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Mergers and Acquisitions After "Make In India"

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***ABSTRACT**: The "Make in India" project of the present day government is indeed an ambitious one. The government launched its "Make in India" project to encourage the world to use the country as a global production hub. It promised a slew of reforms for relaxing norms related to foreign direct investments. The government aims to call for foreign investments and improving manufacturing facility in the country. Having said that, it is important to study the output of the project as of now. There have been mergers and acquisitions in different sectors promoted by government such as defence, renewable energy, infrastructure etc. This article aims to study large mergers and acquisitions in light of make in India initiative. This article has tried to identify the relationship and effects of Make in India and mergers and acquisitions after its onset.*

***Keywords**: Make in India, mergers, acquisition, FDI, defence, renewable energy, manufacturing*

I. Introduction

Under merger, two or more companies keeping in view their long term business interest combine into one economic entity to share the risk and financial rewards. So however in strict sense merger is used for fusion of two companies to achieve the expansion and diversification. Merger and acquisition activity in India witnessed significant rise in the first half of the year and the momentum is likely to continue as the year 2015 is likely to be a "big" year for deal making, experts say.According to experts, government's actions on key policy issues and reforms like the Companies Act, ITP for Tech startups, unblocking stalled projects, have to an extent improved the 'ease of doing business' and this may further accelerate the transaction activity in India.There were M&A deals worth $19.2 billion in the first half of 2015 by way of 178 transaction, representing 11.4 per cent rise against 156 deals worth of $17.2 billion in the same period last year, according to global advisory firm Mergermarket.[1] While the new Modi government has promised to bring in significant structural changes to the legal and regulatory landscape of India, the legacy issues, such as land acquisition, licence and permits, retrospective tax, IPR and heavy regulatory burdens surrounding M&A deals, remain for the time being. Another important feature of M&A activity this year was the significant number of domestic deals. As Indian corporates look to sure up [secure] their market position, domestic deals can be seen as an indication that the Indian market is coming back to the usual level of activity after the downturn between 2012 and 2014. Overall, M&A activity in India appears resilient and encouraging, and it is likely to continue on an upward trajectory for the foreseeable future.

Sectoral View Of Mergers And Acquisitions

Pharma, medical and biotech was the most active sector in terms of M&A activity in India in 2014, accounting for 15.7 per cent of total deals (by value). The first half of 2015, however, saw consumer and energy as the most active sectors accounting for 23.6 per cent and 15.8 per cent of total deals (by value) respectively.
The pharma sector's prominence last year was mainly because of Sun Pharma's blockbuster acquisition of Ranbaxy, a deal worth US$4 billion. Another deal in this space was Mylan's acquisition of Famy Care for US$750 million. The energy sector enjoyed a strong start to the year, boosted by Vedanta's acquisition of a significant stake in Cairn India for US$2.2 billion. Renewables, particularly involving solar power projects, continues to be a hot story ahead of power and utilities. There has been a boom of activity in the technology sector (in particular, e-commerce), both in terms of value and deal count over the course of last year and this year. Alibaba Group's acquisition of a 25 per cent stake in One97 Communications for US$575 million is one of India's biggest inbound investments by value this year. The surge in this sector is mainly due to the backing from local, US and East Asian investors that has boosted valuations of technology companies based in 'start-up hubs', particularly in the growing e-commerce space, as well as a surge in private equity buyouts and exits in the technology sector generally. The government's 'Digital India' initiative, which is aimed at creating a digital infrastructure across all government departments to ensure that government services are available electronically, is another positive factor for this sector. In the defence sector, the government's 'Make in India' initiative to promote domestic manufacturing coupled with potential tax concessions and comparatively cheaper labour appear to be good reasons to attract big multinational defence companies to set up manufacturing facilities in India. Major players around the world in both defence and insurance seem positive about investments into India,

with commentators also talking about it. However, the FDI relaxation to just 49 per cent is a real problem for those who are looking to have a controlling stake. According to Mergermarket Intelligence, the 'Make in India' programme, designed to boost India's manufacturing, will result in the sector seeing even more activity in the future. "Given the positive business sentiment and sustained momentum through the first half of this year, we see 2015 to be a big year for deal making," Grant Thornton India Partner PrashantMehra said.[2]

Case Studies Of M&A After " Make In India"

1. Reliance Infrastructure Acquires Around 44% Stake In Pipavavdefence.

One of the largest acquisitions in defence took place in 2015 when Anil Ambani Reliance Infra acquired PipavavDefence and offshore Engineering Co. LTD. For around 2082 crores, Pipavavdefence was too deep in debt of about Rs. 7000 crores and were left with an option of either do Corporate debt restructuring that could negatively effect company valuation or either divest a stake of company shareholding. PipavavDefence has one of the world's largest infrastructure facilities — spread over 841 acres of land in the Gulf of Cambay, Gujarat, including 250 acres developed to shipbuilding. [3]. On 4th march 2015 reliance infrastructure bought an 18% stake in the company at Rs 63/share at a valuation of Rs 819 Crores. Post acquisition, Reliance infrastructure made an open offer through its subsidiary Reliance Defence System to acquire additional 26% stake from public shareholders at RS 66/share. They were also said to acquire promoter's additional shares in the company at Rs 63/share. [4]

