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M&A Transaction Services
Collaborative approach

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Deloitte India's presentation on transaction services capabilities
2014

Foreword

GDP growth in India for 2012-2013 at 5% was the lowest in a decade, as compared to an average of 8.8% in the last six years, and projected growth for 2013-14 per the Reserve Bank of India, is expected to be only 4.8%.

Despite this, current economic growth compared to more developed markets, the increasing size and purchasing power of the growing middle class, and indeed the depreciating value of the rupee make India a good investment opportunity. Recent changes in FDI norms in various segments like retail, telecoms, insurance, and power, along with the relaxation of certain regulations by the Government, are seen as positive moves to attract more foreign investments and enhance foreign trade.

Major recent deals have highlighted this. In the consumer products space we have seen the acquisition of United Spirits by Diageo and the increase in Unilever PLC's stake in HUL, while life sciences saw the acquisition of the Agila Specialties division of Strides Arcolabs by Mylan. In transportation, the Jet Airways – Etihad link up is a milestone deal, as are KKR's investment in Alliance Tire Group in manufacturing and Baring PE Asia's investment in Hexaware in TMT.

Recently GSK's announcement of its proposed investment of around US$ 1 billion to increase its stake in its Indian entity, and Tesco's announcement of its planned JV with Tata, to be the first foreign retailer to enter the multi-brand retail space, reinforce the positive attitudes that exist around medium and long term prospects. Indeed the BSE Sensex reached an all-time high of 21,000 toward end of October 2013, primarily driven by FIIs, reflecting renewed confidence in the Indian economy and positive market sentiments.

The short term scenario, of course, continues to contain challenges. While the changes in FDI policy resulted in an increased inflow of FDI (66.5%) in April and May 2013, and M&A activity in India surged between April and June with inflows of US$ 7.7 billion, the third quarter saw M&A activity of only US$ 3.2 billion and M&A activity in 2013 is now expected to be the lowest in three years. Private Equity is also facing challenges with a number of deals struck in 2005 – 2008 now looking expensive.

In this complex environment, investors continue to face numerous challenges for evaluating the best investment options in India. The constant changes in tax regulations, fluctuating rupee, the upcoming elections in FY14, and the particular circumstances of the Indian market, call for a thorough due diligence to assess the value of any proposed investment.

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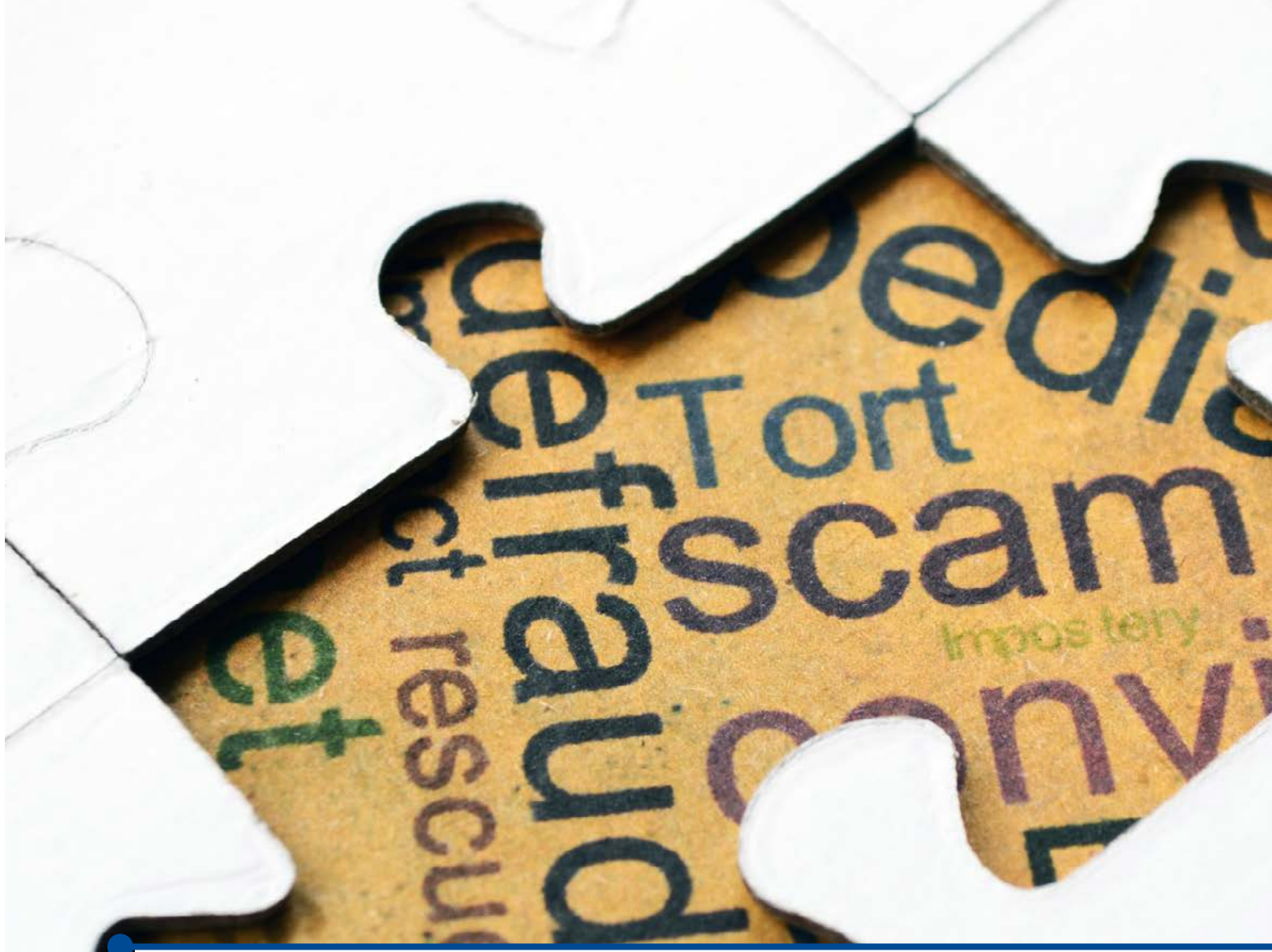


Role of due diligence in the M&A cycle

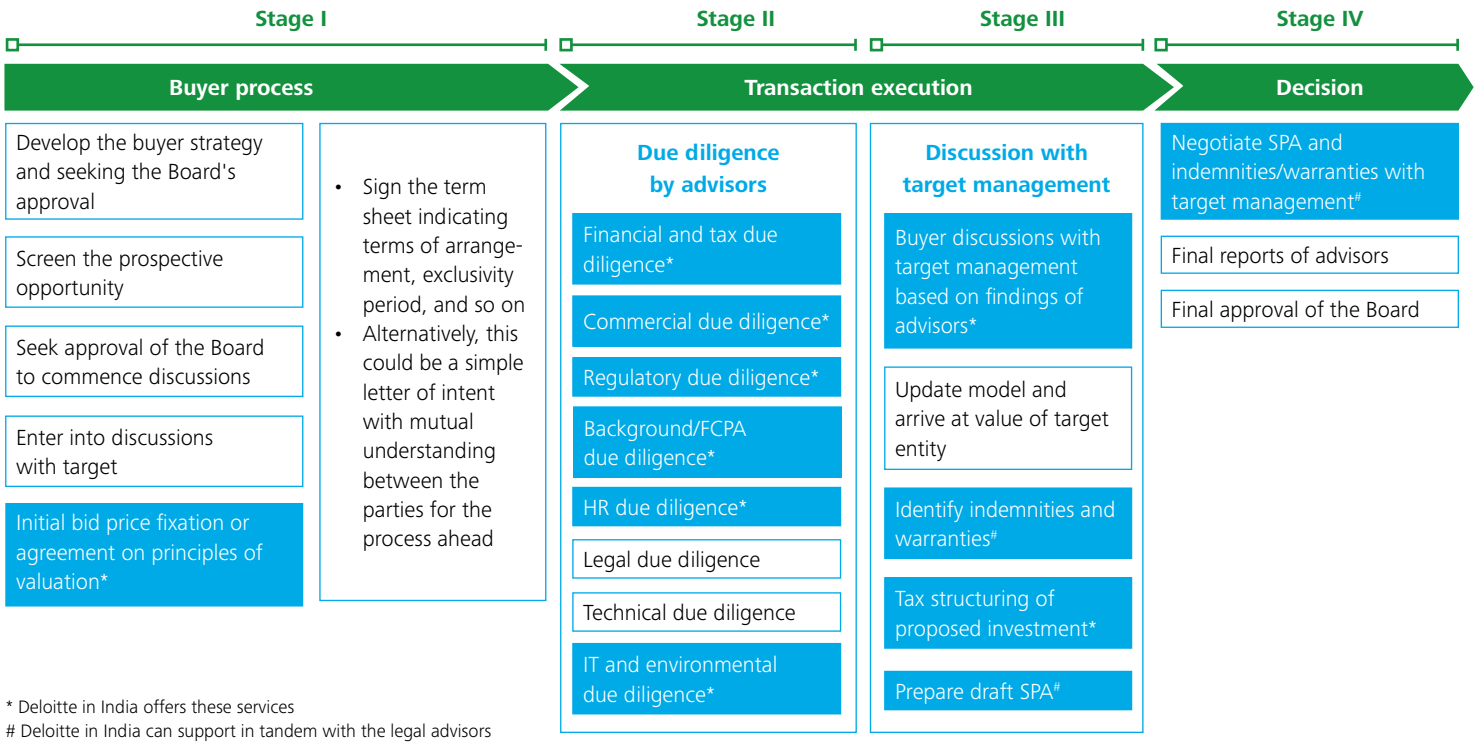
With strict due diligence, our clients can take informed decisions to tackle the risks involved and make the end result a success.

