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ahead of the curve

Public Takeovers In India: Flashback 2023

A detailed report



Report on Public Takeovers In India : Flashback 2023
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A Thought Leadership Publication

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A. Flashback

Indian economy was robust and resilient in 2023. The robustness of Indian banks was demonstrated through their disclosures to the stock exchanges, with high quarterly net profits.

Indian market indices (S&P BSE Sensex and Nifty 50) touched all-time highs. This gave profit booking opportunities to investors. Private equity (**PE**) investors successfully exited their long-term Indian investments through a series of block/ bulk deals. We published a report on December 19, 2023¹, covering all-time high PE exit activities in CY23 from Indian listed companies.

There was a slowdown in the overall M&A activity in India, both in the private and public space. This was primarily due to valuation concerns stemming from a significant mismatch between buyer-seller expectations. Also, both foreign strategic and PE players are on a 'wait and watch' mode due to various reasons, including geo-political concerns. Despite this extra-cautious approach, India continues to be a favored investment destination. As India gets closer to its general elections, a slowdown in M&A activity is likely and par for the course. However, some PE and strategic players remain unperturbed and have in fact started earmarking funds for India-bound investments for CY24. In the first few days of CY24, we have already seen Brookfield announcing the acquisition of ATC's assets for USD 2 billion (approx.). As per our assessment, foreign PE and strategic players who are regular investors in India will continue to invest across sectors, irrespective of geo-political issues or interest rate concerns or timing of the elections.

In this report, we have analysed public takeover activity over the past three years. CY23 saw 85 control deals in the listed space, implemented through the tender offer route under the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (**Takeover Regulations**). Primarily, such deal activity was driven by strategic and domestic acquirers. Foreigners executed only three deals in this space (which includes only one deal by a PE player), which was the lowest during this three-year period.

Out of the last three years, CY22 saw the highest number (93) and value (INR 1,17,991 crore) of deals. Though CY23 saw a high number of deals, the overall value was the lowest in the past three years. Also, CY23 saw lesser number of larger transactions being closed as most of such transactions were announced from July onwards, but they have not yet been closed. This report will do a deep dive into all these aspects and more.

I hope you enjoy this report and I would be delighted to hear your views on the same.

Warm Regards,
Cyril Shroff

¹ https://www.linkedin.com/posts/cyril-amarchand-mangaldas_exit-by-funds-from-indian-listed-companies-activity-7142774606699958272-KRey?utm_source=share&utm_medium=member_desktop

B

Sector-wise activity

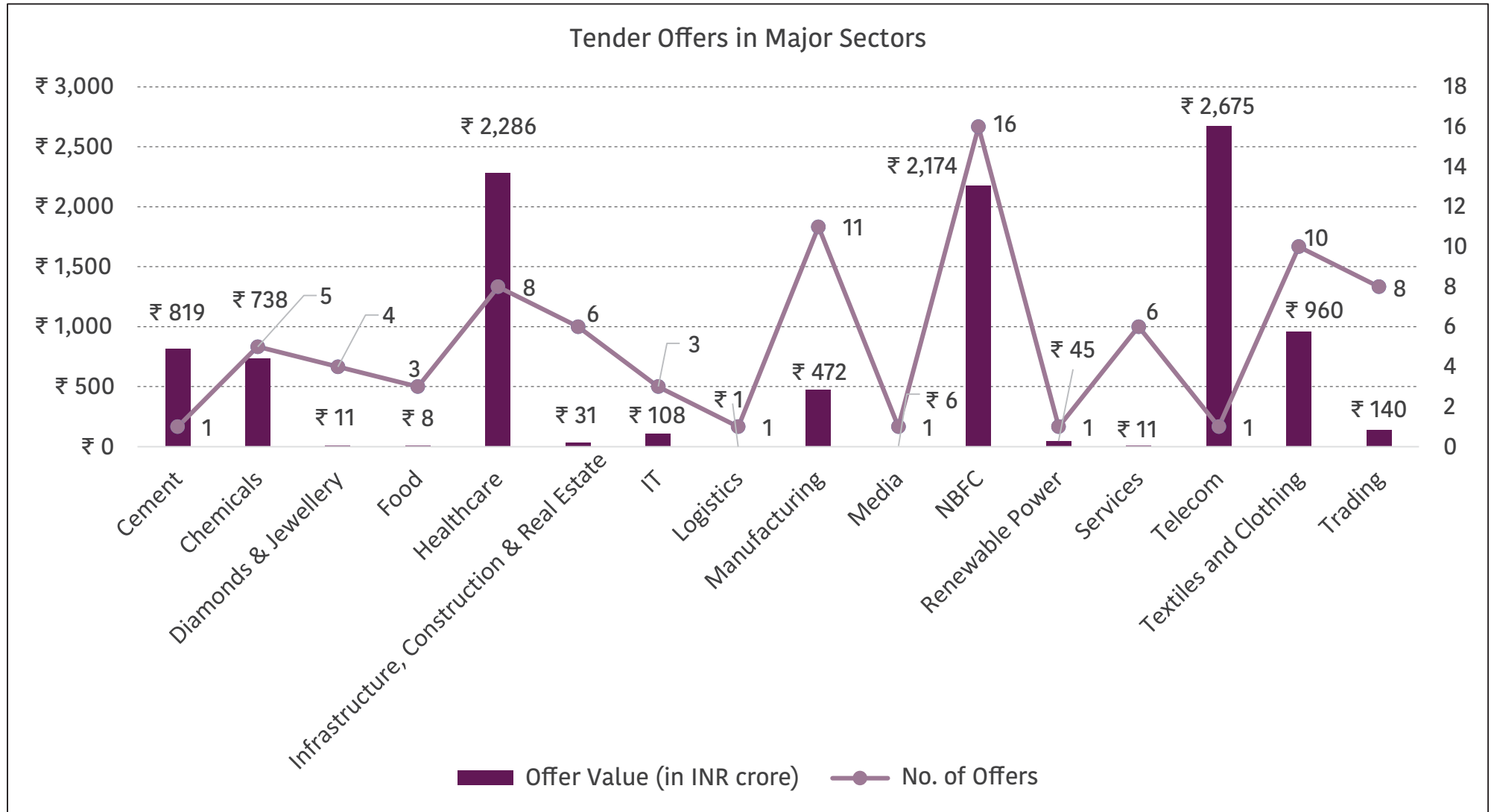
In CY23, India witnessed 85 public takeovers being launched through the tender offer route under the Takeover Regulations.

