Project Report On

Cultural and Financial Analysis of Mergers & Acquisition

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DECLARATION

I, Udit Gupta, student of EMBA 2015-2017 batch of Delhi School of Management, Delhi Technological University, Bawana road, Delhi-42 declare that term project **Cultural and Financial Analysis of Mergers and Acquisition** submitted in partial fulfilment of Executive MBA programme is the original work conducted by me.

The information and data given in the report is authentic to the best of my knowledge.

This Report is not being submitted to any other University for award of any other Degree, Award and Fellowship.

Udit Gupta

Place: New Delhi

Date:

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Submitted by:
Udit Gupta

Executive Summary

Even though mergers and acquisitions (M&A) have been an important element of corporate strategy all over the globe for several decades, research on M&A's has not been able to provide conclusive evidence on whether they enhance efficiency or destroy wealth. There is thus an ongoing global debate on the effects of M&A's on firms. Mergers and acquisitions have become common in India today just like global market. However, very little appears to be known about the long-term post-merger performance of firms in India, and the strategic factors that affect this performance.

This projects aims to study some general principals of M&A and discuss two different cases:

- Amalgamation between TCS & CMC
- Acquisition of Jaguar and Land Rover by Tata Motors

It has been noticed in past few decades that most of the M&A do not succeed and after initial years of post-merger or post-acquire, the synergy breaks up and corporation choose to demerge. It is up-most important for any organization to give equal advantage to culture associated with M&A and not just financial benefit.

Amalgamation of TCS and CMC provide required information on valuation, financial studies, laws and analysis, and on the other hand acquisition of Jaguar\Land Rover by Tata Motors emphasis on the impact of culture for a successful M&A.

Valuation is the process of estimating the market value of a financial asset or liability. Valuations can be done on assets (for example, investments in marketable securities such as stocks, options, business enterprises, or intangible assets such as patents and trademarks) or on liabilities (e.g., Bonds issued by a company). Valuations are required in many contexts including investment analysis, capital budgeting, merger and acquisition transactions, financial reporting, taxable events to determine the proper tax liability, and in litigation.

Despite the clear linkage between culture and deal success, many organizations fail to even track culture and other people-related metrics as part of their overall transaction metrics. Although nearly 80% of respondents in our study track formal measures of deal success, a significantly lower number track culture alignment (44%) as well as some of the other key people-related metrics that the survey has shown to be directly related to culture alignment. Given the significant influence of culture on deal success, it clearly is a topic that leaders cannot afford to ignore during a deal.

TABLE OF CONTENT

Index	Particulars	Page #
	Declaration	II
	Acknowledgement	III
	Executive Summary	IV
	Table of Content	V
1	Introduction to Mergers and Acquisition	7
1.1	Types Of Mergers	8
1.2	History Of Mergers	8
1.3	Merger Strategy	11
1.4	Hostile Takeover	13
1.5	Technique of Bid	14
1.6	Takeover Defence	16
2	Pre-Merger Valuation	19
2.1	Corporate Self Evaluation	20
2..2	Exchange of Share Analysis	21
2.3	Valuation of Acquisition	21
2.4	Modes of Valuation	23
3	The Role of Corporate Culture	27
3.1	Hofstede's 5 Cultural Dimension	27
3.2	Cultural Challenge in M&A	29
4	Research Methodology	31
5	Case 1: Merger of TCS and CMC	32
5.1	Description of Companies	32
5.2	Deal Description and Background	33
5.3	Motivation for the Deal	35
5.4	Deal Structure and Analysis	36
5.5	Valuation of CMC	38
5.6	Legal and Tax Issues	40
5.7	Post-Merger Integration	41
6	Case 2: Cultural Impact – Jaguar Tata Deal	43

6.1	Jaguar’s History	43
6.2	Acquired by Ford	43
6.3	Culture at Jaguar under Ford	44
6.4	Tata Acquisition	44
6.5	Tata’s Culture	44
6.6	SWOT Analysis	45
6.7	Synergies	46
6.8	Cross Border Culture	48
6.9	A Success Story	49
7	Conclusion	52
8	Reference	53

1. INTRODUCTION TO MERGERS AND ACQUISITION

Merger is a combination of two corporations in which only one corporation survives and the merged corporation goes out of existence. In a merger, the acquiring company assumes the assets and liabilities of the merged company.

Consolidation, which is a business combination whereby two or more companies join to form an entirely new company. One way to look at the differences between a merger and a consolidation is that with a merger A + B = A, where company B is merged into company A. In a consolidation, A + B = C, where C is an entirely new company.

Acquisition is taking possession of another business. Also called a takeover or buyout. It could also be said to be a hostile way of merger. An acquisition may be affected by: Agreement with the persons holding majority interest in the company management like members of the board or major shareholders commanding majority of voting power; Purchase of share in the open market; to make takeover offer to the general body of shareholders; Purchase of new shares by private treaty.

Joint Venture is when two or more businesses joining together under a contractual agreement to conduct a specific business enterprise with both parties sharing profits and losses. The venture is for one specific project only, rather than for a continuing business relationship as in a strategic alliance.

Strategic Alliance is a partnership with another business in which you combine efforts in a business effort involving anything from getting a better price for goods by buying in bulk together to seeking business together with each of you providing part of the product. The basic idea behind alliances is to minimize risk while maximizing your leverage.

1.1 TYPES OF MERGERS

A horizontal merger occurs when two competitors combine. For example, in 1998, two petroleum companies, Exxon and Mobil, combined in a $78.9 billion merger.

Vertical mergers are combinations of companies that have a buyer–seller relationship. For example, in 1993, Merck, the world's largest drug company, acquired Medco Containment Services, Inc., the largest marketer of discount prescription medicines, for $6 billion.

A conglomerate merger occurs when the companies are not competitors and do not have a buyer–seller relationship. One example would be Philip Morris, a tobacco company, which acquired General Foods in 1985 for $5.6 billion, Kraft in 1988 for $13.44 billion, and Nabisco in 2000 for $18.9 billion.

1.2 HISTORY OF MERGERS

1.2.1 First Wave, 1897–1904

The first merger wave occurred after the Depression of 1883, peaked between 1898 and 1902, and ended in 1904. According to National Bureau of Economic Research study by Professor Ralph Nelson, eight industries—primary metals, food products, petroleum products, chemicals, transportation equipment, fabricated metal products, machinery, and bituminous coal—experienced the greatest merger activity. The many horizontal mergers and industry consolidations of this era often resulted in a near monopolistic market structure.

FIRST WAVE, 1897–1904

Year	Number of Mergers
1897	69
1898	303
1899	1,208
1900	340
1901	423
1902	379
1903	142
1904	79

TABLE 2.1 MERGERS, 1897–1904

Source: Merrill Lynch Business Brokerage and Valuation, *Mergerstat Review,* 1989.

1.2.2 Second Wave, 1916–1929

During the second merger wave, several industries were consolidated. Rather than monopolies, the result was often an oligopolistic industry structure. During this second period, the American economy continued to evolve and develop, primarily because of the post–World War I economic boom, which provided much investment capital for eagerly waiting securities markets.

SECOND WAVE, 1916–1929 37

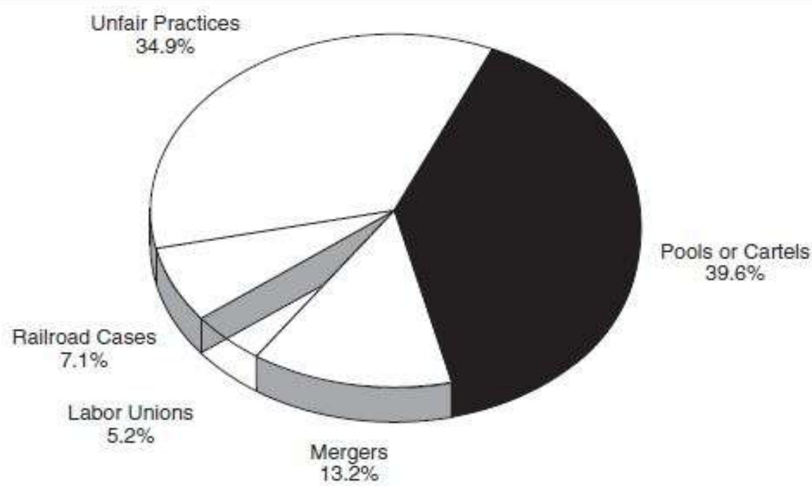

EXHIBIT 2.3 TYPES OF SHERMAN ACT CASES, 1901–20

Source: The Federal Antitrust Laws (Washington, D.C.: U.S. Government Printing Office, 1938), and Neil Fligstein, *The Transformation of Corporate Control* (Cambridge, MA: Harvard University Press, 1990), p. 79.