Major motivations behind this acquisition were the emerging opportunities with the Government ambitious " Make In India" initiative to encourage manufacturing particularly in defence. According to FICCI, India's Defence spending is expected to be $620 billion between 2014-2022. And annual opportunity was Indian companies is expected to reach $41 billion by 2022 and $168 Billion between 2014-2022. In August 2015, Foreign direct investment limit was also raised from 26% to 49% in defence sector with full Indian management and control. Companies like Hero group, Mahindra & Mahindra and Tata has also shown considerable interest in the sector. According to the statement, Pipavav is looking at potential orders worth Rs 120,000 crores (US$ 20 billion approx.) just in the next five years. Pipavav already has technological tie-ups with global leaders like Saab (Sweden), DCNS (France), Sembcorp Marine (Singapore) JSC Zvyozdochka and Rosobronexport Russia. [5]

2. Sun Pharmaceuticals Announces To Acquire 23% Stake In Suzlon Energy.

DilipShanghvi, promoter of Sun Pharmaceuticals announced in February 2015 to acquire a 23% stake in Tulsi Tanti's Suzlon Energy (a wind turbine maker) for a total consideration of 1800 crores. Suzlon was under massive debt and was incurring huge losses of about Rs 1400 crores in first two quarters of FY 2015. It had earlier sold its larger German Subsidiary Senvion to centrebridge private equity for Rs 7200 crores. Tanti and other promoters hold 30.94% shares in the company giving 10 million shares on preferential basis to Dilip's family members and companies that hold 23% stake while retaining major control. Under the deal, Shanghvi and Tanti, will jointly make an open offer for over 15.7 million shares amounting to 26 per cent stake in the company The open offer price has been set at Rs 18 per share and could necessitate an additional infusion of Rs 2,837 crore for the additional shares. [6] "This financial investment is in sync with the Prime Minister's long term vision and immense potential of the renewable energy market." Said DilipShanghvi [7] Suzlon has the potential to become one of the major leaders in renewable energy and with fresh partnerships plans to tap all major markets in India, US, south Africa, China, Mexico, Brazil, Turkey.

3. Inox Wind Acquired 100% Stake In Sarayu Wind Power.

Inox Wind Ltd through its wholly owned subsidiary Inox Wind Infrastructure services Ltd had acquired 100% equity shares of Sarayu Wind Power (Tallimadugula) Pvt Ltd based in Andhra Pradesh in an all cash deal for an undisclosed amount on 9th Dec 2015. Sarayu wind Power is now a step down subsidiary of Inox Wind. Inox Wind share on BSE rose as high as 2.7% to 356.76. Inox wind is a subsidiary of Gujarat Flurochemicals ltd with a manufacturing capacity of 1600MW per year. Its manufacturing plants are located in Gujarat, Himachal Pradesh and Madhya Pradesh. The company makes key components of wind turbine generators and also provides assistance in wind resource assessment, acquiring land, development of site infrastructure, building power evacuation system, and post-commissioning support to wind projects. [8] "The deal is in line with our strategy to increase our presence in the country. This will add to our existing land bank, which is capable to set up over 4,500 MW of wind power capacities in different States," DheerajSood, Investor Relations Head [9]

4. Many Big Giants Eyeing On ABG Shipyards.

Government's 'make in India' initiative opens up a sea of lucrative opportunities in defence sector with an intention of pumping $250 US Billion. ABG shipyards with country's largest shipbuilding facilities in

Gujarat and Goa is facing great financial difficulties and is in the middle of 11000 crores debt restructuring plan. It already has a naval warship-building license, which takes almost 7-8 years for a newcomer to acquire. With orders worth of Rs 9000 crores from Indian navy and coast guard, ABG shipyards is a very lucrative buy. Early in 2015,Mahindra and Mahindra, which already supplies armoured vehicles to the Indian army, Air Force, and Paramilitary and state forces was eyeing a strategic alliance with ABG to scale up in defence sector."Today, Mahindra is the only group which has capabilities in all the three wings of defence. We are ready to get into any of the three where we believe we can participate in with proper technological collaboration," SP Shuka, head of the $17 billion conglomerate's defence unit. [10]Since June ABG shipyards were in talks with German based Privinvest to acquire a 49% stake in the company, but the deal has still not reached a fair conclusion. "ABG Shipyard is talking to some other investors now since the talks of financial collaboration with PrivinvestHolding is not coming through," [11] If ABG shipyards are not able to find an investor soon, the company may have to adopt a SDR 9 Strategic debt restructuring.