Where is due diligence in the M&A cycle?

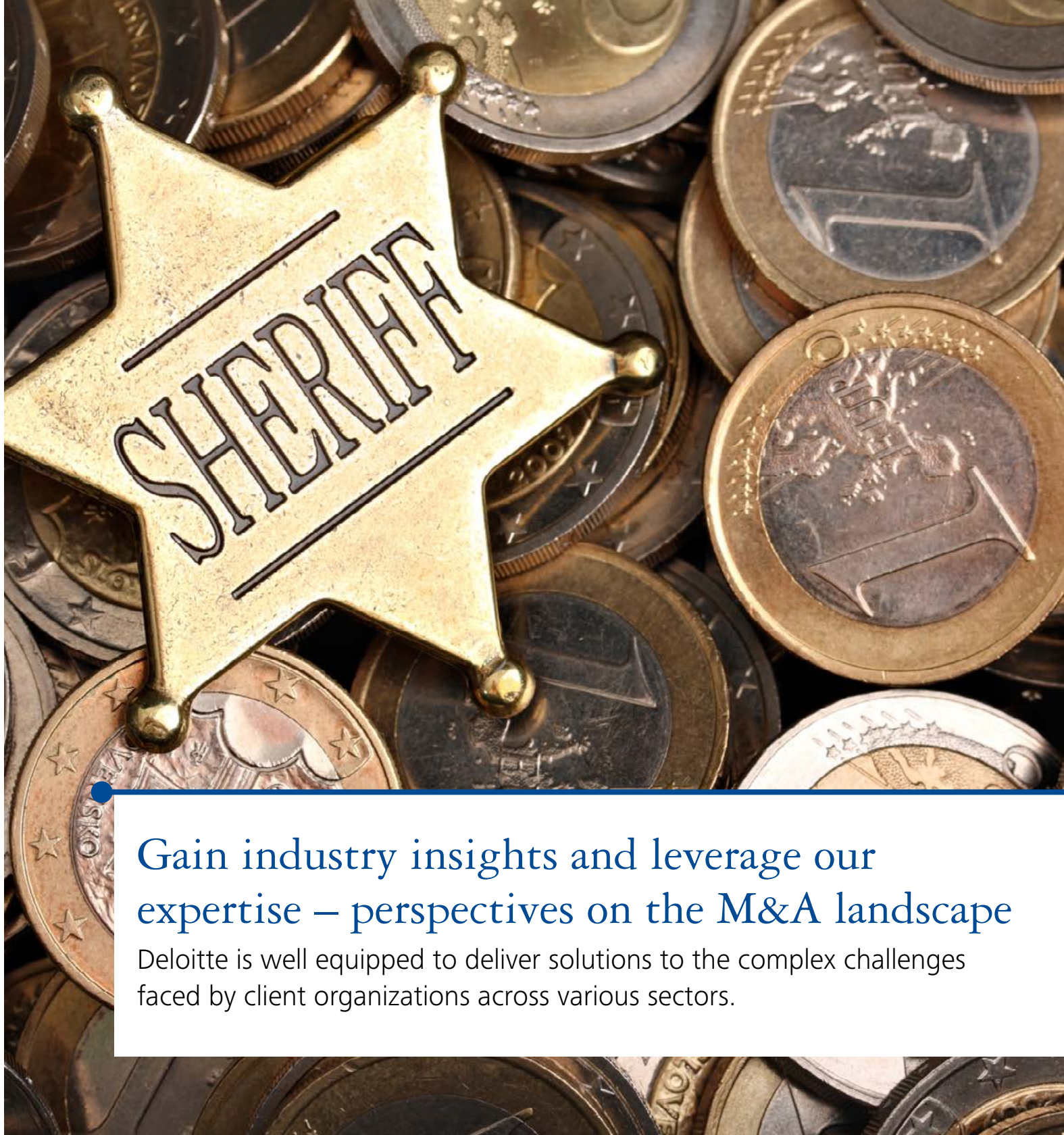
Deloitte offers many services that are crucial for successful M&A. Our support on various aspects in the M&A cycle is highlighted in the flow chart below. We offer an array of services including establishment of initial bid price, background due diligence on potential partners and the market in which the target operates, financial and tax due diligence, complemented with our other due diligence services, as well as negotiation support to impact the final decision. We ensure seamless support to our client by working on the transaction as a coherent team.

We don't just place emphasis on financial and tax due diligence during transaction execution, but also look into other aspects such as commercial, regulatory, background check/Foreign Corrupt Practices Act (FCPA), HR, and IT to ensure a holistic due diligence is performed; thereby, enabling you to take informed strategic decisions.

Diligence is an integral component:
- "Caveat Emptor": Buyer Beware!
- Manage risk
- Identify critical concern points
- Investor making informed decisions



* Deloitte in India offers these services
\# Deloitte in India can support in tandem with the legal advisors



Gain industry insights and leverage our expertise – perspectives on the M&A landscape

Deloitte is well equipped to deliver solutions to the complex challenges faced by client organizations across various sectors.

Our overall strong industry focus

We are focused on client service through a global strategy that is carried out locally through the seven industries we concentrate on in India.

Consumer Business

- Our cross-segment experience allows us to understand the underlying issues and trends.
- Our specialist teams provide industry specific solutions in the consumer products, retail, travel, housing, leisure, and transportation sub-sectors.

Manufacturing

- This sector includes automotive, aerospace and defense, capital goods, chemical process, metals, and consumer product manufacturing.
- Our leaders participate in academic and industry bodies that influence policy making and practices.

Technology, Media and Telecommunication (TMT)

- Our TMT clients include 4 of the top 5 telecom companies, the top 3 software companies in India and the largest media conglomerate.

Banking, Financial Services and Insurance (BFSI)

- This vertical covers banking, microfinance, insurance, capital markets and Non-Banking Financial Companies (NBFCs).
- The sector is highly regulated.
- In the BFSI team, we have professionals who have extensive work experience in this sector.

Energy and Resources (E&R)

- This sector covers oil and gas, power, mining, renewable and nuclear energy.
- E&R India is supported by over 55 practitioners across different functions.
- In the core E&R team, we have 11 professionals from the industry.

Public Sector (GUIDe)

- This sector in India uses the acronym GUIDe— Government, Utilities, Infrastructure and Development—to describe its focus.
- The team consists of industry specialists in government policies, regulations and governance; transport and infrastructure; and service delivery.

Life Sciences and Healthcare (LSHC)

Our LSHC industry group practitioners offer deep industry expertise and follow an integrated and collaborative approach. Our clients span across:

- Healthcare providers
- Bio technology/Pharmaceuticals
- Medical devices
- Medical education
- Healthcare payers

Our thoughts on the consumer business sector

The Indian consumer business sector has witnessed considerable deal activity over the last few years, through a combination of private equity, domestic, and cross border M&A. Interest in this sector stems from a number of factors including the emerging middle class, increasing disposable income, growing consumer aspirations to experiment with products/ brands, entry of new brands, and the impact of disruptive new technologies surrounding e-commerce, m-commerce and the digital revolution. The Indian consumer durables market is expected to double at 14.8% CAGR (US$ 12.5 billion) during 2014–15, while FMCG is expected to grow at a CAGR of 16%.

