Conference on Mergers & Acquisitions

Case Studies – Innovative M & A Deals

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M & A Deals – an Overview

Trends in M & A

2006: Milestone year for M&A, IT &ITES grab big pie in M&A deals; Outbound deals surpass inbound

2007: M&A deals through May zoom ahead of 2006, Telecom among leading sectors

2007: M&A, PE deals spurt 143% to $68 bn in '07

2008: The total number of M&A deals announced in the month of February'08 stood at 36 with a total announced value of 2.95 billion dollar

PE deals surge 55% in H1 2008 driven by realty sector - July 26, 2008

Meltdown may force PEs, VCs to consolidate, exit - October 2008

Real estate PE deals may decrease – October 9, 2008

VC, PE deals drop as cos await higher valuations – October 23, 2008

2008: Financial crisis hits global M&A deals – October 26, 2008

2009: The total volume and value of M & A deals has dipped in 2009. The total number of deals announced during 2009 is 330 with a value of $11.6 billion as against 454 deals with a value of $30.95 billion in 2008

Source: Newspaper articles

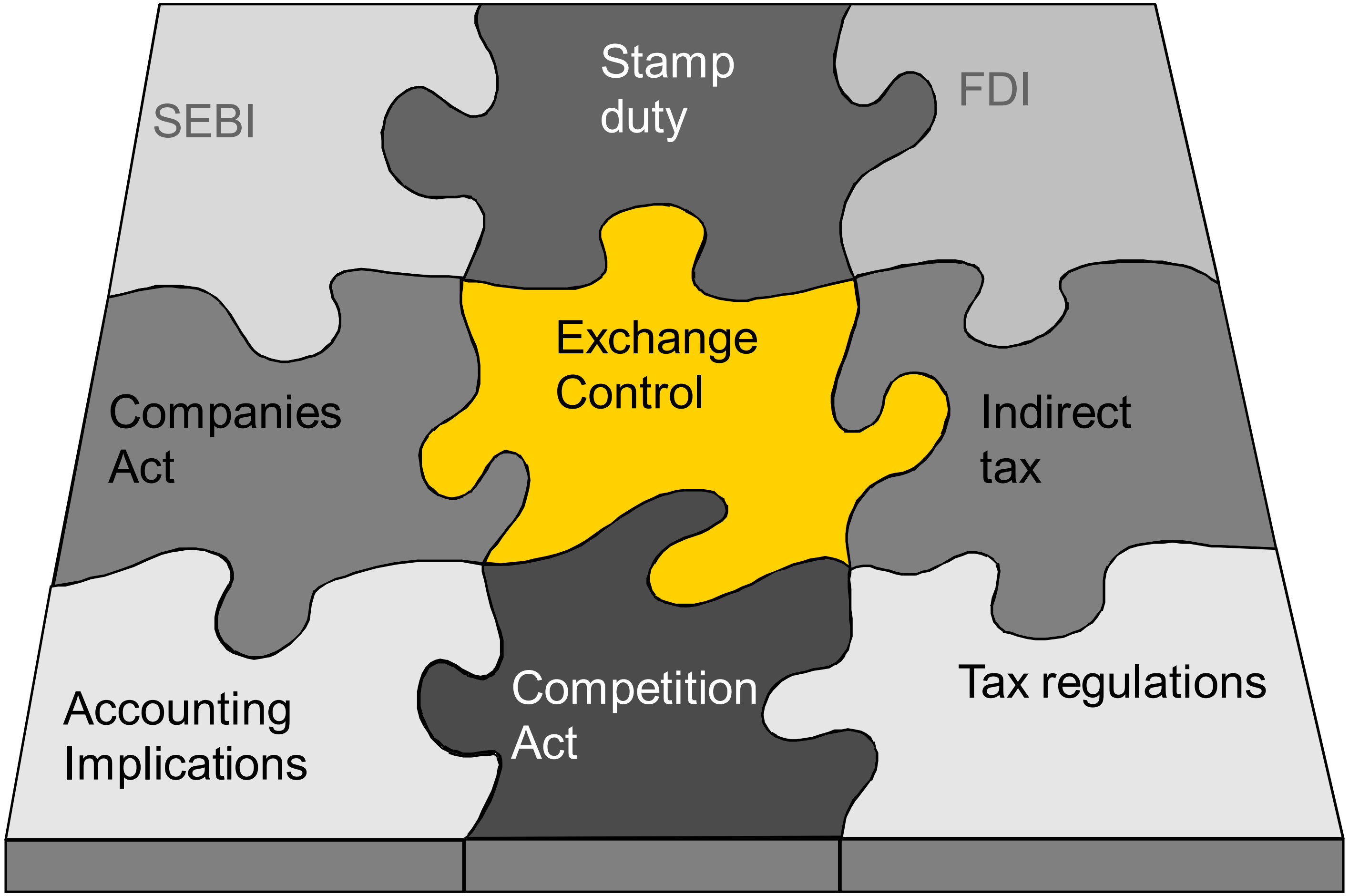
M & A Scorecard

Top M & A deals – 2009

Acquirer	Target	Sector	Amount (US$ Mns)	% Stake
Reliance Industries Ltd	Reliance Petroleum	Oil & Gas	1,888.89	Merger
