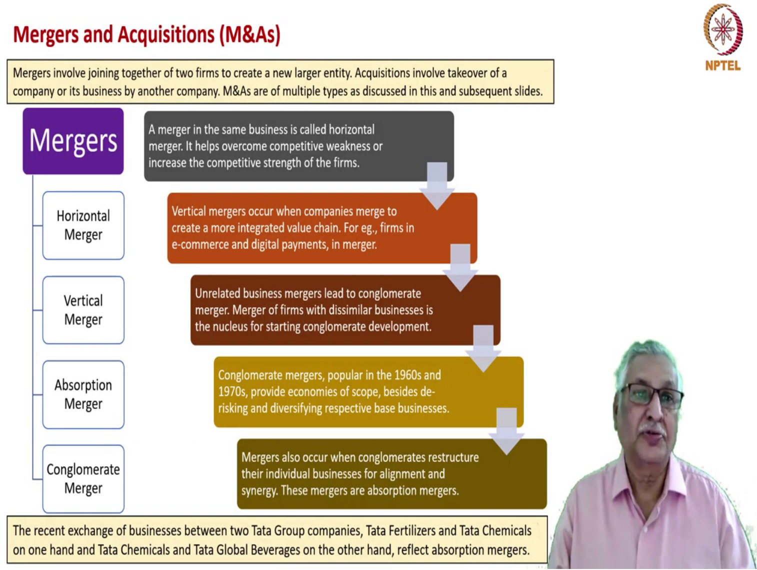
Business Development from Start to Scale
Prof. C Bhaktavatsala Rao
Department of Management Studies
Indian Institute of Technology, Madras

Week - 09
Business Development Structures
Lecture - 45
Mergers and Acquisitions

Hi, friends. Welcome to the NPTEL course Business Development from Start to Scale. We are in Week 9 with the theme of Business Development Structures. In this lecture, the 45th in the series, we discuss the topic of Mergers and Acquisitions.

(Refer Slide Time: 00:27)



Mergers involve joining together of two firms to create a new larger entity. Acquisitions involve takeover of a company or its business by another company. Together these are called

mergers and acquisitions or M and A. These are of multiple types as discussed in this and subsequent slides.

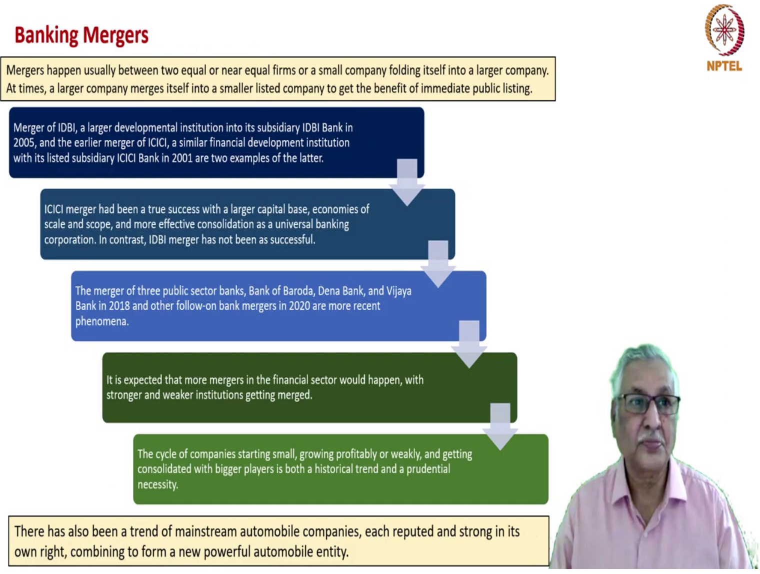
There are four types of mergers, horizontal merger, vertical merger, absorption merger and conglomerate merger. If a merger happens in the same business, it is called horizontal merger. It helps overcome competitive weakness or increase the competitive strength of the firms that are involved.

Vertical mergers occur when companies merge to create a more integrated value chain. For example, firms in e-commerce and digital payments could be together in merger. Unrelated business mergers lead to conglomerate merger. Merger of firms with dissimilar businesses is the nucleus for starting conglomerate development.

Conglomerate mergers were popular in the 1960s and 1970s. They were seen to provide economies of scope and in some cases economies of scale as well besides de-risking and diversifying respective base businesses. Mergers also occur when conglomerates restructure their individual businesses for alignment and synergy. These mergers are called absorption mergers.

The recent exchange of businesses between two Tata Group companies, Tata Fertilizers and Tata Chemicals on one hand and Tata Chemicals and Tata Global Beverages on the other hand reflect absorption mergers.

(Refer Slide Time: 02:07)



Mergers also happen within the same industry when the firms are either equal or near equal in terms of scale or a small company folding itself into a larger company. At times, a larger company also merges itself into a smaller listed company to get the benefit of immediate public listing.

Mergers of IDBI, a larger developmental institution, into its subsidiary IDBI Bank in 2005, and the earlier merger of ICICI, a similar financial development institution with it is listed subsidiary ICICI Bank in 2001 are two examples of the latter. ICICI merger has been a roaring success with a larger capital base, economies of scale and scope and more effective consolidation as a universal banking corporation.

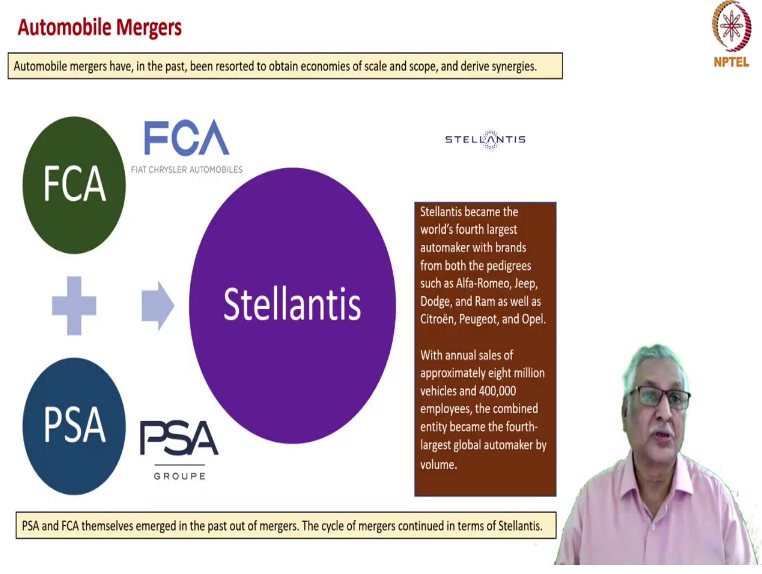
Interestingly, ICICI Bank itself has led to several joint ventures and subsidiaries which built further value as we have discussed earlier in terms of subsidization and joint venture benefits

and also as would be discussed in this lecture. In contrast, IDBI merger has not been as successful as the ICICI merger has been. The merger of three public sector banks, Bank of Baroda, Dena Bank, and Vijaya Bank in 2018 and other follow-on bank mergers in 2020 are more recent phenomena.

It is expected that there would be more mergers in the financial sector because the banks needed some kind of scale to be competitive nationally and globally. In this change, stronger and weaker institutions may get merged or many weaker institutions may get merged into a stronger institution. The cycle of companies starting small, growing profitably or in a weak manner and getting consolidated with bigger players is both a historical trend and a prudential necessity.

There has also been a trend of mainstream automobile companies each reputed and strong in its own right, combining to form a new powerful automobile entity.

(Refer Slide Time: 04:18)

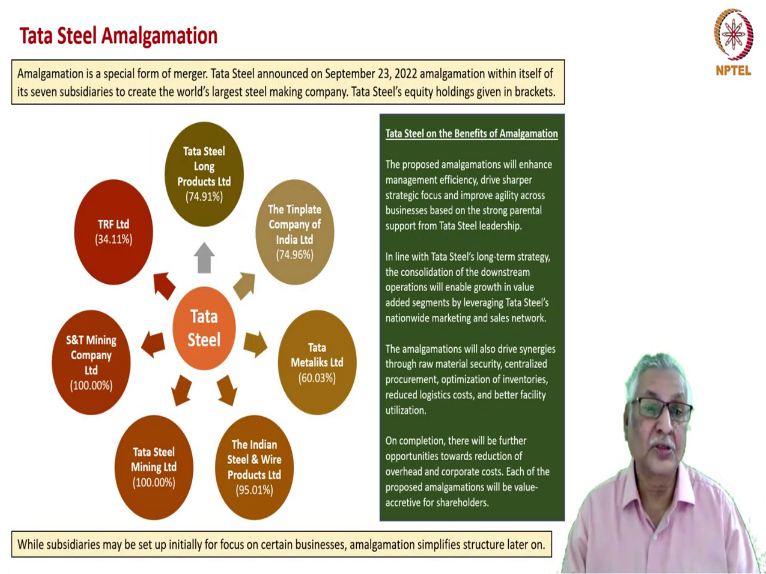


In the past, automobile mergers have been resorted to obtain economies of scale and scope and derives synergies. The big become bigger in automobile industry and also in pharmaceutical industry.

Fiat Chrysler Automobiles has merged with PSA Group to form Stellantis recently. Stellantis thus became the world's fourth largest automaker with grants from both the pedigrees such as Alfa-Romeo, Jeep, Dodge, and Ram as well as Citroen, Peugeot and Opel. With annual sales of approximately eight million vehicles and 400,000 employees, the combined entity became the fourth largest global automaker by volume.

PSA and FCA themselves emerged in the past out of several other mergers. The cycle of mergers continued in terms of Stellantis.

(Refer Slide Time: 05:12)



Let us talk about amalgamation. I have here a case study of Tata Steel which amalgamated several subsidiaries of its own into itself. Amalgamation is a special form of merger.

Tata Steel announced on September 23, 2022 amalgamation within itself of its 7 subsidiaries to create the world's largest steel making company. Tata Steel's equity holdings are given in the brackets in the graphic below. So, the 7 companies that are involved are Tata Steel Long Products Limited in which Tata Steel had 74.91 percent share.

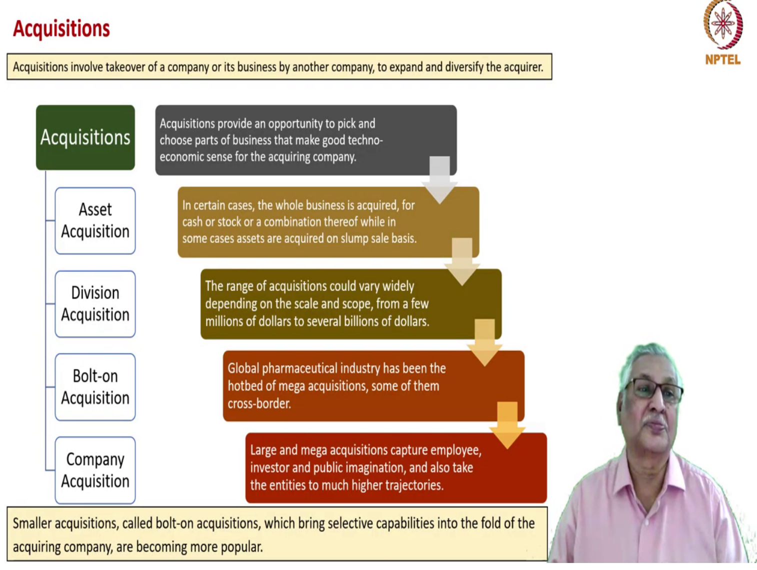
The Tinplate Company of India Limited – 74.96 percent share; Tata Metaliks Limited – 60.03 percent share; The Indian Steel and Wire Products limited 95.01 percent share. Tata Steel Mining Limited – 100 percent share; S and T Mining Company Limited – 100 percent share; TRF limited – 34.11 percent; Tata Steel list a note on the benefits of amalgamation.

