Grant Thornton
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ACMA
Automotive Component Manufacturers Association of India

M&A in auto: Shifting gears to be future ready

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Introduction

With significant technology disruptions occurring simultaneously across multiple facets of the industry, we already have vehicles that directly consume no petroleum-based fuel and vehicles that can self-navigate with no human intervention.

As technology disruptions continue to challenge the business models of incumbent manufacturers and suppliers, in an effort to stay competitive, they are increasingly exploring inorganic opportunities in traditionally unorthodox quarters.

The global automotive industry is rapidly approaching a pivotal crossroads that would influence its long-term trajectory. Unlike the past cycles of peaks and troughs that were driven by macro-economic factors and impacted consumer demand, we are now seeing an accelerated technological transformation that is changing consumer tastes and demands. This transformation will likely shape the industry into something with little resemblance to what it is today.

With significant technology disruptions occurring simultaneously across multiple facets of the industry, we already have vehicles that directly consume no petroleum-based fuel and vehicles that can self-navigate with no human intervention.

These transformations are not only disrupting the fundamentals of the automobile manufacturing processes, but also bringing in innovative business models. What is even more interesting is the fact that these transformations are being led by an entirely new and disruptive set of companies, from automakers such as Tesla to ride sharing platform providers such as Uber and Lyft to established technology giants such as Google, Apple and Intel.

As these disruptions continue to challenge the business models of incumbent manufacturers and suppliers, in an effort to stay competitive, they are increasingly driving incumbents to explore partnerships opportunities in traditionally unorthodox quarters.

And these disruptions have created a unique challenge for the Indian automotive industry – how to balance investments to support current growth cycles with investments required to prepare for future global disruptions.

This report provides deeper insight on the impact of these trends on the global transaction landscape in this sector. It also outlines how the drivers of M&A-led expansion by Indian auto component players have been evolving – access to new markets and customers, desire to integrate into global supply chains, push by global customers, access to technology and innovation capabilities, and shareholder expectations of accelerated revenue growth. The report also seeks to outline how global headwinds are influencing the Indian transaction landscape and start-up ecosystem in the sector.

For a quick reference for aspiring acquirers contemplating inorganic growth, the report provides a bird's eye view of a typical transaction process and highlights some of the key areas to focus on and potential pitfalls to avoid during the course of an M&A transaction.

Auto/auto component sector

Global transactions landscape

I. Overview

On the back of improving macro-economic factors and revival in consumer demand, the global automotive industry is in a better shape than it was five years ago. This progress, while likely to continue, is expected to pan out differently for different geographies across the globe with new profits expected to come mainly from growth in emerging markets.

While the growth fundamentals for the industry are expected to remain buoyant in the near term, the industry landscape itself is expected to change rapidly every year on the back of convergence of various technologies and industries with the automotive space.

Recent M&A activity in the automotive sector has been guided by these expectations of global economic upturn, positive macroeconomic indicators, relatively low-borrowing costs, persistent development of automotive technologies and increased consolidation. The major and overriding driving force has been the coming together of traditional automobile suppliers and technology companies, leading to a cross-industry integration. With a clear scope for diversification, synergies and creating solutions that otherwise are not possible for respective fields to achieve individually, strategic investors are leading the way in the transaction landscape compared to financial investors.

While the ongoing capital-intensive structural changes are likely to span over a long-term horizon and are likely to have a clear element of increased uncertainty, as the convergence of automotive and technology industries continues, there are clear and lucrative investment opportunities in this sector over the next few years.

II. Transaction landscape of the automotive industry

Transaction activity in the automotive sector showed an upsurge in YTD 2018, with total deal value of announced deals amounting to $43 billion, the highest in the last five years. In addition to large consolidation transactions, vehicle manufacturers, component manufacturers and technology companies continue to invest in mobility programmes to revamp their business models.

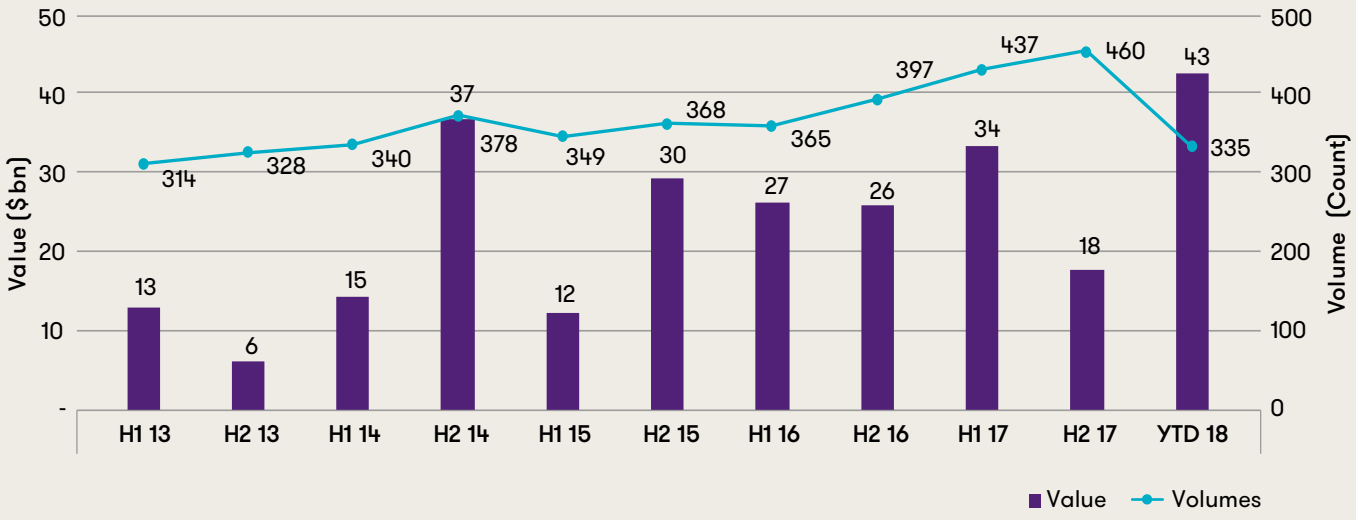
As deal volumes continue to remain robust, average disclosed deal size increased to $128 million in YTD 2018, a 1.3× growth from 2017. The increase in value and average deal size was largely driven by two megadeals in the auto component segments in Q1 2018: Melrose's acquisition of GKN PLC and Tenneco's acquisition of Federal Mogul. These two deals collectively accounted for 40% of all disclosed deal value in YTD 2018.

Average deal size

$128 million
in YTD 2018

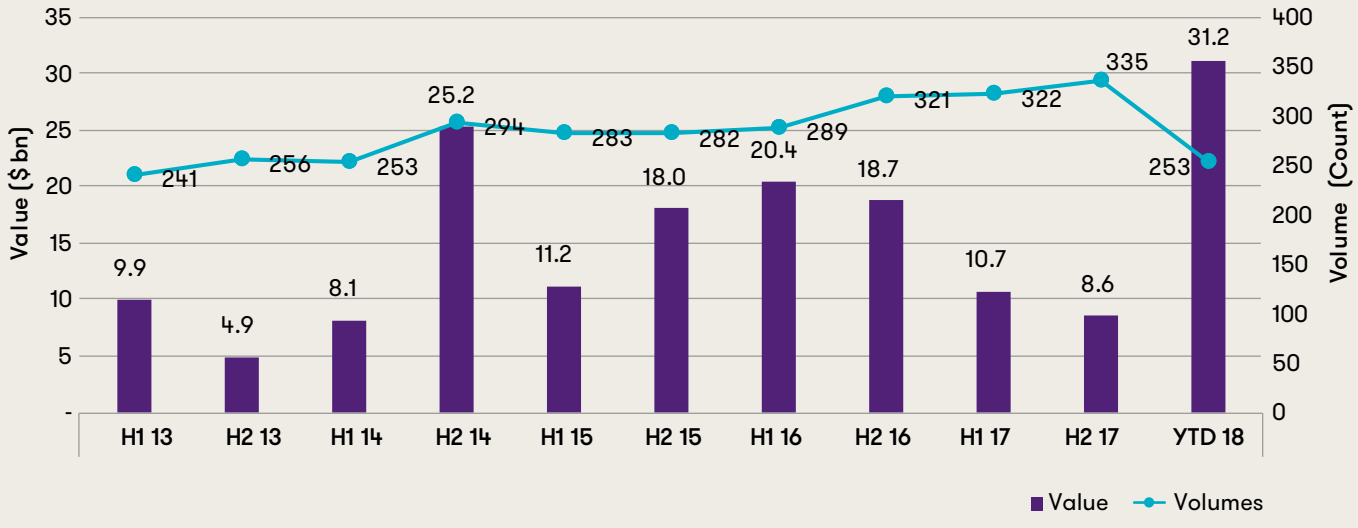
1.3× growth
from 2017

Auto sector transaction landscape (overall): Deal volume and value (2013–YTD 2018)



