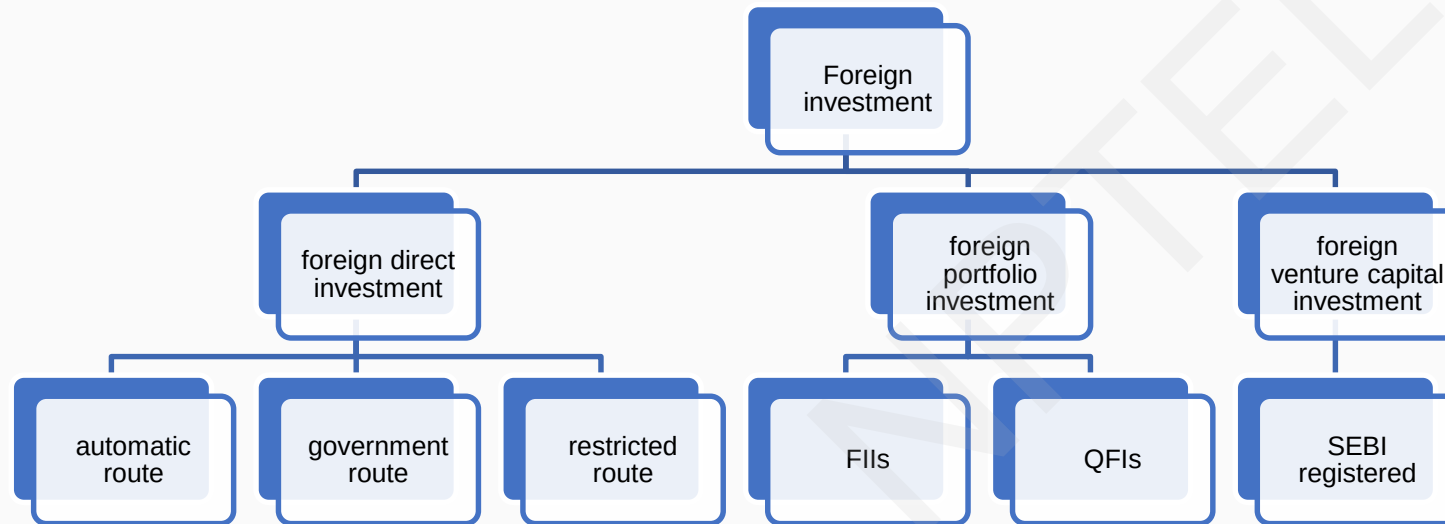
- As per sec 47 (vi) of the ITA, there is an exemption of capital gain tax on merger for amalgamating company provided that the amalgamated company is an Indian company. Any cash consideration received by the shareholders of the amalgamating (target) company is liable to capital gain tax. And the amalgamation should be done in such a manner that:
 - All properties of amalgamating companies becomes properties of amalgamated companies immediately before amalgamation.
 - All liabilities of the amalgamating companies become liabilities of amalgamated companies immediately before amalgamation.
 - Shareholders holding not less than 75% in value of the shares in the amalgamating companies by virtue of amalgamation becomes the shareholders of the amalgamated company.

The Income Tax Act (ITA) provisions, Contd..

