

"CHAPTER - 16"

"DUE DILIGENCE"

* Intro :- § in every ques. of DD?

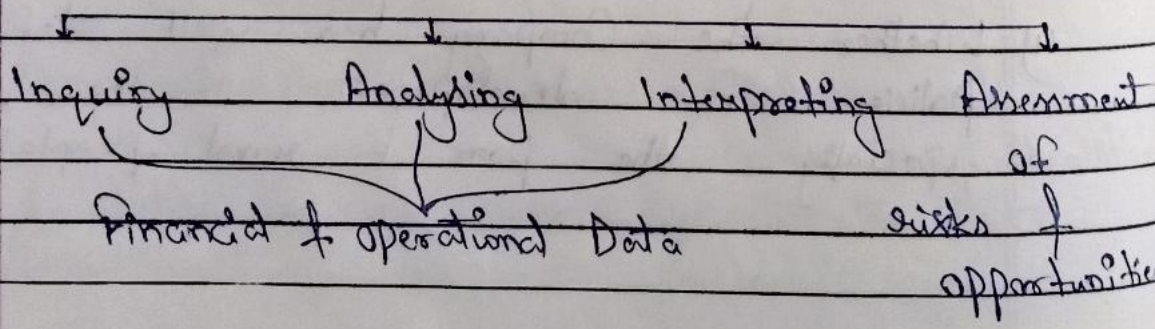
1) It refers to 'investigation' into the affairs of an entity as per the scope of engagement.

2) It communicate the facts to ensure that the concern party make the inform decision.

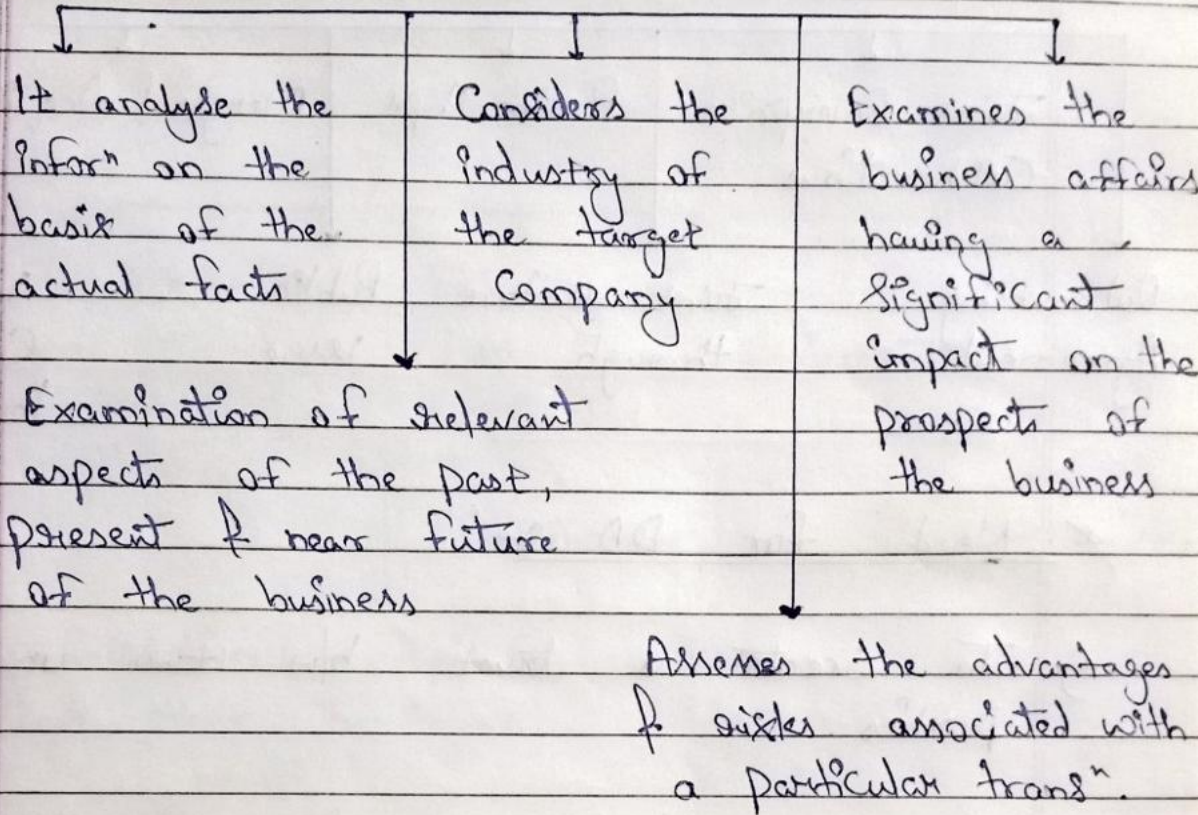
3) DD is a preventive source as it uncover those informations which may affect the outcome of the transaction.