Source: S&P Capital IQ, Grant Thornton analysis

Auto component sector transaction landscape (components)
Deal volume and value (2013-YTD 2018)

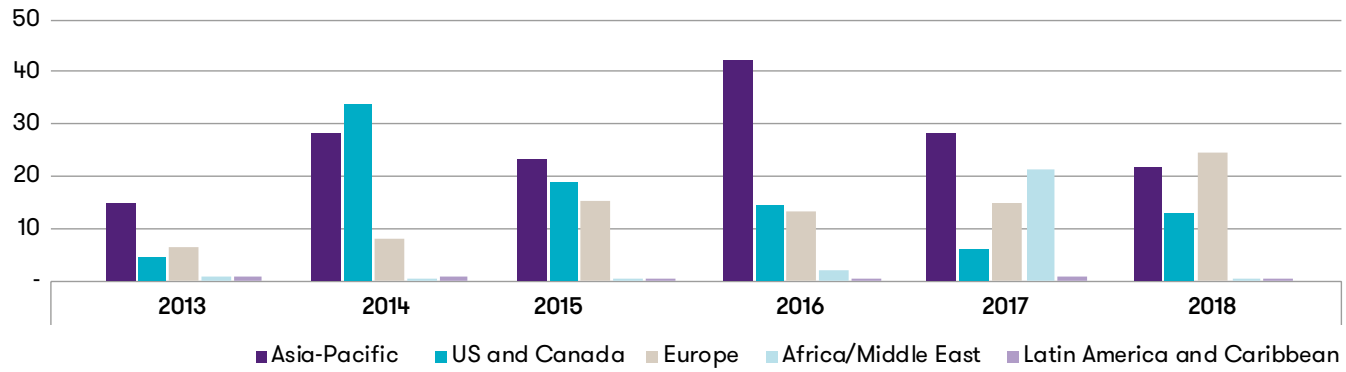


Source: S&P Capital IQ, Grant Thornton analysis

III. Geographical distribution

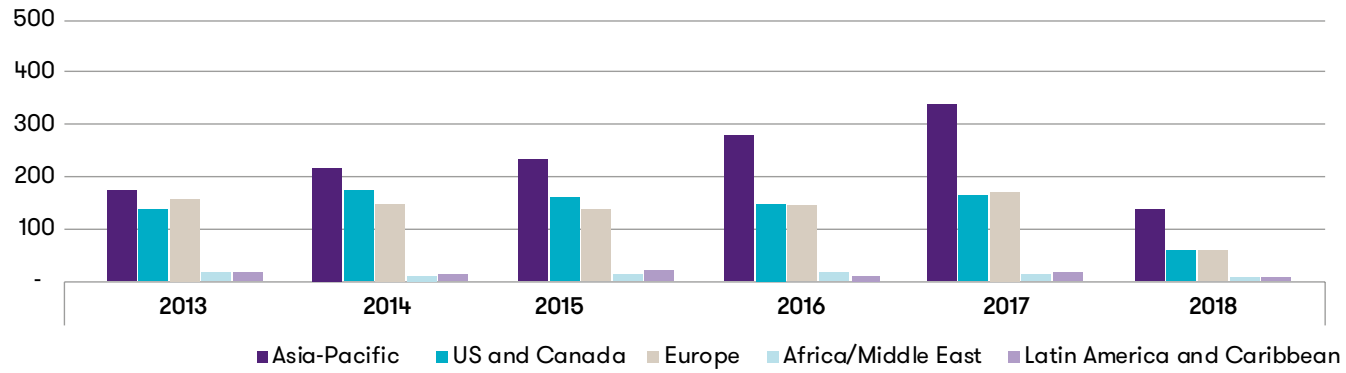
Auto OEMs/component suppliers globally are re-focusing their efforts and investment from mature economies to vibrant and emerging economies. The deal activity in YTD 2018 reiterates the attractiveness of the Asia-Pacific markets with 53% of the transactions in this period pertaining to targets based in the region. However, with an overwhelming share of buyers also from the Asia-Pacific region, a large number of the deals were either local or regional in nature.

Region wise – Geographical distribution of deals
Geographic region [Target/Issuer] - By deal value



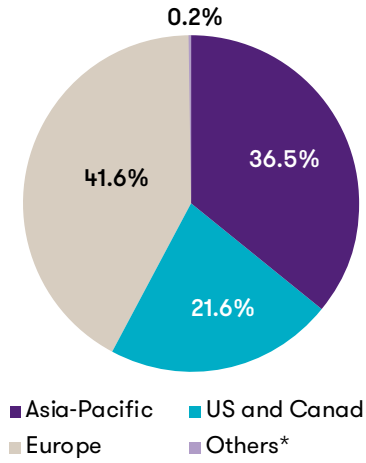
Source: S&P Capital IQ and Grant Thornton analysis

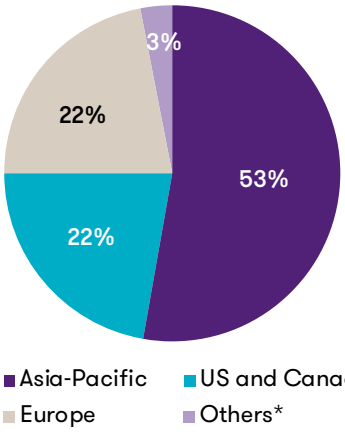
Region wise – Geographical distribution of deals
Geographic region [Target/Issuer]- By deal volume



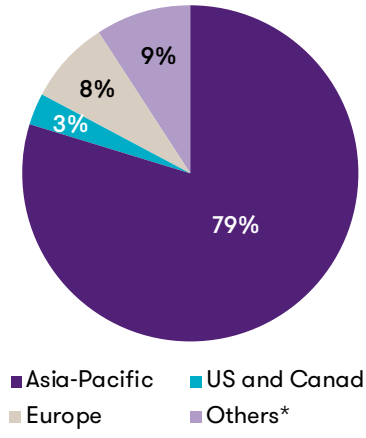
Source: S&P Capital IQ and Grant Thornton analysis

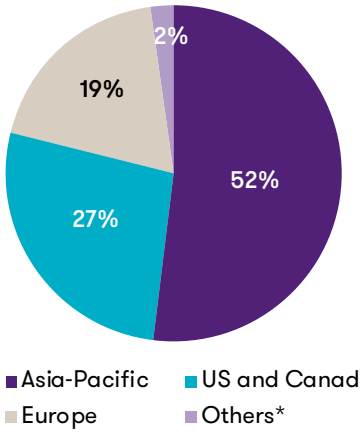
Deal value wise YTD 2018 - Target





Deal value wise YTD 2018 - Target





*Includes Africa/Middle East

Source: S&P Capital IQ and Grant Thornton analysis

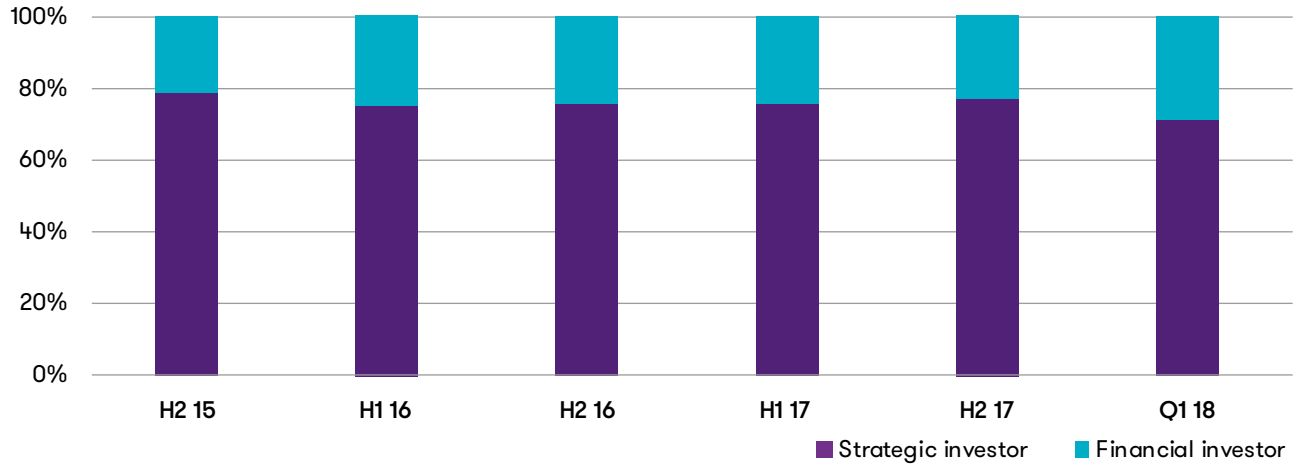
IV. Strategic investors leading transaction activity in the sector

Strategic investors continued to drive majority of deal activity (by deal volume) over the last five years (2013-2018), though financial investors continued to back buy-outs of scaled-up platforms.

