An insight into India Control Premium

A study of control premium offered in takeovers in India based on public company transactions during 2002 to June 2020

August 2020

inc{we}rt
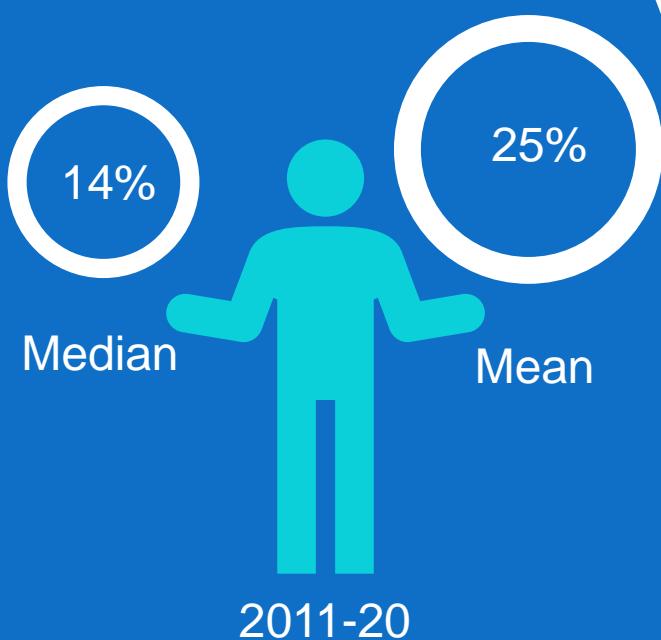Valuation Research

Foreword

The second edition of Incwert's India Control Premium Study, 2020 is an update to the previous year's study. The study analyses 18+ years (March 2002 to June 2020) of premium offered in takeovers in public transactions which triggered open offer obligations on the acquirers.

A Control Premium is the additional consideration that an investor would pay over a marketable minority equity value (i.e., current, publicly-traded stock prices) to own a controlling interest in the common stock of a company. In the case of India, the reference to base price was drawn based on the offer price guidelines set in the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

The paper presents the Control Premium in the mergers & acquisitions of Indian companies segregated by industry, time series and different bases of premium. The analysis and statistics are only estimates, and it is important to consider the characteristics of the likely market participants and the level of improvements to the cash flows and synergies available to those market participants when estimating premium for a specific company.

The statistics reflect median/averages over a wide range and note that the actual premium paid in any given transaction depends upon the negotiation dynamics.

We hope you find the results of our study of interest and value.

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http://www.incwert.com/

14%

Median

25%

Mean

2011-20

Implied Control Premium on 60Day VWAP immediately preceding the date of public announcement

Our methodology - Overview

- We have analysed the details of takeover transactions available with the Securities and Exchange Board of India (SEBI) for an **extensive period of 18+ years from March 2002 until June of 2020**, covering offer-price related data of over 1,500 transactions.

- Public announcement or letter of offer was reviewed to understand the justification of offer price by the acquirer for taking over the target company. Where the annualised trading turnover of the target company's shares traded during the twelve calendar months preceding the month of the public announcement was 10 per cent or more, the details of 60-days VWAP or 26 Week H|L or 2 Weeks H|L (depending on the extant SAST Regulations) were disclosed.

- The implied control premium (i.e. [Offer price less Base price]/Base price) has been computed on 60-days VWAP or 26 Week H|L or 2 Weeks H|L as available.

- In the **1,500+ transactions** that were analysed, **226 transactions** disclose the 60-days VWAP, **451 transactions** disclose the 26 Week H|L (i.e. the average of the weekly high and low of the closing prices during 26 weeks prior to the public announcement) and **414 transactions** disclose 2 Weeks H|L (i.e. average of the daily high and low prices during 2 weeks period preceding the date of public announcement). The other transactions that do not disclose these details were where the target company was not frequently trading. Also, in certain situations, only the 26 Week H|L was reported where the stock did not trade during the last 2 weeks before the announcement.

- The implied control premium is nil for transactions where the offer price is equivalent to the base price (60-days VWAP or 26 Week H|L or 2 Weeks H|L). As such, in our analysis, we have presented both control premium on an aggregate level and after excluding transactions that exhibit nil premium.

- 26 Week H|L or 2 Weeks H|L as available is considered as the base price for transactions prior to **November 2011** and after that 60-days VWAP is considered as the base price.

60-days VWAP →	The volume-weighted average market price of such shares for a period of 60 trading days immediately preceding the date of public announcement as traded on the stock exchange where the maximum volume of trading in the equity share are recorded during such period
**26 Week H	L** →	The average of the weekly high and low of the closing prices of the shares of the Target on stock exchange during 26 weeks period preceding the date of public announcement
**2 Weeks H	L** →	The average of the daily high and Low of the prices of the shares of the Target on stock exchange during 2 weeks period preceding the date of public announcement

Methodology – What SEBI (Substantial Acquisition of Shares and Takeovers) Regulations stipulate as Base price for takeovers in India…..