4) To investigate and evaluate the potential risk.

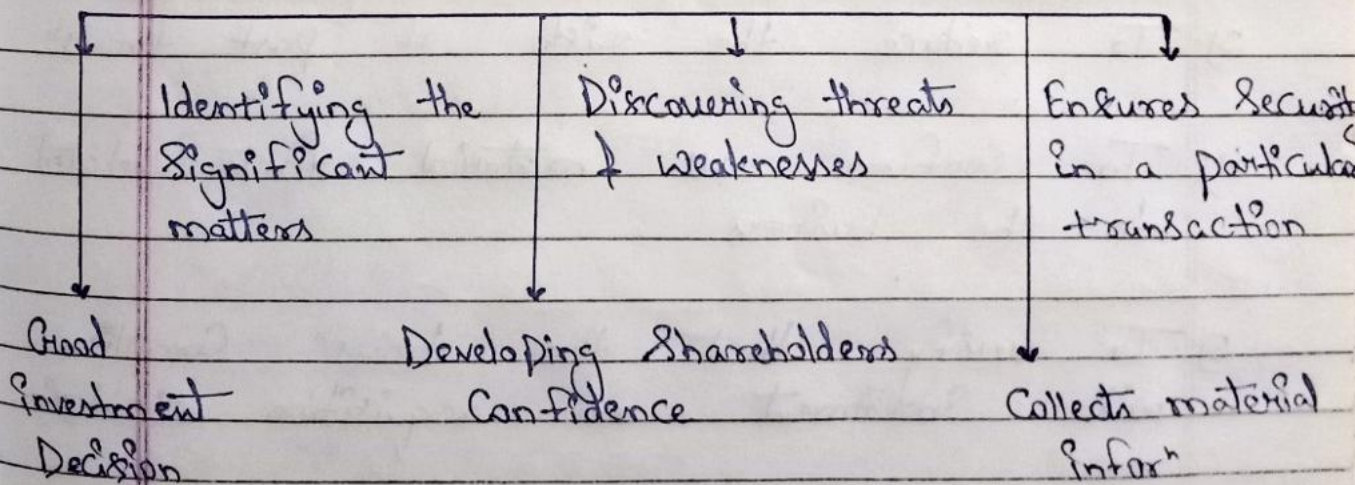
* DD is an interactive process that includes :- § I A I - A?