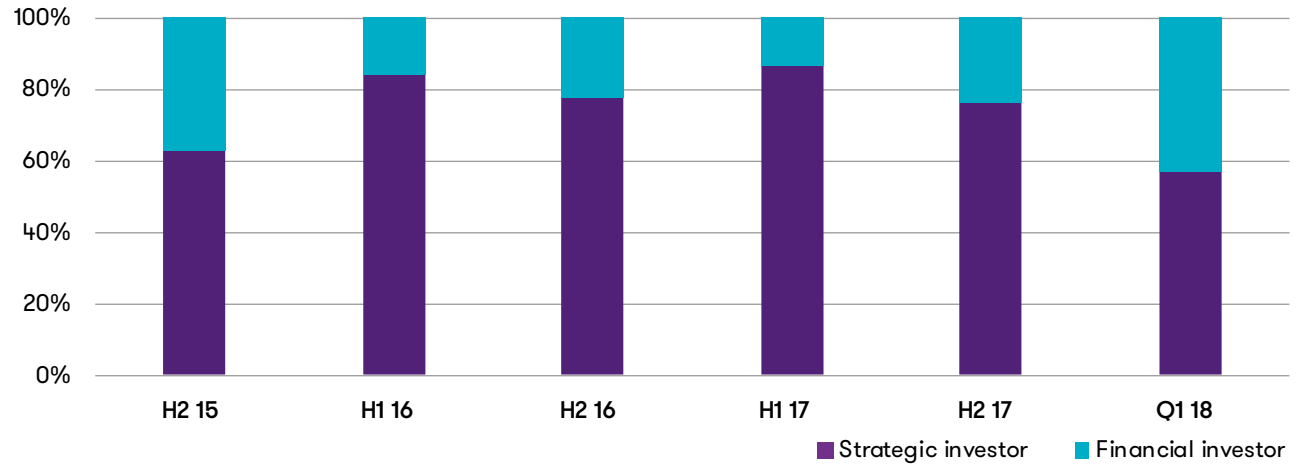
With numerous disruptions to their product offerings and business models, strategic investors have been the driving force behind the robust transaction environment. This has been possible predominantly due to the presence of opportunities to create synergies through collaboration/acquisition for expanding market share, innovating, diversifying business and evolving business models.

Financial investors largely continue to pursue returns through technology-oriented companies and start-ups looking to provide solutions to the emerging auto-tech companies with continued investments in alternative powertrains, connected car technologies, autonomous vehicle and digital services.

Deal volume



Deal value



V. Marquee transactions in 2018

1. Melrose Industries acquired GKN PLC

Key drivers of the deal: Melrose, which specialises in turning around struggling industrial companies, believes that GKN has historically been under-managed and lacks focus. Melrose believes that there is significant scope for value creation for shareholders through its turnaround plan for the business.

Deal value
~ $12 billion

Deal insights
Melrose Industries announced a hostile takeover bid of UK-based component manufacturer GKN PLC.

2. Tenneco acquired Federal-Mogul

Key drivers of the deal: A global leader in ride control and exhaust products, Tenneco, while enjoying strong brand visibility in its niche product portfolio, was also vulnerable. Factors including tighter supply chains, increasing vehicle connectivity and electrification, dropping replacement rates of mechanical parts in cars, and the shift from 'products' to 'services' are making it tougher for companies with a limited portfolio to compete in the global markets. Federal-Mogul's broad product base not only provides Tenneco with an expanded brand and product portfolio, but also increased visibility and reach into different vehicle parts.

Deal value
~ $5.4 billion

Deal insights
Federal-Mogul is being acquired from Icahn Enterprises LP for a total consideration of $5.4 billion to be funded through cash, equity and assumption of debt.

3. Michelin SCA acquired Fenner PLC

Key drivers of the deal: Michelin SCA is a leading global tyre manufacturer. With a focus on strengthening its engineering capabilities and enhancing its customer and solution focus, the company acquired Fenner PLC, a leading manufacturer of industrial belting and other polymer-based products. The addition of Fenner's polymer portfolio will help Michelin grow into the reinforced polymer market, notably in consumer goods, industrial devices and medical segments.

Deal value
~ $1.7 billion

Deal insights
Michelin's acquisition of Fenner is a perfect strategic alignment with its ambition to leverage its expertise in high-technology materials.

4. LG Electronics and ZKW Group

Key drivers of the deal: LG Electronics, along with affiliates like display maker LG Display Co Ltd and battery producer LG Chem, has identified the auto industry as a new growth driver and has been pushing to grow new businesses amid continued struggles for its mobile phones division. As part of efforts to diversify its auto electronics business, the company has acquired ZKW, an Austria-based automotive light maker. The acquisition is expected to result in synergies that allow the combined companies to lead the global lighting sector in autonomous vehicle components

Deal value
~ $1.7 billion

Deal insights
LG Electronics acquired a leading automotive lighting and headlight systems provider ZKW Group .

Top strategic transactions in YTD 2018 (By deal value)

Announced	Target name	Acquirer name	Transaction status	Deal value ($ mn)	Category
10-Apr-18	Federal-Mogul LLC	Tenneco Inc.	Announced	5,400	Parts and components manufacturing
22-Jan-18	Beijing Electric Vehicle Co Ltd.	Chengdu Qianfeng ElectronicsCo Ltd	Announced	4,508	Vehicle manufacturing
7-Mar-18	Thomson Industries, Kollmorgen, Portescap and Jacobs Vehicle Systems	Altra Industrial Motion Corp.	Announced	3,000	Parts and components manufacturing
26-Apr-18	ZKW Holding GmbH	LG Electronics Inc and LG Corp	Announced	1,731	Parts and components manufacturing
19-Mar-18	Fenner PLC	Compagnie Generale des Etablissements Michelin SCA	Announced	1,669	Parts and components manufacturing
29-May-18	Grammer AG	Ningbo Jifeng Auto Parts Co Ltd	Announced	899	Parts and components manufacturing
9-Apr-17	L'Orange GmbH	Woodward Aken GmbH	Announced	863	Parts and components manufacturing
6-Jan-18	Steyr Motors Corp	Chengdu Zhongcheng Taiye Technology Co Ltd	Announced	290	Parts and components manufacturing
28-Feb-18	Zhoushan Yinmei Automobile Interior Co Ltd	Shanghai Daimay Automotive Interior Co Ltd	Announced	166	Parts and components manufacturing

Source: S&P Capital IQ and company press release

Top financial investor transactions in YTD 2018 (By deal value)

Announced	Target name	Acquirer name	Transaction status	Deal value ($ mn)	Category
12-Jan-18	GKN PLC	Melrose Industries PLC	Announced	11,016	Parts and components manufacturing
21-May-18	GM Korea Company	Korea Development Bank, Investment Arm	Announced	3969.48	Parts and components manufacturing
10-Nov-17	Daimler AG	BlackRock, Inc.	Closed	836.05	Vehicle manufacturing
26-Jul-17	LS Automotive Corp	KKR & Co LP	Closed	670.6	Parts and components manufacturing
2-May-17	SEG Automotive Germany GmbH	China Renaissance Capital Investment	Closed	594.26	Parts and components manufacturing
31-Mar-17	Prometeon Tyre Group S.r.l	China Cinda (HK) Holdings Company Limited	Closed	284.71	Parts and components manufacturing
21-Dec-17	Qoros Automotive Co Ltd	Shenzhen BAONENG Investment Group Ltd	Closed	246.8	Parts and components manufacturing
21-Dec-17	Qoros Automotive Co Ltd	Shenzhen BAONENG Investment Group Ltd	Closed	246.8	Parts and components manufacturing
4-May-18	Cloyes Gear & Products Inc	Tianjin Jinxing Investment	Closed	50	Parts and components manufacturing

