UNIT 11 CORPORATE ADVISORY SERVICES

Objectives

After reading this unit, you should be able to:

- explain the meaning and scope of corporate advisory services;
- identify various corporate advisory services;
- understand the technicalities of the corporate advisory services; and
- appreciate the importance of corporate advisory services.

Structure

11.1 INTRODUCTION

Corporate advisory services are needed to ensure that a corporate enterprise runs efficiently at its maximum potential through effective management of financial and other resources. It also rejuvenates old-line companies and ailing units and guides existing units in locating areas/activities of growth and diversification. Usually, Merchant Bankers provide these services. The corporate advisory services represent an important component of the portfolio of the activities of merchant bankers.

Corporate advisory services, for a business enterprise, include the following services:

a) provide guidance in areas of diversification based on the Government's economic and licensing policies,

b) appraising product lines and analyzing their growth and profitability and forecasting future trends, and rejuvenating old line companies and ailing sick units by appraising their technology and processes and restructuring their capital base.

The move to help the ailing industrial units is a well thought out service by the merchant bankers which remained unattended for years. Now the merchant banks in India have recognized this gap and started helping ailing companies to overcome their problems. For example Punjab National Bank has developed special expertise in the area and contemplates to offer help in this sensitive area in one or more of the following ways, viz. (i) commissioning of diagnostic studies, (ii) assessment of revival prospects and preparation of rehabilitation plans, schemes of modernization and diversification, revamping of the financial and organizational structure, (iii) arranging approval of the financial institutions/banks for schemes of rehabilitation involving financial relief etc. assistance in getting soft loans from the financial institutions for capital expenditure and the requisite credit facilities from the bank, (iv) monitoring of rehabilitation schemes, and (v) exploring possibilities of takeover of sick units and assistance in making consequential arrangement and negotiations with financial institutions/banks and other interests/authorities involved.

The above areas are only illustrative of the wide field of corporate advisory services, which could cover any matter worth the benefit for a corporate unit involving financial aspects, governmental regulations, policy changes and business environmental reshuff1es etc. Thus, the scope of the corporate advisory services is very vast. Its coverage ranges from the subject areas like manageria1 economics, investment and financial management to corporate Laws and the related legal aspects.

As a managerial economist a merchant banker has to guide its clients on the aspects of organizational goals, location of the enterprise, size of the organization and scale of operations, choice of a product and market survey, forecasting of product, cost reduction and cost analysis, allocation of resources, investment decisions, capital management and expenditure control, pricing methods and marketing strategy, etc.

A merchant banker as a financial and investment expert has to guide the corporate clients in areas covering financial reporting, project measurement, working capital management, financial requirements and the sources of finance, evaluating financial alternatives, rate of return and cost of capital, financial rearrangement, reorganization, mergers and acquisitions.

As an expert in the area of corporate laws a merchant banker should guide on the legal aspects including the various legal formalities involved in the areas of corporate finance being raised from the financial institutions, banks and the general public in the form of loans, new issues of equity or debentures respectively.

11.2 MAIN CORPORATE ADVISORY SERVICES

Some of the main corporate advisory services can be listed as follows:

1) Making of Public Issue and Issue Management.
2) Project Counselling and Pre-Investment Studies.
3) Corporate Restructuring.
4) Capital Structuring and Restructuring.
5) Loan Syndication.
6) Liaison with Foreign Collaborators and making preparation for Joint Ventures.
7) Raising Foreign Currency Loans Euro issues, FCCB’s etc.
8) Mergers and Acquisitions.
9) Making Valuation & Revaluation of Assets.
10) Consultancy for Rehabilitation of Sick Industrial Units.
11) Other Corporate Advisory Services

1) Making of Public Issue and Issue Management

Management of public issues of corporate securities viz. equity shares, preference shares and debentures or bonds is an act involving mobilization of money resources from the capital market by way of public issues/offers for sale of equity shares, preference share, debenture or bond etc. The services in this regard being offered by the Merchant Banking Divisions or the Indian banks and their subsidiary companies include the following activities:

i) Obtaining approval for the issue from the SEBI.
ii) Arranging underwriting for the proposed issue.
iii) Drafting and finalizing of the prospectus and obtaining its clearance from the underwriters, stock exchanges, auditors, solicitors, Registrar of Companies and other necessary consents required for filing the prospectus.