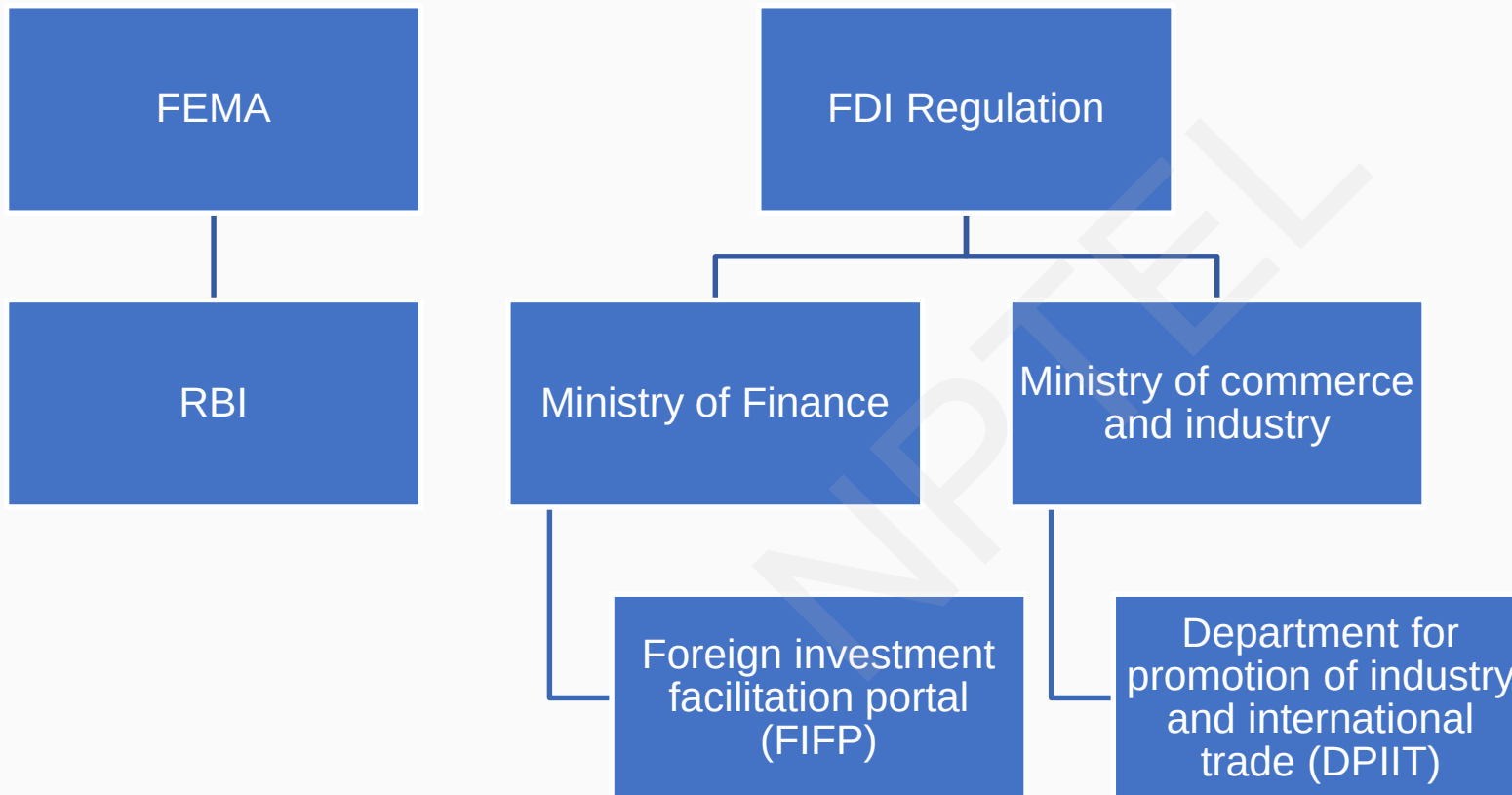


- As per Sec 72A of the ITA, if the sick and poorly performing companies merge with the healthy companies then the benefit can be availed of carry forward loss and unabsorbed depreciation of the amalgamating company
- Tax exemption only applies to the companies formed under companies act 2013 and not other forms of business like sole proprietorship, partnership and cooperative society

Cross Border Merger and Acquisition



M&A through Foreign Direct Investment (FDI)



Amazon's tussle against Reliance and Future: A race to shine Retail Supremacy in India, Contd..



- On Aug 2020, Reliance Ltd. offered an asset sale of worth Rs. 24,713 crores (\$3.4 Billion) to Future Retail Stores which was facing an acute financial crisis.
- In this scheme Future group will merge certain companies like Future Retail, Future Lifestyle Fashions, Future Consumer, Future Supply Chains, and Future Market Networks into Future Enterprises Ltd. (FEL).
- Subsequently Future Enterprises will sell the retail and wholesale business such as Big Bazaar, FBB, Foodhall, Easyday, Nilgiris, Central and Brand Factory to reliance retail and fashion lifestyle ltd. (RRFLL) a wholly owned subsidiary of reliance retail ventures ltd. (RRVL) by way of a slump sale.
- Further Future Group's logistic and warehousing undertaking will be transferred to RRVL.
- Reliance said the deal will complement and be a strategic fit to Reliance's retail business and will help millions of small merchants enhance their income and competitiveness.

Amazon's tussle against Reliance and Future: A race to shine Retail Supremacy in India, Contd..



- In Aug 2019, Amazon had agreed to purchase 49% of Future Coupons Ltd. at Rs. 1400 crore (\$200 Million) in one of Future's unlisted firms. The said deal will give Amazon the right to buy the Future Retail after a period of 3 to 10 years. Amazon argued the deal came with non compete clause.
- Future Coupons holds a 7.3% equity in the Future Retail through convertible warrants.
- Amazon sued against Future Retail Ltd. for arbitration at the Singapore international arbitration center (SIAC) against the violation of its contract.
- **Oct 2020** Amazon won in an EA (Emergency Arbitrator) Award , which barred future retail from taking any further step to sale off its assets.
- **Jan, 2021**: Reliance got the approval of SEBI to take over the business subject to the ongoing arbitration and legal proceedings.

Amazon's tussle against Reliance and Future: A race to shine Retail Supremacy in India, Contd..



