

Business value creation thru cross border transactions (challenges of valuation and structuring of M&A)

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Steroids



**Conventional Way of
Managing Business /Finance**

+

**No Ethical practices &
Growth Strategy**

=

**Dying Corporates
on
Steroids**

Let us take deep dive

- **Changing business landscaping** : India perspective with global paradigms
- **Value propositions** : Enhance enterprise value and strategy map
- **Moving into new orbits** : Preparing for renewed growth thru Cross border Transactions with focus on M&A and key Challenges
- **Corporate Case Study** : Reality check and key learnings
- **Parting thoughts and take aways**

Changing business landscaping

(India perspective with global paradigms)



Global Dynamics –India's perspective



Prior to 1990s

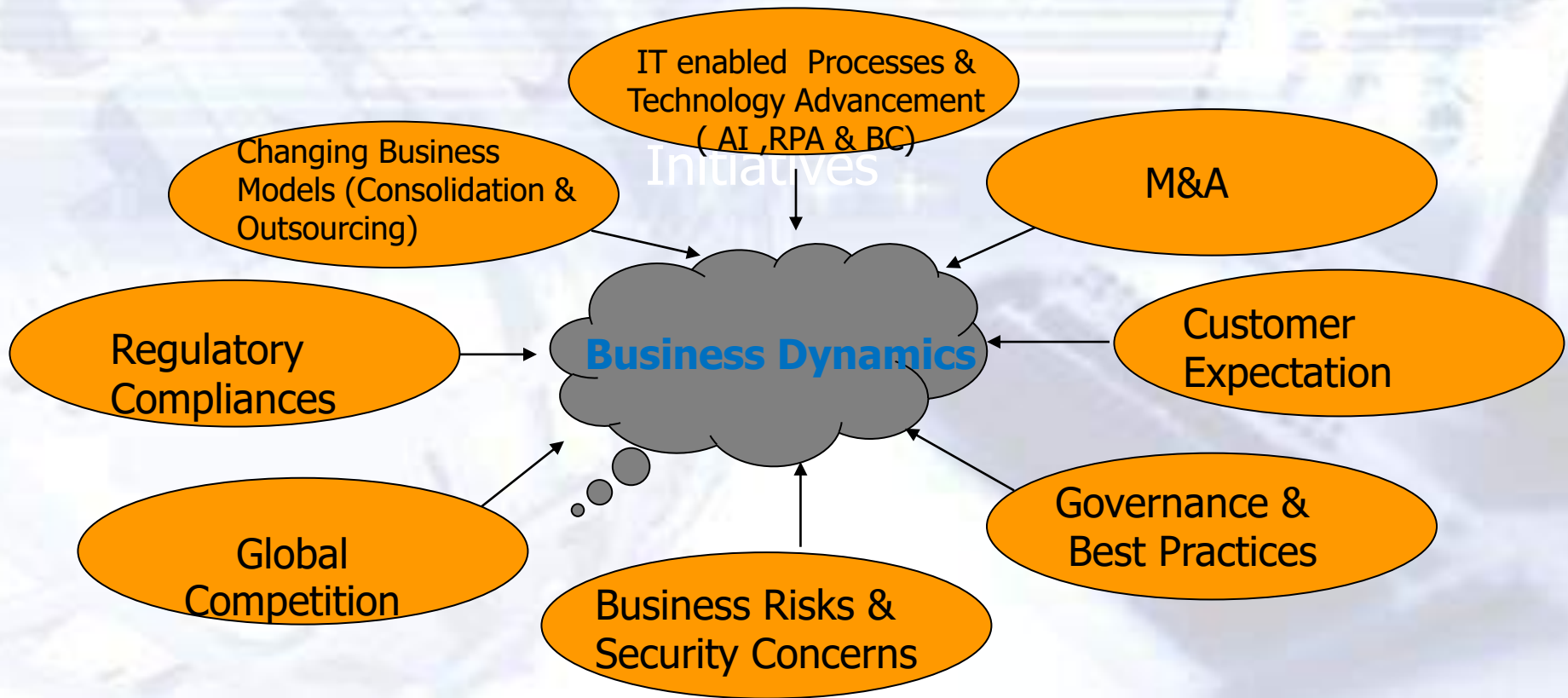
- India was the only market
- The manufacturer could sell whatever it could produce

1990-2015

- Exposed to International Markets(Products & Capital) and Competition

2015 - After

- Achieve viability of operations in global environment
- Change in mindset to become a global/Glocal company



How Global Corporates have destroyed values –Key learnings



Self Denial

Emerging Technologies
Changing Customer Tastes
Newer Global Environment

Arrogance
(Pride before fall)

Exceptional Achieve of Past wraps present realities
Nobody can duplicate your products
You are smarter than others

Complacency

Past Success under regulated monopoly
U were chosen for success by govt
U are run with Govt. control

Greed Obsession

Justify every financial norms for growth and unearned profits
Achieve growth devoid of business fundamentals
Overleveraging and over trading on equity