Requirements of an offer price

SEBI SAST Regulation, 2011

The extant Takeover regulation in India requires an acquirer to offer the highest of the following :

1) Highest negotiated price per equity share for any acquisition in terms of the SPA attracting the obligation to make the public announcement ("PA")
2) The volume-weighted average price paid or payable for acquisition by the Acquirer or by any person acting in concert with it, during the 52 weeks immediately preceding the date of PA
3) The highest price paid or payable for any acquisition by the Acquirer or by any person acting in concert with it, during the 26 weeks immediately preceding the date of the PA
4) **The volume-weighted average market price of such shares for a period of 60 trading days immediately preceding the date of PA as traded on the stock exchange where the maximum volume of trading in the equity shares is recorded during such period**
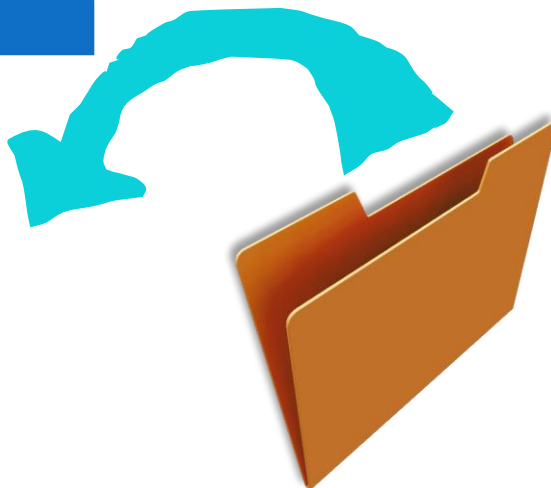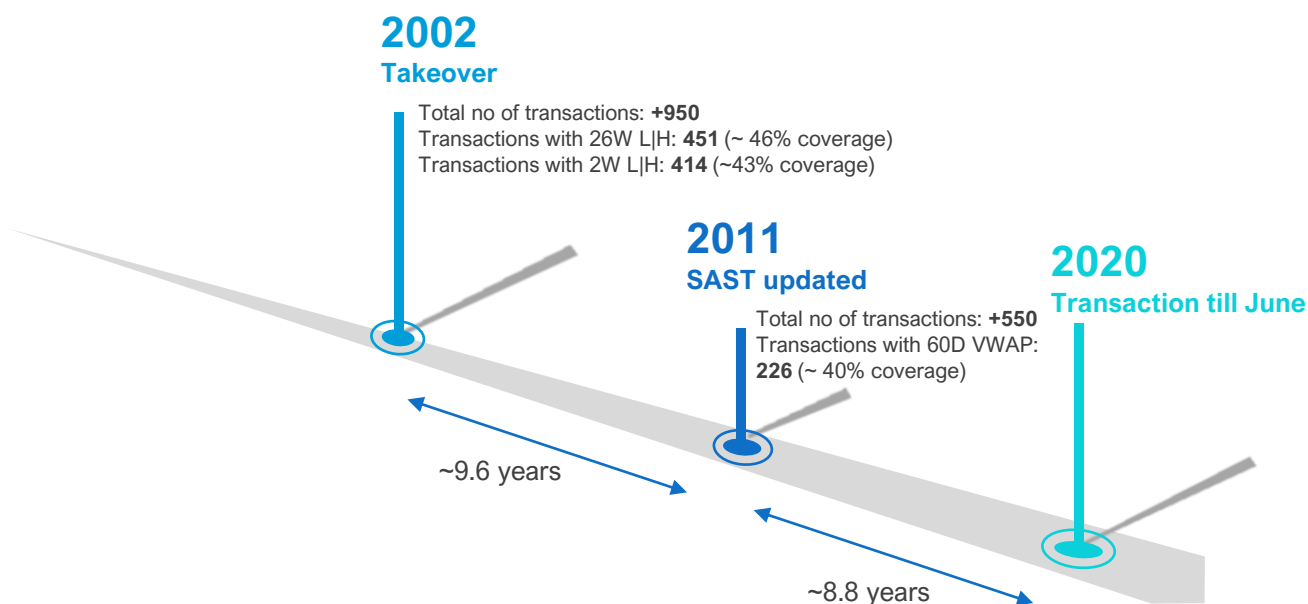
SEBI SAST Regulation, 1997

1) The negotiated price
2) Highest Price paid by the acquirer for acquisition, if any, including by way of allotment in a public or rights issue or Preferential Issue during the 26 weeks prior to the date of the PA
3) **The average of the weekly high and low of the closing prices of the shares of the Target on the stock exchange during 26 weeks period preceding the date of PA**
4) **The average of the daily high and Low of the prices of the shares of the Target on the stock exchange during 2 weeks period preceding the date of PA**

Methodology - Base price considered for computing the Control Premium

- In our analysis, we have segregated the observable period into two parts – a) year 2002 to October 2011 and b) November 2011 to June 2020

- Prior to November 2011, for target companies that were frequently traded, public announcement or letter of offer disclosed both a) the average of the weekly high and low of the closing prices during 26 weeks prior to the public announcement and b) average of the daily high and low prices during 2 weeks period preceding the date of public announcement as a determiner of the offer price.

- However, owing to several factors such as the growth of M&A activity in India as the preferred mode of restructuring, the increasing sophistication of takeover market, the decade long regulatory experience and various judicial pronouncements, it was felt necessary to review the SAST Regulations 1997. Accordingly, SEBI in the SAST Regulations, 2011 modified the offer price determiner to the volume-weighted average market price of shares for a period of sixty trading days.

- Thus, from November 2011 to June 2020, the base price considered is 60-days VWAP.