- **Mar 18, 2021**: A single member bench order passed by Delhi high court to hold the deal made the Future group to move to the division bench of the Delhi High Court to file against the order.
- **Sep 28, 2021** : NCLT dismissed the application filed by Amazon and allowed the Future Group to hold meetings of shareholders and creditors to seek approval for the Asset Sale by Reliance.
- **Dec 2021** CCI (Competition Commission of India) suspended the deal between Amazon and Futures citing the former fails to notify certain commercial arrangements in the 2019 deal and also CCI imposed 200 crores penalty on Amazon.
- **Feb 25, 2022**: Unable to pay the lease payments, Reliance transferred some of the leases of Future's to its name and taken over 500 stores out of more than 1700 outlets and sublet them to the struggling Future's to operate.

Amazon's tussle against Reliance and Future: A race to shine Retail Supremacy in India, Contd..



- **Feb 28, 2022** : NCLT ordered Future group to conduct a meeting of shareholders and creditors to seek approval for the deal.
- **Mar3, 2022** : Amazon proposed to hold discussion with Future and Reliance to resolve the issues. Supreme court approved a 15 days timeline for settlement between them.
- **April, 2022** : A consortium of lenders lead by Bank of India moved to NCLT seeking insolvency resolution proceedings against Future group.
- **April 23, 2022**: Reliance calls off the \$3.4 Billion deal with Future group as secured lenders of the company voted against the deal, although shareholders and unsecured creditors have support for the deal.

Amazon's tussle against Reliance and Future: A race to shine Retail Supremacy in India, Contd..

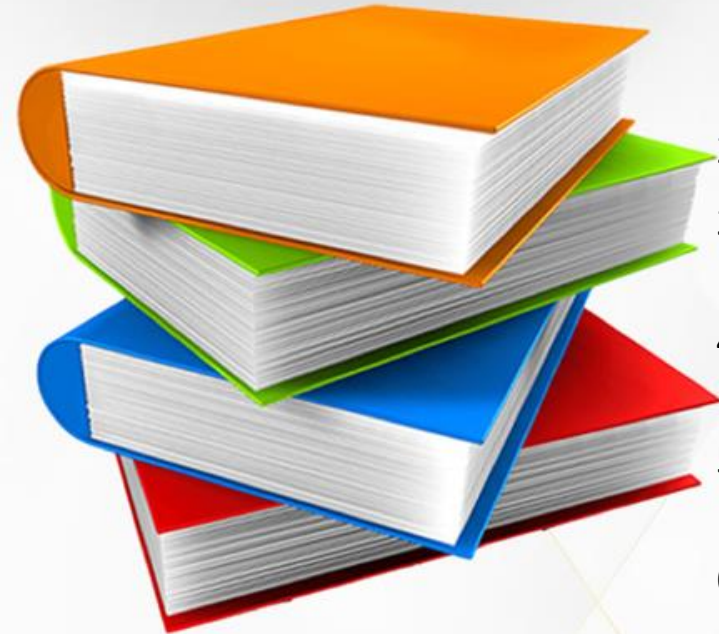


- **June 23, 2022:** NCLAT has said that amazon failed to make fair, frank, and forthright disclosures related to the deal and upheld the CCI's order and directed a penalty of 200 crore.
- **July 20, 2022:** On a petition by Bank of India (which owe more than 15000 crores) the NCLT rejected Amazon's petition and approved to start bankruptcy resolution process for Future Group.
- **Sep 5, 2022:** Amazon went to Supreme Court to challenge against the order of NCLAT.

CONCLUSION

- ❖ Mergers and Acquisitions involve several legal issues spanning different Acts and Regulations in a particular country. The companies need to comply with all such regulations.
- ❖ In case of cross-border acquisitions the compliance becomes manifold.
- ❖ The acquiring company needs to be diligent about the target company with respect to all legal aspects. It will help avoid pitfalls in future.

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5. Kapil and Kapil (2017). Mergers and Acquisitions: Strategy, Valuation, Leverage buyouts, and Financing. Wiley India
6. Various Newspaper Articles Covering the news about the Asset sale deal between Future and Reliance and the opposition by Amazon.



Thank you





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LECTURE: 5
CASE STUDIES - DO M&A PAY?

1. **Case studies on M&A by Companies in India**
 - a. **Hindustan Unilever Limited**
 - b. **Crompton Greaves Limited**
2. **Post M&A Performance**
3. **Success factors of M&A**