Impetus in the retail segment has been provided by the Government through the relaxation of FDI norms by initially allowing up to 51% participation in retail chains from September 2012. More recently, further relaxation has been proposed in multi-brand retail. However, foreign investors are yet to take up this opportunity, which, according to Deloitte India experts, should occur in the coming years, as some clarification occurs on the operation of statute in this area.

India is considered as one of the "hot spots" resulting in growth of the highly fragmented Indian travel and hospitality sectors. In the past two years, large hotel companies like Ritz-Carlton, Hilton, etc., have entered into joint ventures to commence their operations in India. However, the demand is still huge and this should result in further M&A/joint venture operations in the near future.

Deloitte India's involvement in key deals

Acquirer/Investor	Target	Deal size
BIC	Cello Pens	INR 7.9 billion
ChrysCapital	CavinKare	INR 2.5 billion
Diageo PLC	United Spirits	INR 111.7 billion
Mahindra Holidays	Bell Tower Resorts	Undisclosed amount
Roquette Freres	Riddhi Siddhi Gluco Bids	INR 9.9 billion
Standard Chartered PE	Bush Foods	INR 1.1 billion

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Sectors served

Consumer Products

Retail

Travel Hospitality and Leisure

Our thoughts on the manufacturing sector

The Indian manufacturing sector is the backbone of the Indian economy and contributes between 15-17% to the national GDP. Therefore, any volatility in this sector will directly impact the economic stability of India.

This sector has witnessed a slow down in recent times with growth rate declining from 9% in 2011–12 to 1.2% in 2012–13. This was mainly on account of Indian manufacturing companies being unable to match the cost competitiveness offered by manufacturing companies from low cost countries like the Philippines, Thailand, and China.

In order to spur a recovery, the Government has proposed the New Manufacturing Plan through which the manufacturing sector is expected to grow between 12-14% in the mid-term, contributing at least 25% to the national GDP by 2022. It is further estimated that this growth would create almost 100 million additional jobs by 2022.

The positive efforts of the Government toward improving the investment climate and infrastructure facilities within India have renewed the optimism about India as an Emerging Investment Destination.

Deloitte Global index 2013 covering 38 nations ranked India as the fourth most competitive manufacturing nation, after China, the U.S., and Germany. Further, India is anticipated to become the second largest economy in manufacturing by 2017.

During 2012–13, approximately 81 transactions were concluded in the Indian manufacturing sector for a transaction value of US$ 5.6 billion as compared to approximately 82 transactions in 2011–12, out of which approximately 42 transactions amounted to US$ 2.4 billion.

Deloitte India's involvement in key deals

Acquirer/Investor	Target	Deal size
An affiliate of Warburg Pincus	Avtec	Undisclosed amount
Hindustan Unilever	Aquagel Chemicals	Undisclosed amount
IFGL Refractories Limited	EL Ceramics - USA	Undisclosed amount
SDS Biotech Limited	Sree Ramcides	US$ 22 million
SunCoke	VISA Steel	US$ 67 million
Ultratech Cements	ETA Star	Undisclosed amount

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Sectors served

Automotive

Paper and packaging

Industrial products

Chemicals

Our thoughts on the TMT sector

Currently, there is a significant rise in early stage VC/Angel Investment firms, especially in the technology segment, that has emerged as a heartening trend, fostering innovation, and creating a complete ecosystem which has long-term positive implications on the future of this sector.

Over the last 5-6 years, the overall IT and ITES space has witnessed a large number of outbound acquisitions. This appetite for acquisitions will remain very high among the technology firms with emphasis on developing expertise around areas like cloud, mobility, social media, and analytics.

M&A in the media industry has been quite buoyant with the help of some large transactions in recent times despite muted overall M&A activity. M&A activity in the media industry has been mainly driven by opportunities in the television distribution space, regional media (broadcasting and print), and film exhibition. Television distribution should continue to be a growth space mainly driven by digitization of Cable and Satellite (C&S) homes.

The telecom sector is facing various regulatory, financial, and market challenges, which is impacting foreign investments; there has been an increase in the set of services and products that the consumers are benefitting from. Consolidation at a domestic level is expected to happen as the industry stabilizes.

Deloitte India's involvement in key deals

Acquirer/Investor	Target	Deal size
CESC Limited/SP-PRG Group	Firstsource Solutions	INR 4 billion
Genpact	Headstrong	US$ 550 million
Kewill Group	Four Soft	US$ 43 million
Mphasis	Digital Risk	US$ 175 million
Mphasis	Wyde	Undisclosed amount
NTT Communications	Net Magic Solutions	Undisclosed amount
Samara Capital	News wire 18	INR 900 million
Softbank	inMobi Technologies	US$ 200 million
TCS	Citi Group Global Services	US$ 505 million

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Sectors served

Technology

Media

Telecommunications

Our thoughts on the BFSI sector

The BFSI sector is highly regulated due to the significant exposure to public funds. There are several government regulators like RBI, SEBI, AMFI, IRDA, etc., who have specific mandates for the various segments.

The year 2012 was quite eventful for the BFSI sector with new leaders at the helm of RBI and IRDA, increased the volume of restructuring of corporate debt, indications of winding down of the easy monetary policy in the U.S. and the consequent volatility in debt, foreign currency, and equity markets in India, launch of the process of issuing new banking licenses, liberalizing the FDI caps applicable in the Insurance and Pensions business among other events.

The real estate sector witnessed a significant slowdown due to unchanged interest rates coupled with increasing inflation, leaving little room for capital investments by the common man.

The Government and Regulatory Agencies are aware of the need to modernize and further develop the financial services industry in India. These agencies are contemplating various measures to broaden the debt markets in India like introducing new products including real estate investment products to finance long term infrastructure projects, encouraging retail participation in financial markets (through issue of inflation indexed debt, subscription to New Pension Scheme, etc.), modernizing the legal framework applicable to the financial services industry (Financial Sector Legislative Commission has submitted its draft report), etc. All this will contribute to increased global participation in the financial services industry in India with consequent increase in M&A activity in the industry.

During 2012-13, the BFSI sector saw investments aggregating to US$ 4.4 billion, while in the months of April to May 2013, it was US$ 1.1 billion.

Deloitte India's involvement in key deals

Acquirer/Investor	Target	Deal size
ICICI Bank	Bank of Rajasthan	Merger
Leapfrog	Mahindra Insurance Brokers	US$ 15 million
Mitsui Sumitomo Insurance Group	Max New York Life Insurance	INR 2.7 billion
TPG	Shriram Properties	INR 4.5 billion

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Sectors served

Banking and Securities

Insurance

Investment Management

Real Estate

Our thoughts on the Energy & Resources sector

As per the Bharat Petroleum Statistical Review 2012, energy consumption in India has grown at a CAGR of 6% since 2000, as compared to a global average of 2.5%. India is endowed with rich mineral resources and the mining sector alone contributes about 2.3% to the Indian GDP.

There is an imbalance in demand and supply in energy and the same is pervasive across all sources, requiring serious efforts by the Government to augment energy supplies. Further, the various scams and regulatory hurdles over the past two to three years have also impacted the growth of this sector.

India is the fourth largest consumer in the world of crude oil and natural gas after the U.S., China and Russia. As per the Planning Commission projections in the Twelfth Plan, India is likely to produce 669.6 million tons of oil equivalent (MTOE) by 2016-17 and 844 MTOE by 2021-22. Apart from this, considerable research is being carried out in the energy and resources sector in India. As a result, significant investment is expected in this sector in the coming years.

