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L&T: Restructuring the Cement Business

This case was prepared by Professor Ashok Banerjee of the Indian Institute of Management, Calcutta and Dr Neeraj Dwivedi of the Indian Institute of Management, Kozhikode, as a basis for classroom discussion rather than to illustrate effective or ineffective handling of an administration or business situation.

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INTRODUCTION

It was the morning of 7 May, 2003 and the shareholders of Larsen & Toubro Ltd. (L&T) were in a quandary. The open offer made by Grasim Industries (Grasim) was to end on 5 June and they had to decide whether to tender to the open offer or not. The AV Birla Group (Birlas) had shown their interest in L&T in November 2001 when Grasim, an AV Birla Group company, had bought 10.05% of L&T stock from Reliance Industries Ltd. (Reliance) at Rs. 306.60 per share. Grasim further increased its stake in L&T through open market purchases and then on 14 October, 2002 made an open offer for another 20% equity of L&T at Rs. 190[1] per share. A full subscription to the offer was expected to increase Grasims's stake in L&T to 35%.

However, the open offer was stalled by the Securities and Exchange Board of India (SEBI), the capital market regulator in India, on charges of unfair price and allegations of insider trading and management control. While the open offer was on stay, L&T management propped up the issue of de-merger of the cement division, which was followed by counter strategies from Grasim. After many legal intricacies and bargaining among the various stakeholder groups, SEBI cleared the open offer on the ground that there was not enough evidence to suggest that management control had

[1]The Rupee is the Indian currency. Presently US$1 is equivalent to Rs. 46.50 (approximately).

undergone a change before the open offer. Although, SEBI had allowed Grasim to revise the offer price, the latter chose not to do so. L&T scrip was trading at Rs. 207.50 on the close of trading at the Bombay Stock Exchange on the previous day (Exhibit 2). The shareholders of L&T were apprehensive on two counts, first on pricing of the offer and second on the relevance of the open offer when Grasim was negotiating with L&T management over the de-merger issue of the cement division. Exhibit 1 gives a chronology of events in the whole episode.

COMPANY BACKGROUND

L&T

L&T was a highly diversified conglomerate, with interests ranging from engineering and construction, to cement and electronics. A strong, customer-focused approach and the constant quest for top-class quality had enabled the company to attain and sustain leadership position for over six decades. Many of the engineering projects executed by L&T had set new benchmarks in terms of scale, sophistication and speed. Many buildings, highways, bridges and civil structures built by L&T around the country were widely regarded as landmarks. L&T was one of the very few Indian companies which was not family-controlled. Thus, L&T had three major business segments — engineering and construction (ECC), electrical business group (EBG) and cement.

L&T's construction business division (ECC) participated in core areas of India's development, for example, infrastructure development, nuclear and hydropower plant construction, civil infrastructure etc. The ECC division provided services in the areas of process technology, basic and detailed engineering, heavy engineering, execution of projects on turnkey basis, construction, erection and commissioning of big manufacturing plants. The electrical business group (EBG) manufactured switchgear products, metering and protection systems, medical equipment, petroleum dispensing pumps, etc. This division was the market leader in low voltage switchgear in India. The cement division was India's largest cement producer with a manufacturing capacity of 16 MTPA, (Exhibit 3). L&T was a major force in cement business in the western part of India and to some extent in the southern part of the country as well.

ECC business contributed around 61% to the company's gross revenues, while the cement business accounted for around 27% during the year 2002–2003 (Exhibit 7). The EBG's share in total revenue for the same period was around 4%. Each business of L&T was run independently by a president who enjoyed complete autonomy.

Grasim

Grasim was incorporated in 1947 as Gwalior Rayon Silk Manufacturing (Weaving) Co. Ltd. It commenced operations as a textile manufacturing mill in 1948, and later backward integrated to produce a number of raw materials and manufacture of textile equipment. Thereafter, Grasim diversified into cement and sponge iron. Grasim also established exports and software divisions and held significant equity of several other Birla group companies.

Grasim diversified into cement manufacture with a single plant in central India in the mid-1980s when the sector was opened for private players, Later, Grasim established two more plants and acquired two companies — Dharani Cements and Shree Digvijay Cement, strengthening its position in the South and West India. Consolidation of the Birla Group's cement operations in 1999 transferred the cement business of Group Company Indian Rayon to Grasim, further increasing Grasim's installed capacity. By 2002, Grasim had become the third largest player in the Indian cement industry with an installed capacity of 13 million tons per annum (MTPA) (Exhibit 5). The performance of various operating segments of Grasim for the past two years was satisfactory (Exhibit 7).

The Group

The AV Birla Group, under the leadership of Kumar Mangalam Birla, was one of the fastest growing industrial houses in the country. The group's strategy was to diversify into capital intensive, commodity businesses, where it leveraged its strengths in raising funds and keeping costs low with tight controls, along with world size plants and a high degree of backward integration.

Apart from cement, the group had interests in a wide range of sectors like aluminium, fertilizers, chemicals, oil, gas and financial services. The group had several companies abroad, in Thailand, Indonesia and Malaysia — mainly in the businesses of textile, synthetic yarn, rayon, carbon black and other chemicals, etc. The group wanted to concentrate on three principal commodities — cement, aluminium and apparel. Its restructuring strategy was focused on this objective.

The acquisition of stake in L&T was one of a series of acquisitions by the group for which it had spent more than Rs. 20 billion. The group had earlier gained leadership positions in other industries like aluminium and textiles through major acquisitions, significant among them being INDAL in aluminium and Madura Coats in textile. During 2001, the group entered into the information technology (IT) business with the acquisition of Groupe Bull's stake in PSI Data Systems for Rs. 710 million. The group, a predominantly family-owned conglomerate, followed the policy of limited decentralization of power with a lot of long-term decisions in various businesses being taken at the group headquarters.

INDIAN CEMENT INDUSTRY

Being a developing economy, cement was an important sector in India and had a bearing on its economic performance. India was the second largest cement producing nation in the world after China in the year 2002.[2] The per capita consumption of

[2]Source: http://www.indiainfoline.com/sect/ceme/ch01.html, accessed May 2, 2003.

cement in India (although low) was growing at a faster rate than the world average.[3] The Indian cement industry, which had historically been a Government-controlled sector since 1914, was totally decontrolled in 1989 and subsequently delicensed in 1991. As a result, the industry assumed all the characteristics of a competitive market. There were a large number of firms, many new ones were poised to enter, and the firms were, in general, unable to maintain prices at a level that was consistent with sustained high profitability.

Cement Manufacture

Cement was a high bulk and low value commodity. Cement manufacture was a simple process of grinding of raw materials, roasting them in a kiln and finally grinding the roasted materials along with additives. Hence, the process was energy intensive. Three cement manufacturing processes had evolved over the years, viz., the wet process, the semi-dry process and the dry process. Currently, the dry process was the preferred mode because it was more energy efficient.

Limestone was the main raw material in cement manufacture and roughly 1.42 ton of limestone was required per ton of cement. As limestone was a low value mineral and its cost accounted for around 5–7% of the total cost of sales of cement. Transportation of limestone across large distances was not viable. Thus, proximity of limestone deposits was the main consideration in setting up a cement plant.[4] Other inputs required were coal and power. Because of the inherent characteristics of cement, the technological advancements in the industry had been in the areas of greater energy efficiency and cost effective cement transportation. The major items requiring transportation were limestone to the plant, coal to the plant and cement to the markets. The rail-road mix (mix of mode of transporting cement to the markets) was around 41:59 in 1999–2000.[5] The cost structure of a typical cement company is provided in Exhibit 8.

[3] *ibid.*

[4] Trends in Cement Prices, *Crisil Advisory Services Report*, 2001.

[5] Cement Statistics, 2000.