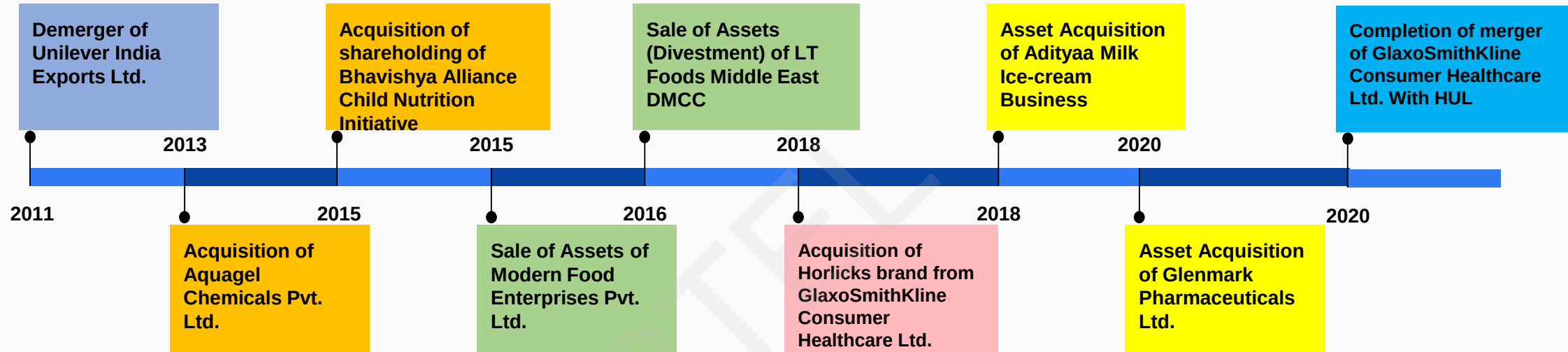


Keywords



- ❖ Growth through M&A
- ❖ M&A Success
- ❖ Economic Profit
- ❖ ROCE
- ❖ Asset Turnover Ratio

M&A at Hindustan Unilever



Predominantly, M&A deals were focused on **strengthening Foods & Refreshments and Beauty & Personal Care Segment** of the Business

Crompton Greaves' Mergers and Acquisitions (1990 – 2012)



About Crompton Greaves

- Crompton Greaves was incorporated in the year 1937. It is engaged in designing, manufacturing and marketing high technology, electrical products and services related to power generation, transmission, distribution and execution of turnkey projects
- It's three core business groups are namely, Power Systems, Industrial Systems and Consumer Products
- The company manufactures a wide range of products such as power & industrial transformers, HT circuit breakers, LT & HT motors, DC motors, traction motors, alternators/generators, railway signaling equipment, lighting products, fans, pumps and public switching, transmission and access products
- It not only had a strong presence in the domestic market but, it also had spread its business in the Southeast Asian and Latin American markets

Major Motives of Crompton Greaves behind M&A Strategy

- Make product portfolio wide and acquire new technology
- Objective of cost cutting and exiting unrelated businesses
- Transform from a product Co. to a complete solution-provider
- Improve operational efficiency & Increase capacity
- Vision of CG in top ten power transformer manufacturers
- Expand business globally entering into new markets

Other Motives of Crompton Greaves behind M&A Strategy

- Gain technological competence, acquire intellectual property and R&D
- Acquiring brand name, increase in EPS
- Access to new customers or distribution channels
- To attain economies of scale and scope.
- To acquire human skills or talent, face competition, respond to changing industry concentration
- Better use of free cash
- Reduction of tax of the combined company.

M&A by Crompton Greaves

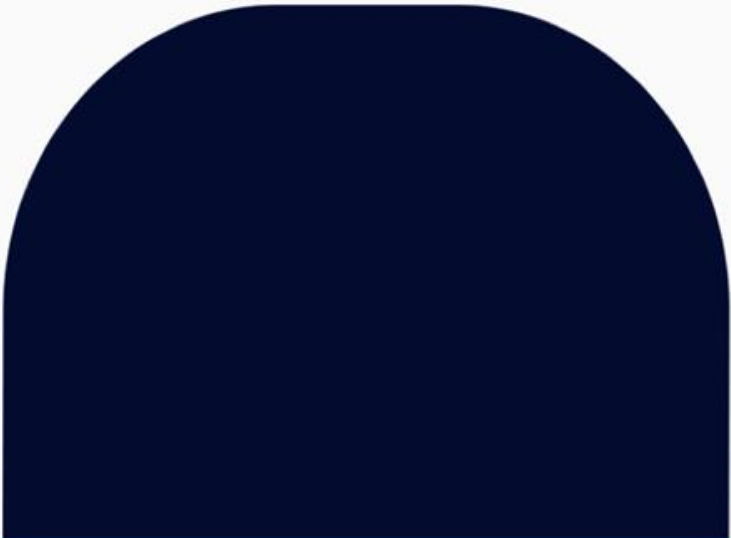
Deal year	Deal type	Target company	Industry
1990	Merger	Kerala Electric Lamp Works Ltd.	Domestic Electrical Appliances
1997	Merger	Kersons Manufacturing Co. of India Ltd	Electrical Machinery
1997	Merger	Goa Electricals & Fans Ltd.	Domestic Electrical Appliances
1999	Merger	Punjab Power Generation Machines Ltd.	Boilers & Turbines
2000	Merger	CG Polycrete Ltd.	Electrical Machinery
2004	Acquisitions	CG Energy Management Ltd	Financial Services
2006	Acquisitions	Malanpur Captive Power Ltd.	Electricity Generation
2006	Acquisitions	Ganz Transelektro Villamossagi Z R T	Electrical Machinery
2007	Acquisitions	Microsol Holdings Ltd	Software