2002
Takeover

Total no of transactions: **+950**
Transactions with 26W L|H: **451** (~ 46% coverage)
Transactions with 2W L|H: **414** (~43% coverage)

2011
SAST updated

Total no of transactions: **+550**
Transactions with 60D VWAP: **226** (~ 40% coverage)

2020
Transaction till June

~9.6 years

~8.8 years

What SEBI SAST Regulations say...

What period and price to consider preceding the date of public announcement?

2011 onwards	**VWAP** for a period of **60 trading days**
Until 2011	Avg of the **weekly high and low** of the closing prices for **26 weeks**
Until 2011	Avg of the **daily high and low** prices for **2 weeks**

Summary of control premium on different price bases

Summary of premium (excluding transactions exhibiting nil premium)				
Base price	**Time period**	**No of transactions analysed**	**Mean**	**Median**
The volume-weighted average market price for a period of 60 trading days immediately preceding the date of PA	2011-20*	200	25%	14%
The average of the weekly High and Low of the closing prices during 26 weeks period preceding the date of PA	2002-11	437	42%	24%
The average of the daily high and Low of the prices during 2 weeks period preceding the date of PA	2002-11	382	21%	10%

Summary of premium at aggregate level				
Base price	**Time period**	**No of transactions analysed**	**Mean**	**Median**
The volume-weighted average market price for a period of 60 trading days immediately preceding the date of PA	2011-20*	226	22%	11%
The average of the weekly High and Low of the closing prices for 26 weeks period preceding the date of PA	2002-11	451	41%	22%
The average of the daily high and Low of the prices for 2 weeks period preceding the date of PA	2002-11	414	19%	8%

Note: 1) Transactions up to June 2020 have been analysed
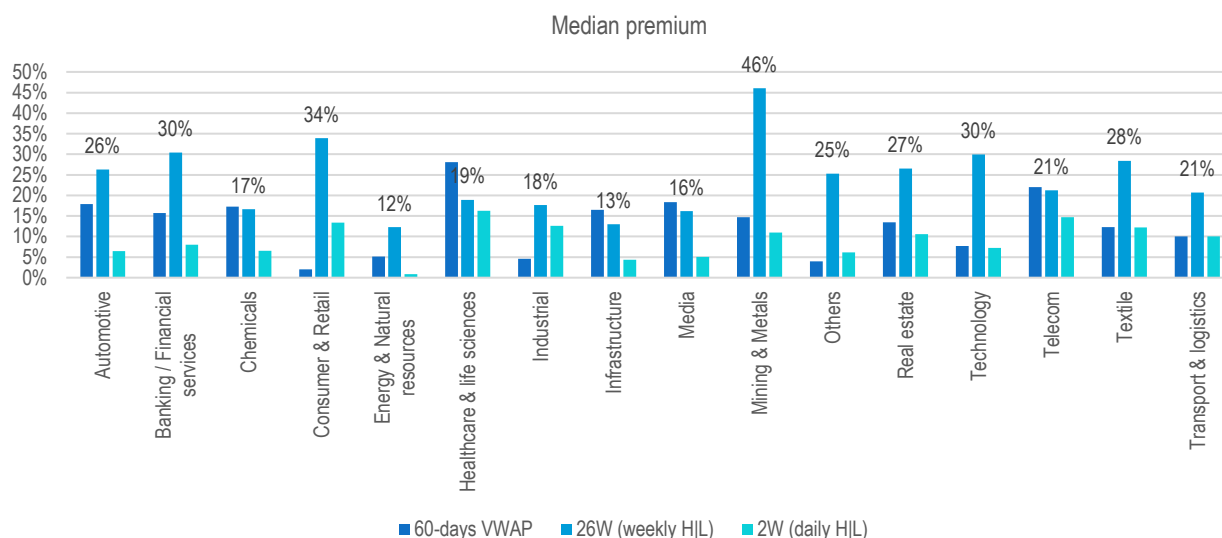Source: SEBI; Incwert analysis

- The average and the median control premium (excluding transactions exhibiting nil premium) for the period 2011-20 is observed to be 25% and 14% based on 60-days VWAP as the base price. During the period 2002-11, the average and the median control premium is observed to be 42% and 24% based on 26 Weeks H|L as a base and 21% and 10% based on 2 Weeks H|L as the base price.

- The transactions that display nil premium are the ones where price run-ups post potential information leakage would have resulted in market price rising higher than the highest negotiated price or the 52 weeks VWAP price paid by the acquirer, or the 26 weeks highest price offered by the acquirer. Furthermore, we observe nil premium in also indirect acquisitions where offer price is set equivalent to the market price.

Analysis by industry

# Summary of Control Premium by industry (at an aggregate level)

Summary of premium by industry (at aggregate level)						
	Average			Median		
	60-days VWAP	26W (weekly H|L)	2W (daily H|L)	60-days VWAP	26W (weekly H|L)	2W (daily H|L)
Automotive	26%	31%	13%	18%	26%	6%
Banking / Financial services	28%	40%	12%	16%	30%	8%
Chemicals	35%	49%	17%	17%	17%	6%
Consumer & Retail	18%	84%	59%	2%	34%	13%
Energy & Natural resources	15%	31%	34%	5%	12%	1%
Healthcare & life sciences	35%	41%	26%	28%	19%	16%
Industrial	13%	37%	19%	5%	18%	13%
Infrastructure	19%	21%	11%	16%	13%	4%
Media	23%	21%	14%	18%	16%	5%
Mining & Metals	15%	78%	10%	15%	46%	11%
Others	9%	38%	16%	4%	25%	6%
Real estate	14%	26%	20%	13%	27%	11%
Technology	17%	36%	17%	8%	30%	7%
Telecom	22%	30%	25%	22%	21%	15%
Textile	40%	63%	19%	12%	28%	12%
Transport & logistics	10%	36%	12%	10%	21%	10%