Source: S&P Capital IQ and company press release

Auto-tech

Global transactions landscape

I. Overview

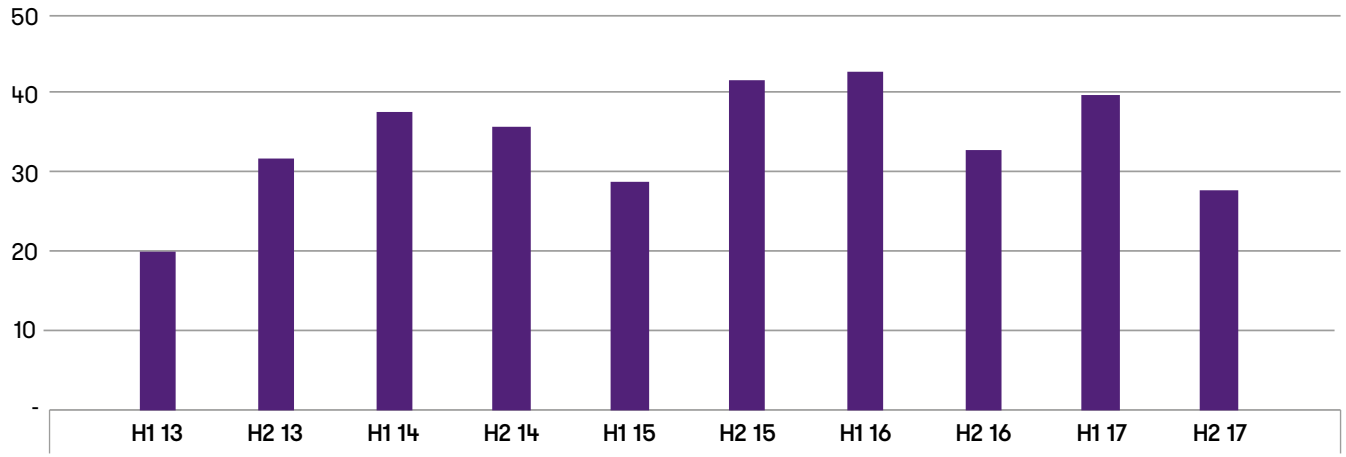
As the automotive industry moves full throttle towards automation and connected technology, M&A in this space continues to transition from horizontal (peer-to-peer and/or across the supply chain) acquisitions towards deals that provide buyers with compelling technology, digital services and new business models. There is a rapid shift towards non-traditional tech and services built on data and predictive analytics. Waymo (Google's driverless car project) and Tesla are the two trendsetters and are at the forefront of driving the rest of the industry towards electric cars and autonomous technology. These trends are resulting in a steady shift in deal volumes from traditional M&A transactions to tech-focused transactions.

Automotive manufacturers and suppliers are now looking at large-scale acquisitions of disruptive auto-tech businesses to transform their products and service offerings before they lose out to the new players.

The new automotive ecosystem in which traditional manufacturers and suppliers collaborate and integrate with established and emerging technology companies continues to mature towards the development and full-scale market adoption of environment-friendly autonomous and connected vehicles.

OEMs and suppliers with a strong financial base and organised capital structure are participating in the race for tech acquisitions to ensure that they continue to remain competitive in the evolving auto sector landscaping while limiting the influence of emerging tech players like Google and Apple in the sector.

Number of auto-tech M&A deals between 2013 and 2017



Source: Hampleton Partners

II. Key transactions

1. Intel Corporation announced the acquisition of Mobileye in March 2017

Deal value
$15.3 billion

Key drivers of the deal: Computing giant Intel Corporation announced the acquisition of Mobileye to create automated driving solutions from the cloud through the network to the car. The acquisition propels Intel to one of the top spots of a nascent but growing industry.

2. Delphi Automotive PLC acquired nuTonomy self-driving vehicle software in October 2017

Deal value
$450 million

Key drivers of the deal: The acquisition gives the supplier a competitive edge in the industry. Vertically integrating as many parts of the self-driving stack as possible makes Delphi a more appealing partner or supplier for automakers. It provides Delphi an opportunity to accelerate the deployment of its self-driving cars.

The acquisition gives Delphi access to some of nuTonomy's relationships, which include agreements with Lyft in the US and Grab in Singapore.

3. Ford Motor Company acquired majority stake in Argo AI LLC in June 2017

Deal value
$1 billion

Key drivers of the deal: Ford's virtual driver system — the machine learning software that acts as the brain of autonomous vehicles — will be combined with the robotics talent and expertise of Argo AI. The partnership will work to deliver the virtual driver system for Ford's SAE level 4 self-driving vehicles.

Source: Company website and company press release

III. Top transactions in auto-tech

Top strategic transactions in YTD 2018 (By deal value)

Announced	Target name	Acquirer name	Transaction value ($ mn)
13-Mar-17	Mobileye	Intel	15,426
3-Mar-16	Solera Holdings Inc	Vista Equity Partners LLC	6,752
16-Jun-17	Argo AI LLC	Ford Motor Company	1,000
9-Mar-18	CHJ Automotive Co Ltd	BlueRun Ventures and another investor	474
24-Oct-17	nuTonomy	Delphi	450
28-Sep-17	Exa Corporation	Dassault Systems	400
26-Sep-17	automotiveMastermind	IHS Markit	392
29-Jan-18	DriveNow GmbH & Co KG	Bayerische Motoren Werke Aktiengesellschaft (DB:BMW)	258
31-Aug-17	Hirschmann Car Communication	Te Connectivity	166
9-Sep-16	Fujitsu Ten	Denso	161
6-Jan-17	Grohmann Engineering GmbH	Tesla Motors	150
16-Aug-16	Velodyne Lidar Inc	Ford Motor Company	150
1-Apr-17	LeddarTech Inc	Delphi	107
3-Mar-18	SoundHound Inc	Daimler AG	100

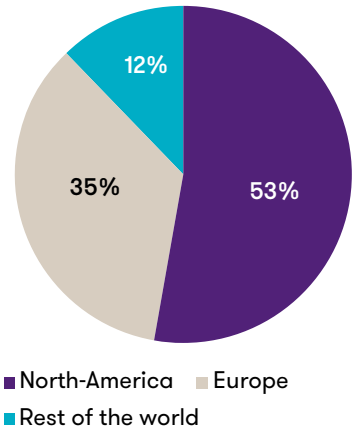
Source: S&P Capital IQ, company websites and company press release

IV. Geographical distribution of auto-tech transcations

In the last three years, more than half of the acquired targets were based in North America, 35% came from Europe and 12% from other locations around the globe.

For those based in Europe, majority of the transactions were done regionally by another European company. In terms of individual countries, the UK witnessed the maximum European M&A activity in the auto-tech space.

Auto-tech targets



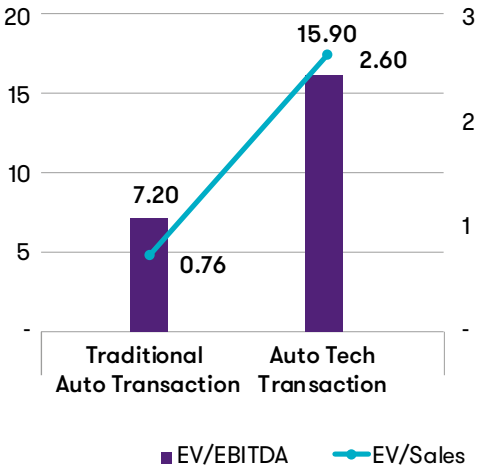
Source: Hampleton Partners

Evolution of drivers for M&A

Increasing role of technolgy

With a growing demand for tech adoption among auto OEMs and component suppliers, it is becoming far easier to buy into cutting-edge technology than to develop it in-house. Automobiles are increasingly incorporating technologies, and early-stage tech start-ups are being purchased by large and traditional OEMs/ part suppliers as the industry outlook shifts further towards software and digital services.

