

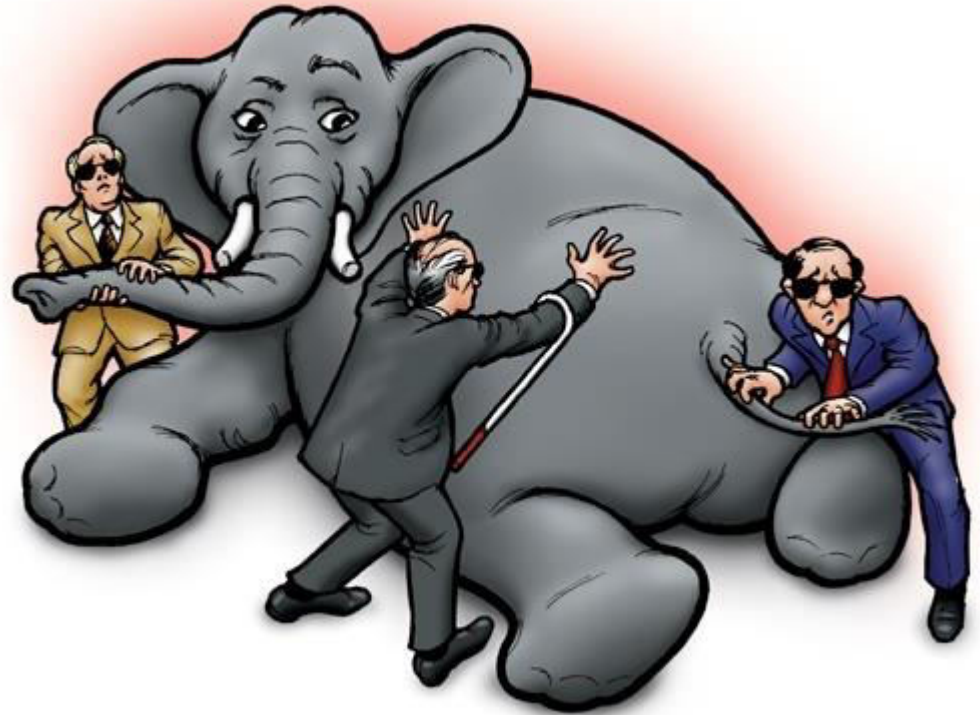
Valuations and M&A

CA Vishal R. Laheri

WIRC, ICAI

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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
Total M&A	259	198	235	15,816	30,942	65,451
Private Equity	499	412	403	5,920	8,380	9,397
Grand Total	758	610	638	21,736	39,322	74,848
Cross - Border includes						
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	13.12	16.81	20.43	22.28
2000	26.33	22.24	21.23	18.85
2001	20.00	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	

Source: Bloomberg

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

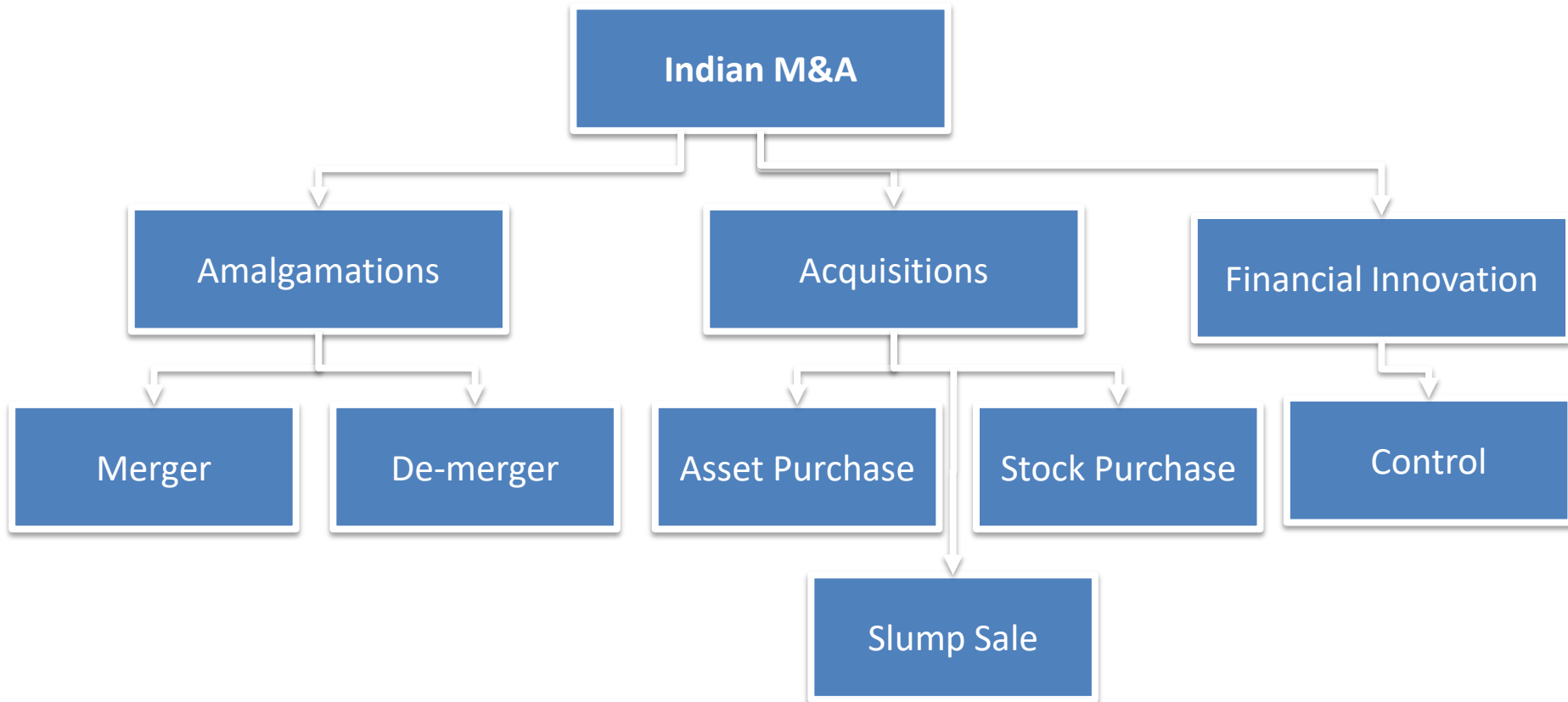
Important to be absolutely clear on the reason for M&A