1.2.3 Third Wave, 1965–1969

During these years, often known as the conglomerate merger period, it was not uncommon for relatively smaller firms to target larger companies for acquisition. In contrast, during the two earlier waves, the majority of the target firms were significantly smaller than the acquiring firms.

Year	Mergers
1963	1,361
1964	1,950
1965	2,125
1966	2,377
1967	2,975
1968	4,462
1969	6,107
1970	5,152

TABLE 2.3 THIRD MERGER WAVE, 1963–70

1.2.4 Fourth Wave, 1984–1989

The unique characteristic of the fourth wave is the significant role of hostile mergers. Corporations and speculative partnerships played the takeover game as a means of enjoying very high profits in a short time. The fourth merger period may also be distinguished from the other three waves by the size and prominence of the M&A targets. Some of the nation's largest firms became targets of acquisition during the 1980s. The fourth wave became the wave of the megamerger.

Year	Buyer	Target	Price ($Billions)
1988	Kohlberg Kravis	RJR Nabisco	25.1
1984	Chevron	Gulf Oil	13.3
1988	Philip Morris	Kraft	13.1
1989	Bristol Myers	Squibb	12.5
1984	Texaco	Getty Oil	10.1
1981	DuPont	Conoco	8.0
1987	British Petroleum	Standard Oil of Ohio	7.8
1981	U.S. Steel	Marathon Oil	6.6
1988	Campeau	Federated Stores	6.5
1986	Kohlberg Kravis	Beatrice	6.2

TABLE 2.6 TEN LARGEST ACQUISITIONS, 1981–1989

Source: Wall Street Journal, November 1988. Reprinted by permission of the *Wall Street Journal,* copyright Dow Jones & Company, Inc. All rights reserved.

1.2.5 Fifth Wave, 1991 – 2003

Certain industries accounted for a disproportionate share of the total dollar volume of M&A in the United States during the fifth merger wave. In particular, banking and finance and communications and broadcasting accounted for 26.5% of all U.S. deals

over the period 1993–2004. The fifth merger wave was truly an international merger wave.

1.2.6 Sixth Wave, 2010 – 2016

Primary saw consolidation of Technology industry across the globe with major boom in entrepreneurial startups and their acquisition with major players.

1.3 MERGER STRATEGY

Companies often merge in an attempt to diversify into another line of business. The history of mergers is replete with diversification transactions. Companies experience greater success with horizontal combinations, which result in an increase in market share, and even with some vertical transactions, which may provide other economic benefits. Unfortunately, a less noble motive such as hubris, or pride of the management of the bidder, also may be a motive for an acquisition.

1.3.1 Growth

One of the most fundamental motives for M&A's is growth. Companies seeking to expand are faced with a choice between internal or organic growth and growth through M&A's. Internal growth may be a slow and uncertain process. Growth through M&A's may be a much more rapid process, although it brings with it its own uncertainties. Companies may grow within their own industry or they may expand outside their business category. Expansion outside one's industry means diversification.

1.3.2 Synergy

It refers to the type of reactions that occur when two substances or factors combine to produce a greater effect together than that which the sum of the two operating independently could account for. Simply stated, synergy refers to the phenomenon of 2 + 2 = 5. In mergers this translates into the ability of a corporate combination to be more profitable than the individual parts of the firms that were combined.

The two main types of synergy are

- Operating synergy
- Financial synergy.

Operating synergy comes in two forms:

- Revenue enhancements
- Cost reductions.

Financial synergy refers to the possibility that the cost of capital may be lowered by combining one or more companies.

1.3.3 Diversification

Diversification means growing outside a company's current industry category. This motive played a major role in the acquisitions and mergers that took place in the third merger wave—the conglomerate era.

1.3.4 Improved Management

Some takeovers are motivated by a belief that the acquiring firm's management can better manage the target's resources. The bidder may believe that its management skills are such that the value of the target would rise under its control. This leads the acquirer to pay a value for the target in excess of the target's current stock price.

1.3.5 Improved Research and Development

Research and development (R&D) is critically important to the future growth of many companies, particularly pharmaceutical companies. This was one of the reasons for the consolidation that occurred in the pharmaceutical industry in the fifth merger wave.

1.3.6 Tax Motives

The transaction can be structured as a tax-free exchange may be a prime determining factor in whether to go forward with a deal. Sellers sometimes require tax-free status as a prerequisite of approving a deal.

1.4 HOSTILE TAKEOVER

An acquirer company may not offer Target Company the proposal to acquire its undertaking but silently and unilaterally may pursue efforts to gain controlling interest in it against the wishes of the management. There are various ways in which an acquirer company may pursue the matter to acquire controlling interest in a target company. Such acts of acquirer are known as "raids "or "takeover bids "(Rappaport, 1979). A takeover is said to be hostile when it is in the form of a raid.

1.4.1 Secret accumulation

Purchase sizeable stakes through open market operations, using the services of arbitrages and finance firms. Don't lodge the shares immediately to preserve the secrecy around the buyer's identity. Gather up to 10% of the stock before showing your hand so that the open offer for additional shares is made from a position of strength. Make private bids to small, but corporate, shareholders alongside the open offer to ensure acceptance, and secure their support. Aware of the stock being amassed, but unable to prove officially that a predator is at work, the target company will open itself to negotiations. Then, at the negotiating table, leverage for the best possible deal

1.4.2 Two tier bid

Stagger the bid over two stages; start with cash offers for over 50% of the stock held by each shareholder of the target company. Offer to buy the rest at far lower price. Shareholders in such a situation would prefer to sell. In case the response is not suitable, adding some extra benefits, which would increase the gains for the sellers, could make a revised offer.

1.4.3 Conditional bids

Accompany the open offer for shares with an offer to the target company to arrive at a negotiated settlement, perhaps at a higher price per share than that made in the open offer .The option of exit through a conditional bid as well as leeway for making a revised bid at a different price would ensure that you are not locked into your original offer if your conditions are not met and threaten the target.

1.4.4 Asset buyouts

Instead of bidding for the target company make an offer to acquire its most valuable assets i.e. either the plant or the machinery, or the distribution network or the brand, which will fulfil the acquirer's strategic objective. The benefits include simple valuation, easy availability of finance and quick completion of the transaction.

1.4.5 Dawn Raid

Where brokers swoop down on the stock exchanges at the time of their opening and buy up all available shares swiftly, before the prey reacts.

1.4.6 Bear Hug

This involves sending the target company's management a tender offer for its shareholders at an attractive price and warning them to act in the interest of the shareholders.

1.4.7 Proxy Fight

A proxy fight is when a group of shareholders are persuaded to join forces and gather enough shareholder proxies to win a corporate vote. This is referred to also as a proxy battle. Used mainly in the context of takeovers, this term means the acquirer will persuade existing shareholders to vote out company management so that the company will be easier to take over.

1.5 TECHNIQUES OF BID

1.5.1 Takeover Bid

A takeover bid gives impression of the intention reflected in the action of acquiring shares of a company gain control of its affairs. A bid can be distinguished as:

Mandatory Bid

SEBI Takeover Regulation Act, 1997 contains provisions for making announcement i.e. mandatory bid vide regulations 10 and 11 in the following cases (Song and Walking, 2000):

- For acquisition of 15% or more of the shares or voting rights.

- For acquiring additional shares to the extent of 10%in any period of 12 months if such person already holds not less than 15% but not more than 75% of the shares (voting rights) in a company.

- For acquiring shares along with persons acting in concert to exercise more than 75% of voting rights in a company.

Partial Bid

Partial bid is understood when a bid is made for acquiring part of the shares of a class of capital where the offeror intends to obtain effective control of the offeree through the voting power. Such bids are made for equity shares carrying voting rights.

Competitive Bid

Competitive bid can be made any person within 21 days of public announcement of the offer made by the acquirer. Such bid shall be made in accordance with regulation 25 of SEBI Takeover Regulation Act, 1997. Such competitive bid shall be for the equal number of shares or more for which offer was made. No competitive bid can be made for the acquisition of financially weak company where lead financial institution has accepted the bid of the acquirer on public announcement in terms of regulation 35 of SEBI Takeover Regulation Act, 1997.

1.5.2 Tender Offer

The acquirer pursues the takeover without the consent of the acquire company by making a tender offer directly to the shareholders of the target company to sell (tender) their shares. This offer is made for cash. This offer is open for a particular period; say a few weeks, within which the shares must be traded.

Example -Takeover by Tata Tea of Consolidated Coffee Ltd. (CCL) where Tata Tea was tenderly offered 50% of the CCL's shares by the shareholders at the offered price, which was, much more than the investment price. After enforcement of the SEBI Takeover Regulation Act, 1997, i.e. w.e.f. 20/02/1997, public announcement is necessary as mandatory bid for tender offer to acquire the shares or control in the

target company if such tender offer is more than limits of shareholdings outlined in regulations 10, 11, and 12 of SEBI Takeover Regulation Act, 1997.