In value terms, the telecom sector saw the largest takeover at an offer value of INR 2,675 crore, followed by healthcare sector aggregating INR 2,286 crore and NBFC sector aggregating INR 2,174 crore. In number terms, the NBFC sector saw the highest number of takeovers (at 16), followed by, (i) the manufacturing sector (11); (ii) textiles and clothing sector (10); and (iii) healthcare sector (8). In CY23, the five biggest tender offers by value were for companies operating in the following sectors:

1. Telecom (Route Mobile Limited);
2. NBFC (Religare Enterprises Limited);
3. Healthcare (Glenmark Life Sciences Limited);
4. Textiles & clothing (TCNS Clothing Co. Limited); and
5. Cement (Sanghi Industries Limited).

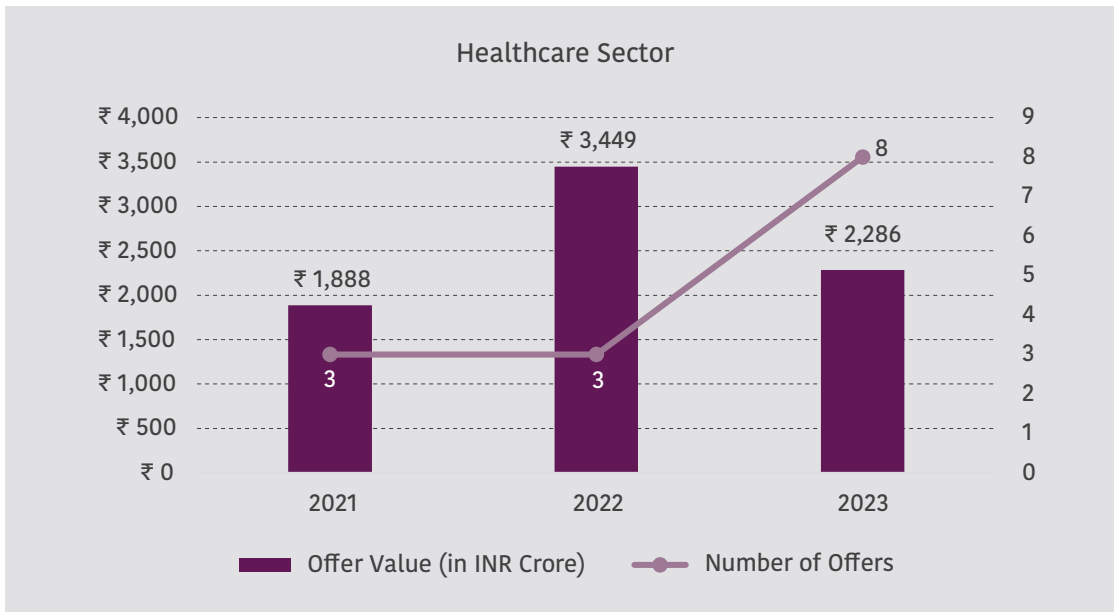
The five biggest tender offers comprised approximately 75.29% of the aggregate value of all tender offers in CY23.

The following graph shows in number and value terms tender offers in major sectors in CY23:

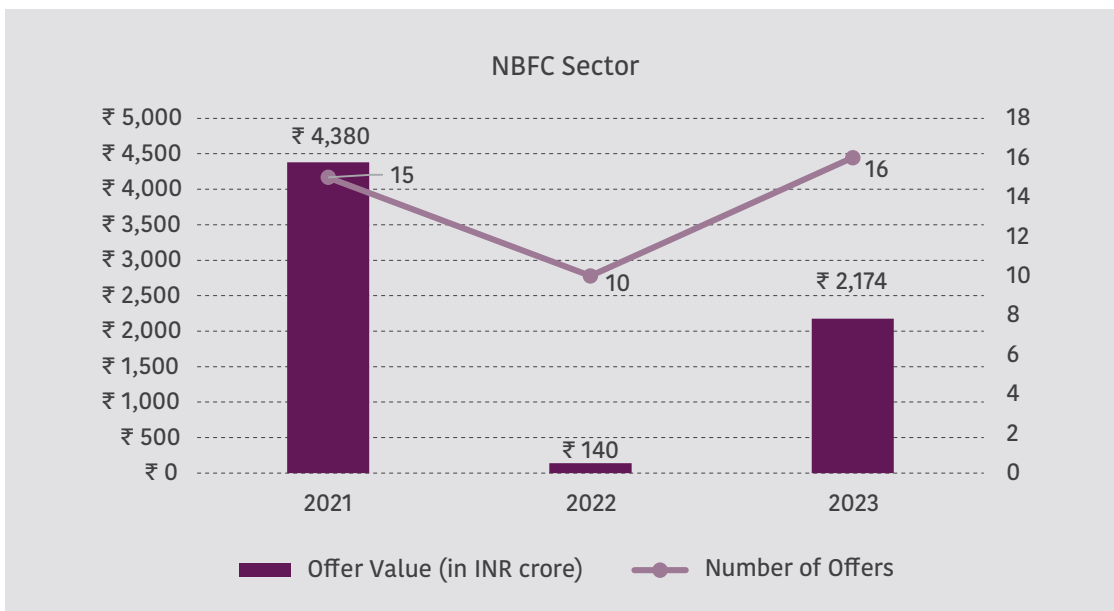


A comparison of takeovers in certain key sectors over the last three years is set out below:

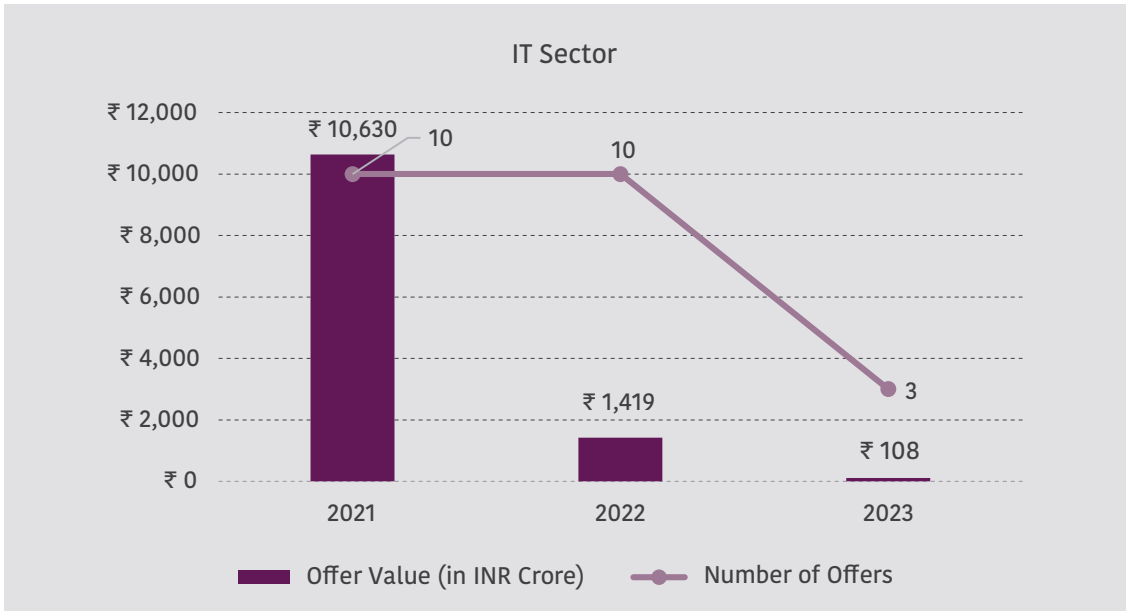
1. **Healthcare Sector:** CY23 witnessed the largest number of takeovers in the healthcare sector (at 8). Though, in value terms, the takeovers announced in CY22 were the highest, as is evident from the chart below:



2. **NBFC Sector:** CY23 witnessed the largest number of takeovers in the NBFC sector (at 16). Though, in value terms, the takeovers announced in CY21 were the highest, as is evident from the chart below:



3. **IT Sector:** Both CY21 and CY22 witnessed 10 takeovers each in the IT sector. Though, in value terms, the takeovers announced in CY21 were the highest, as is evident from the chart below:



C

Price analysis

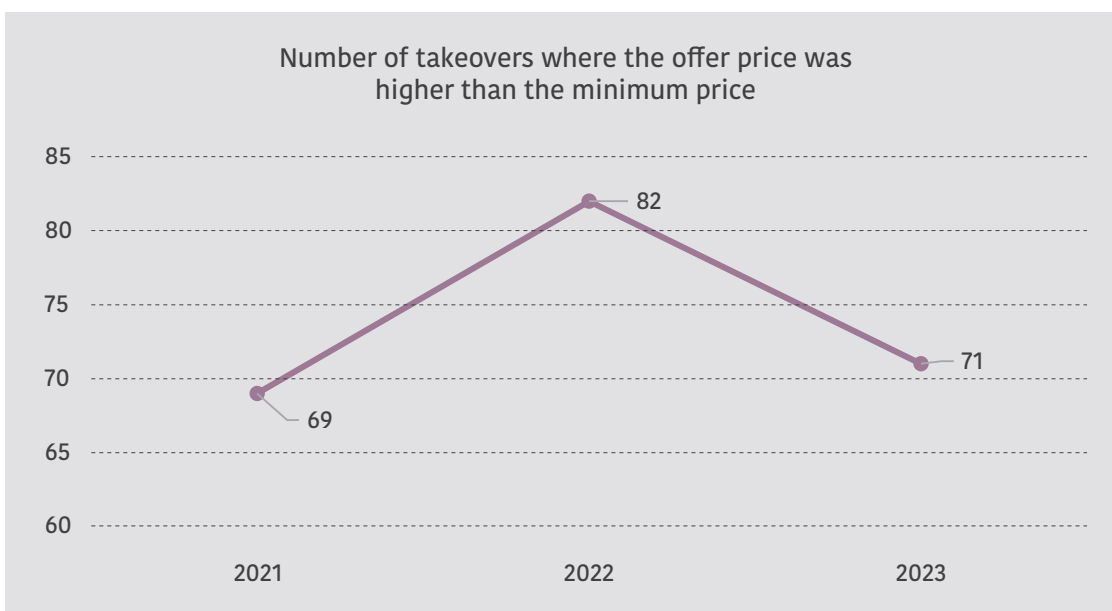
Takeover Regulations do not cast any mandatory requirement for fixing the deal price. However, it mandates the minimum price that the acquirer has to offer to public shareholders, which should be the highest of the: (i) negotiated deal price; (ii) volume weighted average price (**VWAP**) paid by the acquirer to buy shares of the target in the past 52 weeks; (iii) highest price paid by the acquirer to buy shares of the target in the past 26 weeks; (iv) the 60 day VWAP (for frequently traded shares); and (v) fair value (for infrequently traded shares).

From a deal making perspective, the acquirer needs to gauge what price needs be offered to public shareholders to make the tender offer successful – should it be equal to the regulatory minimum or should it be higher?