M&A by Crompton Greaves

Deal year	Deal type	Target company	Industry
2008	Acquisitions	Societe Nouvelle De Maintenance Transformateurs (Sonomatra)	Services for Electrical Machinery
2008	Acquisitions	M S E Power Systems Inc.	Electrical Machinery
2009	Acquisitions	Avantha Power & Infrastructure Ltd.	Electricity Generation
2010	Merger	Brook Crompton Greaves Ltd.	Generators, Transformers & Switchgears
2010	Acquisitions	Power Technology Solutions Ltd.	High Voltage Electrical Engineering
2011	Merger	C G Capital & Investments Ltd.	Investment Services
2011	Acquisitions	Emotron Ab	Electrical Equipment
2011	Acquisitions	Q E I Inc.	Electrical Equipment
2012	Acquisitions	ZIV Group	Electrical Equipment

Crompton Greaves’ Motives behind the M&A Deals: Examples

M&A Deals	Crompton Greaves’ M&A Motives	Significant Benefits Derived by Crompton Greaves
Pauwels Trafo Group (Belgium, 2005)	<ul style="list-style-type: none"> To expand business globally and strengthen its international presence through access to Belgium, Ireland, Canada, the US and Indonesia, which are the locations where Pauwels had manufacturing facilities and where market penetration by a foreign entity is difficult. To increase Crompton Greaves’ turnover by 75% in 2006 thereby securing the company’s position amongst world’s top ten power transformer manufacturers To have access to technology for transformer up to 525 KW, slim transformer, mobile substations 	Improved core competence in the power systems business



Crompton Greaves' Motives behind the M&A Deals: Examples, contd..

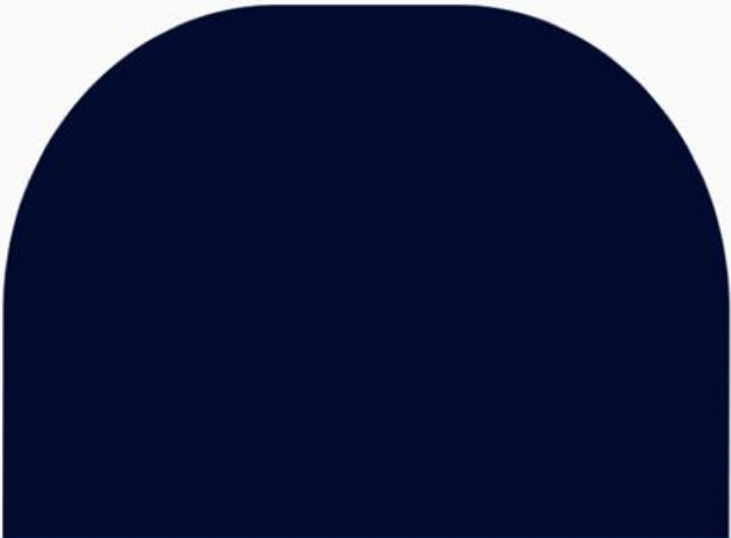
M&A Deals	Crompton Greaves' M&A Motives	Significant Benefits Derived by Crompton Greaves
Microsol Holdings (Ireland, 2007)	<ul style="list-style-type: none">To become “full solutions provider” and to reinforce the power business's ability to design, build and service world-class substations with state-of-the-art automation	Improved core competence in the power systems business
Sonomatra4 (France, 2008)	<ul style="list-style-type: none">To enhance the company's capabilities in the services segment of its transmission and distribution business	Increased profit/revenue

Crompton Greaves' Motives behind the M&A Deals: Examples, contd..