Procedure for organizing Takeover Bids

The procedure has been streamlined in the SEBI Takeover Regulation Act, 1997 which, of course, do not lay down the procedure but prescribe a restrictive drill to safeguard the interest of the investors and shareholders. One company offering to acquire shares of another company to gain sufficient shares and voting control of the company organizes takeover bids in a systematic way, are the takeover bids (Rappapport, 1979). The following steps generally take place in a takeover bid:

- Collection of relevant information and its analysis.
- Examine shareholders profile.
- Investigation of tittles and searches into indebt-ness.
- Examining articles of association.
- Representation on board.
- Press announcement.
- Approval under Foreign Exchange Management Act, 1999.
- Recommendations to shareholders.
- Improvement of conditions by the offeror.
- Information about acceptance.
- Dispatch of consideration for the shares.

1.6 TAKEOVER DEFENCE

Takeover defences include all actions by managers to resist having their firms acquired. Resistance also includes actions that occur before a takeover offer is made which make the firm more difficult to acquire .The commonly used defence mechanism to ward off a takeover threat are listed below:

1.6.1 Crown Jewels

Refers to a very profitable or highly desirable division owned by the target firm that is especially sought after by the acquiring firm being sold off, thus making the bid unattractive for the predator.

1.6.2 Blank Cheque

Authorising issuance of new class of shares, usually preferred, at the discretion of the Board of Directors or even top management. It's most common purpose is to give friendly shareholders the necessary voting rights to help vote down a hostile takeover attempt.

1.6.3 Shark Repellents

Amending the corporate charter or by laws to make a takeover much more complex and costly, thereby discouraging it, for example, the amendment might require that more than a majority - a super-majority to approve a merger.

1.6.4 Poison Pill

Deter the raider by suddenly making an acquisition, or taking a high -interest loan, that makes the target a liability rather than an asset.

1.6.5 Scorched Earth Policy

It is an extreme form of poison pill strategy and could threaten the very survivability of the target. For example the company may take huge loans which become due as soon as the company is taken over.

1.6.6Pac-Man Strategy

Here, each company tries to gobble up the other first, creating a maze of inter-company holdings.

1.6.7 White Knight

The white knight is another company which usually acts at the request of the target , coming to the rescue of a target firm threatened by a hostile takeover bid and most commonly succeeds by acquiring the target itself .

1.6.8 Dual Class Capitalization

To issue shares with variable voting rights to secure control .By ensuring that the shares traded in the market are those with lower voting rights, the extent of control that the predator can exercise can be effectively curtailed.

1.6.9 Restructuring Defences

Identify that part of your company that is most attractive to the predator, and dispose it off - albeit in a way that allows your company to have access to it .For instance if the raider is eyeing your brands, transfer their ownership to a fully owned associate company, and work out a licensing arrangement, or spin off the lucrative division or operations - such as manufacturing facilities - into a separate company, using a leasing arrangement.

1.6.10 Employee Stock Option

Faced with the possibility of takeover through a hostile bid, issue sizeable stock options, under the facility to be granted by the forthcoming Companies act, to loyal employees, securing their commitment to back the current management. Offer them the option to convert their options into shares immediately, which will make it more difficult for the acquirer, as the process will effectively decrease his percentage holdings (Weston, Chung & Hoag, 1999).

2. PRE-MERGER VALUATION

In order to know how management can estimate how much value a prospective acquisition will, in fact create, a comprehensive financial analysis need to done. The analysis provides management and the board of the acquiring company with information both to make decision on the candidate and to formulate an effective negotiating strategy for the acquisition.

Steps in the Analysis

The process analysing acquisitions fall broadly into three stages:

- Planning
- Search & Screen
- Financial evaluation.

Planning

The acquisition process begins with a review of corporate objectives and product market strategies, business units. The acquiring company should define its potential directions for corporate growth and diversification in terms of political, and technological environment. This analysis produces a set of acquisition objectives and criteria. Specified criteria often include statements about industry parameters, such as projected market growth rate, degree of regulation, ease of entry, and capital versus labour intensity. Company criteria for quality of management, share of market, profitability, size and capital structure also commonly appear in acquisition criteria lists.

Search and Screen

The search and screen process is a systematic approach to compiling a list of good acquisition prospects. The search focuses on how and where to look for candidate. The screening process selects a few of the best candidates from literally thousands of possibilities according to the objectives and criteria developed in the planning phase.

Financial Evaluation

The final and most important stage is the financial evaluation process. This stage is the focus of this section. A good analysis should enable management to answer such questions as:

- What is the maximum price that should be paid for the target company?
- What are the principal areas of risk?
- What are the earnings, cash flow, and balance sheet implications of the acquisition?
- What is the best way of financing of acquisition?

2.1 CORPORATE SELF EVALUATION

The financial evaluation process involves both a self-evaluation by the acquiring company and the evaluation of the candidate for acquisition. While it is possible to conduct an evaluation of the target company without an in-depth self-evaluation first, in general, this is the most advantageous approach. The scope and detail of corporate self-evaluation will necessarily vary according to the needs of each company.

Two fundamental questions posted by a self-evaluation are:

- How much is my company worth?
- How would its value be affected by each of several scenarios?

The first question involves generating a "most likely" estimate of the company's value based on management's detailed assessment of its objectives, strategies, and plans.

The second question calls for an assessment of value based on the range of plausible scenarios that enable management to test the joint effect of hypothesized combinations of product-market strategies and environmental forces.

Corporate self-evaluation viewed as an economic assessment of the value created for shareholders by various strategic planning options promises potential benefits for all

companies. In the context of the acquisition market, self-evaluation takes on special significance.

2.2 EXCHANGE OF SHARE ANALYSIS

Acquiring companies commonly value the purchase price for an acquisition at the market value of the shares exchanged. This practice is not economically sound, however, and could be misleading and costly to the acquiring company. A well-conceived analysis for an exchange-of-shares acquisition requires sound valuations of both buying and selling companies.

If the acquirer's management believes the market is undervaluing its shares, then valuing the purchase price at market might well induce the company to overpay for the acquisition or to earn less than the minimum acceptable rate of return. Conversely, if management believes the market is over valuing its shares, then valuing the purchase price at market obscures the opportunity of offering the seller'' shareholders additional shares while still achieving the minimum acceptable return.

2.3 VALUATION OF ACQUISITION

Basis of Valuation

The financial analysis required to be made in the case of merger or takeover is comprised of valuation of assets and stocks of the acquire or target company in which the acquirer contemplates to invest large amount of capital in cash or other liquid assets.

There are several basis of valuation as discussed below:

2.3.1 Assets Value

In the valuation, based on assets value, the business is taken as going concern. Open market value of the freehold and building is assessed by values. Similarly, unexpired period of leasehold property has open market value i.e. the value which could be realised through open sale in the market. This value is also assessed. The tangible assets like inventories and intangible assets like "good will" are assessed and valued

as per existing business practices. Goodwill represents the company's excess earning power capitalised on the basis of certain number of years purchases. This resultant figure is added to the value of tangible assets which gives value of the company as a going concern.

2.3.2 Capitalised Earnings

For valuation based on earnings, the popular method in use is the predetermined rate of return expected by an investor in routine course on the investments. This is simple rate of return on capital employed.

2.3.4 Market Value

Market value is the value quoted for listed company's share at the stock exchanges. Market value does not exactly depict the real worth of the company because it takes into consideration various intangible factors which cannot be measured like abilities of management, prospects of the industry in which the company operates, and strategic values possessed by the company on account of patents, technical collaboration, locational benefits, institutional finance etc. To arrive at a fair value it may be ensured that temporary factors causing volatility or fluctuations are eliminated by averaging the quotations over a period of time. Market value alone is not considered as a good measure of valuation unless there is a broad market for the company's securities. But it is relied upon along with the valuation arrived at on the basis of net assets or earnings. In hostile takeovers, the acquirer pays only market value.

2.3.5 Investment Value

Investment value signifies the cost incurred to establish an enterprise. These costs include the original investment plus the interest accrued thereon. This determines the sale price of the target company which the acquirer may be asked to pay for the negotiated merger where it could be taken into consideration for valuation.

2.3.6 Book Value

Book value represents the total worth of the assets after depreciation but with revaluation. It may represent a fair and equitable basis of value in determination of

purchase price of the target company. For negotiated mergers, book value could be taken.

2.4 MODELS OF VALUATION

Valuation of a company can be done through one or more of the different approaches:

- Valuation based on Earnings
- Valuation based on assets
- Valuation based on Discounted Cash Flow technique
- Valuation based on Earnings

Valuation based on earnings is a popular method for valuation, the pre-determined rate of return expected by investor to investment is used which is equal to simple rate of return on capital employed. From the earnings, last declared by the company, the items such as tax, preference dividends, are deducted and net earnings are taken for calculation. But this valuation invites criticism, for, it is based on past performance. Whereas, for fair valuation reliable forecast of future earnings is necessary. Another view point is that instead of using the accounting rate of return for valuation, the price earning (P/E) ratio could be used. A listed company has its own P/E ratio. All these aspects are discussed in the following paragraphs.