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**
 - Trust 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 !

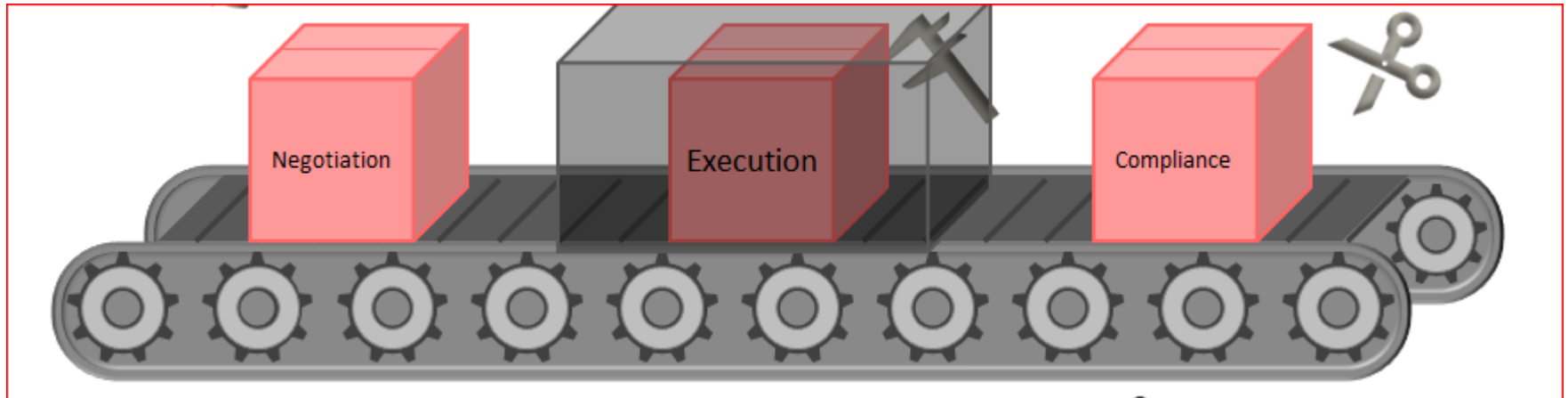
M&A in India - Modes of M&A



Phases of M&A transaction & Valuation

- Negotiation
- IBC
- SEBI

- Accounting
- Tax
- FEMA



- FEMA
- Tax
- Co Act

Fair Value

**“The price that would be
received to sell an asset or
paid to transfer a liability
in an orderly transaction
between market participants
at the measurement / valuation date.”**