Industry Structure

The cement industry in India was largely fragmented with an installed capacity of 130 MTPA as on 31 March, 2002 (Exhibit 5). The installed capacity was distributed over approximately 120 large cement plants owned by around 54 companies. The industry was characterized by high leverage with an average debt-equity ratio of 2.32 and was growing at a 5-year CAGR 6.8%.[6] Private companies with 92% share in the total capacity dominated the industry. Exhibit 6 gives a list of all the major players in the cement industry along with their market share. The fragmented structure was a result of the low entry barriers in the post decontrol period and easy availability of technology.

However, the concentration level at the top had increased over the years due to the consolidation process. This concentration was mainly because of the focus of the larger and the more efficient units to consolidate their operations by restructuring their business and taking over relatively weaker units. The relatively smaller and weaker units were finding it very difficult to withstand the cyclical pressure of the cement industry and were forced to sell out. Some examples of the consolidation included Gujarat Ambuja (a cement major) taking a stake of 14% in ACC (another cement major), Gujarat Ambuja taking over DLF cements and Modi Cement, India Cement taking over Raasi Cement and Sri Vishnu Cement, Indian Rayon's cement division merging with Grasim and L&T taking over Narmada Cements.

Another reason for consolidation was that the industry witnessed tremendous pressure on its bottomline since complete decontrol of the industry. The input costs had gone up over the years without a commensurate increase in cement realization (Exhibit 9). This implied that the cement manufacturers could not pass on the inflation in input prices to the consumer fully. This situation prompted big players to grow through acquisition and leverage on the economies of scale to maintain profitability. Even prices of other

[6]Cris-Infac. 2003. Cement: Better days ahead. Cement Industry Update. May 2003.

construction materials had increased more than the increase in cement price over the period.

Multinational companies had also entered the Indian cement market. Lafarge, the French cement major, had acquired the cement plants of Raymond and Tisco in the recent past. Italy based Italcementi had acquired a 50% stake in the K.K. Birla promoted Zuari Industries, which in turn acquired Sri Vishnu Cement's 1 MTPA cement plant in AP from India Cement. Some of the key benefits accruing to acquiring companies from these acquisition deals include

- Economies of scale resulting from the larger size of operations
- Savings in the time and cost required to set up a new unit
- Access to new markets
- Access to special facilities of the acquired company
- Benefits of tax shelter

With the proposed merger of L&T's cement business with Grasim, the top six players would control around 57% of the installed capacity of the whole industry. The combined entity would become the market leader in cement in India, with almost a quarter of the market share and 22% of installed capacity (Exhibits 5, 6). The new entity would also be the world's seventh largest producer of cement.[7] However, the consolidation might also lead to some kind of "market understanding" between major players to curtail production and supply of cement across the country in order to maintain the cement price within a band.[8] Indications to this effect had already started pouring in with Gujarat Ambuja-ACC decision to cut their combined production by 1 MT.

Region Wise Distribution and Consumption of Cement

Most of the limestone deposits in India were located in Madhya Pradesh, Rajasthan, Andhra Pradesh, Maharashtra and Gujarat, leading to concentration of cement units in these

[7]Cementing the gaps. *The Economic Times*, June 22, 2003.
[8]Cement cos may bond together to hike prices. *The Economic Times*, June 20, 2003.

states.[9] This had resulted in 'clusters'. There were seven such clusters in the country and they accounted for 51% of the cement capacity. The Northern and Southern regions were the main producers and consumption centres of cement. The Northern region accounted for 37% (34 MT) of the total consumption of 90 MT during FY2001, followed by the South with 27%, the West with 22% and the East with the balance of 14%. There was significant inter-regional movement of cement, which played a crucial role in the regional demand-supply dynamics. Most of the cement movement across regions took place between North and East, and West and South. This was because the South accounted for 33.03% of cement production capacity of the country while the North accounted for 18.02%. Thus, there was a demand-supply disparity across regions. As the cost of transporting cement was quite high, the players would like to control manufacturing facilities closer to the market. From the demand-supply forecast over the next four years (Exhibits 10, 11), it was evident that cement was likely to remain a surplus market on an aggregate basis until financial year 2004. However, regional disparities were likely to continue with the Southern and Northern regions expected to remain as surplus markets.

THE ISSUE

On 18 November 2001, Grasim bought 10.05% of L&T stock at Rs. 306.60 per share from Reliance spending a total sum of Rs. 7.66 billion. It was seen as one of the biggest developments in the cement industry that stirred the old economy, especially since Grasim had paid a premium of about 47% over L&T's last traded price of Rs. 208.50. The sale gave Grasim a foothold in L&T, which had an annual cement manufacturing capacity of about 16 MTPA. The acquisition was expected to give further momentum to the ongoing consolidation in the Indian cement industry. Since Grasim's stake was less than the threshold limit of 15%, Grasim did not make an open offer

[9]See Exhibit 2 for regional classification of states.

to purchase additional shares.[10] However, this created a furor in Indian corporate sector, since the acquisition price was at a hefty premium over the then prevailing market price. L&T board seemed to have endorsed the strategic investment of the Birlas by appointing Kumar Mangalam Birla (promoter of the Birla Group) and his mother (Ms. Rajashree Birla) on the L&T board.

Grasim's Open Offer

Gradually, Grasim started to gain control over the L&T management and by September, 2002 it increased its holding in L&T to 14.15% through open market purchases at an average price of Rs. 184.13 per share, just short of the open offer threshold (Exhibit 12A). It was at this point that L&T board became skeptical of Grasim's intention and they saw Grasim's move as a step towards gaining ultimate control over the cement business of L&T.

On 14 October, 2002, nearly a year after its initial acquisition of stake, Grasim announced an open offer for 20% of L&T stock at an offer price of Rs. 190 per share. The price was at a premium of about 10% over the last traded price (Rs. 172.08) of L&T. The offer price was based on the weekly average of the high and low of the closing price of L&T scrip during the 26-week period prior to the offer. The open offer was to commence on and from 9 December 2002. The shareholding pattern of L&T on the date of open offer (Exhibit 12A) indicated that Grasim would require to convince the financial institutions and banks to make the open offer successful. The Grasim offer took L&T management by complete surprise. A company board member stated that this came as a surprise as they were given the impression that there was no immediate plan by Grasim to make an open offer.

[10]As per SEBI takeover code an acquirer is expected to make an open offer to buy 20% or more of the target company's share if the formers holding in the target exceeds 15%.

Pricing Row

The low premium offered by Grasim raised doubts about the full subscription of the offer. L&T's major shareholders were big domestic financial institutions, for whom the 10% premium was too meager to be an attractive offer. Most felt that the offer price was much lower than what Grasim had paid to Reliance the previous year. The state-owned Life Insurance Corporation (LIC), the largest shareholder in L&T with a 18.6% stake also maintained that the offer price was lower than the intrinsic value of the company. LIC was in favour of taking a collective view on the issue along with other institutions having stake in L&T. LIC also tightened its hold on the L&T board with the nomination of one more member following the appointment of two nominees by the Birla group on the pretext that the former also held similar shareholding in L&T.[11]

Meanwhile, other issues kept cropping up. On 27 December 2001, SEBI started an enquiry into the Grasim-Reliance deal following allegations of Insider trading. Immediately after the announcement of the open offer, the Investors' Grievance Forum (IGF), which represented small investors' interest in India, slapped legal notices seeking prosecution of SEBI and financial institutions (FIs) for their alleged failure to protect the interests of small investors in L&T's open offer case. Their grievances as expressed by the IGF president were the following:

> *The current offer price of Rs. 190 per share is too low compared with the Rs. 306, Grasim paid in 2001 to Reliance. The offer is definitely not in the interest of minority shareholders. SEBI has not only delayed action but also acted partially. While passing the order in the case involving violation of takeover code (L&T shares), the market regulator did not declare the transaction (sale of Reliance stake to Birlas) as null and void.*[12]

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[11]FIs tighten Larsen and Tourbo grip, to beef up board strength. *Financial Express,* February 13, 2002.

[12]IGF warns Sebi and FIs regarding Grasim offer of L&T. Business Line, October 25, 2002.

