Challenges in Mergers and Acquisitions
- Tata Motors Case Study -

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June 28, 2007
Agenda

• Indian automotive industry in 2004
• Tata Motors in 2004
• M&A Strategy of Tata Motors
• M&A Experience of Tata Motors
  • Acquisition of Daewoo Commercial Vehicles, Korea
  • Tata Technologies acquisition of INCAT International Plc
  • Merger of Tata Motors Ltd and Tata Finance Ltd
Indian Automotive industry in 2004

1. Cyclical nature of Indian Commercial Vehicle Industry

2. Large scale road development projects signaling the development of a Hub and Spoke model for transportation

3. Growing disposable incomes driving passenger car penetration levels

Source: Goldman Sachs Report
Tata Motors in 2004

1. Successful turnaround after posting huge losses in FY 01

2. Significant portion of CV sales in Medium & Light CV category

3. International business contributing to less than 8% of top line
M&A Strategy of Tata Motors

Technology
Access to Technology and R&D capabilities

New Markets
Access to new markets to support TM’s globalization drive

Products
Complementary product range to ensure faster Time-to-market

Price
Right price to create value
Tata Motors acquisition of Daewoo Commercial Vehicles, Korea

February-March 2004
“This year we will also be focusing on expanding our business internationally. This will demand that our products and services are globally competitive and that our enterprises operate to international standards in terms of quality and customer service. We will need to be extremely aggressive in the marketplace and much more proactive than we have been in the past in order to be leaders in our fields of business. We need a change of mindsets that break with past tradition in welcoming rather than resisting change.”

- Mr. Ratan Tata, Chairman, Tata Group, January 2004
Daewoo Commercial Vehicles Company

- Established by Daewoo Group in 1982 and built into the second largest automobile and truck manufacturer in Korea
- Daewoo Group’s bankruptcy lead to the bankruptcy of Daewoo Motors in 2000
- Car business of Daewoo Motors sold to GM in Nov 2002
- Daewoo Commercial Vehicles Company (DWCV) had an installed capacity of 20,000 vehicles from a state-of-the-art plant built in 1995
- Produced more than 90 truck models in the heavy commercial vehicle range (210 – 400 hp engine)
- DWCV had the second largest market share in heavy trucks in Korea in 2003
Strategic Fit

- Opportunity to overcome cyclicality of Indian CV market
- Enhance product portfolio through catering to increasing demand for heavy vehicles
- Managing business in developed markets
- Access to technology and complementary product range
- Lead a change in the domestic market

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<thead>
<tr>
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<th>DWCV</th>
<th>Tata</th>
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<tbody>
<tr>
<td>Major markets</td>
<td>South Korea</td>
<td>India</td>
</tr>
<tr>
<td>% exported</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Product range (GVW)</td>
<td>Heavy trucks (15 to 45 tons)</td>
<td>Light and medium trucks (2 to 40 tons)</td>
</tr>
<tr>
<td>Engine types</td>
<td>210 to 420hp</td>
<td>50 to 210hp</td>
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<tr>
<td>Engine source</td>
<td>Cummins</td>
<td>In-house, through joint venture with Cummins</td>
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<tr>
<td>Major drive train components</td>
<td>Sourced externally</td>
<td>Internal manufacture</td>
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Challenges and Lessons Learnt

- Need for “Quick and dirty Due Diligence”
  - Strong technical and manufacturing capability
  - Complimentary product range

- Beyond the bid price - Winning acceptance of DWCV employees
  - Structured program to educate DWCV about India, Tata Group and Tata Motors
  - Communication (in Korean) to management, unions and employees emphasizing Tata Motors capabilities and Tata Group’s reputation for good corporate governance
  - Respecting strong work ethics of Koreans through significant efforts during the Due diligence process

- Managing the Korean culture
  - Respecting hierarchy and values
  - Managing Unions
Measuring success

- TDCV launched a new range of medium trucks in 2006 – first major product launch since 2000
- Doubling of exports in 2004 and 2005 accounting for 66% of heavy truck exports from South Korea
- Launch of “Novus” in Indian market
- Increased market share in HCVs from 25% to 28% and achieved market share of 13.5% in MCVs
- Joint development of “World Truck” between Tata Motors India and TDCV, Korea to be launched in 2009

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<th>2004-05</th>
<th>2005-06</th>
<th>2006 - 07</th>
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<tbody>
<tr>
<td>Sales (USD mn)</td>
<td>225</td>
<td>343</td>
<td>518</td>
</tr>
<tr>
<td>Profit after tax (USD mn)</td>
<td>10.8</td>
<td>16.8</td>
<td>18.4</td>
</tr>
<tr>
<td>Total unit sales</td>
<td>4,540</td>
<td>5,734</td>
<td>8,630</td>
</tr>
<tr>
<td>Domestic market share</td>
<td>29.1%</td>
<td>28.1%</td>
<td>26.1%</td>
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<tr>
<td>Export units</td>
<td>874</td>
<td>1,850</td>
<td>3,016</td>
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**Global MHCV Truck Sales**

