CHAPTER 8

A STUDY OF INDIAN CASES OF M&As

8.1 Introduction

8.2 The Reliance Industries Ltd. and Reliance Petroleum Ltd. Merger.

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8.4 Reliance Industries Ltd’s Acquisition of Indian Petrochemical Corporation Ltd.

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8.1 INTRODUCTION

Indian industries have been undergoing structural changes in the post-liberalization period. Competitive pressures are high not only due to deregulation but also due to globalisation. As a part of the restructuring programme, the first merger wave in India is underway in the second half of the 1990s. The total number of M&A deals in 1999-2000 was estimated at 765, which was 162 per cent higher than the total number of estimated deals in the previous year (292). What is noticeable during 1999-2000 is the rise in the number of approvals in each month of the year (average of around 64), as compared to the months in the previous year (average number 24). Along with the rise in the number of M&A deals, the amount involved in such deals has risen over time. During 1999-2000, M&As were worth Rs.36, 963 crore, which was 130 per cent higher than the amount of M&A deals in the previous year (Rs. 16,070 crore). The total number of mergers in 1999-2000 was 193, which is 141.3 per cent higher than the total number of mergers in 1998-99 from the limited available data, it appears that mergers account for around one fourth of total M&A deals in India. It implies that takeovers or acquisitions are the dominant feature of M&A activity in India, similar to the trend in most of the developed countries.

Various Indian cases of M&As have been discussed below to get a better understanding of these strategic moves.
8.2 THE RELIANCE INDUSTRIES LTD. AND RELIANCE PETROLEUM LTD. MERGER

8.2.1 Introduction

On 1 March, 2002, the Ambanis announced a merger of their two biggest out-fits: the Rs. 30,962 crore Reliance Petroleum Ltd. (RPL), an oil refining company, and its parent, the Rs. 28,00 crore Reliance Industries Ltd. (RIL). The move seemed logical. Petro-chemical giant RIL brought its raw materials from RPL and, sometime soon, RPL will source crude from RIL’s oil exploration activities. So why not merge RPL into RIL?

There are broadly two sets of reasons that explain the merger. The first is government regulation-led, the other strategic. Of course, they finally meet to create an overwhelmingly stronger balance sheet for RIL.

RIL was set up by the legendary Shri Dhirubhai Ambani. Starting from cloth business, he pioneered the backward integration of Reliance to fibre, then to petroleum refining culminating in oil exploration in 2001. In the mean time, there was forward integration with Vimal showrooms and organized retailing by Reliance. RPL was set up in 1999–2000 at Jamnagar housing the world’s largest grass root refinery. With eight group companies, four manufacturing facilities (Hazira, Jamnagar, Naroda & Patalganga), nationwide distribution facilities, eight brands, six lines of business and 34,000 retail outlets across India, Reliance Industries after its merger became the first Indian company to enter the Fortune 500 Company list and ranked 426 out of 500. Its operations capture value addition at every stage from producing crude oil and gas to polyester and polymer products and are vertically integrated to the production of textiles. Reliance has one of the largest marketing networks in Indian industry. All its brands are market leaders. In 1995-96, it entered the telecom industry through a joint venture with Nynex, US. Subsequently, it has ventured into the power sector by acquiring Bombay Suburban Electric Corporation, into Infotainment with Reliance Infocom, biotechnology with Reliance Life Sciences.
8.2.2 Chronology of Events

EVENT 1 - Friday, March 01, 2002 (3:52:56 PM)

Reliance to consider amalgamation of Reliance Petroleum

A meeting of the Board of Directors of Reliance Industries Ltd. will be held on March 03, 2002 inter alia, to consider a proposal of the amalgamation of Reliance Petroleum Ltd. with the Company pursuant to a scheme of amalgamation under Sec 391-394 of the Companies Act 1956. The scheme shall be placed before the Board of Directors for its consideration and approval. The aforesaid amalgamation shall be subject to necessary approvals including those of the Board of Directors and requisite majority of the shareholders of both, the company and RPL, as also sanction of the High Court of Judicature at Bombay and the High Court of Gujarat at Ahmedabad.

EVENT 2 - Monday, March 04, 2002 (9:39:57 AM)

RIL Board approves amalgamation of RPL

- Reliance Industries has informed BSE that at the meeting of the Board of Directors of the company held on March 03, 2002, the proposal for amalgamation of Reliance Petroleum Ltd. ("RPL") with the Company was considered-&-approved.

- The proposed Scheme of Amalgamation provides that the amalgamation will take effect from the Appointed Date i.e. April 1, 2001. All assets, liabilities and obligations of RPL will vest in the Company with effect from the said Appointed Date.

- The Scheme of Amalgamation approved by the Board of Directors of the Company envisages a share exchange ratio of 1 (One)-equity share of the face value of Rs 10/- of the Company for every 11 (Eleven) equity share(s) of the face value of Rs 10/- each of RPL.

- The Scheme of Amalgamation is, inter alia, subject to the approval of the shareholders of the Company and RPL and the High Court of Gujarat at Ahmedabad and High Court of Judicature at Bombay.
EVENT 3 - Monday, March 04, 2002 9:56:00 AM

RPL Board approves amalgamation with RIL

- Reliance Petroleum Ltd. has informed BSE that at the meeting of the Board of Directors of the company held on March 03, 2002, the proposal for amalgamation of the Company with Reliance Industries Ltd. ("RIL") was considered and approved.

- The proposed Scheme of Amalgamation provides that the amalgamation will take effect from the Appointed Date i.e. April 1, 2001. All assets, liabilities and obligations of the Company will vest in the RIL with effect from the said Appointed Date.

- The Scheme of Amalgamation approved by the Board of Directors of the Company envisages a share exchange ratio of 11 (Eleven) equity share of the face value of Rs 10/- of the Company for every 1 (One) equity share(s) of the face value of Rs 10/- each of RIL.

- The Scheme of Amalgamation is, inter alia, subject to the approval of the shareholders of the Company and RIL and the High Court of Gujarat at Ahmedabad and High Court of Judicature at Bombay.

EVENT 4 - Friday, March 15, 2002 (11:02:40 AM)

Reliance Industries to seek shareholders approval for amalgamation of RPL

Reliance Industries Ltd. has informed BSE that the Hon'ble High Court at Bombay has directed Company to hold a General Meeting of shareholders on April 08, 2002 to consider & approve the scheme of amalgamation of Reliance Petroleum Ltd. with the company.
RIL’s shareholders approve RPL-RIL merger by 99.95 per cent

- The equity shareholders of Reliance Industries Ltd. (RIL) on April 08, 2002, approved the merger of Reliance Petroleum Ltd. (RPL) with RIL at their meeting convened under the orders of the High Court of Mumbai.

- The resolution was passed with an overwhelming majority representing 99.95 per cent in value of members present and voting.

- The resolution was supported by all categories of shareholders, including international and domestic, institutional investors, and retail investors.

