Effect of Mergers Acquisitions Bankruptcy and Insolvency on Stock Market

Team Members

- Chaitany Aggarwal
- Shubham Gurjar
- Kandarp Solanki
- Shubhang Shanghvi

Mergers

1. Types of Mergers
2. Horizontal Mergers
3. Vertical Mergers
4. Conglomerate Mergers
5. Cogeneric Mergers
6. Reverse Mergers

Types of Mergers

Horizontal Mergers

Vertical Mergers

Conglomerate Merger

Congeneric Merger

Reverse Merger

Let’s discuss each one!

A horizontal merger is a merger occurring between two companies wherein both the companies belong to the same industry i.e their final product delivered at the customer-end is the same. This merger is a business consolidation that occurs between firms who operate in the same space, often as competitors offering the same good or service.

They do so because by merging, due to high potential gains, cutting off competitions, the foremost benefit being synergic (something extra!) value from the merger.

Eg. Company A & B - valued 100 Cr but when mergers occur Company A+B is valued maybe 250 Cr (the 50 Cr being the extra thing!). This happens due to reduced costs, increased assets, etc.

Case Study - Pepsi and Coca-Cola **OR** Disney+ and Hotstar

A vertical merger is a merger between two companies producing different goods/ services for a final product for customers. A vertical merger occurs when two or more companies/firms, operating at different levels within an industry's supply chain, merge operations.

A vertical merger will thus allow the two companies not to compete with each other but maintain a steady flow of goods in the supply chain due to the merger. Again, the main goal is synergy, the idea that the value and performance of two companies combined will be greater than the sum of the separate individual parts.

Eg. Company A manufactures some parts of automobiles and Company B assembles it, then their merger would result in a smoother supply chain. Broadly, of two types - backward and forward vertical merger.

Case Study - eBay and PayPal (2002) - To ease of transfer of payments!

Conglomerate Merger

A conglomerate merger is a merger between two companies which are totally unrelated in their business/end-product.

Why is it needed in the first place?
Reason: Diversification of the businesses, to overcome saturation in their business

No benefits as such, both companies face same competition as before in their individual arena.

Case Study - Walt Disney Company and the American Broadcasting Company

A congeneric merger is a type of merger where two companies are in the same or related industries or markets but do not offer the same products, be it the market, the technology, or the process of production

By merging, these two companies can extend their reach by marking use of both their markets

Usually, WEAK is acquired by STRONGER company, but if 2 STRONGS merge, results in even a STRONGER situation

Two congeneric mergers involve companies that have at least something in common – no matter if the service they sell is actually difficult.

Case Study - 1. Broadcom and Mobilink Telecom Inc.

2. Citicorp and Travelers Group

3. Exxon and Mobil

In a reverse merger, a private company acquires a publicly listed company. The owners of the private company become the controlling shareholders of the public company, and after the acquisition is complete, they reorganize the public company's assets and operations to absorb the formerly private company.

The term "reverse" refers to the idea of a private firm acquiring an already public company, which is the opposite of a typical IPO scenario.

Case Study - ICICI with ICICI Bank (2002)

HDFC and HDFC Bank to be merged

Sharedolders today:

Acquisitions

An acquisition is when one company purchases most or all of another company's shares to gain control of that company.

It allows the purchaser to make decisions about the acquired assets without approval of company's other shareholders.

Reasons for Acquisitions

1. As a way to enter foreign markets.
2. As a growth strategy.
3. To gain new technologies.
4. To reduce excess quantity and competition.

Evaluating Acquisitions

The market evaluates acquisitions, thus determining the change in stock price.

The various parameters for evaluating them are as follows:

1. Is the price right?
2. Examining the debt load.
3. Scrutinizing the financials.
4. Undue litigations.

1. Reduced entry barriers

2. Gaining market power

3. New competencies and resources

4. Fresh ideas and perspectives.

1. Culture Clashes
2. Conflicting Objectives
3. Brand damage
4. Pressure on suppliers
5. Poorly matched businesses.

Bankruptcy & Insolvency

Insolvency refers to a state of financial distress wherein a person or enterprise is no longer able to pay the debts when they fall due for payment.

