Mindtree - L&T - India's 1st Ever Hostile Takeover - An Overview

written by Raghav Gaind | May 21, 2019

Acquisitions may be friendly or hostile. A friendly acquisition is one in which the promoters wilfully transfer the control of the management of the target company to the acquirer. In case of hostile takeover, the same transfer is done grudgingly. Historically, India has witnessed only a handful of hostile takeover attempts. Foremost amongst these (predating the takeover code) is the highly contentious and unsuccessful attempt by Swaraj Paul to take over Escorts Industries. Thereafter, almost 15 years, corporate India witnessed the only successful hostile takeover of Raasi Cements by Indian Cements in 1998.

Mindtree, a tech company started by a group of Wipro around two decades back is set to witness the first ever hostile takeover in the IT sector. Aspiring to achieve an internal target of 1 billion dollars, Mindtree which has missed the target twice is poised to achieve the same in the current Financial year. This is largely due to the aggressive transition to digital revenue resulting from its strong background in product engineering leading to an attractive target for any entity looking to grow in this segment. Mindtree is also a widely held company with around 86% equity held by public shareholders including FII's, mutual funds with founders owning only around 13%. What makes the Mindtree situation interesting is V G Siddhartha, Chairman of Café Coffee Day who is the single largest non-promoter shareholder with a 20.32% stake in Mindtree. Faced with liquidity pressures, he approached Larsen & Turbo (L&T), for the purchase of his entire 20.32% stake in Mindtree which offered a price in INR 980 per share equivalent to INR 3269 crores for his entire shareholding. The Management however resisted this move on the premise that the ethos of L&T was very different and this resulted in setting the stage for the hostile acquisition by L&T.

RATIONALE

L&T is a diversified conglomerate with the lion's share of its business coming from its EPC sector which is highly cyclical and dependant on the economy. To offset this cyclical business, L&T has been growing its services business which is largely technology, real estate and financial services. It has been looking at acquisitions and L&T Infotech has also made a few acquisitions in the past though none comes close to the nature and size of Mindtree. A deal with L&T would create a $2.4-billion IT services firm with several verticals of scale namely BFSI, retail, consumer packaged goods and manufacturing, and technology media and service.

STRUCTURE OF THE HOSTILE TAKEOVER

In March 2019, by entering into a share purchase agreement with VG Siddhartha, the owner of the famous Café Coffee Day, L&T has acquired a stake of 20.32% of the paid up capital in Mindtree. Pursuant to Regulation 3(1) and 4 read with 13(1) and Regulation 15(1) of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, L&T made an open offer for Rs. 980 per share to acquire equity shares of Mindtree aggregating to 35% of the voting share capital.

SAFEGUARD MEASURES

With only pocket-sized stake of 13% the promoters are left with minimal options and some of the measures that may be deployed in similar scenarios to stave of the hostile takeover are considered hereunder:

1. Crown Jewel: Since Mindtree is involved in IT business, its main assets may include Intangible Assets or Intellectual Property among others. In order to overturn the overpowering business into shallow, the promoters of the company may sell a large chunk of the assets to third party. This will in return hamper the sale and make this acquisition less attractive in the eyes of L&T. This is however not a feasible scenario since the promoters control is not substantial.
2. White Knight: The target company may seek intervention of friendly investors and sell their substantial stock. In August 2013, an arm of Reliance Industries Ltd (RIL) picked up 14.12 per cent stake in hotelier EIH Ltd. As a white knight, RIL helped EIH to counter a possible bid by ITC Ltd. The cigarette-to-hospitality-to-FMCG major has mopped up 14.98 per cent stake in the hotel company over the years. EIH managed to shore up his defences against ITC. In one fell swoop, EIH managed to pit a stronger force RIL against ITC, in effect neutralising the marauder, had it decided to launch an open offer. ITC has maintained for a decade that it would not launch a hostile bid for EIH, but its stake was too high.
3. Buyback of Shares: Pursuant to Regulation 29(1) (b) and 29(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Mindtree provided a notice for considering Shares Buyback however, it was decided by the board not proceed with a plan to buy back its shares since it would not have had the desired impact of acquiring sufficient stake to fend of the hostile acquisition

CONCLUSION

As both, L&T and Mindtree are Indian multinational companies, their success will benefit the Indian economy, as well. As of today, L&T has raised its stake to 25.94 percent and queries by the SEBI has resulted in postponing the open offer by L&T though it seems inevitable that the acquisition will proceed as contemplated. In the long run, consolidating IT resources might even make India an even larger and stronger hub for IT and technological support than ever before.

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