Quippo Telecom Infrastructure Ltd	Tata Teleservices	Telecom	1,300.00	Merger
Federal Agency of State Property of Rusian Federation	Sistema- Shyam Telecom	Telecom	676.00	20%
Sanofi Pasteur	Shantha Biotechnics	Pharma, Healthcare & Biotech	664.89	80%
Promoters of DLF	DLF Assets (from DE Shaw)	Real Estate & Infrastructure Management	500.00	36%
Hospria Inc	Orchid Chemicals & Pharmaceuticals Ltd’s injectable drug business	Pharma, Healthcare & Biotech	400.00	100%
Sesa Gold Ltd	VS Dempo & Co Private Ltd	Metals & Ores	388.89	100%
Tech Mahindra Ltd(Through its subsidiary Venturebay Consultants Pvt. Ltd.)	Satyam Computer Services Ltd	IT & ITeS	351.00	31%
Essar Steel Ltd.	Assets and Steel business of Shree Precoated Steels Ltd	Steel	266.67	100%
Indian Oil Corporation	Oil India Ltd	Oil & Gas	249.67	5%

Source: Grant Thornton Dealtracker

Important Regulations



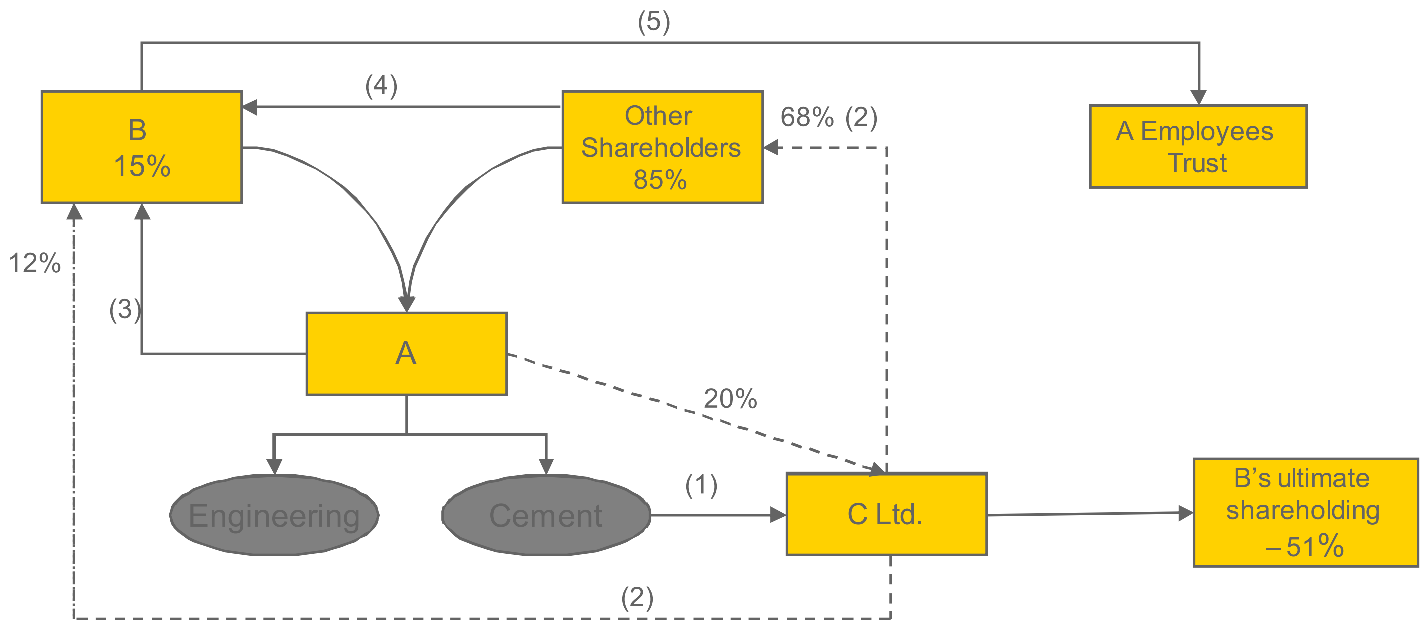
Every M & A action has a tax and regulatory reaction

Case Studies

Case Study 1 - Business Acquisition

Case Study 1...

1. Demerger of Cement business into C Ltd.
2. Issue of shares by C Ltd. – 80% (68% + 12%) to A shareholders; 20% with A
3. B acquires another 8.5% stake in C Ltd. from A for Rs. 362 crs
4. B makes an open offer to acquire 30% in C Ltd. – total outflow for B - Rs. 1,278 crs
5. B sells its 15% stake in A to the Trust for Rs 446 crs – Trust funded by A

