

Distressed M&A market attracting interest from trade buyers as also financial sponsors

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Mr Manish Mohan Govil, Adviser and Head - Merger and Acquisitions, Competition Commission of India asserted that M&A is intrinsically linked to economic development and CCI is focused on simplifying regulatory challenges. He highlighted Green Channel approval of transactions and cognizance of the nuances of technology in markets as some of the CCI initiatives. He highlighted some of the trends and challenges in the M&A space covering impact of big data, cross acquisitions, new age markets, shared economy, scalability and conflict of interest. These have made the market dynamics hence igniting policy focus and changes - which the CCI is cognizant of. He was addressing the CII Mergers Acquisitions and Restructuring Summit 2019 organised by Confederation of Indian Industry (CII) at Mumbai .He discussed the advocacy initiatives being taken up by the Commission and acknowledged the support of CII for the same.

Mr Govil spoke about how some of the latest reforms like GST, IBC and Companies Act, 2013 coupled with the penetration of technology have encouraged entrepreneurship and activated the entire M&A ecosystem. With respect to the M&A activity on the tech sector, he enumerated on the huge rise in e-commerce due to which even big companies are buying small innovators. This kind of change in interest of investors is changing the market dynamics which is may be prone to monopolies - hence receiving continual regulatory focus. He also highlighted how some of these transactions may be out of the purview of CCI given the thresholds - which may now be resolved since the transaction threshold may be now imposed.

Delivering the corporate outlook, Mr Koushik Chatterjee, Executive Director and Chief Financial Officer, Tata Steel Limited highlighted how M&A is an interplay between strategy and capital allocation. Capability alignment, approach with a risk lens to have a multidimensional view and due diligence covering strategy

validation and value potential are critical. With respect to M&A in the stressed assets space in the IBC ecosystem, on the ground execution from the time of judicial confirmation keeping in mind timelines is key. Post merger integration replete with reverse learning, inculcation of ethics and value systems and focus on improvement areas is critical. Synergies in technology, people capability, transaction documentation and focus on asset quality as key factors of real time assessment are also vital in making a deal successful, he exclaimed.

Mr Krishnava Dutt, Managing Partner, Argus Partners Krishnava Dutt spoke on various legal developments impacting M&A and specifically referred to the recent amendments in the Arbitration Act, the IBC and the spurt in shareholder activism due to higher awareness on corporate governance. He also discussed about the ranking of India in the rule of Law Index and expressed the need of judicial reforms for more expeditious enforcement mechanism. Krishnava also echoed the concern of private equity funds and especially some of the sovereign funds and impact funds on the taxability of their investment in indirect transfers.

Delivering his remarks, Mr Robin Banerjee, Chairman, CII WR Task Force on GST, Co Chairman, CII WR Sub Committee on EoDB, Convener, CII WR Finance and Taxation Panel & Managing Director, Caprihans India Ltd. cited how out of the 2 trillion dollars of M&A activity that takes place globally every year, India's share is around 40-60 billion dollars. It was highest last year in 2018. Citing few examples of both successful and unsuccessful cases of M&A, he discussed how the sad part is 70 percent on the M&As do not work. He also insisted on the importance of post-merger integration in this context.

CII and Bain & Company 'India M&A Report 2019' Report was launched at the Summit. The Report analyzes deal activity in India from 2015 to mid-2019 focusing on 60 largest transactions by strategic investors. It has perspectives specific to the Indian M&A landscape and it also features key trends and drivers of M&A activity in India, different deal archetypes and insights for deal makers to de-risk value creation and maximize chances of success. Besides, it highlights the importance of developing a repeatable M&A capability to drive superior returns. In highlighting critical implications for dealmakers, the report shares learnings to help executives retool their approach to due diligence, evolve their business operating models and develop different ways to approach business processes and systems. It adds that successful M&A transactions start with insightful diligence and finally the integration of business processes and systems critical for companies to establish a solid foundation and build a competitive advantage.

Speaking on the Report, Mr Dinkar Ayilavarapu, Partner, Bain & Company said that the present M&A landscape offers a tremendous opportunity for well-managed businesses with a strong deal thesis. The profile of Indian M&A has changed materially in the last five years. We are observing five deal archetypes which are more common today than five years ago. For example, about 30 percent of deals announced in 2018 were distressed deals coming through the IBC process. Similarly, scope deals, carve-outs, and mega deals are also increasing in salience. Each of these archetypes have unique value creation drivers and risks during the deal cycle, and acquirers must tailor their approach accordingly. Additionally, we have found that companies which develop a repeatable M&A capability through material and frequent transactions, are most likely to be highly rewarded by investors.

CII and Alvarez and Marsal 'India's M&A and Distressed Opportunity Landscape' Report was also released at the Summit. The Report starts by providing insights on the changing Indian corporate landscape and

some interesting takeaways. It discusses the India M&A market and discuss various trends across different deal categories, and also explores noncore asset sales activity. The report looks at the trends and statistics of fund flows and fund activity and goes on to summarize the various restructuring regimes that came and went, and how those led to the formulation of the IBC and then introduce the recently published 7 June, 2019 RBI Circular. Finally, the report addresses approaching distressed M&A from the buy-side and its key considerations.

Speaking on the Report, Ms Nandini Chopra, Managing Director, Alvarez & Marsal said how over the past decade, the Indian corporate landscape has significantly changed. We have seen churn amongst leading companies, with several facing distress and even insolvency. As Indian markets mature and investors search for investment opportunities, we have seen the distressed M&A market attracting interest from trade buyers as also financial sponsors. This report looks to analyze trends and developments in the M&A and distressed market in India, and also how the advent of a structured approach towards insolvency resolutions has created a new market for potential investors.

Speakers commended CII for its sustained efforts in facilitating the regulatory environment in the country. The day long Summit deliberated on vital topics including Reflections on M&A to cover Regulation and Challenges; Integration management; People and organization; IBC and M&A in Distressed assets space; Lessons from acquiring distressed/ IBC assets; Valuation and Financing and pre-pack deals and Section 29A; and M&A Learnings in the VUCA world to cover Lessons from repeatable M&A (“mountain climbers”); India entry via M&A; buying relatively large(r) companies and acquiring carve-outs.

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