Though L&T management maintained that the offer price was not beneficial to the shareholders of L&T, in reality it was worried of losing control over the company. It was also reported that L&T executive management informally approached financial institutions that held about 44% of stake in L&T (Exhibit 12A) to oppose the open offer. L&T management pointed out that the intrinsic value of the stock was at least 40 per cent higher than Grasim's offer price of Rs. 190 a share, and hence did not offer the FIs an attractive exit option. They also maintained that under the various valuation methods, the L&T scrip would be valued at close to Rs. 300 a share.[13]

The Birlas, however, justified the offer price of Rs. 190 per share as a fair valuation of L&T, and asserted that any increase was not in the interest of Grasim shareholders. According to Kumar Mangalam Birla, Chairman of the Birla group, Grasim shareholders paid a premium initially to enter the company and the offer price was intended to bring down their average holding cost of L&T shares:

> *The main objective of the offer is to bring down Grasim Industries' cost of acquisition of the cement and engineering major. Shareholders of L&T have several options. The group's open offer for Larsen & Toubro is not a mandatory offer, and hence L&T shareholders are free to decide whether they want to accept the offer price.*[14]

The Birla group also justified the price saying that the price could not be compared to that paid to Reliance. The price of Rs. 306.60 per share paid to Reliance Industries was to a large lot of shares through a single transaction, where the seller had agreed to offload its entire stockholding in L&T and withdrew its nominees from the L&T board.

Possible Synergies

Grasim's offer price was based on the company's estimation of synergy from the deal. Grasim management was of the

[13]L&T management ropes in FIs to oppose Birlas' offer, *Business Standard*, November 15, 2002.

[14]Take it or leave it, says Birla on L&T offer. *Business Standard*, November 22, 2002.

opinion that in geographical terms, Grasim-L&T combined would have a considerable presence in the western and southern markets and thus enjoy greater pricing power (as compared to another possible combination between Gujarat Ambuja and ACC). The CFO of Grasim said,

> *We are confident that the deal will give a boost to industry consolidation. Apart from better logistics and inventory management, it will help both to reduce transportation costs... In fact in clusters that consume 42% of the total cement in the country, we will be number one.*[15]

In addition to gaining scale advantages, the combined entity was also expected to gain synergies on account of the following:[16]

- Operating cost reduction: L&T operated at one of the lower costs per ton of cement compared to competitors. It had relatively new plants, which were strategically located and had low power and fuel consumption. The integration of the cement business was expected to give an annual cost savings of Rs. 1.0 billion to Grasim.[17]
- Access to bulk terminals on the west coast could help reduction in freight cost and also help improve export potential.
- Enhanced financial flexibility and the ability to access both domestic and international capital at competitive rates, to support future growth opportunities.[18]
- A combination of the two entities would reduce costs since L&T's and Grasim's plants were situated in different regions while they catered to almost the same markets which were geographically scattered. A merger would allow cross-branding and thus rationalize the transport costs since the individual plants would not have to cater to faraway markets.
- In pricing terms, the combined entity was expected to grow at a rate of 2% per annum due to the increasing power

[15]Consolidation in cement industry, *The Hindu*, June 19, 2003.
[16]i-sec Research expects the synergies to accrue over the next 24 months.
[17]Cementing the gaps. *The Economic Times*, June 22, 2003.
[18]Mergers & Acquisition, *CMIE*, June 2003, p. 38.

they would have in determining the prices in the cement market, as against the current price growth of 1%.

The premium offered in any business acquisition game should commensurate with the expected synergy. Grasim was of the opinion that the 10% premium in open offer price was more than the expected value of synergy per share. Grasim was unwilling to put any value on non-quantifiable synergies.

L&T's De-merger Proposal

Even when SEBI had temporarily stayed the open offer pending an investigation, the L&T board once again brought the proposal of de-merger of the cement business on the table. Incidentally, the Boston Consulting Group, which undertook a restructuring exercise in the year 1999, had advised the L&T management to de-merge the cement division and induct a strategic partner in the de-merged entity. When Grasim acquired the stake from Reliance, L&T postponed its de-merger plan. L&T seemed to have revived those plans to thwart the attempts by Grasim to take over control of the company. In a fresh twist to the L&T's de-merger proposal, CDC Capital Partners (CDC) of the United Kingdom (earlier known as Commonwealth Development Corporation), a private equity fund, approached the L&T management with a proposal to acquire a 15 per cent stake in its de-merged cement division.[19]

In the beginning of December 2002, the L&T management started aggressively discussing the issue of de-merger of the cement business apparently to make L&T completely unattractive for Grasim and leave it with only a small shareholding in the cement company. However, L&T management maintained that they were not aggressively pushing the de-merger plan in light of the Grasim's takeover bid. As per an L&T official:

[19]CDC wants 15% of L&T's cement division. *The Times of India*, November 21, 2002.

There is no restriction as far as the de-merger plan goes. It has nothing to do with Grasim's open offer. We were examining it even before the offer was made.[20]

The L&T board was in favour of a structured de-merger of L&T, wherein the cement business would be transferred to a separate company (L&T Cement) as its 100% subsidiary. This process, however, would have required support from 75% of L&T shareholders under a special resolution and approval of the High Court. But CDC suggested a somewhat different de-merger plan for L&T. According to the plan, L&T would hold 70% stake in L&T Cement and 25% stake would be distributed among L&T's existing shareholders on a proportionate basis. The balance of 5% would be allotted to CDC Capital Partners. CDC had valued the cement business at about $75/ton or about Rs. 156–158 per share.[21]

L&T tried to downplay CDC's plan, although covertly it accepted the plan. L&T clarified that CDC Capital Partners' investment proposal for its cement division had been under discussion since July 2002, and that it was in talks with several prospective investors since September 2001, to secure capital for its cement business. CDC Capital Partners finally offered to pick up 6.8% stake in the cement company through issue of fully convertible foreign currency bonds for the L&T management. The fresh negotiation with CDC was only an extension of earlier discussion.

Birla's Objection to L&T Proposal and the Counter Proposal

Birlas opposed the intentions of L&T board to subsidiarise the cement business as it would have diluted their holding in the cement subsidiary. Birlas instead preferred a vertical split as that would give existing L&T shareholders a share in the new company in proportion to their current holdings. Birlas served legal notices on L&T against proceeding with

[20]L&T cement de-merger is likely to go on despite Birlas' notice. *Business Standard*, December 11, 2002.

[21]Birlas sweeten L&T deal, match CDC price. *The Economic Times*, December 18, 2002.

the proposed de-merger. Birlas maintained that de-merger of the cement business amounted to asset stripping, which was barred under Regulation 23 of SEBI's takeover code when an open offer was under way.[22] They maintained that the open offer was put on hold by SEBI but was still active.

Following objections by the Birla Group, SEBI on 11 December decided to launch an inquiry into whether the proposed de-merger of L&T's cement business into a separate company violated the provisions of the takeover regulations. The SEBI inquiry particularly sought to ascertain whether the de-merger could be construed as 'assets stripping' under the regulations. On 17 December SEBI referred the matter to its legal department. As per a SEBI official:

> *The opinion sought from the legal department is whether a target company can restructure its business particularly when an open offer has been proposed. After we receive the opinion we will take a view on the matter, as there is much time left for the L&T board to discuss the de-merger proposal, he added.*[23]

The Birla group also questioned the logic of de-merging the cement business when their open offer of Rs. 190 was for the whole of L&T. Grasim was of the view that since its open offer for L&T was pending, the latter cannot alter the fundamentals of its business as it was unfair on the buyer.

In light of the CDC proposal, Birlas reportedly also approached FIs to win their support for the company's alternative de-merger proposal. Grasim reportedly told the FIs that if they supported its proposal to vertically split the cement business, it was willing to make another open offer for the new cement company. The second offer would not only match CDC's valuation of about $75/ton, but also seek to buy about 20% of the new company instead of the

[22]The regulation states that "Unless the approval of the general body of shareholders is obtained after the date of the public announcement of offer, the board of directors of the target company shall not, during the offer period, sell, transfer, encumber or otherwise dispose of or enter into an agreement for sale, transfer, encumbrance or for disposal of assets otherwise, not being sale or disposal of assets in the ordinary course of business of the company or its subsidiaries."