Median premium

Legend: 60-days VWAP, 26W (weekly H|L), 2W (daily H|L)

Summary of premium by industry (excluding transactions exhibiting nil premium)	Average			Median		
	60-days VWAP	26W (weekly H|L)	2W (daily H|L)	60-days VWAP	26W (weekly H|L)	2W (daily H|L)
Automotive	30%	33%	13%	20%	31%	6%
Banking / Financial services	29%	40%	13%	16%	30%	8%
Chemicals	40%	53%	19%	19%	19%	11%
Consumer & Retail	21%	87%	64%	9%	34%	15%
Energy & Natural resources	20%	31%	51%	7%	12%	3%
Healthcare & life sciences	39%	44%	26%	41%	26%	16%
Industrial	18%	39%	20%	11%	19%	13%
Infrastructure	23%	22%	12%	18%	16%	5%
Media	27%	23%	16%	24%	17%	7%
Mining & Metals	15%	78%	10%	15%	46%	11%
Others	10%	39%	18%	5%	27%	8%
Real estate	18%	26%	20%	17%	27%	11%
Technology	19%	37%	18%	8%	30%	11%
Telecom	22%	35%	29%	22%	22%	21%
Textile	40%	63%	19%	12%	28%	12%
Transport & logistics	10%	36%	12%	10%	21%	10%
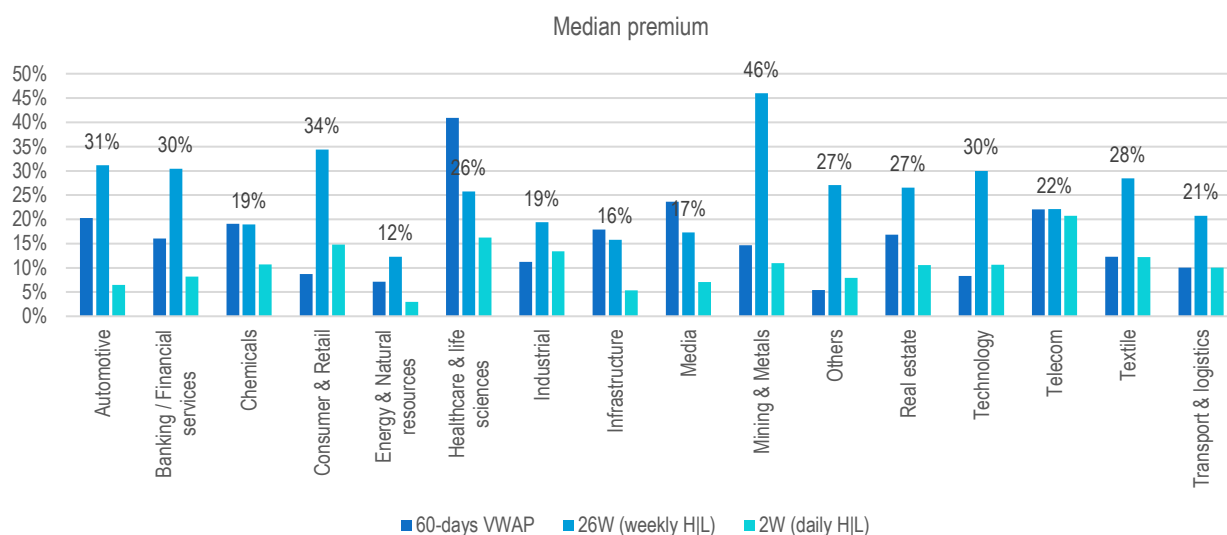
Median premium

Legend: ■ 60-days VWAP ■ 26W (weekly H|L) ■ 2W (daily H|L)

Analysis by time series

Summary of median premium (excluding transactions exhibiting Nil premium)			
Year	60-days VWAP	26W (weekly H|L)	2W (daily H|L) Concluded
2002	n/a	49%	53% 51%
2003	n/a	38%	23% 30%
2004	n/a	15%	7% 11%
2005	n/a	35%	5% 20%
2006	n/a	20%	11% 15%
2007	n/a	26%	7% 16%
2008	n/a	18%	14% 16%
2009	n/a	35%	4% 20%
2010	n/a	19%	6% 12%
2011	10%	8%	14% 11%
2012	19%	n/a	n/a 19%
2013	24%	n/a	n/a 24%
2014	16%	n/a	n/a 16%
2015	13%	n/a	n/a 13%
2016	10%	n/a	n/a 10%
2017	11%	n/a	n/a 11%
2018	9%	n/a	n/a 9%
2019	16%	n/a	n/a 16%
2020	17%	n/a	n/a 17%
Mean of median premium	14%	26%	14% 18%
Median of median premium	14%	23%	9% 16%

Note: 1) Control premium concluded during the period 2002-11 is average of 26 Weeks H|L and 2 Weeks H|L yearly premium
Source: SEBI; Incwert analysis

