Mergers, Acquisitions and Corporate Restructuring

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Lecture – 01
Introduction to Mergers and Acquisitions – I

Hello friends. Welcome to the learning process of the subject called Mergers, Acquisitions, Corporate Restructuring. I am Chandra Sekhar Mishra. I am the faculty member with Vinod Gupta School of Management, IIT Kharagpur. My areas of interest primarily accounting and finance. I also have a special interest in mergers and acquisition. So, as one must be thinking what this subjects as such, but at the same time one can look at any daily newspaper or financial newspaper for that matter.

So, you will find that there is some news about mergers, acquisition of different companies. X company acquires Y company, X company attempts to acquire another company. So, like that every day you have so many corporate events involving mergers, acquisitions and also corporate restructuring. So, there is a lot of demand in the industry otherwise there is a lot of demand for learning this particular concept.

And in this particular subject called Mergers, Acquisitions, Corporate Restructuring we will be discussing about the different types of mergers, acquisitions, the motives behind mergers, acquisitions, a theory that they are behind mergers, acquisitions, why mergers, acquisition take place. We will also talk about the different takeover tactics and defense how companies fight among each other as a defense mechanism, as well as in attack mechanism.

What are the different tools, techniques they use those we will discuss. We will also talk about how a deal is structured between once the merger, acquisitions finalize, how the deal structure, what are the different types of deals there. We will talk about also due-diligence, what are the different steps involve due-diligence. We will also talk about the valuation of the business, company from the mergers, acquisitions point of view.

And this subject also deal with the legal aspects and accounting aspects in mergers, acquisition because without that the mergers, acquisitions will not complete. We will also have discussion about valuing the company and we will talk about different time the restructuring. The mergers, acquisition is the combination of two entities, restructuring is something like breaking the companies in multiple parts for the wealth maximization point of view.

So, all these are things that we are going to discuss and today in this session we will talk about the introduction in mergers, acquisitions concept.

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And the layout is like this. So, we will define what is mergers, acquisitions. We will also talk about mergers, acquisitions as an alternate corporate growth strategy because at the end of day the M and A need to growth a particular company, then we will talk about mergers, acquisition trend in India specifically India and we will also talk about the different merger, acquisition terminologies. So, this is the concept to be discussed in this particular session.

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And these are few of keywords like we will discuss like mergers, what is merger, amalgamation, acquisition and corporate growth; although there are different other terms used, but for the simplicity only four of the major keywords are actually mention here.

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Coming to the definition what happens in a merger the two firms get integrated mutually and a new entities actually form and it is actually combination between two firms either they have an objective to expand or to get a competitive advantage about the other firms in the market so that they can gain market share and merger in Indian context particularly also known as amalgamation.

So, amalgamation and merger are actually used interchangeably. So, whenever you talk about amalgamation and merger they are actually same. So, in say amalgamation A and B or merger between A and B so the implication is actually one and same. In accounting parlance we use more or less amalgamation term whereas in business strategy parlance we use the term called merger as such.

So, that is why you can say merger, amalgamation actually synonyms for that matter. So, what happens two companies actually typically the two companies come together and they have mostly friendly nature and so they negotiate so that they become bigger in the corporate, in the market whether they have more power in the market, more customer and we will talk about why the companies go for that, the motives (()) (04:55) session.

In acquisition what happens a particular company acquires another company and to gain control and yes acquisition can be also minority side acquisition that means the company can go for acquiring a certain percentage of share not the majority acquisition, but when we say change in a control so the company A let us say company A acquires more than 50% or at least controlling stake so that they can control in the management of the company as such.

So, in that case it is not necessary that company has to acquire 50% stake in a company to have a control. In fact, we can see that there is several business, houses in this country or in the world where you have within 30% to 40% stake in a particular company one can have a control over the management because rest of the 70% shareholding is so dispersed. So, they do not come together to have to have a challenge to challenge the existing management as such.

So, acquisition can be in the form of less than 50% stake in a company or more than 50% for that matter, but effectively you are actually controlling the affairs of the company, control the management, you are going to take the decision about the company's management as such that is called acquisition and for the start what happens the company will acquire. Suppose, company A will acquire company B and company B can retain in the business as such because of its unique brand, unique culture, unique system.