![Graph showing Global MHCV Truck Sales](image)
Tata Technologies
acquisition of
INCAT International Plc

July - Aug 2005
Division of Tata Motors hived off into a separate company in Apr ’99 to form Tata Technologies Limited

Significant dependence on Tata Motors business even after 8 years of operation in FY 05

From Rs.1.7 bn in FY 2005, TTL was seeking to become a Rs.7.0 billion company with an operating margin of 19% by FY 2010

To become the largest automotive focused Engineering Design company in India

To become a global provider of integrated E&D solutions to automotive OEM clients by attaining Tier I status with them
Inorganic growth opportunity

- An acquisition at this stage could:
  - Provide access to strong client relationships
  - Escalate offshore growth through On-site presence
  - Rapidly acquire world class skills
  - Attract and retain talent

- Target profile of INCAT International Plc
  - A £65 m global provider of PLM and engineering design services
  - Listed on the AIM (November 2004). Market capitalization of approximately £48.5 mn
  - Business:
    - PLM Consulting, E&D services, Support services and Education - 51% of total revenues
    - PLM software / hardware - 49% of total revenues
  - Verticals: Automotive, Industrial manufacturing and Aerospace
  - Geographies: North America (80%), UK (10%), Europe – Germany & Netherlands (9%) and Asia - Japan (1%)
  - Key clients: Daimler Chrysler; Ford, Lotus, Northrop Grumman, Honda, Magna Steyr
  - Employees: Approximately 600 people worldwide
## INCAT International Plc

### Revenue Streams
- PLM services
  - process consulting
  - managed services, content services
  - integration, support services
- PLM technology resold
  - PLM software;
  - Hardware; infrastructure, workstations
- Proprietary PLM technology
  - iCheck

### Clients
- INCAT’s automotive revenue is 60% of total, aerospace is 11% and industrial manufacturing is 29%
- INCAT is engaged with 8 of top 10 auto OEMs
- INCAT supports the world’s top 5 aero OEMs

### Geographies
- Presence in North America (USA, Canada and Mexico)
- Europe (Netherlands, UK, Germany, France)
- A-Pac (Japan and Singapore)
The combined entity would have the competencies to provide a complete Digitization Strategy to Automotive, Aerospace, & Manufacturing clients in all areas of their product value chain through differentiated services and proprietary software.

Business Strategy of Combined Entity
Challenges

- Deciding on the right price
  - Market Price increase
  - Planned acquisitions of in USA (CADPO) and Germany by INCAT
- Alignment of business models
  - Onsite vs. Offshore
  - Leveraging key account relationships by broadening service offerings
  - Realization of targeted offshoring of E&D work
- Due Diligence
  - UK Takeover code – limited scope for Due diligence
- Ownership – achievement of minimum 70% stake
  - Irrevocable undertakings from management of INCAT and institutional shareholders
- Cultural challenges / Retention of employees
  - Foster “Entrepreneurial culture of INCAT”
  - Retail key management personnel through Earn out based payment
  - Restricted Stock options to INCAT management
- Corporate Restructuring
  - Rationalization of subsidiaries
  - Tax re-structuring through International Headquarters
100 Day Integration Plan

• Integration process starting from 1st Sep 2005 to 10th Jan 2006 – to be completed within 100 days

• Challenges addressed through integration
  • Defining Corporate structure based on rationalization of subsidiaries, servicing clients, tax optimization and management control
  • Election under section 338(g) for US tax purposes
  • Definition of clear roles and responsibilities in the new organization structure
  • Creating a blue print for a seamless IT system for Measuring and Monitoring organizational performance
  • Creating joint marketing teams to devise key accounts management strategies
  • Preparation of a board approved business plan with target performance parameters
  • Devise an ESOP/Restricted Stock Unit plan to retain key employees
Go-To Market Model

We achieve our Mission via two divisions

Tata Technologies (Holding Company)

- Develops and Sells Knowledge Products & Services through Channels including INCAT competitors.