Deloitte India's involvement in key deals

Acquirer/Investor	Target	Deal size
Bharat Light and Power	Wind Power business of DLF	INR 3.3 billion
Blackstone	Moser Baer Power Projects	US$ 300 million
Global Environment Fund	Saisudhir Infra	INR 1.2 billion
GVK Power & Infrastructure	Hancock Prospecting	US$ 1.3 billion
GVK Power & Infrastructure	Bangalore International Airport	INR 6.1 billion
Olympus Capital Holdings Asia	Vishwa Infrastructures & Services	INR 2.4 billion
ONGC Videsh	South Pars gas field, Iran	US$ 3 billion
Standard Chartered PE	Greenko Mauritius	US$ 70 million

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Sectors served

Oil and Gas
Power
Mining
Renewable energy
Nuclear energy

Our thoughts on the Life Sciences and Health care sector

The Indian healthcare industry, which comprises hospitals, medical infrastructure, medical devices, clinical trials, outsourcing, telemedicine, health insurance and medical equipment, was valued at US$ 79 billion in 2012, and is expected to reach US$ 160 billion by 2017. India is now among the top five pharmaceutical emerging markets globally and the industry is expected to touch US$ 35.9 billion by 2016. It is a front-runner in a wide range of specialties involving complex drugs manufacture, development and technology.

The Indian healthcare providers plan to spend US$ 986.2 million on IT products and services in 2013, a 7% rise over 2012 revenues of US$ 916.9 million, as per a report by Gartner. The healthcare equipment sector attracted 8.8% of the total investments in terms of deal value with an aggregate of US$ 249 million (20 deals), according to data released by VCCEdge. The Indian pharmaceutical industry would continue to experience strong growth as structural growth drivers continue to remain impervious. The industry is expected to achieve a growth of 10-12% in 2013-14, according to a study by ICRA.

The hospital and diagnostic centers in India received FDI worth US$ 1.6 billion, while drugs, pharmaceutical and medical, and surgical appliances industry registered FDI worth US$ 10.3 billion and US$ 622.9 million, respectively, during April 2000 to March 2013, according to the data provided by Department of Industrial Policy and Promotion (DIPP).

Deloitte India's involvement in key deals

Acquirer/Investor	Target	Deal size
Aventis Pharma	Universal Medicare	Undisclosed amount
GIC	Vasan Health Care	US$ 100 million
Multiples Alternate Asset Management	Vikram Hospital	INR 1.8 billion
Norwest Venture Partner	Thyrocare Technologies	INR 1.2 billion
Reckitt Benckiser	Paras Pharmaceuticals	INR 32.6 billion
TPG Growth	Sutures India	INR 1.5 billion

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Sectors served

Healthcare payers

Government health

Healthcare providers

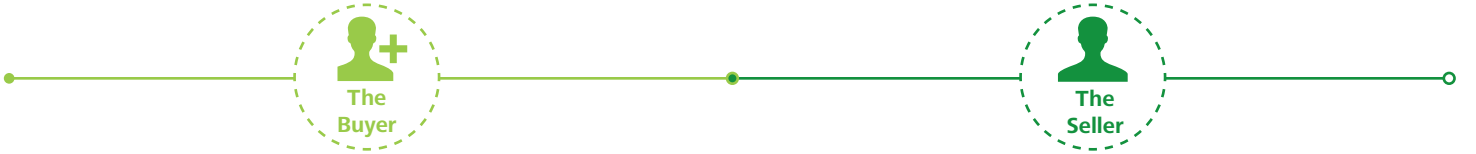
Life sciences

Help mitigate risks and seize opportunities with our integrated due diligence services

Our multidisciplinary capabilities allow us to draw experts to meet a variety of your due diligence needs. Our service delivery is integrated enabling us to serve you seamlessly throughout the M&A cycle.

Effective due diligence – buy side or sell side

During an M&A/investment transaction, it is necessary for the parties to assess the appropriateness of each other. Given this scenario, the due diligence can be commissioned by:



Acquisition due diligence

Help you understand the quality of earnings, assets and cash flows and off-balance sheet exposures to help avoid unnecessary risks and identify opportunities.

Bid support

Assist you in competitive auction processes, support in analyzing key issues likely to influence their bid and involve appropriate specialists, as required. At the initial stages of an auction process, information is restricted to an information memorandum and a vendor due diligence report supported by a data room. Once exclusivity is granted, we seek to perform top-up due diligence to assist the completion of the deal.

SPA advisory

Advise you on the accounting aspects of the SPA. Work closely with the core Deloitte team and your lawyers, identify commercial issues early and ensure these are appropriately reflected in the SPA so that they can be converted into real value.
Assist you to identify adjustments to consideration.

Vendor due diligence

Assist you with deeper insight and a better understanding of the risks uncovered during standard due diligence.

Vendor Assist

Provide dataroom support and other services to clients who are considering the sale of entire or part of their business, in terms of preparation of standalone financial information for the business, including tax information that is robust and fit for a sale purpose.

Due diligence services – An integrated approach

Using standardized frameworks and methodologies based on Deloitte's "As One" strategy, the firm delivers consistent and high quality due diligence solutions. Our multidisciplinary teams ensure that the entire process is executed effectively.

Financial and tax due diligence
- Understand your business using industry experts on every engagement
- Assess the valuation adjustments like EBITDA analysis and net debt
- Identify representations and warranties for inclusion in the SPA
- Analyze revenue and cost trends
- Analyze margins and the impact of seasonality fluctuations on margins

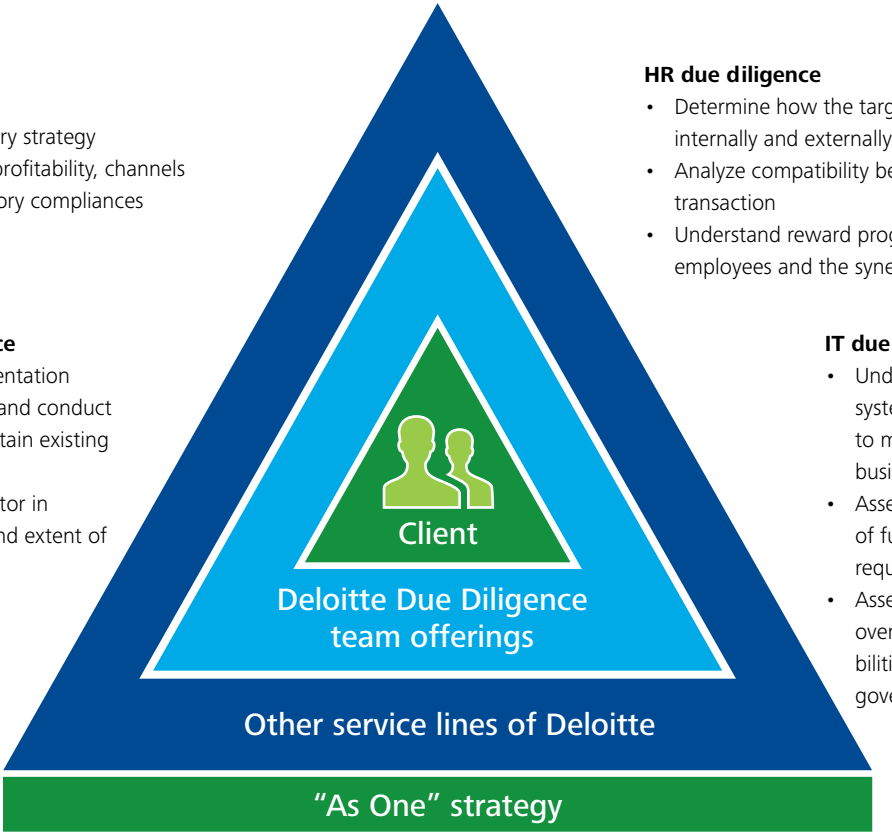
Regulatory and Background/FCPA due diligence
- Review the relevant documents to assess compliance with various enactments/regulations
- Quantify, to the extent possible, the probable exposure on account of non-compliances
- Perform pre-deal investigative work on the background of the other side

Commercial due diligence
- Market assessment and entry strategy
- Analyze business strategy, profitability, channels of distribution, and regulatory compliances
- Competition analysis

HR due diligence
- Determine how the target disseminates information, internally and externally
- Analyze compatibility between the two sides of the transaction
- Understand reward programs and benefits offered to employees and the synergy with investor company

Environmental due diligence
- Phase I - Review all documentation including legal documents and conduct on-site assessment to ascertain existing and potential liabilities
- Phase II – Act as the facilitator in characterizing the nature and extent of potential contamination

