

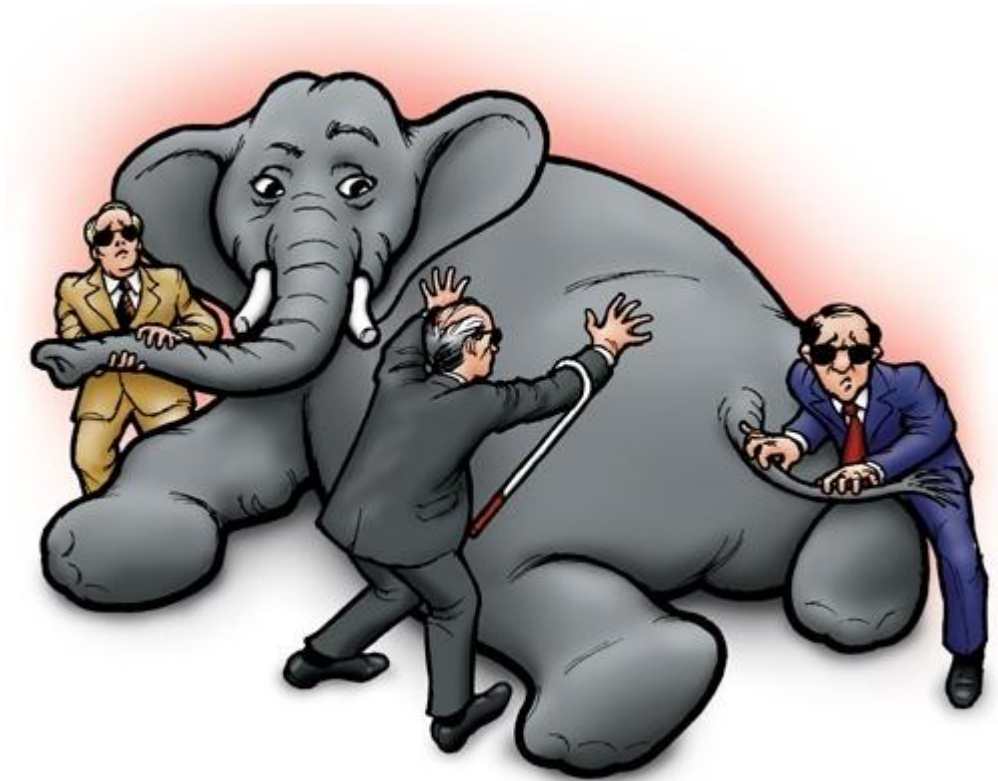
# Valuations and M&A

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WIRC, ICAI

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- M&A in India
- Phases of M&A and Valuation
- Prescribed M&A methodologies
- Valuation in Practise
  - Considerations of valuation - How Much Should We Pay?
  - Valuation Process
  - Practical Issues in Valuations
  - Court Rulings
- Case Study
  - Flipkart – Wal-Mart Deal



## M&A in India...Trend

Deal Summary	Volume			Value (USD mn)		
	2016	2017	2018	2016	2017	2018
Domestic	150	105	129	8,201	3,433	23,482
Cross - Border	98	84	95	7,035	4,191	24,510
Marger and Internal restructuring	11	9	11	580	23,318	17,459
<b>Total M&amp;A</b>	<b>259</b>	<b>198</b>	<b>235</b>	<b>15,816</b>	<b>30,942</b>	<b>65,451</b>
Private Equity	499	412	403	5,920	8,380	9,397
<b>Grand Total</b>	<b>758</b>	<b>610</b>	<b>638</b>	<b>21,736</b>	<b>39,322</b>	<b>74,848</b>
<b>Cross - Border includes</b>						
Inbound	44	44	51	3,920	3,369	21,408
Outbound	54	40	44	3,115	822	3,102

Source: Deal Tracker - Grant Thornton

\*2018 Nos for H1 ended June 30, 2018

# M&A in India - Outlook

**Nifty PE Ratio Chart** Last Updated - 7/7/2018  
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Year..	Q1	Q2	Q3	Q4
1999	13.13	16.81	20.43	22.28
2000	26.33	22.24	21.23	18.85
2001	20.08	15.72	14.76	14.71
2002	17.70	17.28	14.89	14.45
2003	14.26	12.17	13.80	17.73
2004	20.72	15.53	13.57	15.59
2005	14.61	13.97	14.84	15.85
2006	18.20	18.78	18.86	20.86
2007	19.58	19.70	20.59	25.37
2008	22.89	20.56	18.03	12.97
2009	13.13	18.42	20.68	22.32
2010	21.85	21.88	23.27	24.47
2011	21.54	20.79	18.96	17.84
2012	18.50	17.41	17.75	18.58
2013	18.37	17.70	16.99	18.03
2014	18.02	19.76	20.78	21.14
2015	22.67	22.66	22.76	21.63
2016	20.01	21.80	23.68	22.23
2017	23.05	24.00	25.49	26.34
2018	26.01	26.45	26.19	

Indian market / companies getting expensive ?

