Reverse Merger

Alternate Approach to Access Capital Markets

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There have been radical changes in the business approach of corporate world in the 21st century. Companies have witnessed different business life cycles from the 'Great Depression' in 1929 to the best of times till recent 2007 and have been guided by the word 'Innovation' subsequent to every such event which holds vigour even today.

The result of one such innovative thought made the Indian corporate world more familiar with the concept of "Reverse Merger", during the early 90's, which was more prominent among the western countries. This notion gained more eminence in early 2000 in India. It was instrumental in being an alternate approach, for many companies, to explore the capital market which was otherwise not feasible through the primary market route due to variety of reasons.

The term 'Reverse Merger' is nowhere defined in the legal books albeit it is a generic term christened by the corporate world. In layman's language, when a financially strong company merges itself with a financially weak company it is a reverse merger. In this activity the financially strong company loses its entity. In a simple merger, generally, two equally strong companies collaborate and there might be a new resultant company or else any one of them might have the existence. Reverse Merger too is governed by Sec. 391-394 of the Companies Act, 1956 and also the same set of rules, procedures etc. apply as in case of a simple merger.

This strategy has obliged quite a few corporate houses in various manners and under different circumstances i.e. whether a downturn or a bull phase. Following are some of the express benefits:

- ✓ Alternate route to access capital markets with proven results;
- ✓ Value creation for existing stakeholders besides new promoters;
- ✓ Easier access to foreign capital markets;
- ✓ Direct / indirect tax benefits and incentives to the merged entity ;
- ✓ Effective mobilisation of funds from banks / financial institutions;
- ✓ Attractive investment destination for PE / VC funds;
- ✓ Choice to have controlling / majority stake in cost-effective manner; and
- ✓ Possibility of faster inorganic growth due to share swap

Several reputed companies like Kingfisher Airlines (Aviation Sector), Marksans Pharma (Healthcare Sector), Indo Bonito Multinational (Trading), etc have got listed domestically using Reverse Merger mechanism. Following is the case study of Arshiya International, a leading logistics company. The list of companies adopting this strategy range from SME to large entities across diversified industries. The feasibility of going 'Reverse' being a subjective issue, the success would depend on vision and the execution capabilities of the company. The recent months have witnessed failure of even large IPOs proving capital market entry strategy somewhat futile for the time being.

We are entering in a highly dynamic era of business cycle defining new structural changes and this recommends a reciprocal shift from the laid down business strategies to run the business successfully, as there is no exception to it.

Carl Lewis has rightly said – "I may be walking slowly, but I never walk backwards; and **whenever, I walk backwards, its for a Long Jump."** Going reverse might prove to be more effective!!!

Case Study : Reverse Merger of Arshiya International with IID Forgings

- In 2000, entered the booming logistics segment by incorporating a JV,BDP (India), with US multinational logistic company, BDP International, in India.
- Merged with IID Forgings, a non-operational company listed on BSE, in the year 2005, to access the capital markets without going through the cumbersome formalities.
- At present, it has become a well reputed brand across the logistic segments having presence in countries like US, Hong Kong, Singapore and Middle East, apart from India.
- Has recently diversified into rail freight business followed by FTWZ's. ***(Source: BSE)***