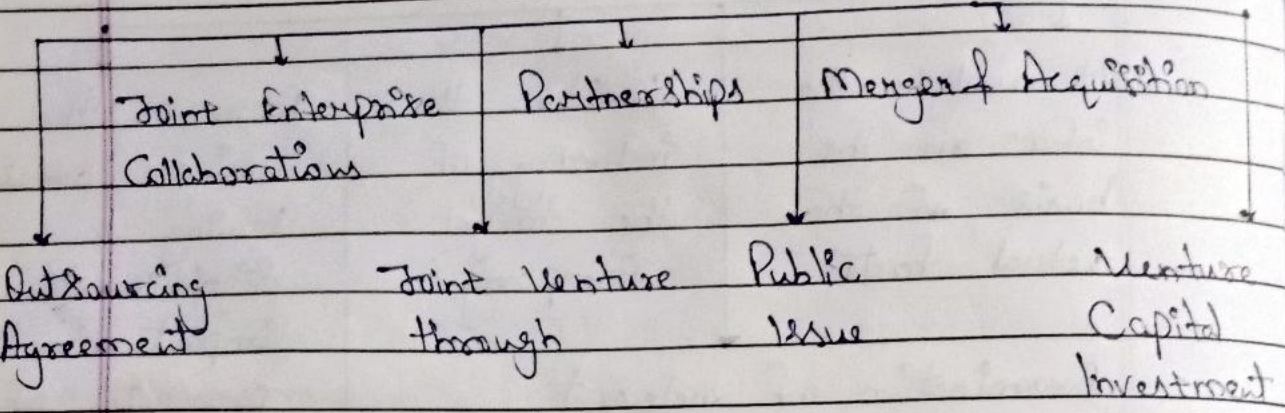
Key Points - DD :-



Objectives of Due Diligence :-



* Transactions that require proper DD :-

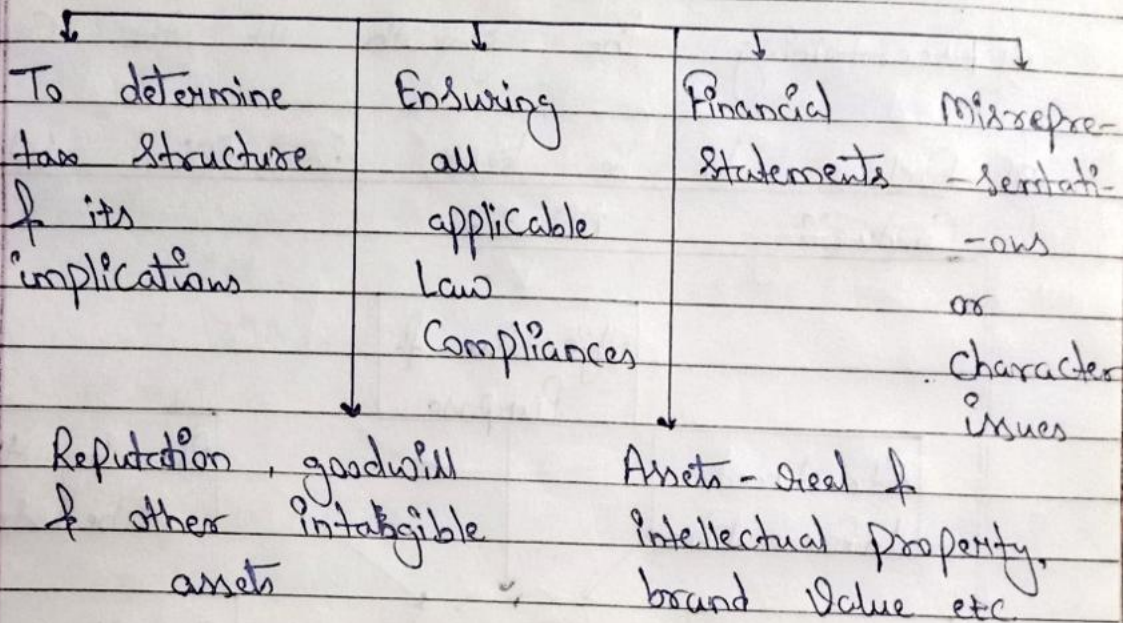


* Need for DD :-

- 1) To create a trust b/w two unrelated parties.
- 2) To assess the risks & opportunities of a proposed transⁿ.
- 3) To reduce the risk of post transⁿ.
- 4) To confirm all material facts related to the business.
- 5) To verify that the transⁿ complies with investment or acquisition criteria.
- 6) To investigate & evaluate a business opportunity.

