

Mergers and Acquisitions: The Mahindra Way

VS Parthasarathy describes how the M&A team realised its dream of being the preferred investment banker for M&M Group

The M&A unit at the Mahindra Group, has been very active since its inception in 2004, completing over 60 transactions, so far. The group describes itself as a ‘federation of autonomous businesses in 10 different sectors, across 18 industries, which are united by a common core purpose and a set of core values’. The inorganic strategy has been a key growth element for the Group and its business units have benefited from it over the last decade.

The M&A journey

The team of 15 members in the M&A cell has completed transactions with cumulative value exceeding USD 5 billion. Given the diversity of businesses of the group, the M&A function may be seen as the single thread that binds the Group together. It has been an enabler in achieving success in business objectives, and its contribution to a turnover of USD 17 billion today, from USD 1 billion in 2001, with a compound annual growth rate (CAGR) of 31 per cent, is well recognised by the top management.

The team

When I took over the M&A department I found myself in charge of a very enthusiastic team of three or four young people, but they were inexperienced. Still, I was certain that with my business understanding and support from external investment bankers (IB) we will together be able to take care of the M&A requirements of the business units. I decided to first understand the aspirations of my team, before setting up big goals for it to fulfil. For this purpose, I arranged a two-day brain-

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storming, offsite session. By the end of the two days, I realised that my team had a big dream of being not just the preferred investment banker for the business units, but also an indepen-

dent business unit and profit centre that serves external customers. I was very happy and excited to hear this, but I told my team members that they must earn the ‘right to dream’ and we had so far, taken only baby steps in the M&A / IB world.

I then asked the team to define its vision for the medium term which will give us a right to pursue our ‘BHAG’, or big dream. We developed a vision statement which is, “To provide reliable, creative, and competitive investment banking solutions for the Mahindra Group by adhering to the highest ethical and global, professional standards.” We decided that this service will help us prove our capabilities, and also equip us to go out and service the external customer. The Customer as Promoter Score (CAPS) was our benchmark and our goal was to consistently maintain a score of above 50 per cent, which is considered world class and would make us the preferred investment banker.

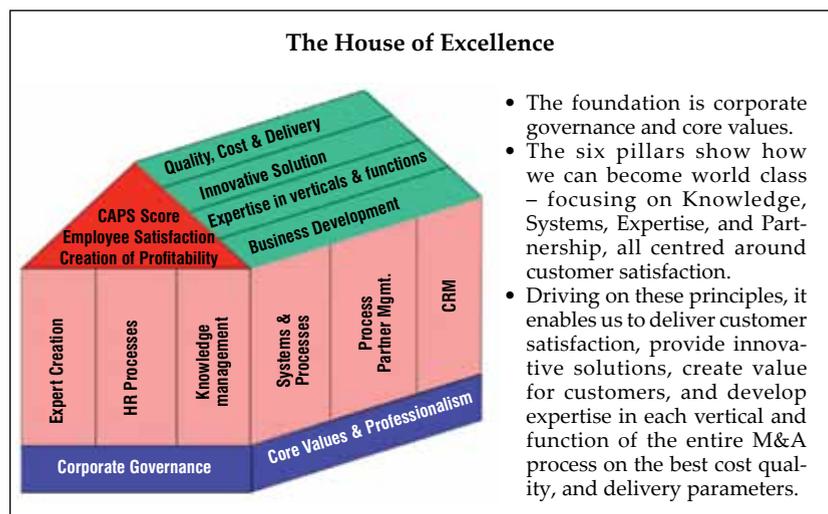


FIGURE 1

The house of excellence

The House of Excellence (See Figure 1) was our way of achieving this vision. The journey would be qualitative from being 'consciously incompetent to unconsciously competent'.

Keeping the above principals in mind we have completed over 60 transactions, which include 30+ acquisitions.

The softer side of things

While talking about the evolution of the M&A team I will like to dwell a little on developing the softer attributes of the team. When I took over this department I had two options. First, was to hire IBs directly, as they would have the required experience to grow the department. Second, was to hire freshers, and groom them, and they would develop along with the department. While the first option will have immediately given us an experienced team, it will have also introduced a more pronounced problem of integrating mindsets and cultures, which is the cornerstone of the relationship between a client and the IB. We apprehended that the business units may not easily accept the outsiders as their IBs. The second option will have allowed us to bring in people straight out of university, and we could groom them according to our culture and mindset. They would be more acceptable to the business units, though lacking in experience. We chose the second option and today, I am proud to say that all the freshers we hired have stayed the course and the learning curve, and have come of age. Each one is an expert in various facets of M&A.