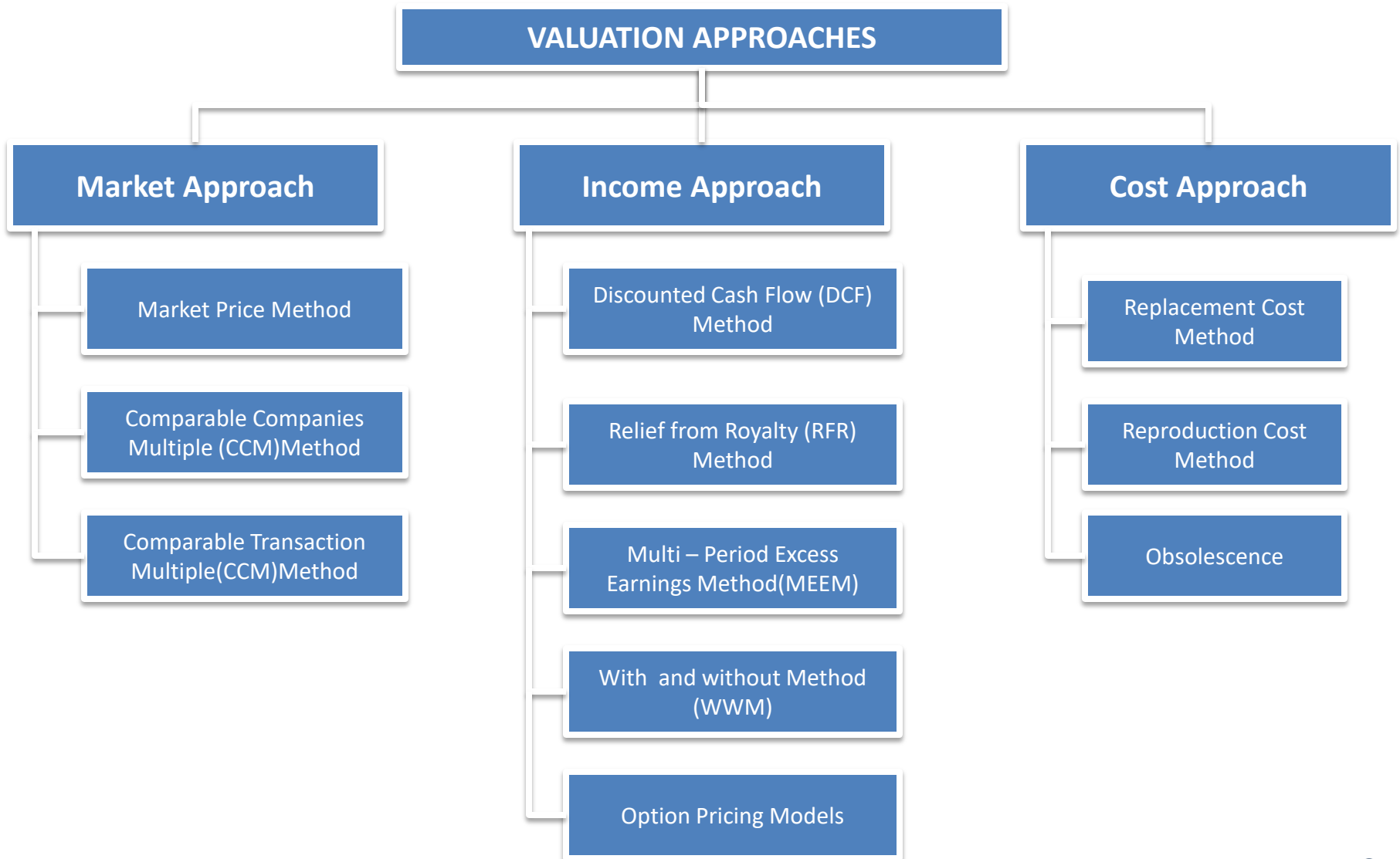
Ind AS + Indian Valuation Standards

International Valuation Standard uses the bases of Market Value

Prescribed Valuation Methodologies

Law	Incidence	Method	Who can do
Companies Act	Preferential Issue-Unlisted Co-Sec 62 & Sec 42	<ul style="list-style-type: none"> Indian Valuation Standards 	Registered Valuer
	<ul style="list-style-type: none"> S/ 230 - Arrangement S/ 232 – Merger/Demerger 	<ul style="list-style-type: none"> Indian Valuation Standards 	Registered Valuer Expert
	Section 247	<ul style="list-style-type: none"> Indian Valuation Standards 	Registered Valuer
RBI / FEMA	Inbound/Outbound	<ul style="list-style-type: none"> Listed Shares – SEBI Guidelines Unlisted Co - International Accepted Valuation Methodology (IAVM) 	MB / CA
SEBI	Takeover regulation	<ul style="list-style-type: none"> Direct Acquisition - Highest of – negotiated price / 52 weeks VWAP /highest acquisition price in 26 weeks /60 days VWAP Indirect Acquisition 	Acquirer / Manager to offer (MB)
	Preferential Issue (ICDR)	<ul style="list-style-type: none"> Frequently traded – Higher of 26 / 2 weeks VWAP Infrequently traded – no prescribed method 	MB / CA (10 yrs)
Income Tax	Unquoted Shares-Sec 50CA & 56(2)(x) r.w. Rule 11UA	Co in which public are <u>not substantially interested</u>	
		<ul style="list-style-type: none"> Issue of unquoted equity– NAV or DCF certificate All other valuation <ul style="list-style-type: none"> Quoted Equity – traded /floor price Unquoted Equity - Adjusted NAV Unquoted Pref Shares – certificate 	MB MB / CA
IBC	Asset Valuation-Regulation 35	<ul style="list-style-type: none"> Fair Value & Liquidation Value - IAVM 	Registered Valuer