On the other hand, Bankruptcy is a legal declaration by the court , on the failure of insolvency resolution process to settle the debts of the person.

Let’s suppose you had to pay a loan by today, but as of today you do not have money to pay it.

1. If you are expecting to have the money by tomorrow, so that you are able to repay loan, that stare of financial imbalance is **Insolvency.**

2. But, suppose you have no reason to expect money by tomorrow and have no source to pay it back in the near future, then in that case you can approach the court, where you will be claimed as bankrupt. This is an official declaration to all the creditors, that you need some time and relaxation, also depending upon how worse your conditions are.

Types of Bankruptcy

With reference to bankruptcy code of United States, there are majorly two classifications of companies:

1. Chapter 7 Bankruptcy
2. Chapter 11 Bankruptcy

Chapter 7 Bankruptcy

Also Known as the “liquidation bankruptcy” ,as the name suggests when a company finds itself in a position where there is no hope for them to repay the loan in the near future and they want an exit from all this and want to end their business then in that case thar company can apply for this type .

All of company’s goes under liquidation till the time loan gets repaid. However exempt property liquidation is relaxed .Some loans are even erased like the unsecured debts of credit cards.

Chapter 11 Bankruptcy

1. Companies filing for this type give court a power to appoint a trustee or advisor in the company’s executive board who will look after company’s operation and will ensure to handle them in a way so that loans can be repaid.

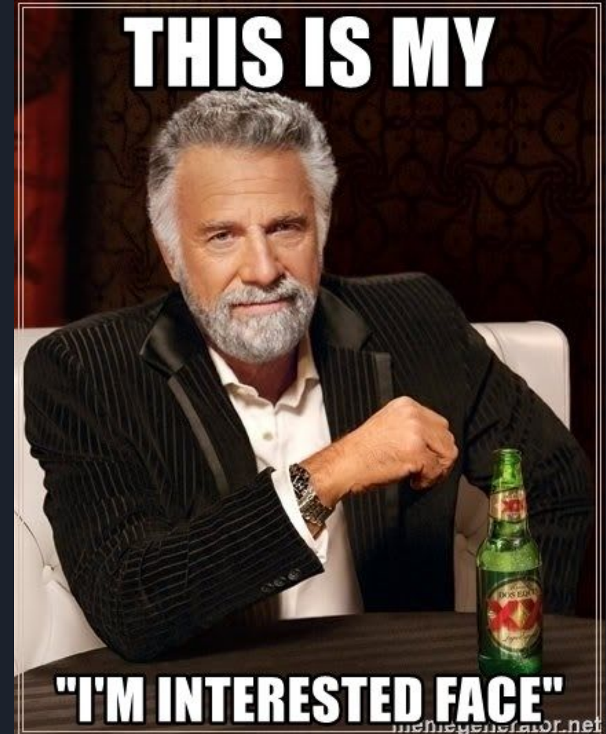
2. In this type company’s are still operating the only difference being that they have a burden of loan repayment this time .

Is Bankruptcy Bad?

1. Whenever a company goes bankrupt ,authorities running them are seen as morally corrupt and lacking management skills .
2. But this is not the case , sometimes things do not go the way they want them to go like in the recent times we have witnessed several companies going bankrupt because of losses In the covid period which was not their fault ,also sometimes people find them no longer of any use .
3. Bankruptcy come with an option to exit or starting fresh and also repaying the loans to creditor hence is good for economy .
4. Various case studies have shown that, Bankruptcy does not mean an end to the company.

Impact On Stock

1. Obviously the stock of the company will take a decline path, but investors have various options at that time.
2. They can either sell off their holdings before the situation gets worse.
3. They can wait for the issue to be resolved if the company is highly reliable from investors perspective.



- Dividends are Stopped Completely
- Equity Gets Wiped Out or
- Equity May Get Diluted
- Loss of Management Rights

Rcom

Reliance Communications Limited (**RCOM**) was an Indian mobile network provider headquartered in Mumbai that offered voice and 2G and 3G and 4G data services.