Earnings Analysis: Traditional (Short-Term) View Point

Earnings per share (EPS) is the earning attributable to shareholders which is reflected in the market price of the shares. This (P/E) relationship is known as Price Earnings Ratio.

P/E Ratio is calculated by dividing current price of shares (P) by EPS or P/EPS. A higher P/E ratio indicates that the company's earnings in future will grow where as a low P/E ratio indicates stagnancy in the earnings in future. A reciprocal of this ratio (i.e. EPS/P) depicts yield. Share price (P) can be determined as P = EPS x P/E Ratio

$$P = \frac{EPS}{\text{Earning yield}}$$

While planning for takeover, P/E ratio plays a significant role in decision making for the acquirer inter-ail, in the following ways:

Target Company's P/E ratio is exit ratio and higher the ratio means the acquirer has to pay more. If the exit ratio of Target Company is less than that of the acquirer then shareholders of both companies benefit. On the other hand, if P/E ratio for Target Company is higher than acquirer merger will lead to dilution in EPS and adversely affect share price.

In share-for-share exchange, a company can increase its EPS by acquiring another company with a P/E ratio lower than its own provided that the earnings of the target company are capitalised at a rate above its existing capitalization rate. The above principles are exemplified as under :

<u>Limitations of Short-term Valuation of Earning Analysis</u>

A short-term view involves the assumption that target company's earnings are capitalised in the market at the higher P/E Ratio. If this assumption is relaxed and weighted average of companies are taken, then the impact on the shareholders gain or less could be assessed and it may be found that that the shareholders of either company have not gained even with the use of weighted average of capitalization ratio based on earnings.

The results obtained, in short-term, are based on current earnings which are not much reliable. The growth of the company is reflected in future earnings and without taking into consideration the future earnings, valuation is misleading. Therefore, earning forecast for the future is prerequisite for fair valuation. Besides, there are other factors which affect the earning based valuation and deserve financial analyst's attention.

Factors Affecting P/E ratio:

- Risk- Higher risk results in higher earnings yield and gives a low P/E ratio and vice versa.

- Abnormal growth- Higher abnormal growth gives a low earning yield and higher P/E ratio i.e. it depicts elements of low risk.

- Random fluctuations in earnings affect the P/E ratio i.e. fall in earnings leads to fall in share prices causing P/E ratio move up and a rise in earnings causes a rise in share prices and fall in P/E ratio. To avoid the impact of fluctuations maintainable earnings are used in place of current earnings.

2.4.1 Valuation based Assets

Valuation on assets basis of an unlisted and unquoted company will have to be done on different footing as compared to listed and quoted companies. The real value of the assets may or may not reflect on the market prices of the shares. But in unquoted company, no indication of all these things, is available excepting the profitability of the company as reflected in accounts. However the following criteria could be applied in assets basis valuation of unquoted company:

Fair Value

Valuation based on fair value might be appropriate when market value of a company is independent of its profitability. Fair value represents shareholders proportionate ownership of the total value of the whole company.

Open Market Value

Open market value refers to a price of the assets of the company which could be fetched or realised by negotiating sale provided there is a willing seller, property is freely exposed to market, sale could be materialised within a reasonable period and throughout this period, orders will remain static and without interruption from any extraordinary purchaser giving higher bid. The assets of the company which are not subject to regular sale could be assessed on depreciated or replacement cost. Each asset of the company normally valued on the basis of liquidation as resale item rather than a going-concern basis. This takes care of undervalued assets to be properly assessed. Besides, intangible assets like goodwill will also be assessed as per normal practices of the business firms and recognised conventions.

2.4.2 Valuation based on Discount Cash Flow (DCF) Technique

As many as half of the major acquisition-minded companies are relying extensively on the discounted cash flow (DCF) technique to analysis acquisitions and that

number has increased in the early 1980s. While mergers and acquisitions involve a considerably more complex set of managerial problems than the purchase of an ordinary asset, such as a machine or a plant, the economic substance of these transactions is the same. In each case, there is a current outlay made in anticipation of a stream of future cash flow.

Thus, the DCF criterion applies not only to internal growth investments, such as additions to existing capacity, but equally to external growth investments, such as acquisitions. An essential feature of the DCF technique is that if explicitly takes into account that a rupee of cash received today is worth more than a rupee received a year from now because today's rupee can be invested to earn a return during the intervening time.

To establish the maximum acceptable acquisition price under the DCF approach, estimates are needed for (1) the incremental cash flows expected to be generated because of the acquisition and (2) the "discount rate" or "cost of capital" – that is, the minimum acceptable rate of return required by the market for new investments by the company.

In projecting the cash flow stream of a prospective acquisition, the cash flow contribution the candidate company is expected to make to the acquiring company should be considered. The results of this projection may well differ from a projection of the candidate's cash flow as an independent company. This is so because of the acquirer may be able to achieve operating economies not available to the selling company alone. Furthermore, acquisitions generally provide new post-acquisition investment opportunities whose initial outlays and subsequent benefits also need to be incorporated in the cash flow schedule. Cash flow is defined as:

Cash Flow = (operating profit) (1-income tax rate) + depreciation and other noncash charges - (incremental working capital investment + capital expenditure)

In developing the cash flow schedule, two additional issues need to be considered:

- What is the basis for setting the length of the forecast period (i.e., the period beyond which the cash flows associated with acquisition are not specifically projected)?

- How is the residual value of the acquisition established as the end of the forecast period?

3. THE ROLE OF CORPORATE CULTURE

Corporate culture allows companies to adapt to the environment and become more integrated. It can help to adapt not by only passively reacting to changes in the environment, but also by allowing the company to be a proactive player in its context. In such a way, problems are faced thanks to the creativity and innovativeness of the people involved. It helps integration by tying together different subcultures in the organization, in such a way to create a unity of intents and direction.

There are various ways to put a culture in place. On one extreme top management can impose a system of hierarchical control with rigid rules and limits, in order to coercively align the behaviour of employees. On the other one, a system of trust and openness can be put in place in order to create self-organization based on social control. In general, one can use a wide variety of instruments and control systems to foster integration, such as common rules, communication and reward systems. It's always important not to lose sight of company culture in terms of internal competitiveness and innovation when using them.

Corporate culture is therefore very important to identify company identity, which is very important to know and consider both when faced with internal and external problems. The identity is important because it allows employees to identify themselves with a set of values, conduct and objectives. Thus, having a strong culture can help diminish coordination, integration and control costs.

3.1 HOFSTEDE'S FIVE CULTURAL DIMENSIONS

The five dimensions are:

- Power Distance
- Masculinity Index
- Individualism
- Uncertainty Avoidance
- Long term orientation

3.1.1 Power Distance Index

This describes the degree of equality or inequality between the people of a society. It indicates to what extent inequality is accepted as normal and fair by the population. A high value usually means stricter social hierarchies. This implies that there are higher inequalities in the population. It also means that there probably is a caste system that does not allow for a lot of vertical social mobility. When the value indicator for this dimension is low, equality and opportunity are considered important. This is also reflected in the workplace, where everybody feels more at the same level.

3.1.2 Individualism Index

Individualist are people who value personal goals and personal decision making. Collectivists value group of society goals more highly than their own. When the individuality index is high, it means that we find ourselves in and individualistic society. This has important consequences at the workplace. For example, everybody is expected to fight for their own rights, a larger degree of privacy and have individual opinions. Also, members of these societies tend to form weaker alliances between each other and there is a tendency for greater groups of losers to form in these nations.

3.1.3 Masculinity Index

This index measures to what extent societies reinforce the traditional values associated to the masculine role model of male achievement, control and power. Studies have shown that between cultures woman's values and principles are usually similar. What varies most are the values held by men, which range from being assertive and competitive to more similar values to women's.

3.1.4 Uncertainty Avoidance Index

This index concerns the level of acceptance of uncertainty and ambiguity within the society. It indicates to what extent people feel comfortable in unstructured situations. By unstructured situations we refer to new, unknown, surprising or different ones. If the index is high, it means that there is low tolerance for this sort of situation. This implies a society with stricter rules, laws and regulations

3.1.5 Long-Term Orientation Index

Refers to how much a certain society embraces, or does not embrace, devotion to traditional, forward thinking values. In case the value of the index is high, it means that individuals value long term commitments and respect to tradition. Also, one should expect strong work ethics with long term goals.

3.2 CULTURAL CHALLENGES IN M&A

There are two lines of thought regarding cultural differences in an M&A. One school of thought believes that two firms whose culture is too dissimilar shouldn't merge. However, the resource based view of the firm believes that blending two different cultures in a firm can have beneficial outcomes because of the synergies that cultural differences can bring.