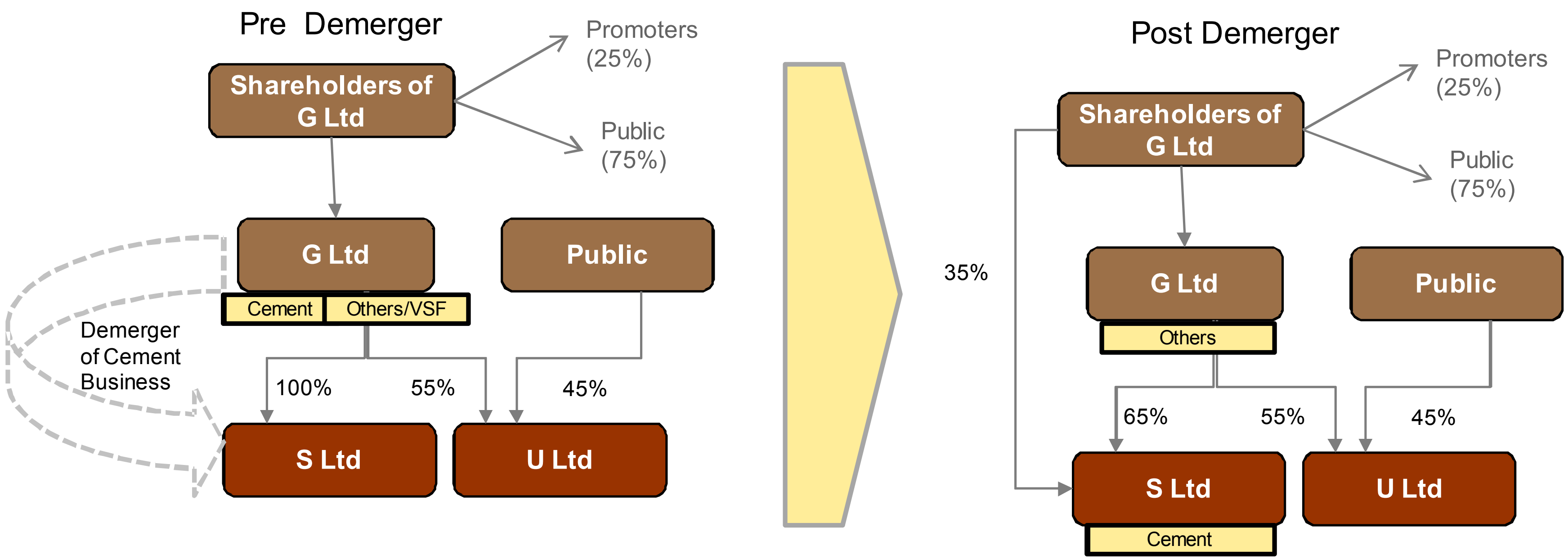


…Case Study 1

- Demerger scheme compliant with tax provisions
- B with 51% shareholding acquires control of C Ltd.
- A management gets control of 15% (held through the Trust) stake previously held by B
- Transaction between A / Trust and B – almost cash neutral

Case Study 2 - Consolidation without diluting shareholders' economic interest

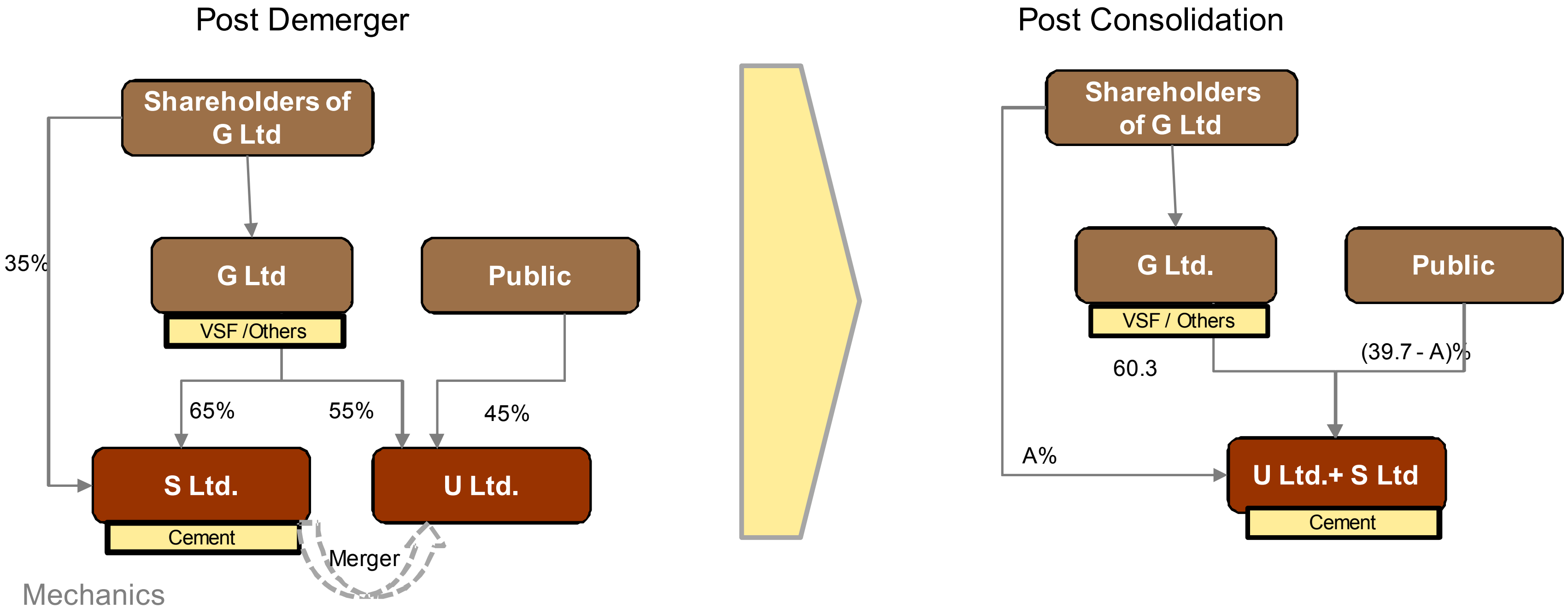
Case Study 2… – Demerger



Mechanics

- G Ltd and U Ltd are listed companies
- Cement Division of G Ltd was demerged into S Ltd.
- Consideration for Demerger is discharged by way of issue of shares to the shareholders of G Ltd
- Post demerger the shareholders of G Ltd. would hold 35% in S Ltd. and the holdings of G Ltd. would be diluted to 65%
  - No change in economic interest of G Ltd's shareholders
- S Ltd. Gets automatic listing without IPO (vide SCRR Circular dated September 3, 2009)

...Case Study 2 – Consolidation



Mechanics

- Post demerger, it is proposed to merge S Ltd. into U Ltd.
- Consideration for merger to be discharged by way of issue of shares in U Ltd. to G Ltd. And shareholders of G Ltd.