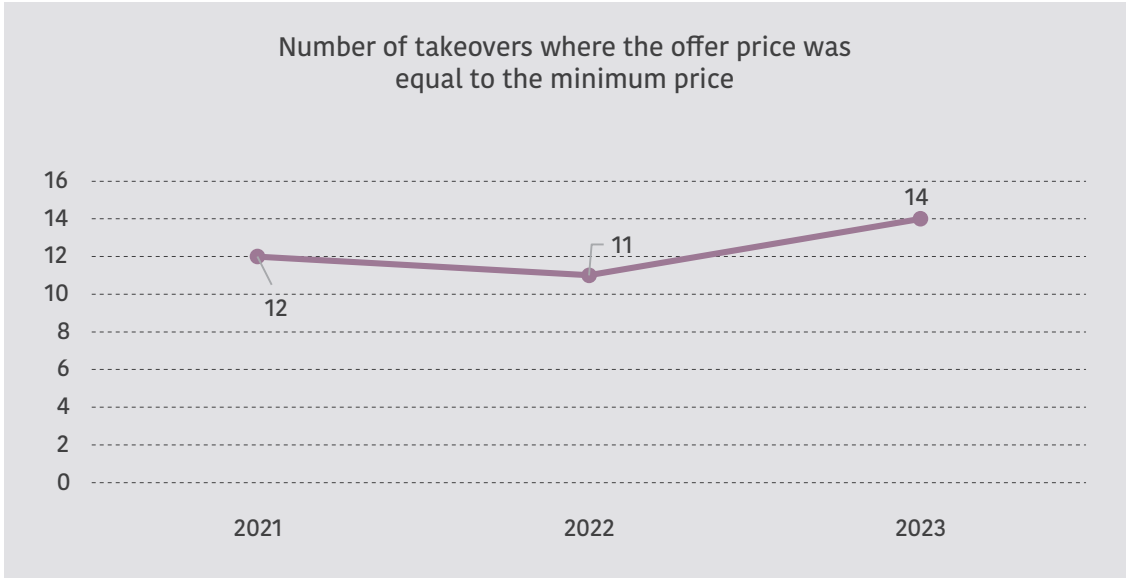
In this report, we have analysed the current market trends to answer both these questions viz. (i) whether the negotiated deal price itself should be equal to, higher or lower than the market price?; and (ii) whether the price offered to the public shareholders should be equal to the negotiated price and the market price?

Analysis of CY23 trends

1. In 71 takeovers, the price offered to public shareholders was higher than the 60-day VWAP (for frequently traded shares) or the fair value (for infrequently traded shares) (**Minimum Price**). A comparison of the number of such takeovers in the last three-year period is set out below:



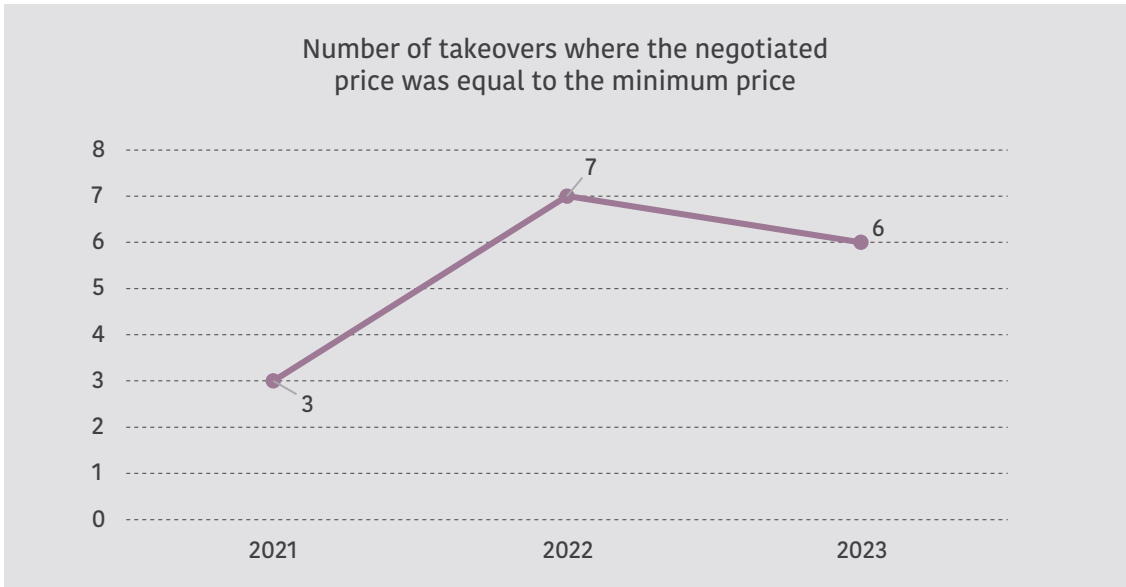
2. In 14 takeovers, the price offered to public shareholders was the same as the Minimum Price. A comparison of the number of such takeovers in the past three-year period is set out below:



3. In 48 takeovers, the negotiated deal price was higher than the Minimum Price. A comparison of the number of such takeovers in the last three years is set out below:



4. In six takeovers, the negotiated deal price was equal to the Minimum Price. A comparison of the number of such takeovers in the last three-year period is set out below:



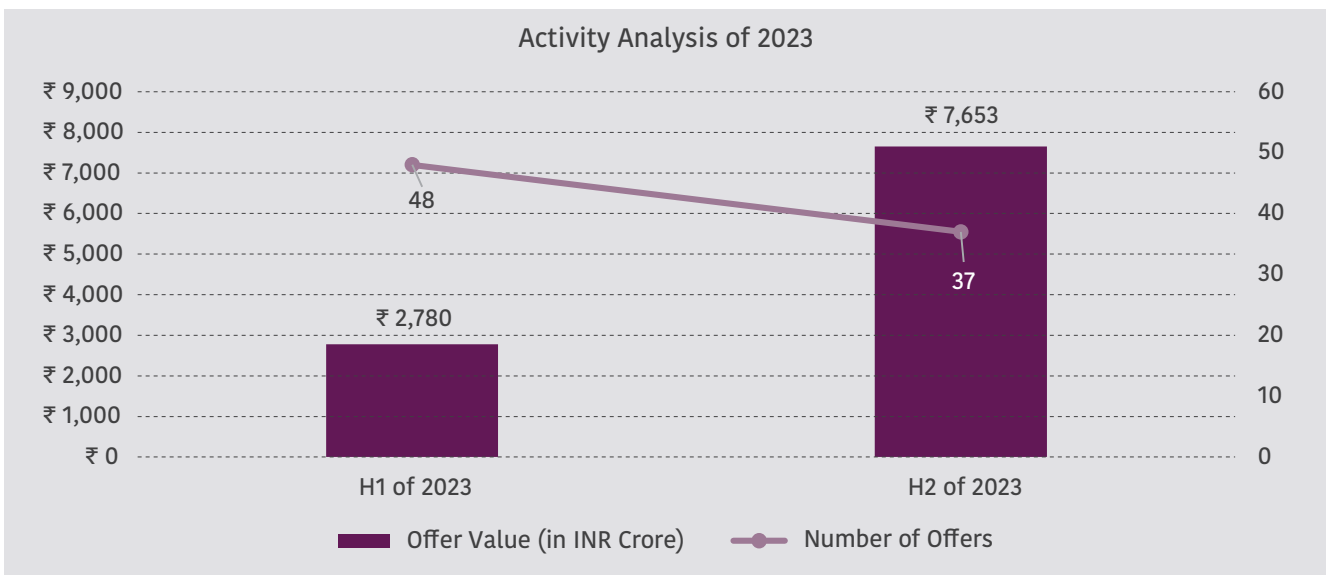
5. In 27 takeovers, the negotiated deal price was lower than the Minimum Price. A comparison of the number of such takeovers in the last three-year period is set out below:



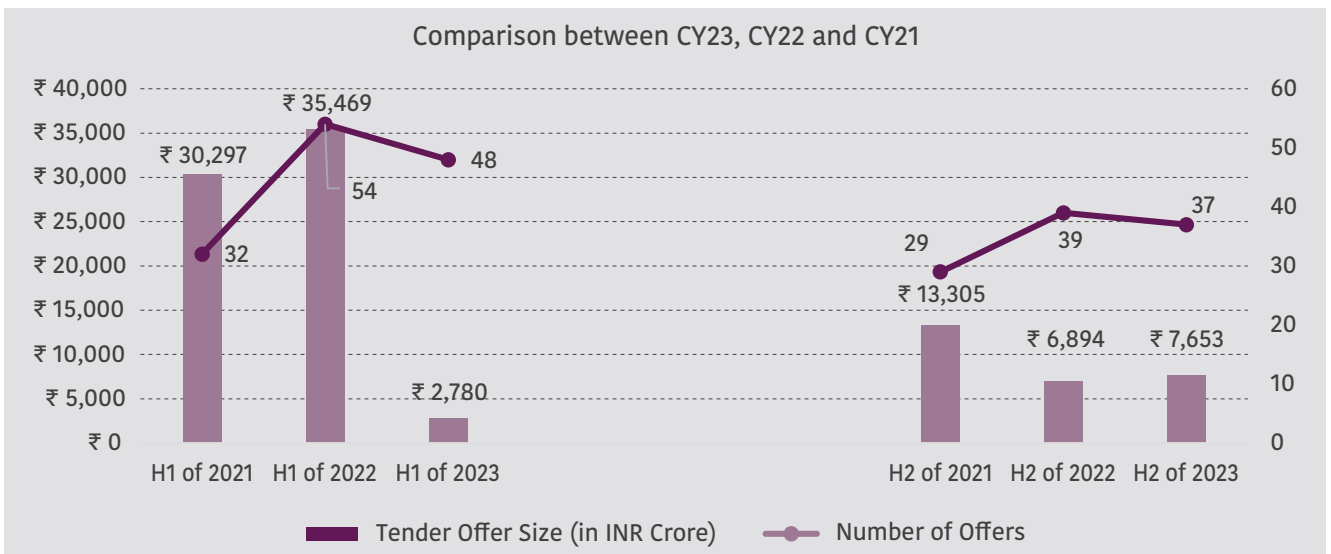
D

Activity analysis of CY23 tender offers

1. The first half of CY23 saw many smaller deals being announced. The second half of CY23 saw an uptick in ‘large-deal’ activity. Number of takeovers announced during the second half of CY23 (at 37) was lower than the first half of CY23 (at 48). However, the aggregate value of tender offers for the takeovers announced in the second half of CY23 (INR 7,653 crore) was substantially higher than the first half of CY23 (INR 2,780 crore), as is clear from the graph below:



2. By comparing the last three years, it is evident that the first half of CY22 saw the highest number and aggregate value of tender offers. First half of CY22 witnessed 54 tender offers at an aggregate value of INR 35,469 crore. Below is a graph comparing the number and aggregate value of tender offers announced in the last three years:



3. Below is a list of Indian listed companies for which the public takeovers were announced in CY23 under the Takeover Regulations:

Period	Name of the Company	
H1 (Jan 1 – Jun 30)	Aryavan Enterprise Limited	J Taparia Projects Limited
	Nutricircle Limited	Diggi Multitrade Limited
	SVP Housing Limited (now called Ganesha Ecoverse Ltd.)	Aar Shyam India Investment Company Limited
	PH Trading Limited	Rahul Merchandising Limited
	Harmony Capital Services Limited	Kintech Renewables Limited (now called SG Mart Ltd.)
	Dentax India Limited	Spice Islands Apparels Limited
	ETT Limited	Jagjanani Textiles Limited
	Naturite Agro Products Limited	Sudev Industries Limited (now called IIRM Holdings India Ltd)
	Hi-Klass Trading and Investment Limited	Pradhin Limited
	Rita Finance and Leasing Limited	Camlin Fine Sciences Limited
	Rotographics (India) Limited	Thirdwave Financial Intermediaries Limited
	Joy Realty Limited	Unichem Laboratories Limited
	Mihika Industries Limited	Beryl Securities Limited
	Blue Cloud Softech Solutions Limited	TCNS Clothing Co. Limited
	Jhaveri Credits and Capital Limited	Shah Foods Limited
	Oxygenta Pharmaceutical Limited	Oasis Securities Limited
	Yuranus Infrastructure Limited	Adline Chem Lab Limited
	Lakhotia Polyesters (India) Limited	City Gold Credit Capital Limited

Period	Name of the Company	
H1 (Jan 1 – Jun 30)	Sterling Guaranty and Finance Limited	Sheetal Diamonds Limited
	Surani Steel Tubes Limited	Ayoki Merchantile Limited
	Transpact Enterprises Limited	Servoteach Industries Limited
	Narmada Gelatines Limited	Unick Fix-A-Form and Printers Ltd.
	Dev Information Technology Limited	Dhruva Capital Services Limited
	Evergreen Textiles Limited	Archana Software Limited
H2 (Jul 1 – Dec 31)	RichiRich Inventures Limited	Miven Machine Tools Limited
	Saboo Brothers Limited	ZODIAC-JRD-MKJ Limited
	Kshitij Investments Limited	Cupid Limited
	Route Mobile Limited	Glenmark Life Sciences Limited
	GDL Leasing and Finance Limited	Esaar (India) Limited
	Capfin India Limited	Religare Enterprises Limited
	Sarvottam Finvest Limited	Madhuv eer Com 18 Network Limited
	Sanghi Industries Limited	ASL Industries Limited
	Containerway International Limited	Shalimar Paints Limited
	Khemani Distributors & Marketing Limited	Coromandel Engineering Company Limited
	Emkay Consultants Limited	AKM Creations Limited
	Standard Shoe Sole and Mould (India) Limited	Aris International Limited
Fundviser Capital (India) Limited	PH Trading Limited	

Period	Name of the Company	
H2 (Jul 1 – Dec 31)	Classic Filaments Limited	Anshuni Commercials Limited
	Pyxis Finvest Limited	Daikaffil Chemicals India Limited
	Scarnose International Limited	Nidhan Commercial Company Limited
	GD Trading and Agencies Limited	Fischer Chemic Limited
	Indian Bright Steel Co. Limited	Times Guaranty Limited
	Adeshwar Meditex Limited	

E

Key features of takeovers and comparison between CY23, CY22 and CY21

Majority of the takeovers (70 in all) were made where the underlying triggering transactions were secondary purchases. Three transactions involved primary issuances by target companies and 10 were a combination of primary issuances and secondary purchases. Two tender offers got triggered due to an agreement *simpliciter* granting control.

The following table gives comparison in numbers of key features of such deals in the last three years:

Calendar year	2023	2022	2021
Number of takeovers	85	93	81
Completed tender offers (tender offers that were launched and completed in the same calendar year)	47	70	50
Number of direct takeovers	85	84	76
Number of indirect takeovers	0	7	2
Number of tender offers made due to breach of 5% creeping acquisition limit	5	6	4
Total value of tender offers	INR 104.33 Billion	INR 423.63 Billion	INR 436.02 Billion
Number of takeovers of NBFCs	16	10	15
Number of takeovers where underlying transaction was closed (whole or in part) before closure of the tender offer	9	26	17