Another important thing to understand, is that some degree of integration is necessary to achieve new dynamic capabilities. Leaving two firms independent may be cheap, but this does not guarantee the capability of producing new benefits. A full transformation may be very expensive but is very likely to produce new capabilities.

There are three areas to assess when analysing the culture of a company:

- Personality: how it feels to be inside the company. By this we mean that dress code, communication style and work environment must be evaluated

- Operational Characteristics: how the company is run in general. An example might be how the decision making process works.

- Employee Engagement: how employees connect to the company. (Rewards, recruiting).

3.2.1 Cultural Factors that Influence Company Compatibility

Not all firms are adapt to be merged. In some cases, merging two will create excellent synergies, in others it will prove to be a disaster. Three factors seem to be important to analyse:

- The degree of integration between two companies. As previously discussed, integration between two firms can have varying degrees, from weak to strong. For example, in case of a financial integration, low levels of integration are required, while in the case of operational integrations, the same cannot be said.

- The kind of cultural exchange. Usually, the identity of the acquiring firm is completely adopted by the acquired one. This event is called assimilation, while the opposite is called integration, where there's an exchange of cultural elements.

- The extent to which the own cultural identity is valued and the other firm's culture is regarded as attractive. If wishes from the companies are similar, conflict is low.

3.2.2 Managing Cultural Integration in M&As

In cross border M&A's cultural differences between nations are found in attitudes towards nature, rules, status and power. The type of national culture also strongly influences the organizational behaviour. For example it can influence the centralization of the hierarchy, the formalization, decision making style and strategy. In addition to differences given by national culture, also each organization has its own set of values developed in time.

These different values may push employees to take different decisions to similar problems in different companies. They generally regard attitudes towards risk, freedom on how to do one's job, preference towards working individually or as a team and management concerns about their subordinates. Cultural integration is not simply merging different cultures into one, but it's a process that involves establishing a new company model by selecting, absorbing, and integrating cultures.

Solving cultural differences early on is crucial, since it's one of the primary reasons acquisitions fail. Model to solve culture differences:

The first is localization. It means the subsidiary of the parent company located in other nations is regarded an independent entity and it can make its own strategy and decisions according the local circumstance. The parent company respects the local culture and recruits local people to manage the subsidiary

The second model is transplanting the culture of the parent company. The acquirer appoints its own people as representative to control the target company. Through strongly supervising the target company, the buyer can transplant its culture.

The third model is cultural innovation by integration. In this situation, both the cultures of the acquirer and the target companies exist together, and the new culture is established by convergence of the two cultures. This culture innovation can maximize the cross culture value.

The fourth model uses evasion tactics. It happens when there is a huge cultural gap between the acquirer and the target. Then the acquirer will appoint a manager, but it is also possible that the third party will be involved in order to bridge the cultural gap and smooth out the management transition. This model is usually used in a transition period.

4. RESEARCH METHODOLOGY

Research is a careful investigation, or inquiry, especially, through search for new fact in any branch of knowledge. One can also define research as, a scientific and systematic search for pertinent information on a specific topic.

Research methodology is a collective term for the structured process of conducting research. There are many different methodology used in various type of research, and the term is usually considered to include research design, data gathering and data analysis.

Defining Problem

Successful Merger or Acquisition is key to enhance the long-term brand value of the company for the benefit of shareholders and other stakeholders. The pillars on which the edifice of M&A stands are Cultural Integration and Financial Success. In this project, M&A is measured on basis of two parameters namely; Cultural Integration and Financial Analysis.

Research Design

Project is totally based on descriptive research. Secondary data has been analyzed for descriptive and statistical analysis, to find out if financial value of company have not declined over the years, company has optimum combination of cultural integrity and risk taking capacity.

Sample Design
Two of the top Indian IT companies were selected: Tata Motors and TCS.

Types of data: There are two types of data, these are follows

1. **Primary Data:** Primary data is collected through observation or through direct communication with respondents in one form or through personnel interview. In this project, primary data is not collected.

2. **Secondary Data:** The secondary data is collected from reference books, company website & various financial websites and newspaper and magazines. In this project, only secondary data is collected from respective company websites.

5. CASE 1: MERGER OF TCS AND CMC

5.1 DESCRIPTION OF COMPANIES

5.1.1 Transferee Company: Tata Consultancy Services Limited (TCS)

TCS is the largest Indian multinational information technology (IT) service and consulting company headquartered in Mumbai. It provides a wide range of information technology-related products and services including application development & maintenance, business process outsourcing, enterprise software, payment processing, software management, etc across industries. TCS gets majority of its revenue from Software development and management services (~44%) and Enterprise Solutions (~15%). It is 10th largest IT Company in world, measured by revenues.

TCS is a business solutions organization that delivers real results to global business, ensuring a level of certainty no other firm can match. This is delivered through its unique Global Network Delivery Model™, recognized as the benchmark of excellence in software development. A part of the Tata group, India's largest industrial conglomerate, TCS has over 310,000 of the world's best-trained consultants in 46 countries. The company generated consolidated revenues of US

$13.4 billion for year ended March 31, 2014 and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

The shareholding pattern of TCS as at June 30, 2014 was as follows:

Category	% Shareholding
Promoters and Promotors Group	73.90
Institutions – FII	16.54
Institutions – DII	5.09
Non Institutions	4.47
Total	100.00

5.1.2 Transferor Company

Established in 1975, CMC Limited is a part of Tata Group, where TCS holds a 51.12% stake. The company is engaged in the design, development and implementation of software technologies and applications, providing professional services in India and overseas, and procurement, installation, commissioning, warranty and maintenance of imported/indigenous computer and networking systems, and in education and training.

CMC was the first ever enterprise in India to set up a countrywide data network called INDONET back in 1985. It derives 63% of its revenues from System integration services. It executes large and complex turnkey projects, and has built, managed and supported it’s customer's IT systems across the value chain of infrastructure, applications and business processes.

The shareholding pattern of CMC as at June 30, 2014 was as follows:

Category	% Shareholding
Promoters and Promotors Group	51.12

Institutions – FII	22.39
Institutions – DII	17.41
Non Institutions	9.08
Total	100.00

5.2 DEAL DESCRIPTION & BACKGROUND

- CMC was a Government of India (GOI) enterprise up to October 15, 2001. Under the disinvestment process, GOI sold 7,726,500 equity shares representing 51% of the equity hare capital to Tata Sons Limited (the parent company of TCS) on October 16, 2001. The GOI further sold its entire remaining shares representing 26.25% of the equity share capital, in March 2004 by an open offer to the public.

- On March 29, 2004, as per specific approval granted by SEBI, Tata Sons Limited transferred its entire shareholding in CMC to TCS. As a result, CMC has become a subsidiary of TCS. It is intended that CMC should merge into TCS to consolidate the information technology services business in a single entity.

- On October 16, 2014, TCS announced that the Board of Directors of TCS and CMC Limited (CMC), a subsidiary of TCS, have today approved the amalgamation of CMC with TCS pursuant to the provisions of Sections 391 to 394 of the Companies Act, 1956. Shares of IT firm CMC fell sharply by over 16% after the announcement that the company will be merged with Tata Consultancy Services. The stock came under massive selling pressure in a knee-jerk reaction to the merger announcement and overall weakness in IT stocks.

- In October 2014, it announced the decision to merge CMC Ltd. with itself. The amalgamation date is fixed at April 01, 2015 subject to standard regulatory approvals.

- On July 16, 2015, CMC Ltd has informed BSE that the Company has fixed July 28, 2015 as the Record Date for the purpose of Payment of Interim Dividend and declared an interim dividend of Rs. 4.35 per equity share of ₹ 10 each. The Interim Dividend will be paid to the equity shareholders of the Company on August 04, 2015.

- On September 21, 2015 Tata Consultancy Services Ltd has informed BSE that the Hon'ble High Court of judicature at Bombay has sanctioned the Scheme of Amalgamation between CMC Limited and Tata Consultancy Services Limited on August 14, 2015 with respect to petition filed by TCS.

- The High Court of judicature at Hyderabad for the states of Telangana and Andhra Pradesh has also approved the scheme on July 20, 2015 with respect to petition filed by CMC.

- TCS has fixed October 1, 2015 as the record date to determine the names of the public shareholders of CMC, which shareholders other than TCS, who would be entitled to receive the equity shares of TCS in lieu of equity shares held in CMC.

- As per the Scheme of Amalgamation between CMC Ltd and TCS Ltd, 79 equity shares of ₹ 1 each of TCS will be issued and allotted as fully paid up equity shares for every 100 equity shares of ₹ 10 each held by the public shareholders of CMC, whose names appear in the Register of Members of CMC and whose names appear as the beneficial owners of the equity shares of CMC in the records of the depositories on the Record Date.