Valuation Approaches



Valuation in Practise

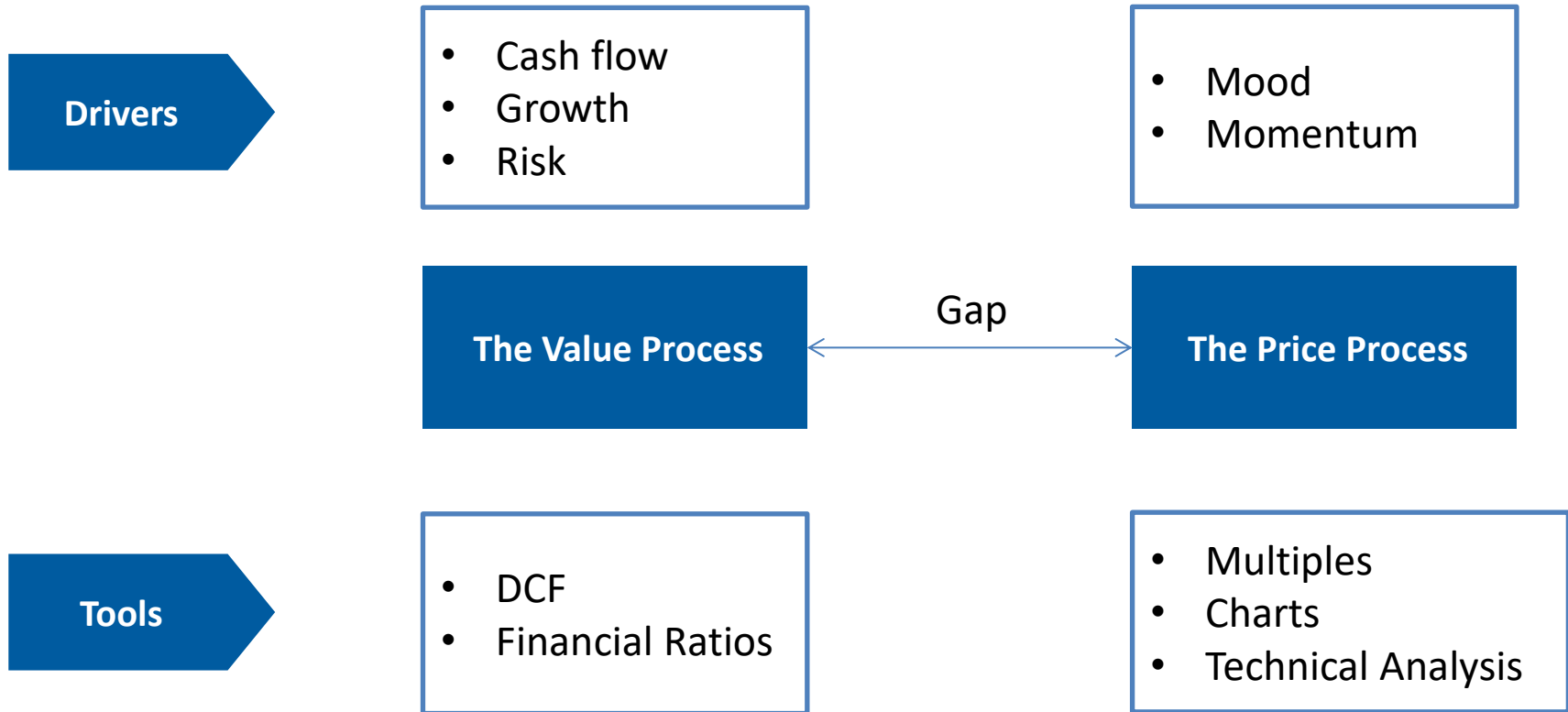
Valuation in M&A



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

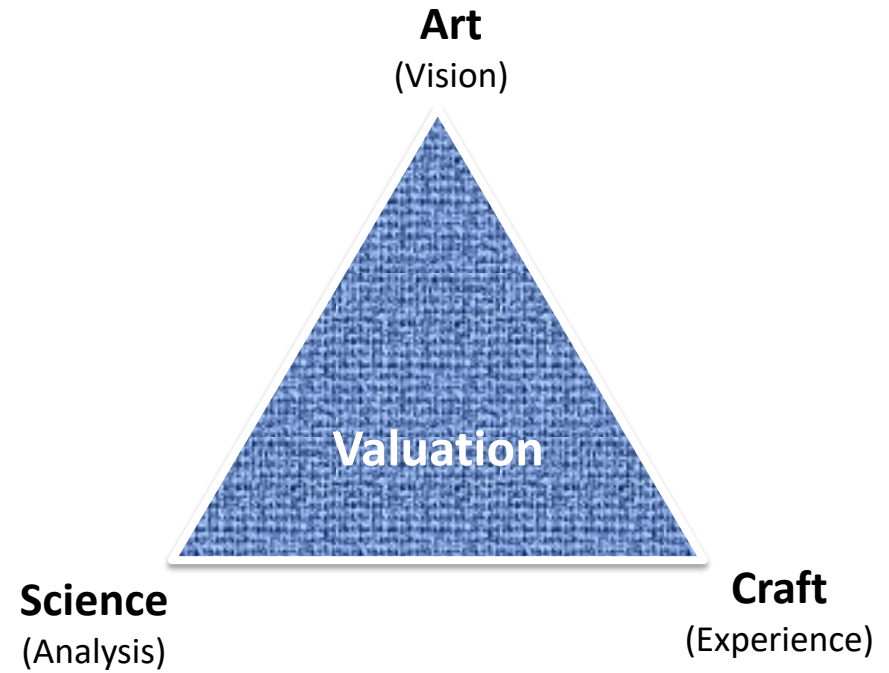
- WARREN BUFFET

Consideration in Valuations – How much should we pay



Valuation Process

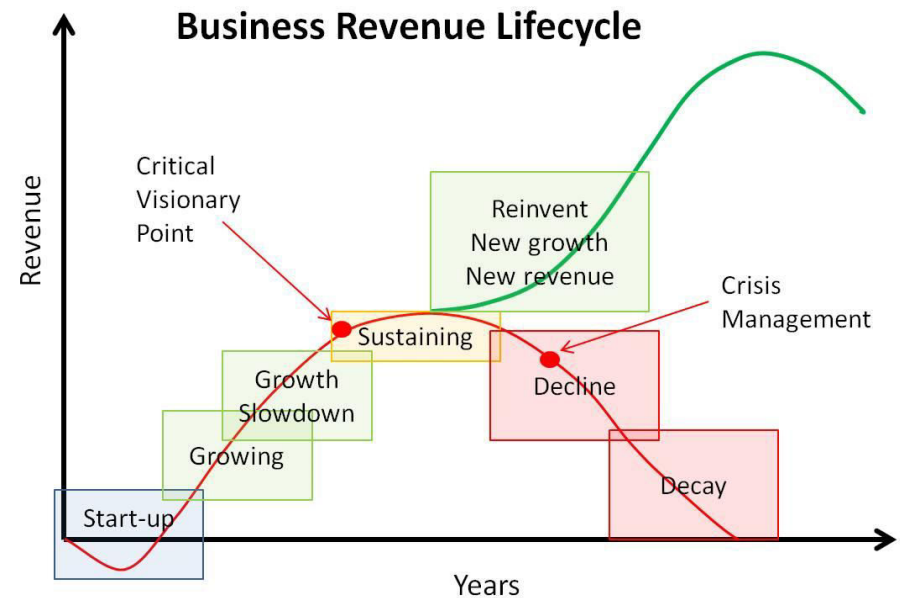
- Identify purpose of Valuation
- Obtaining Information – Story & numbers
- Data analysis & review
- Discussion with the management of the company
- Selection of method
- Cash flow projections & DCF
- Assigning weights
- Conducting sensitivities on assumptions
- Recommendation
- Reporting



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 Debentures, Preference shares & convertible instruments
- Valuation of Intangible Asset