- Based on announced results of RIL and RPL for the first nine months of the financial year 2001-02, as capitaliza (for comparative purposes only and not by way of indicative figures), the merger will create India’s largest private sector Company, on all major financial parameters:

1. Sales of Rs 5,80,000 million (US$ 11.8 billion) – representing nearly 3 per cent of India’s GDP.

2. Cash profit of Rs 68,000 million (US$ 1.4 billion).

3. Net Profit of Rs 40,000 million (US$ 0.8 billion) – representing nearly 30 per cent of the total profit of all private sector companies in India.

4. Net worth of over Rs 2,80,000 million (US$ 5.7 billion).

5. Total assets of Rs 5,50,000 million (US$ 11.2 billion).

- The merger will give RIL the unique distinction of becoming India’s first private sector company to feature in the internationally tracked Fortune Global 500 list of the world’s largest corporations. In addition to the above the merger will rank RIL amongst the top energy and petrochemicals companies globally.

SOURCE: - All events, their dates & times have been taken from the Bombay Stock Exchange website. The following is the link to the announcement section in their website: http://www.bseindia.com/qresann/announce.asp
8.2.3 Motivation for the RIL-RPL Merger

1. Tax & Pricing Benefits, & Interest Cost Savings:

As of April 2002, RPL and sold almost half of its produce to oil PSUs; the balance is exported or sold to RIL. RIL acquires a bulk of its raw material requirement from RPL and has to pay sales tax on it. The transfer prices of intra-Reliance sales were at the market going rate. The merger will eliminate the impact of sales tax on these sales. RPL enjoyed a 7-year Tax holiday would accrue to RIL even after the merger. There are substantial gains to be had from the absence of sales tax and the tax holiday.

RPL had a debt of Rs 70-80 billion, while RPL had two debt instruments of non-convertible debentures — Rs 10 billion and Rs 50 billion. While RIL has triple-A rated credit rating, RPL has double A-plus credit rating. The slightly lower rating and consequently relatively higher cost for RPL would change to a higher AAA+ for the entity post-merger and lower the borrowing costs. The merged entity would then be entitled to savings of 50-100 basis points. The merged entity could refinance Rs 60-70 billion of existing loans, through fresh loans at a lower rate.

2. Creditworthiness & Financing of Reliance Industries into New Ventures:

CRISIL had indicated and reaffirmed AAA and P1+ credit ratings for RIL and had placed RPL's then existing AA+ credit rating on rating watch, with positive implications. The proposed merger thus would result in accretion of over Rs 13 billion to RIL's profit and acquisition of facilities valued over Rs 210 billion. Moreover, there had been a proposal to divest 12 per cent of the merged entity's equity held by Reliance associate companies through strategic sale to investors or to place it in the international market through ADR/GDR. This would have helped the merged entity to rake in around Rs 5,400 crore.

The most prominent of RIL's new ventures were as follows:

• RIL held 45 per cent stake in Reliance Infocom, which was setting up a nationwide broadband network to provide fixed line, wireless, national long distance, and
international long distance telephony, as well as a range of data and value added services, on a nationwide basis, and a projected capital outlay of Rs 25,000 crore.

- Reliance has entered the field of biotechnology. A stem cell laboratory had been set up in Mumbai in 2001.
- RIL also had a 26 per cent equity holding in Reliance Telecom.
- RIL had opened a representative office in China in March 2002. Though Reliance management had categorically mentioned that it had no plans of setting up manufacturing facilities in the short term, such an event was quite likely in the long term.
- RIL had also bid for Dabhol Power Company, even when BSES, in which RIL had a significant stake, had already bid for it. RIL management had stated that while power was the domain knowledge expertise of BSES, 'Gas is the domain knowledge expertise of RIL and since DPC's assets include both, both companies bid for it.'

The post-merger RIL's strong cash flows was to make it far easier to fund these ventures through internal accruals, or new loans if need be.

3. PSU Disinvestments & Future Acquisitions:

In May 2002, BPCL and HPCL, the two PSU oil firms were to come up for disinvestments. The capitalization of Indian Petrochemicals Corporation Ltd. (IPCL), in which Reliance had expressed interest, was also to come up by April 2002. Considering specifically of HPCL, acquisition of HPCL would give Reliance access to the loss-making Mangalore Refinery and Petrochemicals Ltd. (MRPL), in which the AV Birla group has evinced an interest to exit.

A relook at the IBP divestment would show that a substantial premium for acquiring higher stakes and substantial higher valuations in the subsequent divestment of the other oil PSUs. Based on the IBP divestment price of Rs 1,551 per share, financial analysts had pointed that the value of bids in HPCL and BPCL could be as high as Rs 18,000 crore and Rs 15,000 crore, respectively.
Clearly, the stakes were high and the finances required were huge. Lining up funds was logical in this case. The merger would definitely lead to reduced cost of borrowings as well as better cash flows.

To this effect, Reliance had made two important announcements. First, that it envisaged to monetise an aggregate economic value of over Rs 5,400 crore through divestiture of 12 per cent of the merged entity's equity decided to keep aside part of the shareholding in a Trust is to capitalize it at a later date when it is the right time to do so. Thus the reduction of promoters' holding in RPL from 44 per cent to 34 per cent would not lead to reduction in capital. Infact, the Trust system would provide flexibility to the company as and when it decided to raise funds for its future acquisitions.

4. Economic Reforms & Marketing Prowess:

The 2002 Government Budget had announced that from April 1, 2002 the administered price mechanism (APM) for the petroleum sector would be dismantled. This meant that most price and distribution controls on companies in the sector would be lifted. The ongoing economic reforms process, apart from the APM dismantling also involved the continued progress in hydrocarbon sector reforms and deregulation, the government's decision to grant marketing rights for the transportation of fuels to the private sector and the proposed Capitalization of public sector oil companies. Refineries such as those of RIL would as of April 2002 be allowed to enter petroleum retailing.

RPL marketed its products through PSU oil companies. With the APM dismantled, RIL needed assured outlets for its products. It had the option to set up its own network. The cost of setting up a countrywide retail network was estimated at Rs 8,000 crore and at least four years to establish a significant marketing presence in the country. This would be more expensive and time consuming. Again, a delay would allow the competition to steal a march.

BPCL with 4500 outlets and HPCL with 4600 outlets have an established marketing network. Acquisition of HPCL/ BPCL would enable Reliance to make greater sales in the domestic retail market (where the margins are higher than in exports) at more favourable terms. It would also prepare RPL to face the challenges of MNC oil giants like Exxon, Shell and others posed by India's oil sector deregulation.
5. Synergy from Vertical Integration:

There were significant benefits of scale, complete integration, cost efficiencies and productivity gains to be had from vertical integration. Reliance's product as of April 2002 ranged from synthetic fibers, fiber intermediates and petrochemicals to polymers and its operations include oil and gas production. RPL operations had stabilized and the benefits of cost-efficiency and productivity gains that come from integration could be had only though a merger between RIL & RPL. RPL's refinery at Jamnagar was as of 2002 highly cost-efficient: its capital cost was about 30 per cent less than that of any comparable refinery set up elsewhere in Asia. The high level of sophistication of the unit made possible greater levels of value-addition and ensures higher refining margins than most of RPL's peers. RIL had a dominating presence in petrochemicals, a downstream area. All that the company needed for complete integration was a refinery. The merger of RPL filled that gap. RIL's assets included 25 offshore and onshore, deep and shallow water blocks of oil and gas exploration and production acreage, covering an area of over 1.75 lakh square km., 30 per cent interest in the producing oil and gas fields at Panna, Mukta and Tapti.