The company B can retain the identity with a holding of company A in that company as maybe controlling stake as such whereas after sometime the company A may feel that there is no need to maintain separate identity in that case subsequently the company B can merge the company A with a particular share swap ratio. So, there can be merger, prior to that there is an acquisition or merger can be there directly between company A and B gets merged.

Then one new company is formed or one company is acquired by another company and subsequently after sometimes the merger can take place. For example we have recently Tata Group has acquired BigBasket online grocery company, but BigBasket retains the identity now. So, after sometime Tata Group Tata is a particular group company may think of merging BigBasket with the group company.

And at this point maybe they will retain the identity because BigBasket could be a good brand for the customer to know as such or recall as such. So, after sometime it may happen so that the BigBasket company brand may exist, but BigBasket company will be entirely merged with another company Tata Group. So, acquisition can be a precursor to merger that is also possible.

In any case in both the merger and acquisition it is expansion of the business, expansion of the control, expansion of the product market, expansion of the supply chain, control over supply chain so that you have more bargaining power as a company the bigger company with your value chain, with your customers, with your market and possibly one can think of dictate the market price, but at the same time (()) (08:15) that.

Yes, the companies can think of expanding, but there is always a regulator, watchdog is always there. We will talk about the regulatory aspects in some of the session, but just to say that in India there is a Competition Commission of India depending on the typical threshold limit of a particular merger acquisition each M and A has to be approved by the Competition Commission.

And yeah if it is a banking case of merger, acquisition it has to approve Reserve Bank of India. So, a companies may think of acquiring, expanding have a big entity, but the Competition Commission of India may not approve because it may lead to a lot of concentration of market power in one hand because if these several companies come together and big companies become bigger and only few players are left over the customers will have very less choice to buy the products as such.

So, in the interest of the customers the regulator may or may not approve the merger acquisition and may approve in certain subject, certain conditions. So, it is not necessary that the company will want to merge will acquire and freely it can do, it is not necessarily like that because there are certain regulatory approvals, regulatory things have to be taken care as such. So, we talked about the merger, acquisition as a definition.

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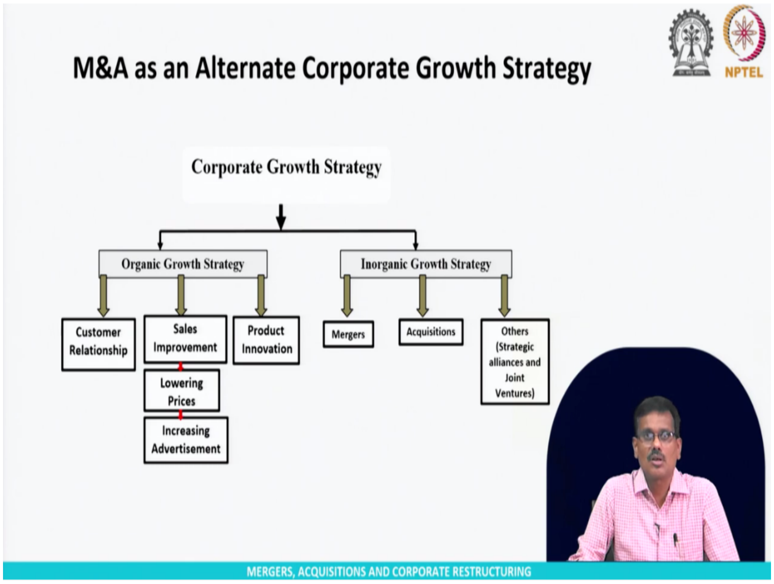

And coming to the next one yes we talked about that at the end of the day the companies plan for growth. Any company without a growth possibly will not like to exist as the stakeholders not like the company exist the company is not having growth and growth can be in the different form, but typically mostly what we do that we classify the growth into two parts that is called organic growth and inorganic growth.

Inorganic growth what happens the company on its own grows maybe company can setup a new plant, expand the plant, company can setup new facility, company can acquire facility from another company also and company can improve the sales with various innovative sales improvement aspects like it can lower the prices, it can increase in advertisement, it can introduce new products in the same product line “introduce new product line” as well as it can introduce the new products in the same product line.