It is said; the proposed amalgamations will enhance management efficiency, drive sharp of focus and improve agility across businesses based on the strong parental support from Tata Steel leadership. In line with Tata Steel's long-term strategy, the consolidation of the downstream operations will enable growth in value added segments by leveraging Tata Steel's nationwide marketing and sales network.

The Amalgamations will also drive synergies through raw material security, centralized procurement, optimization of inventories, reduced logistics costs and better facility utilization. On completion of the amalgamation, there will be a further opportunities towards reduction of overhead and corporate costs. Each of the proposed amalgamations will be value-accretive for shareholders.

What this teaches us is that while subsidiaries may be set up initially for focus on certain businesses, amalgamation at a later point of time simplifies structure when those subsidiaries have fulfilled their purposes.

(Refer Slide Time: 07:23)



Acquisitions involve takeover of a company or its business by another company and that is intended to expand and diversify the acquirer. Basically, there are four types of acquisitions that can be considered – asset acquisition, division acquisition, bolt-on acquisition and company acquisition.

Acquisitions provide an opportunity to pick and choose parts of business that make good techno-economic sense for the acquiring company. In certain cases, the whole business is acquired for cash or stock or a combination thereof, while in some cases assets are acquired on some sale basis. The range of acquisitions could vary widely depending on the scale and scope from a few millions of dollars to several billions of dollars.

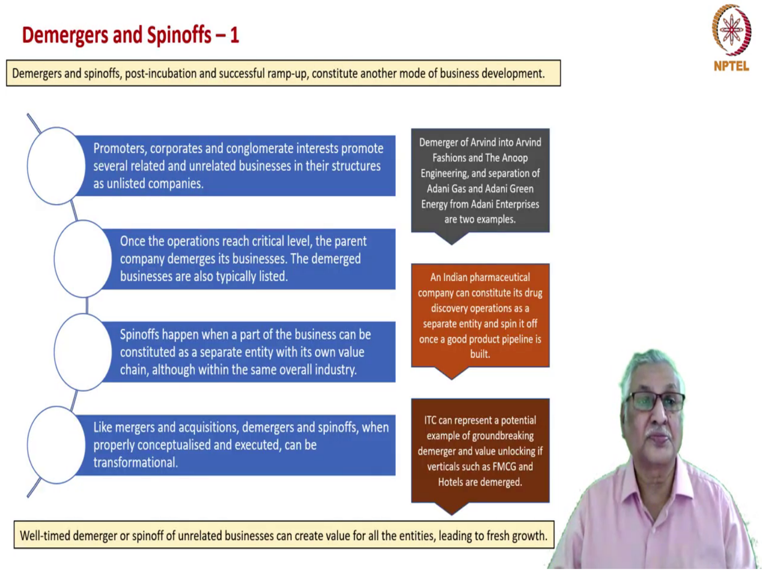
Global pharmaceutical industry has been the hotbed of mega-acquisitions, some of them cross-border. Large and mega-acquisitions capture employee, investor and public imagination

and also take the entities to much higher trajectories. Smaller acquisitions which are called bolt-on acquisitions bring selective capabilities into the fold of the acquiring company and these are also becoming more popular.

When Orchid Chemicals and Pharmaceuticals had a range of capabilities that is from active pharmaceutical ingredients, dosage forms, drug discovery, novel drug delivery and in different dosage forms such as oral solids, antibiotic injectables and other such developments, Hospira which had the opportunity to invest or to take out the business from Orchid in terms of an choose to have a part of the business of orchid curved out through an acquisition.

Because, it made sense for the company to take only a part of the business rather than the full business – acquisitions offer this flexibility whereas, merger usually between two companies in whole. This is not that acquisitions do not have company acquisitions also as one of the possibilities.

(Refer Slide Time: 09:33)



Then we also have the counter to that demergers and spinoffs. Demergers and spinoffs post incubation and successful ramp-up of subsidiaries, constitute another mode of business development.

Promoters, corporates and conglomerate interests promote several related and unrelated businesses in their structures and these are usually unlisted companies when they are established. Once the operations reach critical level, the parent company demerges its businesses. The demerged businesses are also typically listed.

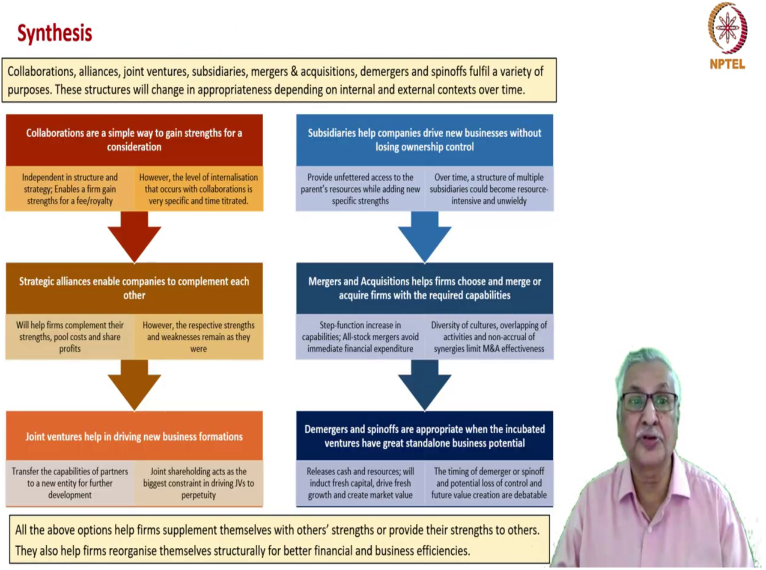
Spinoffs happen when a part of the business can be constituted as a separate entity with its own value chain, although within the same overall industry. Like mergers and acquisitions, demergers and spinoffs, when properly conceptualised and executed can be transformational.

Recently we had a couple of examples of these kinds of demergers. Arvind, the clothing apparel and fashion company demerged itself into Arvind Fashions and the Anoop Engineering. Similarly, Adani Enterprises demerged Adani Gas and Adani Green Energy from itself. Adani Enterprises continues to incubate several new generation or new business companies and at some point, of time they also may be demerged.

An Indian pharmaceutical company can constitute its drug discovery operations as a separate entity and spin it off once a good product pipeline is built. ITC today has several businesses each strong in its own in it is fold. ITC can represent a potential example of ground breaking demerger and value unlocking if verticals such as FMCG and hotels are demerged.

Well-timed demerge or spinoff of the unrelated businesses can create value for all the entities that is the parent as well as the subsidiaries leading to fresh growth.

(Refer Slide Time: 11:31)



Let us have synthesis of this. Collaborations, alliances, joint ventures, subsidiaries, mergers and acquisitions, demergers and spinoffs fulfil a variety of purposes. Choice of these business development platforms is contextual. These structures will change in appropriateness depending on internal and external context over time. Let us look at collaborations, primarily technical collaborations.

They are a simple way to gain strengths for a consideration that is paid. These are independent in structure and strategy. They enable a firm gain strengths for a fee and royalty. However, the level of internalisation that occurs with collaboration is very specific and time-titrated.

Strategic alliances enable companies to complement each other much more strongly. Strategic alliances help firms complement their strengths, pool costs and share profits. However, the

respective strengths and weaknesses of the companies remain as they were. Joint ventures help in driving new business formations. Transfer the capabilities of partners to a new entity for further development. Joint shareholding acts as the biggest constraint in driving JV's to perpetuity.

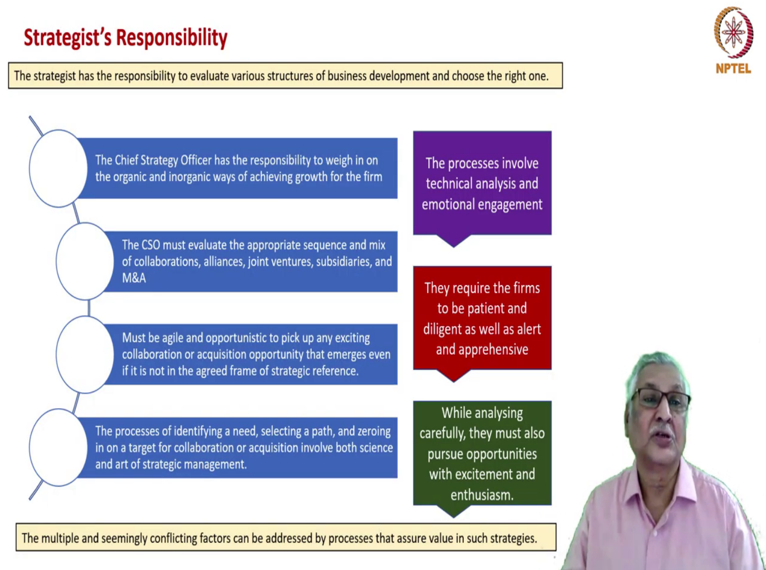
Subsidiaries help companies drive new businesses without losing ownership control. We have extensively covered subsidiaries in the previous lecture. Subsidiaries provide unfettered access to the parents' resources while adding new specific strengths. Over time, a structure of multiple subsidiaries could become resource-intensive and unwieldy. So, there could be limits to which subsidiaries can be set up.

Mergers and acquisitions which we are considering in this lecture help firms choose and merge or acquire firms with the required capabilities. Mergers and acquisitions usually result in a step-function increase in capabilities. Merges which are carried out based on all stock deals, that is only issue of capital equity capital, avoid immediate financial expenditure.

Diversity of cultures, overlapping of activities and non-accrual of synergies limit M and A effectiveness. Demergers and spinoffs are appropriate when the incubated ventures have great standalone business potential after they have reached their critical mass. It releases cash and resources, will induct fresh capital, drive fresh growth and create market value. The timing of demerger or spinoff and potential loss of control and future value creation are debatable.

All the above options, six of these which I have outlined here help firms supplement themselves with other strengths or provide their strengths to others. They also help firms reorganize themselves structurally for better financial and business efficiencies.

(Refer Slide Time: 14:31)



What is the responsible of the chief strategies or the chief strategy officer in business development platform selection and also getting the companies on to play in the business development platform? The strategies has the responsibility to evaluate various structures of business development and choose the right one.

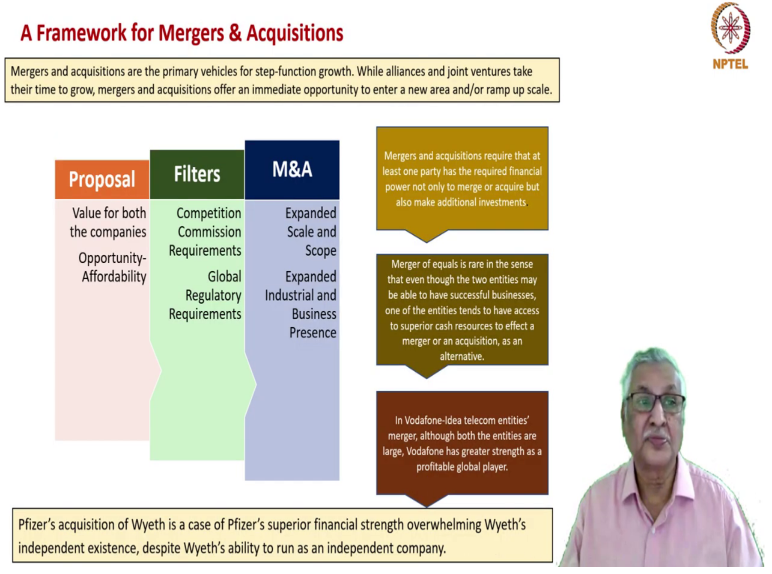
The CSO has to weigh in on the organic and inorganic ways of achieving growth for the firm. That is, should I set up a subsidiary? Should I go to a joint venture route or should I consider a merger and acquisition or simply a collaboration or alliance route to the trick? The CSO must evaluate the appropriate sequence and mix of collaborations, alliances, joint ventures, subsidiaries and M and A.

