

Mergers, Acquisitions, and Corporate Restructuring



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Introducing ...

Strategic Alliance (Resource Sharing), Joint Venture (Equity / Ownership Sharing), Divestiture (Sale of a Division), Sell-off (Subsidiary), Spin-off (Creates a new company out of subsidiary), Equity Carve out (Creates companies out of the firm / its divisions), Pure-play, Conglomerate, Leveraged Buy-out (Using Debt), Management Buy-out (Using Debt and Owners Funds), Defenses, Poison Pill, White Knight, Change Corporate Character, Green Mail, Strategic Acquisition, Financial Acquisition, Crown Jewel, Roll up transactions, MRTTP considerations, Straw-sandal principle, ...

The Basic Forms of M&A

- Merger or Consolidation (i.e., it can be $A+B = C$)
- Acquisition of Shares (B becomes a subset of A)
- Acquisition of Assets (technically B is stripped off its assets)

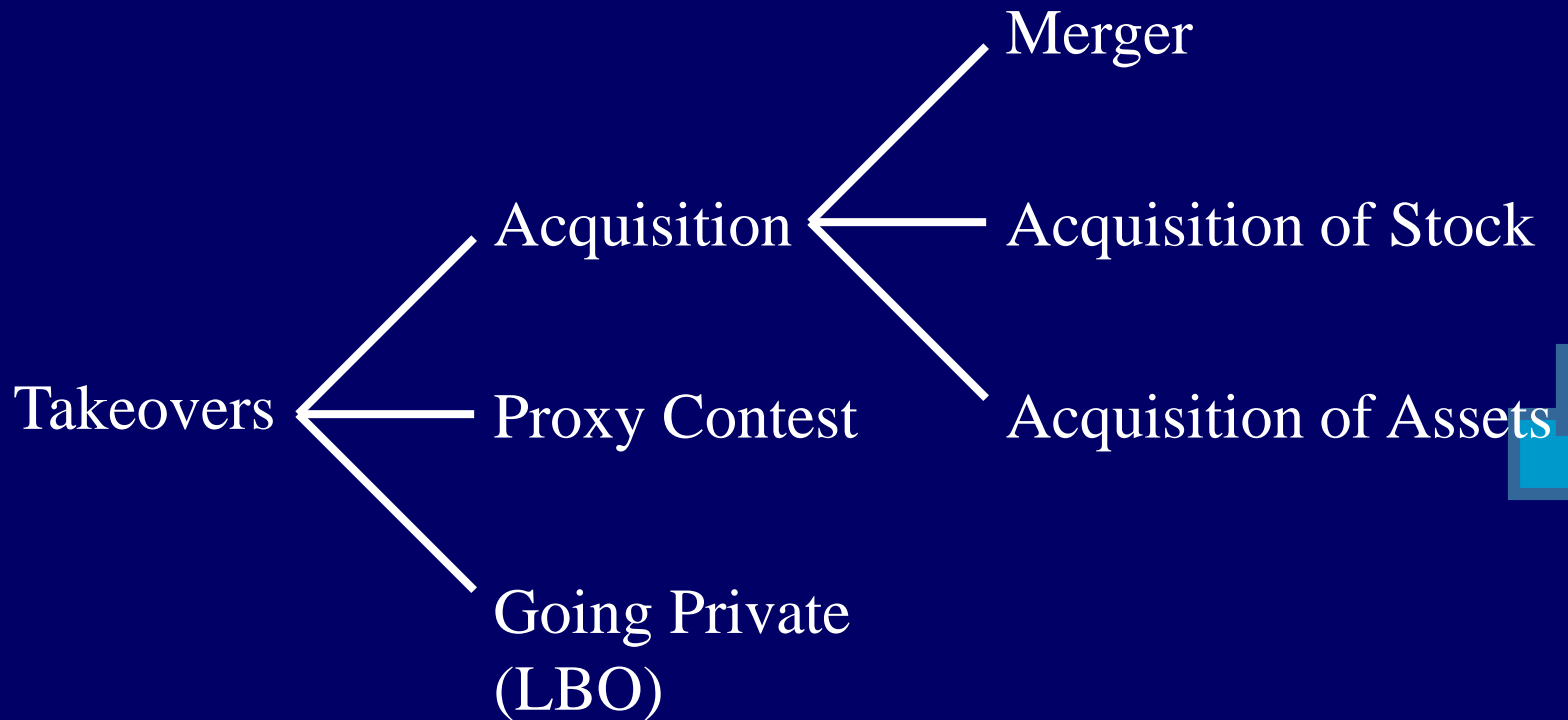
Why engage in Corporate Restructuring?