[23]Sebi decides to take legal action on L&T Cement de-merger. *Financial Express*. December 18, 2002.

6.8% finally proposed by CDC.[24] The Birlas stressed the fact that their second offer would enhance the return FIs would receive, as they would be buying a higher quantity of shares than CDC.

Grasim's final proposal to L&T board on 27 January 2003 envisaged a vertical de-merger of L&T's cement business into a separate company and an open offer for acquiring control over the proposed new cement company (New Cemco) at a price of Rs. 130 per share. The proposal envisaged the transfer of all assets that belonged to or were used by the L&T cement business to New Cemco The equity capital of New Cemco was assumed to be Rs. 2.49 billion. On a sum of parts basis, assuming that a vertical de-merger would create two separate entities, and on a relative basis, Grasim has valued the cement business of L&T at Rs. 130 per share and the remaining businesses of L&T at Rs. 162.50 per share. Hence, with the aforesaid assumption the equity value of L&T worked out to Rs. 292.50 per share.[25] This effective valuation was over 50% more than Grasim's open offer price of Rs. 190 per share for L&T, announced in November 2002. The enterprise value of the cement business was pegged at Rs. 62.–Rs. 63 billion. At this value, for a capacity of 16.0 MTPA, L&T was priced close to Rs. 3900 per ton of cement, which was close to $80/ton. For acquiring a 51% stake, thus Grasim was considered to be paying one of the highest prices compared to recent cement industry acquisitions (Exhibit 13).

The counterproposal maintained the Birla groups' earlier view of vertical de-merger rather than the subsidiary route. The proposal stated the financial institutions (FIs), which held close to 40% stake in L&T, were having an illiquid holding in the company in view of their strategic interest in it. They would benefit significantly since a vertical de-merger would provide them with liquidity on a sizeable portion of their investment through their holding in New Cemco. Besides, Grasim's proposed open offer at Rs. 130 per share post de-merger would provide New Cemco shareholders the opportunity for a certain and immediate exit from New Cemco

[24]Birlas sweeten L&T deal, match CDC price, *op. cit.*

[25]De-merger details submitted by GIL to L and T. *BSE* (*inet*), February 26, 2003.

at strategic value on a proportionate basis. The proposal stated that L&T Main (net of cement business) would emerge as a focused business with significant growth potential after the de-merger.

The proposal also stated that the value offered by Grasim was determined through a combination of widely accepted methodologies, in line with established practices. The projection of Cemco for the next two years (Exhibit 15) show that Cemco and new L&T would be in a position to repay part of their debts.

L&T Favoured Competitive Bidding

In a significant shift of strategy, the company management decided to put its full weight behind the competitive bidding route to locate a strategic partner in place of the CDC investment plan. The objective was to block the Aditya Birla group's proposal for a vertical de-merger of L&T. The company management strongly put forth its view to FIs that it would be unfair to L&T shareholders if the fate of the cement business was decided based on the sole offer from Grasim Industries. The offer from a financial investor like CDC should not be pitched against the vertical de-merger plan of the Birlas. A section of the L&T board favoured a transparent and rigorous process similar to the one followed by the Government of India in the disinvestment of Public Sector Units. However, according to Birlas, competitive bidding route was another delaying tactic by the L&T management. According to a Birla group official:

> *Such delaying tactics are only meant to fool the shareholders and maintain status quo. They are just trying to deflect shareholder attention from the concrete offer from Grasim that is on the table.*[26]

Later, Grasim's opposition to the CDC proposal started to gain sympathy from some of the other constituents of the L&T board.

[26] L&T may pitch for competitive bidding. *The Economic Times*, February 14, 2003.

SEBI's Role in the Episode

SEBI's attention to the L&T-Grasim story was drawn twice. First when allegations of insider trading were raised against Reliance during November 2001 and second when the open offer of Grasim was announced. In the first instance it was alleged that Reliance had acquired a major portion of 10.05% of L&T stock just a few days prior to the deal with Grasim. Thus Reliance made a huge profit in the shortest possible time.

The acquisition of the 10.05% stake of L&T by Grasim had a lukewarm effect on the L&T scrip in the immediate trading period following the acquisition. But trading in the stocks of L&T in the run up to the deal had witnessed a significant surge, both in terms of volume and price. The scrip which was trading between Rs. 160–Rs. 180 per share in the first week of November 2001 rose to Rs. 211.25 on 9 November. The surge in the scrip on 8 and 9 November was matched on the volume side as well. Volumes traded on these two days amounted to 12 million shares (as compared to 5.8 million shares in the first week of November). In fact, since June, 2001, the maximum number of shares traded on a given day was 2.9 million shares.

This appreciation in price and trading volumes of the L&T scrip prompted SEBI to investigate the deal. SEBI found many irregularities on the part of Reliance in the disclosure requirements to the stock exchanges. For example, Reliance did not disclose its holding exceeding 5% of equity in L&T to either the L&T or the stock exchanges. SEBI fined Reliance Rs. 0.48 million for the violation.

In the midst of controversy surrounding the pricing of the open offer, the Securities Appellate Tribunal (SAT) directed SEBI on 25 October, 2002 to investigate the open offer of Grasim. SEBI noted that there was another similar case a few months back where Gujarat Ambuja Cement (GACL) bought Tata's stake in ACC at a hefty premium, without having to make an open offer. The common shareholders were denied any chance to capitalize on this high premium. Due to the huge protests of the FIs & other shareholders, SEBI decided to look into the investors' complaint on the issue of the Grasim open offer price.

While the open offer was scheduled to commence from 9 December, SEBI, in an order dated 11 November 2002, directed the Aditya Birla Group to put its plans for the open offer on hold. As per SEBI officials the offer was put on hold as a number of aspects were being looked into, which included:

- As mentioned earlier, SEBI was investigating a similar case, involving acquisition of ACC shares by GACL. As the two cases were similar in nature, the plans for L&T offer should be put off until SEBI takes a view on the GACL deal.
- SEBI was also investigating the circumstances surrounding Reliance's sale of its 10.05% stake to Grasim. The issues being probed include allegations of insider trading at the time of the deal. If these allegations are confirmed, SEBI could have the transaction reversed.
- Whether the Aditya Birla Group was in control of L&T after acquiring the 10.05% stake from Reliance, thus violating the takeover code.

Gaining management control violated Regulation 12 of the takeover code. According to Chapter I(c) of the SEBI takeover code, "Control shall include the right to appoint majority of the directors or management or policy decisions exercisable by a person/persons acting individually or in concert, directly or indirectly, including by virtue of their management rights or shareholders agreements or voting agreement or other manner."

In response to SEBI's action, the Aditya Birla group maintained that Grasim had complied with all the regulations and had acted in accordance with high standards of corporate governance. The group questioned SEBI's move to re-investigate the issue of whether the Birlas had gained control of L&T, when last year the regulatory authority had already given the group a clean chit. The AV Birla group subsequently on 18 November 2002 filed an appeal with SAT, against the SEBI ruling.[27]

[27] AV Birla Group moves SAT in L&T open offer case. *Financial Express*, November 20, 2002.

Meanwhile, the proceedings on open offer enquiry continued in the SAT. In an affidavit to the SAT on 26 November 2002, SEBI tried to prove its stand that Grasim had acquired management control of L&T subsequent to its purchase of 10.05% stake and cited postponement of the cement de-merger by L&T board as evidence. SEBI also cited Grasim's attempted move to introduce cross-branding with L&T as an evidence of management control. SEBI officials also sought to examine L&T's board meeting details from December 2001 onwards, after the two Birla nominees were inducted on the company's board. It was speculated in the media that Grasim had bought Reliance's holding to stall the proposed de-merger of L&T's cement division in which multinational cement majors such as Lafarge and Cemex were in the fray. However, analysts questioned whether these developments started after Birlas gained entry into L&T or before that. As per a newspaper report:

> *Whether this would amount to management control remains to be seen. Further the move to de-merge the cement division had run into difficulties even before Grasim's entry, because MNC cement majors wanted complete management control, something which the L&T top brass was reluctant to concede.*[28]

Birlas refuted the charges of management control and stated that a company could not gain control with just two members on the board, adding that the nominees of the stature of Kumar Mangalam Birla and Ms Rajashree Birla were placed on the L&T board so as to give a level of comfort to the L&T management, as these Birla nominees would not be involved in the day-to-day management of the company.