# M&A in India - Why M&A?

## Strategic Reasons

- Inorganic growth can provide faster growth that may not be possible with organic growth
- May help attain a better competitive position or reduce present or future competition
- Attain market dominance by acquiring higher market share
- To achieve economies of scale and scope

## Capability Acquisition

- Acquisition of new technology, competence, capability, or market
- Rapid entry into a new segment

## Financial Reasons

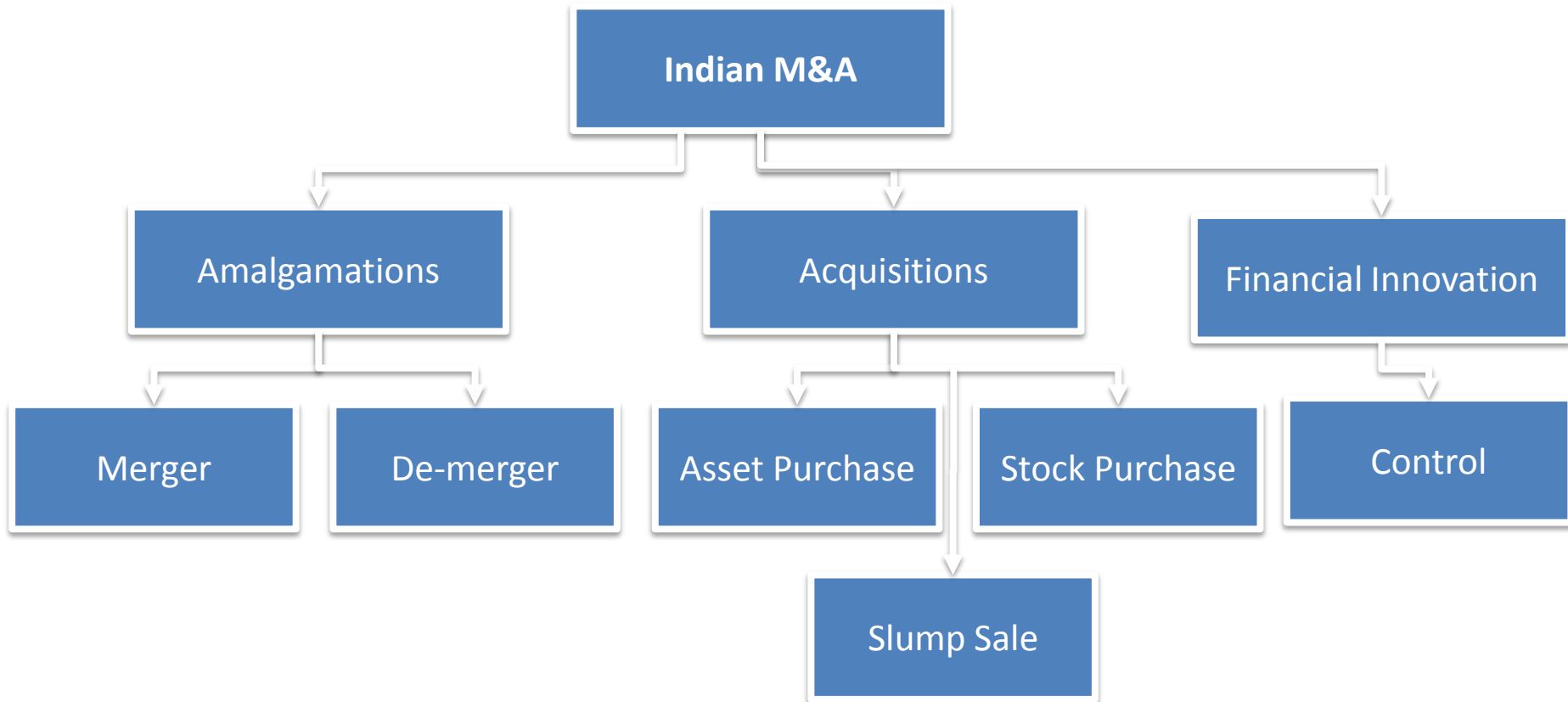
- Tax shields and reduction of tax liability
- Utilization of excess cash
- Reduce administrative costs

# M&A in India - Why M&A Fail?

- **Planning Issues**
  - Faulty evaluation
  - Diverging from Core Activity
  - Striving for Bigness
- **Valuation Issues**
  - Excessive premium
  - Negotiations errors
  - External factors and changes to the business environment
- **Management Issues**
  - Limited or no involvement from the owners
  - Ego Clash
- **Integration / Execution Issues**
  - Cultural integration issues
  - Lack of clarity and execution of the integration process