- Sales enhancement and operating economies (Modi Cements – GACL, HLL)
- Improved Management (Modern Foods – HLL, BALCO – Sterlite)
- Information Effect (Bombay Dyeing – Bajoria, Jaiprakash – Bela Cements, Raymond – Cement)
- Wealth Transfer (C K Birla, P&G, Colgate)
- Tax Reasons (Narmada Cement – L&T)
- Leverage gains (J K Corp)
- Hubris Hypothesis (Rajaratnam)
- Managements Personal Agenda (Pfizer, P&G, Tata)

Story of a Multinational

- Two firms both competed for same raw material
- Had large scale marketing of household products
- Involved similar distribution channels
- Operated in > 40 countries in 1920s, Guess (?)
- Dutch Company: Unie Margarine, British Soapmaker: Lever Brothers ... married/merged ... Unilever happens
- Even, in India ... post-liberalization
- Till 1993-94, HLL + Lipton + Brooke Bond + Ponds + Goodricke; After 1993-94 HLL added TOMCO, Vashishti Detergents, Lakme, Modern Foods, Kwality Icecreams to itself and divested some businesses such as leather/animal products.

Varieties of Takeovers



How do we evaluate a deal?

Financing Mergers

Cash

- Indian Oil bought IBP with cash
- India Cements bought Raasi Cement with cash
- Simplicity, preciseness, no control rights to front party

Exchange of Shares

- Target shareholders maintain an interest in the new firm, to the acquirer there is no cash outflow needed
- Carbon Everflow and Graphite India
- RIL and RPL

Some more examples ...

- Jaiprakash Industries – Bela Cements
- Birla Tyres drama (B K Birla/Kesoram/Texmaco)
- Ashok Leyland Finance and its goals
- Similarly, most business groups have a financial services company
- Why Blue Dart keeps Blue Dart Aviation as a separate subsidiary?
- Why holding company's exist? Why cross holdings happen? (MRPL – A V Birla Group)
- Glaxo (foods) – Heinz – HLL deal
- G E's real estate and M & M as white knight

Restructuring in Cement Sector

- Raasi Cements forms a subsidiary Shri Vishnu Cements
- Shri Vishnu nearly fails
- Shri Vishnu is forced to take a financial restructuring package by Lenders i.e., domestic financial institutions incl. ICICI
- India Cements – Raasi Cements
- India Cements – Shri Vishnu Cements
- Shri Vishnu Cements – Italia Cement (failed)
- Shri Vishnu Cements – Zuari Industries

Restructuring in Cement ...

- Nihon Nirmaan – a White ~~Cement~~ Elephant
- Narmada Cements – L&T
- Modi Cement – Gujarat Ambuja Cements
- DHL Cement – Gujarat Ambuja Cements
- CCI plants are lapped up by India Cements, Birla Cements, etc.
- Smaller players (Deccan, DCL, Snehalata, etc.) are also being sold off or becoming bankrupt
- Lafarge enters through TISCO and Raymond
- ACC – Gujarat Ambuja Cements
- L&T – Grasim Cements

What are the broad trends?

- Many business groups are merging their affiliate concerns into one (example – K K Bangur)
- Sectors being liberalized are seeing a lot of M&A activity (example – financial services, cement, pharmaceuticals)
- Sectors that are having very attractive features or are of strategic importance are seeing a lot of foreign investment (ex – Advertising, Cola, FMCG, Consumer Durables, Retail Petrochemicals, Telecom, Banking, Insurance, etc.)

Why Restructuring happens?

- Environmental conditions and major shareholders priorities

Observations:

- Most of MACRs are transactions within the business groups
- Of the rest of the MACRs – over 70% of Mergers & Acquisitions related to local companies being sold out to foreign ones