Year-wise control premium (median)
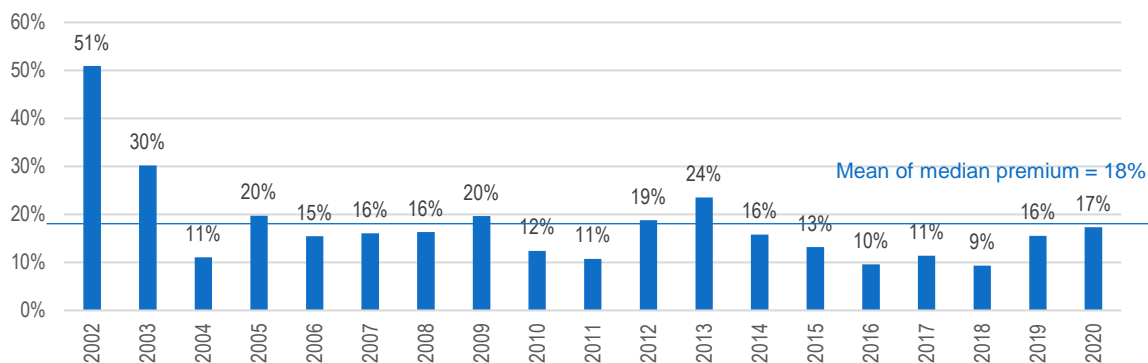
Summary of average premium (excluding transactions exhibiting Nil premium)				
Year	60-days VWAP	26W (weekly H|L)	2W (daily H|L)	Concluded
2002	n/a	61%	50%	55%
2003	n/a	57%	31%	44%
2004	n/a	35%	21%	28%
2005	n/a	51%	12%	32%
2006	n/a	48%	36%	42%
2007	n/a	32%	10%	21%
2008	n/a	44%	28%	36%
2009	n/a	61%	22%	42%
2010	n/a	35%	9%	22%
2011	10%	28%	25%	27%
2012	24%	n/a	n/a	24%
2013	34%	n/a	n/a	34%
2014	28%	n/a	n/a	28%
2015	27%	n/a	n/a	27%
2016	27%	n/a	n/a	27%
2017	41%	n/a	n/a	41%
2018	15%	n/a	n/a	15%
2019	15%	n/a	n/a	15%
2020	20%	n/a	n/a	20%
Mean of average premium	**24%**	**45%**	**24%**	**31%**
Median of average premium	**25%**	**46%**	**24%**	**28%**

Note: 1) Control premium concluded during the period 2002-11 is average of 26 Weeks H|L and 2 Weeks H|L yearly premium
Source: SEBI; Incwert analysis
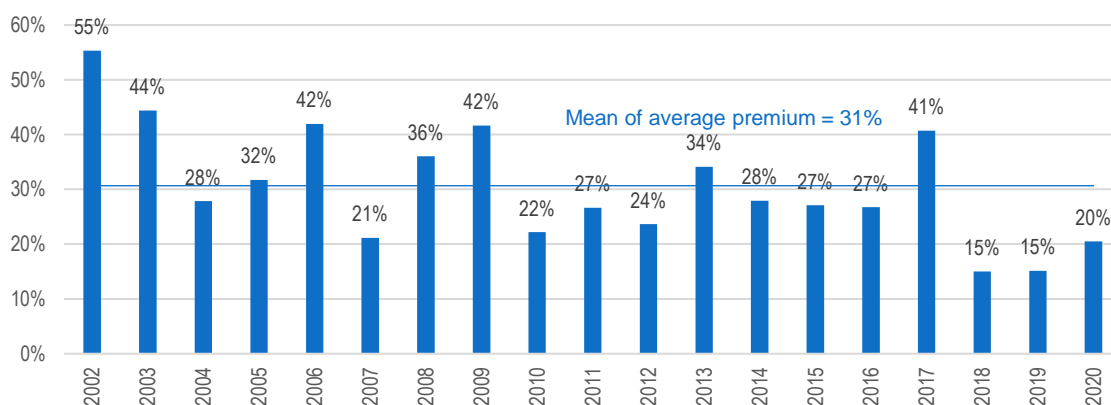
Premium through the time series

Premium - 60 Days VWAP

	All data points			Excluding Nil premium		
	Data points	Mean	Median	Data points	Mean	Median
2011	2	10%	10%	2	10%	10%
2012	28	20%	15%	24	24%	19%
2013	22	31%	21%	20	34%	24%
2014	27	25%	13%	24	28%	16%
2015	35	25%	10%	32	27%	13%
2016	28	23%	7%	24	27%	10%
2017	17	34%	4%	14	41%	11%
2018	34	12%	7%	28	15%	9%
2019	24	15%	13%	23	15%	16%
2020	9	20%	17%	9	20%	17%
	226			**200**		

Premium - 26 Week L|H

	All data points			Excluding Nil premium		
	Data points	Mean	Median	Data points	Mean	Median
2002	19	51%	44%	16	61%	49%
2003	26	55%	38%	25	57%	38%
2004	23	33%	15%	22	35%	15%
2005	46	49%	33%	44	51%	35%
2006	57	47%	20%	56	48%	20%
2007	78	31%	25%	76	32%	26%
2008	65	43%	18%	63	44%	18%
2009	29	59%	34%	28	61%	35%
2010	63	35%	18%	62	35%	19%
2011	45	28%	8%	45	28%	8%
	451			**437**		