5.3 MOTIVATION FOR THE DEAL

The rationale for the amalgamation of CMC with TCS is inter alia as follows:

a) Rationalization: The amalgamation shall enable TCS to consolidate CMC's operations in a single company with rationalized structure, enhanced reach, greater financial strength and flexibility aiding in achieving economies of scale, more

focused operational efforts, standardization and simplification of business processes and productivity improvements.

b) Enhanced Reach: Creation of a single ―go-to-market‖ strategy, benefit of scale, enhanced depth and breadth of capabilities to result in increased business opportunities and reduced expenses.

c) Better Positioning: Combined Company shall be better positioned to serve the domestic market.

d) The amalgamation of CMC with TCS will not adversely affect the rights and interests of the shareholders of TCS and CMC.

e) The creditors of TCS will also not be affected by the amalgamation as assets of CMC are greater than liabilities of CMC and post-consolidation, the asset of TCS will also be much greater than its liabilities.

f) The creditors of CMC will also not be affected by the amalgamation as the asset of

TCS will also be much greater than its liabilities after the consolidation.

g) This amalgamation will also provide for various other matters consequential to or otherwise integrally connected with the amalgamation of CMC with TCS.

5.4 DEAL STRUCTURE AND ANALYSIS

As per the terms of the Scheme of Amalgamation (Scheme), shareholders of CMC will receive 79 equity share of ₹ 1 each of TCS for 100 equity shares of ₹ 10 each of CMC. The swap ratio has been arrived at based on the valuation report prepared by B.S.R. & Associates LLP. TCS had appointed DSP Merill Lynch Limited (DSPML) to provide fairness opinion on the recommended swap ratio for the purpose of the aforesaid merger. Similarly, CMC had appointed JP Morgan India Private Limited

(JPM) to provide fairness opinion on the recommended swap ratio for the purpose of the aforesaid merger.

Share Capital:

As on September 30, 2014 the share capital of CMC is as follows:

Particulars	Amount in ₹
Authorized share capital	
35,000,000 Equity Shares of ₹ 10 each	350,000,000
Total	350,000,000
Issued, Subscribed and paid Up Share Capital	
30,300,000 Equity Shares of ₹ 10 each fully paid up	303,000,000
Total	303,000,000

As on September 30, 2014 the share capital of TCS is as follows:

Particulars	Amount in ₹
Authorized share capital	
4,200,500,000 Equity Shares of ₹ 1 each	4,200,500,000
1,050,250,000 Equity Shares of ₹ 1 each	1,050,250,000
Total	5,250,750,000
Issued, Subscribed and paid Up Share Capital	
1,958,727,979 Equity Shares of ₹ 1 each fully paid up	1,958,727,979
Total	1,958,727,979

After the amalgamation, the paid-up share capital of TCS will increase from ₹ 195.87 crore to ₹ 197.04 crore. The Scheme is subject to, court, regulatory, shareholders and other necessary approvals. The consolidated revenue of TCS, for the quarter ended September 30, 2014, was ₹ 23,816.48 crore, with profit after tax of ₹ 5,244.28 crore based on Indian GAAP. For the same period, the consolidated revenue of CMC was ₹ 616.68 crore with profit after tax of ₹76.00 crore based on Indian GAAP.

Valuation Analysis

Arriving at exchange ratio of equity shares for the merger of CMC with TCS would require determining the value of the equity shares of CMC in terms of the value of the equity shares of TCS. These values are to be determined independently but on a relative basis, and without considering the current transaction.

There are several commonly used and accepted methods for determining the value of the equity shares of a company, which have been considered in this amalgamation, to the extent relevant and applicable, including:

a) Adjusted present value (APV) Method

b) Discounted Cash Flow (DCF) Method or Variable Risk Method (VRM)

c) Adjusted present value (APV) Method

The method is to calculate the NPV of the project as if it is all-equity financed (so called base case). Then the base-case NPV is adjusted for the benefits of financing. Usually, the main benefit is a tax shield resulted from tax deductibility of interest payments. Another benefit can be a subsidized borrowing at sub-market rates. The APV method is especially effective when a leveraged buyout case is considered since the company is loaded with an extreme amount of debt, so the tax shield is substantial. Technically, an APV valuation model looks similar to a standard DCF model. However, instead of WACC, cash flows would be discounted at the unlevered cost of equity, and tax shields at either the cost of debt (Myers) or following later academics also with the unlevered cost of equity. APV and the standard DCF approaches should give the identical result if the capital structure remains stable.

5.5 VALUATION OF CMC

Assumptions Taken

1. Beta

Company Name	BSE_CG	BSE_FMCG	BSE_HC	BSE_IT	BSE_PSU	BSE_SENSEX	NIFTY	Average
CMC Ltd	0.3247	0.3211	0.3109	0.432	0.4001	0.4223	0.4402	0.3788

2. Market Risk Premium 5.50%

3. Risk Free Factor 6.85% (http://www.tradingeconomics.com/india/government-bond-yield)

Valuation of CMC through Adjusted present value (APV) Method

	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Revenue	1,288	1,353	1,421	1,493	1,568	1,646	1,729	1,816
Depreciation	48	58	70	84	102	122	147	177
EBITA	253	291	333	383	439	504	578	664
Tax @ 34%	86	99	113	130	149	171	197	226
EAT	167	192	220	253	290	333	382	438
Add Depreciation	48	58	70	84	102	122	147	177
Working Capital	565	707	885	1,107	1,386	1,735	2,171	2,718
Less Change in NWC		142	178	223	279	349	437	547
CapEx	1,240	1,464	1,729	2,041	2,410	2,846	3,360	3,968
FCFE		(1,356)	(1,616)	(1,927)	(2,297)	(2,740)	(3,268)	(3,899)
Discount Rate	15%							
Growth Rate	5%							
TV								**(40,943)**
FCFE		**(1,356)**	**(1,616)**	**(1,927)**	**(2,297)**	**(2,740)**	**(3,268)**	**(44,842)**
NPV Equity	**(24,614)**							

Inference:

As is evident from NPV calculation, the valuation is a highly negative value. This clearly indicates that the company is not doing well in the market. Hence, it was very prudent of CMC to let itself get amalgamated with TCS.

Discounted Cash Flow (DCF) Method

Discounted cash flow (DCF) analysis is a method of valuing a project, company, or asset using the concepts of the time value of money. All future cash flows are estimated and discounted by using cost of capital to give their present values (PVs). The sum of all future cash flows, both incoming and outgoing, is the net present value (NPV), which is taken as the value or price of the cash flows in question.

Using DCF analysis to compute the NPV takes as input cash flows and a discount rate and gives as output a present value; the opposite process—takes cash flows and a price (present value) as inputs, and provides as output the discount rate—this is used in bond markets to obtain the yield.

Valuation of CMC through DCF

	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	
Revenue	1,288	1,353	1,421	1,493	1,568	1,646	1,729	1,816	
Depreciation	48	58	70	84	102	122	147	177	
EBT	205	235	269	308	353	405	464	531	
Less Loss Carry Forward		-	-	-	-	-			
Adjusted EBT	205	235	269	308	353	405	464	531	
Tax @ 34%	70	80	91	105	120	138	158	181	
PAT	135	155	178	203	233	267	306	351	
Add Depreciation	48	58	70	84	102	122	147	177	
Working Capital	565	707	885	1,107	1,386	1,735	2,171	2,718	
Less Change in NWC		142	178	223	279	349	437	547	
Less Principle Repayment		-	-	-	-	-			
CapEx	1,240	1,464	1,729	2,041	2,410	2,846	3,360	3,968	
FCFE	(1,056)	(1,393)	(1,659)	(1,976)	(2,354)	(2,805)	(3,344)	(3,987)	
Interest * (1-T)		-	-	-	-	-	-		
Principal Repaid		-	-	-	-	-			
FCFF		(1,393)	(1,659)	(1,976)	(2,354)	(2,805)	(3,344)	(3,987)	(39,157)
Actual Debt	-	-	-	-	-	-	-	-	
Outstanding Debt		-	-	-	-	-		-	
Equity	30.3								
Total Equity	30	33	35	38	41	45	48	52	
Debt + Equity		33	35	38	41	45	48	52	
Debt ratio		0%	0%	0%	0%	0%	0%	0%	
Equity ratio		100%	100%	100%	100%	100%	100%	100%	

Inference: As is evident from NPV calculation, the valuation is a highly negative value. This clearly indicates that the company is not doing well in the market. Hence, it was very prudent of CMC to let itself get amalgamated with TCS.

5.6 LEGAL AND TAX ISSUES

As per the scheme of amalgamation, all taxes (including but not limited to income tax, sales tax, excise duty, service tax, VAT, etc.) paid or payable by CMC in respect of the operations and /or the profits of the business before the appointed date, on account of CMC and, in so far as it relates to tax payment whether by way of deduction at source, advance tax or otherwise however, by CMC in respect of the operation and /or the profits of the business after the appointed date shall be deemed to be the corresponding item paid by TCS and shall, in all proceedings, be dealt with accordingly.