In February 2019, the company filed for bankruptcy as it was unable to sell assets to repay its debt. It has an estimated debt of US$6.9 billion in 2020 against assets worth US$2.5 billion.

History

Long before Reliance Jio, around the time when millennials were mere children, Reliance Infocomm had disrupted the telecom sector.

Reliance Communications was founded in India on 15 July 2004 as Reliance InfoComm Limited with the introduction of its nationwide CDMA2000 service.

While its rivals charged anywhere between ₹4-6 per minute even for incoming calls, RCom offered them for free with a ₹500 handset.

Acquisition of MTS India and Digi Cable:

On 1 July 2010, the board of Reliance Communications confirmed the acquisition of Digicable India's largest cable network in all-stock deal. The new entity was named Reliance Digicom, which integrated RCOM's DTH TV, IPTV.

On January 2016, Reliance Communications announced that it had acquired Sistema Shyam TeleServices Limited (SSTL, operating as MTS India) in an all-stock deal. SSTL received a 10 per cent stake in Reliance Communications after repaying its existing debt.

Reliance Communications would assume responsibility for instalments that MTS owed the government for spectrum purchases, amounting to US$63 million, every year for 10 years. As a result of the deal, Reliance acquires MTS India's subscribers and SSTL's spectrum in the 850 MHz band.

Attempted merger with Aircel:

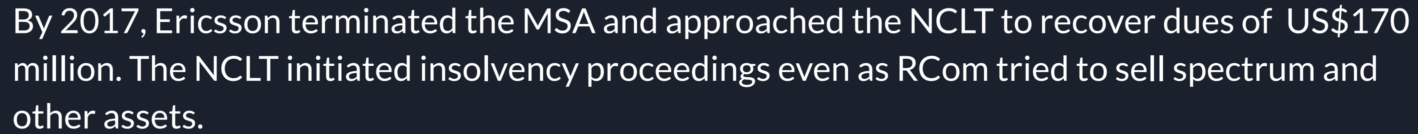
In September 2016, Reliance Communications announced Aircel had agreed to a merger. SEBI, BSE, CCI and NSE had approved the merger. Aircel and Reliance shareholders had also approved the merger, and it was expected to be completed by mid-2017.

However, on 1 October, Reliance allowed the merger agreement to lapse. The deal, which was expected to help the company repay US$3.9 billion debt, was cancelled due to delays by entrenched competition. Reliance was looking at other options to meet their obligations under the SDR agreement and avoid insolvency proceedings by banks.

Due to the failed Aircel merger, the company announced to employees in the wireless and DTH businesses on October 2017 that they would be redundant effective November and then discontinued voice services in India and provided only 4G data service.

In 2013, RCom signed a multi-year managed services agreement (MSA) with Ericsson to manage services of wireline and wireless network of 1,00,000 kilometers of fiber and mobile infrastructure in 11 circles in India.

This arrangement had a smooth business relationship until 2016, post which RCom struggled to pay the dues. This has been seen as an effect of Reliance Jio that disrupted the Indian telecom industry with its aggressive pricing after its commercial launch in September 2016 that affected all leading telecom players.



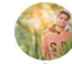
By 2017, Ericsson terminated the MSA and approached the NCLT to recover dues of US$170 million. The NCLT initiated insolvency proceedings even as RCom tried to sell spectrum and other assets.

At the same time, RCom reached out to Ericsson and agreed to pay US$82 million as a settlement with a personal guarantee from Anil Ambani on the condition of withdrawal of insolvency proceedings.

The Supreme Court reviewed the matter in 2018 and ordered RCom to pay up US$82 million to Ericsson by September. RCom failed to comply with the payment and sought an extension of 60 days to comply. Ericsson filed a contempt petition in Supreme court.

In February 2019, the Supreme Court held Anil Ambani and three others guilty of contempt of court and directed them to make payments by March.

In the meantime, Mukesh Ambani, the elder brother of Anil helped him with a bailout of US$64 million which he paid just a day before the deadline.