Must be agile and opportunistic to pick up any exciting collaboration or acquisition opportunity that exists and that emerges even if it is not in the agreed frame of strategic

preference for the company. The processes of identifying a need, selecting a path and zeroing in on a target for collaboration or acquisition involve both science and art of strategic management because the process involve not only technical analysis, but also require emotional engagement.

They require the firms to be patient and diligent as well as alert and apprehensive. While analyzing carefully, they must also pursue opportunities with excitement and enthusiasm. The multiple and seemingly conflicting factors can be addressed by processes that assure value in such strategies.

(Refer Slide Time: 16:15)



A framework for mergers and acquisitions in a national context: Mergers and acquisitions are the primary vehicles for step-function growth. While alliances and joint ventures take their

time to grow, mergers and acquisitions offer an immediate opportunity to enter a new area and or ramp-up scale.

First, you start with a proposal. How does the merger or acquisition provide value for both the companies? What is the opportunity that is available for merger or acquisition and what is the affordability in terms of the acquirer's financial resources? Then we have the filters to consider. Any company cannot be merged or amalgamated with any other company.

The jurisdictions of the nations have some important saying that. So, there are requirements of the competition commission. There are requirements of global regulatory agencies. These have to be fulfilled. Then you go to the M and A phase, expanded scale and scope, expanded industrial and business presence.

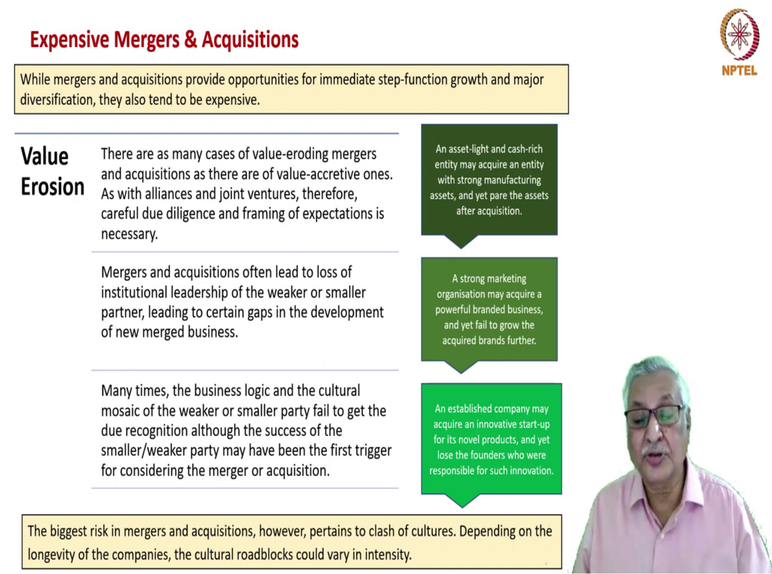
Mergers and acquisitions require that at least one party has the required financial power, not only to merger acquire, but also make additional investments post-merger. It is not that all the investments would have been made in the acquired company. So, the company must keep aside a certain provision for continued investments in the acquired company.

Mergers of equals is rare in the sense that even though the two entities may be able to have successful businesses, one of the entities tends to have access to superior cash resources to affect a merger or acquisition as an alternative.

In Vodafone – Idea telecom entities' merger, although both the entities are large with reference to the respective national geographies, Vodafone obviously, has greater strength as a profitable global player. It is a different matter why Vodafone did not bring all of its capabilities to the table in all the inbred leos that surrounded Vodafone – Idea.

Pfizer's acquisition of Wyeth is the case of Pfizer's superior financial strength overwhelming Wyeth's independent existence, although Wyeth had the ability to run as an independent company.

(Refer Slide Time: 18:33)



At times mergers and acquisitions can be very expensive. They definitely provide opportunities for immediate step function growth and major diversification, but they also tend to be expensive. But the others part which is somewhat unsettling for the strategies is that M and A could also lead to value erosion.

There are as many cases of value eroding mergers and acquisitions as there are of value-accretive once. As with alliances and joint ventures, therefore, careful due diligence and framing of expectations is necessary. Mergers and acquisitions often lead to loss of institutional leadership of the weaker or smaller partner leading to certain gaps in the development of new merged businesses.

Many times, the business logic and the cultural mosaic of the weaker or the smaller party that is the acquired party fail to get the due recognition although the success of the smaller and

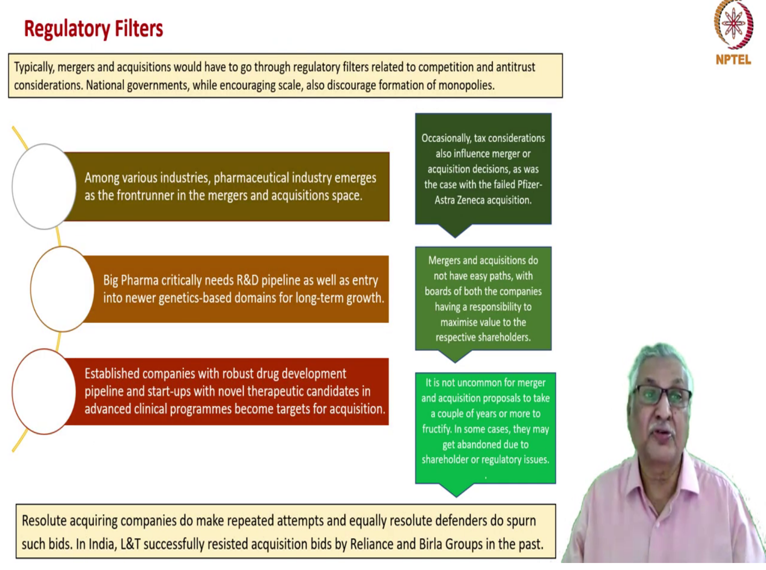
weaker factory may in fact, have been the first trigger for considering the merger or acquisition.

Some examples: a company which believes in being asset-light and cash-rich may still acquire an entity with strong manufacturing assets. What happens thereafter? The company would go by its playbook and pare the assets after acquisition? A strong marketing organization may acquire a powerful branded business, but in it is hands the brands may not be growing as they would have grown with the passionate entrepreneur who brought the brand up.

An established company may acquire an innovative start-up for its novel products and yet lose the founders who are responsible for such innovation. So, mergers and acquisitions involve not only technology not only assets, but also the human element. The human dynamics of mergers and acquisitions are very important and they need to be appreciated by leaders.

The biggest risk in mergers and acquisitions however, pertains to clash of cultures. Depending on the longevity of the companies that are involved in the M and A, the cultural roadblocks could vary in intensity. If a company has not changed for 80 years it is difficult to envisage that the company would be changing in a short span of 1 or 2 years.

(Refer Slide Time: 20:47)



Then we spoke about regulatory filters earlier. Typically, mergers and acquisitions would have to go through the regulatory filters related to competition and antitrust considerations. National governments of course, want to make a the national programs. They also want to encourage scale, but at the same time the governments wanted to discourage formation of monopolies so that the consumer interests are protected.

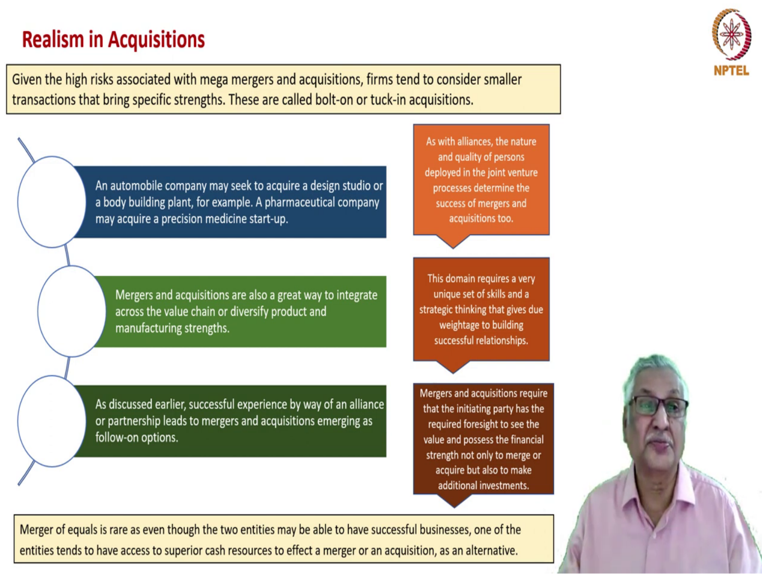
Among various industries, pharmaceutical industry emerges as the front run up in the mergers and acquisitions space. Big Pharma critically needs R and D pipeline as well as entry into new and genetic space domains for the long-term growth. Established companies with robust drug development pipeline and start-ups with novel therapeutic candidates in advanced clinical programs become targets for acquisition.

Not only that very specifically global formal majors are looking at acquiring biological capabilities so that they can have a significant part in the shift towards biologic drugs that is happening. Occasionally and not often tax considerations also influence merger or acquisition decisions. This was the case with the Pfizer Astra Zeneca acquisition which failed.

Mergers and acquisitions do not have easy paths. The boards of both the companies have a respective responsibility to maximize value to the respective company shareholders. It is not uncommon for merger and acquisition proposals to take a couple of years or more to fructify. In some cases, they may get abandoned due to shareholder or regulatory issues and it is also quite possible that some of these will be revisited and eventually the acquisition or merger activity gets completed.

Companies which are resolute in acquiring do make repeated attempts and equally resolute defenders do make attempts to spurn such bids. In India, L and T successfully resisted acquisition bids by Reliance and Birla groups in the past.

(Refer Slide Time: 23:01)



Acquisitions have to be tinged with realism. Given the high risk associated with mega mergers and acquisitions, firms tend to consider smaller transactions that bring specific strengths. These are called bolt-on or tuck-in acquisitions.

An automobile company may seek to acquire a design studio or a bodybuilding plant, for example. A pharmaceutical company may acquire a precision medicine start-up. Somebody may specialize in CRISPR technology and that specialization may be bought over by another pharmaceutical company.

Mergers and acquisitions are a great way to integrate across the value chain or diversify product and manufacturing strengths. As discussed earlier, successful experience by way of

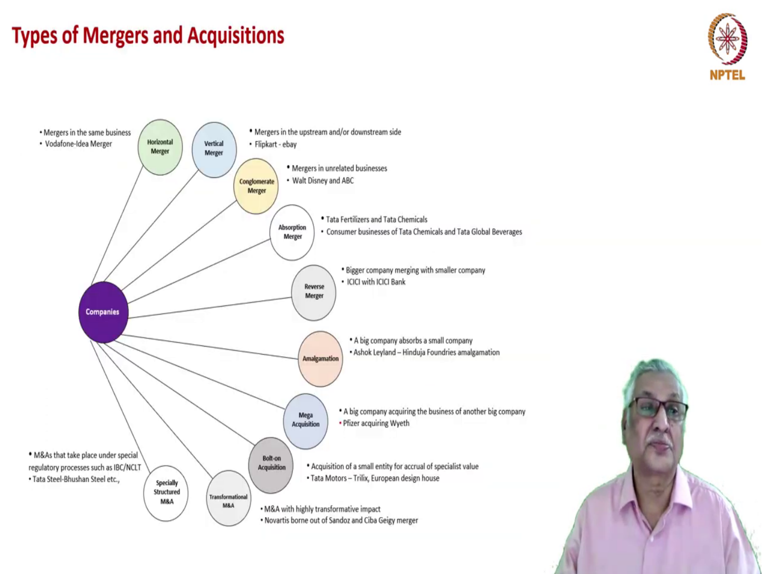
an alliance or partnership leads to mergers and acquisitions emerging as potential follow-on options.

As with alliances, the nature and quality of persons developed in the organization and the selection of the right nature and quality of persons to be used in joint venture processes or M and A processes determined the success of mergers and acquisitions too.