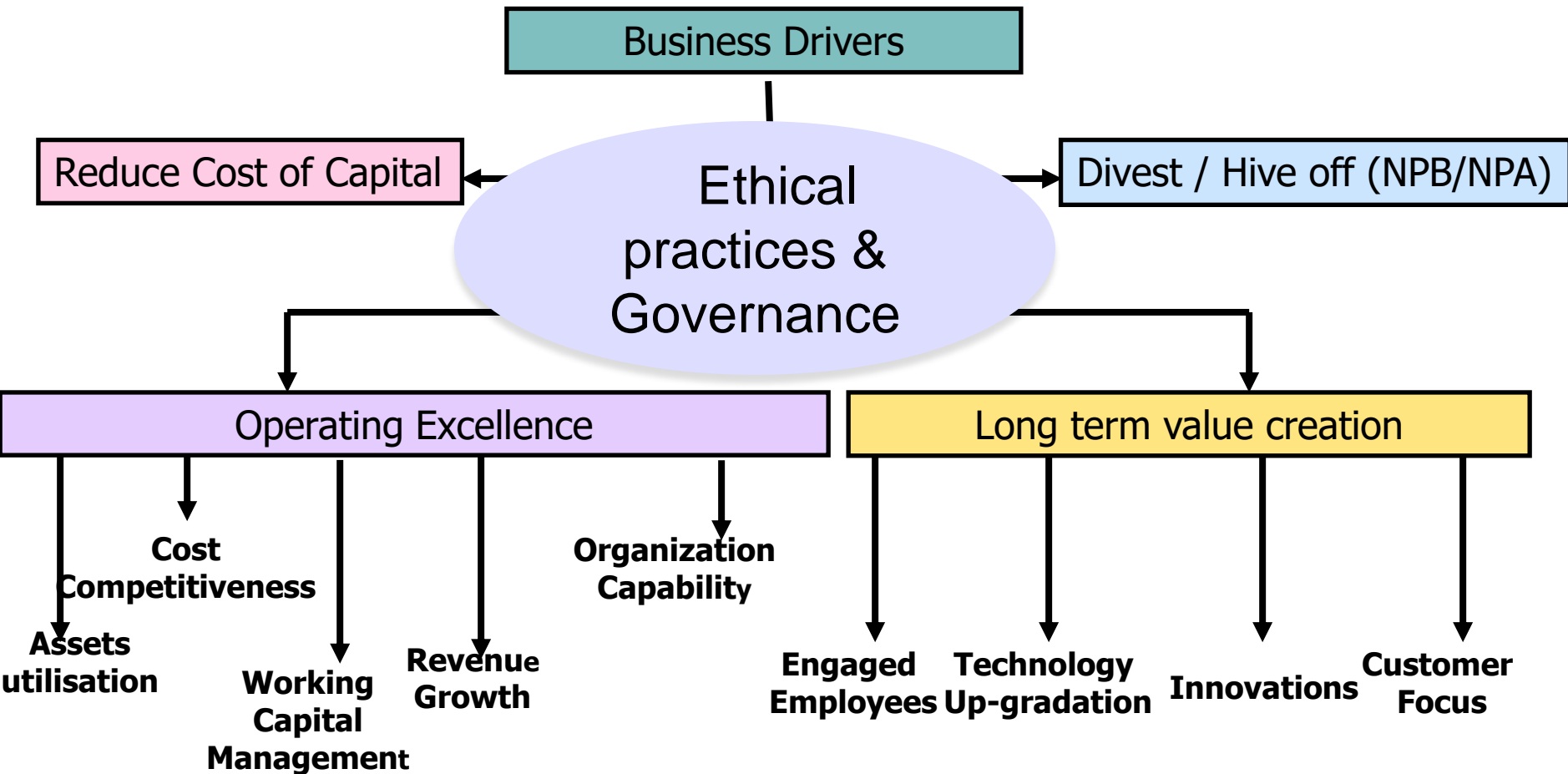
- **Value propositions**

Enhance enterprise value and strategy map



Business Transformation-Major Enablers & Pillars.

(To enhance enterprise value)



Enterprise Value –Assets driving success

A company's Assets

Tangible Assets

- Land and Buildings
- Plants and Equipment
- Investments and Cash
- Debtors
- Inventories

Intangible Assets

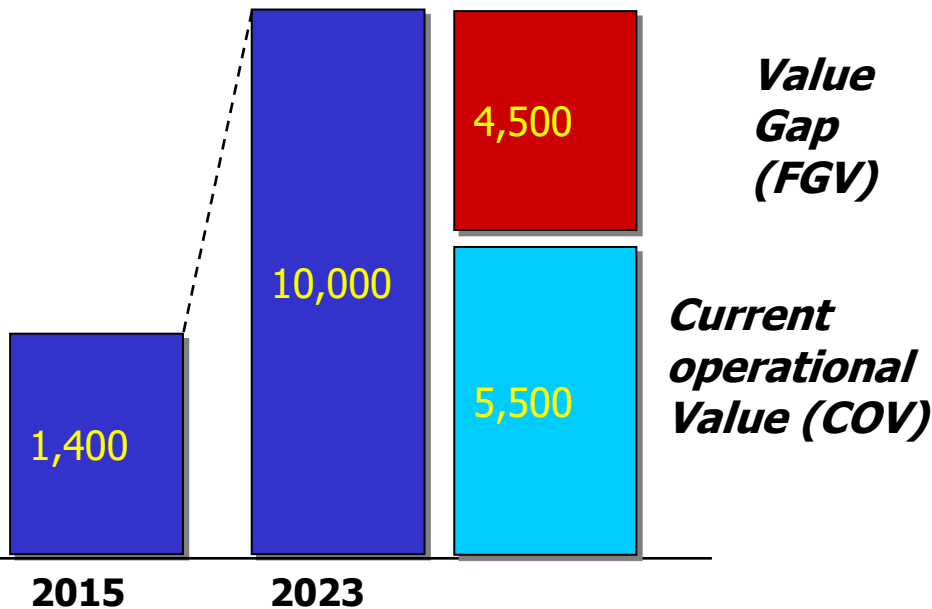
- Human Capital
- Relationships
- Brands
- Culture and Right Practices
- Knowledge, IT Infrastructure and Capabilities

Tangible assets are easily measured, monitored and controlled and hence are always in focus...