Premium - 2 Week L|H

	All data points			Excluding Nil premium		
	Data points	Mean	Median	Data points	Mean	Median
2002	3	50%	53%	3	50%	53%
2003	21	31%	23%	21	31%	23%
2004	21	21%	7%	21	21%	7%
2005	41	11%	3%	36	12%	5%
2006	55	32%	8%	49	36%	11%
2007	75	10%	6%	72	10%	7%
2008	64	26%	13%	61	28%	14%
2009	29	21%	4%	27	22%	4%
2010	61	8%	5%	55	9%	6%
2011	44	21%	12%	37	25%	14%
	414			**382**		

Distribution analysis of control premium

Control Premium is positively skewed with 75% to 90% of the sample exhibiting premium less than 50%
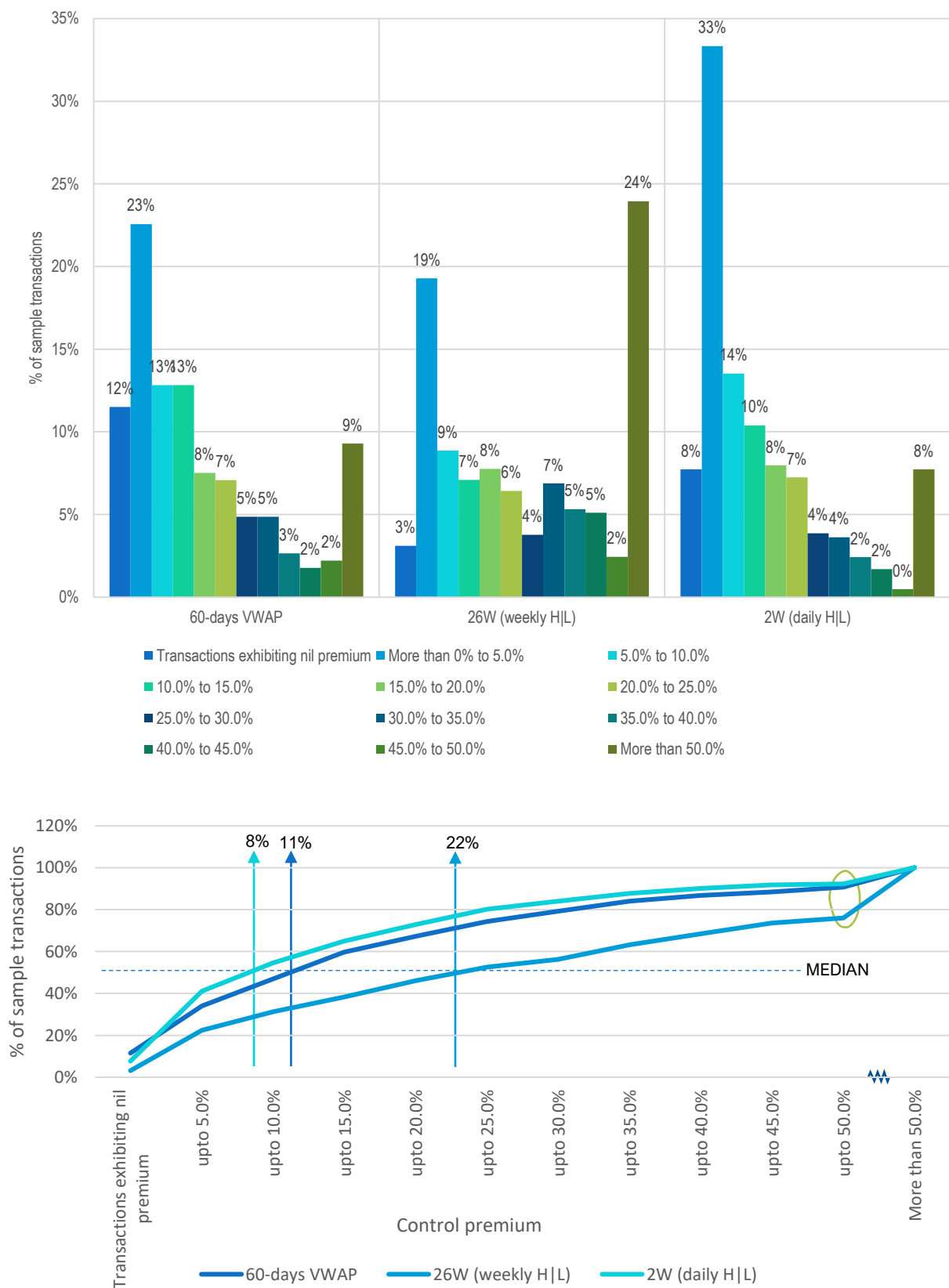
Analysis of control premium on different price bases