The merger therefore, would not only be able to avail of the synergies of integration that would follow the merge, but would also lead to optimization of fiscal incentives offered by the APM dismantling and Tax holiday enjoyed by RPL.

6. Creation of a Global Giant Corporation:

This merger ranked RIL amongst the top 30 energy and petrochemical companies globally based on net profits and amongst the top 50 based on sales. Reliance after the merger would have:

- The world's fifth largest refinery & Asia's largest refinery at Jamnagar.
- The second largest producer in the world of polyester filament yarn/polyester staple fibre.
- The third largest producer of paraxylene.
The fourth largest producer of purified terephthalic acid.

The sixth-largest producer of polypropylene.

India's first private sector Fortune Global 500 Company (Rank 426 out of 500).

8.2.4 Impact of Merger on Industry & Rivals

The Indian Private Oil Giant:

The merger of RIL and RPL formed the country's largest-ever private sector company. The combined entity was at the time of merger valued at Rs.59,572 crore and the company with over 35 lakh shareholders making it the third-most widely held company in the world. This merger created India's only world scale, fully integrated energy company with presence in oil and gas exploration and production, refining and marketing, petrochemicals and textiles. The following table shows the extent of the size the merged entity will possess.

**TABLE – 8.1**

Size of the Merged Entity of RIL & RPL

(Rs. In Crores)

<table>
<thead>
<tr>
<th></th>
<th>RIL</th>
<th>RPL</th>
<th>MERGED ENTITY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES</strong></td>
<td>24,520</td>
<td>33,996</td>
<td>51,016</td>
</tr>
<tr>
<td><strong>NET PROFIT</strong></td>
<td>2,856</td>
<td>1,692</td>
<td>4,548</td>
</tr>
<tr>
<td><strong>EQUITY</strong></td>
<td>1,053</td>
<td>5,202</td>
<td>1,396</td>
</tr>
<tr>
<td><strong>NET WOTH</strong></td>
<td>14,765</td>
<td>8,727</td>
<td>23,492</td>
</tr>
<tr>
<td><strong>BOOK VALUE</strong></td>
<td>140.2</td>
<td>16.8</td>
<td>169.3</td>
</tr>
<tr>
<td><strong>E. P. S. (Rs.)</strong></td>
<td>27.1</td>
<td>3.3</td>
<td>32.6</td>
</tr>
</tbody>
</table>

Domestic Market Dominance:

The merger made the merged entity's Jamnagar refinery with a 25 per cent share in domestic refining capacity as well as a domestic market share of 53 per cent in fibres and 50 per cent in plastics.

Redefined Industry Structure:

The resultant industry structure would have, as of April 2002 one block of private sector monolith (RIL-RPL) competing with another block of public sector megalith (with the government then considering the merger of ONGC, GAIL and IOC), and possibly a third block of multinational force.

New Bidder in Disinvestment of Oil PSU:

With the disinvestments of PSU oil majors, Hindustan Petroleum Corporation Ltd. (HPCL) and Bharat Petroleum Corporation Ltd. (BPCL) just around the corner, it was the moment to gear up against any multinational, and possibly public sector, especially IOC in taking over the government's stake in these PSUs. The Reliance Group would definitely have an edge over other oil companies in the bidding process though analysts felt that multinational oil company Shell, which is one of the strongest company in the race for the two domestic oil companies would give Reliance stiff competition. This is likely to make the acquisition price for both PSUs steep, and accordingly the combined balance sheets of RIL and RPL will provide the Reliance group with the capability to raise the required funds (estimated at Rs.7, 000 crores) for the acquisitions.

Huge Economies of Scale for Reliance & Financial Strength:

The following table compares the strength of RIL-RPL vis-à-vis the existing players in the petroleum sector. The table compares the players in terms of market capitalization.
TABLE – 8.2

Comparison of different players in the Petroleum Sector

(Rs. in Crores)

<table>
<thead>
<tr>
<th></th>
<th>SALES</th>
<th>NET PROFIT</th>
<th>MARKET CAPITALIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>RIL</td>
<td>51,016</td>
<td>4,548</td>
<td>42,836</td>
</tr>
<tr>
<td>IOC</td>
<td>1,11,419</td>
<td>2,116</td>
<td>13,732</td>
</tr>
<tr>
<td>HPCL</td>
<td>45,012</td>
<td>484</td>
<td>10,658</td>
</tr>
<tr>
<td>BPCL</td>
<td>39,805</td>
<td>636</td>
<td>9,578</td>
</tr>
<tr>
<td>ONGC</td>
<td>22,357</td>
<td>6,070</td>
<td>34,094</td>
</tr>
</tbody>
</table>

Source: http://www.outlookmoney.com/scripts/

Thus, although Reliance's post-merger turnover is barely 25 per cent that of 3 oil marketing PSUs IOC, HPCL and BPCL put together, its net profit and market capitalization are higher by 40 per cent and 26 per cent, respectively.

8.2.5 Conclusion

Having established itself in the energy sector (oil, gas and petrochemicals), the group has now invested in new areas like telecommunications and insurance. It also wants to create or buy an existing marketing infrastructure to retail its refinery products, and set up vending outlets in airports. All this is estimated to cost the company a whopping Rs. 49,000 crore over the coming five years. A stronger balance sheet gives the Ambanis the strength to take on such projects easily. These new areas are also long gestation businesses. The last few years have witnessed plenty of mergers and acquisitions happen globally in the oil, gas and petrochemicals industry. This merger, therefore, keeps space with those trends.
8.3 INDIAN RAYON’S ACQUISITION OF MADURA GARMENTS

8.3.1 Introduction

The Acquirer Indian Rayon and Industries Ltd.

Indian Rayon and Industries Limited, a flagship company of the Aditya Birla Group, is among India’s top 25 corporations with a turnover of over Rs. 15 billion. Incorporated in 1956 by Morarji J Vaidya for the production of rayon filament yarn, Indian Rayon & Industries was taken over by Aditya Birla. India Rayon is a leader in its key business – Viscose Filament Yarn, Carbon Black, Insulators and Branded Apparels – both in India and internationally.