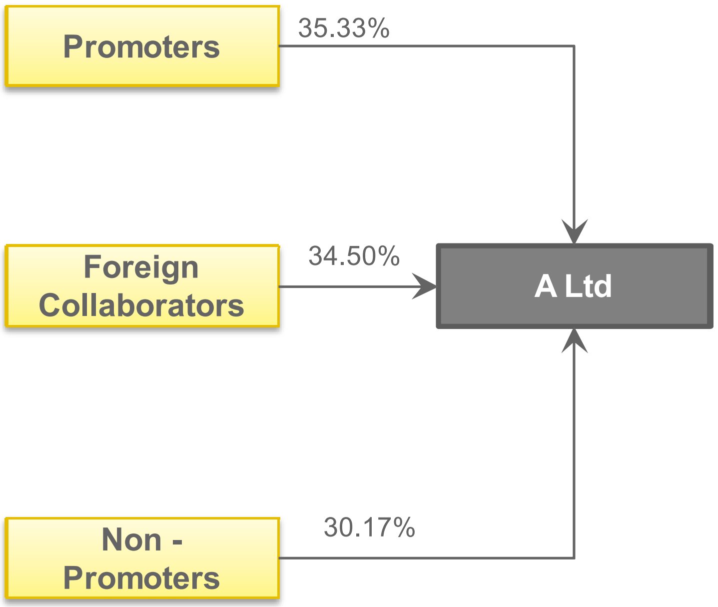
- Enhancement of financial flexibility in both businesses of G Ltd. (Cement and VSF)
- Continuation of G Ltd's parentage
- No change in economic interest of shareholder
- G Ltd. will continue to consolidate the cement business results
- Possibility to raise funds in future for Cement business
- No DDT leakage

Case Study 3 – Segregation of Promoters Stake

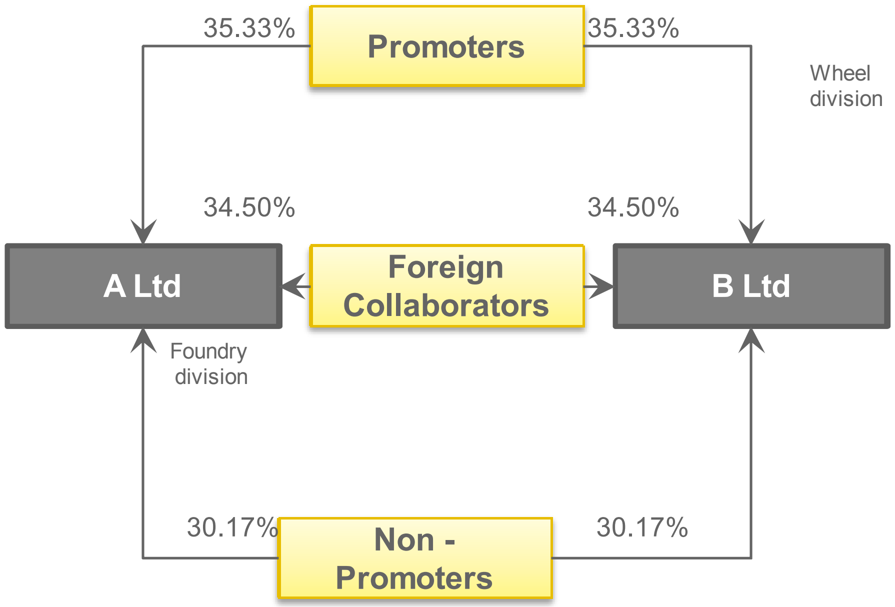
Case Study 3 … - Demerger

- A Ltd is a listed company engaged in the business of manufacture and sale of :
  - Castings made from aluminum alloys for automotive and non- automotive applications ('Foundry Division')
  - Alloy wheels for automotive applications ('Wheel Division')
- Demerger of Wheel Division of A Ltd into B Ltd
- Consideration
  - 1 equity share of Rs 5/- each against 1 equity share of Rs 5/- each
- The scheme also provides for cancellation of initial contribution by A Ltd. in B Ltd. resulting in mirror shareholding

Pre – restructuring Structure



Post – restructuring Structure



…Case Study 3 - Share transfer

- In order to give controlling interest to Indian promoters in Demerged Company and foreign collaborator in Resulting Company, the scheme provided:
  - During the period of 2 years from date of listing of B Ltd or 31 December 2011, whichever is later, there would be transfer of equity shares between the Indian Promoters and Foreign collaborator over the *stock exchange*:
    - Transfer of shares in A Ltd. By foreign collaborators to Indian Promoters
    - Transfer of shares in B Ltd. by the Indian Promoters to foreign collaborators
    - At an transfer amount which has been defined to mean the market price on the date of transfer

