



# India M&A Report 2019

M&A trends and lessons for dealmakers



Confederation of Indian Industry

**BAIN & COMPANY** 

**This report was prepared by Dinkar Ayilavarapu and Vikram Chandrashekhar. Dinkar is a partner and Vikram a principal in Bain & Company's New Delhi Office. They are members of the firm's Mergers & Acquisitions practice.**

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## Letter to readers

Dear readers,

In this report, Bain, in collaboration with CII, has analysed India M&A activity from 2015 to mid 2019, focusing on trends and perspectives specific to the Indian landscape.

We begin by looking at Indian deal activity over the last four and a half years, in Section 1. It is encouraging to see a steady pipeline of deals from 2015 to 2018, notwithstanding the decline in activity observed in H1 2019. 2018, in particular, was a blockbuster year for M&A. About 70% of the growth in M&A activity in 2018 was led by distressed deals, enabled through the corporate insolvency resolution process under IBC (Insolvency and Bankruptcy Code).

Our evaluation of large deals over this period, and our work on several of these, suggests there are five distinct deal archetypes in Indian M&A. Each of these archetypes has a different value creation thesis, and a different set of tripwires and risks that executives must address through the deal cycle. We offer perspectives from our experience, on de-risking value creation and maximising the chances of success in each of these archetypes.

The five archetypes are:

1. **Distressed asset acquisitions:** The Insolvency and Bankruptcy Code (IBC), though still work in progress, has been a crucial driving force as a mechanism for price discovery and recovery of distressed assets in this timeframe.
2. **Scope deals:** Scope acquisitions, to accelerate topline growth through new and attractive market segments or new capabilities, have increased in salience. This is in line with a trend we are observing globally as companies look to new sources of growth.
3. **Acquisitions of carve-outs:** Divestment of non-core assets or businesses is a significant driver of deal volume, particularly in capital-intensive industries. Acquiring these 'carved-out' assets or businesses, has the dual complexity of separation from the parent and integration with the acquirer.
4. **Acquiring larger targets, mergers at scale:** Acquisitions of a similarly sized or larger sized target are becoming more frequent. These present a unique set of challenges, particularly in post-closure integration.
5. **India entry via M&A:** India entry via M&A has grown over this timeframe. Acquirers are looking to participate in the India growth story or to acquire India-based capabilities, or both.

Each of these archetypes have a unique path to value creation, and a unique set of challenges and risks. Section 2 dives into these and outlines key takeaways for dealmakers navigating each of these (or a combination of) archetypes.

Bain has worked with numerous clients across the deal cycle to understand what drives successful M&A. Section 3 captures implications from those experiences, focused on three parts of the deal cycle—diligence, operating model design, and post-closure integration.

As you read, you will see that the report spends a lot of time on how executives need to re-think M&A playbooks to increase their odds of success. At the same time, we have uncovered a fundamental truth about M&A: If you want to be successful at M&A, develop a repeatable model. Section 4 speaks about how companies, which do frequent and material transactions (termed as ‘mountain climbers’), generate superior returns. We also illustrate what they do differently to drive success.

Our report has many interesting facts and data, but the insights have been highlighted through the case studies we present. We thank the many executives who worked with us to bring these lessons to life.

Thank you for reading, and we look forward to your feedback.

Sincerely,  
CII and Bain & Company



## Section 1: The Indian M&A landscape

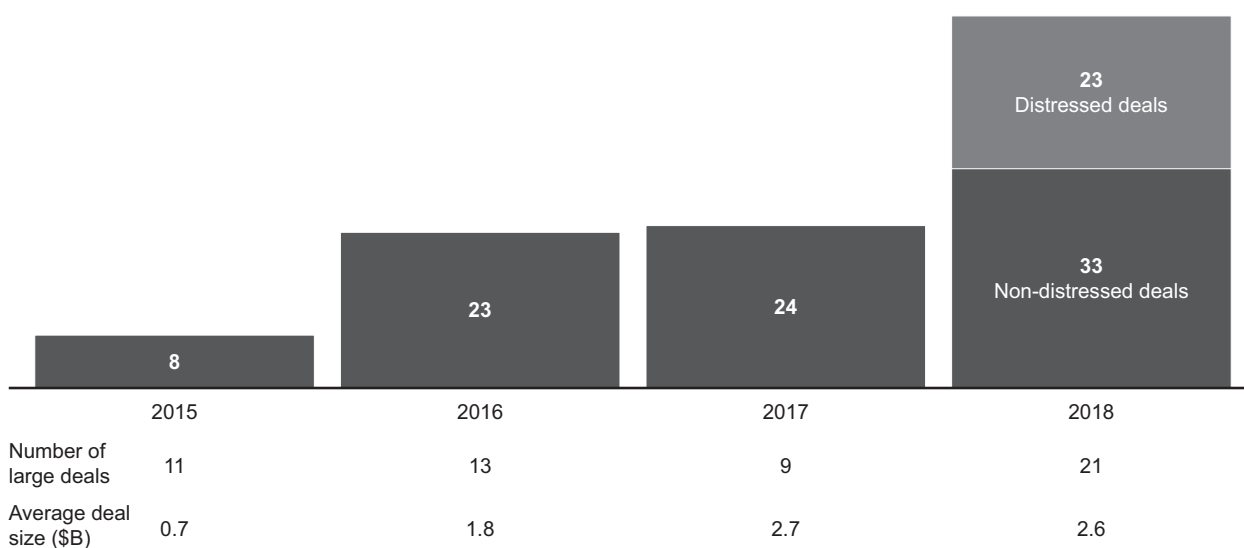
Mergers and acquisitions (M&A) activity in India has remained buoyant from 2015 well into 2019 with more than 3,600 M&A deals with an aggregate value of more than \$310 billion. During this period, several developments led to an unprecedented re-organisation of asset ownership in corporate India. The present landscape offers a tremendous opportunity for well-managed businesses with a strong deal thesis, looking for new avenues of growth and/or improving profitability.

We examined deals from January 2015 to April 2019 and found that the profile of M&A in India has shifted significantly with implications on how to succeed with M&A across the deal cycle. In this report, we look at about 60 largest transactions by strategic investors in India during this period, each valued at more than \$250 million—what we refer to as ‘large deals’. The total deal value of these large deals during this period was \$120 billion. Further, we have shared key observations from these deals on getting large M&A right in India.

Large deals doubled in value between 2015 and 2016, to \$23 billion. Over 2017 to 2018, large deal value doubled again to \$56 billion. This was notably due to the passage of the Insolvency and Bankruptcy Code (IBC) in 2016, which enabled bidding for several distressed assets to complete in 2018. Deal size also grew during this period, averaging \$0.7 billion in 2015 to more than \$2.6 billion in 2017 and 2018 (see Figure 1.1).

**Figure 1.1:** Volume and value of large deals increased between 2015 and 2018

Deal value  
(2015–18, \$B)



Notes: Distressed deals are deals which have gone through or are going through the IBC process; non-distressed deals are all other deals; large deals are ones valued at \$250 million or more  
Sources: Dealogic; Capital IQ; Bain analysis



Deal volume has been robust across sectors, with industrial goods, energy, and telecom & media representing more than 60% of deals by volume and value (see *Figure 1.2*).

The largest deals took place in the energy and technology sectors. Notable examples include Walmart's \$16 billion acquisition of Flipkart (2018), the \$13 billion acquisition of Essar Oil by a Rosneft-led Russian consortium (2017), and Adani Transmission's \$3 billion acquisition of Reliance Infrastructure's integrated Mumbai power distribution business (2018).

Four trends underline the recent surge in deal making with implications for dealmakers.

First, the IBC's continuing efforts have been crucial, as a mechanism for price discovery as well as recovery of distressed assets. Distressed asset acquisitions accounted for about 70% of the growth in deal value in 2018 (over 2017).

Second, consolidation, rooted in traditional scale economics, enabled industry leaders to pull away from their competition. Airtel's acquisition of Tata Teleservices (2019) and Telenor assets (2018) and UltraTech Cement's acquisitions of Jaypee Cement (2017) and Binani Cement (2018), are examples of large players consolidating their positions. This has led to a 4% to 20% increase in market share for the top five players in consolidating industries (see *Figure 1.3*).

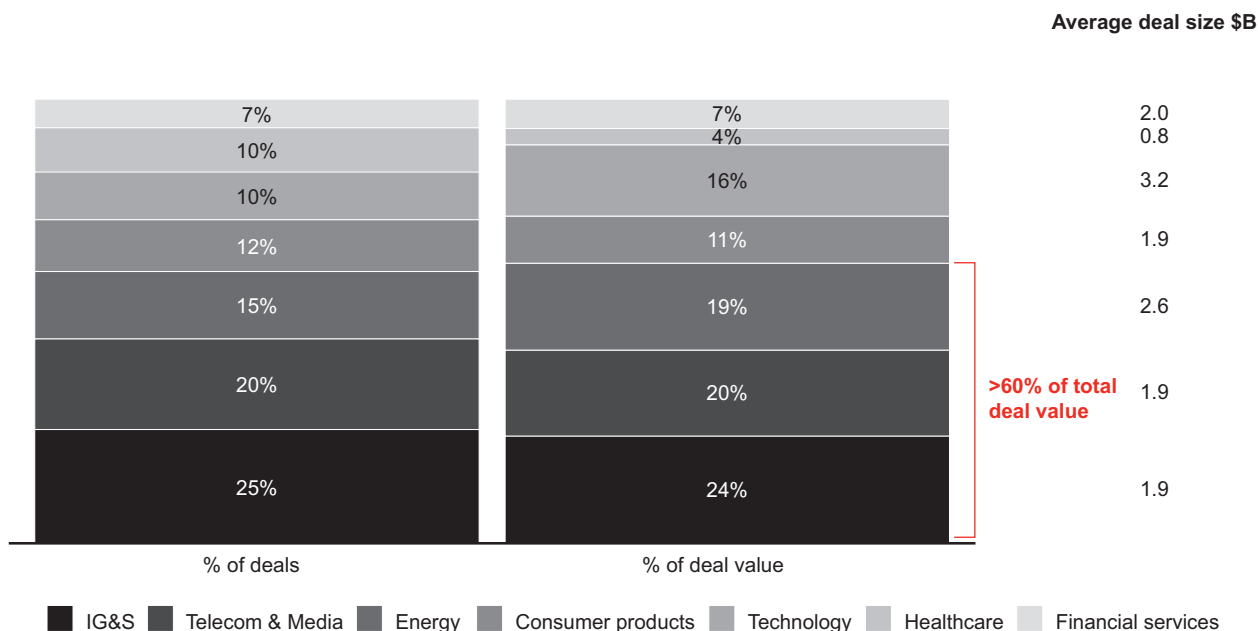
The third trend is exits from non-core businesses and subsequent reinvestment back into core businesses over this timeframe. Sellers exiting non-core assets initiate approximately one-fourth of non-distressed deals. Two such cases are GlaxoSmithKline's sale of its India Consumer Healthcare portfolio to Hindustan Unilever (announced in 2018), and telecom players' divestment of tower assets to specialised tower companies.