The Target-Madura Garments

Madura Garments is the garments division of Madura Coats, one of the largest textiles companies in India. The division was started in 1989. Incorporated as Madura Coats on 31st July 1974, Coats Viyella India (CVIL) got its present name with effect from 4th June 1993. The company has collaboration with the promoter company - Coats Viyella, UK, which has a 51.52 per cent stake in the company. CVIL is in the area of textiles which includes the conversion of natural and synthetic fibers into yarn and threads, and the designing of fabrics. Its major products are yarn, threads, consumer fabrics and industrial textiles. Madura Garments had annual sales of about Rs. 250 crore in 1999 and has historically enjoyed a robust sales growth of over 40 per cent for the last five years. It has also been achieving export of about Rs. 25 crore per year. Madura Garments has a strong national distribution coverage through about 100 exclusive showrooms and over 3000 retail outlets.

Other Contenders

1. Arvind Mills

Arvind Mills (AML), the flagship company of Lalbhai Group was incorporated in 1931. It is currently the largest denim manufacturer in the world. The company with both international and local brands is one of the leading players in the domestic ready-to-wear garment industry. The company has the rights to market international brands such as
Arrow, Lee, Flying Machine etc in India. The company has also owns popular brands such as Newport, Ruggers, Excalibre and Ruf & Tuf.

2. Indus League Clothing

Indus League Clothing is floated by ex-Madura Garments president Mr. Sriram Srinivasan and eight other ex-employees. Its brands are Indigo Nation, Ironwood and Scullers. It is a private holding company.

8.3.2 Chronology of Events

Following is the chronology of events leading to the acquisition of Madura Garments by Indian Rayon and Industries Ltd. As the following chronology shows, the acquisition was completed in a short period without any major announcements. It seems that the acquisition was intended to be kept a secret but the information somehow got in to the market.

Dec 17th, 1999 - Kumar Birla in talks to buy three Madura Coats brands

The AV Birla Group seems to be in talks with Viyella plc of the UK to acquire the Allen Solly, Van Heusen and Louis Philippe clothing brands in India. The acquisition price is believed to be about Rs. 250 crore.

Dec 18th, 1999 - Grasim, Madura Coats clarify plans to NSE

Grasim Industries on 17.12.99 informed the National Stock Exchange (NSE) that it had no immediate plans to acquire new clothing brands. The letter to the exchange was in response to reports that Grasim was in talks with Viyella Plc of the UK to acquire 3 clothing brands which are presently controlled by a division of Madura Coats.

Dec 18th, 1999 - Arvind, Indus in fray for Madura brands.

Garments majors Arvind Garments and Indus League are in a race to acquire Madura Coats’ retail and distribution business, including its premium Louis Phillipe, van Heusen, Allen Solly and Byford brands for Rs. 250 crore to 300 crore.

The Bangalore-based Indus League, set up by former Madura executives, is reported to have bid to the entire retail business. The company is understood to have
mandated ICICI Securities to bid on its behalf. Arvind Garments, the company formed by hiving off the retail clothing business and brands belonging to Arvind Mills, has also decided to bid for Madura Coats’ retail business.

Dec 20th, 1999 - Indus League joins race to bid for Madura Coats brands

Indus League Clothing, is floated by ex-Madura Garments president Mr. Sriram Srinivasan and eight other ex-employees.

It seems that Indus League Clothing, is open about the acquisition – it is open to taking over the entire garments business of Madura Coats or acquiring the premium brands. It is also agreeable to a franchise arrangement.


Indian Rayon & Industries has acquired Madura Garments, the readymade garment division of Madura Coats and the brand rights as a going concern for Rs. 236.23 crore. The boards of both the companies separately approved the transaction on December 21, 1999.

Madura Garments goes to Indian Rayon for Rs. 236 crore.

Dec. 28th, 1999 - Madura Coats to seek shareholders’ nod for garment unit sell-off on January 24.

Madura Coats has decided to convene an EGM on January 24, 2000 to seek the shareholders’ nod to sell the garments business to Indian Rayon & Inds.

Jan 25th, 2000 - Indian Rayon completes acquisition of Madura Garments.

Members of Madura Coats approved the sale of Madura Garments to Indian Rayon and Industries.

Source: The above chronology has been cited from various sources like Economics Times, Hindu Business line, Business Standard, Financial Express
8.3.3 Motivation for Acquisition

1. Expanding portfolio of Aditya Group

The announcement of acquisition of Madura Garments was the second acquisition of Aditya Birla Group in the last seven days and the fifth in the last two years. The second acquisition was that of Leaning Bytes International.

Amount the five acquisitions, the first two acquisitions were in the cement industry, and one in the pulp industry. The takeover of Madura Garments and Learning Bytes International were milestones in the groups' efforts to build a value chain as readymade service and solution providers by using intellectual properties after taking a leadership in the Indian mutual fund industry.

Apparently, the top business group of the country was in the acquisition phase in order to expand its reach across different business. This phase marked the beginning of the group’s expansion into the Indian business scenario.

2. Restructuring exercise

Indian Rayon has made a fine attempt at restructuring its portfolio, repositioning itself higher up the value chain. The company is a diversified conglomerate with a presence in viscose filament (VFY), worsted synthetic and flax yarns, readymade garments, insulators, carbon black and argon gas. After existing from cement business, the company has made a bold move to foray into the retail market, signaling its move up the value chain. It is imperative for the readymade garments division to grow if the company is to experience any real growth. Acquiring Madura Garments helped Indian Rayon fight its biggest weakness - a commodity conglomerate with saturated growth and low realizations.

3. Access to global brands

The acquisition will make Indian Rayon a major player in the branded apparel industry in India. The deal of acquisition entails rights to six Coats Viyella brands –
Louis Phillipe, Van Heusen, Allen Solly, Byford, Peter England (with the exception of UK and Ireland) and SanFrisco.

In a separate transaction, Aditya Vikram Global Trading House Limited, a wholly owned overseas subsidiary of Indian Rayon, purchased from Coats Viyella PLC the technology and exclusive brand rights for various countries in SAARC and Middle East region for a consideration of $ 10.8 million (Rs 470 million). Indian Rayon acquired the Madura Garments division as a going concern with all its employees for Rs 189.23 crore along with the brand rights for India.

While announcing the acquisition in Mumbai, Kumarmangalam Birla, Chairman of Aditya Birla Group, had said that the acquisition of Madura Garments will greatly enhance value for Indian Rayon shareholders. Consequent to the review of the company’s portfolio of business, the apparels business had been identified as a business that it wanted to have a leadership position in, through a focused entry into the high-value ready-to-wear segment.

The acquisition of Madura Garments and certain overseas brand rights was a step forward in this direction, which has overnight catapulted the group to the top-of-the league in the branded apparels sector, Birla had said.

The deal for brands of Coats Viyella will help Indian Rayon export branded garments in these territories by leveraging India’s well established skill base in the textile industry, using state-of-the-art technology obtained from world’s leading garment manufacturers as well as the exclusive right to use globally renowned brand names in the region. Importantly, this will enable Madura Garments access export markets and widen its growth plans.