This domain requires a very unique set of skills and strategic thinking that gives you weightage to building successful relationships. Mergers and acquisitions in addition require that the initiating party has the required foresight to see the value and possess the financial strength not only to merge or acquire, but also to make additional investments.

Generally, mergers of equals is rare even though the two entities may be able to have successful businesses. However, one of the entities tends to have access to superior cash resources to affect a merger or acquisition and that could be an alternative scenario.

(Refer Slide Time: 24:57)



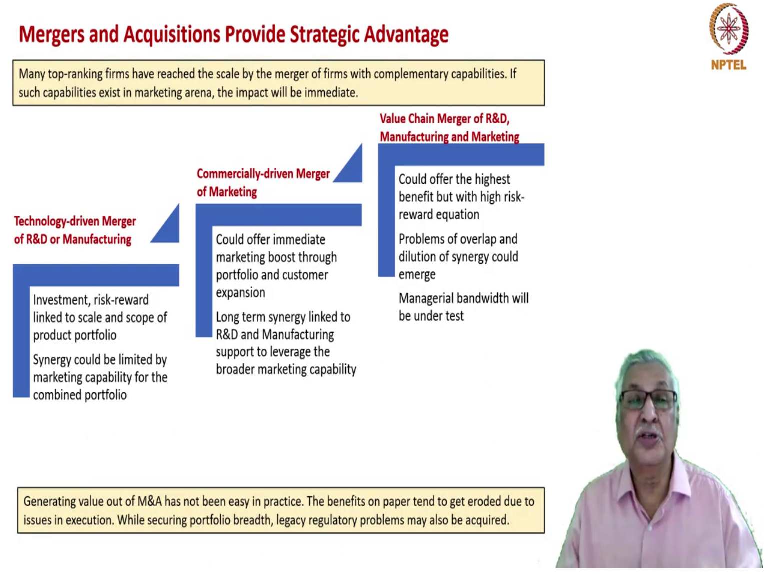
I talked about different kinds of mergers and acquisitions, but I want to present here all of these things and a few more in terms of clear single line descriptors and examples. Horizontal merger – mergers in the same business, Vodafone – Idea merger into Vi. Vertical merger – mergers in the upstream and downstream side, Flipkart – ebay merger. Conglomerate merger – mergers in unrelated businesses, Walt Disney and ABC.

Absorption merger – Tata fertilizers and Tata chemicals; consumer businesses of Tata Chemicals and Tata Global Beverages where they exchange some products from one basket to another basket. Reverse merger – bigger company merging with the smaller company, ICICI with ICICI bank. Amalgamation – a big company absorbs a small company; Ashok Leyland – Hinduja Foundries amalgamation.

Mega acquisition – a big company acquiring the business of another big company; Pfizer acquiring Wyeth. Bolt-on acquisition – acquisition of a small entity for accrual of specialist value; Tata Motors acquiring Trilix, a European design house. Transformational M and A – M and A with highly transformative impact or effect. Novartis borne out of Sandoz and Giba Geigy merger.

There are also specialist structure M and A's. M and A's that take place in India under special regulatory processes like insolvency in bankruptcy court, IBC or NCLT or such ones. Tata Steel, Bhushan Steel and a host of such NCLT and NCLAT cases under IBC have resulted in mergers and acquisitions in a significant way.

(Refer Slide Time: 26:48)



Why do we do mergers and acquisitions? We do mergers because they provide strategic advantage. Many top ranking firms have reached the kind of scale that we see for them by the

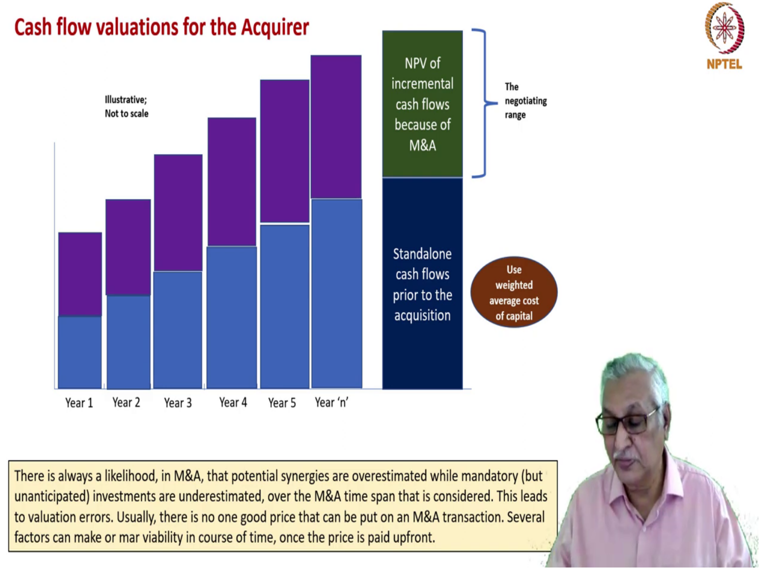
merger of firms with complementary capabilities. If such capabilities exist in the marketing arena, there also the impact will be immediate. Therefore, the M and A movement is not functional. It is cross company. There could be technology driven mergers of R and D or manufacturing.

In this case, the investment risk reward is linked to the scale and scope of the product portfolio. Synergy in such ventures could be limited by marketing capability for the combined portfolio. That is, you created a huge technology behemoth. You created a large manufacturing imprint, but eventually you need marketing capability to take that into the marketplace.

You can look at only a commercially driven merger of marketing that could offer immediate marketing boost through portfolio and customer expansion. However, long-term synergy of such an move will be linked to R and D and manufacturing support to leverage the broader marketing capability. Ideally, you should have a value chain merger, of R and D manufacturing and marketing. This could offer the highest benefit. But the risk reward equation will be at a high level.

Problems of overlap could exist. Synergy could be diluted. Managerial bandwidth will be under test. Generating value out of M and A has not been easy in practice. The benefits on paper tend to get eroded due to issues in execution. While securing portfolio breadth, legacy regulatory problems may also be acquired.

(Refer Slide Time: 28:37)



How do you judge how much would you need to pay for an acquisition? This is a simple representation. Let us say a company acquires another company and we do the business plan for the company on a standalone basis and on a merged basis after the acquisition. We can do this for 5 years or 10 years or any number of years you would like to do.

So, in the blue bars, you have the standalone cash flows prior to acquisition and in the violet bars, you have the incremental cash flows because of M and A. Both of these, that is the standalone cash flows prior to the acquisition, as well as the incremental cash flows because of M and A have to be reduced to the respective net present value.

But what you have in terms of your negotiating range is the NPV of incremental cash flows because of M and A. As an example, if your cumulative cash flows in NPV terms is 2 billion dollars and you are getting an incremental NPV cash flow of 3 billion dollars and you have to

invest, let us say, 6 billion dollars in this venture, you have to see how the incremental value supports the initial investment that you are making.

So, this is the business plan calculation utilizing the principles of discounting of the future cash flows. We got to use weighted average cost of capital to make this calculation. In spite of all such financial calculations, there is always a likelihood in M and A that potential synergies are overestimated while mandatory, but unanticipated investments are underestimated.

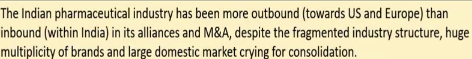
This happens during the M and A time span when these benefits have to come and when these investments have to be made. This leads to valuation errors. I mean, you cannot do anything to undo whatever has been happening through the purchase of the asset. What you can do is to have higher value getting generated through the acquisition. Usually, there is no one good price that can be put on an M and A transaction. Several factors can make or mark viability in course of time, once the price is paid upfront.

(Refer Slide Time: 31:03)

Multiple Rationales and Enablers for M&A in Indian Pharma

S.N.	Rationale
1	Therapeutic Diversification
2	Product Expansion, for all markets
3	Global Diversification, esp., in US
4	Market Expansion, esp., in India
5	Regulatory De-risking
6	Attractive Valuation (especially for distressed assets)

S.N.	Enabler
1	Cash Position
2	Fund raising and profitability
3	Revenue and profitability generation capacity of current and future business
4	Payback potential
5	Strategic fit
6	Synergy realization
7	Value accretion
8	Growth potential



Now, let us look at the specific case of the Indian pharmaceutical industry. Indian pharmaceutical industry is a highly fragmented industry. In one of the earlier lectures, we have seen how fragmented the industry is. Even if you look at the top ranking companies, it is a great achievement if one company has more than 5 percent market share. That is the level of fragmentation that is there in the Indian pharmaceutical industry.

But Indian pharmaceutical companies have also been integrating or expanding their footprint through mergers and acquisitions. The rationale has been 6-fold. Therapeutic diversification, that is, if you are a cardiology company, you are getting products in the respiratory division that way.

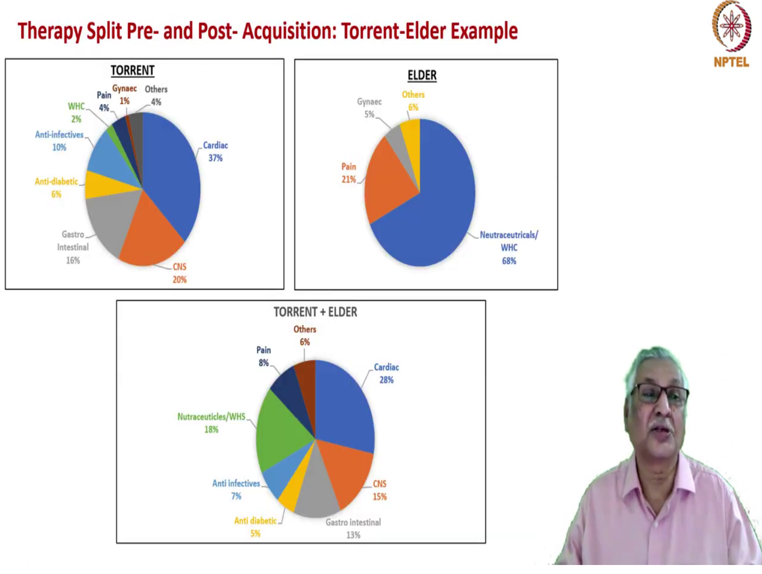
Product expansion for all the markets; global diversification especially in US; market expansion especially in India and regulatory de-risking and once then M and A occurs

appropriately, the valuation would improve. Distressed assets can be bought over and can be turned around.

And, what are the enablers for the Indian former acquisitions? Not everybody could do the acquisitions. The cash position of the company; ability to raise funds and maintain profitability; sustain revenue and profitability generation capacity of current and future businesses; payback potential and strategic fit having the great enablers for this kind of M and A. Along with that, synergy has to be realized, value has to be accretive and growth potential has to be sustained.

The Indian pharmaceutical industry in general has been more outbound towards US and Europe rather than inbound within India in its alliances and M and A despite the fragmented industry structure. And, huge multiplicity of brands and large domestic market crying for consolidation is an unfortunate, but certain fact of the Indian pharmaceutical industry and the marketplace.

(Refer Slide Time: 33:19)



Let us look at two – three cases. Here, we have torrent, a respected name in the Indian pharmaceutical industry; we also have elder, a niche player in the pharmaceutical industry.

Torrent is a highly diversified company having presence in CNS, that is central nervous system drugs, gastrointestinal drugs, antibiotics, anti-infectives, women's health care, pain, gynaecology, others and cardiac 37. So, if you look at the company, it is a significant specialist in cardiac, CNS and gastrointestinal medicines. These things together accrue for 73 percent of the company, right?