Tanmay Sinha ✌
@Srcastic_writer
Follow

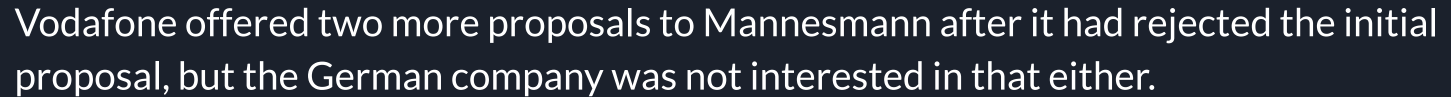
#MukeshNitaSaveAnil
Mukesh ambani to anil ambani.

Vodafone and Mannesmann (1999) - $202.8B

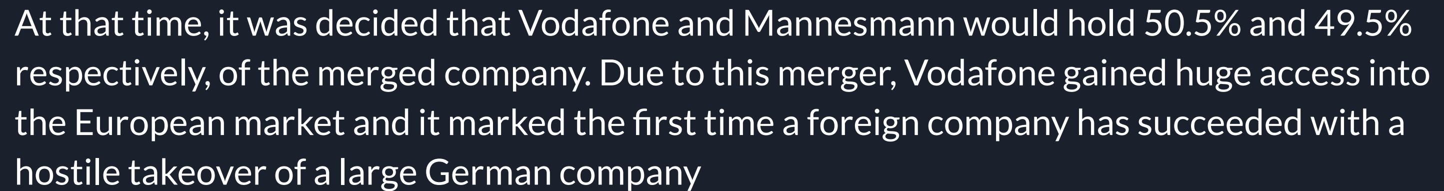
Background

As of June 2022, the largest acquisitions ever made was the takeover of Mannesmann by Vodafone occurred in 2000, and was worth ~$203 billion. Vodafone, a mobile operator based in the United Kingdom, acquired Mannesmann, a German-owned industrial conglomerate company.

This deal, that resembles a perfect example of an acquisition, made Vodafone the world’s largest mobile operator and set the scene for dozens of mega deals in the mobile telecommunications space in the years that followed. This deal goes down as the biggest acquisition in history.



finally in 2000 Mannesmann accepted the for $180 billion acquisition and the combined entity had a market capitalization of $350 billion, making the takeover largest Merger & Acquisition (“**M&A**”) deal in the history



At that time, it was decided that Vodafone and Mannesmann would hold 50.5% and 49.5% respectively, of the merged company. Due to this merger, Vodafone gained huge access into the European market and it marked the first time a foreign company has succeeded with a hostile takeover of a large German company

As the mobile market gained momentum across the globe and growth was at its peak, the larger value merger was accepted to reshape the global telecommunications landscape. But, the deal was a failure and Vodafone was forced to write off billions of dollars in the following years.

The deal between Mannesmann and Orange could not be broken down, so Vodafone was left with the only chance but to bid for Mannesmann.

Vodafone approached for a friendly offer to pay 43.7 VOD shares for each share of Mannesmann, thereby, valuing Mannesmann stock at $243.36 a share.

Mannesmann rejected the above offer and made it clear that it was not ready for the deal.

Vodafone announced its second offer to Mannesmann of 53.7 shares to 1, making the deal valued at $276.66 a share, or a 20% premium for the day.

Mannesmann claimed that it was a superior company and it should be made worth at least $417.67 (€350 per share) a share and stated that Vodafone was not the right company to merge with. Mannesmann tried every way to ignore this merger.

After a 3-month long battle, on February 3, 2000, Mannesmann shareholders accepted Vodafone’s offer.

Thus, under the terms of the revised deal, the deal was valued at a **$180.95(£224) billion** all-share deal.

The shareholders of Mannesmann got 49.5% of the merged company with 58.96 shares of the Vodafone for each Mannesmann share.

Esser was joined as an executive director at Vodafone and other four members of the Mannesmann board joined the board of Vodafone. The principal financial advisor of Vodafone was Goldman Sachs which is a multinational investment bank.

Vodafone paid about € 98 billion for the assets valued between € 110 billion and € 75 billion after divesting Orange and the non-telecom assets of Mannesmann which implied that Vodafone put the offer within the middle of the range.