4. Big potential market for branded apparel

At that time of acquisition, the industry was expanding fast. The business was expected to be exciting largely due to changing consumer preference for readymade garments, changing lifestyles and better purchasing power. A lot has been happening. Markets were getting bigger and bigger and the awareness was increasing. There has also been a shift from those who would not normally think of wearing readymade clothes...
shift from the traditional sari and cut-piece suit to more branded readymade clothing. New brands were proliferating. Ready-mades seems to be the direction that everyone in the textile business is taking.

5. Synergy

On the major portfolio move, the management of Aditya Birla Group feels the Madura Coats and Indian Rayon have a common shared vision of creating value for all stake-holders. The garments division has had an exemplary performance record and Indian Rayon was committed to grow it further. It was a virtual entity, leveraged on intellectual capital, operating on a lean working capital and has evolved an excellent business model of manufacturing through strategic partnerships. This is in sync with the group’s new philosophy of increasing its focus on value-adding sectors which are knowledge-intensive.

6. Cost Advantages

Indian Rayon is already in the textile business. When merged with its existing structure, the company will save a lot. These are significant advantages especially when the competition is hotting up. The cost-advantages of these factors could give Indian Rayon the edge vis-à-vis other players over a period.

7. Management talent

The Aditya Birla Group perceives the management of Madura Garments as good for its excellent management skills, which it wants to leverage. The strength of the brands, the richness of people talent in the business, and its intellectual capital base, were considered as the greatest assets in this business’ growth.

Birla stated that the Madura Garments business would continue to run as before with retention of all the employees who have built this business. In effect, he said, there will be no change in its operations on account of change in ownership, and we will only further facilitate the growth of this business by adding value through critical inputs of capital, and leadership.
8.3.4 Impact of the Acquisition on the Industry

Readymade garment is a part of the textile industry that consists of fabrics, made-up, yarn, thread, fiber, woolen textiles, silk textiles and readymade garments. Readymade garments account for about half of India's textile exports. The structure of the readymade garment industry is complex as much as it is diverse. It is highly fragmented and a large part of it is unorganized. The two markets, domestic and international, have their own issues. The products are poorly classified and the distribution systems ill-defined, making strategies and data difficult to evaluate.

At 70 per cent, the men's clothing segment accounts for the largest share of the branded apparel market. Listed and unlisted player caters to the branded apparel market. There are a small number of listed players, such as Madura Garments, Raymond Apparel (a Raymond subsidiary), Bombay Dyeing, Arvind Mills, Pantaloon and Zodiac Clothing. Popular unlisted players include Colour Plus, Indigo Nation, Provogue and Weekender and newcomers such as Indian Terrain and Wills Lifestyle (promoted by ITC).

With this acquisition, the Aditya Birla Group emerges as India's largest branded apparel company. Though one of the big players in the textile business, the Aditya Birla Group, so far, has not been able to make any impact in the branded segment of the premium menswear market. It did not have any premium brand in its portfolio. Branded garments have been an important part of the growth plans. Building its own brands would have taken a considerable amount of time as well as money. Hence a brand acquisition was the obvious answer. Hence the acquisition has made it possible for the group (Indian Rayon) to make a significant presence in this premium market.

Moreover, Indian Rayon was a manufacturing company, making a myriad range of products. Grasim was the one which had a long history of brand names in the textiles business, as Grasim and Gwalior Rayon.

Now, the situation has changed so much that Grasim is being positioned as an umbrella brand. All the key shop-level brands are with Indian Rayon – Louis Phillipe, Van Heusen, Byford and Peter England, to name a few. Today, the group has a presence in the readymade garments sector with such plus points as:
• A set of brands across the range of price levels.

• A well-entrenched distribution network from the Grasim and the Madura garments fold.

• A geographic presence that covers most key markets in India.

The branded apparel industry is likely to witness a lot of activities with the acquisition. Before the acquisition, Madura Garments already had a 330 per cent share of the readymade garments industry and is a leading player. Indian Rayon will try to get bullish in the ready-to-wear (RTW) Indian market. Madura Garments is planning to operate in the mass market by offering ready-to-wear shirts at reasonable price. Its popular brand ‘Peter England’ is doing well in the Indian market.

The RTW segment is growing at a tremendous pace and Madura Garments is expected to add to this pace by offering wider range and varieties in the future for both the men’s and women’s wear. The strategy will be to go deeper in both these segments whereby thus increase the company’s presence in all categories of wears.

One of the major issues facing the market is that there are not enough good players that can translate into higher quality garments. Increased competition will only engender innovation and research – now sadly lacking in the industry.

Clearly, within the organized segment, it is brands that will ultimately hold sway over customer companies emerging stronger in the future. With a plethora of choices available to the customer, companies are all the more keen to establish points of differentiation that would set their brands apart. The future potential of the readymade garments market lies in companies trying to change consumer perception and help them make a transition from tailor-made clothes to ready-to-wear clothing. This requires investment in infrastructure to increase quality and design and also advertising – brand management.

The move by Indian Rayon is indicative of the bandwagon effect wherein fabric-manufacturing players are moving up the value chain of fabric industry. Many fabric manufacturers have branched in to the retail business e.g. Raymond and Bombay Dyeing. They control the entire value chain, from the production of fabrics to making and finishing of end product.
With fabric manufacturers turning to branding and retailing, the industry structure is going to be affected in a big way. Economies of scale and competencies will be the key to the any company's survival in the textile sector. Smaller players will find it difficult to survive in the highly dynamic environment. Cannibalisation, acquisition, consolidation as also mill closure will be the course that the industry is expected to take in the near future. There are signs of more and more acquisition of the textile business lading to a consolidation within the industry. Acquisition will take place of brands like in the apparel segment, this process will also see many existing textile manufacturing companies emerging stronger in the future.

8.3.5 Conclusions

The acquisition of Madura Garments by Indian Rayon was the most significant event in the readymade garments industry in the year 2000. The acquisition sort of stirred the industry players and generated lot of activity. Acquisition of the leading readymade garments division saw Arvind Mills and Indus League Clothing. The time frame during which the acquisition was finalised is very short and events occurred at a short time. The acquirer, Indian Rayon was to get maximum benefit from the acquisition. Apart from acquiring top global brands, the company has added to its portfolio a division which can contribute to its bottom line growth.
8.4 RELIANCE INDUSTRIES LTD'S ACQUISITION OF INDIAN PETROCHEMICAL CORPORATION LTD.

8.4.1 Introduction

The disinvestment of IPCL considered a "Navratna" or among the nine jewel PSUs of India created over the last year enough ruckus not only in the stock markets but also among the political corridors in the capital. Though the Government had decided 'in principle' on the disinvestment of IPCL through a strategic sale long ago in December'98, the process did not go ahead given the numerous conflicting and politically sensitive interests. It was only in November 2001 that the Central Government decided to renew the process for disinvestment of IPCL by going in for sale of a 51 per cent equity stake, of which 26 per cent would go to a strategic partner. The balance 25 per cent equity would be sold in the market later, giving the first right of refusal to the strategic partner.