Lastly, despite recent concerns about the slowing economy, the India story during this timeframe has been a significant driver of inbound M&A, with India entry non-distressed deals growing from 9% of large deal volume in 2015 to 20% in 2018. Examples include Walmart's big bet on India with Flipkart, and IHH's bid for Fortis Healthcare.

These trends have implications for dealmakers, which we uncover in the next section.



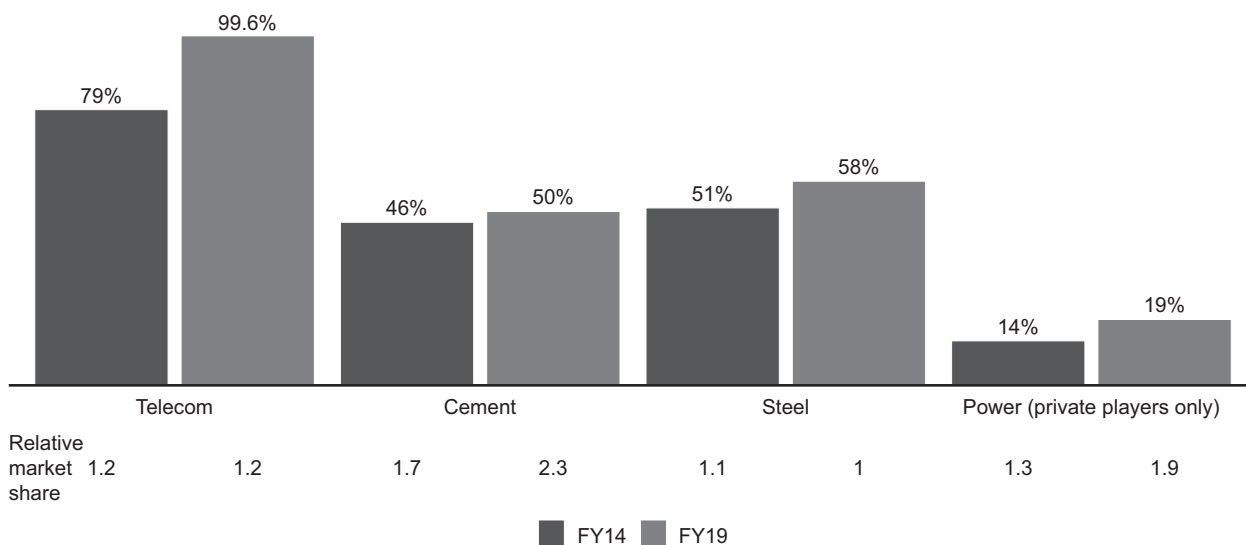
**Figure 1.2:** Three sectors—industrial goods, energy and telecom & media—made up about 60% of total deal value



Note: Sector for deals defined based on target industry  
Sources: Dealogic; Capital IQ; Bain analysis

**Figure 1.3:** Different levels of consolidation observed across industries

Share of the top five players



Notes: Subscriber base data used for telecom market share; production data used for steel and cement; installed capacity used for power; relative market share=(share of market leader)/(share of player with second highest share)  
Sources: Dealogic; Capital IQ; TRAI; Crisil; Ministry of Steel data; company annual reports; Bain analysis

## Section 2: Five deal archetypes, five separate playbooks

As we looked at India's M&A landscape in recent years and assessed the 60 large and strategic Indian M&A transactions, we uncovered five deal archetypes each with unique opportunities, risks and tripwires (see *Figure 2.1*). Most acquirers will recognise one or more of these archetypes in any deal they consider. The archetypes provide critical pointers to identifying risk and maximising the chances of success.

### Distressed asset acquisitions

Since the IBC bill was passed in 2016, distressed asset acquisitions have grown significantly. From January 2015 to April 2019, there were seven large deals totaling \$23 billion in deal value. These were primarily in the power, cement and steel industries, all struggling with significant overcapacity, high capex intensity and under-capitalised parent companies.

The IBC has been a landmark legislation for corporate India, but three years post the 2016 ruling, much remains to be done. While the IBC established a 270-day deadline for resolution of debt, 34% of the open cases at the end of June 2019 were pending for more than 270 days. As of 30th June 2019, only 120 out of the 2,162 cases under CIRP process were closed by resolution (see *Figure 2.2*). Similarly, of the INR 2.53 trillion claims admitted under the CIRP process, only 42.8% of claims valued at INR 1.08 trillion, were recovered as of 30th June 2019.

Entrusting multiple stakeholders with structuring the resolution plan was one issue that caused process delays. Although the committee of creditors prepare the first draft, with varying recovery rates allocated to different types of creditors, this often gets challenged, resulting in further delays.






IBC also did not clearly designate the preference order for financial secured, financial unsecured and operational creditors. Amendments released by the government in August 2019 address the lack of clarity on the priority-order of creditors. It also set the process deadline to 330 days. Two changes in this amendment, unsecured financial and operational creditors are not necessarily at par with secured financial creditors. This is similar to a waterfall mechanism during liquidation. In addition, debt payments due to operational creditors shall not be less than the liquidation value of their debt. With these amendments, we expect to see cases under IBC resolve more quickly.

### Value drivers

This value creation playbook for distressed deals is still evolving as a few players develop a repeatable model for acquiring distressed assets. Market response to large distressed asset acquisitions has been weaker when compared with acquirers of healthy assets. In aggregate, only 33% of distressed asset acquirers outperformed the index vs. 53% of healthy asset acquirers, over a one-year timeframe, post announcement.

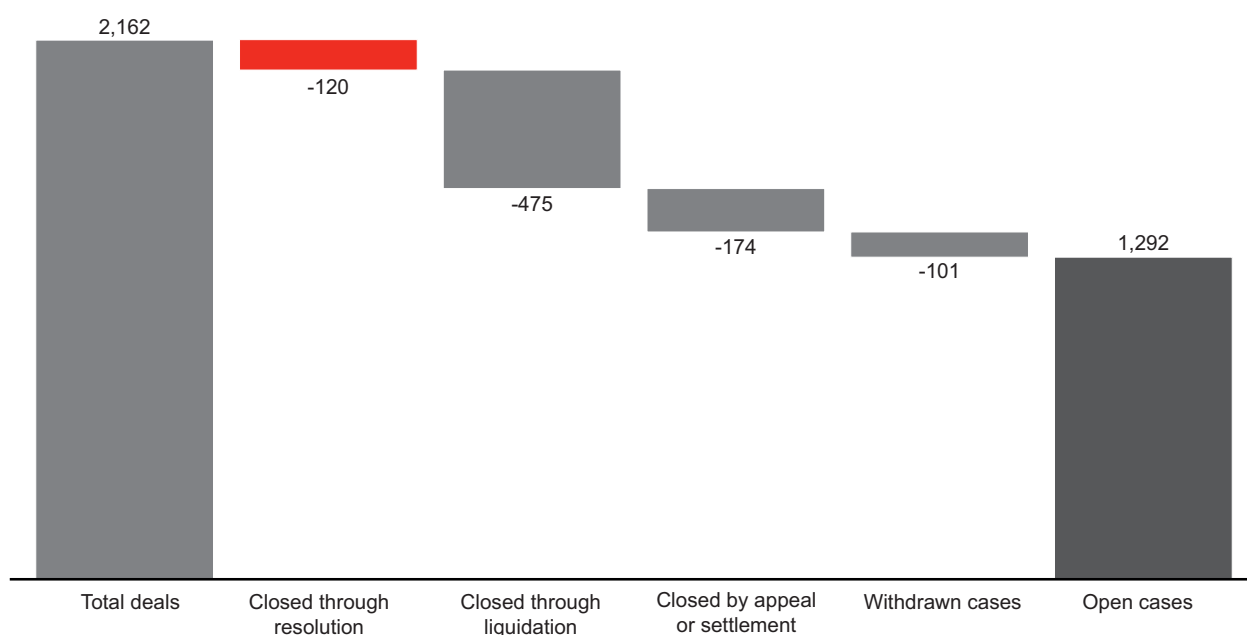
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**Figure 2.1:** We see five distinct deal archetypes in Indian M&A

Deal archetype	% of large deal volume (Jan 2015–Apr 2019)*	% of large deal value (Jan 2015–Apr 2019)*
 Distressed asset acquisitions <sup>1</sup>	<b>12%</b>	<b>21%</b>
 Scope deals	<b>40%</b>	<b>56%</b>
 Acquisition of carve-outs	<b>33%</b>	<b>25%</b>
 Merger at scale or acquisitions of larger companies	<b>17%</b>	<b>23%</b>
 India entry via M&A	<b>17%</b>	<b>36%</b>

Note: 1-Distressed deals are deals which have gone through or are going through the IBC process; values for all other deal archetypes indicate values for non-distressed deals only; \*Values do not add up to 100% as deals could belong to more than one archetype