Involving key functions

At Mahindra we have a unique way of working on an M&A deal where the team alone does not work on the deal. The deal is jointly worked on by the project manager who is a representative of the business unit directly related to the transaction, and the process manager who is a member of the M&A team responsible for running the transaction process. This participation forges a partnership between the business team and the M&A team,

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and helps in better understanding and coordination from a transaction point of view. It is like two bullocks pulling the cart in tandem, to reach their destination at great speed.

The Investment Docket

Another practice that I am particularly proud of is the Investment Docket. When preparing the format of the Investment Docket, we benchmarked our document with those of Private Equity (PE) firms and tried to incorporate as many best practices followed in this industry. Our docket includes key assumptions of the deal, the major risks and suggested mitigation plans for the risks. The docket is

presented to the board when seeking its approval to go ahead with a particular M&A transaction. The docket is also useful post facto, when reviewing the transaction parameters at a later date.

The parameters embedded in the M&A process are cornerstones, and followed religiously to create value discipline leading to value creation. Some of its key elements are the following:

1. Testing and validating the upside / synergies in the business plan.
2. Evaluating the impact of the deal on Group resources.
3. Calculating opportunity costs of missing the option.
4. Business plan developed pre-acquisition is sacrosanct with signoff by the business head.
5. Building up worst and best case scenarios.

Key transactions

Some key transactions enabling the Group's outstanding growth, performed by the M&A team are the following:

Acquisition of Ssangyong Motors, Korea

A critical ingredient in the acquisition of Ssangyong Motors, Korea (See Figure 2), in 2011, was relationship building with its management. Build-



FIGURE 2

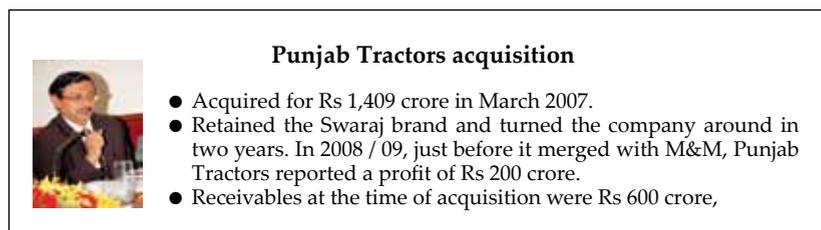


FIGURE 3

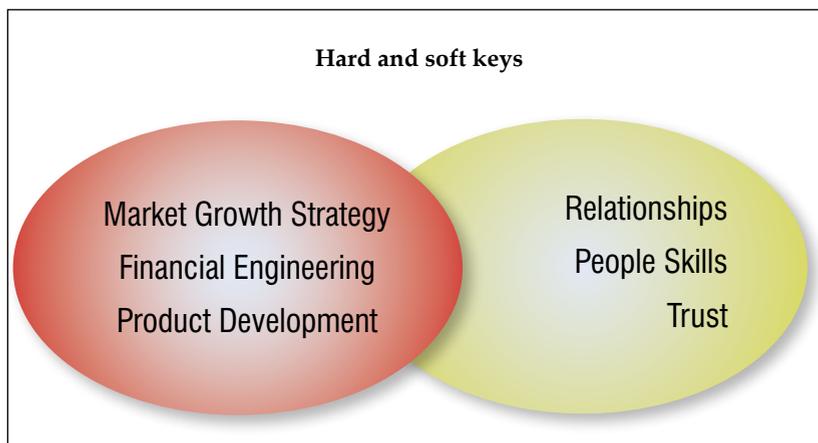


FIGURE 4

ing trust and relationship is an imperative factor in an M&A acquisition, and has long-term consequences. Often it involves trading off immediate gains for long-term synergies that will have lasting benefits. The most important factor in achieving success for any company is its people, and infusing energy in them acts like nuclear fusion creating a million joules of power.