Average transaction multiples: Traditional v auto-tech



Source: Grant Thornton analysis

Comparative analysis #1: Valeo acquiring a traditional auto player and an auto-tech company

	Traditional	Auto-Tech
	FTE automotive	gestigon
Key offering	Traditional supplier, focusing on drivetrain and brake system	Cutting-edge machine vision and HMI technology for gesture control
Human capital	Almost 4,000 employees, founded in 1943	30 employees, founded in 2011
Synergies	Valeo can expand its offerings to active hydraulic actuators	Valeo will get a leg up in the HMI and ultimate driverless car space

Valeo

Acquisition of a traditional incumbent: FTE

- FTE's product portfolio and customer base are highly complementary to Valeo's. The acquisition will enable Valeo to expand its offering of active hydraulic actuators, a strategic and fast-growing market that has notably benefited from the rise of hybrid and electric vehicles.
- The company has more than 4,000 employees and a diversified manufacturing footprint in eight countries, including Germany, the Czech Republic, Slovakia, Mexico and China.
- After the acquisition of FTE automotive, Valeo is positioning itself as the technological leader in the actuators market and thereby consolidating its CO2-emission-reduction strategy. This acquisition will help strengthen Valeo's powertrain systems business.

Acquisition of an auto-tech player: Gestigon

- Valeo acquired Gestigon, a German start up specialised in developing 3D image processing software for the vehicle cabin.
- Gestigon's cutting-edge artificial intelligence-based solutions will contribute to the development of Valeo's automated driving strategy. The start-up's software suite is compatible with all types of in-vehicle gesture and movement recognition sensors.
- With the acquisition, Valeo will be able to develop its cabin comfort and driving assistance operations, particularly in high-growth technologies such as interior cameras and image processing.
- The acquisition will lead to the development of a comprehensive offering of object and occupant detection features in driving monitoring systems.

Source: Company website and company press release

Comparative analysis #2: Lear Corporation acquiring a traditional auto player and an auto-tech company

	Traditional	Auto-Tech
Key offering	Traditional supplier focusing on seating systems	GPS technology providing high-accuracy solutions for connected vehicle
Human capital	2273 employees	10 employees, founded in 2015
Synergies	The acquisition will strengthen and diversify Lear's seating business	The acquisition will provide Lear differential technology to significantly improve GPS accuracy and reliability

Acquisition of a traditional incumbent: Groupo Antolin

- Grupo Antolin's seating business is comprised of just-in-time seat assembly, seat structures and mechanisms and seat trim. It is well positioned among the largest European automakers, including Peugeot Citroen, Daimler, Renault Nissan and Volkswagen.
- Grupo Antolin's seating business has an experienced management team, modern facilities and a reputation for lean manufacturing, superior quality and innovation, including high functionality and light weight seat designs.
- Grupo Antolin's seating business has 12 manufacturing facilities, 2 technological centres and 2,273 full-time and contract employees.
- Lear's acquisition of Grupo Antolin's seating business in Europe is another important step in strengthening its core seating business by further diversifying its global seating sales, expanding seat component capabilities and accelerating profits.

Acquisition of an auto-tech player: EXO Technologies

- EXO Technologies is a developer of GPS technology providing high-accuracy solutions for autonomous and connected vehicle applications. It has operations in San Mateo, California and Tel Aviv.
- EXO Technologies has developed core technology that addresses the need for high-accuracy positioning in a vehicle. Its proprietary technology works with existing GPS receivers to provide centimetre-level accuracy anywhere on the globe without the need for terrestrial base-station networks.
- The acquisition of EXO Technologies will provide Lear with a differentiated technology to significantly improve GPS accuracy and reliability, thereby enhancing vehicle safety and enabling autonomous driving.
- The acquisition will also strengthen its connectivity capabilities. There are excellent growth opportunities for the e-systems business as the proliferation of connected and autonomous vehicles will drive increased demand for improved accuracy and reliability in vehicle positioning.

Source: Company website and company press release

Auto/auto component sector

Indian transactions landscape

I. Overview

The Indian auto industry is one of the largest in the world. It accounts for 7.1% of the country's GDP and is poised to become the fourth largest manufacturer of automobiles globally by 2020 after China, the US and Japan. Further, the significance of India in the global auto industry continues to increase with India accounting for a significant share of sales for global OEMs.

Highway to success

Number of units sold

Year	Hyundai Global (In lakh)	Hyundai Motor India (In lakh)	India's share (%)
2015	49.65	6.43	12.96
2016	48.6	6.62	13.62
2017	45	6.78	15.07

Year	Suzuki Global	Maruti Suzuki	Share
2015	30.34	14.16	46.66
2016	29.45	15.15	51.42
2017	33	17.24	52.22

Contribution of India in global sales

Company	Apr'15- Mar'16	Apr- Dec'18
Honda Motorcycle	26%	31%
Suzuki Motorcycle	20.90%	38.50%

Source: Economic Times

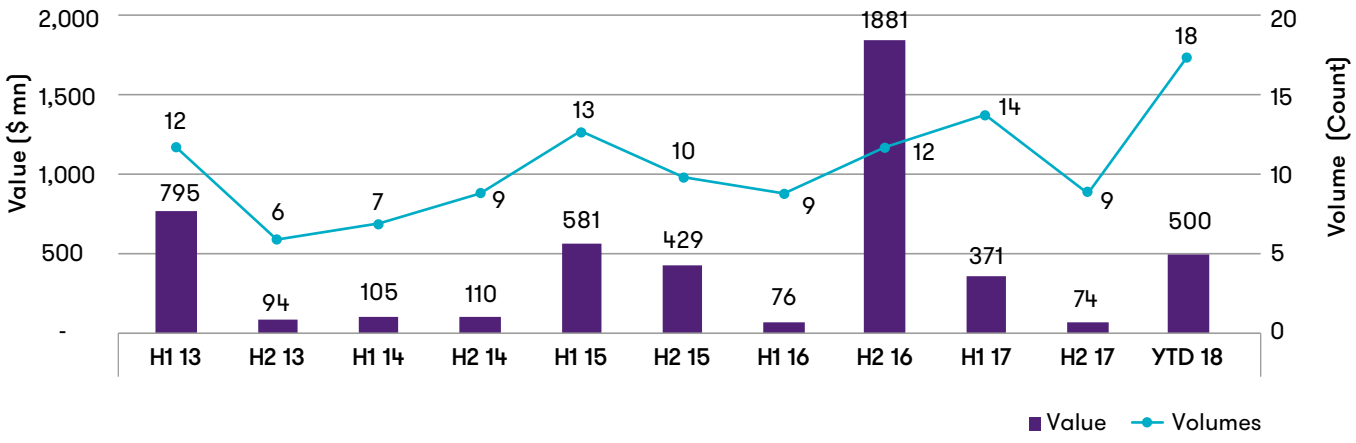
However, even as Indian players are busy catering to the demand of the domestic market, which is growing at breakneck speed, there has been an increased appetite for overseas acquisitions. Traditionally, this has been a route explored only by the large players such as Motherson Sumi and Amtek Auto, but recently there have been many mid-cap players exploring such opportunities. The evident reason for this emerging trend is that most mid-sized firms have been operating at optimum capacity utilisation driven by growing vehicle demand domestically. This has led to a significant rise in cash balances in some of these firms over the last five years.

Meanwhile, overseas component makers, especially in developed markets, are having to deal with a mature auto market where sales growth is muted. Hence, valuations in these regions look attractive for acquirers.