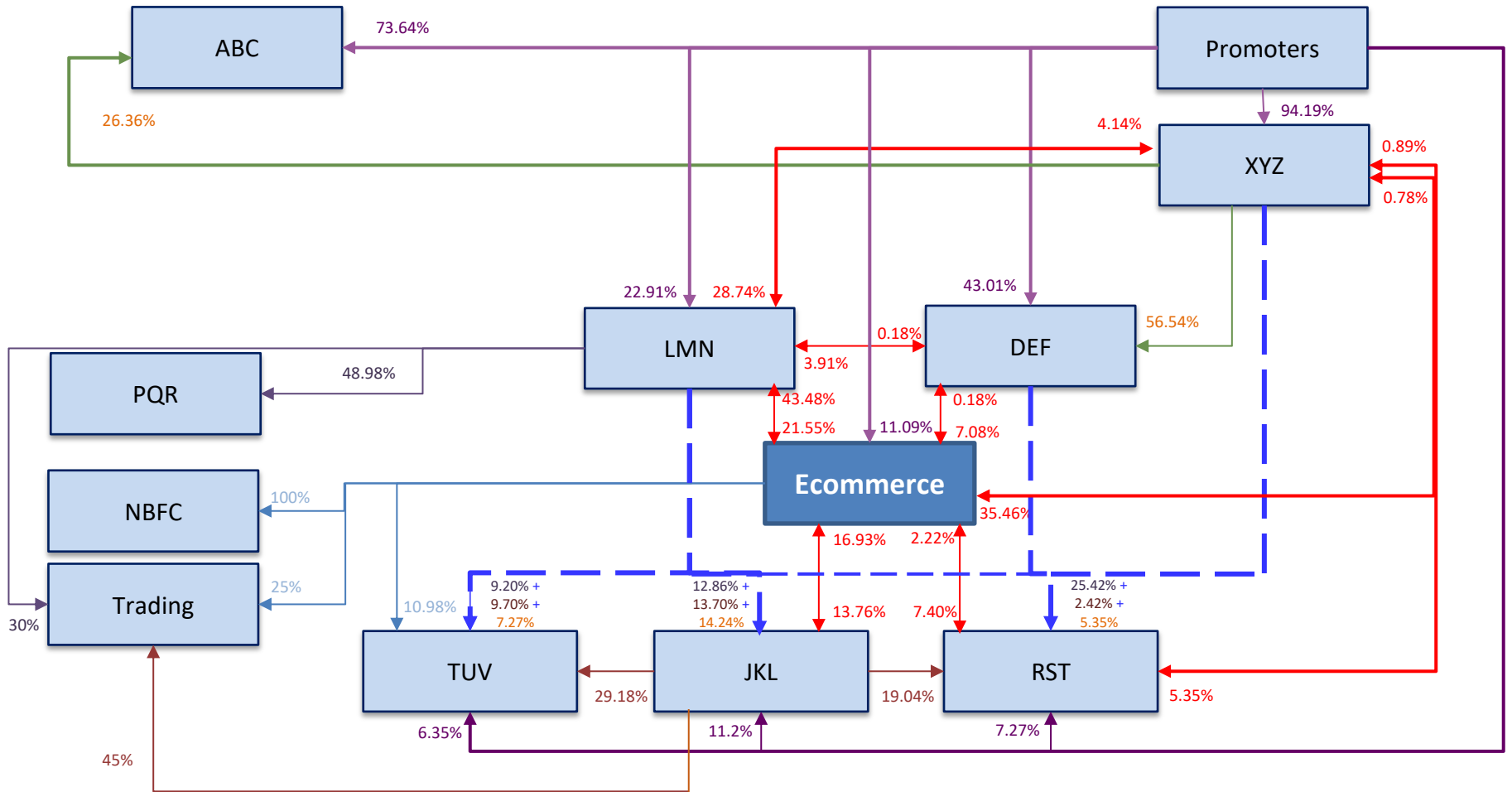


Valuation – Practical Issues

- 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

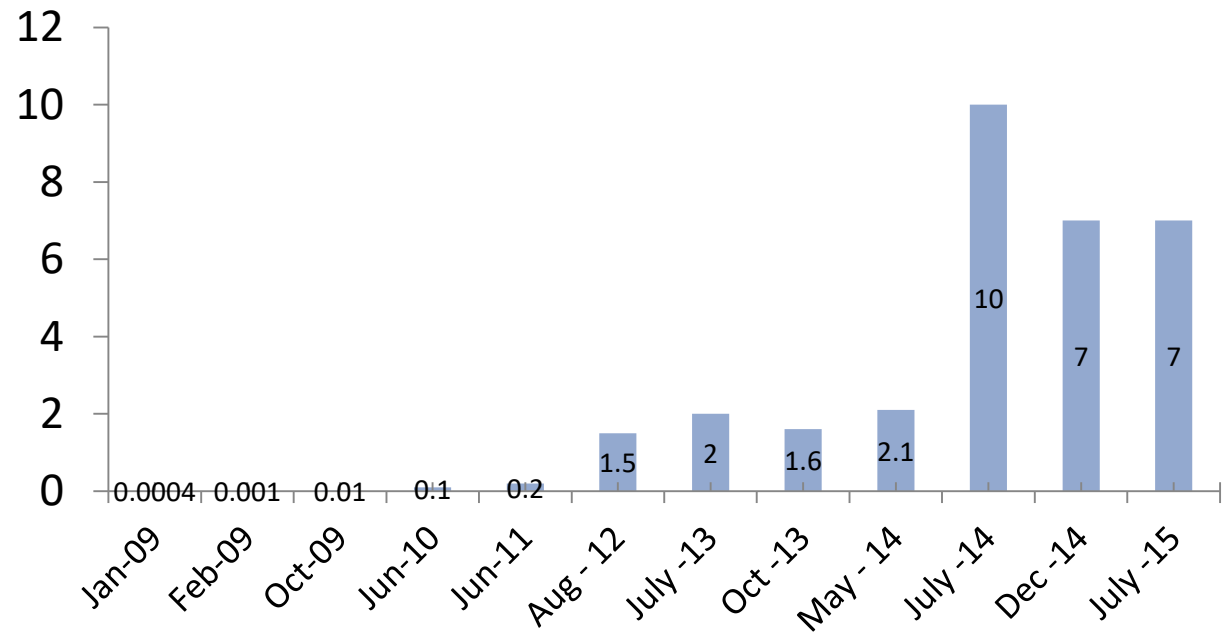
Valuation of Flipkart...