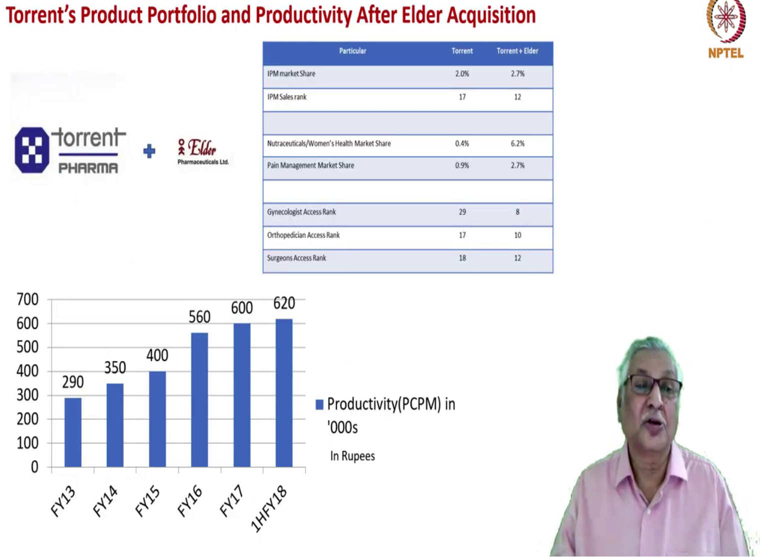
If you look at elder, you will find that it is a nutraceutical-oriented company and women's health care company. 68 percent is derived from these product groups. It is also strong in pain – 21 percent, gynaecology – 5 percent, other – 6 percent. When torrent and elder combined

with each other, there has been a significant churn in the way the therapies are positioned in terms of contribution to the merged entities value.

Cardiac became 28 percent from 37 percent. CNS also reduced to 15 percent, gastrointestinal to 13 percent from 16 percent, anti-diabetic marginally the same at 5 percent, anti-infectives down from 10 percent to 7 percent. But nutraceuticals and women's health care got a big leg up. It moved from 5 percent to 18 percent. Similarly, the pain group moved from 4 percent to 8 percent, others moved to 6 percent from 4 percent.

So, this is the how the therapies benefit by two companies operating in different therapeutic segments, decide to come together.

(Refer Slide Time: 35:07)



Particular	Torrent	Torrent + Elder
IPM market Share	2.0%	2.7%
IPM Sales rank	17	12
Nutraceuticals/Women's Health Market Share	0.4%	6.2%
Pain Management Market Share	0.9%	2.7%
Gynecologist Access Rank	29	8
Orthopedician Access Rank	17	10
Surgeons Access Rank	18	12

Not only that, because of this, the market share improved. The IPM market share before the acquisition for torrent was 2 percent, after the elder acquisition, it became 2.7 percent. Sales rank improved from 17 to 12. In the nutraceuticals and women's health care market, torrent was marginally present at 0.4 percent, but that percentage became 6.2. In the pain management also, the market share improved from 0.9 percent to 2.7 percent.

The access ranks for gynaecologists, orthopedicians and surgeons significantly improved. Another important aspect is that the per capita productivity of an individual marketing representative went through a significant leg up. That is the per capita productivity per month in Indian rupees moved up from 290,000 to 620,000.

And if a single representative is able to sell more products, obviously, the financial viability of the company would improve and it would start taking back the investments it has made through the returns and positive cash flows.

(Refer Slide Time: 36:22)

Deal Profitability Profile: Sun Pharma – Taro

(Amounts in USD Mn)

	CY10E	CY11E	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Sales	393	506	671	759	863	951	879	641	628	659
EBITDA	108	224	380	449	539	632	522	308	301	317
% Margin	28%	44%	57%	59%	62%	67%	59%	48%	48%	48%
FCV	65	175	239	336	387	376	402	231	226	237
PV	63	154	189	240	248	217	209	108	96	90
No of periods	0.25	1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25
PV of FCF (66.3% stake)	1.071									
Terminal Value (66.3% stake)	679									
NPV	1.750									
Capital Employed	273									
Return on Capital	**641%**									
Cost of Capital	11%									
Terminal Growth Rate	2%									
Payback Period	**3 Years**									

Sun Pharma's acquisition of taro and Israeli headquartered company with significant operations in United States has been a game changer for Sun pharma. You can see the 10 year financials here in US dollar million. The sales doubled, the EBITDA tripled; the EBITDA margin moved up significantly from 28 percent to 48 percent for Sun Pharma because of the Taro acquisition and the present value has also moved.

This shows that the profile of the candidate is extremely important. Sun pharma chose Taro because it will get the company into the dermatological field and also provide good market presence and good market leadership. Return on capital is an astounding 641 percent, even with the cost of capital of 11 percent, terminal growth rate it was assumed at 2 percent and payback period is extremely small at 3 years.

(Refer Slide Time: 37:23)

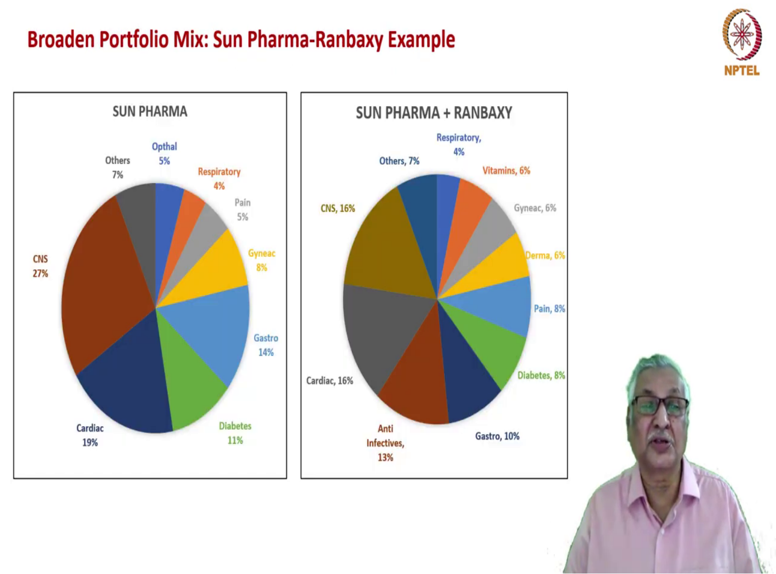
Therapy Mix: Sun Pharma-Ranbaxy Example

NPTEL

Sr No.	Therapy	Sun	Ranbaxy	Combined
1	Psychiatry	✓✓✓✓	✓✓	✓✓✓✓
2	Neurology	✓✓✓✓	✓✓	✓✓✓✓
3	Cardiology	✓✓✓✓	✓✓✓	✓✓✓✓
4	Orthopaedic	✓✓✓	✓✓✓✓	✓✓✓✓
5	Opthalmology	✓✓✓✓	✓	✓✓✓✓
6	Gastroenterology	✓✓✓✓	✓✓	✓✓✓✓
7	Nephrology	✓✓✓✓	✓	✓✓✓✓
8	Diabetology	✓✓✓✓	✓✓	✓✓✓✓
9	Dermatology	✓	✓✓✓✓	✓✓✓✓
10	Urology	✓	✓✓✓✓	✓✓✓✓
11	Gynaecology	✓✓✓✓	✓✓	✓✓✓✓
12	Anti-infectives	✓	✓✓✓✓	✓✓✓✓
13	Dental	✓	✓✓	✓✓✓
14	Respiratory	✓✓	✓✓	✓✓✓
15	VMN	✓	✓✓✓	✓✓✓
16	Oncology	✓✓	✓✓	✓✓

Another example, Sun Pharma and Ranbaxy. You can see the therapies in which Sun Pharma has been strong and therapies in which Ranbaxy has been strong and therapies in which both were equally strong. And, combined, you will see that four ticks permeate all the therapeutic areas whereas, earlier it was four for Sun, two for Ranbaxy or two for Sun and four for Ranbaxy in a kind of differentiated manner. Now, all that has been bundled together to provide the widest possible portfolio for Sun Pharma with Ranbaxy.

(Refer Slide Time: 37:59)



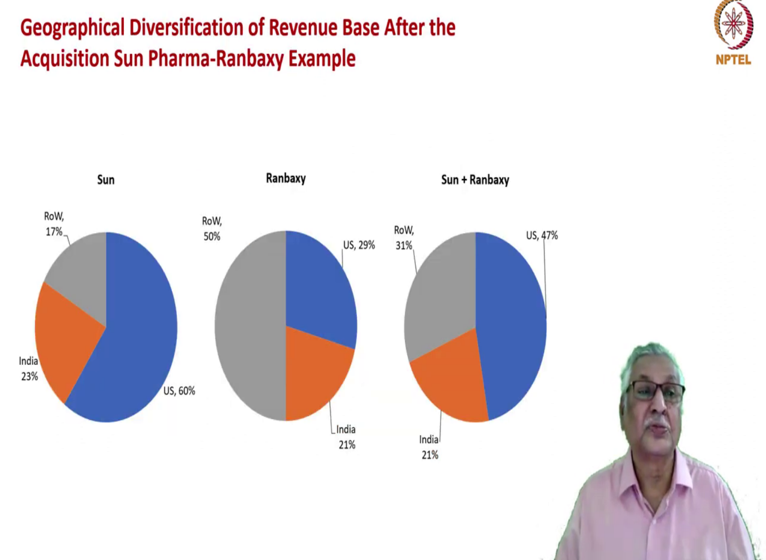
This graphic illustrates this even more tellingly. Prior to the acquisition, Sun Pharma was an out and out chronic diseases company that is diseases which linger in our bodies for a long time – diabetes, pulmonary situation that is asthma and things like that.

So, Sun Pharma was a leader in cardiac 19 percent contribution, diabetes 11 percent and CNS 27 percent much like Torrent Pharma. People say that Torrent tried to replicate Sun Pharma's business strategy and marketing strategy of course, in its own way and gastro was 14 percent. Otherwise, there were no significant therapeutic leadership materials in Sun Pharma.

However, after the Ranbaxy merger while cardiac reduced to 16 percent and diabetes reduced to 18 percent, there has been a significant new group called anti-infectives that came in.

Similarly, while CNS reduced to 16 percent, there were several other groups which came in a big way and helped the company out diversify its product platform.

(Refer Slide Time: 39:08)



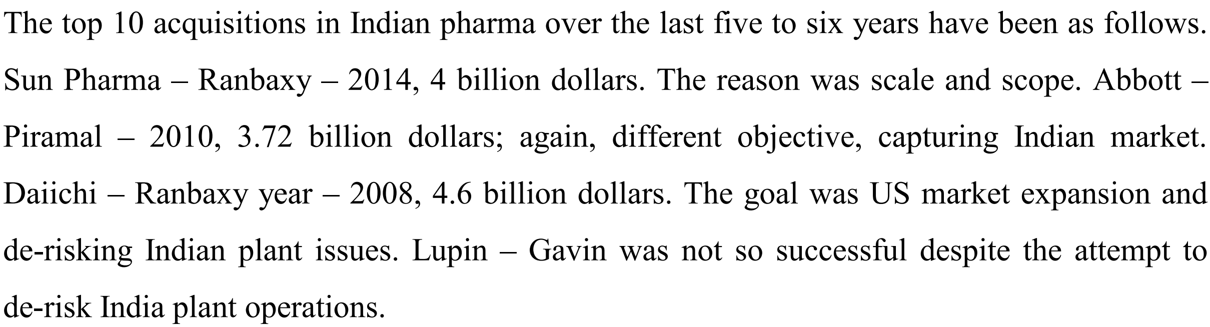
Not only that the geographical diversification of revenue base after the acquisition has been illustrative, Sun alone was having an India revenue contribution of 23 percent rest of the world of 17 percent and US gave the company 60 percent. While it is an advantage at one level, it is also a risk at another level. After the Ranbaxy acquisition, the whole things changed. That is because when Ranbaxy rest of the world was 50 percent and US was only 29 percent. India was a healthy 21 percent.

So, Sun plus Ranbaxy, when you compare the graphic on the left side with the graphic on the right most side, you will find that it has now a more equitable distribution. Rest of the world 31 percent, India 21 percent, of course remaining, at the same level and US at 47 percent.