All the profits or income, taxes (including advance tax, tax deducted at source and MAT Credit) or any costs, charges, expenditure accuring or arising to CMC or expenditure of losses arising or incurred or suffered by CMC shall for all purposes be treated and deemed to be and accure from the appointed date as the profits or income, taxes (including tax losses, MAT Credit), costs, charges, expenditure or losses of TCS, as the case may be. If any suit, appeal, petition, complaint, application or other legal proceedings of whatsoever nature by or against CMC is pending on the Effective Date, the same shall not abate or be discontinued or in any way be prejudicially affected by reason of the amalgamation of CMC with TCS or anything contained in this Scheme, but the Proceedings may be continued, prosecuted, defended and enforced by or against TCS as effectually and in the same manner and to the same extent as the same would or might have been continued, prosecuted, defended and enforced by or against CMC, in the absence of this Scheme.

5.7 POST-MERGER INTEGRATION

5.7.1 Synergy

	Before Announcement (September 14, 2015)		After Announcement (September 22, 2015)		Combined entity after merger (October 05, 2015)
	TCS	CMC	TCS	CMC	
No. of Share outstanding	17314	113	44593	6098	107706
Price/Share in ₹	2550.75	1987.05	2,526.35	1978.35	2713.45
Market Cap (in ₹ Lakhs)	441.64	2.25	1126.58	120.64	2922.55

Synergy Created (in ₹ Lakhs): 2922.55-(120.64+1126.58) = 1675.33

Ratio of TCS Shares to CMC: 0.079

a) **Analysis from the point of the shareholders of TCS**

The price of the merged entity after the merger will be:

$$p_1 \leq \frac{n_1 * p_1 + n_2 * p_2 - n_2 * C + S}{n_1 + x * n_2}$$

LHS=2550.75 RHS=2562.49 (LHS< RHS)

Hence, deal was preferable for TCS Shareholders.

b) **Analysis from the point of the shareholders of CMC**

- The shareholders of B will accept this merger only if the following condition is satisfied:

$$p_2 \leq \left(\frac{n_1 * p_1 + n_2 * p_2 - n_2 * C + S}{n_1 + x * n_2}\right) * x + C$$

LHS=1987.05 RHS=202.437 (LHS>>RHS)

• When the shareholders of A perceive no synergy in the merger, (i.e., S=0), the maximum swap ratio that is acceptable to the shareholders of A is given by p2/p1.

• As we will see shortly, if there is no synergy in the merger, then the minimum swap ratio that is acceptable to the shareholders of B is also given by p2/p1.

• Hence in a merger when there is no synergy, the only exchange ratio that will be acceptable to the shareholders of both the companies is given by p2/p1.

Hence, deal was not preferable for CMC Shareholders. However, the shareholders were probably convinced that merging with TCS will fetch good returns in the future.

6. CASE 2: CULTURAL IMPACT JAGUAR TATA DEAL

6.1 JAGUAR'S HISTORY

William Lyons and William Walmsley founded the Swallow Sidecar Company in 1922. They adopted the name Jaguar for one of their cars for the first time in 1935, the SS Jaguar. After the war they changed their name to Jaguar, mostly because the acronym SS was associated to the war and Nazi Germany. In those years the British government incentivized companies that exported in countries with a strong currency with favourable prices on steel and aluminium, so Jaguar started selling also in the USA. In those years Jaguar also had a lot of success in car racing, especially in the 24 hours of Le Mans.

The '60s were a very good period for growth. In 1961 the famous E-Type was launched and the company acquired Daimler and Coventry Climax. After these acquisition Jaguar started building also limousines and Daimler became the logo of the more luxurious Jaguar cars. At the end of the decade Jaguar's ownership passed to the British Motor Corporation.

6.2 ACQUISTION BY FORD

Originally, Ford bought Jaguar to enter the luxury car market, which was expanding heavily at the time. Also, it wanted to expand even further in the European market, being already the largest US manufacturer in Europe. The years under Ford were not very good. Ford was tempted to use Jaguar's high profile image to challenge Mercedes and BMW, and thus started launching some lower priced cars. An example is the Jaguar X-Type, which was based on the Mondeo. It had front wheel drive, a wide choice of diesel engines and a station wagon version. The results were very bad because these features ruined Jaguar's image. Ford originally paid $2.5 billion for Jaguar, in 1989, and $3.3 billion for Land Rover, in 1999. It sold both to Tata in 2008 for $2.3 billion. Just from this data one can figure out that buying Jaguar wasn't a great deal for Ford.

6.3 CULTURE AT JAGUAR UNDER FORD

When Jaguar was under Ford ownership, Ford had a very hierarchical and bureaucratic structure. This meant also that there were too many people working for the company. There was a very strong role culture, where people had very defined jobs and little room for movement. Role culture isn't necessarily negative, but it works better in stable environments.

Since changes require lots of approval, it's very badly suited for periods of crisis, where fast reactions and flexibility are very important. Inside the company, competition for promotion was very high, and depended more on ties and acquaintances, rather than actual performance. Managers focused too much on their career and too little on customers. This meant that there was very little information sharing between departments, and problems were often hidden, since looking good was the most important thing. During meetings, managers usually attacked each other, looking for ways to gain an advantage on them. The objectives of these meetings was self-preservation, and nothing was usually solved. These characteristics also permeated to Jaguar, where there was also a robust role culture.

6.4 TATA'S ACQUISITION

It was in this environment of global economic crisis that Tata made a $2.3 billion offer to Ford to buy Jaguar and Land Rover in 2008. This was an important turning point also because it showed how quickly things change in the modern world: nobody expected an Indian company to become the owner of two of the most important car brands in the world. Ford sold Tata because of its decision to focus on its core business, which based on their forecasts, would've had to be turned around in two years' time. Also, JLR had always been a dog, in the sense that it never provided a profit to the parent company.

6.5 TATA'S CULTURE

The Tata group comprises over 100 operating companies in seven business sectors: communications and information technology, engineering, materials, services, energy, consumer products and chemicals. The group has operations in more than 80 countries across six continents, and its companies export products and services to 85 countries. The total revenue of Tata companies, taken together, was $100.09 billion in 2011-12, with 58 percent of this coming from business outside India. Tata companies employ over 450,000 people worldwide. Every Tata company or enterprise operates independently. Each of these companies has its own board of directors and shareholders, to whom it is answerable. There are 32 publicly listed Tata enterprises and they have a combined market capitalization of about $89.53 billion, and a shareholder base of 3.8 million.

Tata, for being such a large global conglomerate, has a unique working culture and set of values. Every new employee joining Tata has to sign the Tata Code Of Conduct (TCOC), which has to be strictly followed. In reality, almost every multinational in the world claims it follows certain ethical principles, however few follow the as well as Tata does.

TCOC's 25 clauses give workers guidelines on how to behave regardless of issues regarding cases of national interest, financial reporting, competition, government agencies, gifts and donations etc. In short, it provides a roadmap on how business should be conducted. For Tata, the respect of these rules is very important. In fact, it places officers in every company owned by the conglomerate to ensure that the code is followed. A lot of awareness programs are also run often.

Tata also takes seriously employee well-being. It favors job security rather than high salaries. Usually, not everybody agrees that this system is a good one, however this is how the company has always operated and results so far seem to show that Tata's system works. Furthermore, employees have very good retirement and pension schemes, as well as other benefits such as welfare checks.

6.6 SWOT ANALYSIS - TATA

6.6.1 Opportunities:

1. Demand of luxury automobiles in growing markets like India and China
2. Support from Jaguar in Technology
3. Complete product line with addition of luxury brands
4. Access to European and American Market

6.6.2 Threats

1. Volatility in market driven by new products
2. Strong presence of competitors like Mercedes, BMW, Lexus and Infinity
3. Receding sales and brand image
4. High interest rate Investment riskier and costlier

6.6.3 Strengths

1. Tata's strong management capability
2. Strong monetary base to invest
3. Synergy due to Corus, TACO and TCS
4. Experience in growing market like India
5. New product development and brand building experience

6.6.4 Weaknesses

1. Inexperience in handling luxury automobile brand

6.7 SYNERGIES

One of the main reasons that push companies to merge is the possibility to obtain synergies to reinforce the competitive position. In this case, there was great potential for new synergies. In particular, they would arise with some of the companies held in Tata's portfolio. The companies in question were: Tata Steel, TACO and TCS.

- Tata Steel (part of Corus group, also owned by Tata), is a multinational based in London, which produces steel. It's the second largest European steel producer.
- TACO (Tata AutoComp Systems Limited) is another company owned by Tata, specialized in the provision of products and services in the automotive industry.
- TCS (Tata Consultancy Services) is an Indian multinational information technology services, business solutions and consulting company headquartered in Mumbai.