iv) Drafting and finalization of other documents such as application forms, newspaper announcements of the prospectus material and application to the stock exchanges.

v) Selection of the registrar to the issue, printing press, advertising agencies, brokers and bankers to the issue and finalization of the fees and charges to be paid to them.

vi) Arranging through the advertising agency the press, brokers and investor's conferences.

vii) Co-coordinating the printing, publicity and advertisements relating to the issue, and work of the registrars to the issue, the receipt and processing of applications and preparation of the basis of allotment, negotiation of the same with the stock exchanges and preparation of the register of allotment.

In the case of management of debentures, apart from the above, the Managers to the Issue have to do the following things:

a) To finalize the terms of the issue which will make the debenture issue attractive; and

b) To assist in the finalization of the relative security or mortgage documents and obtaining approval thereto from the Company's solicitors and trustees.

In issue management, a decision on the size and timing of the public issue in the light of the market conditions, procuring underwriting support from brokers, institutional underwriters, i.e. complete liaison with share market functionaries, financial press, media coverage, arrangement of collection of applications throughout the country through appointed banks to the issue, are equally important tasks which a merchant banker traditionally performs. For the successful issue marketing "Stock Exchange clearances and listing of the securities are the necessary arrangements which are also assisted to by the merchant banker.

2) Project Counselling and Pre-Investment Studies

Project counseling services relate to 'project finance and broadly covers the study of the project and offering advisory assistance on the project viability and procedural steps for its implementation. It includes the following aspects; general review of the project ideas/profile, advice on procedural aspects of project implementation, review of technical feasibility of the project on the basis of the report prepared by own experts or by the outside consultants, selecting Technical Consultancy Organization for preparing project reports and market surveys, review of the project reports or market survey report, preparing project report from financial angle, advice and acting on various procedural steps including obtaining government consents for implementation of the project.

For project counseling an evaluation of industrial projects is undertaken to compare and evaluate alternative variants of technology, of raw materials to be used, of production capacity, of location and of local production versus import. Project evaluation is indispensable because resources are scarce and alternative opportunities in terms of projects exist for commitment of resources. Project selection can only be rational if it is superior to others in terms of its commercial importance (net financial benefit accruing to owners of project) or its importance to the nation as a whole. The various appraisals that are carried out as a part of project appraisal are:

Financial Appraisal: Financial appraisal is concerned with assessing the feasibility of a new proposal for investment for setting a new project or expansion of existing productive facilities. In appraising a project, the project's direct benefit and costs are estimated at the prevailing market prices. This analysis is used to appraise the viability of a project as well as to match projects on the basis of their profitability, it may be noted that financial appraisal is concerned with the measurement of profitability of resources invested in the project without reference to their source.

An integral aspect of financial appraisal is financial analysis, which takes into account the financial features of a project including sources of financing. Financial analysis helps to determine smooth operation of the project over its entire life cycle. The two major aspects of financial analysis are liquidity analysis and capital structure analysis for which ratios are employed. Liquidity ratios measure a project's ability to meet its short-term obligations. Capital Structure analysis is done to see long term solvency i.e. the project's ability to meet long-term commitments to creditors.

Technical Appraisal: Technical appraisal is primarily concerned with the project concept covering technology, design, scope and content of the plant as well as inputs and infrastructure facilities envisaged for the project. Basically, the project should be able to deliver to the market the product from the resources deployed at a cost which would leave a margin adequate to service the investment and plough-back a reasonable amount to enable the enterprise to consolidate its position.

Economic Appraisal: Economic appraisal of a project deals with the Impact of the project economic aggregates. We may classify these under two broad categories. The first deals with the effect of the project on employment and foreign exchange and, the second deals with the' impact of the project on net social benefits or welfare.