F

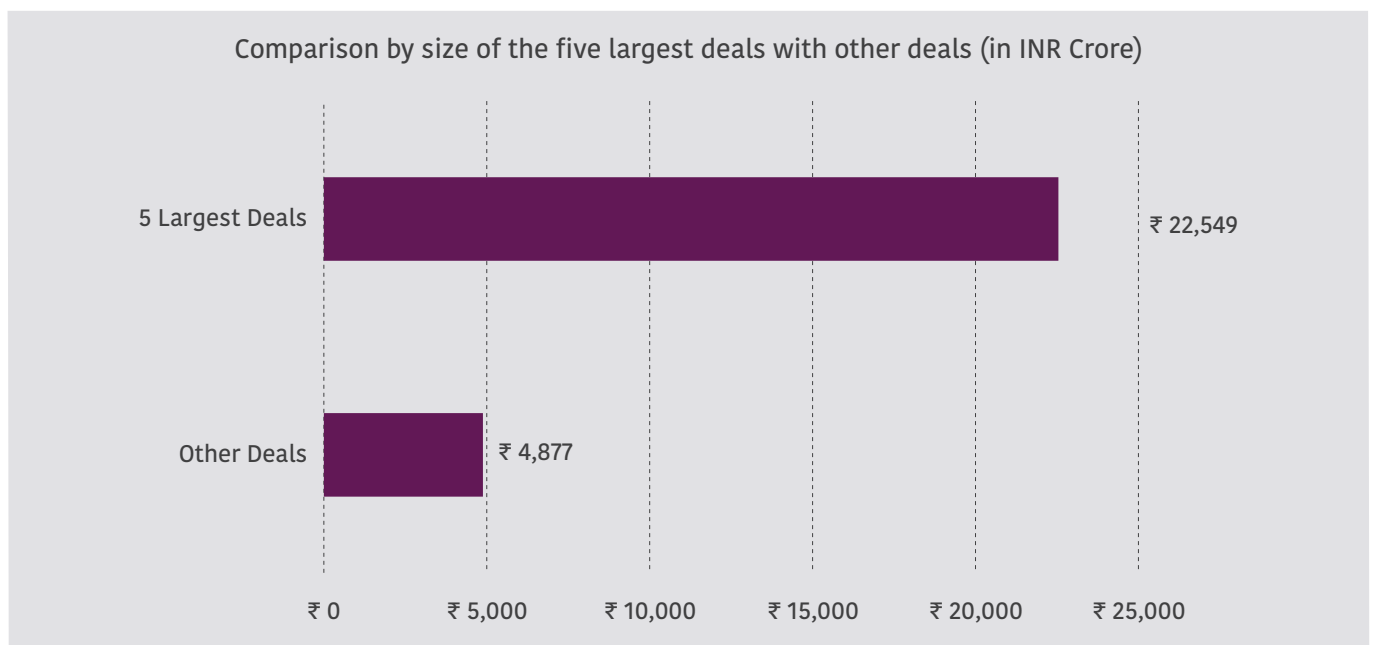
Biggest deals of 2023

In CY23, the five biggest takeovers by value (i.e. aggregate value of the underlying transaction and tender offer) were (in descending order of aggregate value):

1. Proximus Group’s proposed acquisition of Route Mobile Limited (aggregating INR 8,598 crore, approx.);
2. Nirma’s proposed acquisition of Glenmark Life Sciences Limited (aggregating INR 6,995 crore, approx.);
3. Burman Group’s proposed acquisition of Religare Enterprises Limited (aggregating INR 2,523 crore, approx.);
4. Adani Group’s proposed acquisition of Sanghi Industries Limited (aggregating INR 2,493 crore, approx.); and
5. Aditya Birla Group’s acquisition of TCNS Clothing Co. Limited (aggregating INR 1,941 crore, approx.).

These five largest deals comprise 82% of the aggregate value of all deals in CY23. The smallest deal was for GD Trading and Agencies Limited, at INR 12 lakh (approx.).

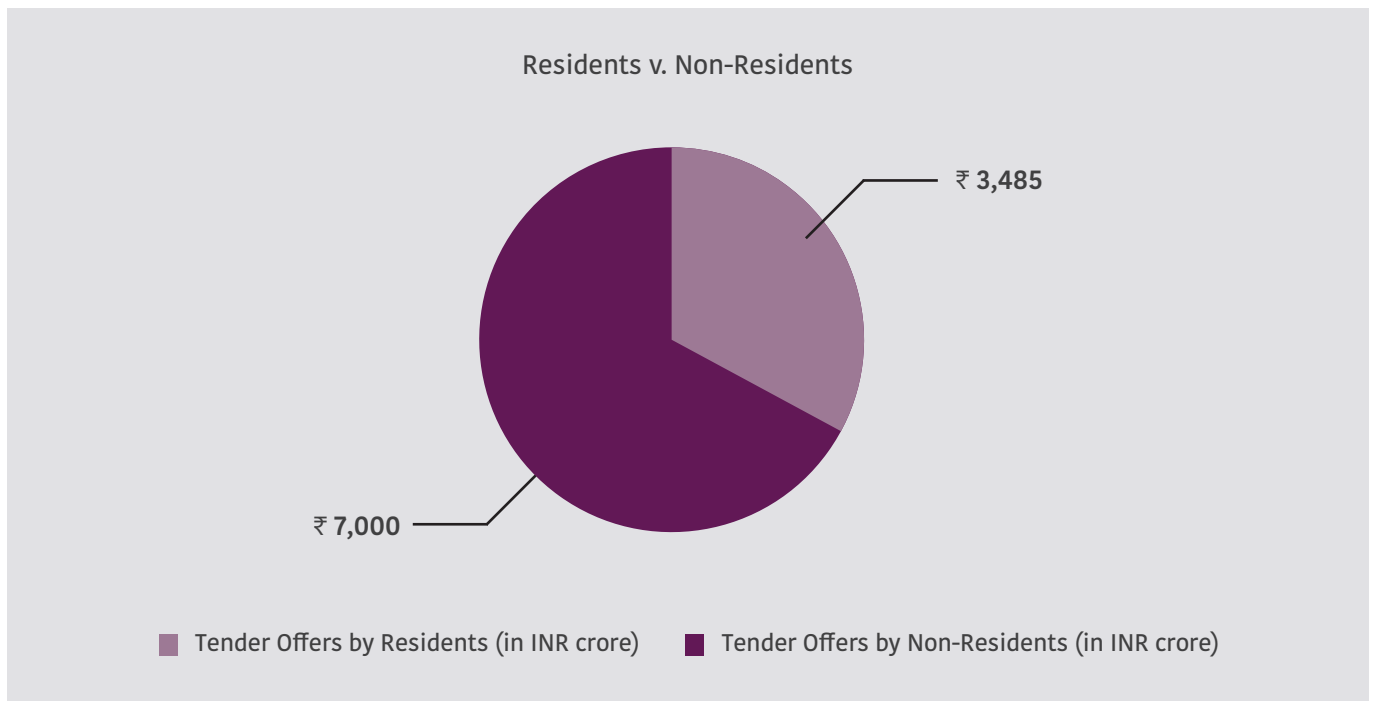
Below is a graph comparing the deal value of the five biggest deals with the deal value of other deals announced during CY23:



G

Takeovers by non-residents

Non-residents announced three takeovers in CY23. The aggregate value of such tender offers was INR 3,485 crore, which constitutes 33.24% of the aggregate value of all tender offers in CY23.



In the last three years, CY22 saw the largest number of takeovers by non-residents, in both number and value terms.

Residents announced the largest number of takeovers at 82 in CY22 and CY23. However, in value terms, the takeovers announced by residents in CY21 were the highest, as is evident from the graph below:



H

Time taken by SEBI to clear DLOF

The time taken to complete an open offer is mainly a function of the time taken to receive SEBI's observations on the draft letter of offer (**DLOF**) and other regulatory approvals.