- The scheme further provides for the change in management of the respective companies

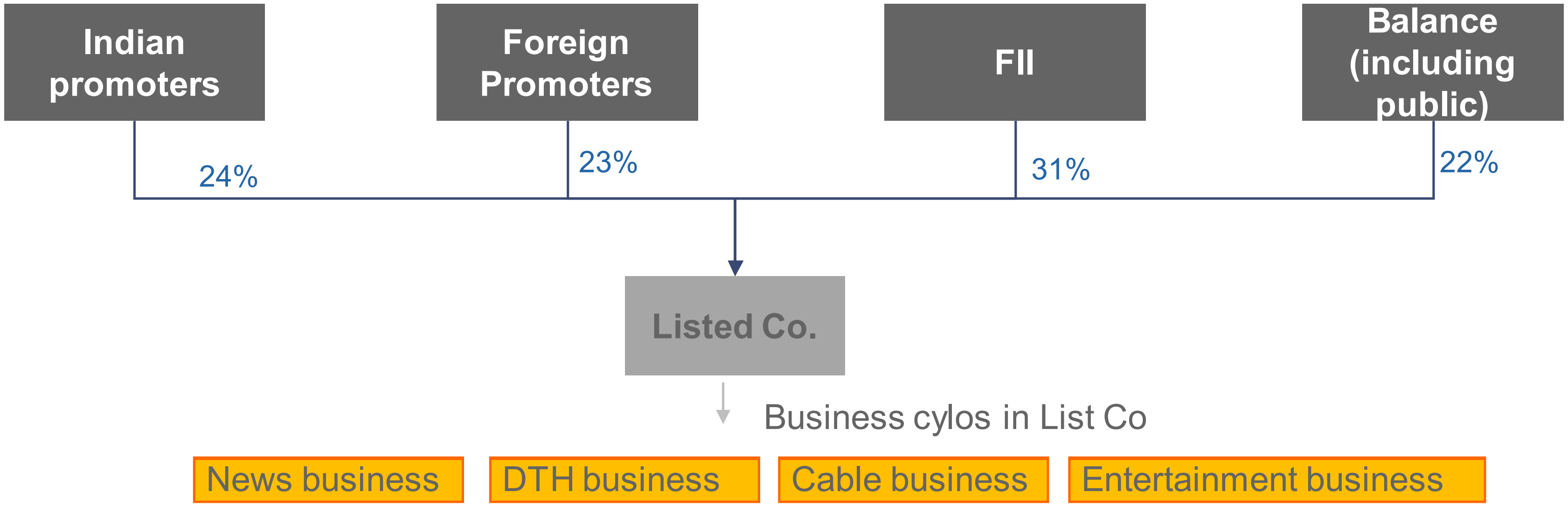
- Specific provision in the Scheme has been provided, clarifying that the transfer of shares to be exempt from the applicability of Takeover code under:
  - Regulation 3(1)(j)(ii) – transfer being done as part of the scheme of arrangement
  - Regulation 3(1)(e)(iii)(a) – transfer being between promoter and foreign collaborator

- Segregation and divestment of respective stakes to focus on respective businesses
  - Indian promoters to own & control Foundry Division (A Ltd)
  - Foreign collaborator to own & control Wheels Division (B Ltd)

Case Study 4 - Restructuring for regulatory compliance

Case Study 4…

Pre-restructuring



- Only 26% total foreign equity shareholding allowed in News business
- Only 49% total foreign equity shareholding allowed in Cable business & Direct to home (DTH) business
- As per MIB guidelines of uplinking for news channel – largest Indian shareholder should hold atleast 51% of the total equity capital of the broadcasting company

Segregation of business for value unlocking, transparency and capital inflow

… Case Study 4

Mechanics

News business

- News business of ListCo was demerged into SPV 1
  - Entire Foreign Promoter holding in the news company was transferred to Indian promoters
  - Scheme had a provision that FIIs were to be issued Preference Shares if their shareholding was in excess 32% on the Record Date

Cable and DTH business

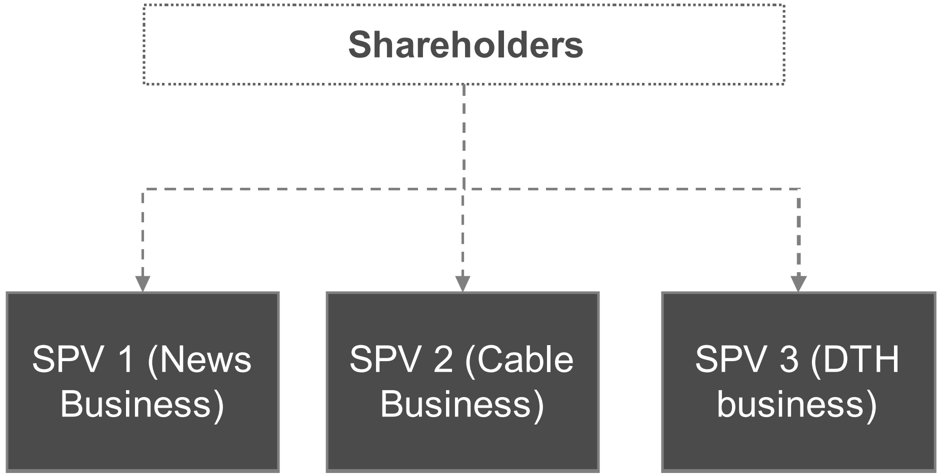
- Cable and DTH business of ListCo were demerged into two separate companies viz. SPV 2 and SPV 3 respectively
- As in the case of News Business, part of the foreign promoter holding in the two resulting entities was transferred to Indian promoters to comply with regulatory guidelines