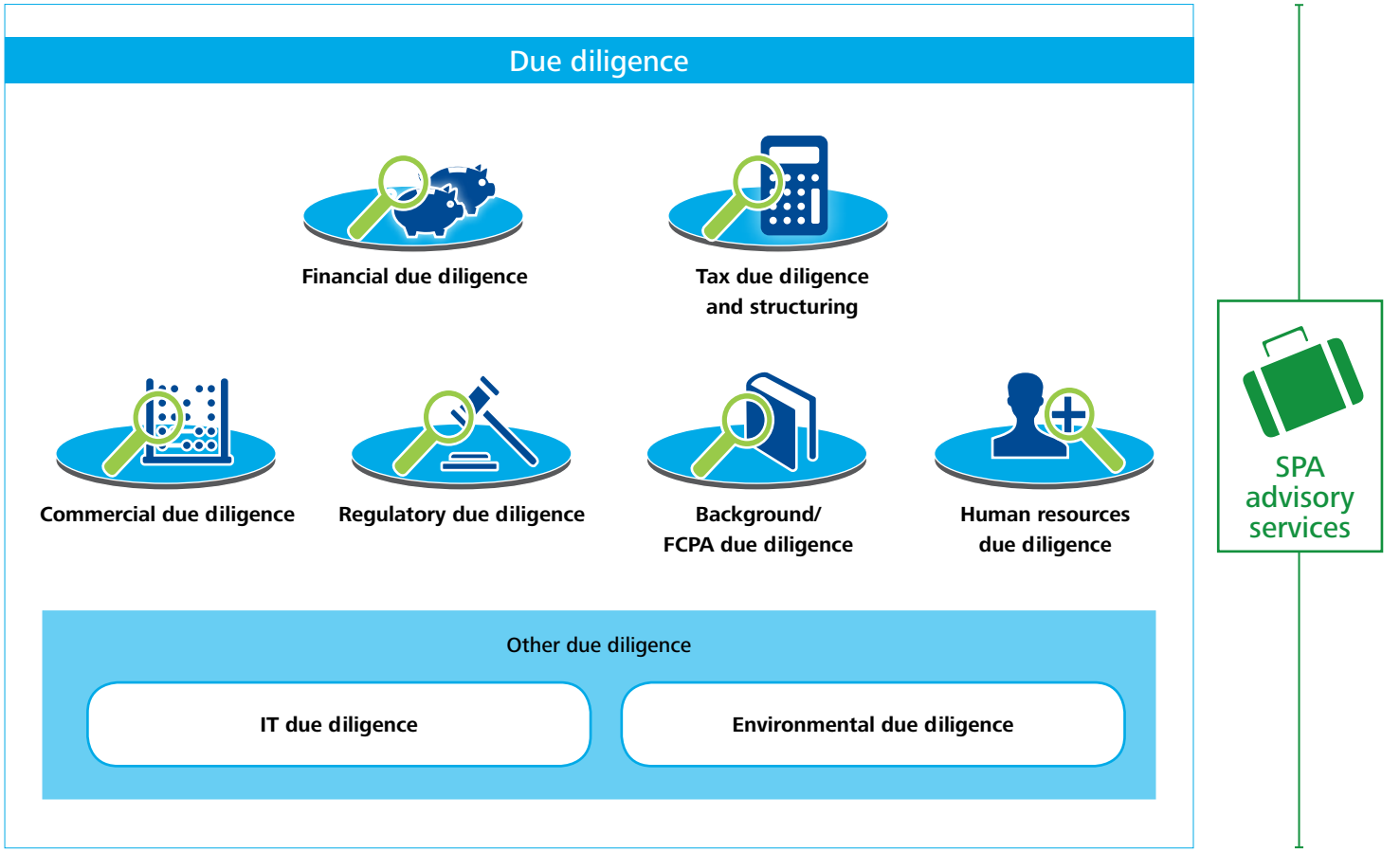
IT due diligence
- Understand existing IT/ERP systems and assess their capability to meet IT requirements of the business
- Assess IT infrastructure in terms of future investments that may be required
- Assess IT function in terms of overall structure, team capabilities, and approach to IT governance



Share Purchase Agreement (SPA) advisory
- Advising you on accounting aspects of SPA
- Closing assistance

Mitigate your risks through our due diligence services

Deloitte in India offers a comprehensive and strategically focused consulting and advisory services that can support your M&A transactions across various types of due diligence procedures given below:



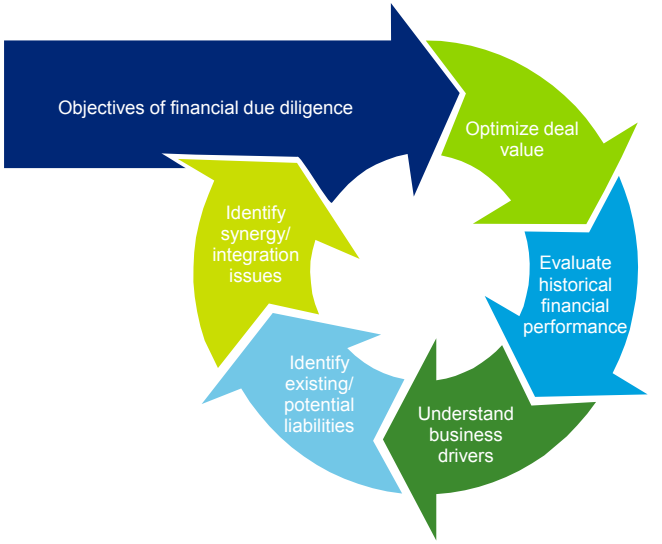
Financial due diligence

Financial due diligence

Financial due diligence is a process to understand the financial position of an entity by the potential investor/acquirer before its acquisition or investment in the entity.

The key focus areas of a financial due diligence are:

- **Quality of earnings, gross margin, and cash flows:** If normalized earnings are significantly different than the reported earnings, then the investor/acquirer would like to optimize the valuation. Hence, this area has the maximum impact on valuation.
- **Quality of fixed assets and working capital:** The deal cost for the investor/acquirer would change significantly if there is a requirement of substantial amount of investment in capital expenditure and infusion of funds to manage working capital. This is likely to impact at the post transaction stage after paying the consideration to shareholders. This is critical in manufacturing companies.
- **Net debt:** Most transactions tend to be on a debt-free and cash-free basis. There is adjustment for debt and cash in the books from the enterprise value of the entity, to derive the consideration payable to equity shareholders. Debt is reduced and surplus cash is added.
- **Potential liabilities and commitments:** Review of contracts and other activities of the company result in identifying off-balance sheet commitments, liabilities, and onerous contracts that are not disclosed in the financial statements. Investor/acquirer would need to negotiate a valuation adjustment for the potential liability, seek protection through indemnification, or make compliance with these commitments that form a part of condition precedent to the closing of the transaction.



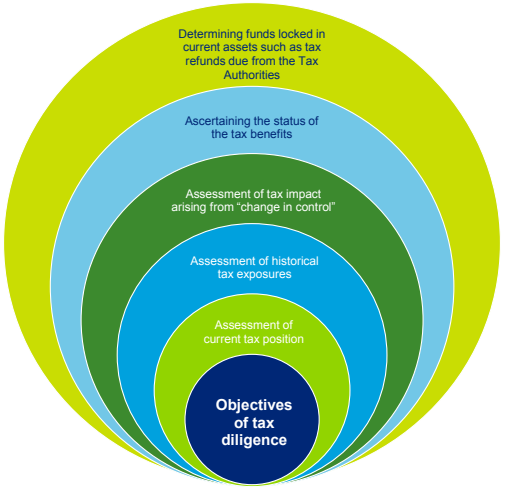
Tax due diligence and structuring

Tax due diligence and structuring

Tax due diligence addresses the typical tax-related challenges faced in the M&A domain. These include taxation of indirect transfer of assets, General Anti Avoidance Regulations (effective 01 April 2015), restricted debt push-down options and interest deductions, and existence of high tax compliance. The tax laws are highly complex and the environment substantially litigative.

