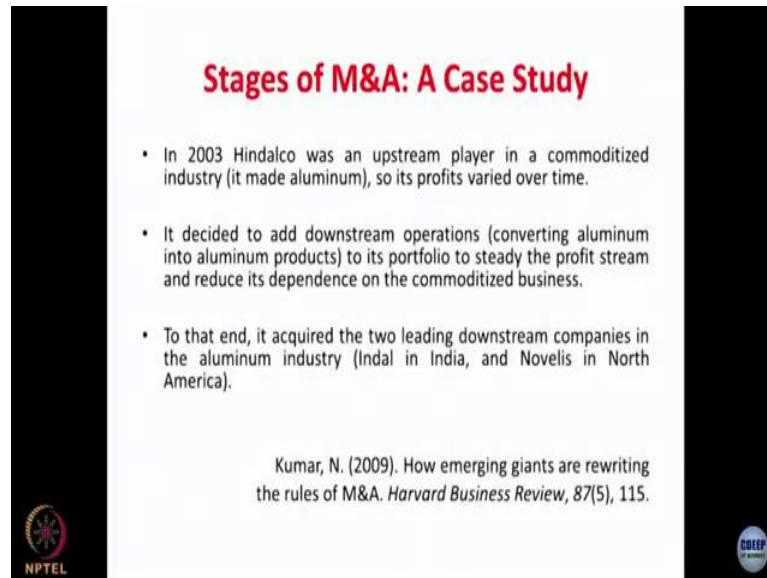


**Organization Development and Change in 21st Century**  
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**Lecture – 24**  
**Stages of Merger & Acquisition: A Case Study**

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**Stages of M&A: A Case Study**

- In 2003 Hindalco was an upstream player in a commoditized industry (it made aluminum), so its profits varied over time.
- It decided to add downstream operations (converting aluminum into aluminum products) to its portfolio to steady the profit stream and reduce its dependence on the commoditized business.
- To that end, it acquired the two leading downstream companies in the aluminum industry (Indal in India, and Novelis in North America).

Kumar, N. (2009). How emerging giants are rewriting the rules of M&A. *Harvard Business Review*, 87(5), 115.

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We will try to understand these processes by one case study. In 2003 Hindalco was an upstream player in commoditized industry. It made aluminium, so its profit varied over time. We all know that in a commodity market the price fluctuation happens much faster and that fluctuation has an adverse impact on both the forecasting and the profitability of these organizations.

So, it decided to add downstream operations as well, downstream meaning converting aluminium into the aluminium products to its portfolio, to steady the profit stream and reduce its dependence on the commoditized business.

If the commodity market has more fluctuation; consumer market has less fluctuation or a lesser fluctuation in the pricing. So, in order to question against the fluctuating commodity market; Hindalco decided to include organically or by acquiring the downstream operations as well, that is converting aluminium into the products like foil, can etcetera.

So, to that end it acquired the two leading downstream companies in the aluminium industry. They acquired Indel in India and Novelis in North America. So, this case study and the learnings arising out of that are taken from the article of Professor Nirmalya Kumar on how emerging giants are writing the rules of the M&A, published in the Harvard Business Review.

After acquiring Novelis, Hindalco prioritized its integration task. So, the first thing was financial integration.

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**Stages of M&A: Case Study of Hindalco and Novelis**

After acquiring Novelis, Hindalco prioritized integration tasks:

- **Financial integration:** It quickly aligned the two companies' financial-reporting periods, consolidated quarterly results, and ensured that both entities met regulators' guidelines.
- **Organizational integration:** It kept Novelis people in all top management jobs there and sent just two of its own executives (a risk-management and a logistics expert) to Novelis to help improve its global supply chain.

Kumar, N. (2009).

The slide features a white background with red text for the title and bullet points. It is flanked by black vertical bars on both sides. In the bottom left corner, there is a circular logo with the text 'NPTEL' below it. In the bottom right corner, there is a circular logo with the text 'GRIEP' below it.

Hindalco quickly aligned the two companies' financial reporting periods; it consolidated the quarterly results and ensured that both entities met the regulators guidelines. That was the first thing they did and which is called financial integration.

The second integration in this M&A Hindalco did was organizational integration. It kept Novelis people in all top management jobs there and send just two of its own executives, a risk management and one logistics expert to Novelis to help improve its global supply chain.

So, this was initially the acquisition at the arm's length. We have just discussed the meaning of the arm's length acquisition versus full integrated acquisition. In the Hindalco Novelis case, Hindalco after acquiring Novelis decided not to interfere much in the day to day functioning of Novelis.

And that is why they did not send out the dozens of executives to manage and head their departments. They sent only two people who were supposed to help Novelis to strengthen its supply chain and look at the risk management when they make a business decision.

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**Stages of M&A: Case Study of Hindalco and Novelis Cont...**

- **Business-process integration:** Hindalco established a company in India to handle Novelis's IT systems, leveraging the availability of inexpensive engineers there.
- **Market integration:** Hindalco projected that India's demand for aluminum products would double from 2007 to 2012; half of that increase would be for the flat-rolled products Novelis produces. It planned for India to absorb one-third of Novelis's output in three years. It also supplies aluminum can manufacturers in India with flat-rolled aluminum from a Novelis plant in South Korea. When volumes increase, it will set up a flat-rolled aluminum plant in India.