SAT, however, upheld the SEBI directive and subsequently SEBI also advised Grasim not to acquire any further shares of L&T in the open market or through negotiations or otherwise with effect from 29 November 2002 until further advice. According to SEBI, a company, investigated for possible violation of the regulations, was

[28]Birlas influenced L&T's delay in cement de-merger. *The Economic Times*, November 25, 2002.

prohibited from further compounding the alleged offence by acquiring more shares of the target company.[29]

On 13 March 2003, SEBI finally gave a clean chit to Grasim Industries on the issue of control of L&T and cleared all the roadblocks against its proposed open offer to the shareholders of L&T. SEBI also asked Grasim to come out with the revised public offer. After getting a go ahead from FIs on the scheme of their vertical de-merger, Birla group decided to proceed with the open offer with the original price of Rs. 190 per share. The open offer finally commenced on 7 May 2003. But analysts felt that even the Birlas were not too keen to see their open offer for L&T being fully subscribed. This was because they had proposed a second open offer for the cement business, and would rather see full subscription for that offer so they get control of the cement business.

The regulator felt a need for deliberating and debating its takeover code following the developments in the episode. SEBI also realized that each takeover case turned out to be different and the market learnt novel ways of structuring and designing deals around the regulations. As a result, while remaining within the purview of regulations, one can ignore their spirit, complying with its letter and without inviting any penalty. As per SEBI officials, the intention behind undertaking such an exercise was also to enable investors to take informed decisions. In the case of Grasim's open offer too, SEBI asked the merchant banker to come out with certain disclosures to help the investors take informed decisions. SEBI asked the issue manager to the offer to disclose issues like justification of offer price, premium paid by Grasim to Reliance Industries to acquire the latter's stake in L&T and alternative proposal submitted by Grasim for de-merger of L&T's cement business.

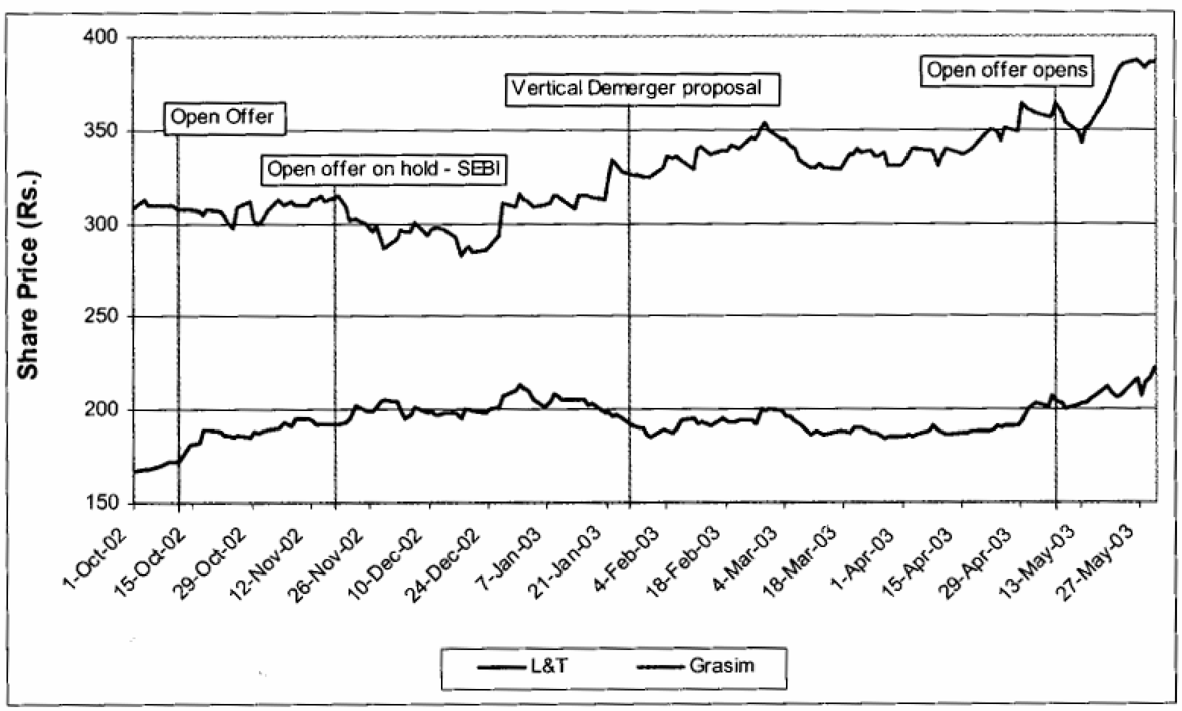
In the midst of all controversies, the shareholders of L&T were faced with the critical dilemma of whether to tender to the open offer. The factors that would have affected shareholders' decision in October 2002 (the original date of open offer) were significantly different from the factors in May 2003, when the de-merger proposals were seriously considered.

[29]Stop buying L&T stock, Grasim told. *Business Standard*, November 29, 2003.

Exhibit 1. Chronology of Major Events

- 18 Nov '01 - Grasim buys 10.05% of L&T Stake from Reliance at Rs 306.6 per share
- 24 Nov '01 - Two directors nominated by Grasim inducted on the L&T board
- 27 Dec '01 - SEBI seeks details of Grasim-Reliance deal on charges of insider trading
- 18 Sept '02 - Grasim holding in L&T raises to 14.15% through open market purchases
- 13 Oct '02 - Grasim makes open offer for 20% at Rs.190 per share after raising their shareholding to 14.52% through open market purchases. Offer scheduled to commence on 9 December 2002, and close on 7 January 2003
- 20 Oct '02 - SEBI takes note of investors' complaints on open offer pricing
- 18 Nov '02 - SEBI directs Birlas to put open offer on hold
- 20 Nov '02 - CDC approaches L&T management with a proposal to acquire a 15% stake in its de-merged cement division
- 22 Nov '02 - Grasim files an appeal against SEBI directive in SAT
- 29 Nov '02 - SEBI advises Grasim not to acquire any further shares of L&T in the open market or through negotiations or otherwise until further advice
- 18 Dec '02 - SEBI decides to take legal opinion on L&T plans of de-merger to ascertain whether it amounts of violation of takeover code
- 27 Jan '03 - Grasim proposes vertical de-merger plan for L&T cement business and offers Rs.130 per share for the de-merged entity
- 14 Mar '03 - SEBI clears Grasim on charges of management control of L&T. Asks to come up with revised open offer
- 24 Apr '03 - Grasim announces 7 May 2003, as its date of open offer. Keeps the offer price unchanged at Rs.190 per share
- 7 May '03 - Grasim's open offer for L&T shareholders opens

Exhibit 2. Share Price Movement of L&T and Grasim



Source: Based on Bombay Stock Exchange (BSE) closing prices, obtained from Prowess, CMIE database.