Tata Motors stood to gain on several fronts from the deal.

- The acquisition would help the company to enter in to the high-end premier segment of the global automobile market.
- Tata also got two advance design studios and technology as part of the deal. This would provide Tata Motors access to latest technology which would also allow Tata to improve their core products in India,
- The cost competitive advantage as Corus was the main supplier of automotive high grade steel to JLR and other automobile industry in US and Europe. This would have provided a synergy for TATA Group on a whole.
- In the long run TATA Motors will surely diversify its present dependence on Indian markets (which contributed to 90% of TATA's revenue). Along with it

due to TATA's footprints in South East Asia will help JLR do diversify its geographic dependence from US (30% of volumes) and Western Europe (55% of volumes).

Apart from these advantages, Tata also managed to lower its operations costs considerably. For example it acquired numerous new technologies saving a lot of money in R&D expenses. Furthermore, the costs of manpower were also reduced, by outsourcing it from India to Britain and vice versa. For instance, off shoring engineering services to India was one ways money was saved. So, did these synergies work? Tata Steel anticipated that the combined entity would save $450 million in production, procurement, financing, and other synergies over the first three years after the acquisition.

6.8 CROSS BORDER CULTURE

On paper, the merger between Tata and JLR seemed very complicated. JLR came from 20 years of Ford ownership, a company whose culture and values differ deeply from Tata's. People at Jaguar will be very familiar with American business practices, and shifting to Indian ownership will be an interesting challenge for everyone involved in the company. For Tata, understanding Jaguar both from a corporate and national cultural point of view will be fundamental, considering also the huge amount of M&A's that fail during the integration phase.

In order to be successful, communication will be very important, and Tata will have to maintain clear and open channels with all layers of the newly acquired company. Information is very important, especially in periods of abrupt change, and having a workforce which receives it in the correct manner can make or break a venture such as this one. Information must not only be between the top managements of the two companies, but must be flowed to everybody involved. Managers must consider that although effective communication is the best way to keep the workforce calm and efficient, changes such as this one take time to digest, and employees will not be able to understand immediately the new objectives and orientation of the organization.

It’s important that both of the parties involved understand each other’s way of doing business. Cultural factors worth understanding are those regarding levels of formalization, centralization, tolerance of risk, decision making processes etc. Perceptions of time are too worth consideration. While Indians like to take time before discussing business, by meeting as many employees as possible to develop relationships, the British like to get things done more quickly

Another essential element is the one regarding employees and the human element in general. In the end, it’s them that have the greatest impact on a merger’s outcome. To ensure that everybody is rowing in the same direction, choosing the right leaders is essential to ensure that people feel like they are being taken care of. Failing to understand the importance of the effect of changing cultures on employees can easily lead to failure. Tata seems to be well prepared to face these challenges. As we’ve previously seen, they focus very greatly on employee well-being. They publicize greatly their equality and fairness, and these attributes can be very useful in this merger.

Problems faced by Tata Motors due to acquisition of Jaguar Land Roar

<u>Problem 1:</u> Lack of access to credit to repay the bridge loan of US$3 Billion. Tata Motors was facing problem in cash liquidity and have negative working capital after the acquisition of JLR. Besides, the debt ratio had increased over the five years and they have negative interest coverage which these show that the company was having problem in paying the bridge loan.

A bridge loan is a short-term loan that is used until a person or company secures permanent financing or removes an existing obligation. This type of financing allows the user to meet current obligations by providing immediate cash flow. The loans are short-term (up to one year) with relatively high interest rates and are backed by some form of collateral such as real estate or inventory.

Tata Motors was finding it difficult to access credit and raise fund from the stock market due to the tight liquidity conditions, depressed stock market and lack of investors’ confidence. Besides, lacking of working capital has caught them into trouble to repay the bridge loan of US$ 3 billion which used to finance the acquisition of Jaguar and Land Rover (JLR). The bridge loan was due on June 2009 and yet at the end of the year 2008, the company was able to repay only US $ 1 billion.

Problem 2: Global financial crisis has severely impacted the global automobile industry especially the luxury cars segment Subprime mortgage crisis has caused the demise of Lehman brothers which later lead to the collapse of the global financial sector and further deepened the global financial crisis. The result of this demand of automobile is also decrease. The Company's export was declined by 38.6% during the year 2009, due to the meltdown in major international markets

Problem 3: Increasing materials and fuel prices have slow the demand of vehicles Due to the impact of tighter money supply with higher interest rate, there will be meteoric rise in fuel and materials (e.g.: steel, tyres) price. High fuel price has caused Tata Motors to feel the heat of slowing demand. Decrease in sales volume and increase in cost as well as bearing the increment of short term debt would easily kill Tata Motors.

Problem 4: Share price dropped drastically and affect its global image As the debt market was frozen, Tata Motors turn to the equity market to raise fund. But the share prices of Tata Motor is also significantly decrease due to uncertainty of acquisitions success and global crises which result even in decrease in net profit and EPS (Earning Per Share) of company

6.9 A SUCCESS STORY

After Tata's acquisition, JLR returned to be a profitable company. Data from 2012 released by JLR, shows that in the period between the 1st of April 2011 and 31 of March 2012, profits increased of £445 million.

Key metrics - IFRS

(£ millions, unless stated)	Quarter Ended 31 March 2012	2011	Change	Year Ended 31 March 2012	2011	Change
Retail volumes ('000 units)	99	67	48%	306	241	27%
Wholesale volumes ('000 units)	98	66	48%	314	244	29%
Revenues	4,144	2,735	1,409	13,512	9,871	3,641
EBITDA	**605**	**375**	**230**	**2,027**	**1,502**	**525**
EBITDA %	14.6%	13.7%	0.9 ppt	15.0%	15.2%	(0.2)ppt
Profit before tax	**530**	**299**	**231**	**1,507**	**1,115**	**392**
Profit after tax	**696**	**261**	**435**	**1,481**	**1,036**	**445**
Free cash flow (1)	342	183	159	958	876	82
Cash	2,430	1,028	1,402	2,430	1,028	1,402

1 cash from operating activities after investing activities

The Telegraph published an article that stated that after tax profits for 2013 were of £1.5 billion, another record. A major factor for these results is the growth experienced in China, where sales increased by more than 80%. Jaguar increased sales by 5% worldwide, in most part thanks to the launch of the 2.2L XF. In reality, the increase in profits of the group is more the merit of Land Rover, which increased sales by 33% thanks to their new Evoque SUV.

To keep up with demand, the group is constructing a new engine plant in Wolverhampton. Furthermore, it's expanding its existing ones and is building new facilities in China to deal with demand in the local market

Another thing that Tata did correctly was to invest in the right areas. Numerous new engineers were hired, and the objective was to improve the research and development areas. The new focal area of business was now innovation and renovation, not just cost control. Another important thing to consider is the fact that the company was left completely independent. This is a general tendency of Tata when it acquires new companies. Of course, India was a colony of Great Britain just decades ago, and probably strong interferences wouldn't have gotten a lot of approval at JLR.

6.9.1 Cultures changes promoted by Tata:

- To think entrepreneurially. Everybody is encouraged to think about the company as their own and act accordingly.

- To pursue excellence. Jaguar cars must be as good as they can possibly be, and for this to be possible employees must apply high standards to everything involved in their work.

- To focus on performance. Energy must be focused on Jaguar Land Rover in such a way that it performs to the maximum as a unit.

7. CONCLUSION

Our world isn’t the same that it used to be, and we don’t know as well what the future is holding for the next generation. However, certain processes appear to repeat themselves, although with different features. The case of Tata Motors and JLR

appears to be consistent with such a statement. The company set a new aim of creating cars of a higher standard and quality, giving prestige back to the brand. New ambitious goals were set. For example, management wants to raise production from 250000 in 2011 to 750000 units within 10 years. Tata motors decision of acquisition criticise on the ground of time of deal that is changing economic situation of the world.

Post-acquisition due to slowdown in domestic and world economy demand of commercial as well as passenger vehicle decreased. Tata motors major revenue is coming from commercial vehicle before acquisition. This acquisition will help the company to develop its brand in luxury passenger vehicle. The opportunity came to Tata motors for the acquisition is also the result of economic downtrend. Ford was ready to sale these two iconic brand at half of its price which is at the time of acquisition paid by Ford in 2005.

Such distress sale by Ford is an opportunity for Tata motors to become globalise and enter into premium class passenger vehicle which may not possible as early in other case. Tata motors strength that is their managerial competencies along with experience of large market like India, great brand and financial base help them to take such strategic decision. Fall in domestic market demand may change their strategy to move to growing countries like china is also the strategic decision taken towards the fulfilment of strategic intent of company. Tata motors now develop its brand value in world because of this successful acquisition and growth of these two companies.

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