3) Corporate Restructuring

The merchant banks provide their expert services for corporate restructuring. When a company wants to grow or survive in a competitive environment, it needs to restructure itself and focus on its competitive advantage. This restructuring could be by way of internal growth or external growth. In simple words, corporate restructuring is the process by which a company can consolidate its business operations and strengthen its position for achieving the desired objectives. Corporate restructuring is done in three different areas. These are:

1) Restructuring at Business Portfolio
2) Financial Restructuring
3) Organizational Restructuring

Restructuring Business Portfolio: In the pre-liberalization era, where license-permit-Raj existed, Business houses used to try for all sorts of licenses, irrespective of whether that particular product is fitting into their business portfolio and whether they have any core competency in producing that product or not. As a result of this many business houses are rattled with unviable and unrelated business ventures. After the liberalization the situation has changed and the corporations are forced to concentrate on their core competencies in order to compete internally and globally. This had lead many business houses to restructure their Business Portfolios. Business Portfolio restructuring could be done in a variety of ways like Business Alliances, Joint Ventures, Mergers, Takeovers, Foreign Franchises, etc.

Financial Restructuring: Financial restructuring aims at designing capital structure in such a way that it costs least and leaves a major share of the revenue to equity holders. This also includes planning the liquidity of the company without reducing the profitability. Traditionally, financial restructuring was meant to restructure debt-equity mix only. However, now, it includes issues like buy-back of shares, preferential allotments and issue of warrants.

Organizational Restructuring: This restructuring is needed in order to facilitate and implement the above two restructurings. The whole restructuring programme goes waste, if the suitable changes are not made in the organization. These changes need to have the cooperation of all levels of employees, only then the restructuring programme will be successful. From above it is clear that in an organization there may be three major areas of restructuring - the mix of the business, the finances and the organization.

Portfolio Optimization

There are three important decisions to be made - which businesses to retain, which ones to divest, and how, and which are the new ones, if at all, to enter, and how.

Business Retention Criteria: A variety of criteria for business retention have emerged from experience and the literature. Some of these have been known for a long time; tended to be neglected and brought back in a modified, renewed form.

An early criterion was that of distinctive competence. Out of its various strengths, a firm should focus on those, which gave it an edge over competition. Stay in those business where one has a competitive edge over existing players and potential new entrants and can not cope with the bargaining powers of customers and suppliers; the threat of substitutes and regulatory environment. It has been further buttressed by the idea of core competence. This is made up of the core skills of a firm, built up over a number of years.

Divestment Strategies: The above decisions on retention will automatically create a candid list of businesses for divestment. The process at divestment has to be handled carefully especially in emerging markets, like India, with many social concerns:

a) If the business to be divested is already profitable find a suitable buyer at an attractive price, which can, then, be invested in the core business.

b) If it is losing, break even or low margin, but has, the potential for higher profitability, find a joint venture partner, hive off and give him equity and management control, at reasonable price. If the profitability improves, divest more of the equity at better prices.

c) If the prospects are bleak, or will take too long to turn around, sell to a willing buyer even at a loss.

d) If a buyer cannot be found, close down, treating all past losses as such costs. Be guided by the differential, discounted cost benefit analysis.

e) In all the above cases, communicate with employees and unions, keep sharing information and forecasts, and attempt a consensus. Get the agreement of the buyer of the business to be divested, or the Joint Venture partner, on taking over the necessary manpower. Absorb the skilled surplus in the retained business, with necessary retaining. For the absolute, irreducible surplus, pay appropriate compensation, with enlightened self-interest.

Diversification Choice: Here also useful need to be retained and renewed. In emerging markets like India, new industry sectors are being thrown open, for the first time, for investment by private enterprise. These include core sectors like coal and aviation; and infrastructure sectors like power, roads, ports and telecommunications. The concepts of focus and sticking to the knitting perhaps should not be followed blindly. A new Indian entrant may not have a competitive advantage, but he also does not have a competitive disadvantage.

Financial Engineering: Three key aspects of the financial model of the firm need restructuring in the face of the environmental discontinuities of liberalization. These are - creating value for shareholders; finding the appropriate mix of debt and equity; and ensuring a competitive cost structure.

