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B.Com Honours | Semester VI | Calicut University

FINANCIAL ADVISORY SERVICES IN INVESTMENT BANKING

Course Code: COM6EJ316 • Module 4 Notes

Module IV: Mergers, Amalgamation, & Takeovers

Covers strategic deal drivers for M&A, legal scheme of arrangement (Sec 230-232), swap ratio valuation, negotiated vs hostile takeovers, SEBI SAST Takeover Code (25% open offer trigger), & Leveraged Buyouts (LBOs).

Unit 17: Strategic Rationale & Legal Structure of Amalgamation

M&A Deal Drivers: Revenue synergies, cost synergies, market expansion, & tax benefits. Governed by Sec 230-232 of Companies Act requiring NCLT sanction.

Unit 18: Types of Mergers & M&A Valuation (Swap Ratios)

Valuation & Swap Ratio: Swap ratio determines number of acquirer shares issued per target share ($\text{Swap Ratio} = \frac{\text{Value per Target Share}}{\text{Value per Acquirer Share}}$). Valuation methods: DCF, Comparable Companies Analysis (CCA), & Net Asset Value (NAV).

Unit 19: Acquisitions, Strategic Stakes, & Joint Ventures

Acquisition Avenues: Asset purchase, share purchase, strategic minority stake investment, or international Joint Ventures (JVs).

Unit 20: Negotiated vs Hostile Takeovers & SEBI SAST Code

SEBI SAST Regulations (Takeover Code):
- **Initial Trigger:** Disclosure required on acquiring 5% voting rights.
- **Mandatory Open Offer Trigger:** Acquiring 25% or more voting rights triggers mandatory 26% public open offer.

Unit 21: Leveraged Buyouts (LBOs) & Financial Analysis

LBO Structure: Acquisition of target company using significant proportion of debt ($70\% - 80\%$ debt : $20\% - 30\%$ equity) secured against target company's assets & cash flows.

Practical Solved Leveraged Buyout (LBO) Debt-Equity Capital Structure & Cash Flow Waterfall Problem: PE Firm acquires Target Co for Total Enterprise Value = $₹100 \text{ Cr}$. Funding structure: Senior Debt = $₹60 \text{ Cr} @ 10\%$, Subordinated Mezzanine Debt = $₹20 \text{ Cr} @ 14\%$, Sponsor Equity = $₹20 \text{ Cr}$. Year 1 EBITDA = $₹25 \text{ Cr}$. Capex = $₹5 \text{ Cr}$.
Calculate Year 1 Debt Service & Free Cash Flow to Equity (FCFE).

FCFE = EBITDA - Capex - Senior Interest - Mezzanine Interest - Senior Debt Principal Paydown

Step-by-Step LBO Financial Working:
1. Total Acquisition Cost = $\mathbf{₹100 \text{ Cr}}$.

2. Capital Structure: Senior Debt $ ₹60 \text{ Cr} $ (60%), Mezzanine $ ₹20 \text{ Cr} $ (20%), Sponsor Equity $ ₹20 \text{ Cr} $ (20%).
3. Year 1 Senior Debt Interest @ 10% = $ 10\% \times ₹60 \text{ Cr} = \mathbf{₹6 \text{ Cr}} $.
4. Year 1 Mezzanine Interest @ 14% = $ 14\% \times ₹20 \text{ Cr} = \mathbf{₹2.8 \text{ Cr}} $.
5. Operating Cash Flow (EBITDA - Capex) = $ ₹25 \text{ Cr} - ₹5 \text{ Cr} = \mathbf{₹20 \text{ Cr}} $.
6. Less: Total Interest Obligation = $ ₹6 \text{ Cr} + ₹2.8 \text{ Cr} = \mathbf{₹8.8 \text{ Cr}} $.
7. Cash Flow available for Senior Debt Amortization = $ ₹20 \text{ Cr} - ₹8.8 \text{ Cr} = \mathbf{₹11.2 \text{ Cr}} $.
8. **Ending Senior Debt Post Paydown** = $ ₹60 \text{ Cr} - ₹11.2 \text{ Cr} = \mathbf{₹48.8 \text{ Cr}} $ (Significantly reduces debt leverage).

Practical Case Framework 2 (SEBI SAST Takeover Code Statutory Triggers Matrix): Detail acquisition threshold, SEBI compliance trigger, mandatory action, and public offer size rule.

SEBI SAST Takeover Code Threshold Reference Table:

Acquisition Threshold / Trigger	Statutory Takeover Code Obligation	Mandatory Public Offer Rule
5% Voting Rights Acquired	Disclosure to Target Company & Stock Exchange in 2 days	No open offer required
25% Voting Rights Acquired	Mandatory Public Open Offer Triggered	Must make open offer for additional min 26% shares
Creeping Acquisition (25% to 75%)	Allows acquiring up to 5% voting rights per FY	Exceeding 5% in a year triggers open offer