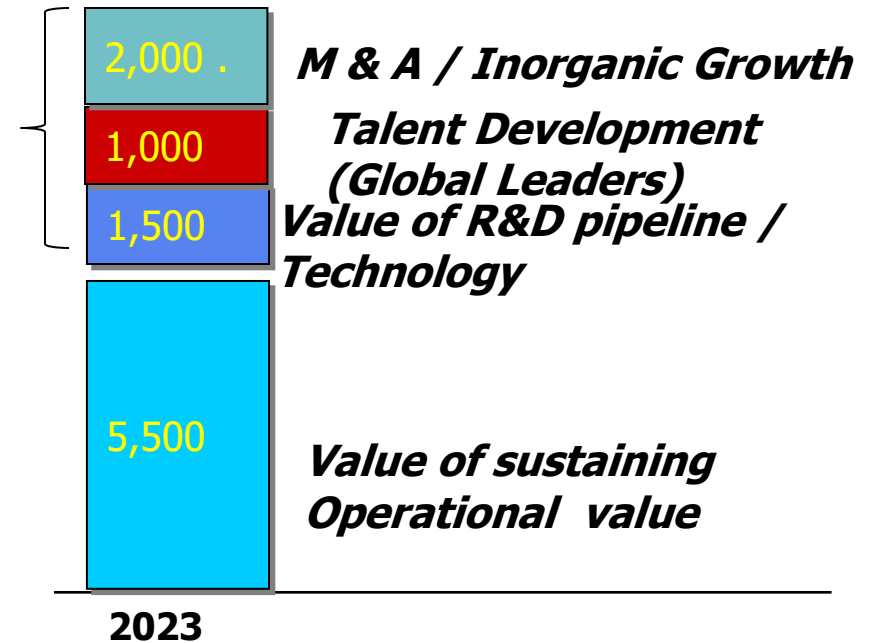
However, it is the Intangible assets that drive the large success of a company and its enterprise value

Value Perspective

Initial 'Value Gap'(US\$ bln)



Identified 'Value Gap'(US\$ -bln)



This exercise helps management in:

- Understanding the 'Value Gap' & implications to shareholders
- Identifying/ crystallizing avenues to bridge the gap

Measurement Tools & Score Card To Validate Enterprise Value



FINANCIAL

ROCE
RONW
ROS

EBIDTA TO NS
FREE CASH FLOW
DE/DSCR

EVA
MVA

EPS/PER
TSR
MARKET CAP

NON-FINANCIAL

CS INDEX
MARKET SHARE
DEFECT RATIO

NPD
MFG. CYCLE TIMES

NEW IPR
LEADERSHIP BANDWIDTH

CSR
EMPLOYEE PRODUCT INDEX

Moving into new orbits



Preparing for renewed growth thru cross Border Transactions (focus on M&A) & key Challenges

Business growth strategies

M&A and key concerns (Focus on Cross Border Deals)



Most Common Cross Border Transactions



- Export of Goods/ services - fuelled by BPO/Internet
- Setting up branch offices, subsidiaries & manufacturing facilities
- Acquisitions abroad
- Raising funds thru' foreign bourses/ ECB's, etc

UNIQUE DRIVERS TO TRIGGER CROSS BORDER M&A DEALS



- **Consolidated & mature domestic markets**
 - **Do not offer sufficient opportunities to re-invest earnings**
- **Overcome entry Barriers**
- **Access to local advantages**
 - **Regional diversification**
 - **Tax advantages**
 - **Access to local capital markets**
- **Betting on future technologies**
- **Increasing value chain width**
- **Regulatory changes**