Shareholders' Value Creation: Advisors must help companies focus on not just turnover, gross profits or net profits, but on EPS — Earnings Per Share. This, in turn, requires optimizing profit after tax, and the number of equity shares. The second strategy for value creation is, to increase the PE — Price Earnings ratio. To some extent, a given industry tends to have a certain PE, for a given period, depending on its prospects. So, management should choose to be in the right industry. Further, within a given industry, it is possible for a firm to enjoy higher PE. This depends on the quality of the earnings, arising from the quality of products, processes, brands, organization and leadership.

Debt-equity Mix: The proportion of equity and debt in the capital structure of a company also plays a very important role while restructuring. Debt instruments have committed cash flows in the form of interest payments. Therefore, a firm with little cash inflows would reduce their debt proportion in the capital structure. Similarly, equity instruments have the facility of non-dilution of the controlling power. If a firm is able to generate good returns, the firm may not go for equity as it dilutes their returns and their control on the company. Therefore, Debt-equity proportion is a very critical factor in corporate restructuring.

Cost Management: Cost management can be implemented through the following three steps:

i) ***Cost Consciousness:*** Identify and disseminate information on actual costs of inputs, products, processes, projects and overheads.

ii) ***Cost Control:*** Go a step forward by designing and implementing systems of budgets and standard costs, against which the actual costs can be compared.

iii) ***Cost Reduction:*** Further, create systems and climate for continuous cost reduction, by physically reviewing and challenging the physical and financial standards themselves.

Organizational Redesign

In parlance, with the business and financial restructuring, the human organization also needs to be recast. This is needed in both the hardware and software aspects of the organization: Without the pressures of competition, organizations tend to proliferate levels, designations, pay scales and manpower. These imbalances reduce human productivity, creativity and competitiveness. The structures and processes need change. The organization structure should be critically examined from the point of view of its ability to respond faster to emerging situations. The organizational processes need to be strengthened for communication, information sharing, empowerment, team play and problem solving.

While the right structure, compensation and career growth systems helps in a turbulent environment healthy organizational culture is required to stay competitive. The nucleus of culture is the core values. These can be derived, for a particular organization from the imperatives of meeting its multiple stakeholder's expectations - customers, dealers, vendors, shareholders, employees, government and public. Some common core values are: customer satisfaction/delight; fair dealings; value creation and innovation.

Activity 1

Why do you think that corporate advisory service be sought before a corporate restructures its business portfolio?

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4) Capital Structuring and Restructuring

Capital structure of a unit is financed by owned capital in the form of promoter's contribution and issue of shares and borrowed capital. Net worth represents owned capital and consists of equity shares and retained profits. Equity share capital, which is the core capital structure of a company, represents risk capital. Equity shareholders are the owners of the company, have voting rights, have a say in the management of the company and possess residuary interest in the company. Equity shares, however, do not have any right to dividend and the management can skip dividends. The main questions on the capital structure decision are an appropriate debt equity ratio and minimizing cost of capital.

Debt-Equity Ratio: The proportion of equity in the capital structure of a company is determined by the debt-equity ratio stipulated by the Government, the restrictions imposed by financial institutions and the requirements to be met for listing on stock exchanges.

Financing Decisions and Cost of Capital: A great deal of controversy has developed over whether the capital structure of a firm as determined by its financing decisions, affects its cost of capital. Traditionalists argue that the firm can lower its cost of capital and increase market value per share by the judicious use of leverage. However, as the company levers itself and becomes increasingly risky, financial lenders begin to charge higher interest rates on loans. Moreover, investors penalize price earnings ratio increasingly, all other things being the same. Beyond a point the cost of capital begins to rise.

The basic objective behind the capital restructuring services is to "enable projects to achieve their maximum potential through effective capital structures and suggests various-strategies-to widen and restructure the capital base, diversify operations and implement schemes for amalgamations merger or change in business status.

Capital restructuring shall include different steps in different circumstances a client company is facing. Generally, it may include examining capital structure of the client company to determine the extent of capitalization. If capitalization is of the reserve by issue of bonus shares then capital restructuring will include preparing a comprehensive memorandum to conform to the legal requirements viz. extent of capitalization of reserve. If the company has excess capital a proposal for buy back of shares may be prepared. It may cover cases of suggesting mergers, takeovers and amalgamations involving modernization and diversification of the existing production systems and the units.