II. Transaction landscape by deal value and volume

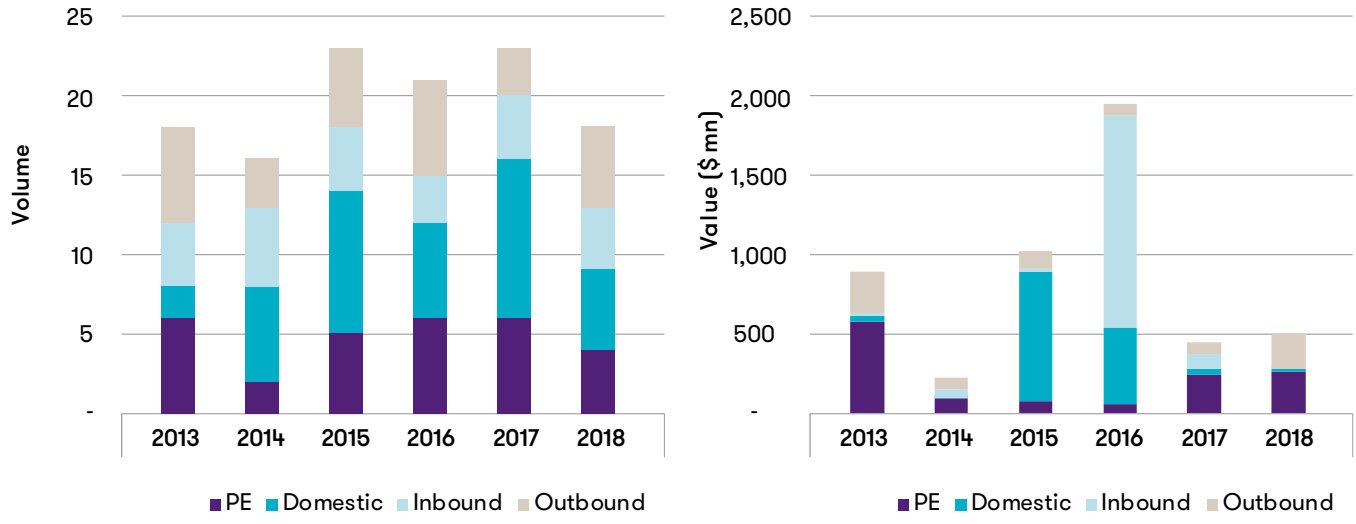
Deal volumes in the Indian auto space have remained steady with 18 announced transactions in H1 2018, including two significant domestic buyouts by financial investors – Kedaara capital bought a 100% stake in Sunbeam Auto and Blackstone bought a 100% in stake Comstar Automotive.

Deals value/volume in the auto space (last five years)



Source: S&P Capital IQ, Grant Thornton analysis

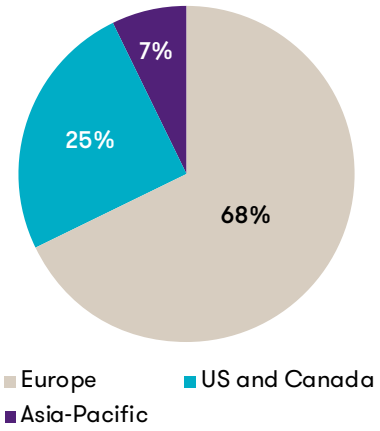
Transaction landscape by volume and value



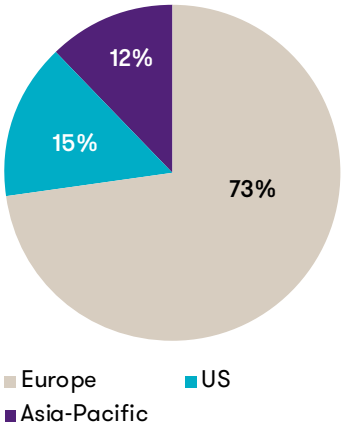
Source: S&P Capital IQ, Grant Thornton analysis

III. Geographical representation

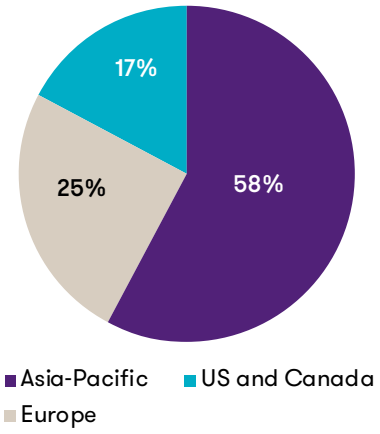
Outbound Volume



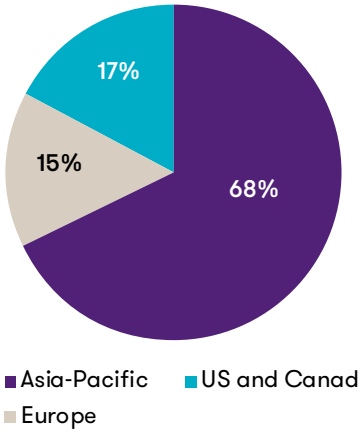
Outbound Value



Inbound Volume



Inbound Value



Majority of inbound transactions were led by the Asia-Pacific region by volume (~58%) and value (~68%), with Japan being the front runner, followed by Europe and the US.

Europe was the preferred geography for outbound transactions for Indian auto players, accounting for 68% by volume and 73% by value of all outbound transactions. The ability to tap into markets across the European region coupled with reasonable valuations on account of tepid growth in the region have been the primary deal drivers for Indian players looking to expand their footprint outside of the domestic market.

IV. Transaction themes emerging in the Indian auto sector

Maturing industry landscape with emergence of sizable assets in the sector providing opportunities to financial investors to consummate large buyout transactions

1. Kedaara Capital acquires Sunbeam Auto Private Limited

Deal value
$100 million

2. Blackstone Advisors India Pvt Ltd acquired Comstar Automotive Technologies Pvt Ltd

Deal value
$150 million

Key drivers of the deals: Financial investor interest in auto component industry is largely driven by sizable cash-generating assets, more attractive valuations, export potential, global reach of Indian auto component manufacturers and strong demographics in the domestic market.

Diversification of current portfolio by leading auto component players focused on segments that are unlikely to get significantly impacted by the technology disruptions impacting the market

1. Suprajit Engineering buys majority stake in Phoenix Lamps Limited

Deal value
~ $33 million

Key drivers of the deal: Phoenix has found a strategic fit in Suprajit's plan to diversify beyond cables, while retaining its core competence in cables and its focus on the automotive component industry. The acquisition will help the company in expansion of its current product portfolio and customer base given Phoenix's strong traction in export markets.

Increasing focus on light-weighting in the auto industry to adhere to increasingly stringent emission norm requirements driving acquisitions and alliances

1. Rockman Industries' acquisition of Moldex Composites

Deal value
~ $15 million

Key drivers of the deal: Rockman Industries has forayed into the carbon composites space by acquiring a majority stake in Surat-based Moldex Composites. The investment in carbon composites technology is aimed at pre-empting the global shift towards carbon fibre in automobiles.

2. Samvardhana Motherson International Limited (SAMIL) acquisition of MS Global India Pvt Ltd (MSGI) from the Koreabased MS Group

Deal value
Undisclosed transaction value

Key drivers of the deal: Acquisition of MS Global India will see SAMIL enter a new vertical — sheet metal parts with focus on hot stamping, which is a light-weighting technology for high-strength sheet metal parts. This technology augurs well towards the trend of light-weighting of vehicles and will also find increased use in EVs.

Increasing focus on the largely unorganised automotive aftermarket sector, which is likely to follow the auto industry consolidation trend

1. Varroc Engineering Limited acquired majority stake in Team Concepts

Deal value
$15 million

Key drivers of the deal: Varroc Group is an emerging global automotive component manufacturer and supplier. The deal will allow the company to venture into the organised premium automotive accessories business.

Continued interest in outbound transactions to set up international bases on the back of reasonable valuations in mature markets:

Large players continue to adopt the inorganic route to accelerate their penetration in overseas markets

1. Motherson Sumi Systems acquired Reydel Automotive France SAS

Deal value
$201 million

Key drivers of the deal: The acquisition will enable both companies to capitalise on new opportunities in their existing and new geographies, as well as within each other's customer portfolio.

2. Bharat Forge acquired Walker Forge Tennessee LLC (WFT) and PMT Holdings Inc, USA

Deal value
$14 million

Key drivers of the deal: The acquisition has created a strategic manufacturing footprint for Bharat Forge in North America along with an expansion of the current product offering into the passenger car, commercial vehicle and industrial sectors.

Mid-market players also beginning to explore the inorganic route to establish a footprint in international markets

1. Hi-Tech Gears Ltd acquired Teutech Industries Inc.

Deal value
$44 million

Key drivers of the deal: The acquisition provides Hi-Tech Gears its first footprint in an overseas geography while expanding its customer and product portfolio in the commercial vehicles segment.