Control Premium – 60day VWAP as base price
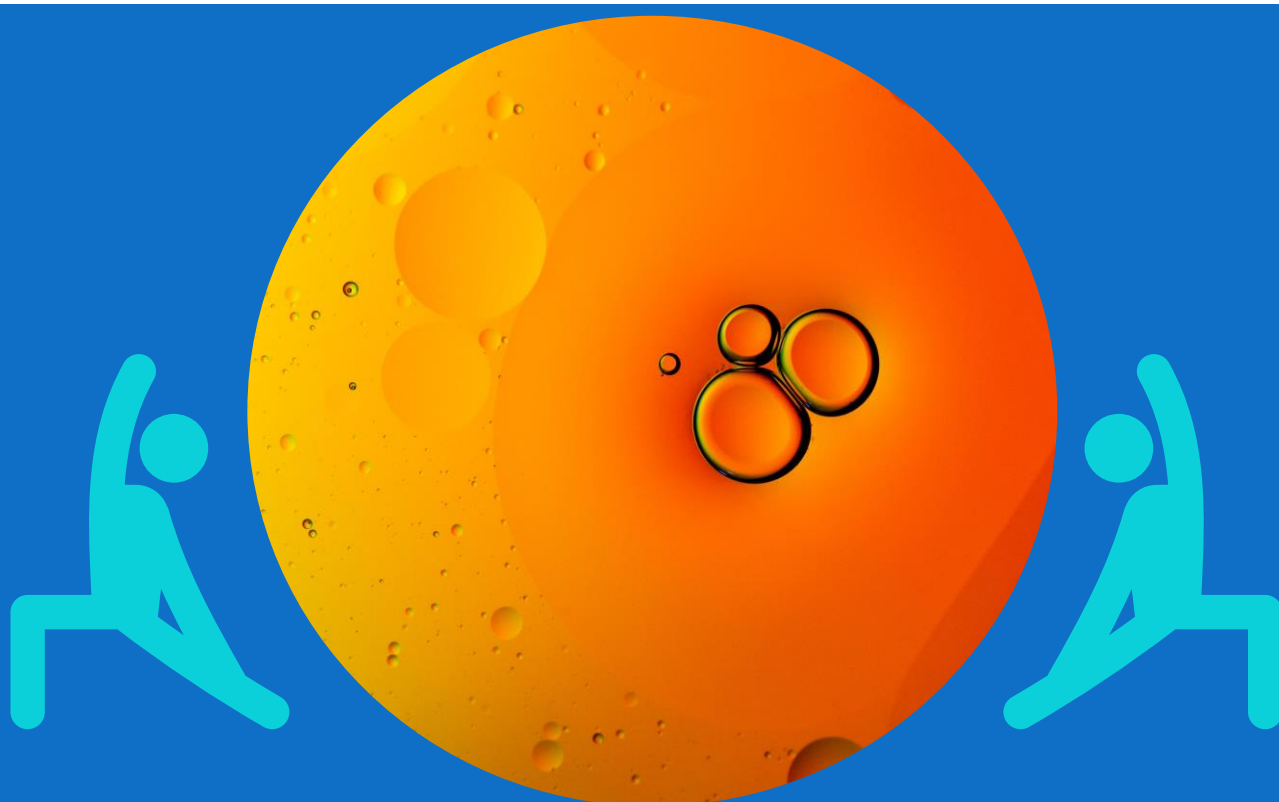
Premium - 60Days VWAP									
	All data points			**Excluding Nil premium**			**Excluding Nil premium & above 100% premium**		
	Data points	**Mean**	**Median**	**Data points**	**Mean**	**Median**	**Data points**	**Mean**	**Median**
Aggregate	**226**	**22%**	**11%**	**200**	**25%**	**14%**	**190**	**18%**	**14%**
Automotive	8	26%	18%	7	30%	20%	7	30%	20%
Banking / Financial services	53	28%	16%	51	29%	16%	48	19%	16%
Chemicals	15	35%	17%	13	40%	19%	11	21%	17%
Consumer & Retail	13	18%	2%	11	21%	9%	10	12%	5%
Energy & Natural resources	9	15%	5%	7	20%	7%	7	20%	7%
Healthcare & life sciences	10	35%	28%	9	39%	41%	8	30%	28%
Industrial	25	13%	5%	18	18%	11%	17	11%	11%
Infrastructure	12	19%	16%	10	23%	18%	10	23%	18%
Media	8	23%	18%	7	27%	24%	7	27%	24%
Mining & Metals	1	15%	15%	1	15%	15%	1	15%	15%
Others	29	9%	4%	26	10%	5%	26	10%	5%
Real estate	4	14%	13%	3	18%	17%	3	18%	17%
Technology	21	17%	8%	19	19%	8%	19	19%	8%
Telecom	2	22%	22%	2	22%	22%	2	22%	22%
Textile	14	40%	12%	14	40%	12%	12	14%	10%
Transport & logistics	2	10%	10%	2	10%	10%	2	10%	10%
	226			200			190		

Industry-wise Premium - 26Week H|L									
	All data points			Excluding Nil premium			Excluding Nil premium & above 100% premium		
	Data points	Mean	Median	Data points	Mean	Median	Data points	Mean	Median
Aggregate	**451**	**41%**	**22%**	**437**	**42%**	**24%**	**398**	**27%**	**20%**
Automotive	19	31%	26%	18	33%	31%	17	26%	26%
Banking / Financial services	68	40%	30%	68	40%	30%	61	29%	22%
Chemicals	41	49%	17%	38	53%	19%	30	19%	14%
Consumer & Retail	33	84%	34%	32	87%	34%	29	38%	32%
Energy & Natural resources	12	31%	12%	12	31%	12%	11	14%	11%
Healthcare & life sciences	17	41%	19%	16	44%	26%	15	33%	19%
Industrial	46	37%	18%	44	39%	19%	39	23%	17%
Infrastructure	44	21%	13%	42	22%	16%	41	20%	15%
Media	16	21%	16%	15	23%	17%	14	16%	16%
Mining & Metals	6	78%	46%	6	78%	46%	4	34%	37%
Others	63	38%	25%	62	39%	27%	59	28%	24%
Real estate	13	26%	27%	13	26%	27%	13	26%	27%
Technology	40	36%	30%	39	37%	30%	37	33%	30%
Telecom	8	30%	21%	7	35%	22%	7	35%	22%
Textile	21	63%	28%	21	63%	28%	17	22%	22%
Transport & logistics	4	36%	21%	4	36%	21%	4	36%	21%
	451			437			398		