Kumar, N. (2009)

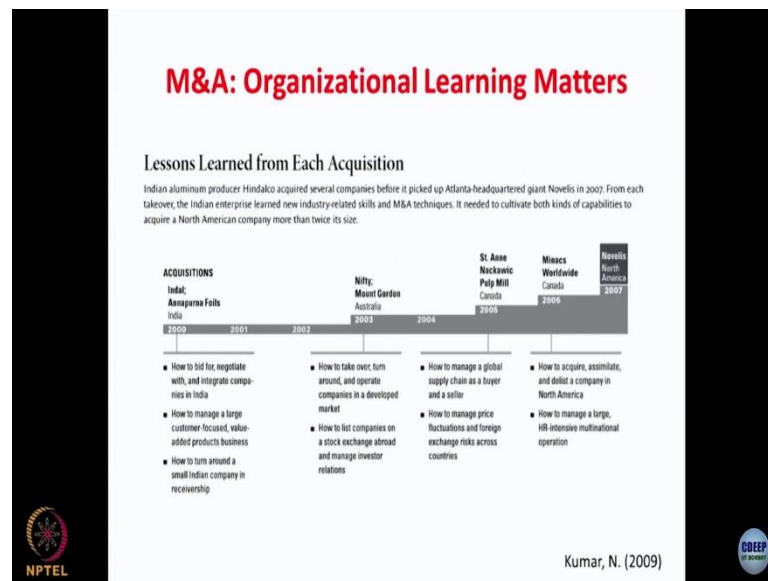
Third stage in this acquisition was business process integration means there are processes about marketing, operations, quality, logistics and many other things. So, one example how they have done the business process integration, Hindalco established a company in India to handle Novelis's IT system.

So, they started a company which was catering to the IT requirements only of Novelis and in this way, they leverage the availability of the inexpensive engineers in India and they set up an in-house IT support system for Novelis almost as an independent entity. This is one example of how business process integration can result into. In fact, it also resulted into shutting down some plants, clubbing some of the projects so that the upstream business and downstream business can remain integrated.

Then comes the stage of the market integration, Hindalco projected that India's demand for aluminium product would double from 2007 to 2012 and it actually happened; almost happened. Half of the increase would be for the flat rolled products Novelis produces, it planned for India to absorb one third of Novelis's output in 3 years.

It also supplies aluminium can manufacturers in India with the flat rolled aluminium from Novelis plant in the South Korea. When volumes increase, it will set up a flat rolled aluminium plant in India. So, this is one example how the market for Novelis and Hindalco were integrated. We need to look at another very important aspect of M&A particularly in the case of Hindalco.

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We should not think that Hindalco acquired Novelis and this happened without any prior experience; it was not so. And in fact, some research studies suggest that prior experience of M&A build the capability to carry out the M&A process more effectively.

So, if we look at this graph; we will see that acquisition of various aluminium companies have been the way of functioning or an organic growth for Hindalco, since 2000. Novelis itself is a organization which is even bigger than Hindalco, but they were successful in acquiring that organization.

We should not think that it was the first acquisition of Hindalco and they became successful. If we look at the track record of Hindalco for last 20 years, we will see that the first acquisition in the aluminium sector done by Hindalco was of Annapurna Foils. They learned in the process about how to bid, how to negotiate, how to integrate the companies in India. Through this acquisition they learned, how to turn around a small Indian company in a receivership.

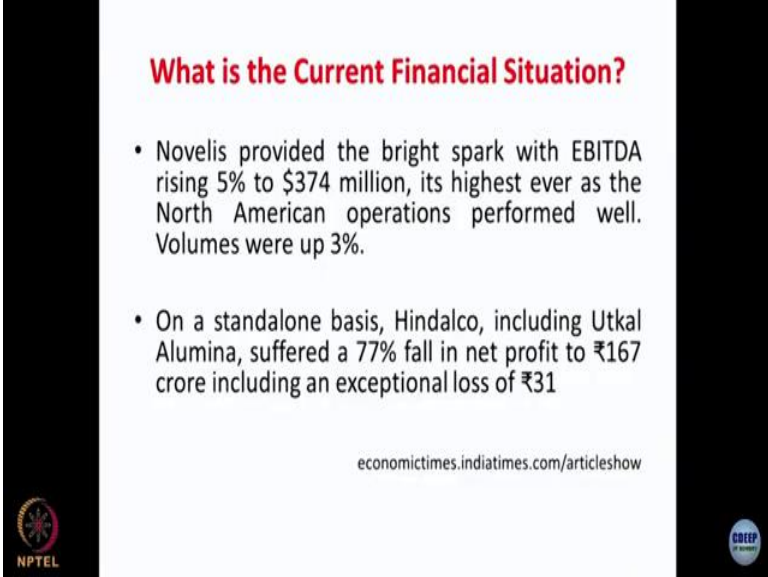
Then they acquired Nifty and Mount Gordon in 2003; these are the Australian firms and this acquisition helped the Hindalco learn how to take over, turn around and operate companies in the developed countries. It also taught Hindalco, how to list the companies on the stock exchange abroad and manage the investors relationship.