(Refer Slide Time: 40:00)

Top Ten Acquisitions in Indian Pharma

S.N.	Acquirer	Acquired	Year	Consideration	Reason
1	Sun Pharma	Ranbaxy	2014	USD 4 Billion	Scale & Scope
2	Abbott	Piramal	2010	USD 3.72 Billion	India Market
3	Daiichi	Ranbaxy	2008	USD 4.6 Billion	Low cost R&D and generic manufacturing entry
4	Lupin	Gavin, US	2015	USD 880 Million	US market expansion, De-risking India plant issues
5	Lupin	Biocom, Russia	2015	NA	Entry into Russia
6	Sun Pharma	Taro, Israel	2007	USD 454 Million	Entry in Derma, US, Israel and Canada
7	Dr Reddy's	Betapharm	2006	USD 480 Million	European generics market
8	Torrent Pharma	Elder Pharma	2014 2017	USD 324 Million USD 550 Million	Domestic brands Domestic businesses
9	Cipla	InvaGen Exelan	2016	USD 550 Million	US ANDA pipeline, US manufacturing
10	Mankind	Panacea	2022	USD 253 Million	Focus on exports of pharmaceutical formulations in US



The top 10 acquisitions in Indian pharma over the last five to six years have been as follows. Sun Pharma – Ranbaxy – 2014, 4 billion dollars. The reason was scale and scope. Abbott – Piramal – 2010, 3.72 billion dollars; again, different objective, capturing Indian market. Daiichi – Ranbaxy year – 2008, 4.6 billion dollars. The goal was US market expansion and de-risking Indian plant issues. Lupin – Gavin was not so successful despite the attempt to de-risk India plant operations.

Lupin – Biocom, Russia, entry into Russia was the objective. However, I do not think it achieved what it wanted to achieve with this. Sun Pharma – Taro, Israel – 2007, USD 450 million plus for entry into Derma and US, Israel and Canada. Dr. Reddy's with Betapharm in 2006 suffered a significant blow in the M and A space. It lost almost all of it is 480 million

dollars because the concerns or the regulations for public bidding of tenders has completely changed.

And that dealt a body blow to Betapharm acquisition by Dr Reddy's because at that point of time of acquisition there were no such barriers or requirements. So, it was decided to look at European generics market through better form, but that impact hasn't arrived as they expected. Cipla acquired InvaGen and Exelan for US ANDA pipeline and US manufacturing. They are doing (Refer Time: 41:45) well.

Then we have Mankind acquiring Panacea in 2022 for USD 53 million to focus on the exports of pharmaceutical formulations in the United States.

(Refer Slide Time: 41:57)

Other Indian Pharma Mergers and Acquisitions

S.N.	Acquirer	Acquired	Year	Consideration	Rationale
1	Intas	Teva (UK, Ireland brands)	2016	USD 764 Million	UK local market leadership
2	Dr Reddy's	Teva (8 ANDAs)	2016	USD 350 Million	Strengthening US pipeline
3	Strides Arcolab	Shasun	2014	USD 323 Million	Backward integration into API
4		Aspen (Australia)	2015	USD 300 Million	Re-entry in Australian market
5	Jubilant	Draxes	2008	USD 255 Million	US high-end radio pharmacological market
6	Piramal	MallinKrodt (Pain portfolio)	2017	USD 273 Million	Pain management portfolio
7	Zydus Cadila	Sentynyl Therapeutics	2017	USD 171 Million	Specialty distribution network
8	Aurobindo	Natrol	2014	USD 133 Million	Access to US nutraceuticals market
9	Curatio Health	Torrent	2022	USD 250 Million	Enhance its presence in dermatology
10	Sanofi	Shantha Biotechniques	2009	USD 784 Million	Vaccines development and manufacturing base for emerging markets

In the past as well as more recently, there have been many other form of mergers and acquisitions which are below 1 billion dollars. Intas with Teva; Dr. Reddy’s with Teva; Strides Arcolab with Shasun and Aspen, Australia; Jubilant with Draxes; Piramal with MallinKrodt; Zydus Cadila with Sentyml Therapeutics; Aurabindo with Natrol; Curatio Health with Torrent and Sanofi with Shanta Biotechniques – all of these constituted follow on strategic actions in terms of mergers and acquisitions.

Some of them have helped the companies acquire new competencies which they did not possess to the extent that was required. For example, Sanofi gained by having Shantha Biotechniques for vaccines development and providing a manufacturing base for emerging markets.

(Refer Slide Time: 42:47)

Key Takeaways from Indian Pharma M&A Cases

- Sun Pharma-Ranbaxy merger (2014) is a classic case of the strategic intent being right and getting fulfilled (become a Top 5 Global Generics company and achieve therapeutic and geographical distribution) but the deal itself being a huge value destroyer due to multiple regulatory issues faced by Ranbaxy for years
- Sun Pharma-Taro merger (2010) was an analyst’s delight with the strategic intent being fulfilled (derma entry and US expansion) along with very quick payback and improved market valuation
- Sun Pharma, in fact, grew over the years based on 16 M&A transactions until the Ranbaxy transaction destroyed huge value; points to the need for objective due diligence being more important than subjective promoter aspirations
- Torrent-Elder M&A (2014) is another interesting M&A which delivered standing and value due to a combination of focused strategic intent, reasonable complementarity and excellent integration management

Indian Pharma does not have the deep pockets of Big Pharma to take impairments due to failed M&A and follow up failed M&As with successful M&As. The need for professional caution tempering entrepreneurial aspiration is self-evident.

The key takeaways from the Indian pharma M and A cases are as follows: Sun pharma Ranbaxy merger that happened in 2014 is a classic case of the strategic intent being right and also getting fulfilled, that is to become a Top 5 Global Generics Company and achieve therapeutic and geographical distribution but the deal itself became a huge value destroyer for Sun Pharma due to multiple regulatory issues faced by Ranbaxy for years.

On the other hand, Sun Pharma and Taro merger in 2010 was an analyst's delight with the strategic intent being fulfilled derma entry and US expansion along with very quick payback and improved market valuation. Sun Pharma, in fact, grew over the years based on 16 M and A transactions until the Ranbaxy transaction destroyed huge amount of value; points to the need for objective due diligence being more important than subjective promoter aspirations.

Torrent-Elder M and A at 2014 is an interesting M and A which delivered standing and valued due to a combination of focused strategic intent, reasonable complementarity and excellent integration management. Indian Pharma certainly does not have the deep pockets of Big Pharma to take impairments in case the M and A go through successfully.

And, also they did not have the deep pockets to follow up failed M and As with successful M and As. That is it is not possible for them unless again they spend a lot of money to station themselves in the host country to incentivize and train the employees to become something different when they get into a newer jurisdiction. The need for professional caution tempering an entrepreneurial aspiration in M and A activities is very much self-evident.

(Refer Slide Time: 44:37)

Indian Pharma Acquisition Experience – Bittersweet?

1. **Successful turnarounds and value creators**

- **Sun - Taro:** Resulted in therapeutic and geographical growth
- **Torrent - Elder:** Resulted in portfolio optimization and cost savings
- **Aurobindo - Several:** Resulted in portfolio expansion and market reach

2. **Unsuccessful turnarounds and value destroyers**

- **Dr Reddy's - Betapharm:** Too expensive and adversely impacted by dramatic price controls in Germany that got announced soon after
- **Sun - Ranbaxy:** Too expensive and negatively impacted by regulatory and compliance pitfalls at Ranbaxy
- **Lupin - Gavin:** Expensive and revenues did not justify the price paid

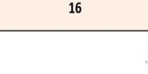
So, you can look at Indian Pharma acquisition experience as a bittersweet memory or a bittersweet happening. There have been successful turnarounds and value creators. Sun –Taro resulted in therapeutic and geographical growth. Torrent and Elder resulted in process optimization and cost savings. Aurobindo – Several, this resulted in portfolio expansion and market reach.

There have been also unsuccessful turnarounds and value destroyers. As I said Dr. Reddys – Betapharm acquisition was too expensive and was adversely impacted by dramatic price controls in Germany that got announced soon after. Sun – Ranbaxy we considered too expensive and negatively impacted by regulatory and compliance pitfalls at Ranbaxy. Lupin – Gavin, it was very expensive and revenues did not justify the price paid.

(Refer Slide Time: 45:30)

Indian Pharma Acquisition Activities 2022

Target	Acquirer	Top 10 Deals by Value (in USD Million)
Panacea	Mankind	253
Curatio Health	Torrent	250
Sanzyme	JB Chem	85
Oaknet	Eris Life	83
Novartis	Dr Reddy's	62
Anglo French	Lupin	44
Razel	JB Chem	39
Novartis	JB Chem	33
Boehringer Ingelheim	Lupin	26
J&J Unit (Telangana)	Hetero	16



Source: Indian pharma companies turn bullish on M&A route - Times of India (indiatimes.com)

Let us look at very recent ones – Top 10 deals by value in the Indian pharmaceutical acquisition space.

Mankind one of the largest pharmaceutical companies currently in India has acquired Panacea for 253 million dollars. Torrent acquired Curatio Health for 250 million dollars. All the other have been less than 100 million dollars. JB Chem, Sanzyme; Eris life, Oaknet; Dr. Reddys, Novartis brands; Lupin, Anglo French brands; JB Chem, Razel; JB Chem, Novartis brands; Boehringer Ingelheim, Lupin brands and Hetero J and J unit.

(Refer Slide Time: 46:11)

Indian Pharma Merger & Activities 2022

The Indian Pharma industry saw 16 deals during 2022 worth nearly a billion dollars

Most of these M&A deals have been backed by private equity investors

Among these, the largest deals include Torrent's buyout of dermatology firm Curatio Healthcare, and Mankind Pharma's acquisition of Panacea's domestic formulation brands

Mumbai-based JB Pharma made four deals, the latest being the acquisition of Glenmark's cardiac brand Razel in India and Nepal

Most of the M&A have been done by Indian pharma companies. Multinational pharmaceutical companies, on the other hand, have been net sellers in the branded generic space. This is usually an outcome of their global portfolio rationalization.

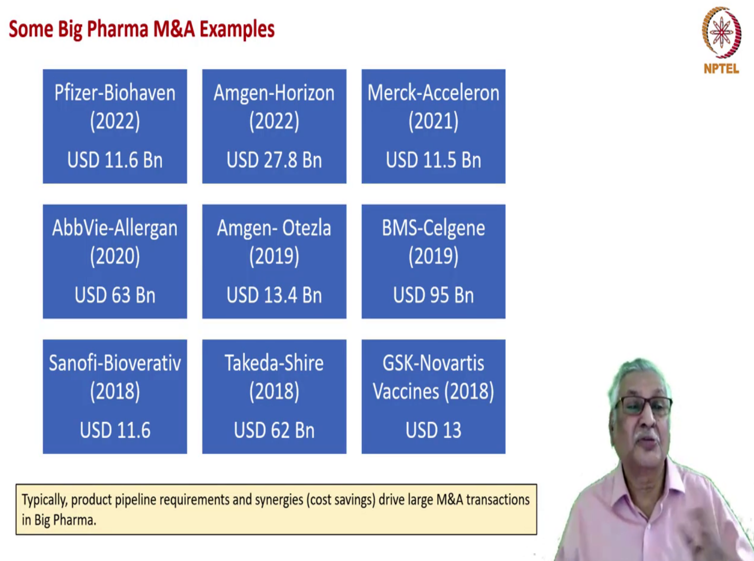
If you look at these kinds of acquisitions, we can say that we have seen 16 deals during 2022 worth nearly a billion dollars. Most of these M and As deals have been backed by private equity investors. A classic example is JB chemicals. There has been a significant investment in JB chemicals which enabled the company to look at these kinds of bolt-on acquisitions.

Among these, the largest deals include Torrent's buyout of dermatology firm Curatio base in Chennai and Mankind Pharma's acquisition of Panacea's domestic formulation brands. Mumbai-based JB Pharma made four deals, the latest being the acquisition of Glenmark's cardiac brand Razel in India and Nepal.