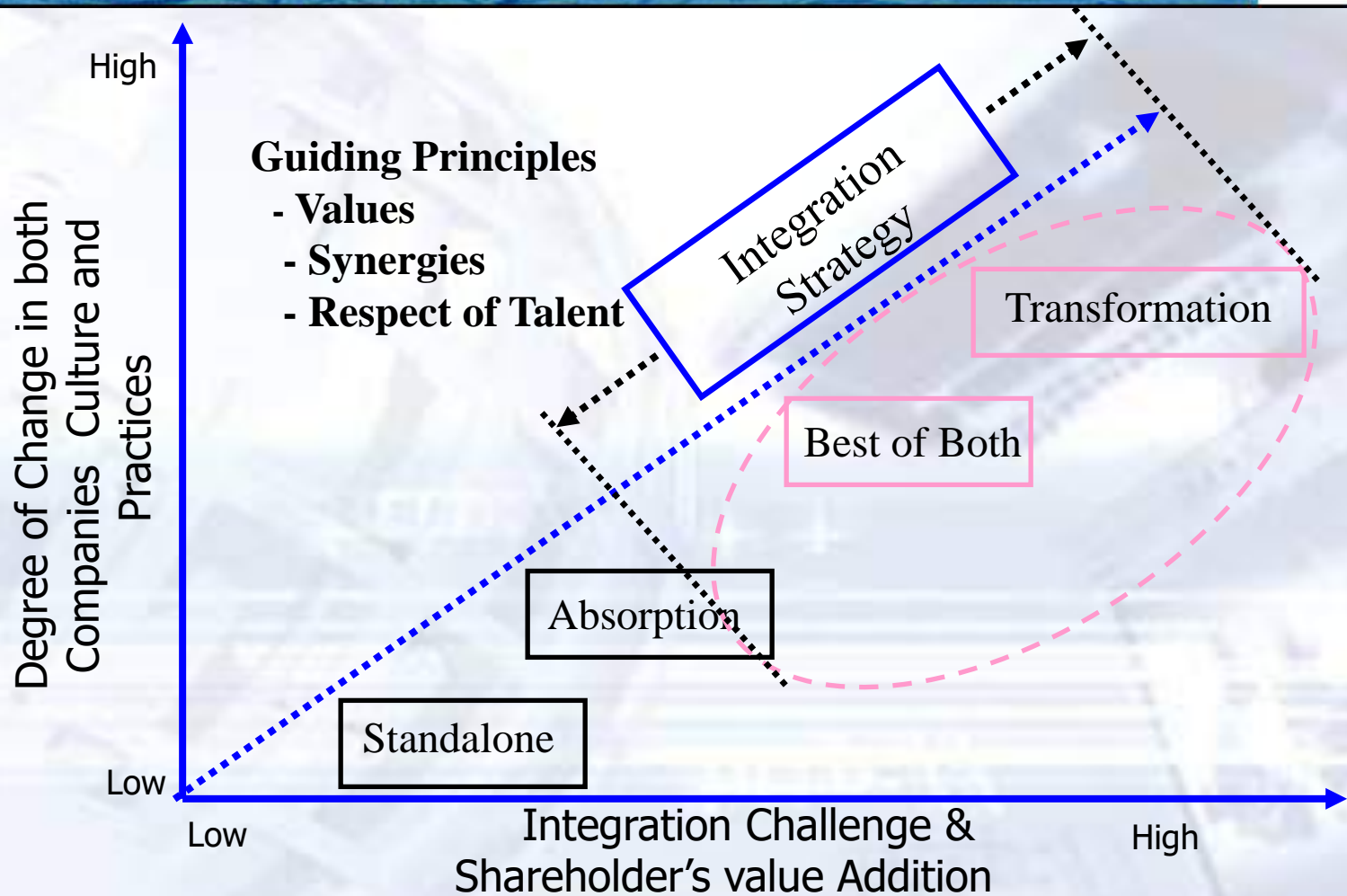
STRATEGIES FOR SUCCESSFUL M&A DEALS



- Earn the right to acquire by having strong core business
- Take targets which will improve FCF/ Operating Margins
- Identify low hanging fruits & other potential synergetic gains
- Maintain patience/discipline during negotiations
- Plan & execute integration seamlessly & timely



INTEGRATION STRATEGY



To achieve integration by “ **Best of Both and Transformation Process**”

VALUATION METHODOLOGY & RANGE- VALUATION



- Discounted Cash Flow
 - Based on earning capacity of business
 - Existing EBITDA multiples vs perpetuity growth rates
- Benchmark earning multiples
 - Operational/financial benchmarks used to establish comparable companies
- Transaction Comparables
 - Recent transactions with publicity known values
 - EV/Sales, EV/EBIDTA, etc.



A Business is worth what someone is prepared to pay for it

CROSS BORDER TRANSACTIONS – KEY RISK EXPOSURES



- Accounting irregularities
- Macro economic issues
- Volatility in forex & interest rates
- Loss of Key Customers
- Integration issues
- Valuation issues
- Mis-aligned products
- Regulatory issues
- Law suits

RISK POTENTIAL BUSINESS ISSUES CONCERNING VALUATION



- **International Accounting GAAPs & Valuation Issues:**

Consolidation, Revenue recognition & Translation

Specific Issues - Intangibles, stock options, retirement benefits, derivatives, Deferred Cost, Transfer Pricing etc.

International Taxation

Relevant tax rate/taxable income, Fiscal grouping

Cross border taxation issues

Taxation of Shareholders

Issues emanating from DD

Financial, Legal, ESG and Related party transactions



Deal structuring

Financing

- DE ratio – Industry benchmarks, profitability, bankability
- Bridge loan, Mezzanine/Sub. Debt, Overseas– ECB, FCCBs etc
- Share exchange, part cash and part share

Management Control

- Shareholder Agreement – RoFR, Anti dilution, Drag along, Tag along rights, deadlock provisions, Board representation (JVs, PE)
- Indemnities for known risks, brand transfer etc. in the Agreement