**There is no wrong product at the right price !**

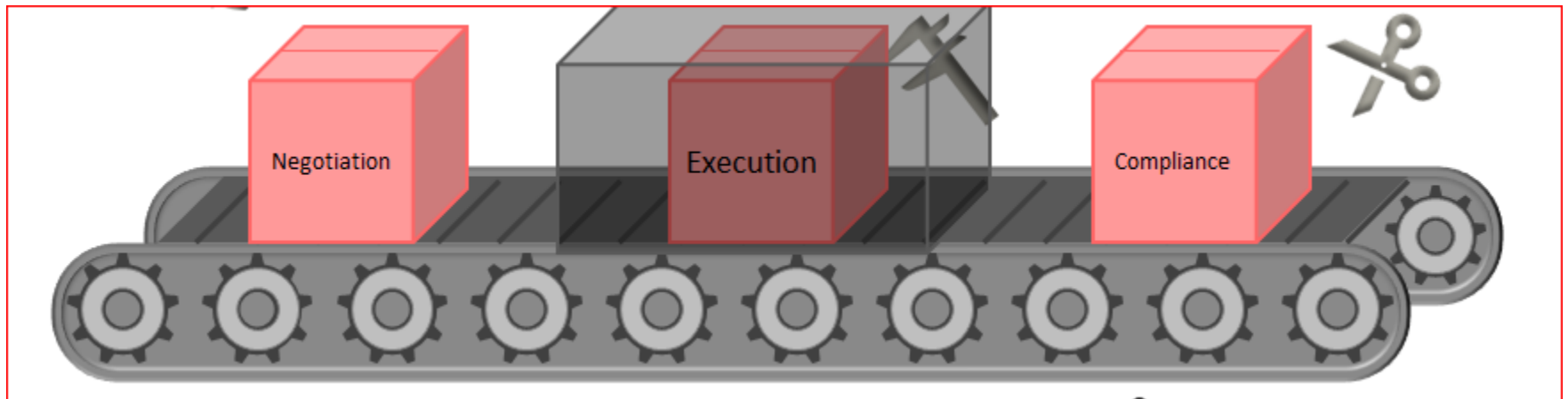
# M&A in India - Modes of M&A



# Phases of M&A transaction & Valuation

- Negotiation
- IBC
- SEBI

- Accounting
- Tax
- FEMA



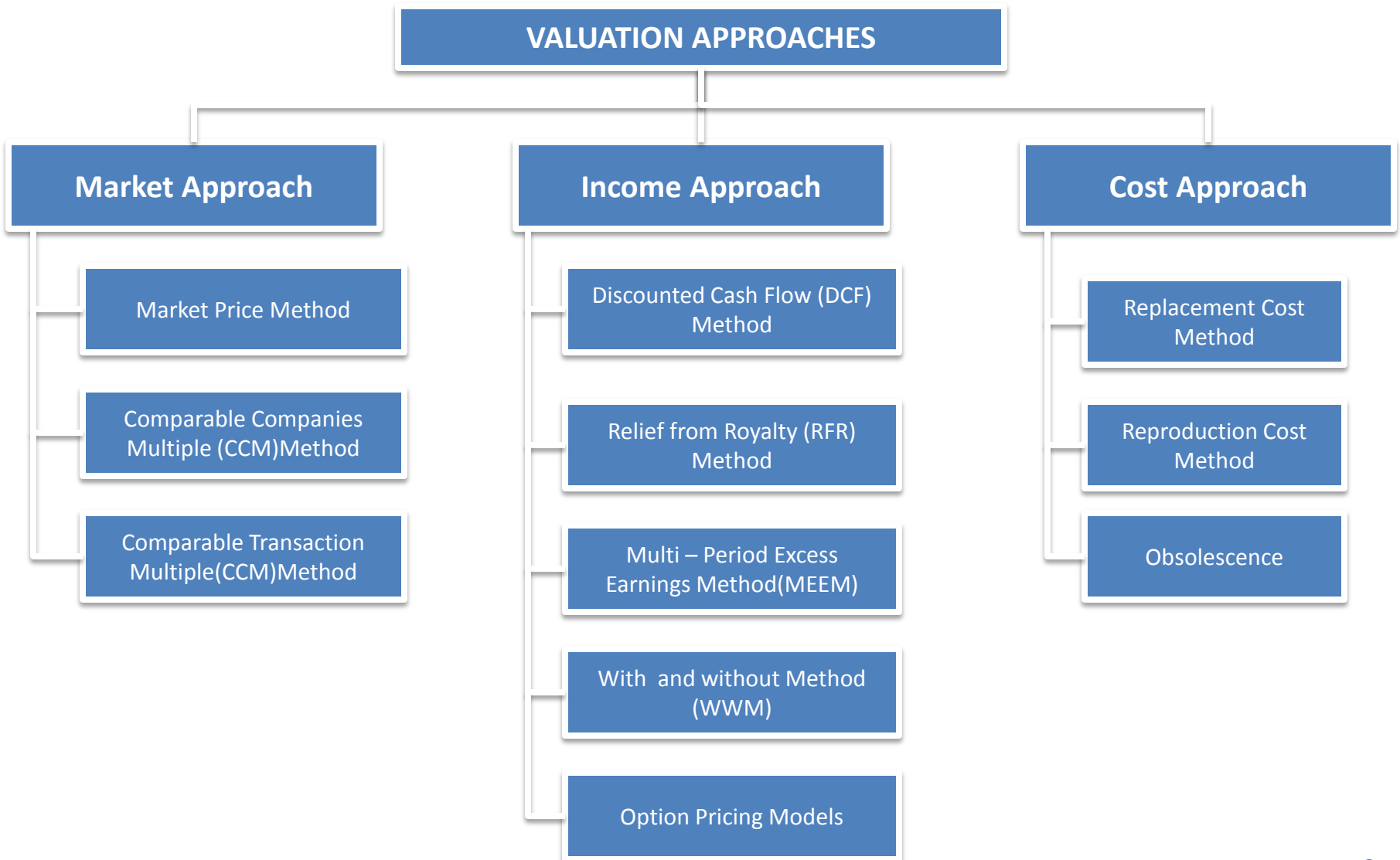
- FEMA
- Tax
- NCLT



# Prescribed Valuation Methodologies

Law	Incidence	Method	Who can do
Companies Act	Preferential Issue-Unlisted Co-Sec 62 & Sec 42		Merchant Banker/CA
	M&A-Sec 230-240		Chartered Accountant
	Section 247	Indian Valuation Standards	
RBI	Inbound/Outbound	International accepted Valuation Methodology	Merchant Banker/CA
SEBI	Takeover regulation	Higher of: Negotiated Price; PAC during 52 weeks; PAC during 26 weeks; VWAM during 60 days & Book Value/Comparable Trading Multiple	Merchant Banker/CA