… Case Study 4

Benefits

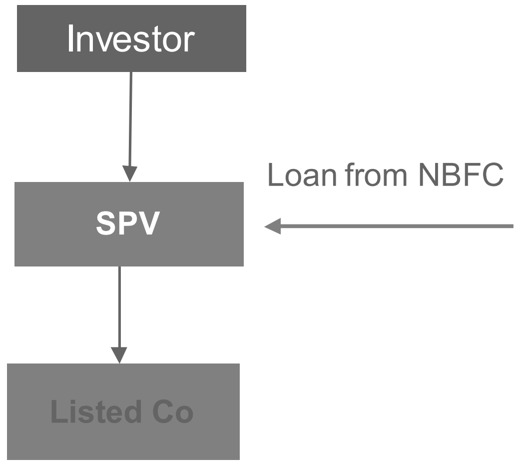
- Resulting structure FDI compliant.
- Possible to have a clear-cut leadership and direction for the growth of various businesses
- Ease of entry for strategic investors
- Value unlock

Resulting shareholding



Case Study 5- Acquisition Structuring - LBO

Case Study 5

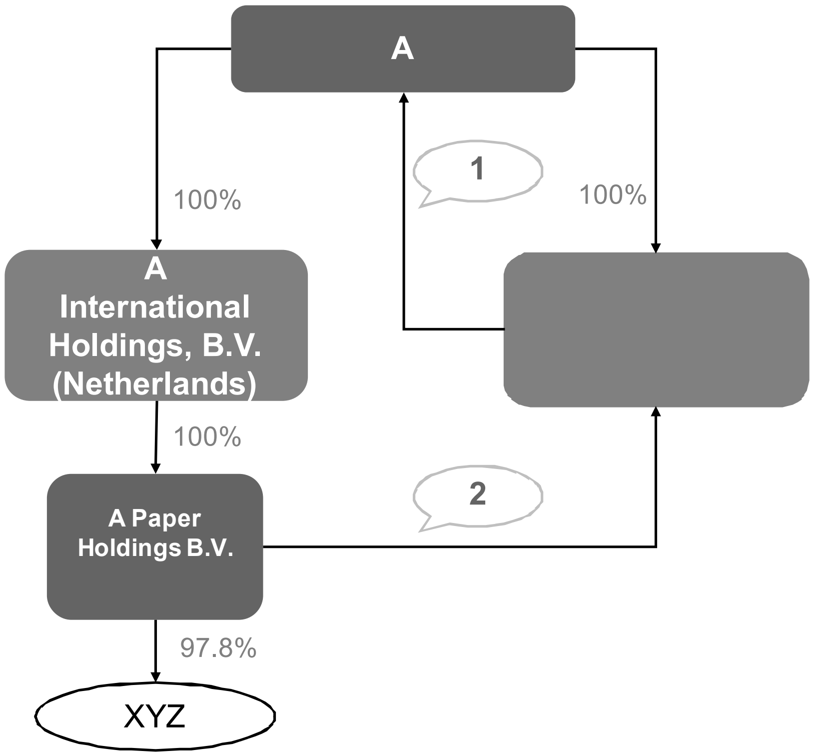


Facts

- Investor acquired stake in Listed Co through an SPV financed by a loan from an NBFC
- Servicing of loan ??
  - Possible merger of SPV into Listed Company
  - However, would result in dilution of holding
- Need to declare dividends – resulting into DDT leakage
- Fund Repatriation through Buyback u/s 77A / Scheme of Arrangement
  - Taxation in the hands of shareholders & not company
  - Across the board Buyback prevented dilution in Investor's holding post Buyback

Case Study 6 - Off shoring of business

Case Study 6



1 Issue of Equity Shares of Rs.450 crs and Non-Convertible Debentures of Rs.1500 crs

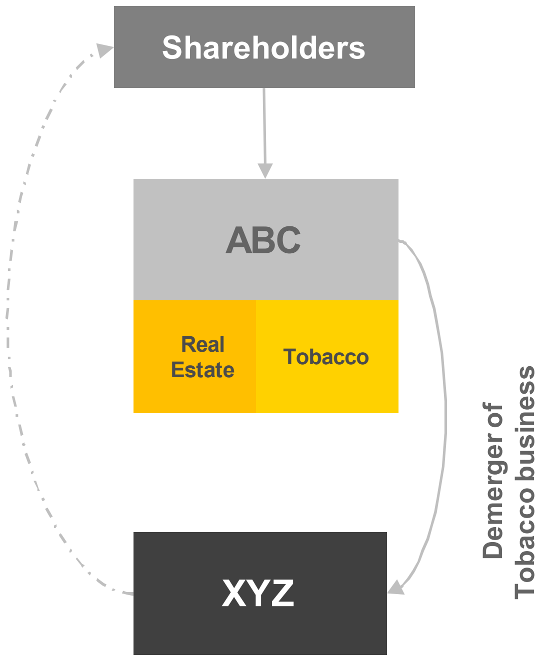
2 Transfer of equity shares and debentures of B to A Paper Holdings B.V. for cash consideration