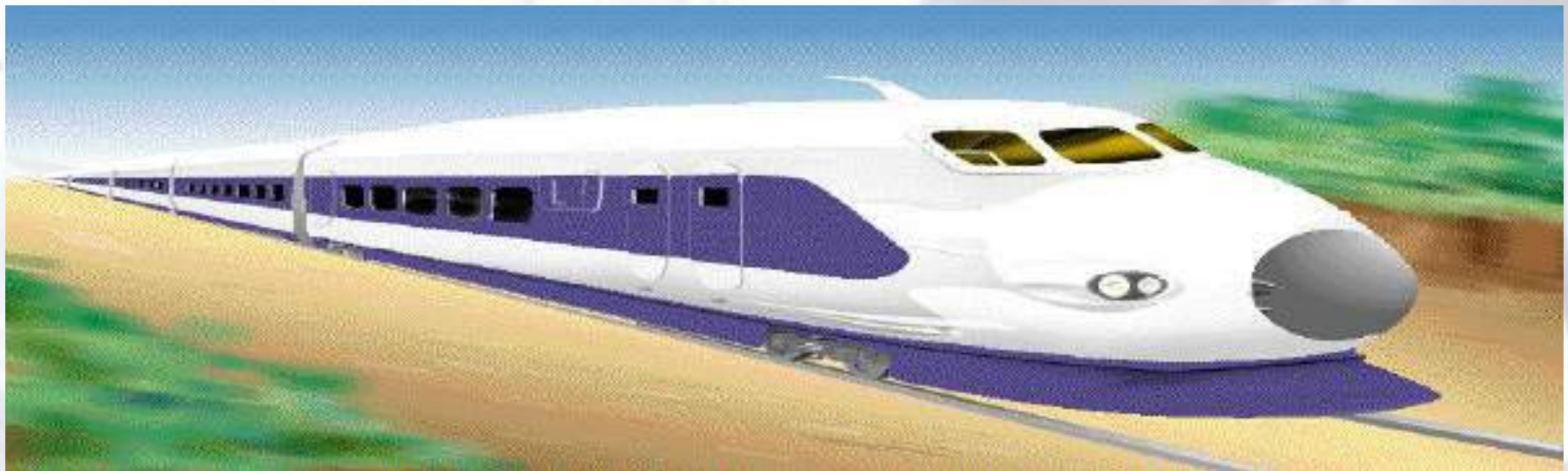
Forming an SPV

Tax implications in different jurisdictions on dividend, interest income, capital gain, operating income, etc .DTAA ,FTA & TP ETC.

A CORPORATE CASE STUDY – KEY LEARNINGS



JOURNEY TOWARDS EXCELLENCE - Encountering Challenges amidst Survival risks and Emerging Business paradigms