In CY23, SEBI took an average of 71 days to issue observations on DLOFs, with the longest being 137 days (in Blue Cloud Softech Solutions Limited, operating in the IT sector) and the shortest being 35 days (in Naturite Agro Products Limited, operating in the food sector and Lakhotia Polyesters (India) Limited, operating in the textile sector). SEBI took longer to clear tender offers in CY23 than in CY22 and CY21.

Consistent with past practice, SEBI took longer to issue observation letters for takeovers of NBFCs (on an average 77 days), with the longest being 127 days (in City Gold Credit Capital Limited) and shortest being 56 days (in Oasis Securities Limited).

The time taken by SEBI to issue observation letters for some of the larger takeovers where the tender offers exceeded INR 40 crore in value is set out below:

Serial No.	Name of the Company	Time taken by SEBI to clear DLOF (in days)
1.	Camlin Fine Sciences Limited	95
2.	Cupid Limited	59
3.	Dev Information Technology Limited	71
4.	Kintech Renewables Limited	132
5.	Narmada Gelatines Limited	45
6.	TCNS Clothing Co. Limited	64
7.	Unichem Laboratories Limited	90

SEBI's observations on certain large takeovers, such as Route Mobile Limited (announced on July 17, 2023), Religare Enterprises Limited (announced on September 25, 2023), Glenmark Life Sciences Limited (announced on September 21, 2023) and Sanghi Industries Limited (announced on August 3, 2023), are still awaited.



Takeovers by financial investors

CY23 saw only one takeover announced by a PE/ financial investor, i.e. the takeover of Camlin Fine Sciences Limited (operating in the Chemicals sector) by Infinity Holdings.

In the last three years, CY22 saw the highest number of takeovers launched by PE/ financial investors. However, in value terms, CY21 dominated the other years, as is clear from the graph below:



J

Key Takeaways from Takeovers in CY23

1. Cancellation of Letter of Offer: Rita Finance and Leasing Limited

For change of control of an NBFC, prior RBI approval is required. As is often the case with such deals, while the RBI approval was still pending, the acquirers received final observations/ comments from SEBI on the DLOF. Despite the pendency of RBI approval, the acquirers issued the final letter of offer. However, based on shareholders' complaints, the acquirers had to cancel the final letter of offer due to lack of certainty of purchase of shares from the public shareholders and the closure of the underlying deal until the receipt of RBI approval.

2. Conditional Tender Offer

Aditya Birla Group had launched a conditional tender offer for the acquisition of TCNS Clothing Co. Limited. The tender offer and the underlying transaction were conditional upon equity shares representing at least 20.19% of the share capital of the target being tendered in the offer. It is not typical to see conditional tender offers in India. For the three years covered in this report, this is the only example of a successfully completed conditional tender offer.

3. Re-issue of Forfeited Shares

In Sudev Industries Limited, tender offer was triggered due to the re-issue of forfeited shares to the acquirer.

4. Minority Investment in Acquirer

In the Proximus Group-Route Mobile deal, post the underlying deal closure, sellers will acquire a minority stake in the acquirer entity itself. Such swap of shares by sellers from the target ListCo level to the acquirer is unusual.

5. Payment of interest for delay

In the following four takeovers, a simple interest of 10% p.a. on the offer price was paid to the public shareholders:

- a. Takeover of Nutricircle Limited by Mr. Hitesh Patel – delay in making an open offer as per the Takeover Regulations;

- b. Takeover of Jagjanani Textiles Limited by Mr. Avanishkumar Patel – past failure to make an open offer as per the Takeover Regulations;
- c. Takeover of Sudev Industries Limited by Mr. Vurakaranam Ramakrishna – delay in making an open offer as per the Takeover Regulations; and
- d. Takeover of GDL Leasing and Finance Limited by Mr. Prem Jain, Mr. Ashish Jain and Mr. Mohit Jain – delay in receiving RBI approval.

6. Trends in penalties for disclosure violations

While reviewing the DLOF, SEBI also analyses past compliance with disclosures required to be made under the Takeover Regulations. Like in the past, in 2023, too, SEBI typically imposed penalties in the range of INR 1,00,000 to INR 3,00,000 per violation. If the violations are repetitive, then the penalties tend to be higher.

K

Year 2024

M&A activity in CY24 is likely to focus on energy transition, healthcare (including pharmaceuticals), infrastructure, fintech and IT (largely AI/ GenAI driven). Though CY23 did not see high number of stress asset M&A transactions, we believe that the stressed assets deals will be on the rise soon. Retail loan books of banks have already started showing high levels of defaults and banks have started selling such retail loan books to either ARCIL or other banks who are willing to buy it at deep discounts, for e.g., (i) Bandhan Bank has sold its NPA affordable home loan portfolio (with loan outstanding of INR 719.69 crore) to ARCIL at INR 289.60 crore; and (ii) YES Bank has invited bids for its NPA loan book of INR 4,234 crore (out of which INR 1,142 crore are retail loans) and obviously, the actual sale will take place at a substantial discount. The retail loan books are under extreme financial stress and therefore, sales of this nature will continue throughout CY24.

We would now like to talk about the most discussed topic of CY23, i.e. artificial intelligence (AI)/ GenAI. It is already known that AI has thoroughly disrupted the global tech sector. As people develop new skill sets and the existing tech players adapt themselves to such disruptive changes, CY24 will see new entrants exclusively in the AI space. Funding in this sector in India, as of now, would be 'value proposition' and 'key impact' driven. We do not see quick fire unicorn status being achieved by startups, at least as of now. The primary reason for the same being that a lot of startups which attained quick fire unicorn status saw erosion in value in late stage funding rounds.

On the ESG front, we expect large strategic players in India to allocate more towards ESG commitments and then acknowledge that ESG is more than just an on-paper 'good to have' commitment.

Lastly, we believe that the second half of CY24 will see higher deal activity for obvious reasons – by then the general elections would be over and all uncertainties would be put to rest. We are expecting the average deal size in CY24 to be far bigger than CY23.

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