3) To evaluate the legal & financial aspects of the transⁿ.

Scope of DD :-

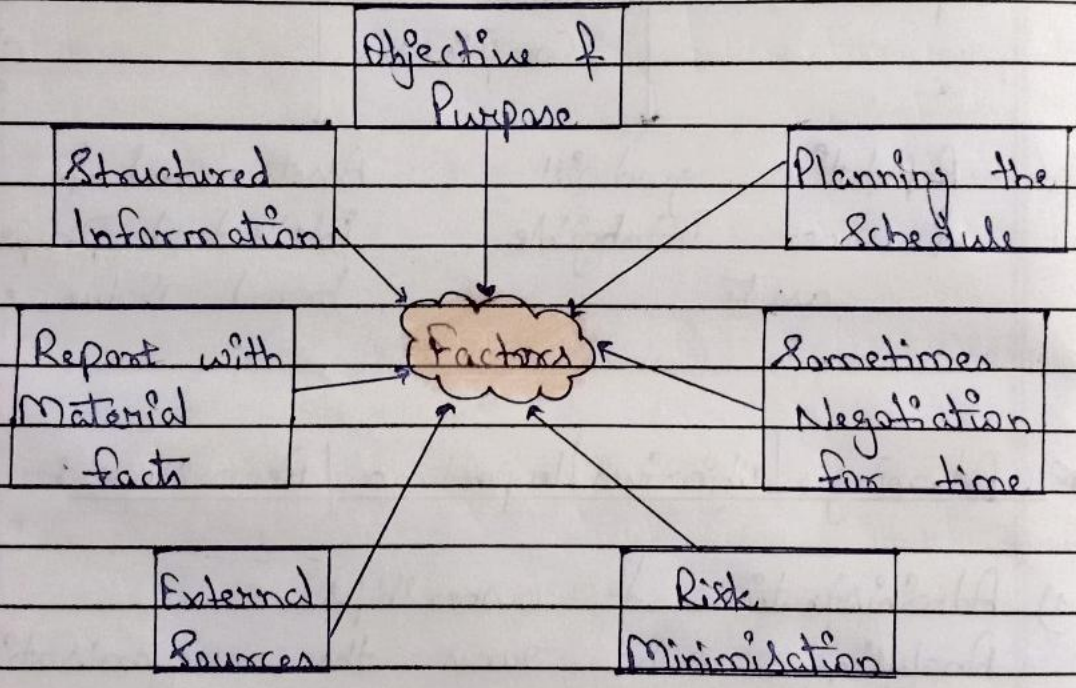


Advantages / Objectives / Importance / Benefits :-

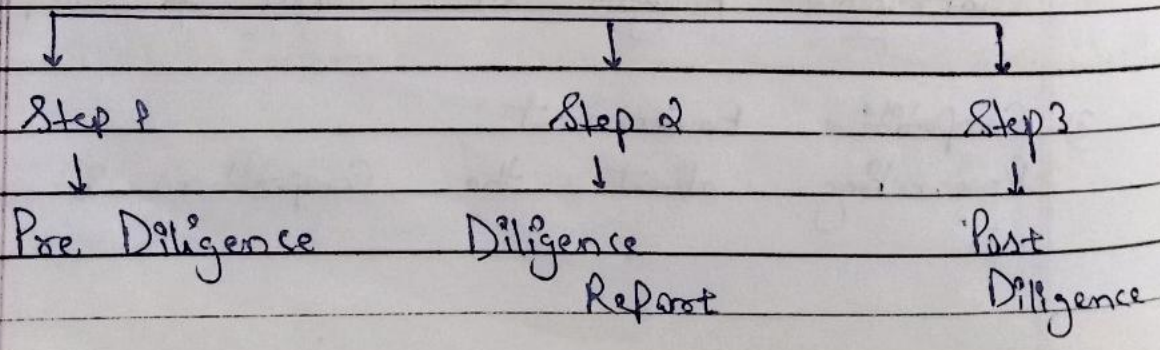
- 1) Administration of ownerships
Analysing who owns the organisation.
- 2) Capitalisation
Contrastive Analysis of Market & Company.
- 3) Competitive Environment
Researching about the Competitors in Market.