**ACHIEVED TRANSFORMATION THROUGH ADOPTION OF CROSS
BORDER TRANSACTIONS & OPERATIONAL EXCELLENCE**

1999-2001 - THE DISASTROUS YEARS WHEN COMPANY WAS STRUCK BY THE TURBULENCE OF AN ECONOMIC TSUNAMI



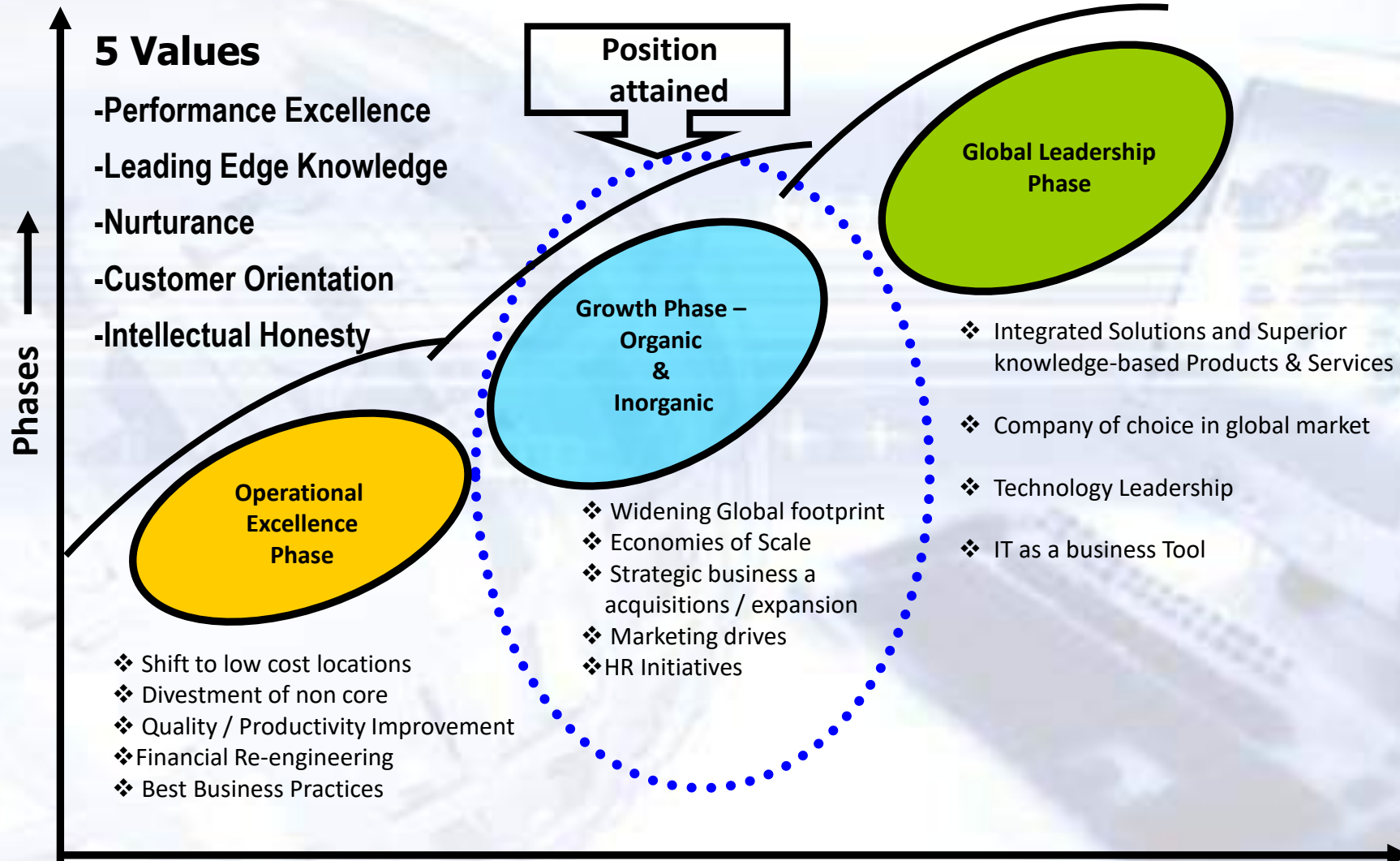
**Financial
Insolvency**

SAVE

**Company's Management Mandate: endure
inevitable pain of reviving the company's economic adulthood and
safeguarding stakeholders' interest**

Value Creation Approach & Strategy

– Three Phases



GLOBAL STRATEGY-CROS BORDER ACQUISITIONS STEADY FLOW OF POWER & PROSPERITY



1st acquisition in May 2005

with manufacturing site at

- ❖ Belgium
- ❖ Ireland
- ❖ USA
- ❖ Canada
- ❖ Indonesia

2nd acquisition in Oct 2006

with manufacturing site at Hungary

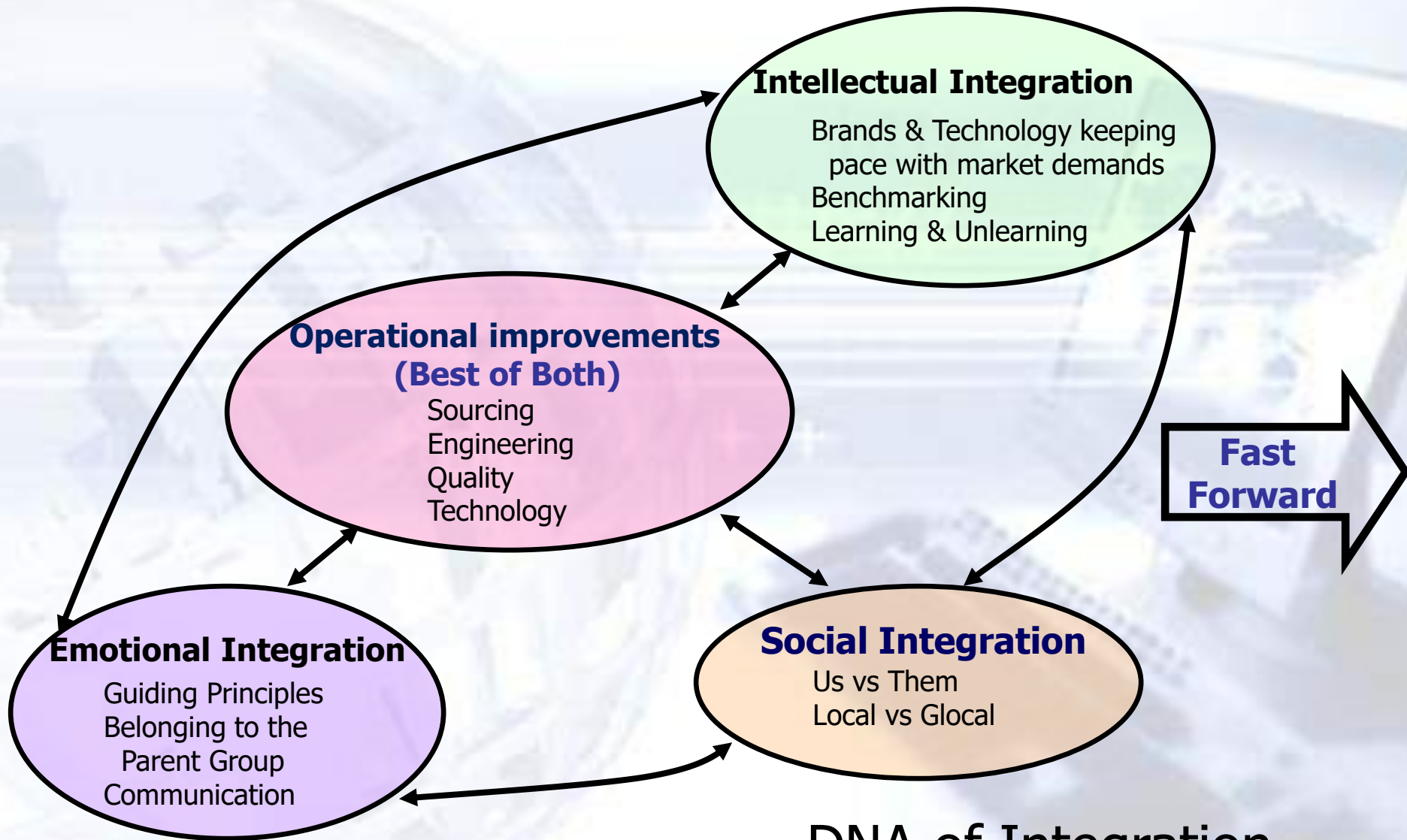
3rd acquisition in May 2007 in Ireland with large presence in UK & USA