Most of the M and A transactions have been done by Indian Pharma companies. Multinational pharmaceutical companies on the other hand have been the net sellers in the branded generic space. This is usually an outcome of their global portfolio rationalization and

they would have undergone mergers and the merger conditions could have been to rationalize the product portfolio and sell off certain brands to other competitors so that there could be consumer interest protection as part of the merger.

(Refer Slide Time: 47:25)



Let us shift gears to the Big Pharma. There have been some strong Big Pharma M and A in recent years. However, the Big Pharma M and A has never been a new phenomenon. It has been there for several decades and the deal values also have been astounding even 20 years earlier or 30 years earlier.

These deal values and deals that I have shown here guide you to the fact that many of the deals have been in the vaccine and biologicals area. There have been very few deals that have led to two generic companies coming together as was happening in the previous 6 years. At that point of time, we had Teva undertaking an acquisition, Pfizer undertaking an acquisition

to expand the generic portfolio. Such deals have reduced and now the interest is more in terms of drug discovery.

If a whole product cluster is taken or if a whole company is taken, the values are really upwards of USD 10 billion. But, smaller product clusters or drugs in the pipeline could be taken for 1 billion dollar to 10 billion dollar kind of prices. Typically, product pipeline requirements including therapeutic diversification towards biologics and synergies that is cost savings drive large and M and A transactions in Big Pharma.

(Refer Slide Time: 49:52)

Reasons For Big Pharma M&A

- Increasing time and cost of new drug development (USD 1.4 to 2.6 billion per drug over a 10-year development period)
- Increasing cost of R&D investments over the typically multi-year organic route (on average 20% of sales; USD 2 to 10 billion)
- Attractiveness of biotech start-ups in discovering and developing novel, innovative medicines to supplement organic product pipeline
- Strategic therapeutic repositioning through mergers and acquisitions (from narrow to broad therapeutic profile)
- Need to protect and grow revenue and profitability, and remain in industry top-league
- Move up from mid-scale to large scale and overcome competitive weaknesses
- Efficient capital allocation through R&D and manufacturing synergies at industry level
- Restructuring of business with refocused business objectives

Typically, product pipeline requirements and synergies (cost savings) drive large M&A transactions in Big Pharma.

The reasons for Big Pharma M and A are quite visible and known. Increasing time and cost of new drug development. A drug costs 1.4 to 2.6 billion over a 10 year development period and some drugs could even cost more. This is because of the increasing cost of R and D investments over the typically multi-year organic route. On an average Big Pharma spends at

least 20 percent of its sales on R and D that works out to 2 to 10 billion dollars for an average company.

The biotech start-ups that have come up to discover and develop novel innovative medicines have become attractive to supplement organic product pipelines of Big Pharma companies. And, also, mergers and acquisitions help the Big Pharma reposition themselves strategically in terms of therapies more particularly from narrow to broad therapeutic profile from conventional small molecules to biological large molecules.

Need to protect and grow revenue and profitability and remain in industry toppling. Move from mid scale to large scale and overcome competitive weaknesses. Efficient capital allocation through R and D and manufacturing synergies at industry level, and restructuring of business with refocused business objectives.

Again, typically product pipelines requirements therapeutic diversification requirement and synergies that is cost savings drive large and m and a transactions in Big Pharma. And, when two strong commercially oriented or market oriented companies come together, there is usually again a huge rationalization of the medical representative network leading to lot of cash savings for the companies.

(Refer Slide Time: 50:48)

Pfizer's Growth Through Acquisitions – Some Key Ones

S.N.	Year	Target	Transaction Type	Value with Debt (USD)
1	2019	Therachon	Acquisition	340 Million
2	2016	Medivation	Acquisition	14 Billion
3	2016	Bamboo Therapeutics	Acquisition	645 Million
4	2016	BIND Therapeutics	Acquisition	40 Million
5	2016	Anacor Pharmaceutical	Acquisition	5.2 Billion
6	2015	Redvax	Acquisition	-
7	2015	Hospira	Acquisition	17 Billion
8	2014	Baxter International - Marketed Vaccines	Acquisition	635 Million
9	2014	InnoPharma	Acquisition	225 Million
10	2009	Wyeth	Acquisition	68 Billion
11	2002	Pharmacia	Acquisition	64.3 Billion
12	1999	Warner-Lambert	Acquisition	111.8 Billion

Pfizer's sales revenue in 1998 was USD 23 billion, which increased to USD 54 billion in 2018.
During this period, the Company invested USD 300 billion on various deals, including the above, to become the largest global pharmaceutical corporation!

Follow this link for Pfizer-Mylan 2019 Deal that seeks to create a new generics behemoth;
https://www.championforglobalhealth.com/-/media/championforglobalhealth/pdf/mylanupjohninvestorpresentation072919.pdf

Pfizer is a leading global pharmaceutical company and its growth has been largely through acquisitions. Here I have not given all the acquisitions. Some foundational acquisitions have been stated. Its acquisitions in 1999 with Warner – Lambert 2002 with Pharmacia and 2009 with Wyeth have been game changing because they provided some of the blockbuster drugs for Pfizer to grow.

It is taking into its fold of Hospira a global generics player was also game changing because it generates portfolio substantially got diversified and its position in manufactured injectables medicines has moved to much higher level. Later on Pfizer began acquiring biologics based companies in a strong manner.

Pfizer's sales revenue in 1998 was 23 billion dollars which increased to 54 billion dollars in 2018. However today of course, post COVID vaccine success it has launched up in sale

nearing 100 billion dollars. During this period the company invested as much as 300 billion dollars on various deals.

But these investments cannot be looked at only in terms of dollar to dollar equation. The context of the company, the foundations of the company and the future readiness of the company dramatically improved as a result of these acquisitions. That is the value that acquisitions provide to companies. But why Big Pharma are able to do this, because they are not held by promoters as we know in India. These are widely held companies.

Private equity players could be there or the whole shareholding could be widely diversified. Issue of paper, commercial paper, bonds or any other novel instrument to finance mega acquisitions and mergers is not difficult in the US environment and for Big Pharma. And, that is one of the reasons which provides inflow of funds to fund mega acquisitions as I have outlined.

(Refer Slide Time: 53:00)

Noteworthy Mergers & Acquisitions 2022

Acquirer	Target	Type	Value
Tata Group	Air India	Acquisition	$ 2.4 Billion
Elon Musk	Twitter	Acquisition	$ 44 Billion
PVR	INOX	Merger	
Adani Group	NDTV	Acquired a stake of 37.45%	
Adani Group	Ambuja Cements & ACC	Acquisition	$ 10.5 Billion
HDFC Bank	HDFC Investments and HDFC Holdings	Merger	$ 40 Billion
Zomato	Blinkit	Acquisition	$568 Million
Broadcom	VMware	Acquisition	$61 Billion
Adobe	Figma	Acquisition	$20 Billion
Oracle	Cerner	Acquisition	$28.3 Billion
Microsoft	Activision Blizzard	Acquisition	$68.7 Billion
Microsoft	Nuance	Acquisition	$19.7 Billion
Biocon	Viatris	Acquisition	$ 3.3 Billion
ArcelorMittal	Essar Ports & Power	Acquired Captive Assets	$ 2.4 Billion
Carlyle & Advent	Yes Bank	Acquired a stake of 20%	$1.1 Billion
Moj	MX TakaTak	Merger	$700 Million
Prologis	Prologis	Merger	$26 Billion
Amazon	One Medical	Acquisition	$3.5 Billion
Sony	Bungie	Acquisition	$3.6 Billion
Pfizer	Biohaven Pharmaceutical	Acquisition	$11.6 Billion
AMD	Xilinx	Acquisition	$49 Billion

NPTEL

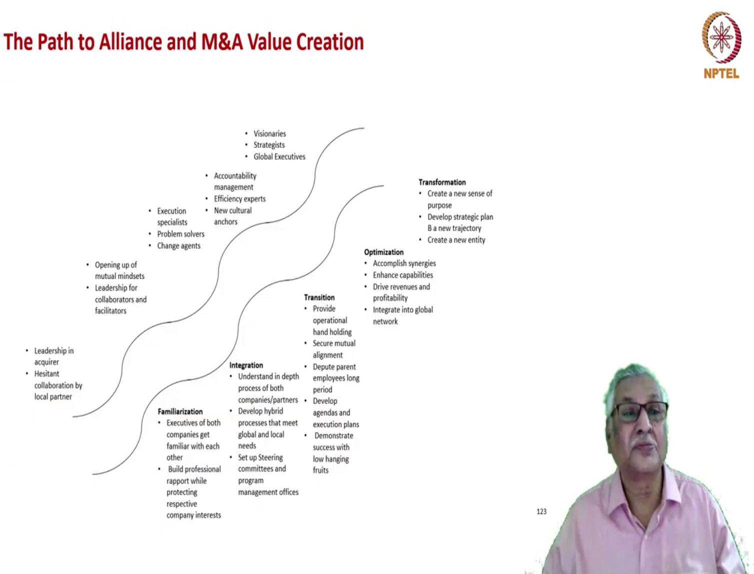
There have been several noteworthy measures and acquisitions in 2022. Tata Group acquired Air India at a cost of 2.4 billion dollars. Elon Musk acquired Twitter at 44 billion dollar investment. PVR merged with INOX. Adani Group acquired NDTV and took a stake of 37.45 percent and made an open offer. Today it is having 65 percent plus shareholding in NDTV. Adani acquired Ambuja Cements and ACC, catapulted itself to number 2 position because of the acquisition and the company spent 10.5 billion dollar on that.

The biggest merger in India is going to be the HDFC Bank and HDFC Investments and HDFC Holdings. That is HDFC as the hosting finance institution and HDFC Bank are going to merge making one large banking monolith. 40 billion dollars is the estimated value. Zomato took Blinkit and its fold for 568 million. Broadcom took VMware in its fold at

staggering 61 billion dollars. Oracle took Cerner at 28.3 billion and Microsoft – Activision Blizzard acquisition was of the order of 69 billion.

And, thus like that there are several acquisitions that have happened in 2022 and this trend certainly will continue over the next few years as well. Or as long as industrial development is there, mergers and acquisitions at different scales of investment would continue to happen.

(Refer Slide Time: 54:41)



The path to alliance and M and A value creation. You would have you would have seen a similar path in respect of strategic alliances and joint ventures. You will see a similar path here but the path is with a few steps which are important. First, you have to familiarize yourself-as companies. Executors of both companies have to know each other.

Build rapport and ensure that they protect the respective company interests, but also understand the interests of the other company. They should empathize with both the company needs. Then once the deal is done, there must be integration. Understand in depth process of both the company's partners. Develop hybrid processes that meet global and local needs. Set up steering companies and program management offices.

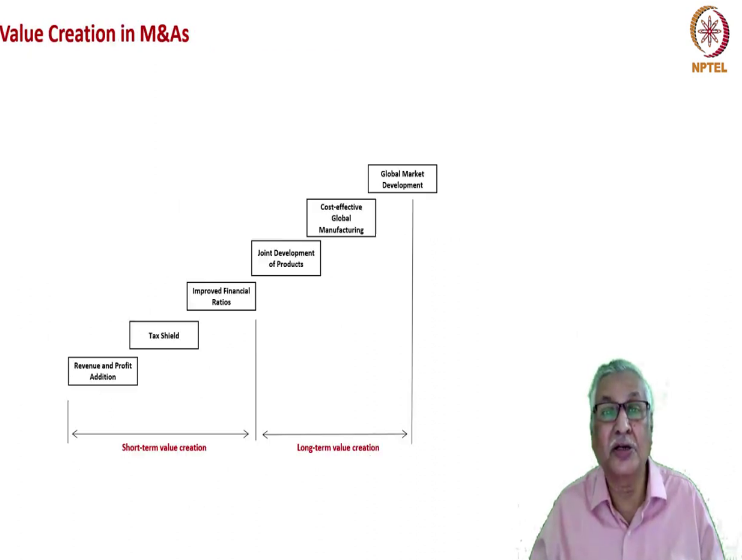
Then as the integration becomes a transitory activity, that is, changing the structure, nature and culture of the company you got to provide operational handholding, secure mutual alignment, depute parent employees for long periods, develop agendas and execution plans, demonstrate success with low hanging fruits, optimize through accomplishment of synergies, enhancement of capabilities, driving of revenues and profitability and integrating into global network.