In the capital restructuring the main thrust remains on the analytical side so as to reincarnate the capital structure ratios, assets restructuring ratios and the debt service coverage with overall impact on fund generating capacity of the client corporate unit.

5) Loan Syndication

Loan syndication service involves making arrangement for financing a large borrower by a number of financial institutions. Loan syndication is also known as loan procurement and project finance service. The main task involved in loan syndication is to raise the rupee and foreign currency loans with the banks and financial institutions both in India and abroad. It also arranges to bridge finance and the resources for cost escalations or cost over-runs.

Broadly, the loan syndication includes the following acts; (a) estimating the total costs, (b) drawing a financing plan for the total project cost-conforming to the requirements of the promoters and their collaborators, financial institutions and banks, Government agencies and underwriters, (c) preparing loan application for financial assistance from term lenders/financial institutions/banks and monitoring their- progress including the pre-sanction negotiations, (d) selecting the institutions and banks for participation in financing, (e) follow-up of the term loan application with the financial institutions and banks and obtaining the satisfaction for their respective share of participation, (f) arranging bridge finance (g) assisting in completion of formalities for drawl of term finance sanctioned by institutions expediting legal documentation formalities, drawing up inter-se agreements etc. prescribed by the participating financial institutions and banks (h) assessing the working capital requirements, preparing the necessary application for submission to the bankers and assisting in negotiating for the sanction of appropriate facilities.

6) Liaison with Foreign Collaborators and making preparation for Joint Ventures

Merchant banks help locate foreign collaboration and joint venture partners abroad. They seek to advise on local laws, product risk, Government regulations regarding shareholdings, exchange relation, taxation, dividends, incentives and subsidies etc. They also provide guidance on negotiating foreign financial and technical collaboration agreements with the framework of government policies, rules and regulations, assistance in the formation of corporate ventures in India in collaboration with suitable foreign parties.

7) Raising Foreign Currency Loans Euro issues, Foreign Currency Convertible Bonds etc.

Merchant Banks in India do provide foreign currency finance as merchant banking services in the following manner: (a) export-import trade finance, (b) Eurocurrency-loans, (c) Indian joint ventures abroad, and (d) foreign collaborations. The main areas covered under export 48 finance are as follows: viz. (i) assistance in study of the turnkey and construction contract projects, (ii) assistance in formulation of the application for working group, liaison with RBI. ECGC and other institutions, (iii) syndication of various types of guarantees, letters of credit, pre-shipment credit, deferred post-shipment credit, bridge loans and other credit facilities, and (iv) assistance in opening and operating bank accounts abroad.

The main areas of import finance are as follows: viz. (i) arranging foreign currency loans under buyer's credit scheme for importing goods, and (ii) arranging deferred payment guarantees under suppliers credit scheme for importing capital goods.

Foreign banks operating in India through their merchant banking departments are rendering significant services in respect of foreign currency loans. For example Grindlays Bank has a worldwide specialization in foreign currency finance covering supplier/buyer credit.

Merchant banks have the expertise in arranging Euro-currency loans to Indian corporate units. The Grindlays Bank for making this service available to Indian clients takes the help of the London based principal merchant bankers viz. Grindlays Brandt who have experience and expertise in Euro lending. This bank has support from London-based Euro currency market and the Grindlays Asia Ltd., a Hong Kong based subsidiary - to step up the growing market in the Pacific Basin.

8) Mergers and Acquisitions

These are specialized services, which the merchant banks have to provide according to the individual requirement of their clients. These services includes advice and assistance in negotiating acquisitions and mergers where confidentiality is of the utmost essence, expert valuation to determine the quantum and nature of consideration and assistance on related legal documentation, official approval, tax matters, etc, management audits to identify areas of corporate strength and weaknesses to help formulate guidelines and directions for future growth plans, and exploratory studies on a global basis, to locate overseas markets, foreign collaborations and prospective joint venture associates.

Steps Involved in Merger

1) **Formulation of Scheme:** Once the 'prospecting phase' is over, the companies seek the help of legal and financial consultants to finalize the details of proposed scheme of merger.