	Preference –Listed Co	PAC during 26 weeks/Book Value & Comparable Trading Multiples	Merchant Banker/CA
FEMA	Shares of an Indian Company	International accepted Valuation Methodology/SEBI Guidelines	Merchant Banker/CA
	Foreign Security	Price in stock exchange/Price determined By CA	Merchant Banker/CA
Income Tax	Unquoted Shares-Sec 50CA & 56(2)(x)	Rule 11UA	Merchant Banker
	Transfer Pricing-Sec 92C	CUPM,PSM,TNMM	Merchant Banker/CA
IBC	Asset Valuation-Regulation 35	International accepted Valuation Methodology	Merchant Banker/CA

# Valuation Approaches



# Valuation in Practise

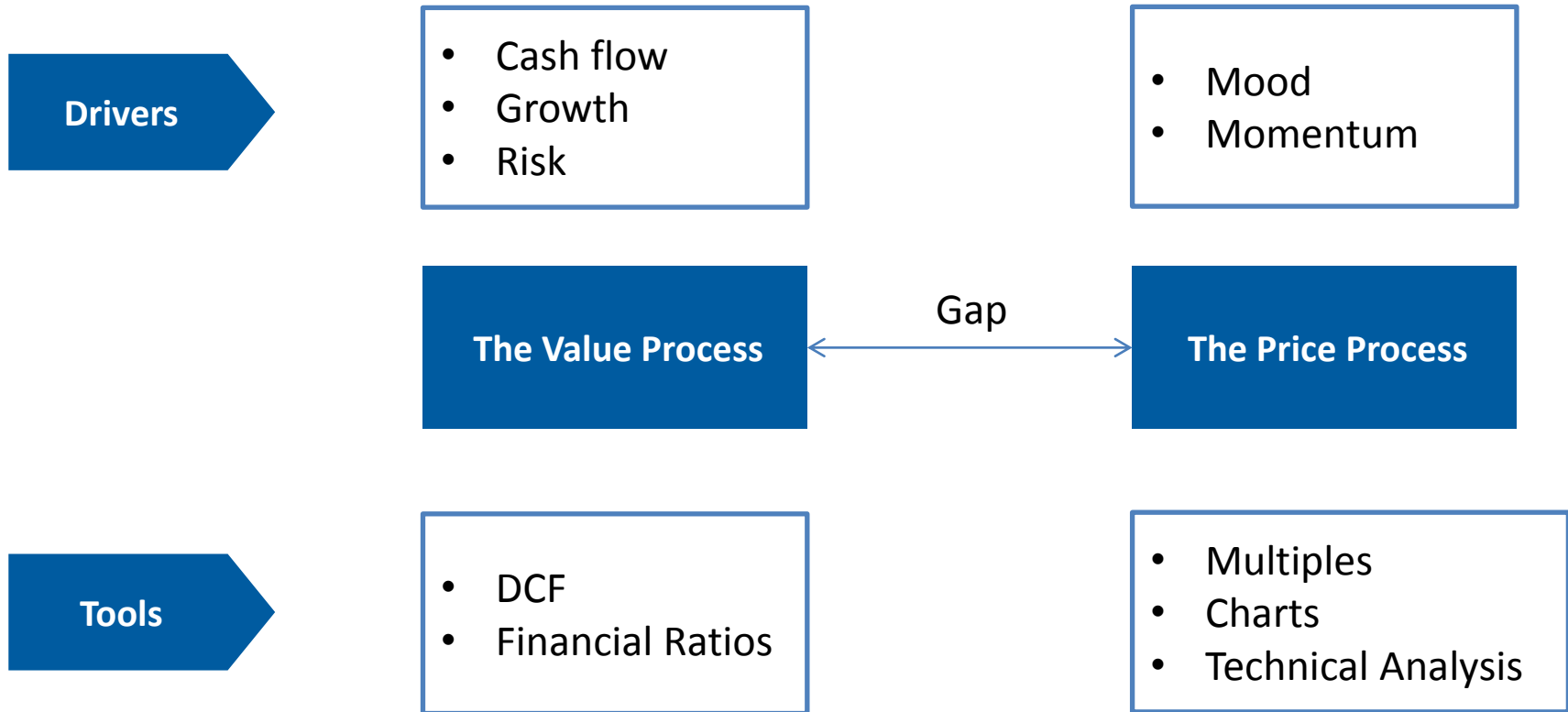
## Valuation in M&A



"PRICE IS WHAT YOU PAY. VALUE IS  
WHAT YOU GET"