Exhibit 3. Cement Plant Locations of Top 4 Manufacturers and Their Capacities

Grasim		L&T	
Plant Location	**Capacity (MTPA)**	**Plant Location**	**Capacity (MTPA)**
Jawad (Madhya Pradesh)	5.683	Chandrapur (Maharashtra)	3.566
Kharia Khangar (Rajasthan)	0.400	Hirmi (Chattisgarh)	2.377
Raipur (Chattisgarh)	3.409	Jafrabad (Gujarat)	0.475
Shambhupura (Rajasthan)	2.273	Pipavav (Amreli, Gujarat)	4.992
Dharini Cement		Tadpatri (Anantapur, AP)	3.090
Reddipalayam (Tamilnadu)	0.066	**Narmada Cement Plants**	
Shree Digvijay Cement		Jafrabad (Amereli, Gujarat)	0.300
Jamnagar (Gujarat)	1.075	Magdelta (Surat, Gujarat)	0.700
		Ratnagiri (Maharashtra)	0.500
TOTAL	**12.906**	**TOTAL**	**16.000**

Ambuja Group		ACC	
Plant Location	**Capacity (MTPA)**	**Plant Location**	**Capacity (MTPA)**
GACL		Chandrapur (Maharashtra)	1.01
Ambujanagar (Amreli, Gujarat)	1.94	Bilaspur (Himachal Pradesh)	2.74
Bhatinda (Punbab)	2.96	Durg (Chattisgarh)	1.61
Chandrapur (Maharashtra)	2.0	Jabalpur (Madhya Pradesh)	1.72
Daburji (Rupnagar, Punjab)	0.6	Lakheri (Bundi, Rajathan)	0.61
Suli (Solan, HP)	1.5	Madukkarai (Tamil Nadu)	0.97
Ambuja Cement Rajasthan Ltd.		Mancherial (Adilabad, AP)	0.34
Pali (Rajasthan)	1.5	Sindri (Dhanbad, Jharkhand)	0.61
Ambuja Cement Eastern Ltd.		Tikaria (Sultanpur, UP)	0.61
Raipur (Chattisgarh)	2.0	Gulbarga (Karnataka)	4.71
TOTAL	**12.5**	**TOTAL**	**14.93**

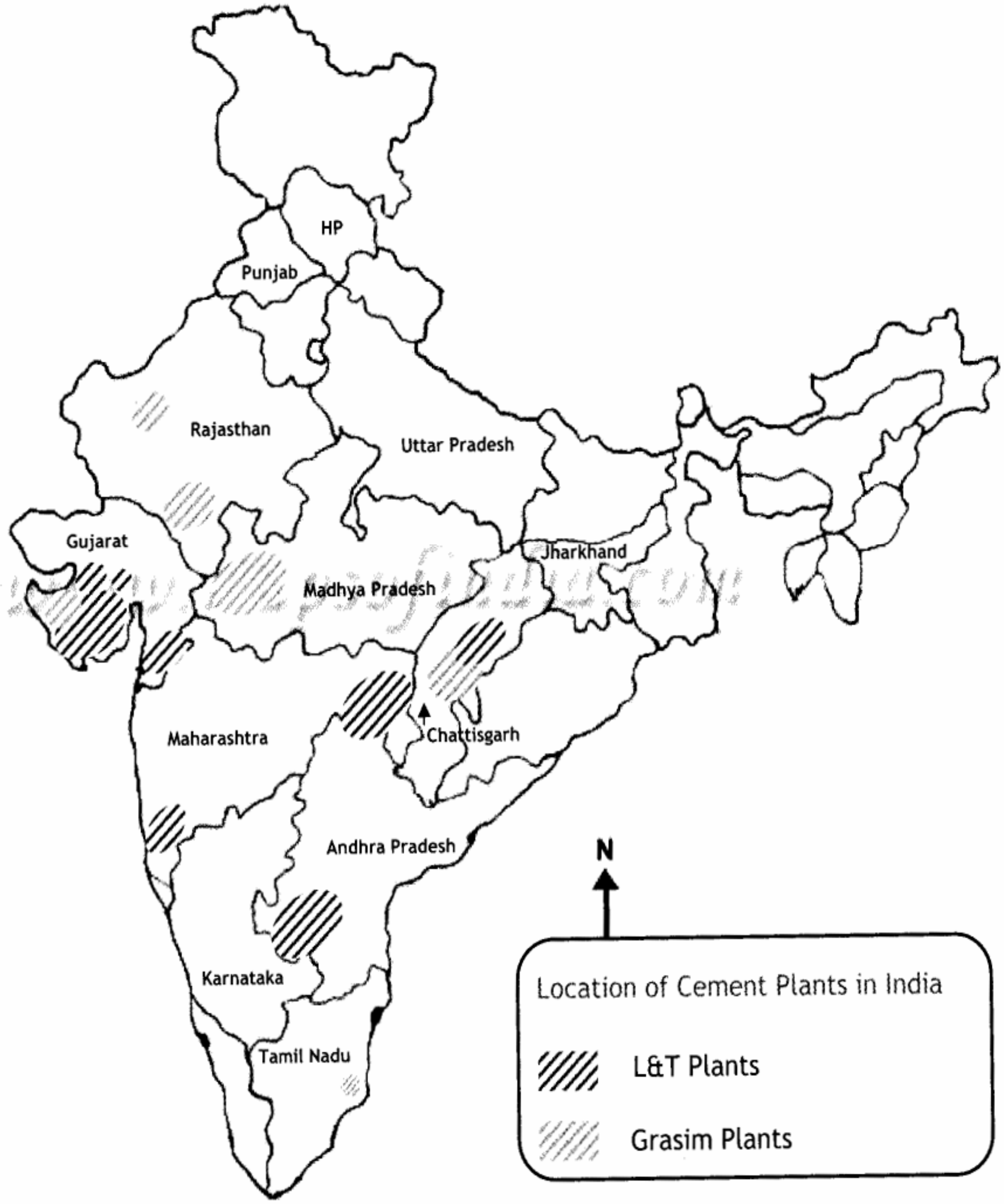
Note: Narmada Cement Ltd. was a subsidiary of L&T with the latter holding 97% shares.

Dharini Cement and Shree Digvijay Cement were acquired by Grasim.Shree Digvijay cement operates as a subsidiary of Grasim.

Source: Prowess database, CMIE.

Regional Classification of states:
North: Punjab, Himachal Pradesh (HP), Rajasthan and Uttar Pradesh (UP)
South: Andhra Pradesh (AP), Tamilnadu and Karnataka
East: Chattisgarh and Jharkhand
West: Gujarat, Maharashtra and Madhya Pradesh (MP)

Exhibit 4. Location of Cement Plants of L&T and Grasim
(Including Subsidiaries)



Note:
Map outline taken from www.mapsofindia.com.
Size of patches approximately depicts plant capacity.

Exhibit 5. Capacities in Cement Industry

Company	Capacity MTPA	Company	Capacity MTPA
L&T	16	Zuari Agro	3.15
ACC	15	U.P. State Cements	2.59
Grasim Industries	13	Mehta Companies	2.36
Gujarat Ambuja	12.5	Kesoram Industries	2.1
Indian Cements	8.06	Mysore Cements	2.1
J.K.Group	5.87	Orient Paper Ind.	2
Lafarge India Ltd.	4.49	Andhra Cements	1.24
Madras Cements	4.82	Mangalam Cements	1
Century Textiles	4.7	Tamil Nadu Cements	0.9
Jaypee Cements	4.2	HMP Cements	0.67
Birla Corp. Ltd.	4.11	Chettinad Cements	0.15
CCI Ltd	3.85	Others	15.99
		Total	130.85

Source: Prowess, CMIE Database.

Exhibit 6. Market Share (%) of Major Players

Company	FY98	FY99	FY00	FY01	FY02*
ACC	11.6	11.3	11.1	11.2	14.19
L&T	8.6	11.6	11.7	11.9	13.62
Gujarat Ambuja Group	6.6	8.5	8.9	10.6	10.78
Grasim	6.1	8.5	9.9	9.2	12.4
Century Textiles	5.4	5.0	5.2	5.4	5.59
Birla Corp.	4.7	3.8	4.1	4.2	4.62
Indian Rayon	4.0	NA	NA	NA	NA
India Cements	3.9	6.7	8.2	7.3	6.18
J P Cement	1.8	2.3	2.3	2.3	5.74
Lafarge			1.8	3.8	4.1
Madras Cements	2.9	3.2	2.9	2.8	3.49

Note: FY stands for financial year (April–March).

Source: ICRA Information Services.

*Case writers' estimates from Prowess, CMIE Database.