We all know the dynamics of investors relationship and shareholders; small and big shareholders are different in different kind of markets. So, by acquiring the companies in Australia; Hindalco learned about these dynamics in the developed market.

Then in 2005, they acquired a pulp mill in Canada; this acquisition helped the organization to learn how to manage a global supply chain as a buyer and as a seller. So, they were able to learn how to manage the price fluctuation and the foreign exchange risk across countries. In 2006, they acquired another company in Canada and in 2007, this famous Novelis acquisition took place.

They learned how to acquire, assimilate and delist the company in North America and they also learned how to manage a large HR intensive multinational operation. So, we can see that the learning capability of a successful M&A is being acquired by Hindalco, by small and medium size acquisitions before they went for a really large size M&A.

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**What is the Current Financial Situation?**

- Novelis provided the bright spark with EBITDA rising 5% to \$374 million, its highest ever as the North American operations performed well. Volumes were up 3%.
- On a standalone basis, Hindalco, including Utkal Alumina, suffered a 77% fall in net profit to ₹167 crore including an exceptional loss of ₹31

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Now, what is the current financial situation? This acquisition is generally considered successful; both organizations acquired new markets for their products and Novelis in fact,

very recently in the recent quarter provided a bright spark with an EBITDA rising 5 percent to 374 million, its highest ever as the North American operations performed very well; so, volumes of Novelis also increased by 3 percent.

On a standalone basis, Hindalco including Utkal Alumina which is the recent acquired; suffered a 77 percent fall in the net profit to rupees 167 crore include the exceptional loss of 31 crore, but the performance of Novelis actually provided the cushion to Hindalco.

So, we can say that it has been a successful acquisition. Both organizations were able to access the new market, they were able to integrate lot of their business processes and market share; though initially the share price went down, which generally happens immediately after any merger and acquisition; the share price of Hindalco went up and currently it is hovering at the 200 rupees level. So, currently the share of Hindalco is being traded at 200 rupees.

We need to understand that M&A is a complicated job. So, natural question was should organization do small M&A, should organization acquire or merge smaller entities or more number of smaller entities or they should look for a big size merger and acquisition to be successful and to be profitable.

So, the question is, should organization merge or acquire smaller entities in larger number or they should merge or acquire a large entity, in a singular or in a limited number to attain the business success?

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New research confirms that companies that regularly and systematically pursue moderately sized M&A deliver better shareholder returns than companies that don't.

How lots of small M&A deals add up to big value by  
Jeff Rudnicki, Kate Siegel, and Andy West in  
McKinsey Global M&A Capabilities Survey 2019

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Research says that companies that regularly and systematically pursue moderately size M&A deliver better shareholder returns than companies that do not. So, the key lessons of this session, about the stages of M&A are as follows.

We need to understand that M&A requires involvement and activities at several fronts and it is useful to prioritize these activities in the form of financial integration, organizational integration, business process integration and market integration. Most of the time M&A decisions are driven by strategic logic.

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### Stages of M&A: Key Lessons

- Financial integration
- Organizational integration
- Business-process integration
- Market integration
- Role of OD in choosing the criteria, strategic orientation, team building and team process, cultural and talent due diligence

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Strategic logic, generally do not get translated into business logic or profitability scenario; that is why large number of M&A, probably more than 50 percent of the M&A do not realize the potential which is thought to be at the planning stage of the M&A.

So, key thing is that after the strategic logic, after making the strategic vision, after establishing the competitive advantage reasoning; organizations have to do the financial integration first for the M&A to be successful; along with that they need to be start the organizational integration.

Business process integration is the key thing through which a cost saving promises can be realized and then comes the market integration. Market, different stakeholders and the customers must be getting non confusing signals and so that their trust in the organization should increase rather than decrease after M&A. Field of OD and OD practitioner can play a very important role in all these stages.

We looked at how OD practitioner and the field of OD can be so helpful in the pre combination stage. If we look at these four aspects of the integration as articulated by Professor Nirmalya Kumar, OD practitioner can be extremely helpful and the field of OD can be extremely useful in the organizational integration.

Nonetheless, the field of OD can be useful in the business process integration as well. By facilitating that management teams of the acquiring and acquired entities, they can indirectly influence the market integration as well. OD in M&A situation can use various types of interventions which we have studied in the course thus far.

If you remember; we studied individual level intervention, team level intervention and strategic intervention, organizational level intervention. In the M&A, OD practitioners have to use individual level intervention for the leaders to articulate their strategy in vision for the M&A. OD can help in the group level intervention by identifying, by helping the management to create the M&A team, make the team function well, facilitating their team to be effective in their role.

So, OD practitioner in this way can help a great deal in facilitating various teams to be effective in their roles. OD practitioners and the field of OD can be extremely useful in cultural due diligence and talent due diligence. They can also be helpful in overseeing the



OD intervention and identifying the right assessment and criteria to track the success of M&A process.