2) **Memorandum of Association:** The objective' clause of amalgamated (transferee) company should be examined to see if it permits continuation of the business of amalgamating (transferor) company by it.

3) **Intimation to Stock Exchange and Notification:** As soon as the offer of merger is made, the stock exchanges where these companies are listed should be notified and the fact of the offer should be announced in the newspapers. To ensure proper disclosure, the announcement is made in the form approved by the regional stock exchange.

4) **Director's Approval of the Proposed Scheme:** The proposed scheme of merger should be submitted to the Board of Directors of each company for their approval.

5) **Shareholders' Approval:** The scheme, once approved by the Board of Directors, should be placed before shareholders at a general meeting for their approval. It is not a legal necessity but the companies, in practice, get the scheme approved by their shareholders before they file an application for the sanction of the Court.

6) **Application to the Court:** Now, each company files an application with the High Court of the state in which registered office of the company is located. The court on receipt of the application convenes a meeting of the creditors and members of the company .

7) **Meeting Ordered by the Court:** The Chairman of such a meeting or any other person directed by the Court sends individual notices to creditors and members. The proposed merger scheme is taken as approved if it is passed by a majority in number, representing three-fourth in value of the members (creditors at creditor's meeting), present and voting in person or proxy.

8) **Petition for Confirmation of Amalgamation:** Once creditors and members pass the merger scheme, the company within 7 days of the filing of the report by the Chairman presents a petition for confirmation of the scheme and appropriate orders and directions under Section 394 of the Companies Act.

9) **Order of the Court:** The Court, after receiving a report from the Registrar of Companies and the Official Liquidator, that the affairs of the company have not been conducted in a manner prejudicial to the interest of its members or of the public, ensuring that the requisite approvals from the Company Law Board (for altering its Memorandum of Association), Central Government (under MRTPAct), the Reserve Bank of India (pursuant to the provisions of FERA) have been obtained and hearing all the parties shall satisfy itself that the proposed amalgamation is fair and ' reasonable. '

10) **Transfer of Assets and Liabilities, Issue of Shares etc.:** Finally, the companies can implement the scheme by transferring assets and liabilities by issuing shares and giving any other consideration to the members of the amalgamating company, as per the scheme of merger.

The services of the merchant banks in the context of mergers cover the following areas, viz. (1) examining pros and cons of proposals for financial reconstruction, merger and amalgamation, (2) preparing and formulating scheme of financial restructuring, mergers etc., (3) Obtaining approvals from shareholders, depositors, creditors, Govt. and other authorities, and (4) monitoring implementation of schemes of merger and amalgamation.

Mergers and amalgamations inter-alia seeks to carry capital reorganization of the business enterprises. Merchant bankers' help is generally sought on the capital reorganizations and mergers, guidance on and assessment of the financial factors.

Merchant Banks advise on acquisition propositions after careful examination of all aspects namely balance sheet, articles of associations, provision of company laws, rules and guidance of trade chambers, the issuing house associations etc. besides accountants estimates of total assets and legal assistance in drafting.

The merchant bankers usually guide takeover bids, where the Offer is made to the shareholders of different classes of shares and loan capital of the company involved in such transaction who have their legal rights requiring legal consideration. Making them aware of their legal rights and interests becomes the central point of focus for the merchant banker to advice the client company.

Motives for Mergers

Any acquisition takes place with a number of motivations, culminating in a positive synergy (2 + 2 = 5 relationship). This means that the performance of the combined company is more than the sum of the two independent companies. Let us, now, examine the motives behind takeovers.

A study conducted in USA, identified 12 motives that promote M&A activity. They are given below in the order of their priority.

Motives for Mergers and Acquisitions

Rank	*Motives*
1.	Take advantage of awareness that a company is undervalued.
2.	Achieve growth more rapidly than by internal effort.
3.	Satisfy market demand for additional product services.
4.	Avoid risks of internal start-ups of expansion.
5.	Increase earnings per share.
6.	Reduce dependence on a single product/service.
7.	Acquire market share or position.
8.	Off set seasonal or cyclical fluctuations in the present business.
9.	Enhance the power and prestige of the owner, CEO, or Management.
10.	Increase utilization of present resources-for example Physical plant and individual skills.
11.	Acquire outstanding management or technical personnel.
12.	Open new markets for present products/services.