UBS Warburg was appointed the global advisor to assist the government in the transaction. They were assisted by Pathak & Associates as legal advisors and Deloitte, Haskins & Sells as asset valuers. UBS Warburg performed the valuation of shares in IPCL by adopting four methods, namely, Discounted Cash Flow, Adjusted Balance Sheet, Comparable Companies and Adjusted Asset Valuation. The Evaluation Committee, a part of the Ministry of Disinvestments recommended the reserve price of Rs. 845 crores for 26 per cent equity (or Rs.131 per share) on the basis of the discounted cash flow methodology, as this was considered the most appropriate valuation methodology for a going concern.

Potential investors submitted their expression of interest in IPCL in December 2001. Three short-listed parties - Reliance Petroinvestments Ltd.(a subsidiary of RIL and a special purpose vehicle created to bid for public sector companies that come up for divestment), Indian Oil Corporation Ltd. (IOCL) and Nirma Chemical Works Ltd. completed the due diligence exercise and finally submitted their financial bids on 29th April 2002.

On 18th May 2002, Reliance was announced the winner of this hotly contested disinvestment. The cabinet committee on disinvestment (CCD) cleared the sale of 26 per
cent equity and management control of IPCL to Reliance for Rs. 1,491 crores or Rs. 231 per share, which was at a premium of 74 per cent to IPCL's last traded share price. IOCL had offered Rs. 128 per share (Rs. 826 crore for 26 per cent stake) while Nirma offered Rs. 110 per share (Rs. 711 crore). As per the Securities and Exchange Board of India (SEBI) regulations, Reliance also had to make an open offer for further 20 per cent stake in the company at Rs. 231 per share, the same price at which it acquired the government equity. This offer, which was open from July 24th 2002 to August 22nd 2002, was oversubscribed 1.76 times. The open offer costed Reliance another Rs 1,147 crore in addition to the Rs 1,491 crore paid for acquisition of government's stake, taking the total acquisition cost to Rs 2,638 crore. On 4th June'02, Reliance formally assumed control of IPCL with Mukesh Ambani taking over as the chairman of the company. The exact chronology of events is highlighted below.

8.4.2 Chronology of Events

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 16th 98</td>
<td>Government in principle decides for the disinvestment of IPCL through strategic sale.</td>
</tr>
<tr>
<td>Nov 13th 01</td>
<td>The Central Government decides to renew the process for disinvestment of IPCL by going in for sale of a 51 per equity stake.</td>
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<tr>
<td>Dec 01</td>
<td>UBS Warburg is appointed by the government as global advisers for the privatization of IPCL.</td>
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<tr>
<td>Jan 3rd 02</td>
<td>Three bidders for IPCL - Reliance, IOC and the Nirma group begin due diligence process.</td>
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<tr>
<td>Feb 6th 02</td>
<td>IPCL's top brass met RIL, which the industry views as an aggressive bidder for IPCL, over sale of government stake and made a presentation to its officials regarding offloading the government's 25 per cent in IPCL, which is scheduled this year.</td>
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<tr>
<td>Date</td>
<td>Event Description</td>
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<tr>
<td>Feb 13th 02</td>
<td>Government announces that Reliance will not to be barred from bidding for IPCL, putting a lid on reports that Reliance group might be questioned for its bidding in IPCL as this would lead Reliance to becoming a monopoly giant in petrochemicals.</td>
</tr>
<tr>
<td>Feb 16th 02</td>
<td>Government announces that it may sell off 26 per cent stake in IPCL this fiscal and complete the disinvestment process by end of March 2002.</td>
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<tr>
<td>Feb 17th 02</td>
<td>IOC chief requests government to keep Reliance out of IPCL sell off on monopoly grounds or allow them to bid for HPCL and BPCL. However, the Ministry of Disinvestment has dismissed the claims of IOC, saying that monopoly issue could not be raised in a manufacturing unit like IPCL, where the Union government could play a market intervention role through adjustment in customs duty.</td>
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<tr>
<td>Mar 11th 02</td>
<td>The privatization of IPCL has hit a roadblock as ONGC has refused to supply gas to IPCL as per the existing contract after its sell-off.</td>
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<tr>
<td>Mar 23rd 02</td>
<td>Privatization of IPCL may be delayed because of the charge-sheet filed by the Central Bureau of Investigation (CBI) against three senior officials of the Reliance group and hence speculations are being raised whether Reliance would be debarred from bidding for IPCL.</td>
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<tr>
<td>Mar 26th 02</td>
<td>The Government announces that the Reliance group will remain in the race for the take-over of IPCL, as it does not think that the guidelines for disqualification of bidders apply in this case.</td>
</tr>
<tr>
<td>Mar 28th 02</td>
<td>The privatization of IPCL received a boost on Thursday with petroleum &amp; natural gas minister Ram Naik and disinvestment minister Arun Shourie sorting out the contentious issue of pricing the IPCL feedstock.</td>
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<tr>
<td>Date</td>
<td>Event Description</td>
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<tr>
<td>Apr 2nd 02</td>
<td>Mr. Shourie announces that the pricing formula for the supply of gas by ONGC to IPCL has been settled except for a small fraction and will be finalized the following day. Following that, the government will call financial bids for IPCL.</td>
</tr>
<tr>
<td>Apr 3rd 02</td>
<td>All the roadblocks for the privatization of IPCL have been cleared with the ministries of petroleum &amp; natural gas, chemicals &amp; fertilizers, and disinvestment agreeing on the pricing formula for the supply of feedstock to the petrochemical giant.</td>
</tr>
<tr>
<td>Apr 6th 02</td>
<td>The Government will invite financial bids for the privatization of IPCL next week.</td>
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<tr>
<td>Apr 16th 02</td>
<td>ONGC decided, in principle, to join hands with IOC for a joint bid for IPCL. Following this decision by the IOC and ONGC, Reliance is unlikely to bid for IPCL because the hugely cash-flush ONGC has the potential to change the equations completely.</td>
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<tr>
<td>Apr 17th 02</td>
<td>Reliance expresses serious reservations if ONGC teamed up with IOC for the bid.</td>
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<tr>
<td>Apr 19th 02</td>
<td>The Government to allow ONGC to bid for IPCL.</td>
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<tr>
<td>Apr 29th 02</td>
<td>ONGC gets into pact with IPCL for feedstock supply clearing the road for invitation of price bids for disinvestment in IPCL.</td>
</tr>
<tr>
<td>May 16th 02</td>
<td>Indian Oil Corporation (IOC), Reliance Industries Limited (RIL) and the Nirma group submitted their price bids to acquire the government's 26 per cent equity and the management control of IPCL. IOC submits the bid on its own now there is a strong possibility of it joining hands with ONGC at a later stage.</td>
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Bids for the privatization of IPCL were opened by disinvestment secretary Pradip Baijal at the inter-ministerial group (IMG).
meeting, in the presence of representatives of the three bidders but the prices were not disclosed to the bidders, who were told that the committee of secretaries (CoS) will now take up the bids at its meeting, where the final decision will be taken.