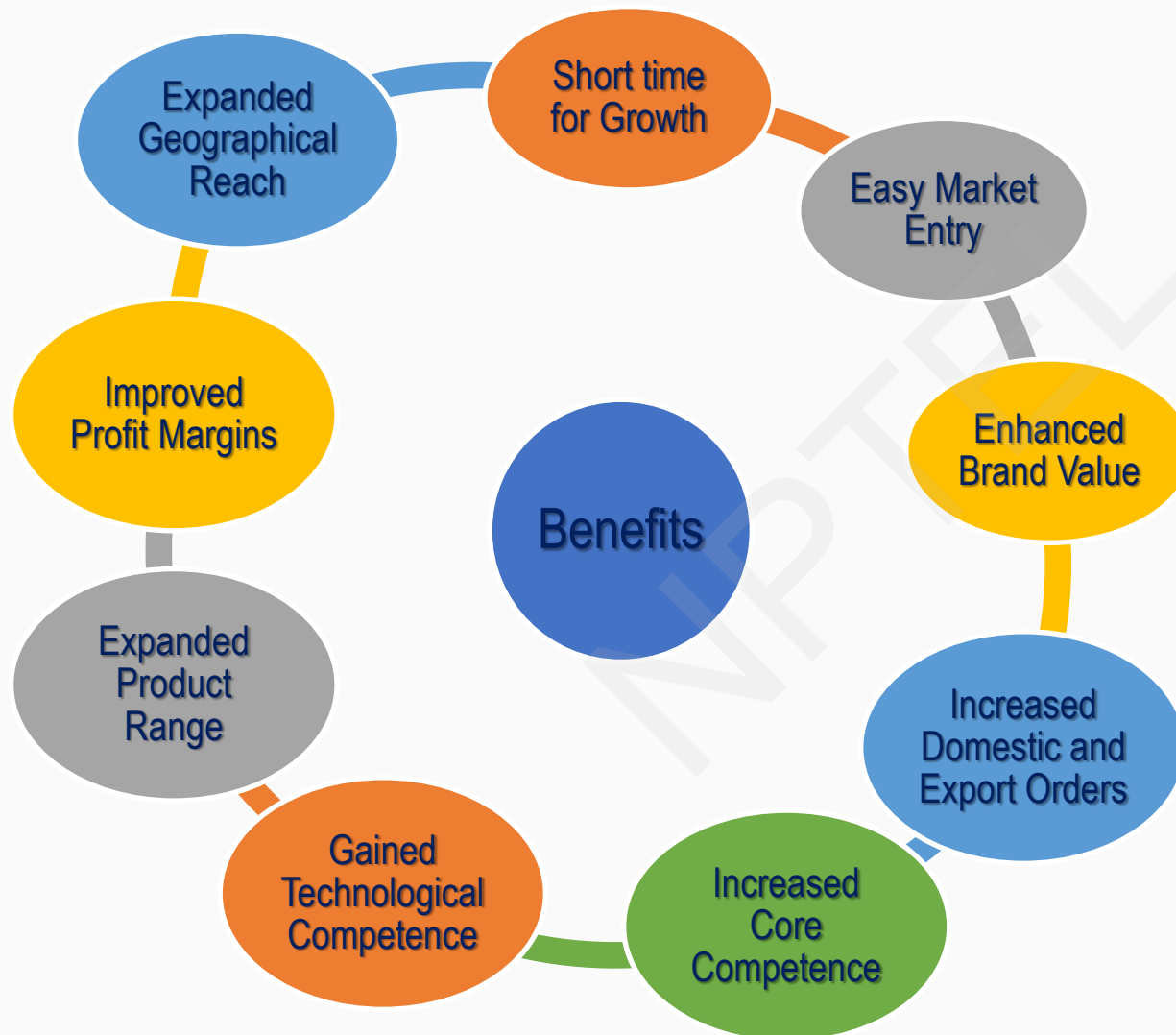
M&A Deals	Crompton Greaves' M&A Motives	Significant Benefits Derived by Crompton Greaves
MSE Power Systems (US, 2008)	<ul style="list-style-type: none"> To increase its strength as a systems Integrator in the EPC international business arena, particularly in the renewable energy (wind) segment 	Improved core competence in the power systems business
Avantha Power and Infrastructure Limited (2009)	<ul style="list-style-type: none"> To expand its presence in power generation, transmission and distributing business 	Improved core competence in the power systems business
Power Technology Solutions (UK, 2010)	<ul style="list-style-type: none"> To gain significant consolidation in the engineering, procurement & maintenance (EPM) segment in the UK and get access to newer markets and expand product portfolio 	Improved core competence in the power systems business
NELCO (India, 2010)	<ul style="list-style-type: none"> To enable the company to become a stronger and more comprehensive player in the railway business segment 	Brought new technology

Crompton Greaves’ Motives behind the M&A Deals: Examples, contd..

M&A Deals	Crompton Greaves’ M&A Motives	Significant Benefits Derived by Crompton Greaves
Emotron Group5 (Sweden, 2011)	<ul style="list-style-type: none"> To bridge the gap in the automation solutions space for the firm’s industrial business To enable the company to offer integrated solutions along with its profound application domain knowledge of motors in India To build capability for a global presence in offering comprehensive energy saving solutions 	Brought new technology
QEI Inc6 (US, 2011)	<ul style="list-style-type: none"> To exploit on the distribution automation market in North America, India and Europe To access to customer references of large utilities in the US and electrified transit for railways 	Brought new technology
ZIV group (Spain, 2012)	<ul style="list-style-type: none"> To expand business operations in the emerging sector of the Smart Grid. ZIV, which provides digital equipment for grid automation and Advanced Metering Infrastructure has so far installed □14 lakh IEDs for utilities and industries across the world 	Improved core competence in the power systems business



Summary of Benefits from M&A by Crompton Greaves



M&A Decision Making at Crompton Greaves*

- Crompton Greaves always **preferred power systems** then followed by industrial system and then consumer products for the purpose of acquisition.
- Crompton Greaves **prefer acquisition** than merger deals among these two inorganic growth strategies.
- Crompton Greaves scouted for targets **both in India and abroad**
- The important thing is that company determines whether a particular **M&A deal is successful or not, only after two years of M&A** deal is done.
- The officials have always **closed the deals efficiently** within the **stated timelines** of the process
- One of the successful thing is that Crompton Greaves **has never come across any regulatory or legal factors that have hindered** its M&A process
- On areas like lead advisory, financial due diligence, tax structuring, environment, and human resources advises are taken from **investment bankers** appointed by the company

* Source: Responses to the questions in a questionnaire filled in by an executive of CG involved in M&A.