- A is listed on BSE and NSE and is engaged in manufacture and sale of paper
- Pursuant to a Scheme of arrangement and reorganization, 3 undertakings of A were transferred to B in exchange of equity shares of Rs. 450crs and debentures of Rs. 1500crs of B
- Scheme also provided for buy back of 40% of the post-split equity shares of A
  - Option to shareholders holding 1,000 equity shares or less to sell their entire holdings in List Co
- A transferred the shares and debentures received above to A Paper Holdings B.V.
  - Funds received from A Paper Holdings B.V. to be utilised for retirement of debts and to fund buyback of its shares

The restructuring prepares A Paper Holdings B.V. and A International Holdings for future listing in the international market

Case Study 7 - Delisting of Business

Case Study 7A…ABC



- ABC carrying out real estate and tobacco business
- Scheme of Arrangement between ABC and XYZ
  - Scheme provided for demerger of Tobacco Division, Beverages Division & Trading Division from ABC to XYZ;
  - ABC is listed on BSE, NSE, U.P. Stock Exchange and Calcutta Stock Exchange
  - Discharge of consideration by issue of Non-cumulative Redeemable Non-convertible Preference Shares
  - NoC to Scheme from the Stock Exchanges and approval by overwhelming majority of shareholders
  - Scheme sanctioned by the Allahabad High Court

Objective was to separate tobacco business due to risk associated and ease the fund raising in real estate

Case Study 7B…ABC

- ABC engaged in business of clay mining & refining and manufacture of starch and allied products
- The objective of the restructuring was to delink the investment division and to squeeze out the minority shareholders from the investment business
- As a part of restructuring, investment division was demerged to XYZ
  - As consideration for demerger, 4 equity shares of XYZ to be issued for every 19 equity shares of ABC
  - Option to shareholders to receive 100 Cumulative Redeemable Preference shares (‘CRPS’) of Rs. 10 each for every 1 entitlement of equity share
  - Shares issued pursuant to demerger would not be listed
  - Option given to shareholders to sell equity shares to promoters at the rate of Rs. 1000 each, till 1 year from the record date

Condition relating to proportional issue of shares under Section 2(19AA) of the IT Act

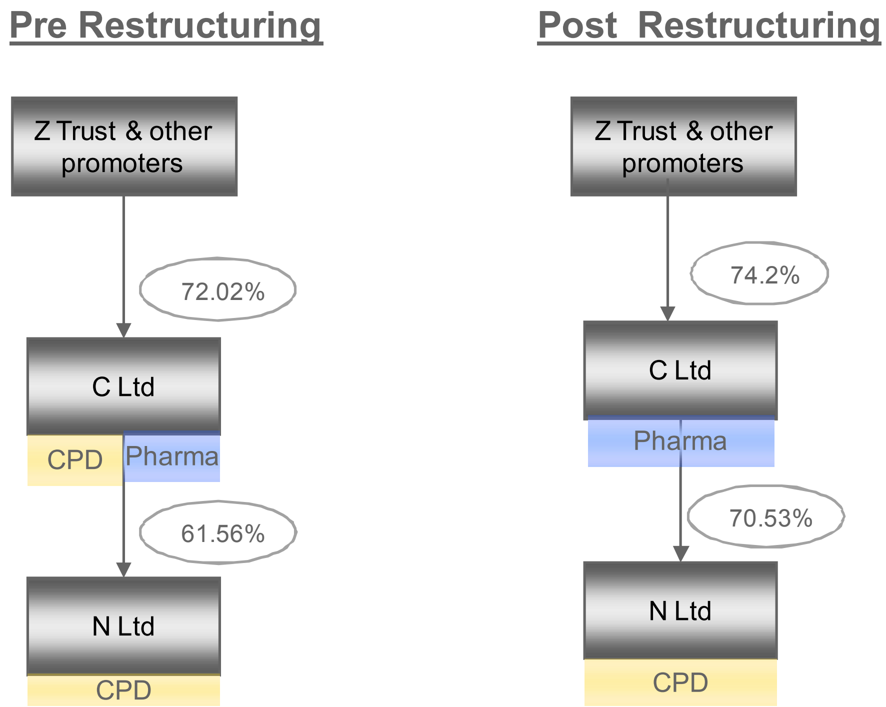
Case Study 8 - Consolidation of Business

Case Study 8…

- C Ltd and N Ltd, both listed companies, form part of the same Group
- C Ltd is carrying out pharmaceutical and consumer product business ('CPD')
- N Ltd is engaged in manufacture and marketing of consumer products
- Objective of the restructuring - to concentrate the core competencies of both the companies
- As a part of restructuring, Family trust (Z Trust) transferred entire holding in C Ltd to H Ltd (promoter holding co)
- As per the Scheme of arrangement, consumer product division of C Ltd was demerged to N Ltd
  - N Ltd issued shares to shareholders of C Ltd
  - Since, post issue of shares, C Ltd would lose control over N Ltd, H Ltd was merged with C Ltd
- C Ltd got shares of N Ltd and issued its shares to shareholder of H Ltd (viz 'Z Trust') as consideration for merger