Exhibit 7. Segmental Performance of Grasim and L&T

Grasim	(Rs. Million)	
Indicators / Segments	**Mar-02**	**Mar-03**
Segment gross sales	52040.4	55344.2
Cement	24539.5	26093.0
Chemicals	2537.2	2953.7
Fibre & pulp	15424.8	19089.7
Others	2700.3	57.3
Sponge iron	3831.7	4707.3
Textiles	3006.9	2443.2
Less: inter segment	1342.4	1221.4
Net sales	50698.0	54122.8
Depreciation & amortization		
Cement	1303.0	1382.0
Chemicals	162.6	159.0
Fibre & pulp	482.1	477.4
Others	1.3	0.5
Sponge iron	387.1	370.1
Textiles	171.5	137.6
EBIT(excl. other income)	5683.9	7788.3
Cement	3147.5	1920.3
Chemicals	89.1	364.8
Fibre & pulp	2991.0	5347.6
Others	–49.2	–49.0
Sponge iron	10.4	577.9
Textiles	–504.9	–373.3
Less: interest expense	–1902.5	–1684.1
Net unallocable income/(expenditure)	547.3	429.6
PBT from ordinary activities	4948.3	7191.2
Total PBT	3428.5	5045.8
Capital employed	39005.1	37595.5
Cement	20551.0	20876.9
Chemicals	2275.1	2107.5
Fibre & pulp	8792.4	8505.7
Others	351.5	34.4
Sponge iron	5703.8	4977.6
Textiles	1331.3	1093.4
Unallocated capital employed	15189.3	19193.3
Total capital employed	54194.4	56788.8
Cement qty. sold (MT)		11.25

L&T	(Rs. Million)	
Indicators / Segments	**Mar-02**	**Mar-03**
Segment gross sales	84858.7	101608.2
Cement	26106.2	27153.5
Electrical & Electronics	7360.7	8651.4
Engineering & construction	49066.8	61550.4
Others	4247.4	4252.9
Less: inter segment	2718.3	2236.5
Net sales	82140.4	99371.7
Depreciation & amortization		
Cement	2153.3	2222.9
Electrical & Electronics	179.3	175.1
Engineering & construction	815.9	615.9
Others	209.5	179.3
EBIT(excl. other income)	7480.6	7370.9
Cement	2711.6	1778.2
Electrical & Electronics	813.6	1038.3
Engineering & construction	4025.5	4454.9
Others	–70.1	99.5
Less: interest expense	3752.4	2251.5
Net unallocable income/expenditure	–127.9	–495.8
PBT from ordinary activities	4004.8	5102.0
Total PBT	4004.8	5102.0
Capital employed	61489.0	63800.2
Cement	33163.3	35370.4
Electrical & Electronics	4447.7	4358.1
Engineering & construction	21016.9	20638.5
Others	2861.1	3433.2
Unallocated capital employed	4261.2	5896.8
Total capital employed	68061.4	67385.8
Cement qty. sold (MT)		12.62

Source: Annual Reports of companies.

Exhibit 8. Cost Structure of Manufacturing Cement

For the year 2000–01

Cost Component	Percentage of cost of sales
Power	22–25
Freight	25–28
Material Cost	5–7
Fuel(Coal)	15–17
Employee Cost	5–7
Others (selling, administration, depreciation etc.)	28–16

Source: Trends in Cement Prices, Crisil Advisory Services Report, 2001.

Exhibit 9. Wholesale Price Indices (WPI) of Inputs and Other Commodities

Particulars	1993–94	1994–95	1995–96	1996–97	1997–98	1998–99	1999–00	2000–01	CAGR
Cement	100.0	112.4	129.9	133.5	128.9	130.9	128.4	136.7	4.6%
All Commodities	100.0	112.6	121.6	127.2	132.8	140.7	145.3	155.7	6.5%
Coal	100.0	105.0	106.1	115.4	139.3	143.0	148.2	156.8	6.6%
Power	100.0	111.5	124.2	130.7	151.2	153.2	172.5	196.3	10.1%
Limestone	100.0	100.0	100.0	104.9	88.7	82.7	82.7	83.9	–2.5%
Rail Freight	100.0	107.2	107.2	131.9	131.3	136.5	139.4		5.7%
Diesel	100.0	108.8	108.8	120.9	145.2	148.7	176.4	228.4	12.5%
CPI (wages)	100.0	110.3	121.3	132.7	141.8	160.4	165.9	172.2	8.1%
Iron & Steel	100.0	106.0	116.6	124.1	129.8	132.8	134.8	136.8	4.6%
Ceramic Tiles	100.0	108.6	117.3	124.3	118.3	138.6	141.5	145.7	5.5%
Building Bricks	100.0	104.1	133.1	141.0	149.7	153.7	168.7	176.4	8.4%
Timber	100.0	109.8	118.1	114.6	117.8	145.0	151.8	148.1	5.8%

Source: Trends in Cement Prices, Crisil Advisory Services Report, 2001.
Note: 1993–94 was used as the base year. Wages are typically linked with Consumer Price Index(CPI).

Exhibit 10. Region Wise Projected Demand

MTPA

Region	CAGR '05 (%)	2002	2003	2004	2005	2006	2007	CAGR '07 (%)
North	5.50	35.1	37.2	39.5	41.7	44.0	46.4	0.0573
East	8.50	13.9	15.2	16.6	17.5	18.5	19.5	0.0700
South	7.20	25.6	27.6	29.8	31.4	33.2	35.0	0.0645
West	10.10	21.2	23.6	26.1	27.5	29.0	30.6	0.0765
Total	**7.40**	**95.8**	**103.6**	**112.0**	**118.1**	**124.7**	**131.5**	
Exports	2.70	3.1	3.1	3.1	3.2	3.3	3.4	
Grand Total		**98.9**	**106.7**	**115.1**	**121.3**	**128.00**	**134.9**	

Source: www.indiainfoline.com/sect/ceme.

Exhibit 11. Region Wise Projected Supply

MTPA

Region	FY01	FY02P	FY03P	FY04P
North	43.8	46.1	47.0	47.7
East	6.6	8.0	9.1	9.7
South	27.4	35.8	39.1	41.4
West	15.8	17.9	22.3	22.9
Total	93.6	107.7	117.6	121.6

Source: www.indiainfoline.com/sect/ceme.

Exhibit 12A. L&T's Shareholding Pattern Over the Last 2 Years

Figures represent % shareholdings by different groups

Date	Institutional Investors	Mutual Funds and UTI	Banks, FIs, Insurance cos.	FIIs	Others	Private Corporate Bodies	Grasim	Indian Public	NRIs/ OCBs	Any Other
Mar-01	**48.59**	12.76	22.57	13.27	**51.41**	10.59		30.49	0.73	9.60
Jun-01	**49.63**	14.18	22.16	13.29	**50.37**	9.73		30.30	0.74	9.60
Sep-01	**50.40**	13.86	24.06	12.48	**49.60**	8.64		31.00	0.74	9.22
Dec-01	**45.98**	13.44	23.94	8.60	**54.02**	14.09	10.05	30.61	0.74	8.58
Mar-02	**46.11**	12.36	26.06	7.69	**53.89**	14.67	10.05	31.17	0.73	7.31
Jun-02	**43.99**	11.85	26.45	5.69	**56.01**	17.89	12.89	32.36	0.74	5.02
Sep-02	**44.85**	11.98	26.53	6.35	**55.15**	18.08	14.15	31.68	0.75	4.63
Dec-02	**44.09**	12.07	28.30	3.72	**55.91**	20.01	14.53	30.99	0.75	4.17
Mar-03	**44.09**	12.03	28.67	3.39	**55.91**	20.04	15.35	31.11	0.77	3.99

Note: L&T's number of paid up shares as on March 31, 2003 was 248.67 million.
Grasim's shareholding is included in private corporate bodies' shareholding.
FII: Foreign Institutional Investors; NRIs: Non-resident Indians; OCBs: Other Corporate Bodies.
Source: Prowess, Prowess database, CMIE and newspaper reports.