Acquisition of Punjab Tractors, India

At the time of the merger of Punjab Tractors with M&M (See Figure 3) an important short-term goal was set, called '3-2-3', which is that in three years the revenue would double, and the profits treble.

Post-merger, integration played a key role as an enabler for the Group's most successful transaction, so far. Success in integrating the two cultures resulted from a focus on 'Hard Keys' and 'Soft Keys' (See Figure 4).

The Indian DNA is different. We want people (in acquired companies) to feel important, so that they can embrace our core values. There is an integration plan beginning from the period before the acquisition upto the next 100 days of the acquisition, during which the M&A team helps to enable a smooth transition for the

business team to take over.

Acquisition of Kinetic Motors, India

When M&M sets out to make a foray into a new business venture, the top management debates whether it should be a green field or a brown field project. The strategic entry into the two-wheelers business (See Figure 5) was one such case. We were looking for a model that would link our business strategy with the final output we had set for ourselves. The goal here was to get into the two-wheeler market.

MSquare M&A Alliance: The next big thing in M&M M&A

M&M is a fast growing organisation with a CAGR of more than 30 per cent, over the last decade. Our revenue has grown 10.5 times, and profits roughly 14.5 times. Given our enormous growth, our vendors are

The Indian DNA is different. We want people in our acquired companies to feel important, so that they can embrace our core values. We have an integration plan beginning from the pre-acquisition period



struggling to keep pace. The vendors need to increase capacity because of the higher volume, bring in new technology, launch a new product, and they need money for all this. Since our vendors have the same needs as our businesses, we give them similar advice and support, and look out for acquisition targets for them; and then support them in the alliance, nurturing valuation financing.

This service is provided by our M&A team which now has gained vast experience in M&A advisory services across 18 industries. The team acquired this by rendering M&A advisory services to the M&M

Kinetic Motors acquisition



- Acquired 80 per cent stake for Rs 110 crore.
- Structuring of transaction by way of acquisition of business assets rather than share purchase or business purchase.
- Mahindra 2 Wheelers is the first Indian company to take part in the MotoGP motorcycle racing series.

FIGURE 5



FIGURE 6

Group since 2005. We have formed the Msquare M&A Alliance which is our proprietary international partner connect initiative on the web. It is a global platform for M&A advisors, and is a global network of M&A professionals like IBs, chartered accountants, lawyers, due diligence partners, valuers, and other advisors who are part of the M&A value chain. It provides a closed and secure environment for our partners to exchange ideas, information, and participate in deal flows across the globe.

We have more than 100 partners from across more than 20 countries. The alliance is our window to the world, while being a 'Gateway to India' for our global partners.

This platform enables members to



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know about new M&A opportunities across the globe, in varied industries, via teasers, news alerts on various M&A activities, and industry reports, among other information.

Eureka achieved during an M&A journey!

Some key learnings from performing M&A deals are the following (See Figure 6):

1. Ask yourself are you partnering or acquiring and conquering another company. The mindset of a partner must prevail over that of a conqueror.

2. It must be a win-win deal at all steps for all parties.
3. Identify the health drivers and growth drivers of the target company.
4. Adopt best practices and not necessarily impose acquirer company practices.
5. Identify what to integrate and what not to integrate at a fairly early stage.
6. Integration is not about hard issues, but about cultural and emotional bonding
7. You must have a 100-day integration plan
8. Must introduce the one-third concept, which is that on completion of the deal, one-third of the team disengages from the deal process, one-third continues till completion of post-merger integration, and the remaining one-third continues to be a part of the new entity.
9. Be aware of hard keys and soft keys. In a deal, soft keys tend to be crucial and important, and go a long way in determining the success of the deal.
10. The post-merger integration plan involves a deep understanding of the acquisition process and involvement, and is made jointly with the team which is going to implement it.
11. Ask yourself if you are partnering or acquiring and conquering another company.
12. Forge an internal partnership when undertaking a deal - Every M&A has a project leader and a process leader. The business unit for which the M&A is being done is the project leader as it will eventually run the new company, while the process leader or process partner will help to acquire it.
13. Expertise is a journey and not a destination. The moment you stop your journey you will stagnate.
14. Acquisition should emerge from a strategy. ■



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