M&A Decision Making at Crompton Greaves contd..

- A **dedicated team of senior executives** from managerial level led by the General Manager (M&A) is involved in the start to finish for a particular merger and acquisition deal.
- Crompton Greaves **uses its existing reserves or cash flow** to finance acquisition deals.
- Crompton Greaves **prefers cash (mix of debt and equity)** mode of payment because its balance sheet has good scope for leveraging before going in for further issue of equity, as cost of equity is higher than debt.
- Crompton Greaves made M&A deals which are being influenced by market environment/macroeconomic indicators or when there is a sound financial market to fund deals or when a good opportunity arises **(low cost target firm)**.

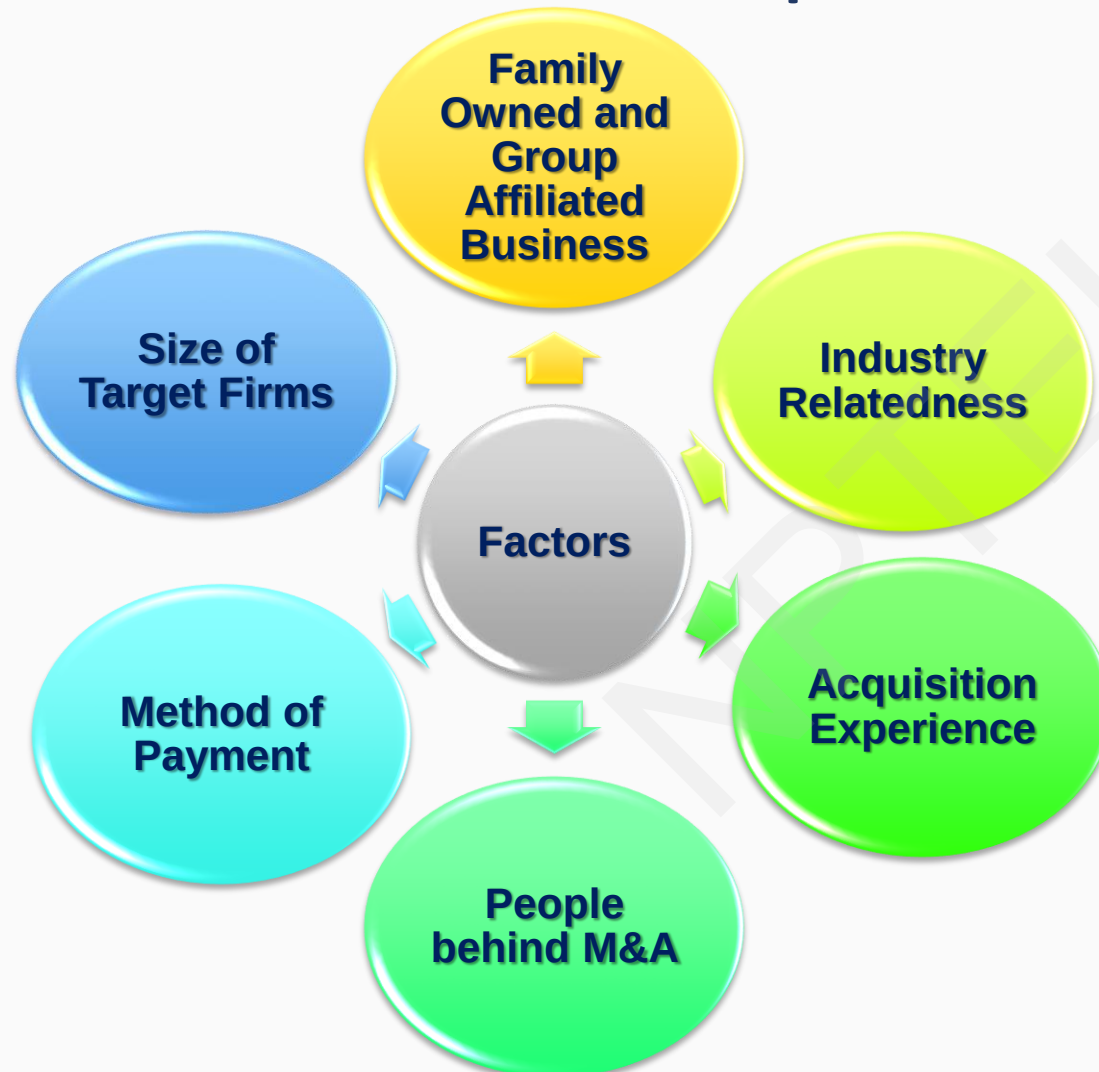
Post-M&A Performance of Crompton Greaves (CG) vs. Comparable Firms (CFs)