INCAT

- Provides Products & Services

iKnowledge Solutions
Tata Motors – Tata Finance Merger

April 2005
Background FY 05

• Bureau of Hire Purchase & Credit (BHPC), a financing division of TML, financing approx. 9% of TML’s domestic retail sales

• Tata Finance Ltd (TFL), on its own, financed approx. 8% of TML’s domestic retail sales

• Tata Motor Finance (TMF), a virtual entity formed in August 03 by BHPC and TFL, contributed around 17% of total TML domestic retail sales

• TML planned to grow vehicle financing business closer to international benchmarks
  • Formidable captive financing arm by leveraging synergies of dealer driven sourcing model of BHPC and direct business model of TFL for supporting its core business
  • Eliminate cost disadvantages
  • Ensure better customer retention by bundling financing options across the value chain
Tata Finance Limited - Background

- Tata Finance Ltd was started by Tata Motors and Tata Industries in 1984 with an objective to support TML products sales by customer financing options.

- In 1996-97, TDLF (Telco Dealers Leasing & Finance Co) was merged with TFL to boost its customer /dealer financing offerings.

- TFL achieved finance disbursal of Rs.1311 crores in FY 1998-99 becoming a leading NBFC in auto-financing industry.

- In late 90’s TFL diversified in various non-core financial solutions such as merchant banking, stock broking, home loans, credit cards, two wheeler financing, foreign exchange dealing etc resulting in losses:
  - Losses in FY 00-01 Rs. 381 crs
  - Losses in FY 01-02 Rs. 157 crs
  - Losses in FY 02-03 Rs. 76 crs
Automotive Financial Services

- Automotive Financial services form an important & integral business for all the global Automotive OEMs

  - Key global automobile majors have their own financing arms to address the different financing needs in the marketing value chain.

  - GMAC, Ford credit, Chrysler financial corporation, Toyota financial services, Volvo Financial services have played an important role in their parent company’s growth

  - Manufacturers captive units dominate the financing industry in US, Europe and other markets

  - They capture 39-44% of OEMs’ total retail sales

  - Contribute to 16-48% to the net income of the parent company – substantially in economic downturns
Importance of a Captive Financier

1. Bundling financing with the products
   - Expand / develop the markets
   - Flexibility in sales and pricing to make offerings more attractive
   - Enhancement of channel profitability and relationship

2. Better Synchronization with retail market
   - Capture early signals of industry trends & retail buying patterns
   - Continuous feedback on product economics and life cycles
   - Improve replacement demand, control replacement cycle

3. Enhance customer loyalty
   - Increase customer loyalty with more customer touch points
   - Increase repeat purchase, buying of spares and services

4. Capture complete vehicle life cycle
   - Extend value chain by combining financing offerings with insurance, fleet management, operating leases, re-finance, spares & service financing, fuel cards

5. Envelop additional profits by extended value chain of financing
   - de-risking from cyclicality of auto sales business
   - Source of stable stream of annuity revenue
   - Improvement in EPS

Generic benefits of financiers

Additional value propositions of Captive financier

Importance of a Captive Financier
Objectives of the Merger

- BHPC and TFL formed joint marketing front end, Tata Motor Finance (TMF), in Aug-03 with an objective to leverage complimentary strengths and operational synergies.

- The model has achieved early success (disbursements and market share have improved substantially than on a stand alone basis).

- However, the model had certain limitations which need to be overcome:
  - The financial rate disparity between the two units due to substantial difference in Cost of Borrowing.
  - Integration related issues.
  - Ambiguous positioning of TMF in market place, among channel partners.
  - Duplication of support cost.

- The issues would be best addressed upon merger of TFL into TML among various options evaluated.
Benefits to Shareholders

**Tata Finance Shareholders**

- The auto-finance business would create more shareholders value on TML balance sheet, than that of TFL
  - Benefits of being captive financier
  - Low CoB and better financial strength
- Participate in the growth of leading auto manufacturer
- Fair exit value for all shareholders
- Better appreciation on their investments, with an upside of dividends

**Tata Motors Shareholders**

- Build a formidable captive financier by consolidating strengths available in-house and within The Group
- De-risk the Company’s revenue stream from the cyclicality of vehicles sales business
- Ensure customer loyalty by enveloping a complete value chain of customer’s life cycle spending on vehicles
- Generate sustainable profit stream to increase shareholders’ value
Merger of Tata Finance with Tata Motors

“All equity shareholders of Tata Finance Ltd to get 8 ordinary shares of Tata Motors Ltd of Rs. 10/- (Rs. Ten only) for every 100 equity shares of Tata Finance Ltd of Rs. 10/- (Rs. Ten only)”

199,806,246 shares of TFL exchanged for 15,984,500 shares of TML
Vehicle Financing Business in FY 07

- TMF – 2nd Largest player in Auto financing market
- TML Financial Services Limited created as a subsidiary of Tata Motors in September 2006
- Average book size of Rs.8500 Cr. as on 31st March 2007
- Net Interest Margins (NIMs) of vehicle financing in the range of 5.5 – 6.5%
Thank you