5. Sudhirvalia To Buy Jai Prakash Associates Wind Power Assets For Rs 180 Crores.

Sudhirvalia of Fortune financial Services has agreed to buy Jaypee wind power assets for Rs.180 crores in personal capacity. In September 2015, Jai prakash associates announced its decision to sell its wind power plants in Maharashtra and Gujarat with a combined capacity of 49 Megawatts.With government Make in India initiative, the renewable sector has been a favorite of private Equity Investors. "Unlike thermal power, road and port assets, gestation period to build-out a solar asset and wind asset is relatively short (6-12 months versus 2-4 years). Hence, investors have seen more success in project execution with fewer delays and execution challenges," said Agarwal. [12]

6. Piramal Enterprises (PEL) In A Potential Merger With IL&FS.

In September 2015, Ajay Piramal's financial services company (PEL) was reported to be in a potential merger with Infrastructure Leasing and Financial services (IL&FS) in an all stock deal to create a new entity with a net worth of about Rs. 20000 crores with a leverage ratio of 1:3. Ajay Piramal will have 35% stake in the new entity and will be the largest shareholder and promoter in the merged company. The new entity will be held 37% by existing institutional investors of IF&LS while Piramal Enterprises and others will hold around 28% stake.IL&FS was currently owned by SBI (6.42%), HDFC (9.02%), LIC (25.34%). Other shareholders include Central bank of India (7.67%), Orixcorporation of japan (25.34%) and Abu Dhabi investment authority (12.56%). While PEL has 53% stake with Ajay Piramal and his family members. Financial services contribute 18% to PEL's revenues of Rs 5,123 crore as of March 31, 2015. [13]ET reported the merger will give Piramal a string of 10 infrastructure utilities including a ready-to-start 600 mw power plant in Cuddalore that can be expanded to 3,600 mw,India's largest wind energy company generating 1,000 mw and 30 operational toll road projects. [14]

IL&FS was facing difficulties in raising finance to execute and finance more and more projects. PEL will help in infuse necessary capital through this merger. PEL's high worth will enable IL&FS to raise approx. Rs.50,000 crores which will enable it to invest and lend to power, roads, railways, ports and other infrastructure developers which are short of capital.

7. Lupin Limited Acquired GAVIS For $880 Million.

One of the biggest acquisitions of 2015 in Pharmaceuticals was that of Lupin limited.Mumbai-based Lupin Limited, an Indian drugmaker announced to acquire US-based GAVIS Pharmaceuticals LLCandNoval Laboratories INC (known as GAVIS) for around $880 million in a cash and debt free transactions approved by both companies Board of directors to expand its presence in US markets. Lupin gets an R&D facility and its first manufacturing base in the US with the acquisition. GAVIS recorded sales of $96 million in fiscal 2014.GAVIS has 66 abbreviated new drug application (ANDA) filings pending approval with the US FDA and a pipeline of over 65 products under development. Around 72% of these filings represent niche dosage forms. To date, GAVIS has filed 25 Para IVs and eight first-to-file (FTF) products, while its pending filings address a market value of about $9 billion. The combined company will have a portfolio of 101 in-market products, 164 cumulative filings pending approval and a deep pipeline of products under development for the US. The acquisition creates the fifth largest portfolio of ANDA filings with the US FDA, addressing a $63.8 billion market, the company said. [15]This is Lupin's fourth major acquisition in 2015 after Mexico, Brazil and Russia.Lupin acquired 100% stake in Russian Pharmaceutical companyBiocom for an undisclosed amount. Biocom has registered sales of about 861.2 Russian rouble in 2014 and with this acquisition Lupin is all set to become one of the top players in Pharma by 2018 in Russian market. In May, Lupin acquired Brazilian company Medquimica making entry into Latin America. Soon after GAVIS lupin has also announced its intention to acquire Speciality Product portfolio from German company TenmierPharma for an undisclosed amount.

II. Conclusion

The make in India initiative of government is a welcome step in attracting investments in India. Even though the country suffers from various back logs such as delayed implementation of GST, application of GAAR rules, red tapsimetc, the make in india initiative to promote domestic manufacturing coupled with tax concessions and comparatively cheap labour appear to be good reasons to attract multinationals in sectors like defence, renewable energy and insurance. The government has provided the necessary push in these sectors. But despite Modi governments attempts to promote business activity and inbound investment, some sectors remain inherently more problematic to navigate within the Indian market. For example, deals relating to the 'real economy', such as infrastructure, remain challenging for a range of reasons, such as land use restrictions, bureaucracy and corruption at the state levels (eg, to get basic permits and licences). As a result, foreign investors continue to remain cautious.

But barring these sectors, steady increase in foreign investment and M&A in other sectors may not be necessarily related to "Make in India". The clear relationship between the two is yet to be established.

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