Devil's in the deal detail

India on the rise

We are living in exciting times. India is among the fastest-growing economies in the world projected to become the third-largest economy with an expected GDP of US$7 trillion by 2030–31. The market cap of stocks listed on Indian bourses is ~US$5.7 trillion, the fifth highest in the world. The deals market saw robust activity with M&A/PE deals. In Q3 2024, total deals were more than 618 valued at ~US$30 billion, marking the highest quarterly deal volume since Q1 2022.

As businesses evolve, they embark on a continuous journey of operational re-alignment/ improvement, geographical expansion, including cross-border expansion and business reorganisations through combinations/ collaborations or divestitures driven by growth aspirations, competitive landscape, industry dynamics, etc.

Towards this end, CXOs are constantly looking forward to the next level of growth and value creation. The constant theme remains – What are the levers to further enhance shareholder/ business value?

India's IPO market has been experiencing a significant surge, emerging as one of the most vibrant globally in 2024. With 258 IPOs in the first nine months of the year, raising a combined US$9.4 billion, the market witnessed a 73 percent increase in volume and a 134 percent rise in proceeds compared with the same period in 2023. The third quarter alone saw over 100 IPOs, marking the highest quarterly activity in two decades. India accounts for 30 percent of global IPOs, solidifying its position as a leading destination for public listings.

Navigating growth decisions – Key strategic opportunities

In today's business landscape, leaders face critical decisions around maximising value and driving growth. From choosing between an IPO or an M&A deal to identifying value in domestic versus international markets, each option presents unique opportunities and challenges. Here is a deep dive into strategic considerations to uncover the best pathways for value creation.

M&A vs IPO conundrum

Is IPO the best approach for value discovery/maximisation? The boom in stock markets and the resultant buzz of new IPOs certainly gives weight to this argument. Or deriving value through a private deal, whether strategic or financial, a better proposition?

IPO

No “one size fits all”

While Indian capital markets are attractive from an issuer point of view, the view needs to be holistic, especially when being evaluated as an option for a majority stake sale.

Liquidity is critical

Companies listed on the Indian bourses with a market cap of < US$500-1 billion often have limited average daily trading volume/liquidity. While block trades/market dribbles do present an attractive mode of disposal for investors/promoters looking for liquidity, feasibility is most often a function of investor interest and liquidity.

M&A

M&A post listing

Buyers usually have limited interest in acquiring listed targets, given onerous regulatory requirements. Furthermore, public market multiples are almost always at a significant premium to private markets/acquisition multiples. Deals are unlikely to happen at market multiples especially in upcycles.

Regulatory challenges –

Delisting regulations (although now relatively less so) have been onerous in India and the Indian takeover code does not allow for any compulsory squeeze-out, making 100 percent of a listed company challenging.

Each approach has its pros and cons. The decision depends on liquidity, market conditions and regulatory complexities.

Value discovery – India or abroad

The central question on this topic is regarding the “value” arbitrage across various geographies. Is it more advantageous to pursue an overseas listing, or should value be captured through an India listing? Alternatively, should one consider a dual listing?

The key financial and softer drivers that could drive decision-making are as follows:

- Which market offers better multiples – which sectors are better valued?
- Where is the underlying business/customer base/investor base located?
- Regulatory friendliness for listing and subsequent compliance
- Is the holding structure IPO-ready?
- Timeframe and costs for restructuring for being IPO ready in the relevant jurisdiction

Business focus or consolidated conglomerate?

Is value better derived in focused businesses or will a hedged consolidated business be a better value creator?

This theme has evolved over time. Historically, markets valued hedged consolidated businesses well. Over time, markets have started valuing focused businesses—the mantra is better value for "the Right Investors for the Right Businesses."

There are multiple examples where value has been substantially improved through investor-friendly structures.

Financial and ETR metrics

Financial levers, such as return on capital, return on equity, ETR and interest cost/leverage ratios are also key for identifying value opportunities. These metrics provide critical inputs on possible needs/opportunities to restructure or derive better value.

Is a capital-intensive business pulling down the valuation of an asset-light business and hence, is this an opportunity for re-alignment? Are there non-core assets that can be monetised?

Or

Is the capital structure skewed towards debt or equity, and should the manner of funding be re-evaluated?

The interplay of several business, tax and regulatory frameworks requires balancing conflicting objectives while examining value-creating opportunities.

