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Case Study

Indian Operations of a Global Transportation and Shipping Services Provider

Service(s) Offered: **Valuation for Global Acquisition & Regulatory Filings**

Sector/Industry: **Transportation**

Fair Valuation of Indian Operations of a Global Transportation and Shipping Company for acquisition

Our client (Client) was the fourth largest container transportation and shipping company headquartered in France. They were in the process of making an **open offer for acquiring a global logistics and supply chain** company based out of Switzerland (Logistics Company) to strengthen its position as the leading worldwide maritime transport and logistics group. As part of the Client's strategic reorganization, there was also a **plan to transfer the Client's logistics business to the Logistics Company** once the open offer was successful. For this purpose, the Client had appointed an independent financial consulting firm (Adviser) for the valuation of its logistics business spread across the globe.

As the assignment involved the valuation of operations across the world, the Adviser approached Nexdigm for assistance in the valuation of its Indian Operations.

Nexdigm was given a mandate to arrive at the value of the Indian Operations in order to:

- Arrive at the overall global transaction price
- Assist in determining whether the Client's global logistics business derived substantial value from its Indian Operations

The Indian Operations of the Client primarily comprised of two subsidiaries in India (Indian Companies) which had further **stepdown subsidiaries** in India, Kenya, Tanzania, Canada, Mozambique, etc.

Approach

Our approach was bifurcated into three phases:

- **Phase I** - Understanding the Business and Industry Dynamics (Research)
- **Phase II** - Evaluation of Valuation Approaches/ Methodologies
- **Phase III** - Valuation Conclusion

Phase I - Research

We held discussions with the management of the Indian Operations, the Client, and the Adviser while analyzing the business model of the Indian Operations. This gave us valuable insights on **future business plans** of the Indian Operations and their service offerings.

We referred to proprietary databases and research reports for an **in-depth understanding on the Indian logistics sector**. We then adopted a **top-down approach** in order to understand the **future outlook** of the logistics industry.

Knowledge shared by the Client about their business plan for its Indian Operations helped us narrow down our analysis and identify peers which operated with a similar business model.

We also analyzed the **historical financials** of the Indian Companies to obtain qualitative and quantitative information regarding revenues, costs, and margins. We also analyzed the details of the subsidiaries of the Indian Companies.

Phase II - Evaluation of Methodologies

We started by evaluating the various valuation approaches, namely the **Asset Approach, Income Approach, and Market Approach**. Since the Client prepared a global logistics business plan based on geography, company specific business plans were not available. As a reasonable bifurcation between the global company's and Indian Operation's business plan for each of the Indian Companies was not possible, the discounted cash flow method was ruled out.

There were recent transactions involving the Indian Operations company as well as that of a comparable listed peer's in India. Taking the specific facts regarding the Indian Operations into account, we **identified PORT and CCM under Market Approach to value the Indian Companies**.

Price of Recent Transaction (PORT)

We analyzed the recent transactions involving the Indian Companies. PORT can be considered when the transaction has resulted in a **material change in the shareholding structure of the company**. Recent investment provides a real indication of the value of a company.

We verified if there were any significant changes in the Indian Companies or in the industry in which the companies operated after the transaction. Since the **transaction had taken place within a span of one year from the valuation date** and there had not been any significant changes in the Indian Companies since the transaction, we considered PORT to arrive at the fair value of the Indian Operations.

Comparable Companies Method (CCM)

We conducted a comprehensive search to identify **publicly traded companies** in India based on a number of criteria such as industry focus, company size, growth characteristics, etc.

On this basis, listed companies which provided logistics, freight and forwarding businesses in India were shortlisted, and companies with similar services to those of the Indian Companies were selected.

The companies identified **freely and frequently traded on recognized stock exchanges**.

We noticed that peer group companies worked on two business models – **an asset heavy or an asset light model**. Some of the peer group companies were asset-heavy meaning these companies owned assets such as vehicles/trucks/vessels used in freight and forwarding services, while others were asset-light meaning these companies leased out assets used in freight and forwarding services. To access the **comparable performance of asset-light companies paying lease rentals** and **asset-heavy companies charging depreciation**, we considered the EV/EBIT ratio as our valuation basis.

We adjusted the selected EV/EBIT multiple of the peers for the fundamental impact due to difference in size, stake, and operating performance between the Indian Companies and its peers.

The adjusted EV/EBIT multiple was applied to the EBIT of the trailing twelve months of the Indian Companies to arrive at the Enterprise Value. The calculated EV was increased by cash-in-hand, reduced by outstanding debts, and reduced by fair value of minority interest to arrive at the equity value.

The fair value of minority interest was the summation of the fair value of minority stake of all the subsidiaries of the Indian Companies situated in India as well as other countries. The **Adviser calculated the fair value of subsidiaries located outside India and we calculated the fair value of subsidiaries in India**. Outstanding debt was also adjusted to reflect the minority shareholders' stake in the outstanding debt.

Thereafter, we applied a discount for **lack of marketability** considering the Indian Companies are privately-owned, closely-held, and have **no access to an active market** to arrive at the fair market value of the Indian Companies.

Phase III- Valuation Conclusion

With the CCM valuation using the EV to EBIT multiple and PORT valuation, we presented our findings to the Client and Adviser in the form of a **valuation report** detailing our **valuation approach, process and valuation conclusion**.

To produce a **sound conclusion**, we used **both the CCM and PORT methods** to value the closely-held Indian Operations of the Client. Since there was a recent, orderly transaction which took place within a span of one year from the Valuation Date, it represents the fair value of the Indian Operations.

Impact

Nexdigm **coordinated and supported** the Adviser in arriving at the **global transaction price** of the overall logistics business of the Client. Nexdigm developed a positive rapport with the Adviser while delivering a **complex assignment** involving **several firms across the globe**.

For more information on this case study, please write to us at:

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You can also visit our website to know how our services resulted in tangible business benefits:

www.nexdigm.com