**Figure 2.2:** Status of IBC process as of 30<sup>th</sup> June 2019



Source: Insolvency and Bankruptcy Board of India

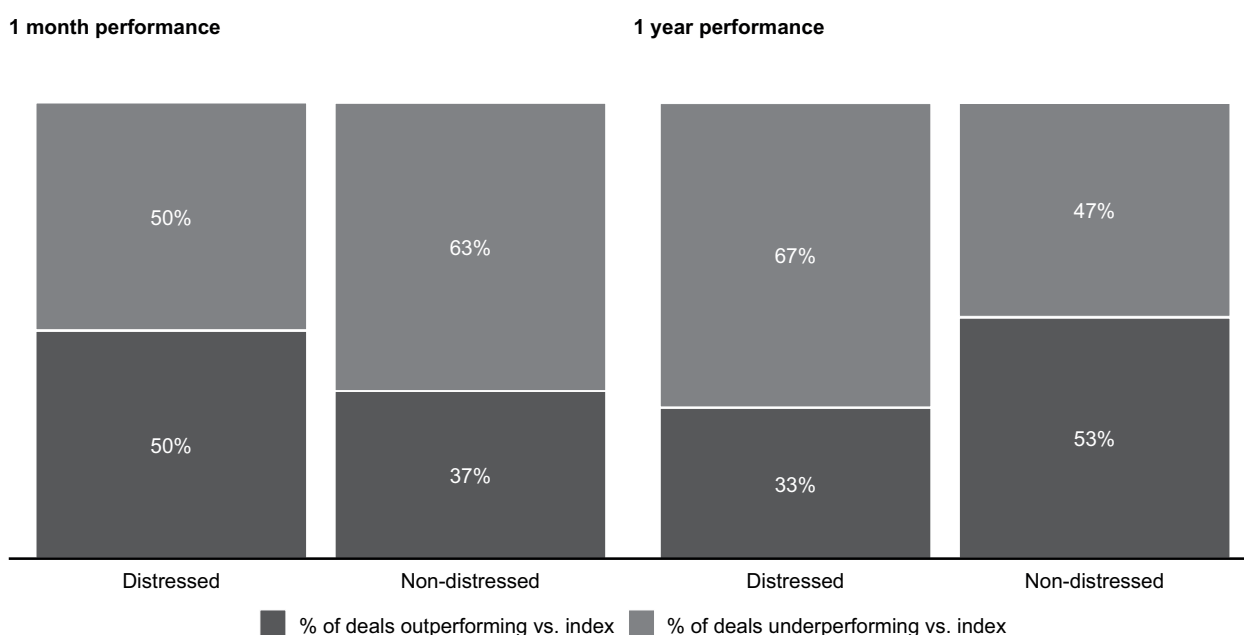
Interestingly, in the short term, markets have received distressed deals more favourably than healthy deals with 50% of distressed acquisition announcements outperforming the index over a one-month period vs. only 37% in the case of healthy deals (see Figure 2.3).

Operational turnaround is a critical part of the deal thesis for most distressed asset acquisitions. As with most struggling businesses, the lack of working capital and investments could mean compromises made on products and or markets. In these cases, the typical revenue acceleration levers apply. These include focused investments in segments, geographies, or products besides better execution and leveraging synergies where possible, for example in distribution.

For example, a leading cement company immediately implemented a full sales acceleration programme on the target assets, post closure. This involved key account development and dealer engagement programmes, coupled with quality improvement and re-branding of the target product at a higher price point to improve profitability. With precise execution, this led to a turnaround of business trajectory in six months post closure.

Additionally, strong cost synergies also apply. Acquirers in the same industry, typically in industry-leading positions, purchase most distressed assets. Hence, scale synergies apply across the board from procurement to general & administrative expenses.

**Figure 2.3:** Market response to large distressed asset acquisitions has been weaker when compared with acquirers of healthy assets, over a one year timeframe



Notes: 1 month and 1 year performance are based on growth in stock prices vs. index for 1 month and 1 year after the announcement date; for deals which have not completed 1 year after announcement, stock price as of May 13, 2019 taken into consideration; large deals defined as ones valued more than \$250 million  
Sources: Dealogic; Capital IQ; Bloomberg; Bain analysis

## Key risks

In addition to the typical risks in any deal, distressed asset acquisitions have a unique set of risks that acquirers must plan for, through the deal cycle. These include:

- **Limited pre-closure information:** Distressed deals typically have a long lead-time to closure (330 days vs. 250 days for healthy deals), but acquirers may also have limited information to develop a value creation and turnaround plan. This could lead to over-estimating the ability to turnaround the asset.
- **Overpayment for the asset:** Lack of full information around the quality of assets and the extent of liabilities, might lead to over-valuing the asset. In some cases, operational creditors may make claims post deal closure.
- **Asset decay:** Given the long lead time, the ecosystem of employees, partners, and suppliers might decay, leaving behind only hard assets. This could have a significant impact—from difficulty in implementing a value creation plan, to risks in operational continuity.
- **Process and regulatory uncertainty:** Significant regulatory uncertainty before Day 1 should be planned for, in terms of management bandwidth and resourcing.

## Takeaways for distressed asset acquirers through the deal cycle

- Designate the leadership team as early as possible including CEOs direct reports, tasked with executing the deal thesis.
- Take into consideration expected costs due to delay in deal closure and to arrive at a fair value for the assets.
- Prepare a clear roadmap for operational continuity post closure, with a contingency plan for the primary ecosystem of suppliers and partners.
- Utilise the typically long lead time to refine the value creation hypothesis, even if it is based on outside-in assessment. Understand the levers, timeframe and investments required to set a clear blueprint and begin execution as quickly as possible post closure.

## Scope deals

Scale deals are those, which strengthen market leadership and lower cost position through cost synergies. Scope deals, however, accelerate topline growth by adding attractive market segments or new capabilities. Some deals blend both scale and scope, but the vast majority lean one way or the other.

Scope deals have increased in salience in our large deals database over the January 2015–April 2019 timeframe. Scope deal volume has increased from 18% of deal volume in 2015 to 40% in 2018.

This is in line with a trend we are observing globally, where scope deals have increased to 51% of total deal volume, outnumbering scale deals for the first time in 2018 (see *Figure 2.4*).

Almost 75% of scope deals have been ‘near core’, with close adjacencies to the core business of the acquirer. For example, IndusInd Bank’s acquisition of Bharat Financial Inclusion (2019), a player in the NBFC space, expanded services to new customer segments within the debt space. Similarly, Wilmar Sugar Holdings’ acquisition of Shree Renuka Sugars (2018) provided access to the Indian sugar market.

Markets are also rewarding acquirers of scope targets, often validating the scope deal thesis. Over a one-year timeframe, 56% of acquirers of scope targets outperformed the index vs. 50% of scale deal acquirers. However, the story is different in the short term—over a one-month period post closure, only 25% of scope deals outperform the market, vs. 45% in case of scale deals (see *Figure 2.5*).

### Value drivers

Within scope deals, the aim is to enhance an acquirer’s near-term growth profile by buying companies with faster-growing products, services or geographies. For example, infrastructure finance focused IDFC Bank, acquired a stake in Capital First (2018) to add to their fast growing retail consumer segments.

A second type of scope deal is designed for the acquirer to scale up one of their smaller businesses. For example, Zydus Cadila acquired the Heinz India business (2019) to grow its Consumer Wellness business.

Third, in line with the current trend towards business model disruption and change in profit pools, companies are also pursuing deals to gain access to new capabilities instead of building them in-house.

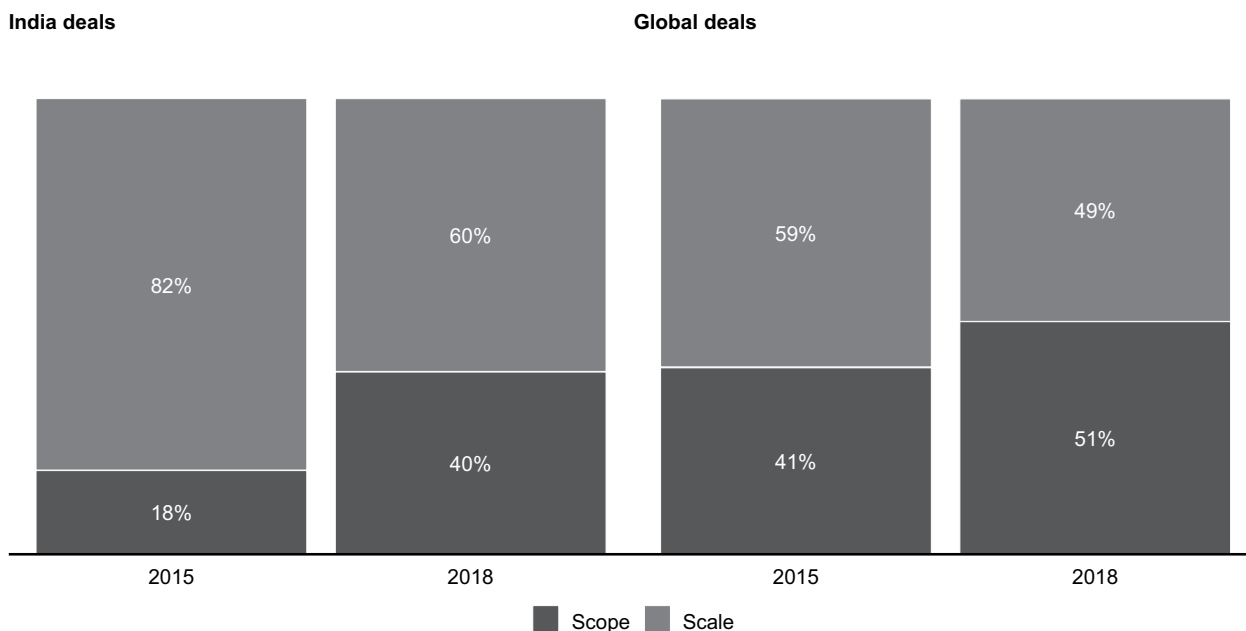
Finally, in some cases, cross-sector deals are being used to transform and redefine the combined business. For example, Nirma, a chemicals company, invested in the Indian arm of LafargeHolcim (2016) to diversify into the cement industry.