Key takeaways

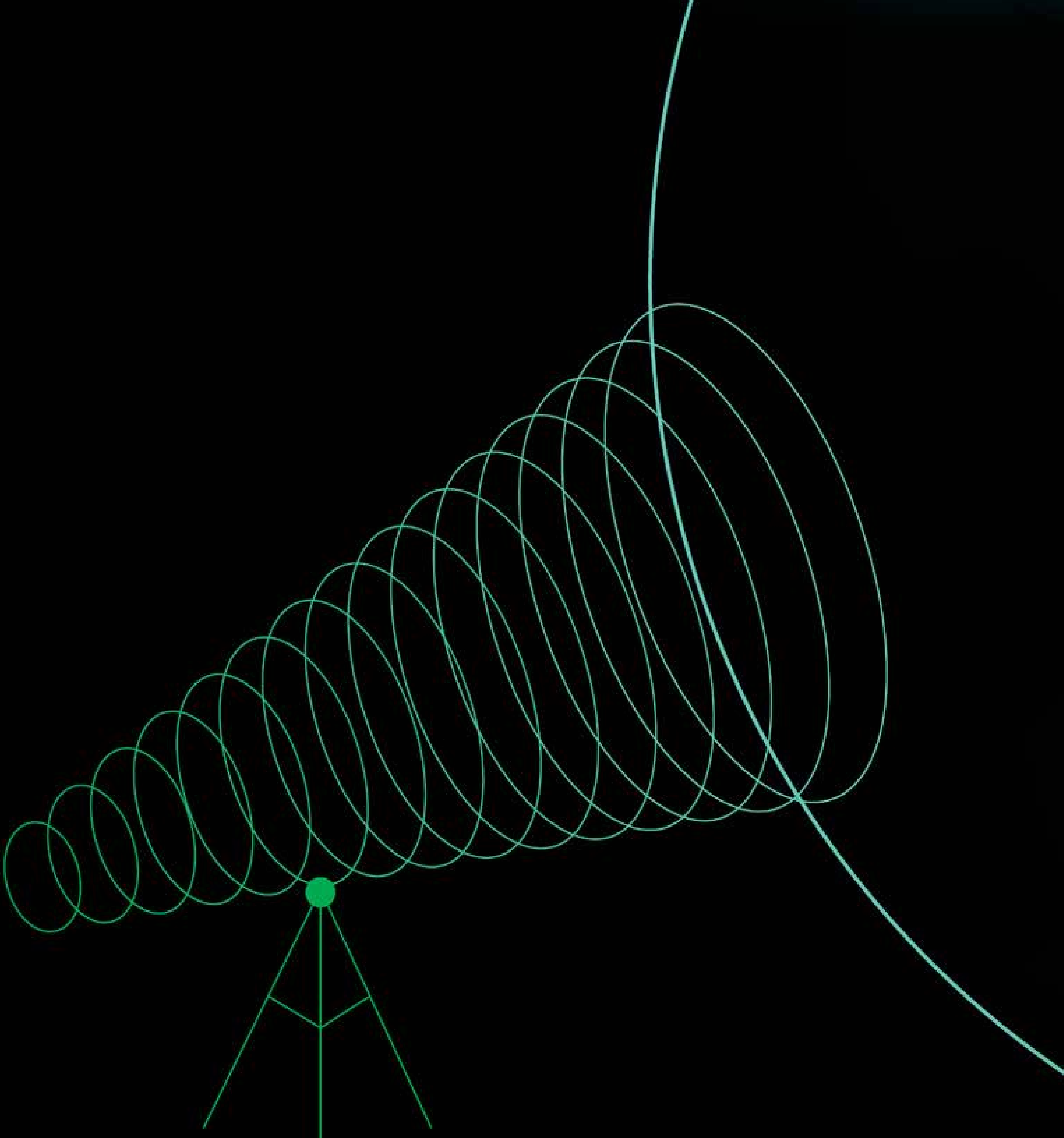
The India growth story is here to stay. M&A has traditionally been an important driver for growth and value creation and will continue to be a focal area where CXOs will spend substantial time. In addition, CXOs will need to continuously explore other value-creation opportunities that exist in the as-is ecosystem to ensure that they are able to deliver higher-than-peer benchmark value. Here are the key outcomes

- There is no "one size fits all" in the M&A vs IPO debate – the choice of option is a combination of long-term objectives of business owners, business growth trajectory, regulatory market upsides of listing vs. investors' preference for private deals, etc.

- "Right structure" for value recognition – as investors have built sector expertise/ positions and are becoming more nuanced; housing businesses through an investor-friendly structure is critical for better value.