9) Making Valuation and Revaluation of Assets

One of the problems in analyzing a potential merger involves determining the value of the acquired firm. The value of a firm depends not only upon its earnings but also upon the operating and financial characteristics of the acquiring firm. It is, therefore; not possible to place a single value for the acquired firm. Instead a range of values is determined that would be economically justifiable to the prospective acquirer. The two firms negotiate the final price within this range. To determine an acceptable price for a corporation, a number of factors, quantitative as well as qualitative, are relevant. However, placing a value on qualitative factors is difficult such as managerial talent, strong sales staff, excellent production department, and so on. Therefore, the focus of determining the firm's value is on several quantitative variables. The quantitative factors relate to (a) the value of the assets and (b) the earnings of the firm. Based on the assets value and earnings, these factors include book value, appraisal value, market value and earnings per share.

1) **Book Value:** The book value of a firm is based on the balance sheet value of the owner's equity. The book value, as the basis of determining a firm's value, suffers from a serious limitation as it is based on the historical costs of the assets of the firm. Historical costs do not bear a relationship either to the value of the firm or to its ability to generate earnings. Nevertheless, it is relevant to the determination of a firm's value for several reasons: i) it can be used as a starting point to be compared and complemented by other analyses, ii) in industries where the ability to generate earnings require large investments in fixed assets, the book value could be a critical factor where especially plant and equipment are new.

2) **Appraisal Value:** Appraisal value is another measure of determining a firm's value. Such a value is acquired from an independent appraisal agency. This value is normally based on the replacement cost of assets. The appraisal value has several merits. In the *first* place, it is an important factor in special situations such as financial companies, natural resources enterprises, organizations that have been operating at a loss. A company operating at a loss may only be worth its liquidation value, which would approximate the appraisal value. *Secondly,* the appraisal by independent appraisers may permit the reduction in accounting goodwill by increasing the recognized worth of specific assets. *Third,* appraisal by an independent agency provides a test of reasonableness of results obtained through methods based upon the going concern concept. On the other hand, this method of analysis is not adequate by itself since the value of individual assets may have little relation to the firm's overall ability to generate earnings and thus the going concern value of the firm.

3) **Market Value:** The market value as reflected in the stock market quotations comprises another approach for estimating the value of a business. The justification of market value as' an approximation of true worth of a firm is derived from the fact that the market quotations by and large indicate the consensus of investors as to the firm's earning potentials and corresponding risk. However, the market value of a firm is determined 'by 'investment as well as speculative factors. This value can change, abruptly as a result of change not only in the analytical factors but also purely speculative influences and is subject to market sentiments and personal decisions. Nevertheless, the market value provides a close approximation of the true value of a firm. In actual practice, a certain percentage of premiums above the market price is often offered as an inducement for the current owners to sell their shares.

4) **Earnings Per Share:** Another basis to place a value on a firm is the earnings per share (EPS). According to this approach, the value of a prospective acquisition is considered to be a function of the impact of the merger on the EPS. In another words, the analysis would focus on whether the acquisition will have a positive impact on the EPS after merger or it will have the effect of diluting it. The future EPS will affect the firm's share prices which is a function of price-earnings ratio and EPS.

10) Consultancy for Rehabilitation of Sick Industrial Units

Corporate advisory services include providing help and guidance to the sick industrial units to overcome their problems. For example Industrial Finance Corporation of India, which inaugurated its merchant banking division at its Head Office at New

Delhi on July I, 1986, envisaged to provide consultancy to ailing and sick industrial units in addition to other services like Counseling, Issue Management and Credit Syndication, etc. Merchant banking services to ailing or sick industrial units would cover the activities of following description:

- Preparing turnaround strategies for ailing or sick units.
- Appraising the technology and processes of ailing or sick units and assessing their requirements and restructuring their capital base.
- Restructuring the capital base of ailing or sick units.
- Evolving rehabilitation programmes/packages, which can be acceptable to Financial Institutions and Banks.
- Exploring possibilities for mergers/amalgamations, wherever called for.
- Assisting in obtaining approvals from Board for Industrial and Financial Reconstruction (BIFR) and other authorities under the Sick Industrial Companies (Special Provisions) Act, 1985.
- Monitoring implementation of schemes of rehabilitation, mergers and/or amalgamations.