It can look at better customer relationship so that the customers are retained in the business. So that way a company is not acquiring another company the same company is actually acquiring new and new business, for example, a plant called a tree can grow on its own, have its own fruits and all and plant grows over a period of time this is called organic growth. At the same time as become let us say I am a gardener in a particular garden.

So, I need to have more plants so instead of planting a seed and waiting for the seed to grow and the plant comes and fruits possibly I can think of getting a plant as such a tree and plant in my garden so I do not have to wait for some more time to acquire a company so growth for my revenue etcetera because I already have the plant coming to my place. So, that way I can do that by in case of inorganic growth as such.

So, organic growth means the plant grows on its own. Inorganic growth means I am actually planting one more tree readymade tree as such and do that. Another example could be that we can buy a piece of cloth and go for stitch and wear the particular dress or we can go to readymade shop and get a cloth and wear that. So, in that case what happens we do not have to wait for so much time that yes there is a time taken by this tailor and we have to wait.

So, you reduce the time period so that you get the thing that you wanted as quickly as possible. So, there comes the role of acquisitions. What happens in acquisition which is also called inorganic because companies acquiring another company as such and we can take the form of mergers as we discussed earlier that means two companies come together only one company remains.

You can have acquisition both the companies exist whereas one company has a controlling stake of another company that is possible although also instead of going for merger acquisition the company can also go for strategic alliances, joint ventures for that matter. Long time back Starbucks is the coffee company acquired a book company for that matter so that the people who can come to the Starbucks for coffee they can also enjoy reading the books as such.

It is called alliance, it is not acquisition for that matter and similarly companies can also go for joint venture for different technologies, technology partnership and so there what happens you do not have an control over the corporate affairs yes we come together for particular purpose so that you expand in terms of technology, products, market, etcetera, etcetera so that is also possible.

So, we have both the growth strategy available for us; one is organic growth strategy and inorganic growth strategy. At the end of the day company they are challenged in the market by the competitors, by the stakeholders, by the market, capital market etcetera that you have to grow because growth leads to revenue, revenue leads to profit and profit leads to indirectly, directly to better market price at the end of the day market is the best controller of the company.

So, company is always monitored for the market performance. Suppose, the performance of the market you have to show the growth, you have to show a profitable growth for that matter and for the profitable growth you can execute organic growth strategy as well as inorganic growth strategy. So, there is no denial that M and A is happening, it is going to happen, it will continue to happen.

And the last few years we find the M and A becoming bigger and bigger in the number, in the value, in the size in India also. Earlier it was not that, but recently we see that so many M and A are happening because of different regulatory changes and also there are other triggers in the Indian market like we have got the insolvency procedure going on where the insolvency regulatory they will like the company instead of being closed being taken over by another company as such.

So that the people working in the particular company, production process, supply chain actually remain intact because closing a company just like that it does a lot of harm to the society for that matter. So, in that case there are other ways that yes companies do scout for acquisitions in those market also. So, because of several things and because of (()) (15:28) taken place, regulation took place in 1990s.

And since then more than 30 years have passed lot of regulatory improvements are there, lot of facilitation is there. So, that has also led to lot of M and A is taking place in Indian market.

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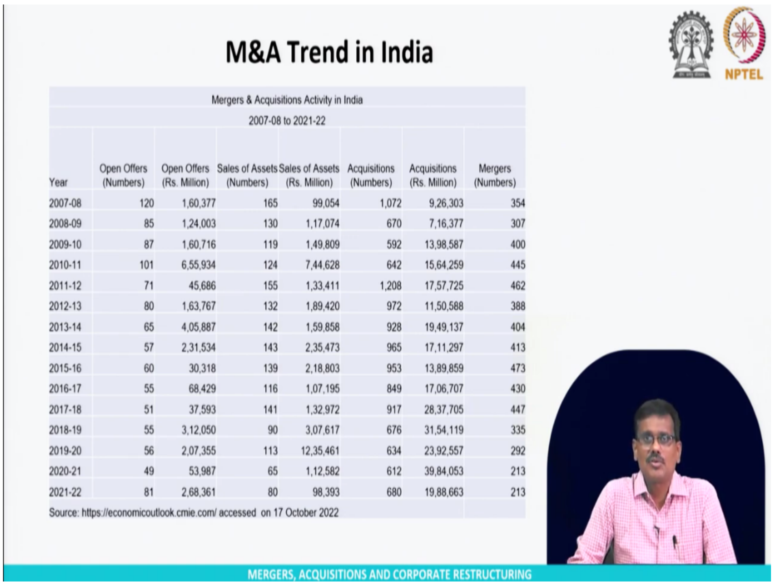

