MGB Business Advisors Pvt.Ltd
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Post Investment Management

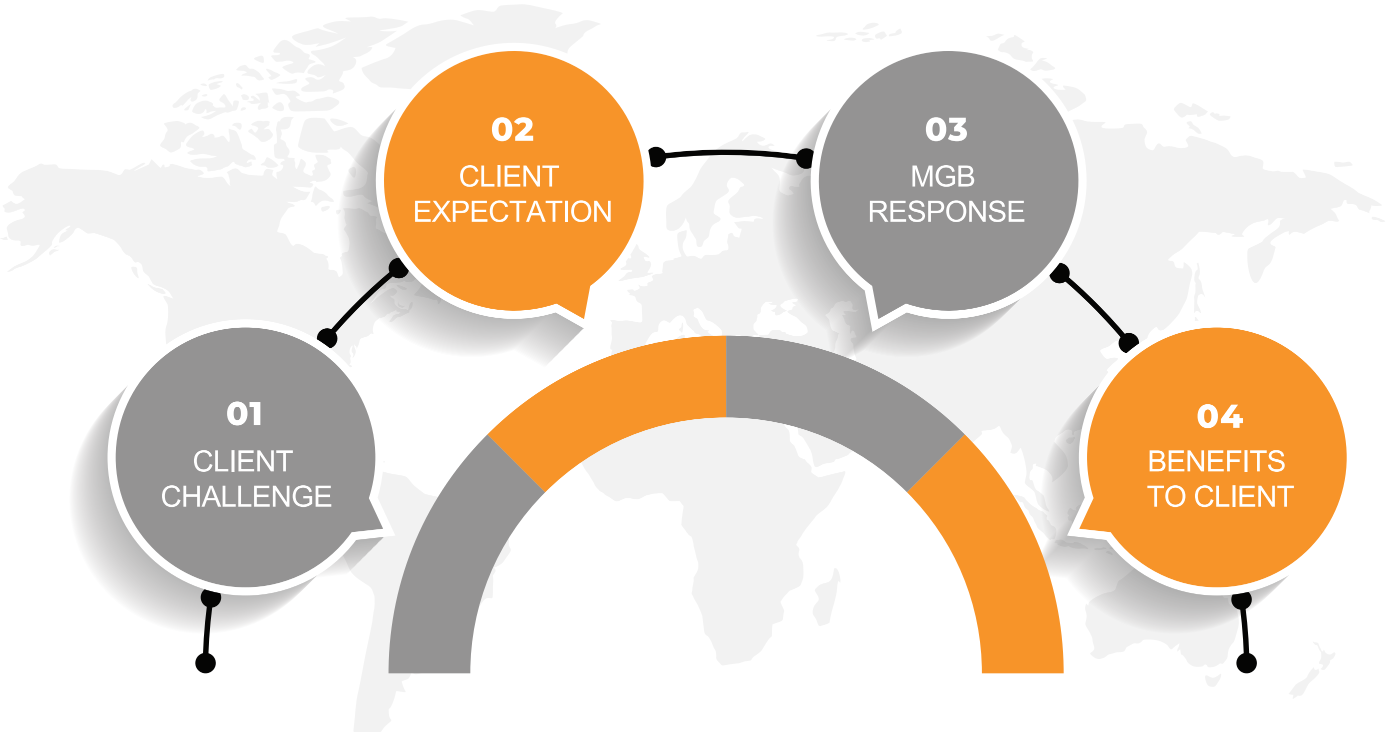
A guide for post investment entrepreneurs

CLIENT CHALLENGE

- Client is one of the India's leading private equity (PE) firm.
- The client has struck a full buyout deal with a "Family Run Business" (Seller). The deal price was variable based on EBITDA for FY 19, with the floor price of INR 300 crores and upper limit of INR 400 crores to the transaction.
- The Seller company was an FMCG in skin care division. It has 2 factories with 400+ workers. And a sales team of 1000+ spread across India.
- Client has already got Financial Due Diligence, Vendor Due Diligence, Environmental Compliance Due Diligence, Legal Due Diligence done from other leading firms.
- Accordingly, an investment agreement was drafted covering all the recommendations of DD. The client invested almost 66% of the floor price on signing the deal and balance payment was subject to finalisation of audited financial statements for FY 19.
- The previous owners were given liberty to prepare the financial statement and get it audited with their own auditors. Also, they were entrusted to run the business operations till new management takes over. Further, they were also responsible for smooth handover of all processes and information. The entire transition took 5-6 months.

CLIENT EXPECTATION

- The client approached us post investment of the signing amount in the Seller company with following expectations:
- They wanted an assurance from an independent party about the accuracy of numbers being reported in the financial statements
- Also, they needed an assurance about the conduct of business operations during the transition period so that there are no surprises once the business is taken being run by new management
- All this was to be done with limited impact on sentiments of the ongoing deal and introducing us as an internal auditors of the business



MGB RESPONSE

Evaluated the existing processes at the Seller Company & gave following solution :

- Deployment of fulltime experienced resources at factory locations to monitor the factory operations on periodic basis
- Deployment of fulltime qualified financial professionals at the headquarters to regularly ensure the that there are no unusual transitions being posted in books
- Thorough review of all the critical processes like Order to Cash, Discount and Credit note passing post sales, Procure to Pay, Hire to Retire, Legal compliance, Inventory Management, Production and Maintenance, etc to ensure all the due provisions are posted in books of accounts
- Surprise physical verification of stocks at the factories and stockists (Dealers) to ensure the sales and inventory accounting is done properly
- Regular analysis of financial statements and cashflows post takeover to ensure there are no unusual trends noticed post transition & immediate highlighting of any such trends noticed
- Regular meetings with the seller's financial partner firms to explain / negotiate the provisions to be made in addition to those already considered by them & ensuring the provisions are posted and considered in the audited financials.

BENEFITS TO CLIENT

The seller company came up with a financial statement posting an EBIDTA as per which the client was required to pay upper limit price i.e. INR 400 crores post considering all DD adjustments and recommendations.

- However, with the help of our continuous monitoring, thorough review of all critical processes & rigorous negotiations with the seller's financial partner firms, we were successful in restricting the total deal amount to INR 320 Crores
- Some of the major observations noted were in unusual variances during physical verification of inventory and assets, Inaccurate inventory valuation, non-usable inventories, unusual sales returns during transition period, under accounting of many critical schemes to push the sales in FY 19, non-accounting of critical HR dues on exit of employees
- We also helped the new management to identify critical resources which can be retained
- Also we helped the management to standardise critical processes for smooth functioning

If you have questions or need some clarifications, please be free to write to Chintan.Nisar@mgbadvisors.com