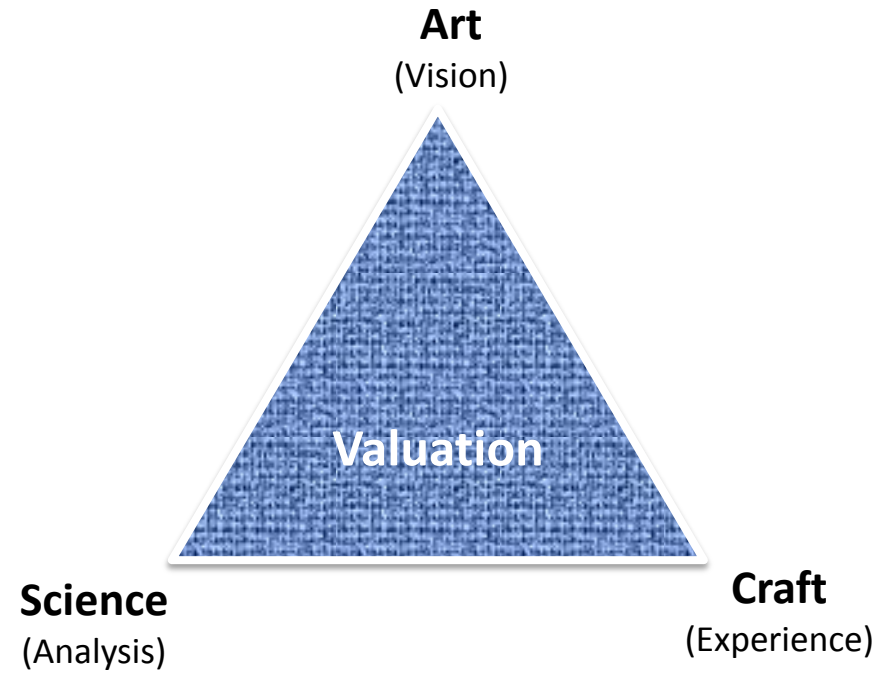
- WARREN BUFFET

# Consideration in Valuations – How much should we pay



# Valuation Process

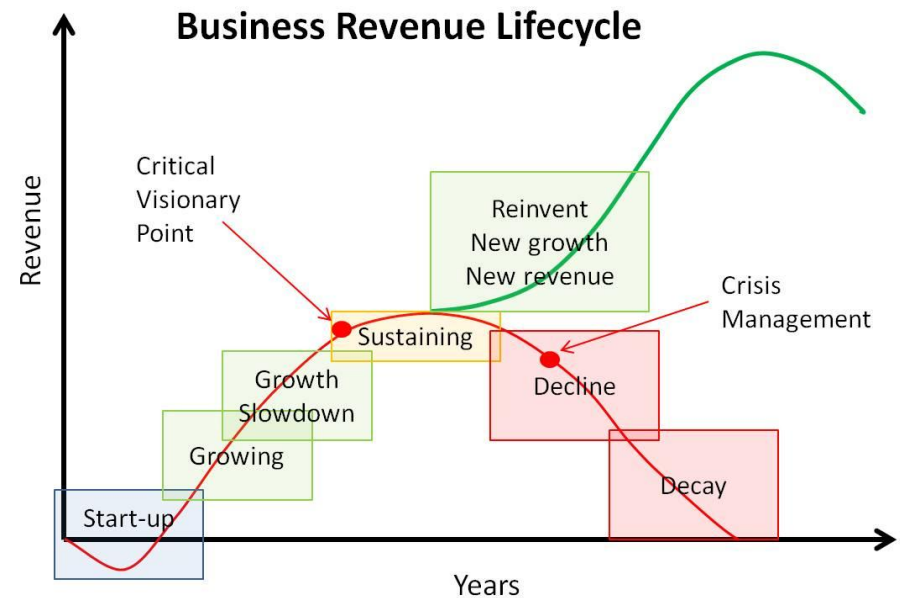
- Obtaining Information
- Data analysis & review
- Discussion with the management of the company
- Selection of method
- Cash flow projections & DCF
- Assigning weights
- Conducting sensitivities on assumptions
- Recommendation
- Reporting



**Valuation is principle based, not process based !**

# Valuation – Practical Issues

- Who and why of valuation?
- Business Story and number crunching?
- What is the sensitivity factor?
- Stage of the Company
  - Start-ups
  - Growing Cos
  - Matured Companies
  - Bankrupt companies
- Industry Specific Valuation issues
- Valuation of Intangible Asset