The key focus areas of tax due diligence are:

- Understand the target (includes aspects like examining the target's legal structure, its cash flow mechanism, and its business and operational strategy)
- Assess the current tax position (includes aspects like status of the most recent income tax return filed, possible disallowances, and consequences of past tax audits)
- Assess the historical tax exposures (includes aspects like status of pending tax litigations, tax positions adopted in the past, which are considered aggressive and their possible consequences like disallowances and interest and/or penal exposures)
- Assess the tax impact arising from "change in control" of the target (like eligibility to carry forward past tax losses/unabsorbed depreciation, availability and/or continuity of tax holidays/ concessions, etc.)
- Ascertain the status of the tax benefits and adherence by the target to the conditions specified for such benefits
- Determine amount of funds locked in current assets such as tax refunds due from the tax authorities and/or deposits with various tax authorities, etc. and how these are reflected and represented in the financial statements of the target. Ascertain the reasonableness of the deferred tax asset/liability based on the key underlying assumptions adopted by the target
- In the backdrop of the multiplicity of the proceedings and the added complexity, it becomes imperative that appropriate safeguards are made in the transaction definitive documents



Structuring services

We structure transactions to accommodate the interests of different transaction stakeholders and focus on maximising the post tax return by addressing the following challenges faced by our clients:

- What are cash tax flows post completion?
- How can buyer protect itself against post completion taxes?
- How can seller maximise post tax return?
- How can management be incentivised tax effectively?
- How can buyer minimise transaction costs and post completion taxes?

Deloitte solutions to structure transactions

- Tax due diligence
- Buy-side tax structuring
- Tax review of SPA and indemnity
- Analysis of withholding taxes inherent in the structure
- Tax review of model
- Optimisation of tax treatment of costs
- Sell-side tax structuring
- Implementation and execution of tax planning

Commercial due diligence

Commercial due diligence

Commercial Due Diligence (CDD) is usually carried out in the M&A deal cycle after shortlisting of potential acquisition targets and is initiated at the strategic evaluation phase along with financial due diligence and valuation of the target.

CDD aims to analyze the attractiveness and sustainability of the target's business model with reference to its external environment, which includes market, competition, margins, trends, and forecasts.

CDD is important in the decision making process if an investment decision involves any of the following:

- Entry into new market
- Launch new product/technology
- Market or competitive uncertainty in areas such as new technologies, customers, trends, legislation, and powerful buyers
- Revenue/Earnings Before Interest and Tax (EBIT) projections appear to be very aggressive (relative to historical performance)
- Significant proportion of projected revenue/EBIT appear to be based upon the success of new products, customers and/or markets

Regulatory due diligence

Regulatory due diligence

Regulatory due diligence covers the following key legislations, regulations, and commercial obligations:

Company law

- Review charter documents, organization and management, promoters and group companies/ventures promoted, capital structure, annual reports, statutory registers/filings, government/statutory and other business approvals, licenses, ratings, indebtedness, material contracts, litigations, disputes, etc.

Foreign Exchange Management Act (FEMA) and Foreign Direct Investment (FDI) policy

- Review the level of compliances of inbound and outbound investments, trade-related transactions comprising export and import of products/services, and other remittances. It also includes repatriations from or into India and notices from Reserve Bank of India, Foreign Investment Promotion Board, Enforcement Directorate, etc.

SEBI laws

- Review the level of compliances of listing agreement, SEBI takeover code, insider trading regulation, investor grievances, and effectiveness of redressed mechanism and litigations/show cause notices from stock exchanges/Securities and Exchanges Board of India/Securities Appellate Tribunal, etc.

Employment and industrial laws

- Review the level of compliances relating to provident fund, employees state insurance, bonus, gratuity, other employee benefits, Labor Welfare Act, Factories Act, Shop & Establishment Act, Contract Labor Act, Minimum Wages Act, Trade Union Act, etc.

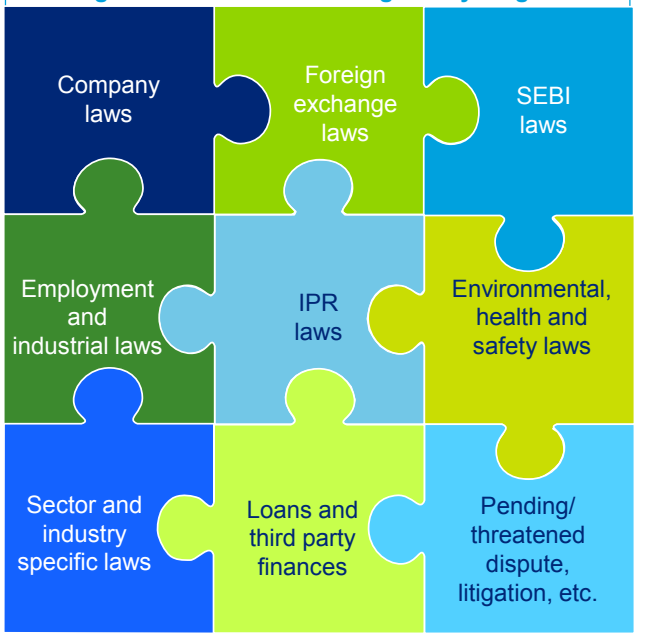
Intellectual Property Right (IPR) laws

- Review the level of compliances of Trade Marks Act, Copyright Act, Patent Act, Design Act, litigation and pending disputes related to passing-off and infringement, etc.

Environmental, health, and safety

- Review the level of compliances of Air Pollution Act; Water Pollution Act; Environmental Protection Act, handling of hazardous substances and public liability insurance.

Legislations, regulations and commercial obligations covered under regulatory diligence



Background/FCPA due diligence

Background/ FCPA due diligence

We complement financial and legal due diligence by providing key information on a potential target or an alliance (be it a vendor or a strategic partner) and their key individuals. This can help you avoid costly mistakes, regulatory sanction, and damage to reputation. Our Business Intelligence Services (BIS) practice consists of investigators and specialists who understand the risks attached to target companies or individuals or the market itself.

Background diligence

- Companies can avoid serious legal complications and obtain information regarding the background of all parties involved, along with the risks they present through effective pre-investment due diligence, vendor due diligence, and background investigations.
- Our investigators also help you by providing information on parties suspected of wrong doings. They also search for conflict of interest and undisclosed business affiliations. Information is also procured on issues such as any prior financial, legal, regulatory or criminal problems or links to organized crime, any political links as well as any adverse business reputational issues.
- Our services include conducting background information investigations, pre-investment due diligence, vendor due diligence, litigation intelligence, and fraud investigation support.

Foreign corrupt practices consulting

- Our anti-corruption investigative and consulting specialists have the experience to identify a range of questionable activities when approaching potential business partners in foreign markets. These include identifying unusual payment patterns or financial arrangements, abnormally high commissions and management fee, lack of transparency in expenses and accounting records and refusal to provide audit/inspection rights or anti-corruption, and FCPA certification.
- In addition to providing legislatively compliant investigation support on a global scale, we also help design, implement, and monitor anti-corruption policies, procedures, and internal controls.

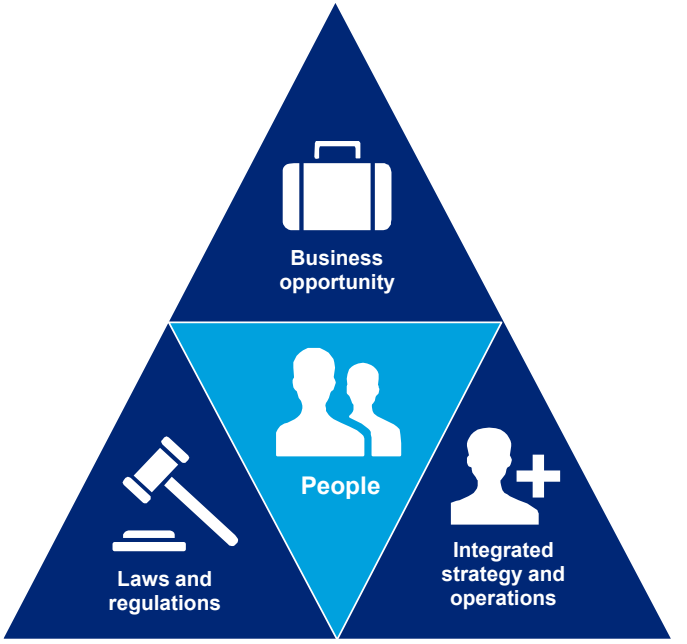
Human resources due diligence

Human resources due diligence

Human resources (HR) due diligence in an M&A process identifies the synergies between the workforce of the investor and the target in terms of the composition of the workforce and the benefits provided to them.

