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Vaibhav is a co-founder at KNAV, an internal accounting, tax and business advisory firm. With over 26 years of international experience, Vaibhav drives businesses for their organisation development, value unlocking, strategic growth, financial planning and fund raising.

He has been part of several M&A and investment deals over a couple of decades. He has been instrumental in marquee deals in consumer and enterprise businesses and is a preferred advisor to various transactions.

He received an executive education at Harvard Business School on Private Equity & Venture Capital and Leading Professional Service Firms, as well as Drucker Management at Drucker Institute, Claremont Graduate University. Vaibhav is a Fellow Chartered Accountant, US Certified Public Accountant, Accreditation in Business Valuation from AICPA, Chartered Global Management Accountant. Masters Degree in Commerce, Mumbai University with 1st Rank

Founded in 1999, KNAV is a full-service global accounting and consulting firm, that offers a complete suite of services including Assurance, Taxation, Valuation, International Transfer Pricing, Accounting Advisory and Business Advisory Services.

Today, KNAV is an international organisation comprising of more than 200+ professionals in 6 countries: United States, Canada, United Kingdom, Netherlands, India and Singapore.

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QUESTION ONE

What are the biggest advantages of using M&A to enter new markets in the current landscape, as opposed to market entry via exporting, direct investment, subsidiaries, and other methods?

Some of the most successful businesses have been built on the back of constant, sustainable organic growth. However, one cannot ignore the apparent benefits that follow inorganic growth. Inorganic growth has the potential to turn the scales to create something extraordinary. This stems from 'synergies'. Be it superior market knowledge, ready supplier network, ease of regulatory compliance or existing talent base: if planned out well, M&A activities can expedite growth and ease the common hurdles in tapping a new geography.

The international market is strewn with uncertainty. India has seen rising focus on 'self-sufficiency' and preference to 'Make in India' projects. Public expenditure and policies are focused on addressing problems of domestic businesses (especially MSMEs) and unemployment. New foreign policy with China has led to curbs on imports routed through the country. The after-effect of supply chain disruptions and on-hold infrastructure projects provide resistance to new entrants. These, along with the monetary, regulatory, and foreign policy pursued by India, make entry through acquisitions a preferable option.

In fact, the first nine months of 2021 saw inbound M&A activity of $48.60 bn, the highest ever record for the period since 1980s in India. Up to 41.7% of the inbound M&A activity was sourced from the US. The country is expected to grow at 8.3% this fiscal year and continues to be a highly wooed destination for global businesses.

While the market seems ripe for acquisitions, we recommend vigilence on all fronts: from deal evaluation, due-diligence, and structuring to post merger integration. Close regard should be payed to the practical feasibility of synergies expected, along with analysis factoring in Covid and non-Covid related disruptions.

QUESTION TWO

The social and environmental impact of target markets are becoming a key part of M&A – what's your advice on how clients can navigate this complex area and gain full transparency?

Recently, a rising number of investors have switched to formalised ESG evaluation. The Securities and Exchange Board of India (SEBI) has increased its focus on business responsibility and sustainable reporting. ESG compliance has become a norm for most greenfield and brownfield projects now. Importance of ESG is undoubtedly rising in all transactions and buyers need to continuously look for ways to assess potential targets on these fronts.

At present, the deal evaluation matrix blends the transactions' effect on carbon footprints, supply chains, social and sustainable impacts into the valuations. Positive differences in ESG footprints are a prime source of unexplored synergies for the new age M&A transactions. Deal makers can try understanding these differences by cutting to the social and cultural norms of the organisation.

A thorough due diligence identifying both positive and negative externalities is required. This can often be challenging since, by virtue, ESG is not easily quantifiable. However, using the help of independent domain experts and social activists, and undertaking a detailed review of government guidelines on the subject, a buyer may form a reasonable assessment of the target's ESG performance.

As we deal with softer aspects, buyers must ensure that the primary information that flows from the target is unbiased and untainted. System generated reports and independent, third-party reports should be sought to increase reliability. Final agreements must sufficiently provide for these matters in the management representations and warranties. For Indian listed targets, buyers must ensure compliance with integrated reporting, disclosures in Business Responsibility and Sustainability Report (BRSR) and commentary under "Management Discussion & Analysis". At a broader level, evaluating one's performance on the United Nations 17 Sustainable Development Goals offers a universal framework to measure positive societal outcomes.

QUESTION THREE

Corporate acquirers are facing stiff competition from private equity players on the global stage, changing the pace of overseas M&A. What's your advice to clients trying to navigate this competitive, fast paced M&A market?

Strategic Investors and Private Equities investors come from very different perspectives. A comparison of the two acquirer classes today suggests that PE companies' financial discipline, focus, flexibility, and incentive structure has given them the edge. Contrary, one major advantage enjoyed by strategic buyers over their PE counterparts is the ability to create value internally through consolidation, innovation, and operational excellence and efficiency.

Strategic investors must think out of the box and take informed steps to successfully close a M&A deal. Below are few of the suggestions that can help to navigate this competitive, fast paced M&A market:

- **Engage quality deal makers and advisors**
Although strategic investors have the benefit of knowing the industry and a good overview of potential acquisition targets, the selection of targets could be limited. Onboarding a network of advisors, bankers and lawyers can enable investors to identify potential targets as swiftly as other industry players. Advisors would save considerable amount of time and resources by increasing the efficiency of deal making process. They also possess the ability to act swiftly and flexibly when uncovering vital information.

- **Look beyond synergies**
Corporate buyers' due diligence primarily focuses on the target's high value assets and on identifying and validating potential synergies post acquisition. Along with these key metrics, a strategic buyer can look through PE/VC's lens and evaluate other metrics, including present value analysis and external growth opportunities, to make a polished decision. Other key metrics – including due diligence of cash flows, management, and potential exit (in case of unforeseen circumstances) – should also be thoroughly considered before negotiating an offer.

- **Financial discipline and deal financing**
While strategic buyers' capital usually derives from the profits of ongoing business operations, PE companies have the challenge of fundraising from limited partners. This may appear to act in strategic buyers' favour, but actually imposes financial discipline on the PE firm that some strategic buyers may miss.

  It becomes increasingly important for strategic investors to become creative in terms of deal structuring, financing, and negotiations. Looking beyond the traditional methods of valuation and deal financing – which puts significant impact on the liquidity position of a Company – strategic investors can consider other alternatives including leveraged buy-out (LBO) model.

- **Create flexible value creation targets**
Most strategic buyers look to fully integrate the acquired firm into their business to realise the synergies planned in the transaction. The process of unlocking synergies includes various facets, which are beyond the control of acquirer. There are significant chances that the M&A transactions fail to achieve its objective, often due to the difficulties in blending the two cultures or non-compatibility of acquired business.

  In such a scenario, the strategic investors should also consider the alternative possibilities, including possibility and ability to allow the acquired business to operate on a standalone basis. Allowing the acquired business to operate on standalone basis would encourage the targets management to operate in a lean and efficient manner.

  Increasing focus on discipline, flexibility and having a wider perspective would significantly help the strategic investors to excel on the M&A battlefield.