Financials

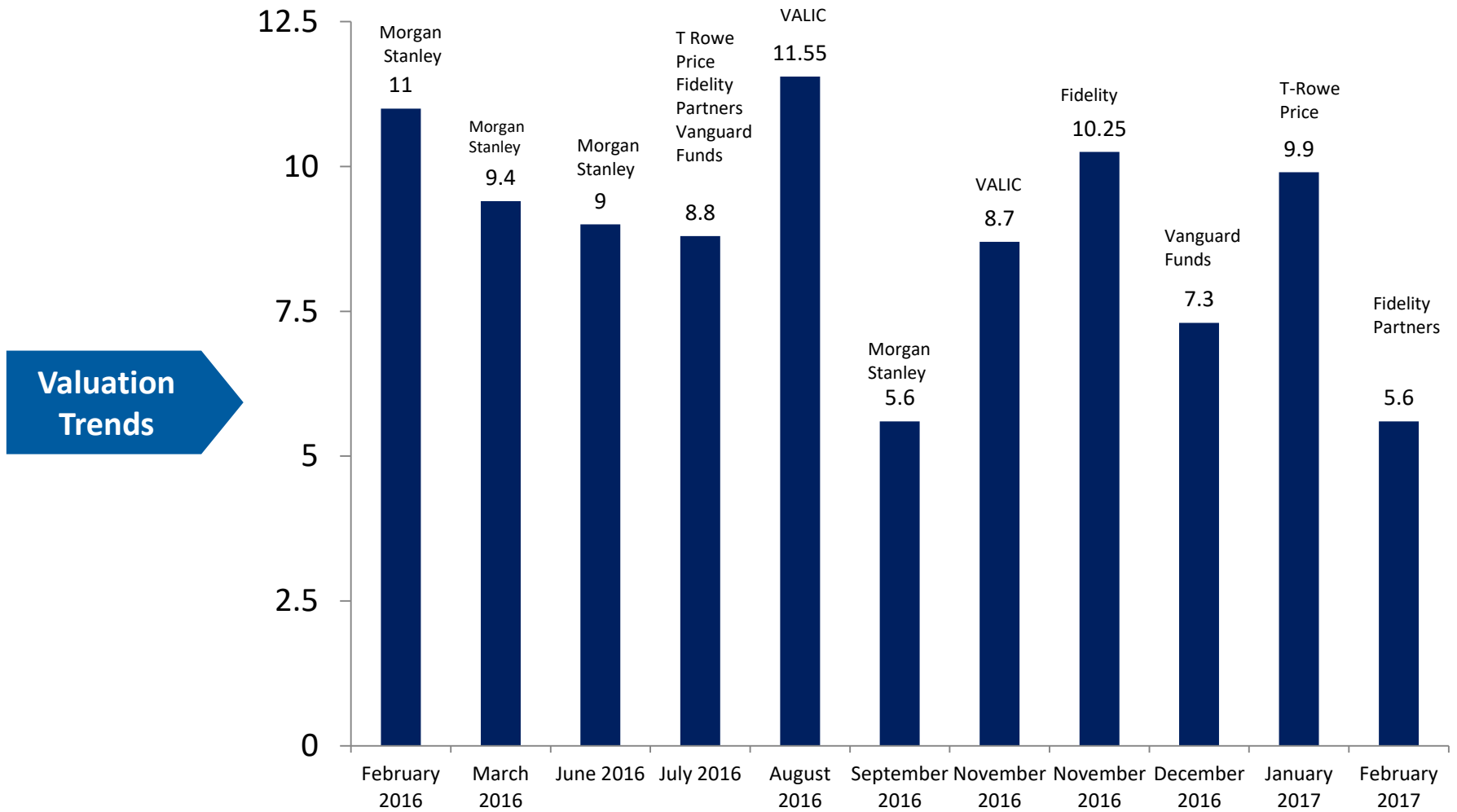
USD bn

	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