The key focus areas of a HR due diligence are:

- Review the HR strategies and identify gaps in the alignment with the overall corporate strategy post transaction
- Assess risks and abilities of the leadership and the cultural framework
- Identify compensation, benefit, and insurance risks and liabilities
- Estimate one-time costs and optimal steady state HR design and cost structure
- Define clear goals and exit criteria for the incumbent staff post transaction
- Plan transition of key talent and workforce
- Plan for "Day One" readiness
- Integrate HR functions, programs, and policies including cultural integration
- Integrate target's insurance program into the Investor's master insurance program
- Ensure the operational readiness of the HR team to manage the combined operations of the company post transaction
- Set protocols and procedures to ensure clear and consistent employee communications



IT and environmental due diligence

IT due diligence

IT due diligence provides an understanding and high level assessment of the current IT infrastructure and systems at the target organization for future integration; it also assists the acquirer to evaluate the potential capital and operating expenditure in the business plan. The key focus areas of IT due diligence include:

- Understanding the major business systems and IT platform providing support and automation to the core operating processes
- Understanding whether the systems, ERP, and their respective hardware platforms have the stability and scalability to support the management's current and future business plans
- Assessing the adequacy of these systems in-use to capture and report on key operational and financial parameters, and the broad assessment of reliance that could be placed on these systems
- Analyzing significant capital intensive (current and planned) Information technology projects. Understand the IT infrastructure components and carry out a high level assessment to identify gaps and steps being taken by the management to resolve any deficiencies
- Evaluating key IT operating policies and procedures including security, (physical and logical), vendor management and business continuity planning in terms of the IT systems being able to sustain and support business over the next few years
- Assessing the IT function in terms of the overall structure of the IT organization, IT leadership, position of IT in the overall organization structure, capabilities of the IT team to implement the proposed/in progress IT projects and the overall approach to IT governance

Environmental due diligence

The objective of an environmental due diligence is to provide an understanding through a high level assessment of the existing and potential environmental risks. The key focus areas of an environmental due diligence include:

Phase I

- Review and assess compliance against environmental, legal and related documentation of the units of the target, followed by review of corporate and management systems related documentation
- Conduct physical on-site inspection of the environmental related risks/issues
- Submit environmental due diligence review report, indicating the risks and gaps, with special mention to environmental regulations and mitigation/remediation measures

Phase II (To be done on a need basis in consultation with the client)

- This phase shall be executed in consultation with the client, post identification of significant issues, if any, in Phase I report. The tasks to be carried out shall be as follows:
  - Review soil, hydrology, and geology data wherever identified to be relevant, i.e., analysis of soil/ground water sample based parameters that have been identified as critical, based on the review of the legal documentation
  - Submit the environmental due diligence review report, indicating present and potential risks and liabilities along with mitigation/remediation measures

SPA advisory services

The SPA team coordinates internally with the financial due diligence team and externally with the legal advisors and the client team.

Financial due diligence team
- Identify pricing issues
- Comment on cash and debt definitions
- Determine a normal level of working capital
- Determine judgmental areas where specific accounting policies may be required for preparing completion accounts

Client team
- Highlight key pricing criteria in the offer letter
- Recommend appropriate accounting hierarchy/policies or leakage protections
- Provide support in SPA negotiations based on due diligence findings
- Assess normal working capital requirement of the target

Legal advisors
- Assess the pricing mechanism set out in the SPA
- Agree appropriate accounting warranties and indemnities
- Consider the process for agreeing the completion accounts
- Review leakage protection clauses

Deloitte SPA advisory

In any business deal—buying or selling—both the buyer and seller wish to achieve a clean exit or entry at a predictable price. In this regard, the financial terms of the Sale and Purchase Agreement are critical.

The Deloitte SPA team advises clients on the various cash accounting implications of transaction contracts they are negotiating. This includes purchase price adjustment mechanisms and the structure of completion of accounts policies.

The Deloitte SPA advisory and closing support services team comprises accountants, specialists, and M&A transactions services team.

Our SPA advisory team draws support from globally experienced teams within the Deloitte network for seeking advise on both buy side and sell side transaction activities.

Our role

We advise clients on the accounting aspects of sale and purchase agreements with a focus on:
- Purchase price mechanisms
- Completion accounts policies and definitions
- "Locked Box" processes and leakage protections
- Analysis of net debt and working capital price adjustments
- Pricing schedule preparation
- Assistance in analyzing and negotiating an interest rate for post "Locked Box" cash profits
- Accounting warranties and indemnities
- Earn out considerations
- Closing support services

Our success stories

Our practitioners combine functional knowledge with deep industry insight developed by working with leading companies. In addition, our culture helps us to build and sustain enduring relationships with our clients by offering integrated solutions.

Case study 1 – Project Tulip

Background

- This project involved due diligence services to an overseas client engaged in the manufacture and sale of building related infrastructure.
- The client was considering strategic expansion in the Indian market by way of acquiring a majority stake in a target company in India which was into similar line of business which complemented its existing business in India.
- The target specialized in design, fabrication, and installation of building related infrastructure; it had undertaken projects across India.

Deloitte chosen to address the client's business challenge

- Our capabilities to support the client's multiple requirements for financial diligence, tax diligence, commercial diligence, environmental diligence, HR diligence, and integrity assessment along with the "As One" approach to the assignment – in which a lead engagement partner and lead engagement director were responsible for project execution with clear communication protocols – resulted in Deloitte India being appointed for the complete gamut of services.
- Client's key focus areas as part of the diligence, which were addressed by Deloitte India included:
  - **Financial:** Review of the financial position of the company, business pipeline opportunity, order book revenue recognition and profitability of various projects, project management and control.
  - **Commercial:** Manage commercial aspects including status of key projects, deviations from contracts and procurement issues.
  - **Taxation:** Manage exposures arising from assessment of the direct and indirect tax positions of the target and regulatory compliances.
  - **Environmental:** Ensure compliance with environmental regulations and relevant laws.
  - **Human resources:** Assess the manpower and related legal compliances.
  - **Integrity aspects:** Understand the background of the target and key individuals.

Due Diligence on a Building related infrastructure company.

Solution

- The timelines of execution of the above services were decided based on mutual consultations with the client, keeping in view time-constraints around the negotiations of the transaction, nature of services and geographical spread of operations of the target. The project was carried out in a phased manner, which helped the target to facilitate the data flow to ensure complete knowledge transfer to the client.
- The client was updated on key observations and issues on regular basis through conference calls. The final deliverable reports comprised Deloitte India's thoughts on key issues, detailed information on the various processes followed by the target and the adjustments, which could be considered by the client in their valuation of the target's business.
- Our ability to analyze various issues from different standpoints, including financial, accounting, tax and commercial perspectives, arising from the cross-functional team deployed on the project, provided valuable insights to the client in its evaluation of the proposed transaction.

Due Diligence on a Building related infrastructure company.

Case study 2 – Project Orange

Background

- Deloitte India and other offices collaborated to support a client with M&A services including financial and tax due diligence, tax structuring, financial modeling and regulatory valuation services in connection with their planned acquisition of a controlling equity interest in a large consumer business group in India.
- The transaction was important for the client as it formed the core of its strategy to have a range of products in the regular and premium end of the market in India along with pan India manufacturing facilities, which is an important aspect given our existing tax structures and regulations around manufacture and sale in India.

Deloitte chosen to address the client's business challenge

- The client was in discussions with the promoters of the target for the past few years, but could not embark on a transaction given the divergence in expectations between the parties. After the two principals arrived at a mutually acceptable proposition and paved the way for extensive due diligence and fine tuning of the negotiations with an intention to culminate the transaction, Deloitte was engaged to complete the diligence exercise over a period of nine weeks. Deloitte then continued to support the client through the signing of the definitive agreements and, thereafter, as the client pursued through the regulatory clearances to finally acquire controlling equity interest in the target.
- While Deloitte was in conversation with the client for a number of services, on this particular transaction, knowledge of the industry and a deep understanding of the target, given our past association with them, was a key attribute for the client to commission the work to Deloitte.

Due diligence on a large consumer business company in India.

Solution

- Deloitte India leveraged on its experience and knowledge of the industry, and the relationship with the target's key management team to present an extensive analysis and understanding of the drivers of revenue, costs and profitability to the client's deal team. This was instrumental in their decision making and financial modeling exercise.
- The work involved understanding the operating performance of the business by product category by individual brand and by respective states in India where the target had its operations.
- Deloitte provided the client team with detailed inputs on volume and prices of the individual brands by individual states that should be factored in the operating business model.
- Deloitte was also able to provide detailed insights on the following:
  - Outsourced manufacturing, raw material and packaging material sourcing base of the target, including the financial support that was provided to its vendor base.
  - Brand promotion arrangements that the target had tied up with broadcasting companies, sports asset owners, and sports/film personalities along with insights on committed forward spends for the next few years.
  - Distribution arrangements in the individual states along with risks and cost.
  - Extent of tax litigation that the company was exposed to and the strength of the company's arguments for litigating each of the individual issues.