...Case Study 8

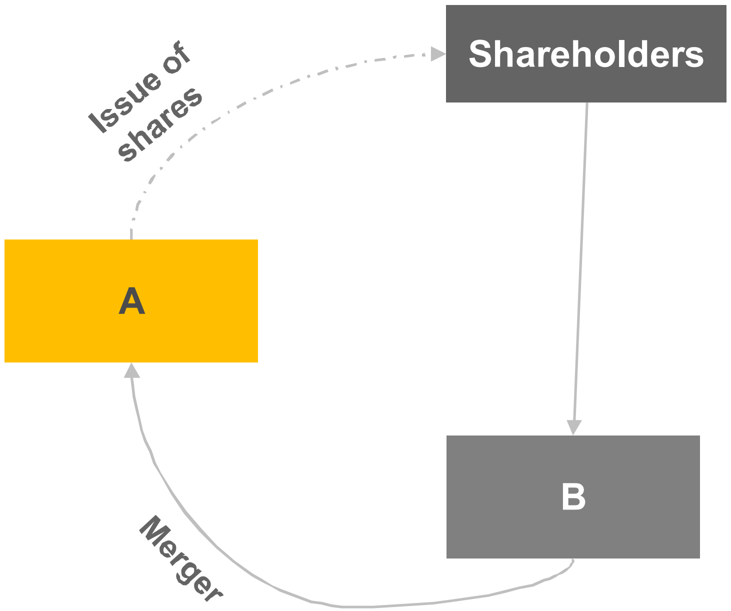
- The pre and post restructuring structure is as depicted below



Re-alignment of business achieved, keeping the structure intact

Case Study 9 - Cross Border Acquisition

Case Study 9



- A is a company listed on BSE, NSE, Madras Stock Exchange and Ahmedabad Stock Exchange and is engaged in IT sector
- B was a Delaware based holding / investment company which held investment in operating companies engaged in IT / ITES in US and other jurisdictions
- A wanted to acquire B and hence as a part of restructuring B was merged with A
  - Merger of Delaware company with Indian company permitted as per Delaware laws and Indian laws
  - A issued shares to the shareholders of B as consideration for merger

Objective was to acquire B without any cash outflow

Case Study 10 - De-subsidarization & Consolidation

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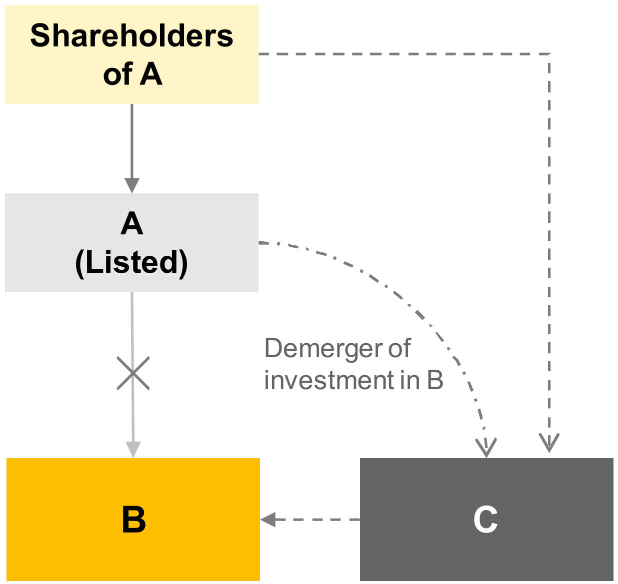
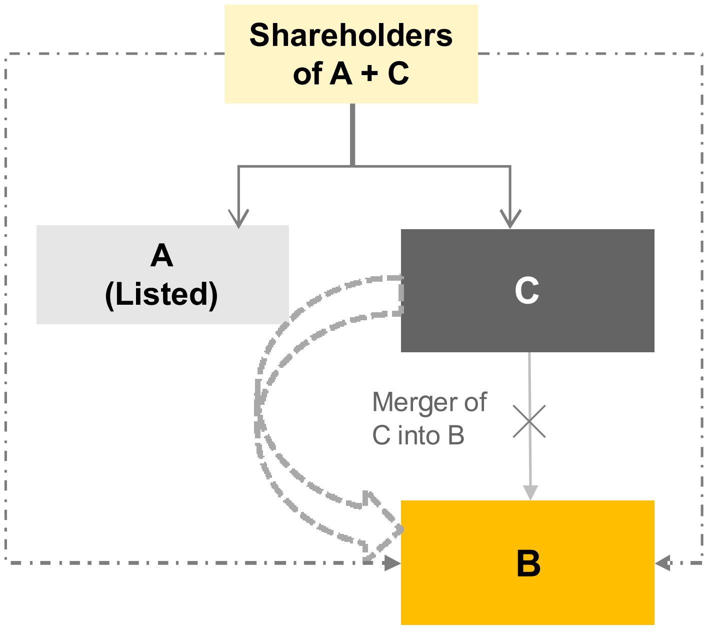
Case Study 10.. – De-subsidarization



- A is a listed Pharmaceutical Company
- B (a glass manufacturing company) is a subsidiary of A
- A demerged its investments in B to C, a new investment company
  - C becomes the holding company of B
  - Shareholders of A were issued shares in C
- Listing of C was done post relaxation granted by SEBI from applicability of Clause 19(2)(b) of the Securities Contracts (Regulation) Rules, 1957

Objective was to de-subsidarize B and enable direct listing

..Case Study 10 - Consolidation of Hold Co into Op Co



- As a subsequent step, C was merged into B
  - Upon merger shares of B held by C would get cancelled; and
  - Shares equivalent to shares held by C be issued to the shareholders of C
-

Consolidation of C into B would enable the group to avoid multi layer holding structure and enable shareholders of C to participate directly in the fortunes of B

Thank You

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