Mergers & Acquisitions Activity in India 2007-08 to 2021-22							
Year	Open Offers (Numbers)	Open Offers (Rs. Million)	Sales of Assets (Numbers)	Sales of Assets (Rs. Million)	Acquisitions (Numbers)	Acquisitions (Rs. Million)	Mergers (Numbers)
2007-08	120	1,60,377	165	99,054	1,072	9,26,303	354
2008-09	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

So, that way if you look at the merger, acquisition trend India. So, this has been taken from a particular source which is given in the bottom of the table you can see there, there are different types of merger, acquisition talk about like you have got open offers. We will talk about open offers as a concept in subsequent slides. We will also have sale of assets the companies instead of selling the company itself.

Company also think of selling the asset which they do not need. So, as a company I do not need to acquire a company, I just acquire some assets to augment as such that is also another form of acquisition when sale of assets number as well as million we have acquisition numbers, acquisition in the value, then also number of merger cases are there, those things are there.

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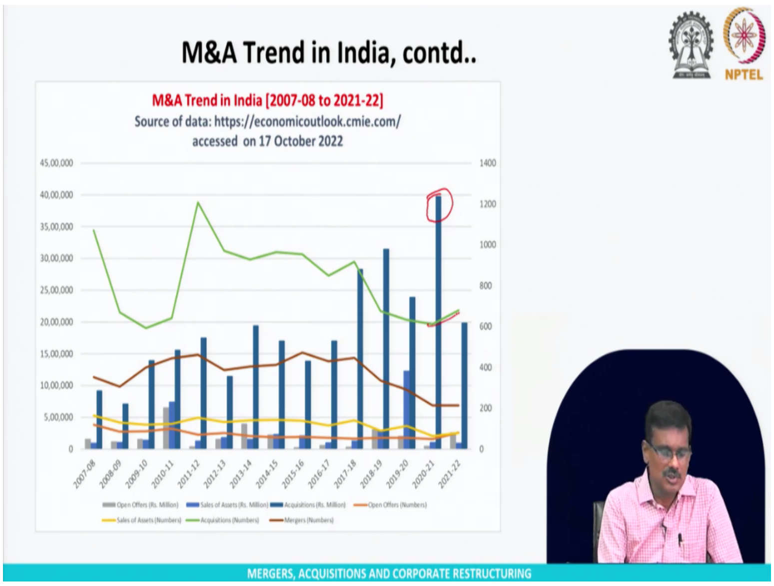

So, if you look at the data we convert that into graph. We can say that yes lot of merger acquisitions are actually happening and if you look at this is something where this is the acquisition value in rupees million which has reached the peak in 2020-21. Although it has declined and this green line talks about the number of acquisition that has taken place over a period of time.

Although, it is widely fluctuating, but you can see there are lot of activities is taking place. So, if I go back to the previous slide so we have got 680 number of acquisitions involving value of 19, 88, 663 million and we have a 213 mergers that has taken place in latest year that is 2021-22 although number of merger remain same and of course as we saw in the graph 2020-21 had one of the highest acquisition that has taken place in India.

In fact, in last 15 years we can see that this is the highest value of acquisition prior to that you had acquisition here in 2018-19 where you had even in the 19 to although 2021 is affected by the pandemic, but still we had lot of acquisition taking place and although the number of acquisitions have gone down to 612 compared to 634, but still that means the per deal size is now the deal size that means per deal how much the value is actually higher in the subsequent year.

So, that data this data and graph shows that lot of M and A is actually happening in India and you also have like open offers that means companies are making offers in the market, open offer although the number is very low, but that is also lot of things are happening as such then you have mergers. So, this has to say that yes lot of M and A is happening in India, we can also observe same thing in any other country not necessarily in India as such.