### Key risks

In addition to the typical risks in any deal, scope transactions have a unique set of risks that acquirers must plan for, through the deal cycle. These include:

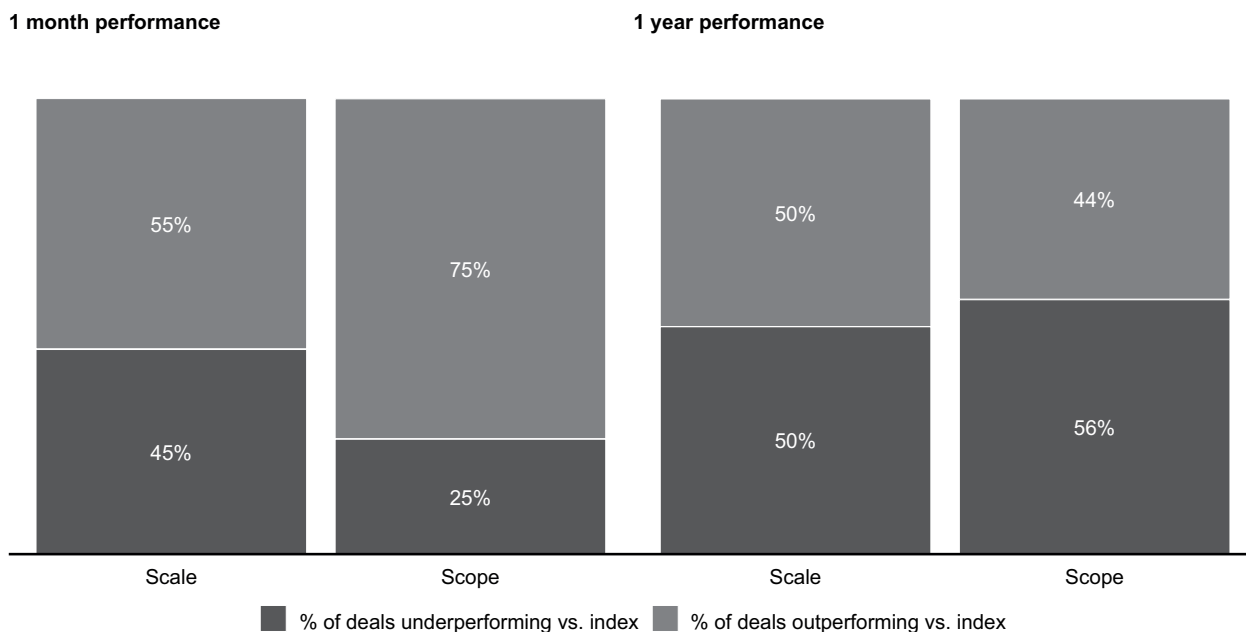
- **Scale-like diligence:** In scale deals, the buyer intimately understands the industry and rules of the category. However, scope deals require a greater level of diligence to understand the target’s industry attractiveness, business model and keystone capabilities. Value creation is typically focused more on revenue synergies than cost synergies. Hence, there is a risk of building a conservative estimate of synergies if forward-looking revenue synergy sources such as cross-selling and greater go-to-market coverage are overlooked.

**Figure 2.4:** Scope deals are increasing in salience



Note: Only non-distressed deals considered  
Sources: Dealogic; Capital IQ; Bain analysis

**Figure 2.5:** Markets are rewarding acquirers of scope targets over a longer period, often validating the scope deal thesis



Notes: 1 month and 1 year performance are based on growth in stock prices vs. index for 1 month and 1 year after the announcement date; for deals which have not completed 1 year after announcement, stock price as of May 13, 2019 taken into consideration; performance shown only for non-distressed deals  
Sources: Dealogic; Capital IQ; Bloomberg; Bain analysis



- **Over-integration or under-integration can backfire:** The operating model should protect decision velocity and the target's talent and culture otherwise the acquirer faces the risk of critical talent attrition and loss of business knowledge without complete transitioning of capabilities.
- **One size fits all approach for all functions:** Approach to the integration of front-end functions can significantly differ from back-end functions. For example, depending on the situation, only back-end functions such as finance might be integrated as per statutory requirements whereas front-end functions run as is.

### Takeaways for scope acquirers

- Sources of value are often centred on revenue synergies or capability transfer, or both. Explore forward-looking avenues for growth such as cross-selling opportunities, greater go-to-market coverage, channel optimisation and combined product development. A robust hypothesis can be built during the diligence.
- Carefully choose the operating model, including organisational structure, governance and decision-making, talent and culture based on the inter-linkages required between the two organisations and the relative size of the target.
- Tailor the approach to processes and system integration for different functions. For instance, front-end functions are kept distinct, while back-end functions are integrated.

### Acquisition of carve-outs

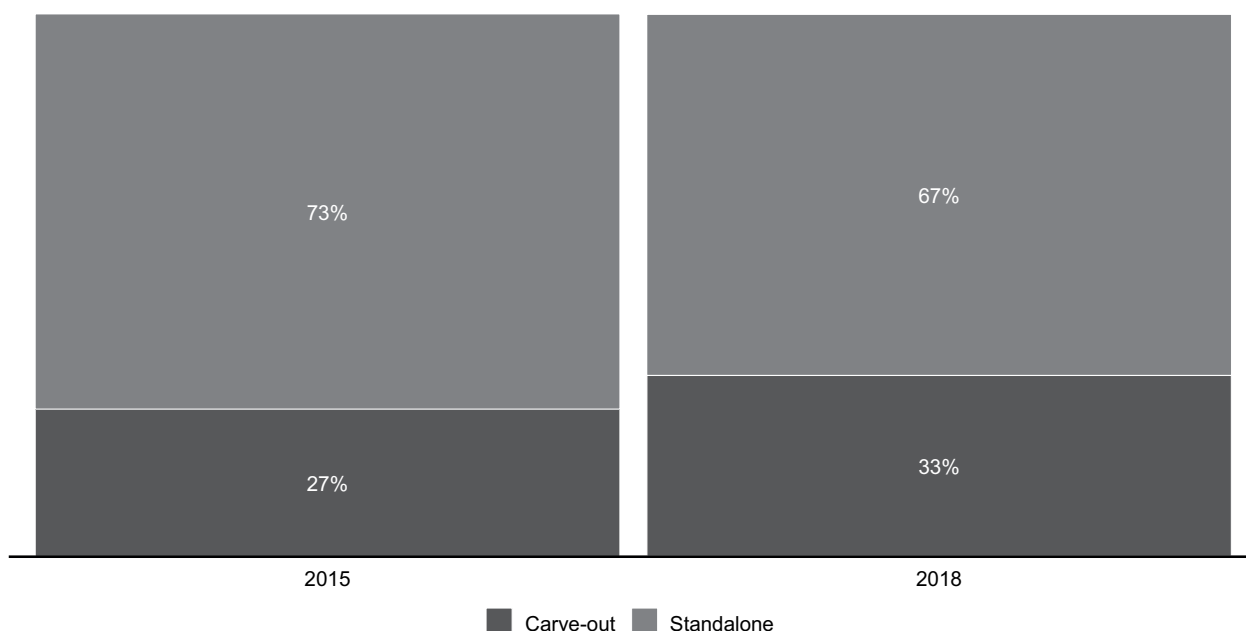
Several large, headline deals over the last four years have been carve-outs i.e. companies or conglomerates exiting businesses, assets, or exiting geographies. Carve-outs have increased in salience from 27% in 2015 to 33% in 2018 (see Figure 2.6). As an example, GlaxoSmithKline sold its consumer healthcare business, including its health food drinks portfolio, to Hindustan Unilever. Similarly, L&T will exit its Electrical and Automation business, via a sale to Schneider Electric. Carve-outs have the dual complexity of separation from the parent company and integrating with the acquirer, making it critical to plan for specific tripwires in these transactions.

### Value drivers

First, carve-outs can be even more disruptive to the target and its ecosystem, than a standalone acquisition, given the dual objectives of separation and integration. Hence, conservation of the acquired asset by preserving the existing ecosystem of employees, suppliers and partners both pre-closure and immediately post-closure is first priority.

Second, carve-out assets are typically non-core to the parent and see systemic and prolonged under-investment or under managed for profit rather than growth. A key driver of the deal thesis is likely to be re-investment in growth, post transaction. For example, in a leading FMCG player's acquisition of a packaged foods portfolio—diligence revealed that the parent company had prioritised profitability

**Figure 2.6:** Share of carve out deals has marginally increased over the years



Note: Only non-distressed asset deals considered  
Sources: Dealogic; Capital IQ; Bain analysis

over growth in the years preceding the exit by moving to cheaper raw materials, reduced advertisement spend and pulled back from innovation pipeline investments. As a result, its brands were on a sluggish growth path. The FMCG company built in a growth-case deal thesis based on correcting those actions. With only preliminary corrections, growth in the first year outpaced pre-transaction growth by 1.5 times.

Third, carve-out acquisitions are typically core or near-core to the acquirer’s business—in about 90% of cases in our large deals database. Thus, targeted cost synergies, often in selling, distribution and general & administrative expenses are a key part of the deal thesis in these cases.

**Key risks**

In addition to the typical risks in any deal, carve-out deals also have a unique set of risks that acquirers must plan for through the deal cycle. These include:

- **Rapid decay of target:** Attrition of critical employees, vendors and partners, both prior to and post closure. Apart from attrition, there is a risk that the target parent may want to retain key people and or assets with themselves. This could lead to loss of business context for senior management or operational value in case of other partners.

- **Underestimation of interlinkages with the parent entity:** Linkages across IT, financial reporting, people, and IP can lead to a surge in operational costs or even affect operational continuity post closure.
- **Inflated revenue trajectory:** While not true in all cases, there are several instances of carve-out assets fuelling higher revenue growth in the run-up to a deal with abnormal spending in an attempt to buy sales. Robust diligence, including testing for any recent spikes in discounting or in trade spending can help identify such aberrations.

### Takeaways for carve-out acquirers

- Deal thesis for carve-out deals should be based on conserving and investing in what is of value, while also incorporating synergies.
- It is critical to build comprehensive Transition Service Agreements (TSAs) through a rock-solid understanding of inter-linkages with the parent entity in IT, financial reporting, potential areas of business continuity risk and particularly in ensuring a watertight IT TSA.
- Identify and retain leadership and people in line functions with critical experience in the asset, get senior HR and IT representation on the integration team.
- Ensure diligence also tests for inflated revenue trajectory and drivers thereof in the 12- to 18-month period, running up to the deal.