2. Jumps Auto acquired German firm Honasco Kunststofftechnik GmbH

Deal value
Undisclosed

Key drivers of the deal: Jumps Auto is known for manufacturing of rotating electrical assemblies, including starter motors and alternators. The company acquired German firm Honasco to strengthen its technological base for manufacturing of plastic parts. The acquisition is an opportunity for the company to absorb contemporary technologies and grow the business.

Source: Company website and company press release

Auto-tech transactions in India

With demand drivers and demand dynamics of the Indian auto sector deeply intertwined with global considerations, technology disruptions in the auto sector in more mature markets are also likely to drive Indian players to re-evaluate their strategies and increase focus on technological innovations.

While the emergence of Automated, Connected, Electric and Sharing (ACES) automotive technologies and business models has been the primary driver of M&A activity globally, some Indian players have adopted the inorganic route to insulate their business from these disruptions so far.

However, the inorganic route is expected to gain popularity because of continuous disruptions in the sector in the form of evolving customer preferences and increasing regulatory push on:

- emission control (move from Bharat Stage IV to Bharat Stage VI)
- EV adoption (through subsidies under the FAME Scheme)
- safety and security (with the Ministry of Road Transport and Highways making it mandatory to have an emergency button and Vehicle Tracking System [VTS] in all public transportation vehicles)

In addition to the domestic factors, the need to stay relevant from a global context is expected to be another key driver for Indian auto players to invest in and accelerate technology adoption in their own businesses. With limited investments made so far in in-house tech creation, the inorganic route offers a significantly faster go-to-market proposition to Indian auto players.

I. Major acquisitions, investments and joint ventures for vehicle automation and electric mobility

1. Mahindra & Mahindra Ltd acquired Carnot Technologies

Deal value
~ $1 million

Key drivers of the deal: Mahindra & Mahindra, a leading car manufacturer, acquired a 22% stake in Carnot Technologies in February 2018 to develop information technology solutions for its products. Carnot Technology manufactures CarSense, a smart car device which can be plugged into the On-Board Diagnostics (OBD) port of the car.

2. Mahindra & Mahindra acquired stake Zoomcar

Deal value
~ $40 million

Key drivers of the deal: Mahindra & Mahindra acquired a 16% stake in self-drive car rental firm Zoomcar for ~$40 million. The acquisition is in line with Mahindra & Mahindra's vision to transform the mobility space in the country. The company is keen to play a pioneering role in the shared mobility business and is looking to leverage this acquisition to do so.

3. Bharat Forge's strategic investment in Tork Motors

Deal value
~ $5 million

Key drivers of the deal: Bharat Forge, a major auto component manufacturer, invested in Tork Motors as a part of its overall e-mobility powertrain development strategy. The company's strength lies in its in-house team that has designed, developed and built a complete electric motorcycle. Its knowledge in the overall EV powertrain development will help Bharat Forge gain access to technologies in the personal e-mobility space.

4. Bharat Forge acquired Tevva

Deal value
~ $14 million

Key drivers of the deal: This was a strategic investment by Bharat Forge to bring focus on EV powertrain solutions for their customers in India and worldwide. The technology can be extended for the development of new commercial vehicles, especially trucks and buses.

Joint ventures by leading players

1. JV between Mahindra and Ford (March 2018)

Deal insights: The JV is for the manufacturing of connected vehicle projects, electric battery vehicles, development of compact sports utility vehicles, B segment electric SUVs and power trains.

2. JV between Mahindra and LG Chem (February 2018)

Deal insights: LG Chem will develop a unique cell exclusively for Indian application and will also supply Li-ion cells based on Nickel-Manganese-Cobalt (NMC) chemistry with high energy density.

3. JV between Toyota and Suzuki (November 2017)

Deal insights: Suzuki will produce EVs for the Indian market and will supply to Toyota as well, while Toyota will provide technical support.

4. JV between Suzuki Motor, Toshiba and Denso (September 2017)

Deal insights: With an initial investment of INR 11.8 billion, the JV between the companies will be focused on the production of automotive lithium-ion battery packs in India.

5. JV between JBM Auto and Solaris Bus & Coach (July 2016)

Deal insights: The JV is for the manufacturing to engineer, design and develop full electric and hybrid buses in India.

Source: Company website and company press release

II. Evolution of auto start-ups in India

While the auto-tech transaction landscape is still evolving in India, an increasing number of start-ups are emerging, targeting different segments of the auto-tech value chain. While the bulk of investments have been in the ride sharing sector, with the likes of Ola and Uber, along with online market places like Cardekho, Droom, Car24 and CarTrade, there is also an increasing investment focus on EV manufacturing start-ups.

Besides these prominent segments of the auto-tech market, there is also significant start-up traction in segments such AI and IoT, navigation systems and auto sensors and communication. A brief indicative list of start-up activity in these segments is provided below:

Indian start-ups – AI and IoT

S no	Company	Date	Description	Location	Segment
1	Flux Auto	2005	Aims to facilitate features like cruise control, lane keeping, collision avoidance, etc	Bengaluru	AI, autonomous vehicles, machine learning
2	Hi Tech Robotic Systemz	2004	Autonomous and driver assistive systems, with its offering in AI software and camera-based sensor systems	Gurgaon	Analytics, AI, autonomous vehicles, robotics
3	Swaayatt Robots	2015	Developing on- and off-road self-driving technology that works in extremely difficult traffic scenarios and in unstructured environmental conditions	Madhya Pradesh	Analytics, artificial intelligence, autonomous vehicles
4	Auro Robotics	2013	Self-driving shuttle for travel within university campuses, corporate parks and residential communities	Hyderabad	Autonomous, self-driving
5	Asset Trackr	2011	V2V and enterprise mobility solutions to leverage IoT	Bengaluru	Analytics, AI, autonomous vehicles

Indian start-ups – Navigation systems

S no	Company	Date	Description	Location	Segment
1	Netradyne	2015	Mobile robots (next-gen AGVs) with natural navigation for industries, manufacturing facilities and warehouses with a connected industrial IoT framework	Bengaluru	Navigation
2	Carnot Technologies	2015	Solution for car tracking, security alerts, car scanning and receiving feedback on driving style.	Mumbai	Navigation
3	SeDriCa 1.0 from IIT Bombay	2016	Use of GPS/INS, LiDAR and stereo cameras to gather information about the immediate environment at the right range	Mumbai	Navigation
4	Roadmatics	2010	GPS tracking solution for controlling cargo fleet movements, taxicab monitoring and school bus monitoring solution	Maharashtra	Navigation
5	Yatis	2017	Car tracking, safety and maintenance app	Bengaluru	Navigation

Indian start-ups – Auto sensor and communication

S no	Company	Date	Description	Location	Segment
1	OmniPresent Robot	2009	Uses a combination of ID laser sensors and stereo cameras and combines their data through sensor fusion to generate 3D maps	New Delhi	Auto sensor
2	Fisheyebox	2017	Aimed at making relatively low-tech cars loaded with cameras, sensors and antennae	Kolkata	Auto sensor
3	Tonbo Imaging	2010	Builds and deploys advanced imaging and sensor systems to sense, understand and control complex environments	Bengaluru	Auto sensor and imaging
4	Telematics Software	2012	Vehicle communication and V2V communication	Mangalore	Vehicle communication

Transaction process overview and key considerations

I. Transaction timeline

	Planning and preparation	Target evaluation and issuing a non-binding offer	Due diligence and recalibration of valuation hypothesis
Activity	• Defining a strategy for the organisation and identifying sub-segments for exploring inorganic opportunities • Defining a broad set of parameters for identifying targets (technology, customer access, market access, size, profitability, etc) • Screening and shortlisting targets based on identified parameters • Assessing deal probability with identified targets	• Signing NDAs with shortlisted target(s) • Obtaining preliminary information on the business, key value drivers, future outlook etc to develop a better understanding of the hypothesis and test acquisition rationale • Creating an initial valuation hypothesis based on information provided • In case of continued interest, issuing a non-binding offer that outlines the valuation hypothesis and the key assumptions taken	• Conducting due diligence on the target (technical, financial, business, legal, tax, HR , environment etc) • Assessing areas of potential synergies (revenue or cost) that can be realised through the transaction • Incorporating impact of any key issues/synergies identified during the diligence process in the valuation hypothesis
Key success factors	• Defining an inorganic strategy that is in-sync with the company's long-term vision • Creating screening criteria that are based on strategic objectives and are yet practical	• Understanding fundamental value drivers for the target and the market it operates in – key to the decision of progressing a transaction and arriving at a value for the target • Identifying key issues/ assumptions that need to be tested in the diligence phase	• Differentiating between fundamental issues and hygiene issues identified during the diligence process • Accurately assessing the synergies of the transaction – this could result in a faster payback even if valuation expectations of the target are higher than anticipated
Timelines	6-9 months		