4th acquisition in May 08 in France

5th acquisition in Oct. 2008 in USA

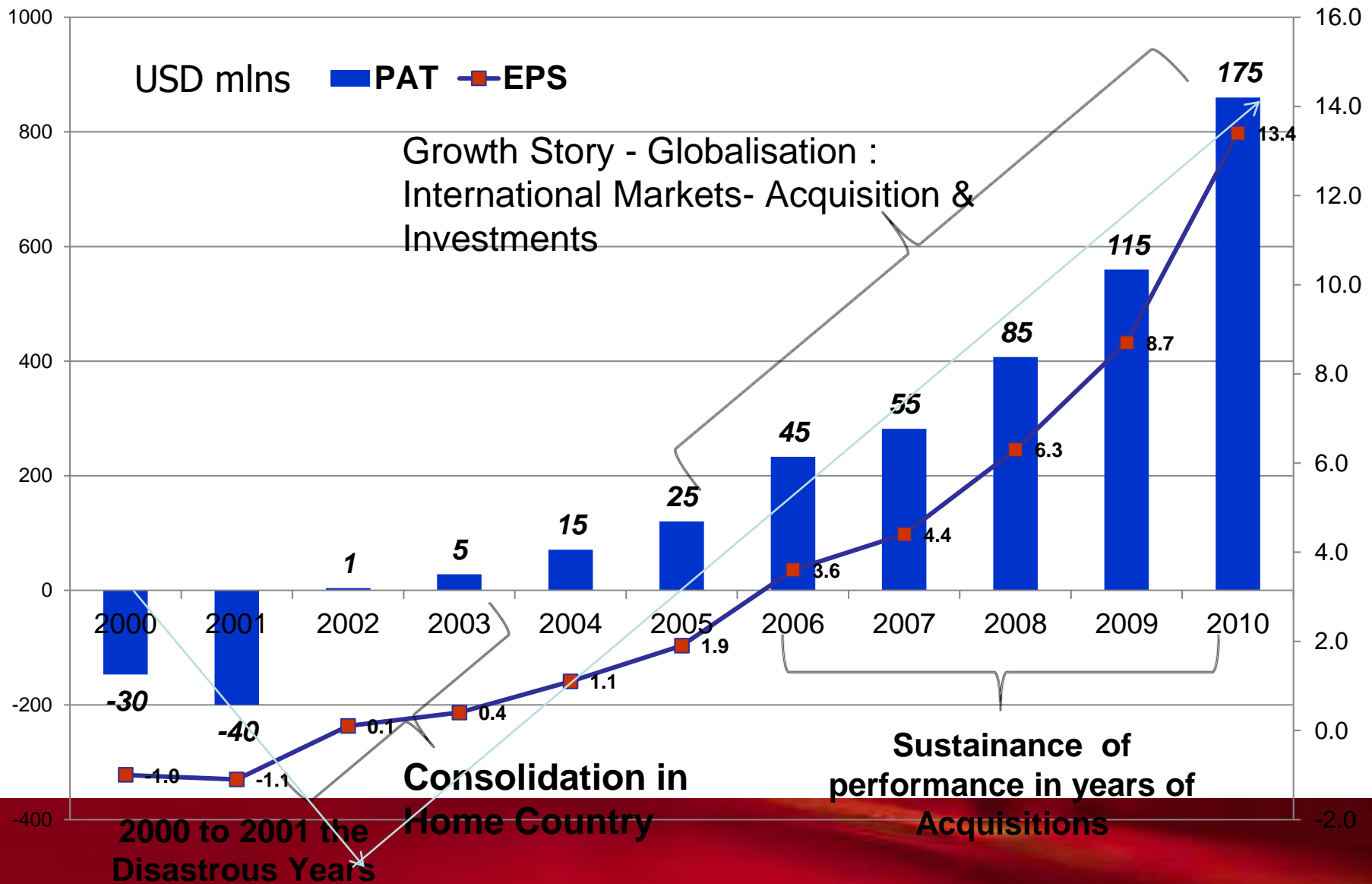
Company's transformation from its economic turmoil to a model of wealth creation captivates overseas aspirants to join the ranks

INTEGRATION CHALLENGES OVERCOME



DNA of Integration....

SUCCESSFUL TRANSFORMATION OF INDIAN MNC



Tata Corus Merger

Deal

- 100% stake in the Corus group in all cash deal, valued at USD 12.94 Bn.
- One of the largest Indian takeover of a foreign company