## Acquiring larger targets and mergers at scale

The past four years have had several examples of companies acquiring targets of equal or larger size—our large deals database has nine such transactions, each over \$250 million and totaling to \$21 billion in deal value, between January 2015 and April 2019. Merging with or acquiring a scale target has unique complexities which dealmakers need to consider and plan for through the deal cycle.

### Value drivers

The value creation theses for large acquisitions and mergers vary completely by nature of the deal.

However, greater operating leverage is typically a key part of the deal thesis. De-duplication of people and costs, especially in selling, general & administrative (SG&A), procurement and IT, unlocks higher operating leverage.

## Key risks

The scale involved in acquiring larger targets or in mergers of equal yields, entails a unique set of tripwires that acquirers must plan. These include:

- **Redesigning the whole business for best in class, during integration:** Both target and acquirer have typically had successful operating models, which have helped them to build scale. Management teams may find it appealing to blend the best of both, to create a wholly new operating model for the combined entity. However, creating a best in class model is complex, takes time and can be expensive. During integration, speed and simplicity is of essence. Management teams should evaluate trade-offs on which areas will they adopt a best in class approach vs. a mechanism where a choice is forced on which of the two entities' systems will form the go-forward model.
- **Slow decision-making:** Given the scale and complexity of both entities, integration planning may be highly analytical making the new management team feel uncomfortable about the decisions being taken. Also, there could be lack of clarity on who takes the final call on major integration decisions.
- **Difficult cultural integration:** Both entities typically have well-entrenched values and behaviours. The scale of both entities makes cultural integration challenging and should be addressed proactively.
- **Delays in closure:** Deals where both acquirer and target (or the two merging parties) are at scale and in leading positions, go through a longer regulatory approval process. For example, the Vodafone Idea merger took a year from announcement to closure, including a Competition Commission of India (CCI) clearance, a court appointed process, and Cabinet clearances on past dues.

## Takeaways for acquiring larger targets and mergers at scale

- Clarify organisational issues early, provide clarity on roles and set clear accountability for base business delivery.
- Prior to closure, set up a governance process to protect the base business and highlight risks to business continuity.
- Integrate early to capture synergies, lower employee anxiety and avoid critical talent loss.
- It is critical to have a structured plan for cultural integration.
- Prioritise speed over the 'perfect answer'. Be selective and evaluate trade-offs on which of the processes will the go-forward entity adopt a best in class approach vs. simply adopting one of the two entities' processes as the go-forward model.

## Entry into India via M&A

India’s attractiveness as one of the fastest growing large economies has resulted in a steady flow of inbound M&A, which surged from 9% in 2015 to 20% in 2018. Several large, headline deals have been inbound M&A, such as Walmart’s acquisition of Flipkart, and IHH’s bid for Fortis Healthcare. Acquirers making acquisitions for India market entry are almost 1.5 times more likely to outperform their local indices (see Figure 2.7).

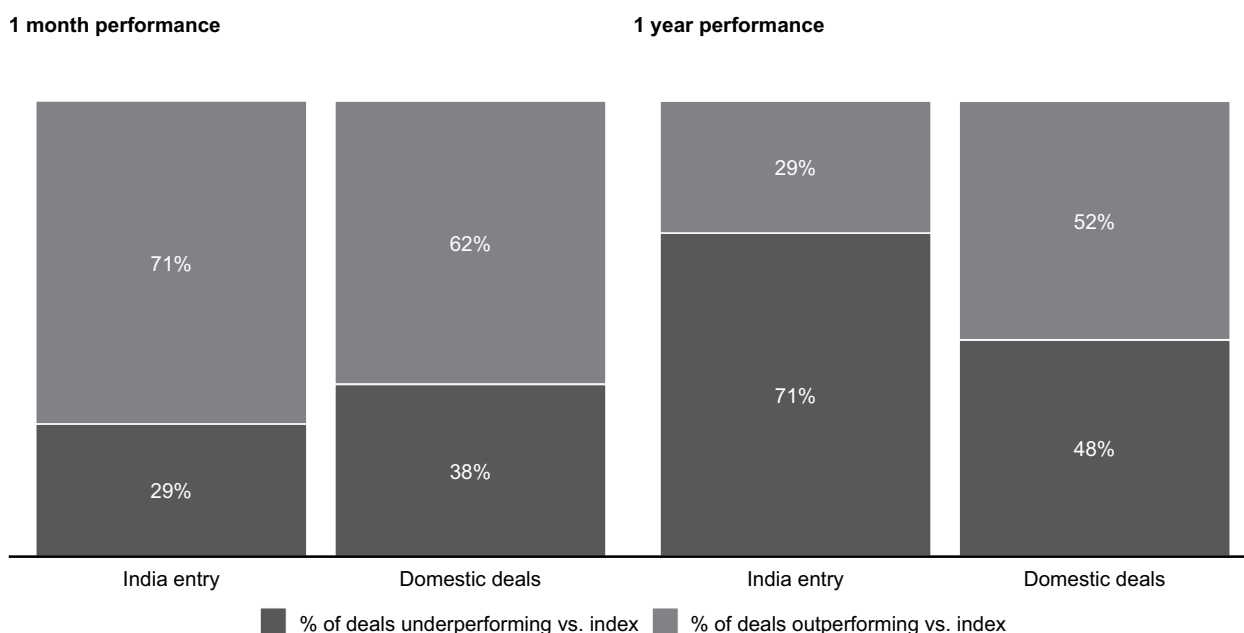
### Value drivers

The dominant India entry deal is aimed at tapping into India’s growth within the acquirer’s core business lines. For example, Rosneft-led Russian consortium acquired Essar Oil to play in one of the fastest growing energy markets of the world.

Another common deal type is targeted at acquisition of certain capabilities in the Indian market. For example, Fosun has acquired a stake in Gland Pharma’s operations in India in order to expand its manufacturing footprint and add more products to the pipeline with the aim of exporting products outside India.

Walmart’s acquisition of Flipkart, serves both of the above objectives, providing entry into one of the fastest growing retail markets and access to Flipkart’s leading edge e-commerce capabilities.

**Figure 2.7:** Acquirers making acquisitions for entering India are almost 50% more likely to outperform their local indices over a one year timeframe



Notes: 1 month and 1 year performance are based on growth in stock prices vs. index for 1 month and 1 year after the announcement date; for deals which have not completed 1 year after announcement, stock price as of May 13, 2019 taken into consideration; performance shown only for non-distressed deals  
Sources: Dealogic; Capital IQ; Bloomberg; Bain analysis

## Key risks

As with any cross-border transaction, there are several risks to be planned for, in entering the Indian market via M&A. A few of these are:

- **Limited understanding of the Indian market:** Foreign acquirers might not fully understand the Indian market in terms of market potential and attractiveness, competitive landscape, relevant business models that can impact robustness of deal thesis.
- **Anticipating delays from regulatory and legal challenges, if any:** As with any cross-border transaction, acquirers must understand and adhere to regulatory and legal frameworks. In some cases, there may be regulatory challenges leading to delays in closure.
- **Cultural differences between the acquirer's and target's working styles:** In cross-border deals, cultural differences are not only limited to corporate cultures, there are also national, political and social implications involved. Cultural differences could be further amplified by 'perception' of differences, which is driven by heightened anxiety and unfamiliarity with the situation.
- **Workplace anxiety and resistance run high:** While there is anxiety associated with any deal, it can be further heightened in such situations. For example, reporting lines could change from local to another country, creating additional unfamiliarity.

## Takeaways for acquirers entering the Indian market via M&A

- Liaise with local experts and conduct extensive field visits to fully understand the market in order to build a robust deal thesis.
- Dedicate legal and regulatory taskforces during diligence to understand potential issues and to support legal and regulatory integration post closure.
- Address real and perceived cultural differences quickly, making it a priority for the CEO and the leadership team. Diagnosis of existing cultures, alignment on the future state and developing the culture change plan are vital.
- Resolve people issues early and sensitively—take quick decisions on organisational structure, people selection and talent retention.

## Section 3: Implications for dealmakers

The deal trends and value creation drivers in M&A, highlighted in Section 2 have critical implications for dealmakers. As the M&A landscape evolves, companies must rethink their approach to transactions through the entire deal cycle, from strategic framing and diligence to integration and management of a combination of business activities.

Over the last year, Bain has worked on about 1,500 global M&A transactions with both strategics and sponsors. In this section, we share our learnings to help executives retool their approach to due diligence, evolve their business operating models and develop different ways to approach business processes and systems.

### Due diligence—bar is rising

Successful M&A transactions start with insightful diligence. Multiple executive and deal surveys show that the vast majority of unsuccessful deals are linked to ineffective diligence. With the bulk of assets coming into the market through a competitive process, bidders must have the highest level of confidence in the value creation roadmap. Given a broader set of uncertainties and operational data constraints, diligence for distressed acquisitions can be tricky.

Successful acquirers take the following key steps to obtain meaningful insights during the diligence process:

- Analyse a broader set of factors and use cross-functional teaming.
- Leverage newly available digital data and tools to look beyond the data room.
- Critically examine existing market definitions to assess the scope for disruption.

### Broader set of factors to consider in due diligence


The best acquirers will look beyond strategic or synergistic assessment for areas of potential upside or risk. These broader areas include operational factors such as systems compatibility, talent and culture issues, besides legal and regulatory considerations such as data privacy or public relations. We have summarised below, five broad areas to assess during diligence (*see Figure 3.1*).

Looking at a broader set of factors becomes all the more important in India entry and distressed assets deals, where examining legal and regulatory landscape along with existing talent and culture, is vital.

This expanded breadth and depth of diligence requires cross-functional teaming and internal capability building to analyse and uncover hidden opportunities and risks. Advance understanding of areas that require additional diligence will aid in effective assessment of integration risks and high-level integration planning.