There was an immediate drop in Vodafone’s stock after the transaction due to considerable dilution and the benefits from the synergies would not present themselves for some time.

On the operations side, Vodafone misjudged the steps of integrating the companies in Germany and Italy.

Vodafone marketed itself as a global company that commanded a premium over Telecom Italia Market (“**TIM**”) and charged higher prices. Therefore, the rebranding was done in phases.

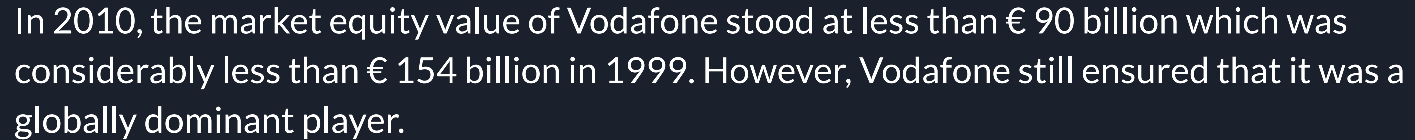
In 2010, Vodafone Italia ranked 4th in size in Europe after T-Mobile Germany, TIM, and Vodafone Germany.

Vodafone dominated as a global mobile player, having only recently surpassed in total subscribers by China Mobile whose subscribers were all domestic.

There was a **Telecom crash** which was a stock market crash in 2002 after the bursting of the dot-com bubble which was burst out in the late 1990s during which many internet companies were failed and shut down.

By the year 2005, Vodafone stock was nearly $2.78 and the market equity value of the company got dropped to less than € 100 billion.

On the other hand, the merger helped Vodafone becoming the world’s largest mobile carrier at the time and this position is usually maintained through various acquisitions and joint ventures around the globe.



Vodafone had to record significant losses amounting to $41 billion for the fiscal year 2006.

The company lost another $10 billion in the fiscal year that ended March 2007 and at the end of 2009, the company’s stock remained 37% below its peak level before the merger.

L&T Acquisition of Mindtree

Hostile Takeover

1. Friendly takeovers have been fairly predominant in the Indian Market.
2. Antithetical, to such situations , in hostile takeovers there is disagreement between the management of two companies.
3. Despite, such dissent, the acquiring company carries on the takeover thus making it hostile.
4. In order to pursue the takeover, the acquiring company may employ various strategies.