Control Premium – 2Week H|L as base price

Industry-wise Premium - 2Week H|L									
	All data points			**Excluding Nil premium**			**Excluding Nil premium & above 100% premium**		
	Data points	**Mean**	**Median**	**Data points**	**Mean**	**Median**	**Data points**	**Mean**	**Median**
Aggregate	**414**	**19%**	**8%**	**382**	**21%**	**10%**	**376**	**16%**	**9%**
Automotive	18	13%	6%	18	13%	6%	18	13%	6%
Banking / Financial services	64	12%	8%	61	13%	8%	61	13%	8%
Chemicals	32	17%	6%	28	19%	11%	28	19%	11%
Consumer & Retail	27	59%	13%	25	64%	15%	24	22%	14%
Energy & Natural resources	12	34%	1%	8	51%	3%	7	6%	2%
Healthcare & life sciences	16	26%	16%	16	26%	16%	15	17%	16%
Industrial	42	19%	13%	40	20%	13%	39	17%	13%
Infrastructure	40	11%	4%	36	12%	5%	36	12%	5%
Media	15	14%	5%	13	16%	7%	13	16%	7%
Mining & Metals	5	10%	11%	5	10%	11%	5	10%	11%
Others	61	16%	6%	55	18%	8%	54	15%	8%
Real estate	12	20%	11%	12	20%	11%	12	20%	11%
Technology	41	17%	7%	37	18%	11%	37	18%	11%
Telecom	8	25%	15%	7	29%	21%	7	29%	21%
Textile	17	19%	12%	17	19%	12%	16	13%	10%
Transport & logistics	4	12%	10%	4	12%	10%	4	12%	10%
	414			382			376		

Reference | Incwert Publications

Reference Material:
- Company filings and other publicly available information
- SEBI
- Incwert analysis

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Incwert Valuation Chronicles
(click the image to download the file)

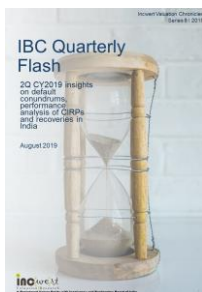| Equity risk premium in India - Jan 2019	Valuation challenges in AIF (Pg. 69-80) - Feb 2019	Perspective on valuation of DVRs - Mar 2019	Junk bond valuation - Apr 2019	IBC Quarterly Flash - May 2019
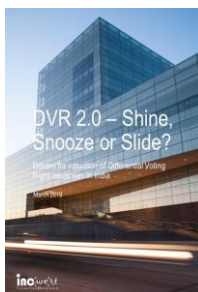
Rule 11UA valuation - Jun 2019	IBC Quarterly Flash - Aug 2019	AMC listing & valuation - Sep 2019	India Control Premium - Oct 2019	India Beta Study - Jan 2020

Risk free rate in a negative yield economy - Feb 2020	Holdco Discount - Mar 2020	Equity Risk Premium - June 2020	Purchase price allocation study (BFSI) - July 2020

Management | Advisory Board

Sunit Khandelwal
Director

Sunit has worked across a range of sectors such as Infrastructure, real estate, FMCG, retail, engineering, clean energy, healthcare, IT/ ITeS, and other manufacturing industries.

Qualifications:
Chartered Accountant (ICAI)
B.Com (Hon.) – St. Xavier's College
Registered Valuer with IBBI

Sunit has an overall experience of over 13 years in valuation advisory, transaction advisory and M&A advisory.

As a valuation professional, Sunit has undertaken valuation of businesses for transactions, fund raising, strategic decision making, and corporate restructuring. He has also undertaken valuation of intangible assets, option valuation, litigation support, private equity portfolio valuation and valuation for reporting purposes such as purchase price allocation and impairment test under IFRS and Indian GAAP.

In past he has worked with KPMG India (as Associate Director), BDO, Grant Thornton, KPMG UK, and DBDBS a boutique M&A advisory firm.

Sunit is also an active speaker on valuation at National Institute of Finance Management (NIFM).

Punit Khandelwal
Director

Punit has worked across leveraged loans, distressed debt, insolvency/ bankruptcy situations and high-yield asset classes.

Qualifications:
Chartered Accountant (ICAI)
Chartered Financial Analyst (ICFAI)
CFA Level 2 (US)
MS in Finance (ICFAI)
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Punit brings with him 15 years of experience in sell-side and buy-side advisory across equity and fixed income. He has worked on several bespoke valuations and lent research support to dozens of asset managers/investment bankers/brokers/consulting firms across the globe.

In the fixed income segment, he worked as a fundamental analyst across the capital structure: leveraged loans, distressed debt, insolvency/bankruptcy situations and high-yield asset classes. He has also helped sell-side & consulting firms increase their market presence by coming up with thematic and white label papers.

He started his career as an analyst with Zacks Investment Research & then was a part of a UK based CLO manager's research team. Then he moved on to set up research practices for couple of startups before moving onto become Global Head of Research at one of the largest BPO/KPO in the world and then finally co-founded Incwert.

He won 40 under 40 Alternative Professionals Awards 2020 by AIWMI

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