**Figure 3.1:** Increasing breadth and depth of factors in due diligence

<b>Strategic</b>  Are the underlying industry and competitive dynamics attractive? Is the target a good strategic fit?	<b>Synergy and value creation</b>  What are the potential synergies, standalone improvement potential and option value?	<b>Operational</b>  What functional issues could pose risks to effective integration and value creation?	<b>Talent and culture</b>  What are the softer barriers and risks? What is the quality of talent and capabilities?	<b>Regulatory and legal</b>  What potential regulatory, legal, tax or political issues could arise?
<ul style="list-style-type: none"> <li>Market attractiveness</li> <li>Competitive position</li> <li>Target business model</li> <li>Target business plan</li> <li>Competitive advantages (products, customer relationships, channel relationships, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Cost synergies and dis-synergies</li> <li>Standalone cost improvement potential</li> <li>One-time integration costs and cost to realise synergies</li> <li>Revenue synergies</li> <li>Standalone growth potential</li> <li>Option value</li> </ul>	<ul style="list-style-type: none"> <li>Functional integration complexity</li> <li>Systems architecture and potential integration complexity</li> <li>Process and systems integration, dependent business synergies</li> </ul>	<ul style="list-style-type: none"> <li>Quality of management team</li> <li>Cultural fit to acquirer</li> <li>Cultural advantage</li> </ul>	<ul style="list-style-type: none"> <li>Antitrust issues and political concerns</li> <li>Regulatory, tax and other compliance risks</li> <li>Data privacy issues</li> <li>Public relations and image</li> </ul>
 <p><b>Early assessment of integration risks and high-level integration planning</b></p>				

Source: Bain analysis

### Use newly available digital data and tools

With an increasingly competitive deals market and expensive assets, companies must take advantage of all available digital data to effectively diligence transactions. An evolving ecosystem of publicly available information sources and tools enables a more critical assessment of available data.

Digital marketing assessments can gauge the effectiveness of the target’s digital marketing efforts vs. their competitor’s, highlighting opportunities for improvement. Customer sentiment analysis can reveal brand perception and nature of customer feedback. Employee review sites can uncover employee advocacy or attrition risk and the potential need for retention planning and training.

### Consider evolving market definitions

In an evolving M&A landscape, acquirers need to assess market definitions carefully as the boundaries are blurring. Consider the consumer healthcare sector—over the last year, pharmaceutical players, consumer goods companies, and digital disruptors have meaningfully shifted the consumer healthcare landscape and market definition. Acquisitions of Heinz India by Zydus Wellness (with a pharma parent) and of Merck’s consumer health portfolio by P&G demonstrate how strategic investors are not restricted to one space. Therefore, one needs to broaden the market definition to include a broader set of competitors as also the impact of digital disruption in their deal thesis.

## Operating model in the spotlight

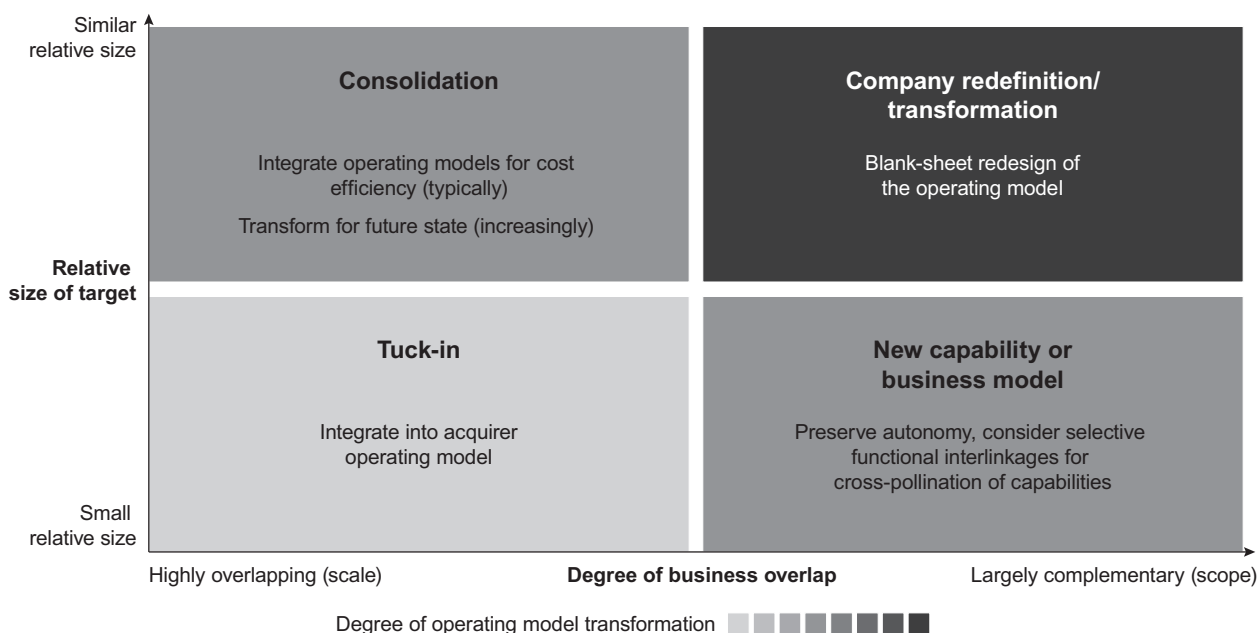
Once the diligence process is complete, the acquirers must optimise the post-transaction operating model. In our experience, the two primary determinants of the operating model for the combined entity are the degree of business overlap (scale vs. scope deals) and the relative size of the target.

The following chart illustrates typical operating model strategies for different types of transactions (see Figure 3.2).

Historically, when scale deals of relatively smaller targets were the rule, acquisitions were integrated into the acquirer’s existing operating model, called a ‘tuck-in’ strategy. Nowadays, M&A is increasingly used as an opportunity to transform operating models. Companies can simultaneously attain cost-efficiencies and redefine operations in response to an evolving industry landscape.

For example, Vodafone and Idea simplified their go-to-market model during the post-merger integration. The combined company transformed to a lighter, and nimbler operating model acquiring a broader reach, a low-cost structure, and developed deeply embedded digital capabilities. This required meticulous planning over three months to ensure minimal disruption to the base business. Successful in-field execution can be traced to the establishment of market-sensitive timelines, clear ownership, contingency planning, and a well-defined communication cascade.

**Figure 3.2:** Some deal types require greater operating model transformation to unlock the deal value



Source: Bain analysis

In another example, where a consumer products company had acquired a target much larger in scale vs. the acquirer, best practices from the target's operating model were adopted to define the operating model of the combined entity. For example, the target had a much more extensive use of IT systems in functions such as sales, marketing and R&D. This helped the acquirer ramp up their IT capabilities. Similarly, the target had more structured frameworks and processes in procurement sub-functions such as periodic vendor evaluation, which were adopted by the consumer products company.

## Process and systems integration—new source of competitive advantage

The integration of business processes and systems are critical for companies to establish a solid foundation and build a competitive advantage. This consolidation-unifying operating model requires companies to align the entire organisation under a single way of working, through adoption or redesign of select systems and cross-pollination of best practices. However, this area is often under-resourced resulting in escalating costs and prevents the company from achieving projected revenues and cost synergies.

Our approach to process and systems integration centres around four core beliefs.

1. **Increasing complexity is resulting in process and systems integration becoming more critical and costly:** With the rise of carve-outs, India entry deals and broader regulatory scrutiny deals are becoming increasingly complex. This higher complexity translates into higher costs unless processes and systems are fully integrated.
2. **Process and systems integration fail in the beginning, not the end:** Inadequate planning, hypothesis and resource mobilisation are the primary reasons for failure. According to Bain's research, 70% of process and system integrations fail in the mobilisation and planning phase rather than during the implementation.
3. **Process and systems integration can break deal value:** In complex deals, process and systems enabled cost synergies represent over 50% of the deal synergy value. However, our experience has shown that in more than 60% of cases, the actual time taken for integration is more than double the estimate, resulting in a significant delay in cost synergy realisation. The absence of sufficient planning, frequent changes in scope and time pressure can break deal value.
4. **Successful process and systems integration creates a competitive edge for the future:** Acquirers that can effectively integrate systems and processes will find themselves well positioned to capture synergies and accelerate broader transformation. Cross-pollination of best practices can help ramp up capabilities across functions while integration can lead to lower technology and administrative costs.

### Optimal approach to process harmonisation

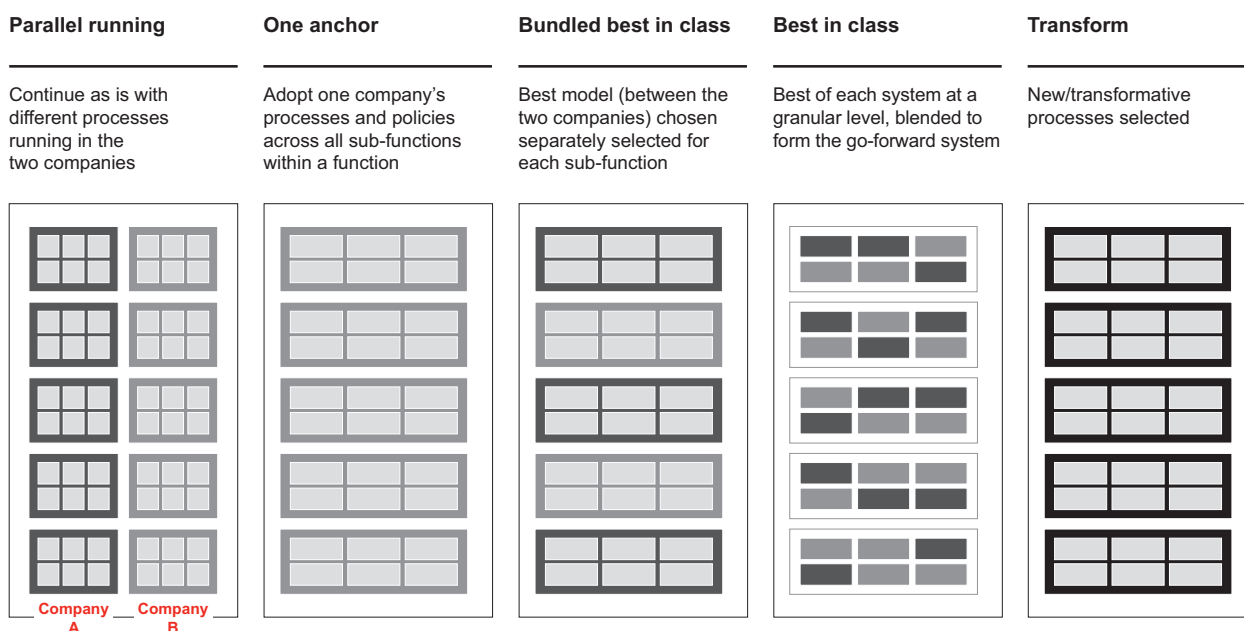
There are five distinct approaches to process integration (see Figure 3.3):

While each approach has its pros and cons, the optimal one is different for every deal. The ‘one anchor’ approach maximises speed and minimises complexity at the expense of capability and at a potentially higher cost. The transformation approach best positions companies for future-ready capability, but requires significant planning and execution, along with the risk of disruption.