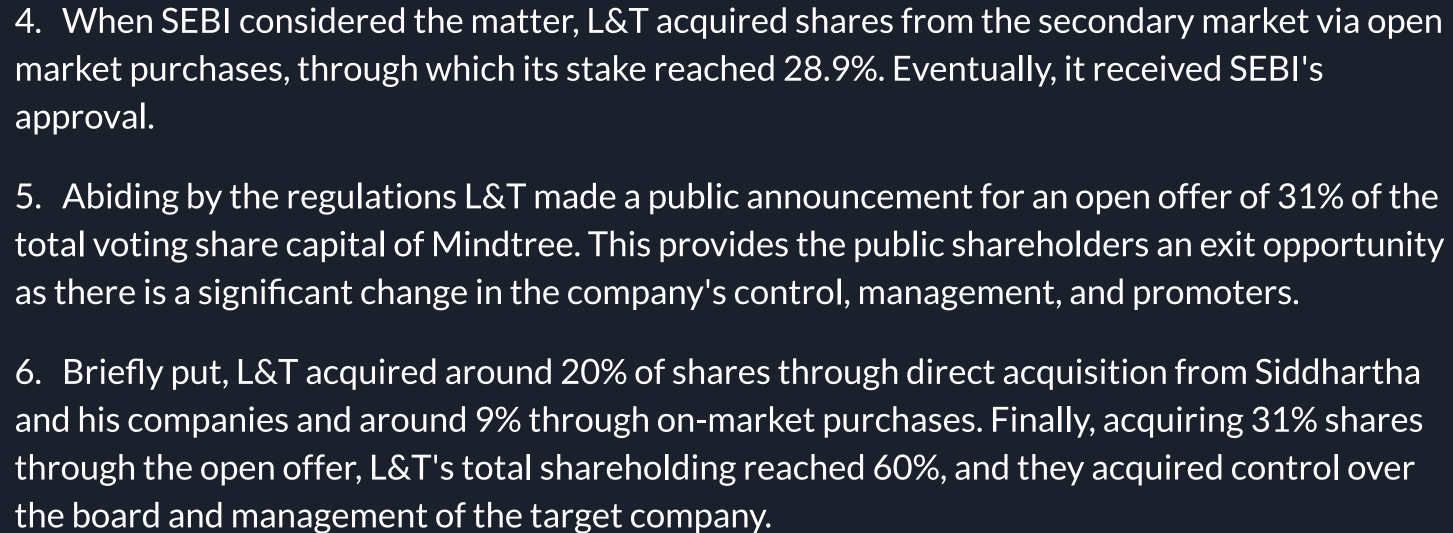
The Parties

The acquirer Larsen & Tourbo limited is a multinational Conglomerate, which is primarily engaged in providing engineering, procurement and construction solutions in key sectors such as Infrastructure, Hydrocarbon, Power, Process industries and Defence, Information Technology and Financial services in Domestic and International markets.

However, the target company Mindtree Limited, is an international Information Technology and Consulting company that delivers business solutions through global software development.

L&T’s Strategy

1. V. G. Siddhartha, the non-executive director of Mindtree and the founder-promoter of Coffee Day Enterprises ("CDE"), held individually and through his companies 20 % shares in Mindtree, whereas the promoters of the target company collectively held only 13.32 % shares in the company.
2. Since Siddhartha and his company were burdened with debt and urgently needed to liquidate his holdings in Mindtree, Siddhartha asked L&T to acquire their shares. By acquiring Siddhartha's shares in 2019 at Rs. 981/- per share, L&T's shareholding in the target company far exceeded that of the promoters.
3. L&T then made an open offer for the purchase of 31% shares. However, under SEBI regulations, a voluntary open offer could only be made by persons holding 25% – 75% voting rights in the company.



4. When SEBI considered the matter, L&T acquired shares from the secondary market via open market purchases, through which its stake reached 28.9%. Eventually, it received SEBI's approval.

5. Abiding by the regulations L&T made a public announcement for an open offer of 31% of the total voting share capital of Mindtree. This provides the public shareholders an exit opportunity as there is a significant change in the company's control, management, and promoters.

6. Briefly put, L&T acquired around 20% of shares through direct acquisition from Siddhartha and his companies and around 9% through on-market purchases. Finally, acquiring 31% shares through the open offer, L&T's total shareholding reached 60%, and they acquired control over the board and management of the target company.

1. In the letter of offer that L&T filed with SEBI, L&T mentioned that L&T's software services business under L&T Infotech would benefit from the acquisition as the aim was to deliver the best IT services globally to the clients and take the company's technology portfolio among the top tier IT companies.
2. Furthermore, L&T had accumulated sufficient cash reserves, which it believed were enough to fund the takeover. In acquiring Mindtree, L&T saw synergies with L&T Infotech, its listed group company in the IT space.
3. This acquisition was expected to expand its IT service business and increase value for L&T Infotech's shareholders.

1. The Mindtree promoters opposed the takeover.
2. Mindtree promoters released a press statement on 18th March 2019 opposing the Takeover bid of L&T, stating that it would undo all the progress made over the past two decades.Furthermore, the management was also resistant to becoming a part of a company that was culturally different from Mindtree.
3. Various reports suggest that it was a classic case of founders not being able to give up their emotional connection with the company.

1. <u>BUYBACK:</u> To avoid the Takeover the management provided a notice for considering buyback of shares. However the board decide not to proceed with it since it would not have had the desired impact of acquiring sufficient stake.
2. <u>WHITE KNIGHT:</u> A white knight is an individual or a company that acquires the target company to save it from being acquired by black knight(the unfriendly acquirer). There is no change of management when white knight takes over the target company. In the present case the promoters of Mindtree approach various private equity firms like KKR and Co. Inc., Chrys Capital, etc. But all these companies wanted a controlling stake in the company, thus none of them agreed to become white knight.