May 18th 02
The cabinet committee on disinvestment (CCD) control of IPCL to Reliance.

Jun 4th 02
Reliance has formally assumed control of IPCL with Mukesh Ambani taking over as the chairman of the company and reconstitution of the board to include 12 directors including, six Reliance nominees, two from government and four independent directors.

Aug 7th 02
US-64, the flagship scheme of the Unit Trust of India (UTI), is likely to offer its entire holding of 1.85 crore shares or 7.45 per cent of the total equity of IPCL in the open offer made by Reliance at Rs 231 per share.

Aug 22nd 02
Of the 40 per cent public shareholders, 38 per cent have tendered their shares in favor of Reliance in the open offer of 20 per cent shares. The offer was over subscribed by 76 per cent.

Aug 29th 02
Reliance will return 3.77 crore shares of the 8.74 crore shares which it received in response to its open offer to acquire 20 per cent stake in IPCL by September 2.

Source: The above chronology is based on the series of announcements in The Financial Express about the event. Each event found a mention in the paper, the following day and the articles were found browsing through the archives of the online version: http://www.financialexpress.com.
8.4.3 Motivation for the Acquisition of IPCL by Reliance

Local market dominance

Following the acquisition, Reliance would control a significant position of the Indian market for all kinds of petrochemical products. Reliance Industries Ltd. can build a formidable market share of 50-95 per cent in six product segments. Its market share in polymers (LLDPE/HDPE, PVC and PP) goes up to nearly 75-80 per cent. In the MEG segment, it will be commanding 95 per cent, while in LAB and ethylene oxide, its market dominance will rise to about 50 per cent and 70 per cent, respectively. However, market dominance does not necessarily translate to monopoly power on pricing of the products primarily because imports are freely allowed and the global petrochemicals industry is in an oversupply position which means free and cheap availability of products.

Growing domestic market

The country's market for petrochemicals is currently growing at roughly 15 per cent per year against an international growth rate of 5 per cent. India is expected to soon become the third largest market for petrochemicals in the world after China and the US. With the acquisition of IPCL, Reliance's petrochemicals production increases by 12 per cent from 11.50 million tonne to over 12.80 million tonne per year, while turnover goes up by Rs 5,200 crores. By further consolidating its position and maintaining its lead position in this growing market, Reliance can hope to be catapult into the big league of petrochemical producers like Dow Chemicals, Borealis, BP Amoco and Basell.

Synergy

A critical factor for Reliance to consider IPCL is the tremendous synergy opportunity. The acquisition could potentially improve profitability of both the companies due to enhanced benefits of scale, integration, operational synergies, logistics advantages, increased global competitiveness, cost reduction and efficiencies and productivity gains. Reliance would also be able to save large sums on account of greater product mix flexibility in use of feedstock (naphtha and natural gas) and catalysts, one of
the most expensive ingredients used in the production of petrochemicals, over five manufacturing units: its two units at Patalganga and Hazira and the three IPCL facilities at Vadodara, Nagothane and Dahej. The group would be able to improve its logistics in marketing and distributing products and be able to better coordinate capacity utilization. Also, the sharing of research and development capabilities would improve product development, processing and application of polymers.

Access to engineering and managerial talent to IPCL

IPCL can benefit from Reliance's financial engineering skills, its ability to access capital at the most competitive terms and to optimize financial costs, as well as leverage its Reliance's capabilities of achieving optimal plant capacity utilization through operational efficiencies and low cost de-bottlenecking of capacities.

Entry barrier to domestic and global players in the home market

The Reliance-IPCL conglomerate could create formidable entry barrier to potential new entrants, be it domestic or global. If, on the other hand, IOCL had acquired the 26 per cent in IPCL, it would have been the second largest player and thereby offered stiff competition to Reliance. In the recent past, the Middle-East region have created huge capacities with a significant cost advantage derived through feedstock and financing costs and is targeting Indian markets. Reliance acquiring IPCL is a move to strengthen its position in the local market and pose a credible threat.

Consolidation to face Global competition

The acquisition is also a strategic investment for Reliance in the light of the global trend of consolidation in the petrochemicals sector. IPCL's cost competitiveness will enhance Reliance's ability to capture world markets and service the global customer base. However, even after the IPCL acquisition, RIL will remain a marginal player at the global level with combined capacities of less than 3 per cent.
Personal ambition of "The Family"

A strong personal aspiration of the legendary Dhiru Bhai to create a global petro-giant is also a motivating factor for the acquisition of IPCL by Reliance. He had been eyeing IPCL too long to let it slip out of his hands. He was well known for his driving inherent urge to win his battles. Having lost out earlier in its bids to acquire stakes in IBP to IOCL and VSNL to the Tata group, Reliance could no longer afford mistakes this time. DhiruBhai is supposed to have made the following message to his sons Mukesh and Anil just days before the bids for IPCL. "Reliance is known for winning. But, today doubts are being cast over our ability to win (after losing out in the race to acquire IBP and VSNL in the disinvestment process). Doubts are being raised by our shareholders, employees, individuals and even our well-wishers. We have to get back to our winning ways." Thus, "The Family" had a strong personal interest in this acquisition.

Free reserves

IPCL's free reserves were around Rs. 2,700 crore (more than what the Reliance paid for its acquisition), which could be used to further expansion of the business and also acquisition of other targets.

8.3.4 Conclusion

The acquisition of IPCL by Reliance is one of the typical ventures driven by the ambition/dream/fancies of a manager to make it "big", without much consideration of the shareholders who have a primary stake in the business. Whatever, the justification - synergy, global capabilities, etc, the management is offering for the acquisition, shareholders seem not much happy with the huge "emotional premium" paid in order to ensure that it gets IPCL.
8.5 CADILA HEALTHCARE LTD'S ACQUISITION OF GERMAN REMEDIES LTD.

8.5.1 Introduction

After almost three months of suspense and tons of newspaper stories, the climax was a big surprise to the market. Cadila - a company never in the race, never mentioned in any of the newspapers and not perceived to be a serious contender was buying 27 per cent stake in German Remedies at Rs. 650 per share.

This deal was one of the few instances where an Indian pharma company was acquiring a reasonably large MNC pharma company. When it had come out with it's IPO in 2000 CHL had mentioned that one of the reasons for raising the funds was to pursue inorganic growth through M&A's. Also, the market was aware that GRL was "in play", however everyone expected some other MNC pharma to complete the deal, and not CHL.

The second surprise- What is the market saying?

The bigger surprise lay elsewhere. Before the news broke out, the German Remedies stock was trading at around Rs. 520. After the announcement, the natural reaction would be for the stock to go up (the takeover price was 25 per cent above the market price). But no, the price tanked and ended the day at Rs. 482. All this when the press release issued by Cadila clearly states that they will be making an open offer for 20 per cent of the stake at the same price. Is it just a case of "buy on rumor sell on news" or was there more to it.

