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Anatomy of prospective M&A's - Sky is the limit amidst Covid-19 disruption

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Corporate Mergers and Acquisitions have undergone a remarkable change amidst the ongoing Covid-19 crisis. In the current corporate climate, M&A prospects have found a conducive environment in the form of positive government intervention, a relatively bought out stock market and a stable banking system.

The dire need for domestic consolidation, especially in the Covid-hit sectors, has resulted in emergence of new investment opportunities for cash-rich Indian players. India is growing attractiveness as a new investment and manufacturing hub in light of China's Covid-led isolation. These factors bode well for M&A's whether mainstream, cross border or cross sector.

Considering the havoc it has caused around the globe, the Covid-19 pandemic has forced us to become solution-centric, at the least. Case in point being, the rapid innovation in healthcare and the ground breaking development of vaccines in record time. What was typically a laboratory venture spanning several years is now merely reduced to a matter of few months, all driven by need and purposefulness. This sense of developing vaccines expeditiously was rooted in several enterprising collaborations. Beginning with the highly popular AstraZeneca-Zeneca talks of a merger which for all intents and purposes failed to materialize. In the hunt for Covid vaccines, many firms joined hands to combat the virus, including the likes of Merck-Themis, Novavax-Praha-Serum Institute of India and the USD 500 million Pfizer Breakthrough Growth Initiative.

Activity during Covid

The overall M&A activity, like every other venture suffered a blip in these unprecedented times of Covid-19. As per Bain & Company's global report on the M&A deals which materialised during the fiscal year 2020-2021, both – the deal value and volume experienced a drop to the extent of 15% and 11% respectively. The US M&A value fall was the steepest at 25% whilst the Asia Pacific region suffered the lowest regional decline at 4%.

In India, marquee deals were struck throughout 2020, right from March-April, when the world was just about coming to terms with the Covid-19 reality. India contributed 12% of Asia Pacific deals in the first half of 2020. In the second half of 2020, RIL made headline news for having raised USD 20 million from the likes of Facebook, Google, KKR and Silver Lake Partners. Both, its M&A and Joint Venture formation spree were equally impressive considering how they were strategic investments in AI powered tech firms and Omni channel platforms, which are consumer centric.

Endless Potential

The fear of the unknown has redefined the way corporate growth strategies are now designed and thereby, implemented. Force majeure, material adverse change clauses, warranties, indemnity insurance and policy coverage's have become more significant than ever before. Post Covid-19, M&A strategies will now inherently adopt environmental, social and governance (ESG) principles for economic reasons and not just as a part of their CSR mandates.

Many directives introduced by the Government of India have been instrumental and decisive towards creating new opportunities for M&A. The green signal to telemedicine and door-step drug sale has opened exciting new avenues for healthcare in India in a big way.

Majority of the Corporates will go for divestments, promoter pledges and NPA disposal for improving liquidity, strengthening their balance sheets and in turn, arranging more disposable income for taking calculated risks. This will ensure that they have bigger war chests to invest in their own Organic Growth or to fund multiple bargain buys. Promising Start-ups working on the cusp of technological advancements and healthcare revolution will be among the pet acquisition targets.

Road ahead

Opportunities in 2021 will be in abundance for companies that are in the right place to capitalise on them, whether these open up new markets for them or allow them to make bargain acquisitions. Planning and due diligence will be crucial for those companies who maintained a relatively strong and steady position through the pandemic, forming contingency plans for different scenarios, considering all possible alternatives in front of them and thereafter, determining which type of strategy they need to implement, be it offensive or defensive with corresponding tax risks and future business state tax modelling.

For M&A planning and due diligence to be successful, companies should lay out a very clear and certain plan about their acquisition goals well in advance. It is more important now than ever to stop and ask the question – how does this company or asset acquisition fit into my business strategy?

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