Recently, Bain worked on the integration planning and execution for a consumer products company. Early alignment on the operating model was key to successfully harmonising over 80 processes within a period of three to four months from deal closure. In this case, the company leveraged the ‘one anchor’ approach to simplify process integration for support functions, and used the best of breed approach for market-facing functions.

While it is important to integrate all functional processes and systems, IT is the most critical, underpinning multiple elements of the integration.

**Figure 3.3:** Different approaches to process harmonisation for merger integration



Source: Bain analysis

Our experience repeatedly shows that frequent acquirers have adopted the following best practices for successful IT integration:

- **Align the IT integration thesis to guide the unification effort**  
 The appropriate level of integration will typically fall between a fully integrated to a fully parallel (i.e. running as is without integration), depending on the deal dynamics and systems architecture. The integration thesis should guide the selection of systems and process during implementation.
- **Integrate processes and systems with speed**  
 Speed is critical to capture synergies and reduce the risk of talent loss. Efficient acquirers typically complete half of their systems integration within one year of closing while the full process is completed within two to three years.
- **Reassess IT approach and costs at the time of integration**  
 Too often, integration costs are dictated by historical benchmarks. Structurally rising IT costs require a business case and a combined roadmap for integration and transformation in order to minimise cost surprises. This is best accomplished during the diligence stage.
- **Appropriately allocate resources and budget**  
 Many companies underestimate and under-budget IT integration costs and investments, leading to future cost overruns. Closely review budgets to ensure adequate resources for successful integration. Evaluate pre-closure systems integration costs to assess potential opportunities for savings through re-negotiations with common vendors and vendor consolidation. In some cases, these savings can be as high as 40%.
- **Protect digital agenda while advancing integration**  
 Integration efforts and digital transformation initiatives often compete for the same IT resources. Given the long two to three year timeframe for integration, parallel progress is required. Effective acquirers insulate their digital transformation agenda and protect the resources and budgets allocated to their top digital initiatives while simultaneously allocating resources for integration.
- **Adopt best of both IT talent, with consideration for transition needs**  
 Independent of the integration approach, the choice of IT talent should be based on ability and not on which company's systems are chosen. That said, talent critical to integration efforts should be retained to ensure a smooth transition.

## Section 4: Bedrock beliefs on value creation in M&A

In addition to tracking Indian M&A transactions over the past four years, Bain has uncovered fundamental truths from our global work over a much longer period of time. Regardless of geography, industry and deal size, success in M&A is a learned process. Delivering consistent shareholder returns requires companies to develop a repeatable model. This means undertaking frequent transactions, learning from mistakes and making M&A an integral part of the business.

With 94% of publicly listed companies participating in M&A over the last decade, Bain analysed shareholder returns of 1,729 publicly traded companies worldwide. We found two differentiators to shareholder returns—frequency (how often deals are undertaken) and materiality (relative deal size).

Allocating the companies into four groups based on deal frequency and materiality, we mapped their shareholder returns from 2007–2017 (*see Figure 4.1*). Frequent acquirers, representing 43% of the companies, engaged in one or more transactions a year. Material acquirers, or companies which derived more than 75% of their market capitalisation from acquisitions over the decade, represented 27% of the companies assessed.

As told by the numbers, this study provides four lessons:

First, consistent M&A activity throughout economic cycles contributes to higher total shareholder return (TSR). Deal success has a higher correlation to cumulative experience and the capability in closing it rather than deal-specific circumstances. This holds true across industries and timeframes.

Second, mastery takes practice. Frequent acquirers, which we call serial bolt-ons, outperform less frequent acquirers and inactive players, or companies that engaged in no M&A.

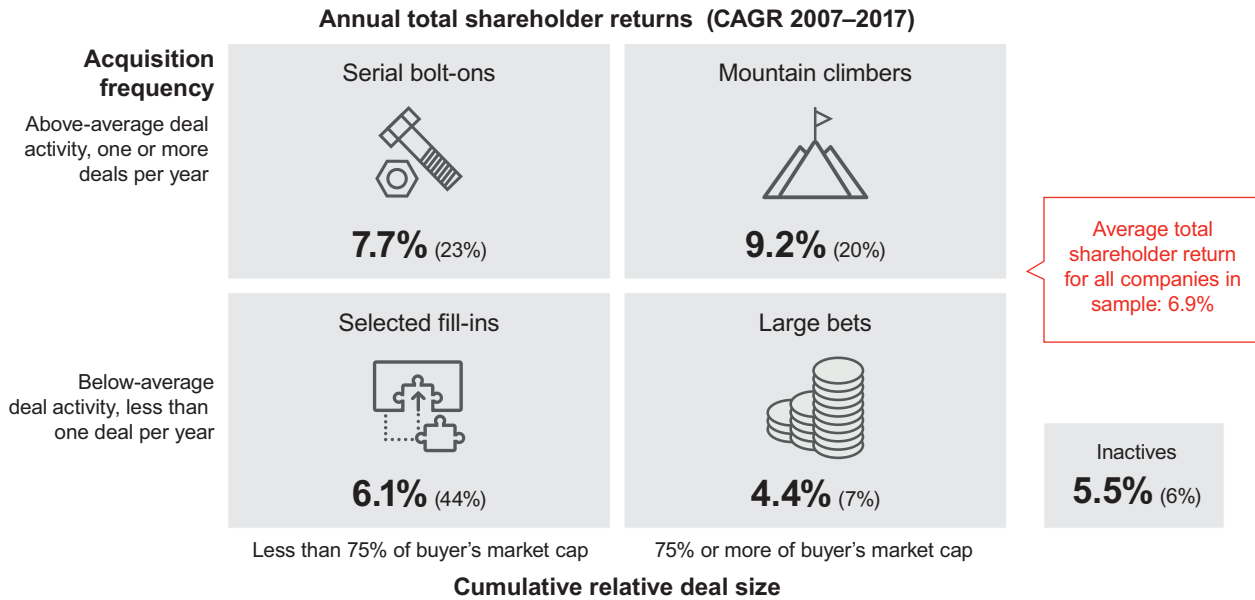
Third, infrequent acquirers that undertake material transactions generate the lowest TSR, underperforming even inactive companies. Referred to as large bets, their limited acquisition experience coupled with investment in outsized transactions results in poor outcomes.

Fourth, top performing companies are both high frequency and material acquirers. We call these mountain climbers. Their TSR being about 1.5 times that of other acquirers, is proof that success in M&A is a learned process.

We studied mountain climbers to understand their distinguishing capabilities. We identified and tracked 345 mountain climbers, many of whom you will recognise as deal savvy, including Apple, UnitedHealth Group, Amazon, Comcast, Microsoft, Safran, Stanley Black & Decker, Intel, Nestlé, BASF, Sony, Unilever, Walt Disney, SAP and Henkel.

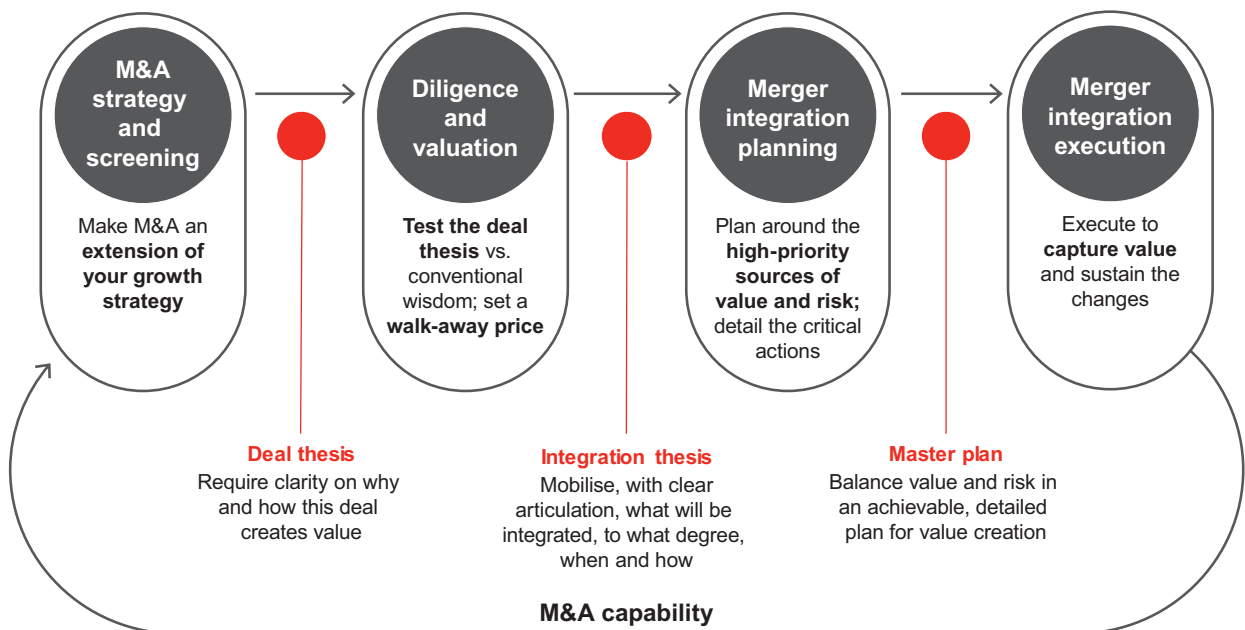
What sets mountain climbers apart is their integrated approach to M&A, from deal strategy and screening to execution and integration. Through repeated deal making, they refine and strengthen their M&A capability (*see Figure 4.2*).