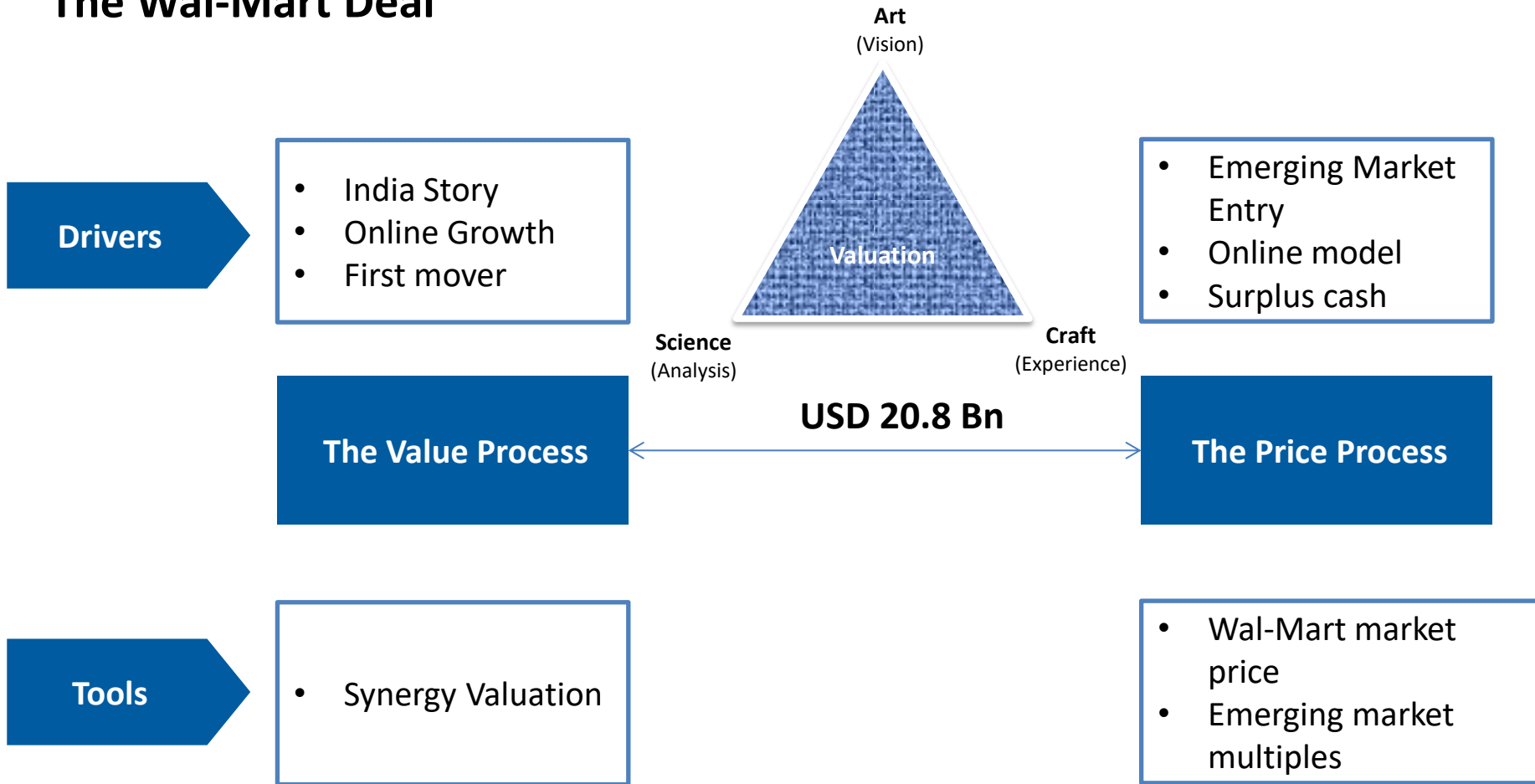
Valuation Trends



Valuation of Flipkart



The Wal-Mart Deal



It is a great deal for someone !

Thank You