Acquirer – TATA Steel

- 56th largest & India's 2nd largest steel company
- Lowest cost steel producers

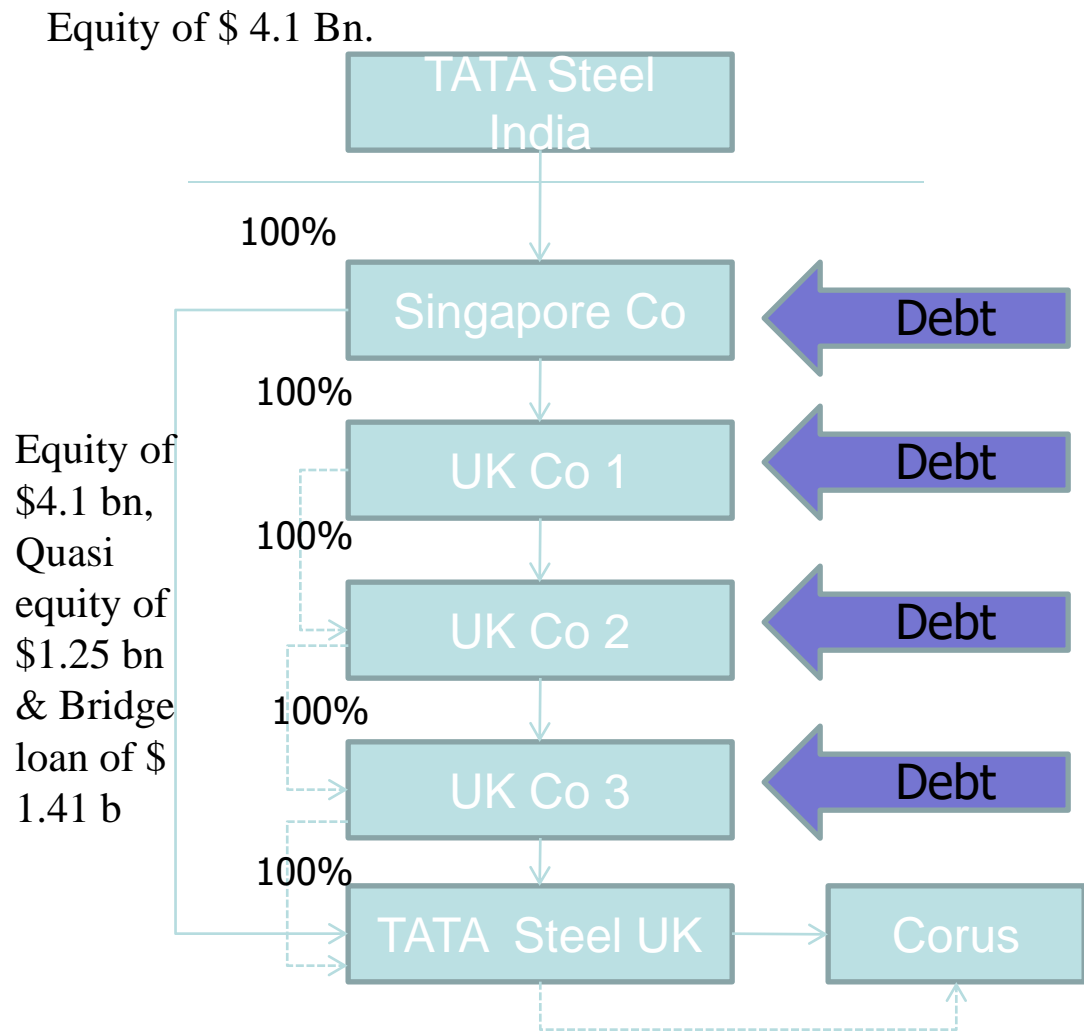
Target - Corus

- 2nd largest steel producer in Europe.
10th largest in the world

Rationale

- Combined entity - 5th largest producer of steel from 56th position of TATA
- Would have taken several years for Tatas to build would an enterprise of a size of Corus
- Acquisition to provide significant presence in Europe

Tata Corus Merger-Financing structure



Methodology

- SPV's were floated in UK under the name Tata Steel UK. Tulip SPV Holdings (1,2,3) which were ultimately held by a Singapore SPV
- Tata Steel alongwith the SPV's incorporated in Singapore and UK raised the requisite debt of USD 8.8 bn constituting 68% of the total acquisition value of USD 12.94 bn.
- Debt was proposed to be pushed in each subsequent subsidiary and ultimately the same was infused as equity in Corus.

Acquired Corus out of \$6.76 bn received from SPVs & long term debt of \$6.14 bn from consortium of bank

Tata Corus Merger-Financing rational

Tata Steel acquired Corus for \$12.94 bn

- Equity Contribution of \$ 4.14 bn &
- Borrowings of \$8.80 bn through subsidiaries

Tax consolidation in UK, tax shield on interest available to Corus

Debt-equity ratio of funding is 68:32 as Tata Steel UK could not have raised so much of loan due to strict UK regulations – Thin Capitalisation norms for tax

Corus paid loan out of its own cash flows and eliminated the tax to be paid on the dividend received from Corus

SIGNIFICANT LEARNINGS



- Acquisition involves **making judicious choices** between often **conflicting priorities**
 - Strategic fit, friendly transaction, due diligence (Social, Economic and Legal) & Complimentary Resources are **key to Synergy**
 - Each acquisition has a strategic rationale that must be embedded into the **Integration Process**
 - Two stage Integration -
 - Reap benefits of **Low hanging fruits** in short term
 - **Strategic Road map** to achieve long term objectives
- Business success can be measured thru Growth in price/earning ratio, with regard to quality & composition of these earnings. Focus on EVA**
- The **best partner** for marriage can become the most **difficult spouse**

**Parting Thoughts-Stay ahead in winds of challenge
for creating values to stakeholders thru prudent cross
border transactions**



Technology

Focus

Speed

Finance Profession

Innovation

**Regulators
Competitors**

Intellectual Honesty

Vielen
Dank

Merci

谢谢

СПАСИБО

Köszönöm

תודה

THANK
YOU!

THANK YOU !!

дякую

धन्यवाद

शुक्रिया

Multumesc

Obrigado!

děkuji

Gracias

Ευχαριστώ

danke schön

Bedankt

Dziękujemy