We can always look for those things by going for different data sources and find that yes wherever you go in developed country or emerging economies you find that yes lot of M and A is actually happening because M and A have a lot of merits as we will discuss in subsequent slides.

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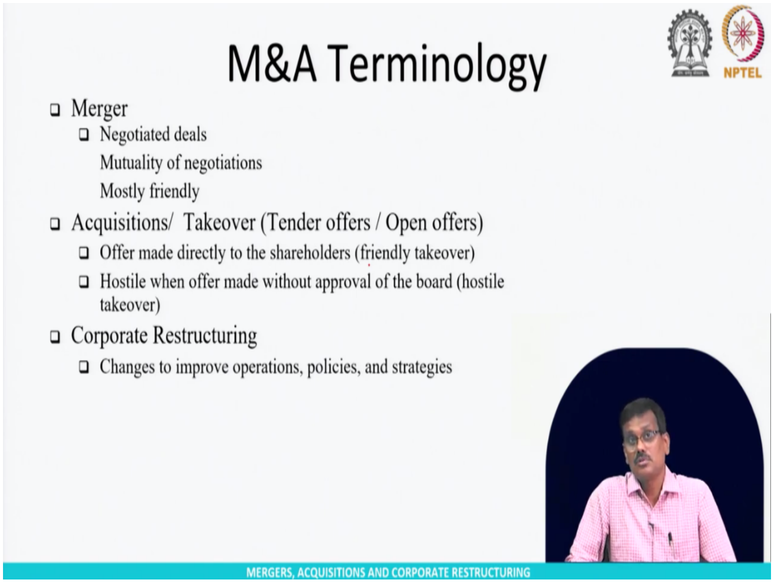

And coming to the M and A terminologies as such when you talk about merger; merger is typically a negotiated deal that means two people coming together, sitting on the table and then saying that yes we will go for particular deal between two companies and their mutuality is there yes we both are coming together, sitting there then they finally taking place and mostly it is friendly it is not forced by (()) (19:19). Somebody find that this company B is tempting to be taken over.

So, instead of going for hostile thing we can always go to the management and talk to them, can we go in the company A thinks that company B is attractive and the company B is mentioned company B in that case the company B agrees yes merging with company A is going to be beneficial for both these stakeholders for the company. At the end of the day the companies will like to maximize the shareholders with the objective of any organization, maximizing shareholders.

Of course, nowadays talk about more of maximizing stakeholders interest. In fact, the stakeholder concept maximization of stakeholder interest also now driving towards more on M and A that we will discuss later, but yes both the companies feel that it is going to be the interest of the shareholders, market is also going to possibly going to reward means in terms of appreciate the particular deal better.

So, in that case the company can always go for merger as such and then is negotiation happening both the companies and mostly friendly and coming to the acquisition or take over so here there is a offer by one company to another company and to acquire their company as such and it can be in the form of friendly takeover or it can also be hostile takeover. So, for example, again what that example we discussed is the BigBasket being taken over by Tata Group or for that matter another online platform company that is online furniture selling company called Urban Ladder which was also taken over by Reliance Industries Limited.

So, those two examples is an example of friendly takeover because there is not a hostile as such. So, in a friendly takeover what happens the management of A acquiring company approaches the management of B with a proposal that yes we like to acquire your company, we like to buy your shares in this company so that is called a takeover the shares from the existing owners as such.

It is also possible that the existing owners can remain in the management those things we will discuss in the deal structure as such, but as of now we will talk yes if offer is made by a company A's management to company B's management if it direct limit to them it is a friendly takeover, but it is possible that the company A approach the company B, but if somehow for company B did not show the interest and company B felt that it is not a right offer.

So, in that case the company A may directly offer the shareholders to company B and this can be taken because it is without the approval of the company A's management and B's can be taken as a hostile takeover and this can lead to lot of corporate battle between company A and B. One of the examples that you have in recent past internationally is that the takeover of Arcelor the steel company by Mittal.