The above mentioned insights were relevant to the client due to its primary operations in the premium segment of the market in India.

- Subsequent to the due diligence process and signing of the definitive agreements, Deloitte supported the client's integration team by providing insights to:
  - Build an operating model for post acquisition of controlling equity interest.
  - Integrate the target's business with the client's business practices and reporting requirements.

Due diligence on a large consumer business company in India.

About us

A multidisciplinary organization providing Financial Advisory Services, Enterprise Risk Services, Assurance, Consulting, and Tax services to clients from different industries.

About Deloitte

Right combination of global talent and expertise with regional experience and local insights

EMEA
297 offices in 47 countries
Key Offices: London, Frankfurt, Paris, Rome, Dusseldorf, Madrid, Moscow, Prague

Asia Pacific
113 offices in 26 countries
Key Offices: Pakistan, Singapore, Thailand, Vietnam, Indonesia

North America
131 offices 2 countries
Key Offices: New York, San Francisco, Los Angeles, Denver, Toronto, Montreal

South America
69 offices in 28 countries
Key Offices: Sao Paulo, Mexico City, Buenos Aires, Santiago, Caracas

Africa & Middle East
46 offices in 35 countries
Key Offices: Johannesburg, Cape Town, Kenya, Tel Aviv

India
Over 20,400 professionals in 13 offices
Key Offices: Mumbai, New Delhi, Hyderabad, Bengaluru

Our presence in India

79% of Fortune Global 500 companies are our clients

Deloitte Member Firms

Global practice	200,000 professionals located in 154 countries	20,400+ professionals spread across 13 locations	India practice
Revenue	Over US$ 32.4 billion	Successfully serving clients for 120 years	History
Service areas	Assurance and advisory, tax, management consulting and enterprise risk management services	Serves 322 of the top Business Today (BT) 500 companies	Clientele

Our service portfolio

We pride ourselves in having the ability to find practical solutions to any issue within our service lines. The team will be committed to rendering efficient, timely, and responsive services.

Deloitte service lines

Assurance and Enterprise Risk Services (ERS)

Assurance

- Financial Statement Assessment
- GAAP Compliance
- Corporate Governance

ERS

- Governance Risk & Regulations
- Information and Technology Risk
- Control Assurance

Tax and Regulatory

- Business Tax
- Global Employer Services
- Indirect Tax and Customs & Global Trade
- International Tax Inbound and Outbound services
- M&A Tax
- Transfer Pricing and global Transfer Pricing

Financial Advisory

- Corporate Finance
- M&A Transaction Services
- Valuation Services
- Forensic Services
- Restructuring Services

Consulting

- Strategy & Operations
- Human Capital and Advisory Services
- Technology Integration
- Enterprise Application

Industries we serve

- Financial Services
- Energy & Resources
- Life Sciences & Healthcare
- Public Sector
- Consumer Business & Transportation
- Manufacturing
- Technology, Media & Telecommunications

Financial advisory services

Deloitte Financial Advisory Services advises you on managing M&A strategy, executing deals and maintaining regulatory compliance. We provide services to you throughout your lifecycle – from purchasing a company to investigating potential fraud.

A complete suite of services

Corporate Finance

- Entry Strategy
- M&A
- Divestitures
- Restructuring
- Private Placements and Privatisations
- Fund Raising

M&A Transaction Services

- Acquisition due diligence
- Bid support
- SPA advisory
- Vendor due diligence
- Vendor assist

Valuation Services

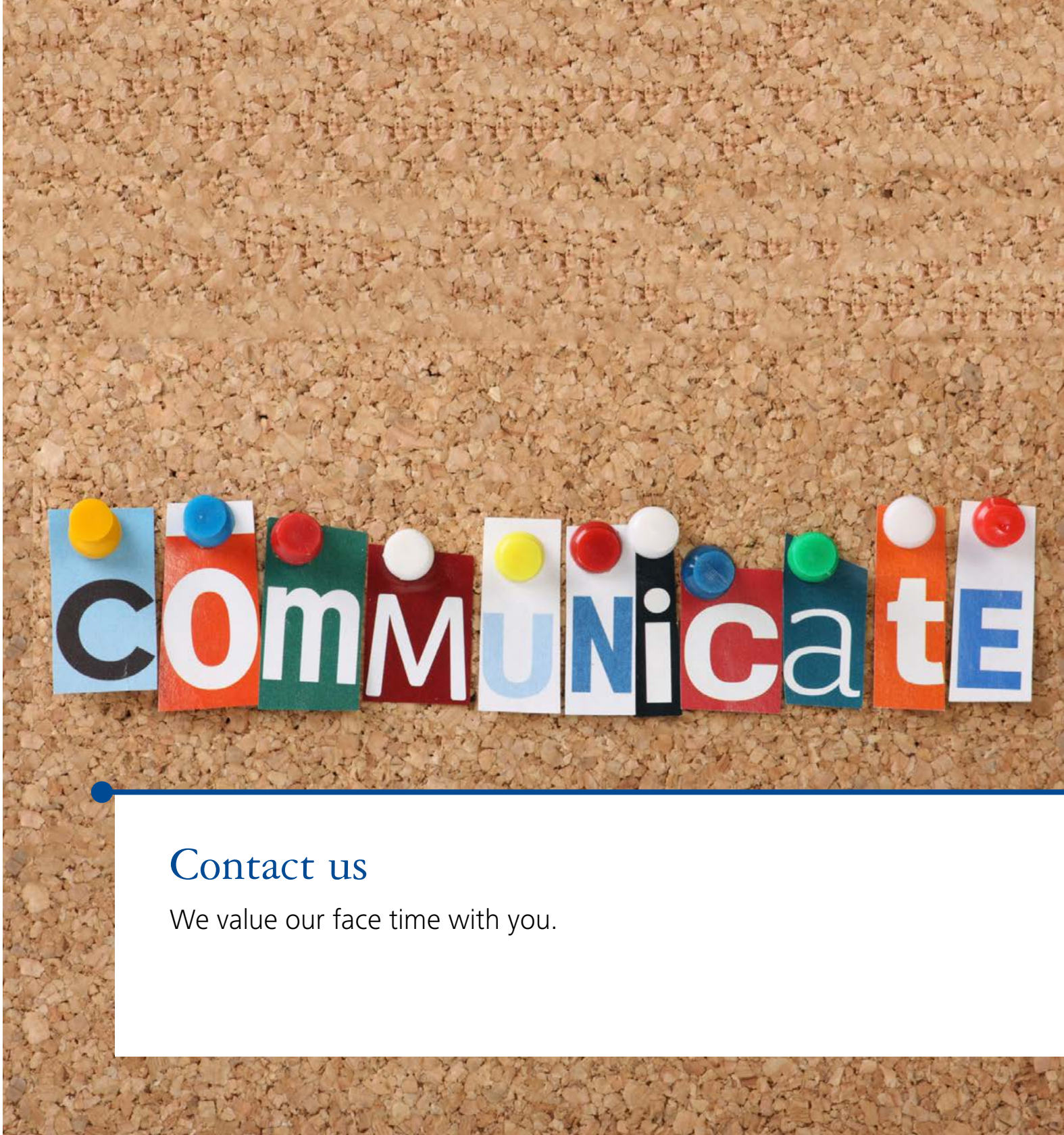
- Shares, business, intangibles for acquisitions and for mergers/demergers (swap ratio)
- Purchase Price Allocations
- Financial Modeling
- Markets, Derivatives and Treasury Operations (MDT)
- Audit Support
- Others (Regulatory, Privatisations, Impairments)

Forensic

- Fraud Investigation
- Anti-fraud Consulting
- Anti-money Laundering
- Foreign Corrupt Practices Consulting
- Business Intelligence
- Dispute Resolution Consulting
- Background/FCPA due diligence

Restructuring services

- Business Viability Reviews
- NPL Portfolio Resolution – Sell Side
- Buy Side Portfolio Advisory
- Single Asset Resolution
- Working Capital Management
- Compliance Related Services



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Right combination of global talent and expertise with regional experience and local insights

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