And finally, the entire M and A activity has to conclude taking it to a next higher level of transformation, a new sense of purpose, a new strategic plan with a new trajectory and create a new entity. And, this path to alliance and M and A value creation will happen when the leadership has got appropriate capabilities. The leadership in acquire is extremely important. Instant collaboration by local partner has to be assuaged.

The mutual mindsets have to be opened up and there should be leadership for collaborators and facilitators. There could be execution specialists, but there must be problem solvers and change engines. Accountability management is important, efficiency experts are important, new cultural anchors are required while you are undertaking transition. And, optimization requires visionary strategies and global executives.

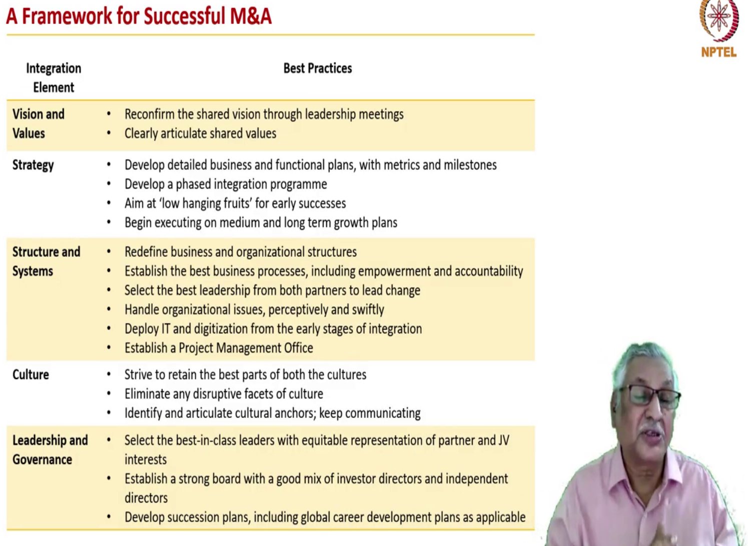
And, persons who deal with M and A have to display these personalities in different shades as they go through the M and A activity.

(Refer Slide Time: 57:16)



The value creation in M and As is not just the net present value which I have shown earlier. There would be short-term value creation through revenue and profit addition certainly, but there would also be a tax shield. There would also be improved financial ratios. The long term value creation comes from joint development of products, cost effective global manufacturing and even global market development that is the long term value creation.

(Refer Slide Time: 57:43)



Given the importance of M and A it is important that we all understand a framework for successful M and A and for your benefit I am presenting a framework which will ensure that M and A will be successful. There are five aspects of integration in any M and A and integration is the most important phase of M and A. If integration fails, the M and A would fail.

The first element of integration is vision and values. The best practices are to reconfirm the shared vision through leadership meetings, clearly articulate shared values. The next integration element is strategy and the best practices are to develop detailed business and functional plans with metrics and milestones.

Develop a phased integration program stepwise with milestones metrics; aim at low-hanging fruits for early successes which will inspire both the companies to integrate better; begin executing on medium and long term growth plans.

Then the next integration element is the structure and systems. Redefine business and organizational structures. Establish the best possible business process including empowerment and accountability. Select the best leadership from both the partners to lead the change.

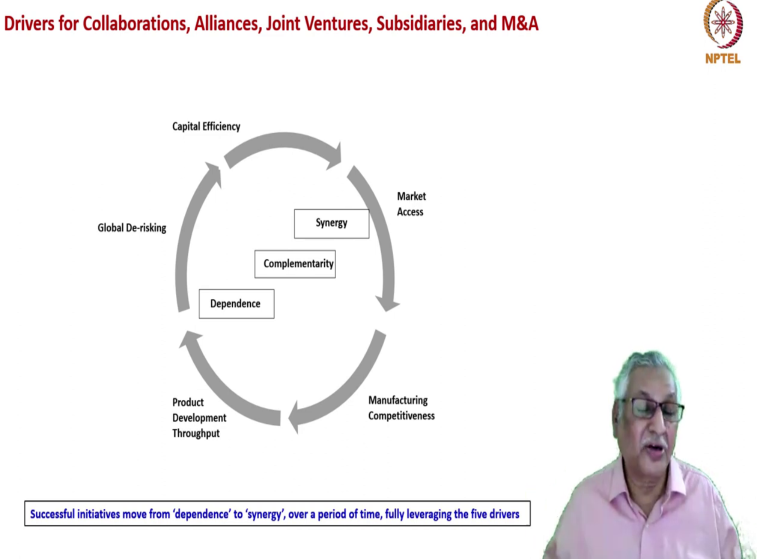
Handle organizational issues perceptively and swiftly. Develop IT and digitization from the early stages of integration. Establish a project management office because the entire task of M and A is a multi-year task and across the company value chain. Therefore, you need to have a project management office to monitor.

Culture is the fourth important aspect of integration. Strive to retain the best parts of both the culture. Let not one culture bulldoze the other culture. Every culture will have some good points. Some may have those points in a greater measure but that does not mean that the other culture has to be rooted out.

You have got to retain the best parts of both the cultures. Eliminate any disruptive facets of culture even if it is that of the acquirer. Identify and articulate cultural anchors. Keep communicating on culture. Cultural transformation does not happen if there is no continuous articulation of the need for cultural change.

Another important final element is the leadership and governance. You got to select the best-in-class leaders with equitable representation of the partner and the JV interests or the M and A interests. Establish a strong board with a good mix of investor directors and independent directors. Develop succession plans including global career adorable plans as applicable. This is required for a successful M and A.

(Refer Slide Time: 60:30)



We have seen several reasons why collaborations, alliances, joint ventures, subsidiaries and M and A are needed as business development platforms. But let us try to crystallize or synthesize all of these drivers into a few notable ones. The first important aspect is capital efficiency. You got to have collaboration, so that you are able to deploy cash well. Second, you have to have market taxes.

Third, you need to have manufacturing competitiveness. You got to improve your product development. And, finally, you have to de-risk yourself globally. They are not in any particular order. One company may require capital efficiency to a greater degree compared to another company whereas, another company would require product development throughput as one of the prime considerations for any of these five types of business development platforms.

And, the third company may require market taxes as one of the important aspects because it has got adequate product development, community and adequate manufacturing infrastructure. And, as you go through these collaborations, alliances, joint ventures, subsidiaries and M and A, you have to move from dependence to complementarity to synergy.

When the companies involved move from dependence to synergy over a period of time. And, when these five drivers are fully leveraged, the best possible value from any of these business development platforms will get accrued to the participants of these business development platforms.

(Refer Slide Time: 62:15)

Business Development Structural Approaches Compared

Factor	Internal Division	Institutional Collaboration	Strategic Alliance	Joint Venture	Subsidiary	Merger or Acquisition
Ownership	Own company	No ownership issue	No ownership issue	Ownership issue	Needs capital commitment	Investment-intensive
Marketing impact	Proportional to products and people	Major beneficial impact through big customers	Pooling of capabilities and resources of partners	Capital support needed with long term horizon	Marketing as business driver; requires capital support and leadership	Immediate marketing boost; portfolio diversification
Opportunity and limitation	Limited to company's own portfolio	Linked to the requirements of the partner	Optimizes resource consumption; helps channel resources, as applicable, to product development and market development	Enables long term strategic independence; could be restrained by ownership issues	Same as internal division with potential for standalone value creation	Enhances critical mass of growth; Catapults the firm higher
Strategic marketing drive	Low	Low-Medium	Medium	High	High	Very High
Reward	Low	Medium	High	High	High	Very High
Risk	Low	Low	Low	Medium	High	Medium

NPTEL

So, coming to the end of this lecture, let us compare the business development structures that I have proposed in this thematic lecture of this week which focused on business development structures. There are six possibilities.

You can have an internal division, that is something which is not a legal entity to undertake business development. You can have institutional collaboration. You can have strategic alliance. You can have a joint venture. You can have a subsidiary and you can go through merger or acquisition.

Let us look at these things in terms of six factors. In respect of internal division, ownership is your own. You own the company; you own the division. In institutional collaboration, there is no issue at all of ownership because you do not have a separate entity created through a technical collaboration or even a financial collaboration. In respect of strategic alliance, again, there is no ownership issue.

But, when you look at joint ventures, you have ownership issues. You have to see how you will put in your respective equity capital into the joint venture. Subsidiary, there is no ownership issue because it is a part of your company, but it requires 100 percent capital commitment from the parent company. In respect of merger or acquisition, it is an exercise which is completely and highly investment intensive.

The marketing impact, in respect of internal division, it is just proportional to the products and people that are deployed. In respect of institutional collaboration, major beneficial impact through big customers. Strategic alliance helps pulling of capabilities and resources of partners. Joint venture has the best possibility to develop a new culture, a new business focus and a new infrastructure. However, it requires capital structure, capital support for long-term growth.

In respect of subsidiary, marketing as a business driver, for example, requires capital support and leadership. Any other subsidiary also will require support and that has to have some

capability to be seen different in the industrial firmament. If subsidiary is seen to be the same as the parent, then the benefit of setting up a subsidiary would not be accruing.

As I said in respect of Caplin Point, Caplin Point was a diversified pharmaceutical company with strong presence in the overall products. And, by having a subsidiary of sterile products, Caplin Steriles, it has provided the necessary differentiation for setting up a subsidiary and value creation as well.

And, in respect of merger and acquisition, we need immediate marketing boost and portfolio diversification. What are the opportunities and limitations in each case? As far as internal division is concerned, it is limited to companies who own portfolio. Institutional collaboration is linked to the requirements of the partner. Strategic alliance subtly optimizes resource consumption because each bears its costs and shares the profits.

Helps channel resources as applicable to product development and market development, particularly for Indian partners. Joint venture enables long-term strategic independence could be restrained only by ownership issues. We have seen the example of Hero Honda having ownership issues. Subsidiary, same as internal division, but with much higher potential for standalone value creation, enhances critical mass of growth. It catapults the firm much higher. It will be a step function increase in performance and potential.

The strategic marketing drive in internal division will be low. Institutional collaboration, - low to medium; strategic alliance – medium and as you move towards joint ventures, subsidiary, merger or acquisition, the strategic marketing drive, that is to make a success of the new entity created will go and grow by leaps and bounds. And, therefore, the strategic marketing drive will be either high as in the case of joint venture and subsidiary or very high in respect of merger and acquisition.

The reward level, low, medium, high, in respect of the internal division, institutional collaboration and strategic alliance will be high and high in respect of joint venture and subsidiary and very high in respect of merger and acquisition. The risk level also will be

changing. Internal division carries the lowest level of risk, just as institutional collaboration also carries the lowest level.

But strategic alliance somehow comes up as a golden mean. It has a low level of risk, but high level of reward. That is why in many companies try out strategic alliance as the golden mean before going to a joint venture or any other ownership driven entities. In respect of joint venture, the risk is medium, reward is high. In respect of subsidiary, the risk is high because whatever the subsidiary does or fails to do gets reflected on the parent company.

The risk is high, the reward is also high and in respect of the merger or acquisition, the risk is medium, if the due diligence is done well and the reward is very high. That is the reason why big companies which have got finances, funding capabilities and the managerial bandwidth go straight away for merger or acquisition to boost their future prospects.

With this, we come to the end of this very important lecture on Mergers and Acquisition.

Thank you for your kind attention. We will meet in the next week's lectures.