So, there is a lot of fight for whatever reason Arcelor actually Mittal group propose to buy the stake in Arcelor, they propose to the Arcelor's management, but Arcelor's management felt no it is not done. They did not give good response in that case what happened some Mittal group finally had to offer to buy the shares in the open market, gave offer in the market itself and lot of techniques they adopted.

Then Arcelor retaliated with the help of litigation, Arcelor retaliated with the help of buyback offer giving dividend to the shareholders of Arcelor so that they do not agree to the offer from the Mittal as such. So, lot of is very interesting case that where how these two groups, two companies adopted different takeover and attach means so that finally it happened so that Mittal group took over the Arcelor company this become a legal company.

It is in one of example of hostile takeover. Recently we also heard although everybody does not agree as a hostile takeover, for example, the Mindtree it is being offered to L and T group L and T Infotech and they acquired Mindtree. So, before the acquisition actually took place when they offer to buy. So, Mindtree's top management was not interested to be taken over, but finally it happens so that is also another example who will suggest possibly from the Mindtree's management point of view it was a hostile takeover attempt from L and T side.

So, in any case it took place finally, but anyway this is going to happen in the future you are going to see lot of M and A would happen, lot of hostile takeover also could be there are mostly friendly takeover's are happening in India, it is going to happen and yes as you discussed earlier a takeover could be a minority shareholder also, takeover could be also majority stake controlled.

So, companies just go for some small stake in the company may be they have an intention to buy more stake in the company in the future, but as a toehold they may have some stake now that is also another form of acquisition. Company also can think of buying small percentage and slowly, slowly they will go for acquiring more and more stake in the company for that matter.

Then we have also one more type of M and A happening that is called corporate restructuring. In corporate restructuring is actually reverse of merger, acquisition. So, here the companies because the technology is changing, the aspirations of these stakeholders are changing, the platform is changing, the customer demands are changing. So, maybe the existing company is not becoming little more and more redundant.

So, it is imperative for the company to realize that there is a problem so that they adopt certain things and change their operations then if they find that certain business are not doing well they are not acceptable to the customer or maybe it is better of it will be going to some other hands the company can split into multiple companies, company can sell the assets of the company also and give it to someone else.

So, restructuring can be there or corporate restructuring can be also two sides. When you look at the company in the financial statement we have something called balance sheet called liabilities and (()) (26:39) another is called assets. When you talk about the merger acquisition the acquiring company is more interested about the assets of the company, the economy value of the company, what are the strengths of the company and all those things as such.

So, that is reflected in the assets. Assets also maybe part of the balance sheet, may not be a part of the balance sheet, it maybe tangible, it may not be tangible that is another prospect, but they are looking at the what the value creating aspects or assets of the company for that matter if they look at that. So, I as a company may restructure certain assets, I may sell the asset, I may split the company into two parts.

I can carve out another company from my main company and say equity carve out. I can make a separate company and I can retain 100% control and then sell this stake in that particular company later. We will be discussing more about the corporate restructuring in details towards the last part of this particular learning process and another is that the company can sell the assets of the company also that is asset type of restructuring.

Second is that you can also have restructuring in the liability side maybe the company will like to restrict the liability that means company is having a problem in the paying of the debt. In that case what will happen the company can negotiate with the lender and go for softer terms and conditions maybe the company can go for longer duration of the loan or the company also can think of with the lender that we see lot of cases now converting the debt into equity.

That means the lender becomes the owner of the company so that is also possible. So, we make the changes in the liability side that is called in fact called financial restructuring. So, restructuring can be in both the sides in balance sheets that is called financial restructuring means we talk about the balance sheet typically debt restructuring. So, debt is actually terms are extended and the renegotiation of the terms and conditions, the bankers or lenders or debts can also be sold for that matter to another party all those things is possible.

And we have an asset restructuring also. So, in this particular session we have talked about different merger acquisition, why merger acquisition takes place, we have talked about the (()) (28:56)talks about, we talked about different merger types and difference between merger and acquisition and in subsequent session we will be talking about the five merger acquisition take place and another alternative classification in merger acquisition.

We did discuss the classification in the term of merger acquisition here, we will also talk about how other way the classification of the merger can take place. We will also talk about what are the explicit motives of the M and A actually happening as such. So, with this we will end the session. Thank you.