11) **Other Corporate Advisory Services**

The corporate advisory services as explained above do not cover all the services rendered by merchant banks to the corporate world. In fact there cannot be a finite list of these services. As new problems come up there would be a need for a new kind of corporate advice, which would solve those problems. Some merchant banks would take up the challenge and gear up their activities for providing the needed corporate advice. This leads to the emergence of new corporate advisory services. Therefore it can be rightly said about merchant banks, " merchant banks are the institutions which identify and solve corporate problems". In addition to the corporate advisory services explained above the merchant banks may also provide the following services to the corporate world:

a) Help in Management Decisions.

b) Export Staff Placement and HRD Help.

c) Financial Reengineering.

d) Entrepreneurial Training and Development.

e) Technical Assistance

f) Quality Control & Product Mix.

g) Market Survey and Research.

h) Tax Planning.

11.3 SUMMARY

Corporate advisory services are needed to ensure a corporate enterprise to run efficiently at its maximum potential through effective management of finance and other resources. The main Corporate advisory services include the following services for a business enterprise namely; Making of Public Issue and Issue Management, Project Counseling and Pre-Investment Studies, Corporate Restructuring, Capital Structuring & Restructuring, Loan Syndication, Liaison with Foreign Collaborators and making preparation for Joint Ventures, Raising Foreign Currency Loans Euro issues, FCCB's etc., Mergers and Acquisitions, Making Valuation & Revaluation of Assets and Consultancy for Rehabilitation of Sick Industrial Units. In addition the services like Help in Management Decisions, Export Staff Placement and HRD Help, Financial Reengineering, Entrepreneurial Training and Development, Technical Assistance, Quality Control & Product Mix, Market Survey and Research and Tax Planning are also included in corporate advisory services.

Management of public issues of corporate securities viz. equity shares, preference shares and debentures or bonds is an act involving mobilization of money resources from the capital market by way of public issues/offers for sale of equity shares, preference share, debenture or bond etc. Project counseling services relate to project finance and broadly cover the study of the project and offering advisory assistance on the project viability and procedural steps for its implementation. Corporate restructuring is the process by which a company can consolidate its business operations and strengthen its position for achieving the desired objectives. Corporate restructuring is done in three different areas namely: Restructuring of Business Portfolio, Financial Restructuring and Organizational Restructuring. The basic objective behind the capital restructuring services is to "enable projects to achieve their maximum potential through effective capital structures and reduce cost of capital. Loan syndication service involves making arrangement for financing a large borrower by a number of financial institutions. The service of Liaison with Foreign Collaborators and making preparation for Joint Ventures involves providing guidance on negotiating foreign financial and technical collaboration agreements within the framework of government policies, rules and regulations, assistance in the formation of corporate ventures in India in collaboration with suitable foreign parties. In the context of mergers and acquisitions the corporate advisory services includes advice and assistance in negotiating acquisitions and mergers, the quantum and nature of consideration and assistance on related legal documentation, official approval, tax matters, etc, management audits to identify areas of corporate strength and weaknesses to help formulate guidelines and directions for future growth plans, and exploratory studies on a global basis, to locate overseas markets, foreign collaborations and prospective joint venture associates. Corporate advisory services also include providing help and guidance to the sick industrial units to overcome their problems through turnaround and rehabilitation strategies.

11.4 SELF ASSESSMENT QUESTIONS

1) Why do we need corporate advisory services? Can you make a complete list of these services? If not what is the reason for the same?

2) What do you mean by corporate advisory services? Explain the main corporate advisory services?

3) Select a merchant bank of your choice and explain the corporate advisory services provided by it.

4) What are the factors, which are considered in determining a firm's value before taking a merger decision?

5) Why do we need corporate restructuring? Explain the major areas of restructuring.

6) Write short notes on:

   i) Loan syndication

   ii) Project appraisal

   iii) Mergers versus Restructuring

   iv) Capital Restructuring

11.5 FURTHER READINGS

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