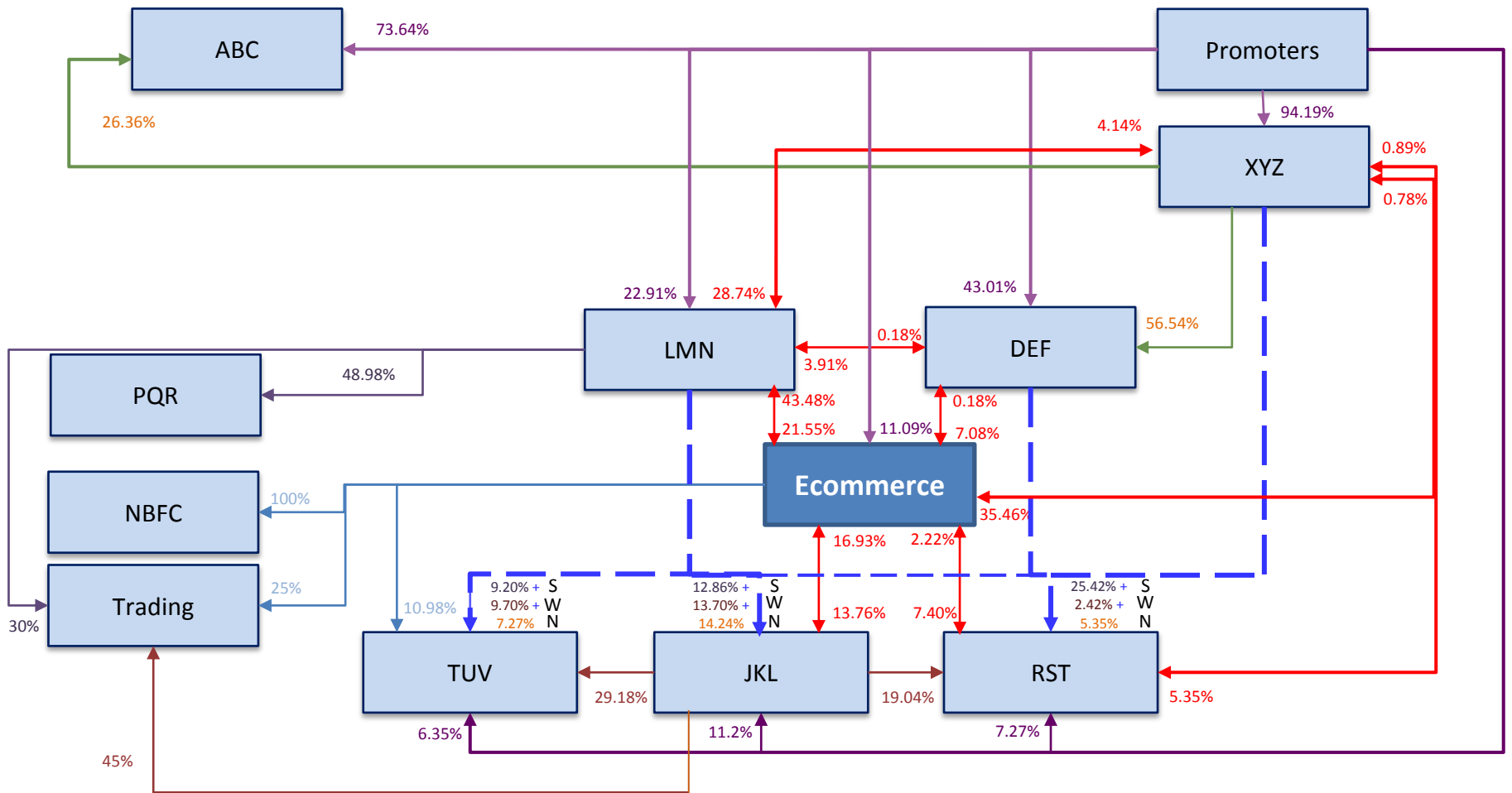
# Valuation – Practical Issues

- NAV Method
- Multiples Method
- DCF
  - FCFF or FCFE
  - Projections / Forecasting
  - Cost of Equity
  - Cost of Debt
  - Discounting Rate
  - Terminal Value
- Market Price Approach
- Cross holding
- Rights and Options
- Tax shields
- Discounts
  - Illiquidity
  - Holding Co
- Control Premium

$$\underbrace{K_e}_{\text{Cost of Equity}} = \underbrace{R_F}_{\text{Risk Free Rate}} + \underbrace{(R_M - R_F)}_{\text{Market Risk Premium}} \times \underbrace{\beta}_{\text{Beta}}$$



# Valuation - Practical Issues



↔ Indicates cross holdings

# Court Rulings in M&A Valuations

- Exchange Ratio not disturbed by Courts unless objected and found grossly unfair.
  - *Miheer H. Mafatlal Vs. Mafatlal Industries (1996) 87 Com Case 792*
  - *Dinesh v. Lakhani Vs. Parke-Davis (India) Ltd. (2003) 47 SCL 80 (Bom)*
- It is fair to use combination of three well known methods viz. asset value, yield value & market value
  - *Hindustan Lever Employees' Union Vs. HLL (1995) 83 Com case 30SC*
- Valuation will take into account number of factors such as prospective yield, marketability, the general outlook for the type of business of the company. Mathematical certainty is not demanded, nor indeed is it possible
  - *Viscount Simon Bd in Gold Coast Selection Trust Ltd. Vs. Humphrey reported in 30 TC 209 (House of Lords)*