Transaction structuring and issuing a binding offer

- Identifying a transaction structure that is tax-efficient, time-efficient and addresses transaction objectives
- Sharing a binding offer with the target based on the re-calibrated valuation hypothesis along with other key commercial/legal terms
- Negotiating with the target on the aforementioned

- Ensuring adequate protection is built in to protect against any past liabilities of the target
- Identifying issues/ approvals/consents that you would require the target management to take before closure of transaction

Deal signing, fulfillment of any transaction conditions and transaction closure

- Signing the binding agreements
- Mobilising the internal team that is expected to run the business of the target post the transaction
- Closing identified issues/ approvals/consents, as mentioned in the binding agreements, by the target
- Closing the transaction

- Ensuring a tight timeline between deal signing and deal closure to minimise any potential impact on the business
- Having an integration plan in place that can be implemented at transaction closure

II. Key considerations for a successful acquisition

1. Building the acquisition rationale

a. Identify strategic business gaps which an acquisition could plug
b. Challenge the build versus buy decision
c. Get full commitment from the leadership before embarking on the process

2. Preparing for the process

a. Build a core team – leadership, strategy, finance, business, HR
b. HR is important for identifying cultural disparities and aligning for smooth integration later

3. Planning a balanced capital structure for acquisition financing well in time

a. Avoid over leverage
b. Ring-fence parent balance sheets against any potential risks while planning acquisition financing for cross-border transactions
c. Define negotiation boundaries

4. Conducting appropriate due diligence

a. Focus on environment, customer and product warranty related diligence along with financial and legal diligence
b. Adequately evaluate labour issues in an IR/HR diligence

5. Considering deal pricing holistically

a. Distressed assets can be tempting but need significant effort, cost and skills for turnaround
b. Risk mitigation for any future liabilities can be as important as the headline price – seek adequate indemnities or holdbacks for potential claims/liabilities in the future

6. Gaining customer buy-in before closing

a. Customer support and alignment with the transaction is critical, particularly in businesses with limited customers

7. Recalibrating business plans to fully understand synergies

a. Develop realistic business plans with adequate contingencies built in
b. Evaluate due diligence findings to refine business plans if required
c. Build in realistic mapping of product, technology, customer and cost synergies into the business plan

8. Focusing on post-deal integration

a. Critical to have a 100-day post-acquisition plan
b. Prioritise people integration – Process and tech integration is important but people and management integration is critical in the immediate post-acquisition period

Near-term M&A outlook

M&A trends in the Indian market over the near term are likely to follow two key trends: (i) continued consolidation and expansion driven by conventional growth considerations and (ii) mirroring some of the broad themes that are already visible in the global markets.

While OEMs globally continue to shift their efforts and investment from mature economies to vibrant and emerging economies, the industry is also likely to witness a significant shift in the demand for components driven by technological disruptions and changing customer preferences. The migration of powertrains from the traditional Internal Combustion Engine (ICE) platform to electric and the connected feature evolution in the form of V2V and Vehicle-to-Infrastructure (V2I) connectivity will mean significant opportunities and challenges for OEMs and component manufacturers.

With OEMs and suppliers experiencing disruptions, transformations and evolutions simultaneously on multiple fronts, inorganic strategies to acquire technologies, pivot business models and identify additional avenues for growth are likely to take centre stage in the auto sector in the near term.

The Indian auto component industry will not be left untouched from these disruptions. While demand fundamentals appear robust for the Indian market, the evolving demand dynamics and customer preferences are expected to change the way traditional incumbents in the market evaluate and capitalise on this growth opportunity. The jury is, however, out on the timing of this change, which is likely to happen in the longer term rather than immediately.

We expect that M&A trends in the Indian market over the near term will follow two key trends: (i) continued consolidation and expansion driven by conventional growth considerations, and (ii) mirroring some of the broad themes that are already visible in the global markets.

Growing availability of flexible global capital for acquisitions and the continued funnel of attractively priced overseas assets are likely to keep momentum in transaction activity high.

The alliances, JVs & M&As in the Indian market are likely to be driven by:

1 Increasing relevance of software and electronics in the automotive industries: Approximately 90% of automotive innovations in the recent past featured electronics and software, especially in active safety and infotainment options.
2 A common need for automotive OEMs and suppliers to create infrastructure that can support a quicker adoption of ACES automotive technologies: Globally, traditional competitors in the automotive market such as Ford, Toyota and Suzuki have collaborated to develop standards for in-car connectivity in an attempt to limit the control of emerging tech players like Google and Apple in this sector.
3 Increasing focus on light weighting technologies to adhere to stricter emission norms.
4 Pivoting of business models/finding new avenues for growth to remain competitive in the evolving auto sector landscape: BMW is collaborating with its direct competitor Daimler AG on car-sharing services; Toyota has gone one step further and unveiled an electric concept vehicle, dubbed e-palette, with a vision to create mobile pizza parlours, shoe shops or offices.

While some key players in the Indian market have already taken initial steps in embracing technology, most continue to lag in their investments towards technology adoption. However, with the emergence of a flourishing start-up ecosystem focused on innovations, supported by industry and regulatory initiatives, the future of the sector seems bright.

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Vishesh C Chandiok,
Chief Executive Officer, Grant Thornton India LLP

About ACMA

The Automotive Component Manufacturers Association of India (ACMA) is the apex body representing the interest of the Indian Auto Component Industry. Its membership of over 780 manufacturers contributes more than eighty five per cent of the auto component industry's turnover in the organised sector. ACMA is an ISO 9001:2015 Certified Association.

ACMA's charter is to develop a globally competitive Indian Auto Component Industry and strengthen its role in national economic development as also promote business through international alliances. The Auto Component industry in India, with a strong positive multiplier effect, is one of key drivers of India's economic growth. The well-developed Indian auto component industry manufactures a wide variety of products including engine parts, drive transmission and steering parts, body and chassis, suspension and braking parts, equipment and electrical parts, besides others.

In FY 2015-16, the Indian auto-component industry registered a turnover of 2,55,635crore (USD 39 billion) growing by 8.8 per cent, surpassing the Automotive Mission Plan 2006-16 target. The CAGR of the industry stood at 6 per cent over a period of six years.

Also, in a period when the overall exports of India declined by 9.58 per cent, the Indian auto component industry exports grew by 3.5 per cent to 70,996 crore (USD 10.8 billion) in 2015-16 from Rs 68,500 crore (USD 11.2 billion) in 2014-15, registering a CAGR of 18 percent over a period of six year. ACMA has played a pivotal role in supporting its members in export development and in discovering new market opportunities, currently the industry exports to more than 160 countries. With increasing vehicle parc in the country, the aftermarket in 2015-16 grew by 12 per cent to Rs 44,660 crore (USD 6.8 billion) from Rs 39,875 crore (USD 6.5 billion) in the previous fiscal.

ACMA has played a pivotal role in growth and development of the auto component industry in India. Its active involvement in trade promotion, technology up-gradation, quality enhancement and collection and dissemination of information has made it a vital catalyst for this industry's development. Its other activities include participation in international trade fairs, sending trade delegations overseas and bringing out publications on various subjects related to the automotive industry.

ACMA is represented on a number of panels, committees and councils of the Government of India through which it helps in the formulation of policies pertaining to the Indian automotive industry.

For exchange of information and especially for co-operation in trade matters, ACMA has signed Memoranda of Understanding with its counterparts in Argentina, Brazil, Canada, Egypt, France, Germany, Hungary, Iran, Italy, Japan, Kazakhstan, Malaysia, Mexico, Nigeria, Pakistan, Russia, South Africa, South Korea, Spain, Sri Lanka, Sweden, Taiwan, Thailand, Tunisia, Turkey, UK, USA and Uzbekistan.

Further information and data on the Indian automotive industry is available on the ACMA

Website: www.acma.in

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