**Figure 4.1:** Repeatable M&A is the winning strategy



Notes: Natural resources sector excluded; cumulative relative deal value is the sum of relative deal size (deal value divided by market capitalisation three months prior to announcement) across all deals over 2007–2017; deals involving partial stake acquisitions, increase in controlling interest and remaining interest acquisitions have been excluded; percentages in parentheses reflect share of companies out of a total of 1,729 companies in the study  
Sources: Dealogic; Bain M&A Value Creation Study, 2018

**Figure 4.2:** Repeatable M&A is the winning strategy



Source: Bain analysis



Beyond acquisitions, mountain climbers actively divest non-core businesses. According to our analysis, approximately 96% of mountain climbers sold off non-core businesses, with the average mountain climber divesting 20% of its market capitalisation over a 10-year period. Just like their approach to M&A, these companies have developed a systematic process for identifying assets for divestiture and preparing them for sale.

Going forward, companies that develop a repeatable M&A capability with successful outcomes on all deal types, whether small and large or scale and scope, will be highly rewarded by investors. However, the significant leap from small to large transactions and scale to scope deals will require companies to adapt their approach.

### What do mountain climbers do differently?

Every company will have a unique approach to M&A, driven by its industry, regulatory framework, and competitive dynamics. Even so, there are specific practices that support mountain climbers' repeatable M&A capability.

### What drives Anheuser-Busch InBev's repeatable M&A capability?

<p><b>M&amp;A strategy</b></p>	<ul style="list-style-type: none"> <li>• <b>Multi-year roadmap:</b> Has clear year-on-year M&amp;A goals for expansion into geographies, product segments and building capabilities, with defined investment sizes.</li> <li>• <b>Value creation beyond cost synergies:</b> Invests in organic growth and continuous process improvement in acquired business through exchange of best practices and establishing world-class benchmarks.</li> </ul>
<p><b>Target screening</b></p>	<ul style="list-style-type: none"> <li>• <b>Proactive ongoing data-driven target screening:</b> Maps the market and competitive landscape on an ongoing basis through a data-driven approach to identify white spaces and potential combinations.</li> </ul>
<p><b>Diligence and valuation</b></p>	<ul style="list-style-type: none"> <li>• <b>Clear governance and decision rights:</b> With the committed involvement of CEO and core senior management team, a small diligence team is given decision-making rights to act rapidly and move forward independently on deals.</li> <li>• <b>Proprietary value creation:</b> Well-codified integration experience helps in building confidence and speed in value creation thesis.</li> </ul>
<p><b>Merger integration</b></p>	<ul style="list-style-type: none"> <li>• <b>Detailed planning before closure:</b> Extensive planning done ahead of deal closure with the help of clean teams and external support for faster synergies realisation.</li> <li>• <b>Well-rounded internal and external capabilities:</b> Cumulative deal experience has enabled M&amp;A mindset, skills and capabilities to become deeply rooted in internal organisation; long-standing external partnerships and capabilities set to accelerate integration.</li> </ul>

Similarly, we see examples of Indian companies such as UltraTech Cement and Tata Steel becoming repeat acquirers and building strong M&A capabilities.

### What drives UltraTech Cement's repeatable M&A capability?

<p><b>M&amp;A strategy</b></p>	<ul style="list-style-type: none"> <li>• <b>Look for 'complementary acquisitions':</b> Acquisitions focused on building presence in new geographies speedily (at a fraction of time vs. greenfield effort).</li> <li>• <b>Create value by exchange of best practices between existing and target operations:</b> For example, improve the operational efficiency of target plants up to UltraTech standards; at the same time, use acquisitions as a source of knowledge capital to improve own processes.</li> </ul>
<p><b>Target screening</b></p>	<ul style="list-style-type: none"> <li>• M&amp;A team keeps a tab on the market developments on a continuous basis, looking for M&amp;A opportunities especially in stressed assets and divestitures. M&amp;A opportunities are assessed in areas where demand is high and are evaluated against strategic priorities, value creation estimates, and potential deal hurdles.</li> <li>• M&amp;A diligence team is a separate team headed by the CFO.</li> </ul>
<p><b>Merger integration</b></p>	<ul style="list-style-type: none"> <li>• <b>Set up an independent, empowered IMO with CXO buy-in:</b> Setup an independent Integration Management Office (IMO) to lead and co-ordinate pre-Day 0 and post-Day 0 planning and implementation. Empowered leaders lead IMO, reporting directly into the MD. CXOs &amp; functional leadership need to buy-in to the IMO process to ensure its effectiveness.</li> <li>• <b>Functional single point of contact (SPOCs) appointed with platforms provided for cross-functional liaising:</b> Functional SPOCs are identified to lead on-ground working teams with clear decision-making responsibility. Pay special attention to areas which require inter-functional coordination (e.g. HR and operations, finance and legal).</li> <li>• Regular review cadence set up for identification and fast track resolution of red flag activities.</li> </ul>

## Methodology and approach

### About Indian deals database, classification into archetypes and stock performance

We started with all deals reported in Dealogic and Capital IQ, which were announced in India from January 2015 until the end of April 2019. We then excluded deals, which were smaller than \$250 million. Within this set, we have excluded deals with private equity funds as investors or public sector deals. We have also excluded deals, which involved financial restructuring within the firm. Post this, we were left with about 60 large private sector deals with strategic investors as acquirers. Please note that in all the charts, the year of the deals indicates the year in which the deal was announced as some of the deals are yet to be closed. For e.g. deals in 2015 would include all deals announced in 2015.

Stock performance for the deals was calculated using the Nifty stock price data from Bloomberg for Indian acquirers and respective foreign stock indices for foreign acquirers. One month stock performance was arrived by comparing how much the acquirer stock grew from one day before the deal announcement to one month post the announcement vs. how the index performed in the same period. Similarly, one year performance was arrived by looking at how the acquirer stock price moved from one day prior to deal announcement to one year post announcement. However, in case, a year had not passed from deal announcement at the time of analysis, stock price as of when the analysis was conducted (13<sup>th</sup> May 2019) was used.

## About Bain & Company's M&A value creation study

Bain has been studying corporate M&A activity for two decades. We conducted our first quantitative study of company performance as it relates to acquisition activity in 2011 and 2012 and have updated the study in 2018. The findings were confirmed across both studies spanning two decades. The quantitative research reviewed the financial performance and M&A activity of 1,729 publicly listed manufacturing and service companies from 2007 through 2017. The initial sample included all publicly listed companies from 14 developed countries for which full financial data was available. We then excluded companies with revenue lower than \$500 million in 2007, those with major swings in their earnings before interest and taxes margin around 2007 or 2017, and natural resource companies, which exhibit different industry dynamics. To compare company performance, we used TSR, defined as stock price changes assuming reinvestment of cash dividends. We calculated average annual TSR using data reported by Capital IQ. We analysed M&A activity by including all acquisitions—approximately 27,000—announced by the companies in the sample between the beginning of 2007 and the end of 2017. The data was based on information provided by Dealogic and included all deals in which a company had made an outright purchase, an acquisition of assets or an acquisition of a majority interest. For deals with undisclosed deal values, we assumed a deal size of 1.8% of the acquirer's market capitalisation, the median value calculated from deals with disclosed deal values.

We then analysed the acquisition activity for each company by calculating the acquisition frequency and cumulative deal value. Acquisition frequency was calculated as the average number of acquisitions per year, between 2007 and 2017. Cumulative relative deal value was calculated as the sum of deal value divided by market capitalisation for all deals over 2007 to 2017. These metrics characterising deal activity were then related to the TSR performance of various acquirer cohorts.

## Notes

## Notes

## About Bain & Company

Bain & Company is a global consultancy that helps the world's most ambitious change-makers define the future. Across 58 offices in 37 countries, we work alongside our clients as one team with a shared ambition: to achieve extraordinary results that outperform their competition and redefine their industries. We complement our tailored, integrated expertise with a curated ecosystem of digital innovators to deliver better, faster and more enduring outcomes to our clients. Since our founding in 1973, we have measured our success by the success of our clients. We proudly maintain the highest client advocacy in the industry, and our clients have outperformed the stock market 4:1. Learn more at [www.bain.com](http://www.bain.com) and follow us on Twitter @BainAlerts and @BainIndia

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B Wing, 1301, Plot No. C 70  
G Block, Bandra Kurla Complex,  
Mumbai  
Maharashtra 400 051  
India  
tel: +91 22 66289 600  
fax: +91 22 66289 699

### New Delhi office

20<sup>th</sup> Floor, Building 10, Tower C,  
DLF Cyber City, Phase II  
Gurgaon,  
Haryana 122 002  
India  
tel: +91 124 687 2500  
fax: +91 124 687 2805

### Bengaluru office

Skav 909, 20th Floor  
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Bengaluru,  
Karnataka 560 001  
India  
tel: +91 80 6765 3800  
fax: +91 80 6765 3801



Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organisation, playing a proactive role in India's development process. Founded in 1895, India's premier business association has more than 9100 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from 291 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialised services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organisations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

India is now set to become a US\$ 5 trillion economy in the next five years and Indian industry will remain the principal growth engine for achieving this target. With the theme for 2019-20 as 'Competitiveness of India Inc - India@75: Forging Ahead', CII will focus on five priority areas which would enable the country to stay on a solid growth track. These are - employment generation, rural-urban connect, energy security, environmental sustainability and governance.

With 68 offices, including 9 Centres of Excellence, in India, and 11 overseas offices in Australia, China, Egypt, France, Germany, Indonesia, Singapore, South Africa, UAE, UK, and USA, as well as institutional partnerships with 394 counterpart organisations in 133 countries, CII serves as a reference point for Indian industry and the international business community.

### Confederation of Indian Industry

The Mantosh Sondhi Centre

23, Institutional Area, Lodi Road, New Delhi – 110 003 (India)

T: 91 11 45771000 / 24629994-7 • F: 91 11 24626149

E: info@cii.in • W: www.cii.in

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## **Key Contacts in Bain India's M&A and Divestitures practice**

**Dinkar Ayilavarapu** in New Delhi (*dinkar.ayilavarapu@bain.com*)

**Vikram Chandrashekhar** in New Delhi (*vikram.chandrashekhar@bain.com*)

## **For media queries, please contact**

**Shubham Mukherjee** (*shubham.mukherjee@bain.com*)

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