**Valuation is left to the judgement of the expert !**

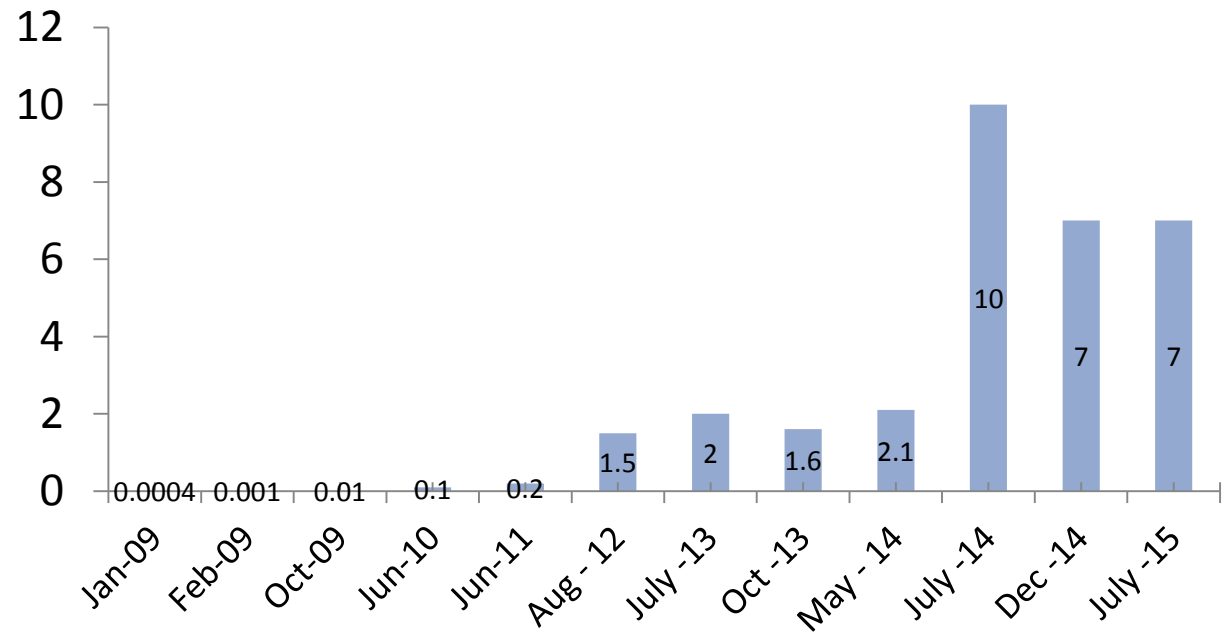
# Case Study

# Valuation of Flipkart...

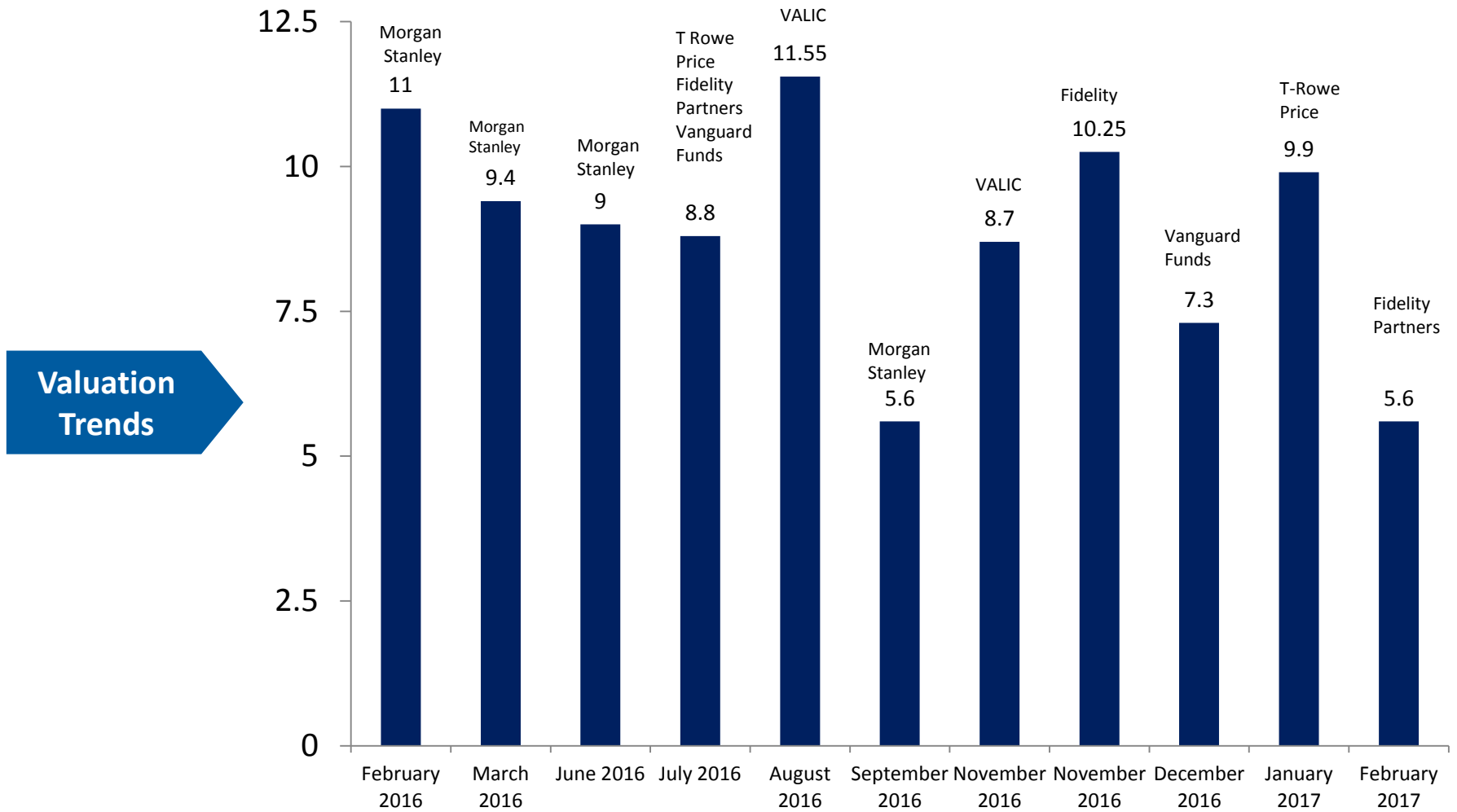
## Financials

	2013-14	2014-15	2015-16
Revenue	4	10	15