Critical Event:

The critical event in this deal was the announcement on April 10th, 2000 of the deal mentioned above i.e. CHL agreeing to pay Rs650 for each GRL share. This was to be followed by an open offer for another 20 per cent of the shares from the market at the same price.
This merger serves as an interesting study because this was by far the biggest merger in the pharmaceutical industry in a period of almost two years. The next few sections will dissect the exact merger transaction—analyzing the market returns to the two players and undertaking a DCF valuation of the target to assess the suitability of the deal.

8.5.2 Chronology of Events

19-Jan-2000 - Cadila Healthcare sets aside Rs. 250 cr for takeovers.

This news report came out before the IPO by CHL in 2000. Cadila Healthcare's managing director & CEO, Pankaj R Patel told The Financial Express that the company has already shortlisted two overseas companies for acquisition. Although Patel refused to divulge any details about the companies, of the two companies shortlisted, one of them he said is a relatively big company with an established manufacturing set up. The company was expected to raise close to Rs 550-600 crore from the proposed public issue. Ninety per cent of the issue was through the book building route and the balance in the fixed price form.

10-Apr-2001 - Cadila to buy 27.7 per cent in German Remedies

THE Ahmedabad-based Zydus Cadila has entered into an agreement to pick up 27.7 per cent stake in German Remedies Ltd. (GRL) at a cost of Rs 148.6 crore. As per the deal that is getting finalised, Zydus, through its wholly-owned subsidiary, Recon Healthcare Ltd., would pick up around 22.85 lakh equity shares in GRL currently held by Asta Medica AG and Heller Vermogensverwaltungs GmbH at a price of Rs 650 per share. While Zydus would infuse Rs 55.8 crore from within, it is understood from company sources that ICICI has agreed to bankroll the entire debt portion of Rs 200 crore for the acquisition. The aggregate corpus of Rs 255.8 crore emerges in the face of Zydus gearing up to making an open offer to acquire a further 20 per cent stake in GRL from the public at the same price, in accordance with the takeover code laid down by SEBI.
06-Jul-2001 - SEBI clears Zydus offer price for German Remedies

THE Securities and Exchange Board of India (SEBI) has given Zydus Cadila permission to proceed with the open offer for GRL (20 per cent) at the original offer price of Rs 650 per share. SEBI rejected a complaint filed by some minority shareholders that the price of Rs 650 offered by Recon Healthcare Ltd., a subsidiary of Zydus Cadila, to Asta Medica was not the correct negotiated price.

16-Apr-2002 - Cadila ups holding in German Remedies to 55.4 per cent

Pharma giant Zydus Cadila has increased its holding in German Remedies (GRL) by around four per cent in January-March 2002, when the price of the scrip had dipped below the open offer price available in June 2001.

11-Jul-2002 - Dull response to Zydus open offer for German Remedies

Pharma major Zydus Cadila's voluntary open offer to pick up an additional 44.60 per cent stake in German Remedies has received a lukewarm response with the company increasing its stake from 55.40 per cent to over 75 per cent. The main reason for the poor response, according to sources close to the company, is the marginal difference in the offer price and the prevailing share price. The offer price was Rs 300 a share as against the prevailing price of Rs290. The immediate fallout of the lukewarm response is that German Remedies will not be delisted as Zydus Cadila's stake via the offer is yet to touch the 90 per cent mark.

07-February-2003 - Cadila Healthcare, German Remedies share swap 7:4

The boards of Cadila Healthcare and German Remedies have approved a share swap ratio of 7:4, wherein the shareholders of German Remedies will get 7 shares of Cadila Healthcare for every four shares they hold in the company.

German Remedies' shares held by Cadila and Recon Healthcare, amounting to 77.37 per cent of German Remedies' paid-up share capital will be cancelled and extinguished, the statement said.

Source: The above chronology is based on the reports of Indian Express, Business Line, The Hindu, Business Standard, Yahoo Finance.
8.5.3 Motivation for Merger

Cadila Healthcare Limited

"Our strategy is to attain a leadership position in the Indian healthcare sector through organic and inorganic routes while enhancing shareholder value. The acquisition of German remedies would help us to build on our strength in India by consolidating five segments -- gastro-intestinal, cardiovascular, pain management, respiratory and gynaecological. I am also excited by the global sales opportunities that the international brand assignment carve out for us," Mr. Pankaj Patel, Managing Director of Zydus Cadila. (Business Line, The Hindu- Apr10, 2001)

Scaling Higher.

Zydus Cadila's acquisition of a controlling stake in German Remedies improved the firm's position in the domestic formulations market and added to its presence in newer therapeutic segments. Cadila, also acquired perpetual rights of five brands from Asta Medica namely Deriphyllin, Paractol, Ildamen, Xipamid and Beta Xipamid for Rs 52.6 crore. Since Cadila was quite cash rich the funding was not a difficult task. Only 22 per cent of GRL sales were under DPCO. In addition to this, Zydus and GRL had complementing product portfolios so as to avoid product overlapping. With this acquisition, CHL also consolidated its No.1 position in the gastro-intestinal category.

On a combined basis after acquisition, Cadila moved to fourth in the domestic formulations business from the previous sixth position. The company now stood second in terms of number of brands behind Cipla with a total of 292 brands. The biggest advantage of acquiring the five brands was getting the license for the largest brand Deriphyllin, which is among the top 50 pharma brands in India with estimated sales of Rs40 crore. Adding to this will be the access for these brands in about 63 countries to improve the export business.

Apart from the brands, this acquisition helped Cadila to make an entry into new therapeutic segments which it had no presence. These segments were gynaecology and anti-asthmatic segment in which German Remedies was quite strong. Apart from this Cadila also consolidated it's presence in other therapeutic segments such as gastrointestinal, cardiovascular, pain management and respiratory.
German Remedies Limited

German Remedies Limited had been in play for some time as a potential sell out candidate. Cadila's offer price of Rs650 was at a reasonable premium to the ruling market price. The offer to buy out 5 Asta Medica brands was an additional sweetener to the GRL stakeholders. Besides, CHL's compulsion under SEBI's takeover rules to make an open offer to acquire a further 20 per cent stake from the public shareholders of German Remedies at the same price gave an excellent exit opportunity to the existing shareholders of German Remedies.

8.5.4 Conclusion

With this acquisition CHL has become the fourth largest player in the domestic formulations market with a market share of 3.7 per cent. The very fact that the 4th largest player has a market share of only 3.7 per cent clearly illustrates the fact that the Indian pharmaceutical Industry is highly fragmented. As such, this merger would not have had a very significant impact on the industry structure. However, it does signal the future trend, which should be one of gradual consolidation and of companies searching for inorganic growth opportunities through M&As.
References:

3. Economics Times
4. Hindu Business line
5. Business Standard
6. Financial Express