- Global markets provide opportunities and choice of listing in different geographies. The decision is a function of "value" arbitrage balanced with the need to critically examine the regulatory/costs of having a listing-ready holding structure.

- Return evaluation on multiple levers such as return on capital, ETR, interest/leverage; presents several correction/value creation opportunities.



The way forward

In navigating the complex landscape of value creation, CXOs must embrace the challenges and opportunities that lie ahead. To effectively drive value in our respective domains, they should remain aware of the diverse opportunities. It is crucial to critically assess and evaluate the key drivers that contribute to value accretion. Additionally, finding the right balance between business objectives, tax implications, regulatory requirements and risk management will be essential for sustainable growth. Together, these strategies will empower leaders to foster a culture of continuous value creation.

"Globally, trends show that core focus is far more valuable. Value is created where businesses have their focus right – an operating/ownership structure which has the right investor theme is the way to go."

**– Vivek Gupta,
Partner, Service Line Leader,
M&A Tax and FS,
Deloitte India**

"In M&A deals, the key is to see where is value lying. Are there some targets where an IPO is on the anvil? Will there be synergy in terms of going to market and increasing PE and market share? That is the key."

**– Vishwanath Kini,
Advisor,
Tech Mahindra**

CLEAN CAN DELIVER GREEN

INDIAN PRODUCT PRICING LACKS PREMIUM ADJUSTMENTS FOR HIGH ESG COMPLIANCE

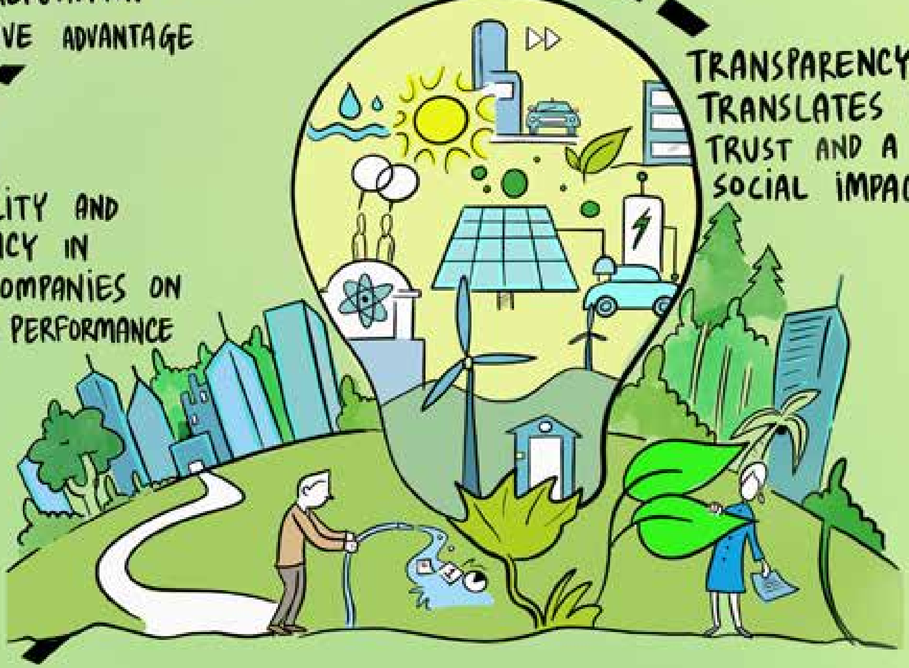
A STRONG ESG MATURITY TO BOOST DEBT AND EQUITY VALUATION

KEY ESG DRIVERS:

- BRAND REPUTATION
- COMPETITIVE ADVANTAGE

TRANSPARENCY TRANSLATES INTO TRUST AND A POSITIVE SOCIAL IMPACT

COMPARABILITY AND TRANSPARENCY IN GRADING COMPANIES ON THEIR ESG PERFORMANCE



TRUST = CUSTOMER LOYALTY → BRAND VALUE → INVESTOR CONFIDENCE → HIGH FINANCIAL PERFORMANCE

- STANDARDISED ESG REPORTING FRAMEWORKS
- RATING METHODOLOGIES

ESG ADOPTION PRIMARILY INFLUENCED BY CUSTOMERS AND THE COMMUNITY RATHER THAN INTERNAL STAKEHOLDERS

STRONG, MANDATORY REGULATIONS FROM THE GOVERNMENT TO DRIVE BROADER ESG COMPLIANCE SIMILAR TO EU STANDARDS