Year	Economic Profit (EP in Rs. Crore)	Rate of EP		ATR		ROCE		ICR	
	CG	CG	CFs	CG	CFs	CG	CFs	CG	CFs
2000-01	-118.81	-0.40	-0.02	0.91	1.08	-0.02	0.16	-0.17	2.50
2001-02	-34.20	-0.12	-0.04	0.88	1.09	0.02	0.11	0.20	2.52
2002-03	-32.63	-0.10	-0.10	1.05	0.94	0.10	0.07	1.09	2.20
2003-04	20.30	0.06	-0.05	1.04	0.89	0.13	0.12	1.56	3.17
2004-05	59.15	0.16	-0.07	1.20	0.89	0.20	0.11	3.26	7.69
2005-06	99.70	0.22	-0.04	1.67	1.00	0.21	0.12	6.07	4.98
2006-07	111.92	0.19	-0.03	1.69	1.31	0.29	0.14	7.84	5.13
2007-08	200.12	0.25	-0.01	1.80	1.70	0.36	0.16	10.62	15.62
2008-09	239.75	0.22	-0.03	1.84	1.36	0.52	0.20	16.41	10.07
2009-10	400.80	0.27	-0.03	1.72	1.03	0.50	0.16	22.52	7.87
2010-11	432.69	0.21	-0.04	1.49	1.06	0.52	0.17	46.53	18.81

Economic Profit = Profit after tax – (cost of equity * Total equity); Rate of EP: EP / Total Equity;
 ATR: Assets Turnover Ratio; ROCE: Return on Capital Employed = EBIT / Capital Employed;
 ICR: Interest Coverage Ratio = EBIT / Interest;

Factors that influenced the Crompton Greaves' M&A Success*



* Source: Responses to the questions in a questionnaire filled in by an executive of CG involved in M&A.

Crompton Greaves, Post-2016

Crompton Greaves was split into two firms in Mar 2016, named

1. CG Power and Industrial Solutions
2. Crompton Greaves Consumer Electricals

CG Power and Industrial Solutions

- Its products ranges from industrial business which includes Power Conversion Equipment (Medium and Low Voltage Rotating Machines, Drives and Stampings), Power business which focuses on power transmission, distribution, power solutions, setting up of integrated power systems, etc.
- It was resulted by the demerger in 2016 separating from the parent group Crompton Greaves.
- In 2017, Crompton Greaves changed its name from Crompton Greaves Ltd to CG Power and Industrial Solutions
- In Sep 2020, it was acquired by Murugappa group's Tube investments, a 56% stake for Rs.700 crore.

Crompton Greaves, Post-2016

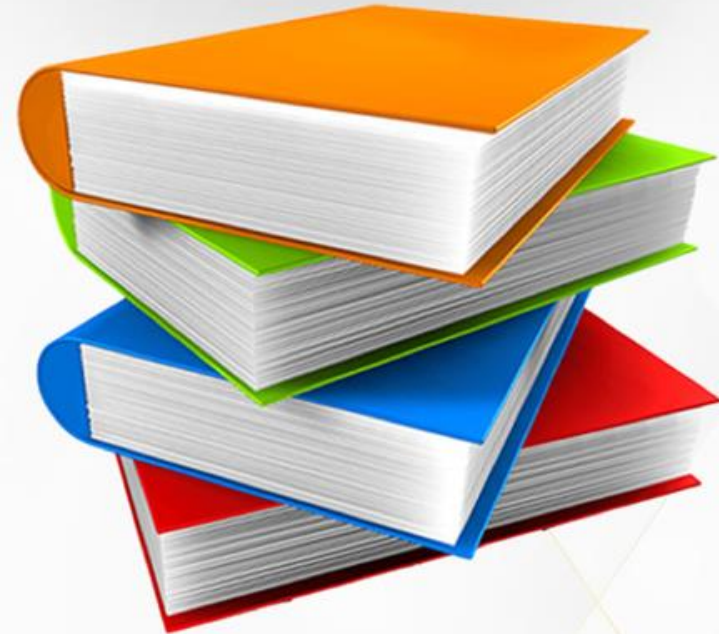
Crompton Greaves Consumer Electricals

- It manages the consumer electrical business (Kitchen Appliances, Fans, Lighting, Home Appliances, consumer pumps)
- Since Feb 2016, it is a professionally managed independent company.

CONCLUSION

- As part of growth strategy, companies scout for acquisition opportunities and acquire those in an orderly manner.
- Besides of economies of scale and scope, companies look at targets for technological competencies.
- It is worthwhile to study the impact of M&A on long term financial performance.
- Success of M&A might not be permanent.

REFERENCES



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2. Annual Reports of Hindustan Unilever Limited, different years.
3. Annual Reports of Crompton Greaves Limited, different years.



Thank you