EBIT	-0.5	-1.5	-4
Profit After Tax	-0.5	-1.5	-5
Accumulated Loss	-2.5	-5	-10

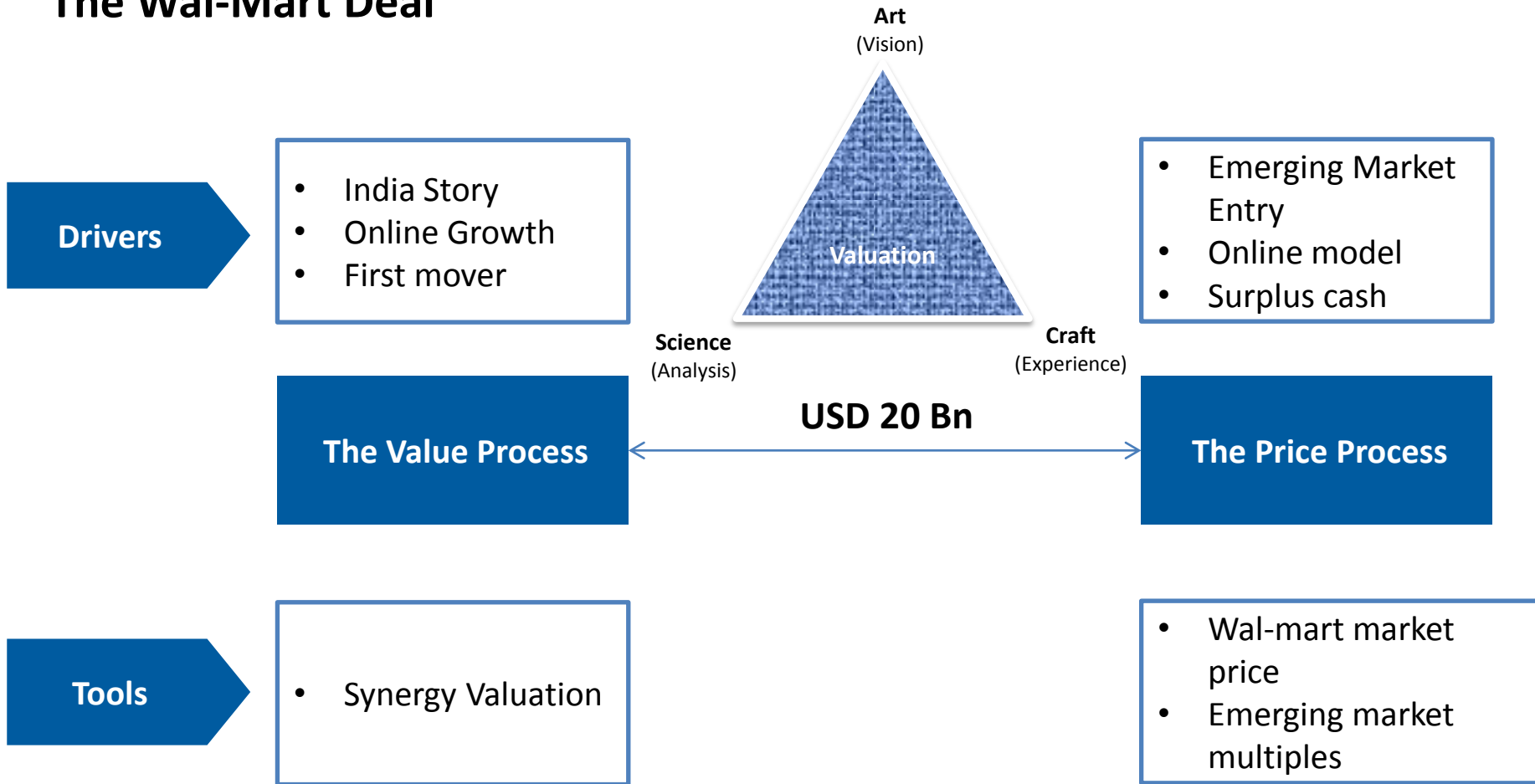
## Valuation Trends



# Valuation of Flipkart



# The Wal-Mart Deal



**It is a great deal for someone !**

**Thank You**