Exhibit 12B. Grasim's Shareholding Pattern at the End of March, 2003

Figures represent % shareholdings by different groups

Category	**Shareholding (%)**
Promoters	20.4
Mutual Funds	8.2
Banks and FIs	15.9
FIIs (Foreign Institutional Investors)	14.1
GDR holders	11.2
Corporate	5.8
NRIs (Non-resident Indians)	4.1
Indian Public	20.3

Source: Annual Report 2002–2003 of Grasim.

Exhibit 13. Comparison of Major Cement Industry Acquisitions Since 1997

Date	Acquirer	Target	Implied EV (Rs. Mn)	Cement Capacity (MTPA)	Stake Acquired (%)	EBDIT (Rs. Mn)	EPS (Rs.)	Target Sales** (Rs. Mn)
Jan 99	L&T	Narmada Cement	2990	1.4	97	−126.5	-ve	1619.5
Jan 99	Lafarge	Tisco Cement Div.	5500	1.8	100	n/a	n/a	n/a
Jul 98	Grasim	Shree Digvijay Cement	2580	1.3	67	−77.2	-ve	1721.8
Apr 98	Grasim	Dharani Cement	2900	1.0	100	25.9	1.10	159.7
Nov 99	India Cements	Sri Vishnu Cement	2080	1.2	88.5	120.2	-ve	1425.1
Apr 98	India Cements	Raasi Cement	5220	1.8	100	355.4	3.98	4650.4
Feb 98	Gujarat Ambuja	Modi Cements	2070	1.4	94	n/a	n/a	n/a
Dec 99	Gujarat Ambuja	DLF	7030	1.4	21	93.9	-ve	2820.3
Dec 99	Gujarat Ambuja	ACC	67860	12.0	14.4	4332.6	7.63	23458.2
May 00	Zuari Ital JV	Zuari Cement	6800	1.8	50	n/a	n/a	2897.9
May 00	Lafarge	Raymond Cement	7850	2.24	100	n/a	n/a	3571.2
May 02	Zuari Italcement	Sri Vishnu Cement	3620	1.2	95	109.7	0.10	1230.4

Source: Adapted from L&T deal costliest so far. Hindustan Times, June 20, 2003.
**Prowess database and case writers' estimate.
Note: EV stands for Enterprise Value.

Exhibit 14. Benchmarking Indicators

(Figures are in Rs. million)

L&T's business segment	Nearest Pure Player	Sales	EV	EBDIT	Market Cap	MV/BV
Engineering & Construction	BHEL	69781.4	61337.1	8595.1	54679.4	0.96X
Electrical & Electronics	ABB	11723.8	12325.4	1195.8	12201.7	2.53X

Source: Prowess database, CMIE. BHEL results are unaudited.
Note: The data relate to the FY2003. Market capitalization figure is as on 31 March 2003.
MV/BV stands for Market Value/Book Value ratio. The ratio for L&T as a whole is 1.37X.

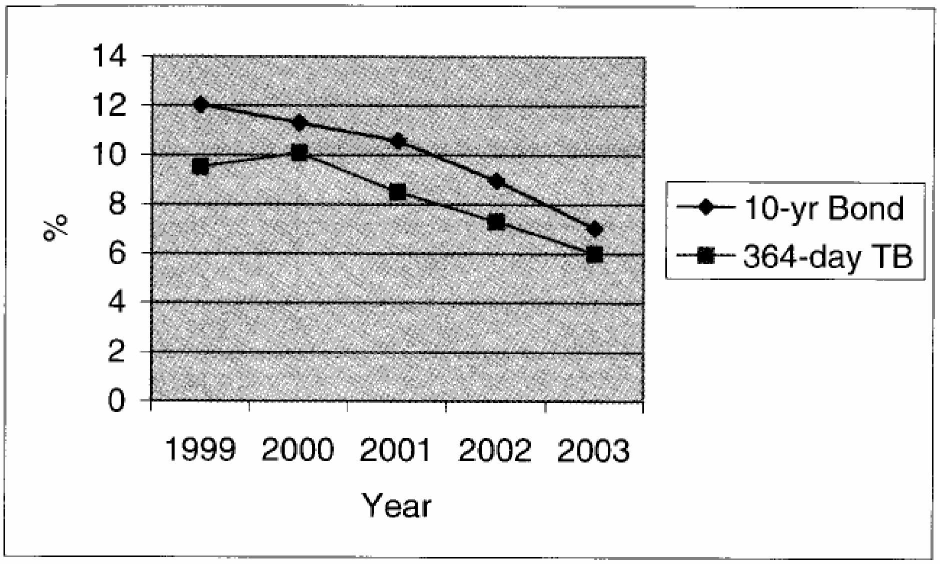
Exhibit 15. Select Financial Element Projections

Rs. Million unless stated otherwise

Grasim (stand alone)	**FY2004**	**FY2005**
Gross sales	58085	61599
Interest expenses	2359	2454
Profit before tax	7868	8405
Taxes	2360	2521
Borrowings	29251	30733
Working capital changes	–1439	–635
Borrowings at the end of FY 2003 were Rs. 20761 million		
Cemco	**FY2004**	**FY2005**
Depreciation and Amortization	2331	2396
Interest expenses	1512	1323
Taxes	103	270
Borrowings	17923	16923
Capital Commitments	–1692	–709
Working capital changes	–436	–1000
Borrowings at the end of FY 2003 were Rs. 18923 million		
New L&T	**FY2004**	**FY2005**
Depreciation and Amortization	914	914
Interest expenses	518	473
Taxes	2127	2684
Borrowings	11500	10500
Capital Commitments	–308	–291
Working capital changes	3452	–243
Select indicators of a pure player (Gujarat Ambuja)		
Equity Beta 0.71X		
Borrowings (FY 2003) 17512.8		
Net Worth (FY 2003) 16166.3		
Market Capitalization 31870.8		

Source: Prowess database and i-SEC research.

Exhibit 16. Average Annual Yield of Government Instruments



Note: 364-day TB refers to 364-day treasury bills.
10-yr Bond refers to 10-year Government bond.
Estimated long-term market risk premium on equity is 7%.
Source: Various issues of RBI (Reserve Bank of India) Bulletin.

Exhibit 17. Excerpts of Financial Statements of L&T

Figures in Rupees million

Balance Sheet Items	**FY 2003**	**FY 2002**
Share Capital (face value Rs.10 each)	2486.7	2486.7
Reserves and surplus	33139.1	30949.1
Loan Funds	31760.0	34625.7
Fixed Assets (Property, Plant and Equipment)	40488.7	42643.2
Investments	11603.7	9176.6
Investment in equity of subsidiaries	5647.6	5520.9
Investment Narmada Cement (Only cement subsidiary)	2352.4	2352.4
Net Current Assets	23004.1	24130.3
Deferred Tax	(8410.5)	(8524.5)
Deferred revenue items	699.8	635.8
Income Statement Items		
Sales (net of excise duty)	93601.2	77256.6
Other income	2543.4	2183.6
Operating expenses	86457.7	69016.2
Depreciation	3062.4	3268.8
Interest expenses	1769.9	3160.8
Provision for tax (including deferred tax)	771	536.8

Source: Company Annual report.

Exhibit 18. Excerpts of Financial Statements of Grasim

Figures in Rupees million

Balance Sheet Items	**FY 2003**	**FY 2002**
Share Capital (face value Rs.10 each)	916.7	916.7
Reserves and surplus	28856.2	26225.1
Loan Funds	20760.7	20647.7
Fixed Assets (Property, Plant and Equipment)	32700.9	32705.3
Investments	17960.5	14160.4
Net Current Assets	6127.4	7328.7
Deferred Tax	(6255.0)	(6405.0)
Deferred revenue items	–	–
Income Statement Items		
Sales (net of excise duty)	46091.5	43719.2
Other income	1329.8	1293.4
Operating expenses	35837.6	34690.6
Depreciation	2541.4	2517.0
Interest expenses	1684.1	1902.5
Provision for tax (including deferred tax)	1370.0	488.9

Source: Company Annual report.