- 4) Reviewing Financial Statements
Interpretation of debt & equity ratios.
- 5) Revenue & Profits
- 6) Ascertaining the growth of the 'Company'

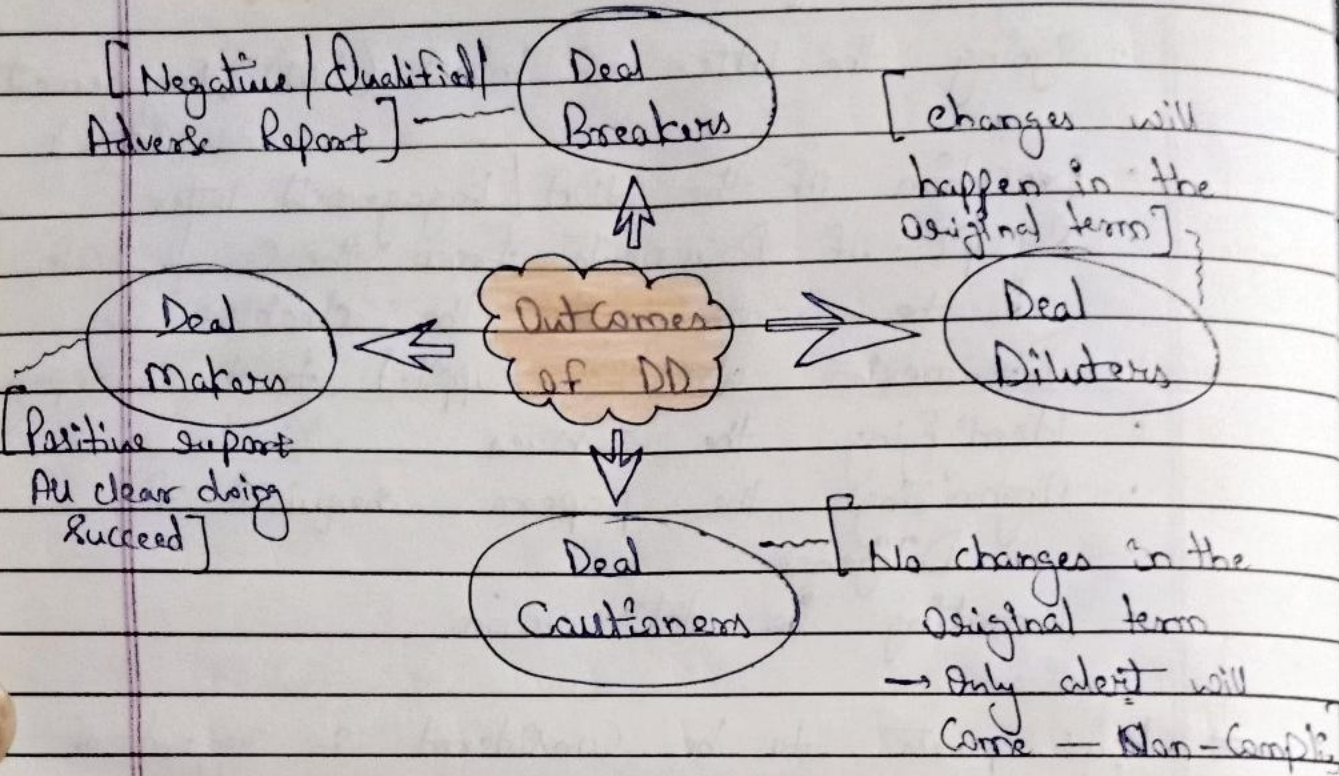
* Factors to be kept in mind while Conducting DD :-



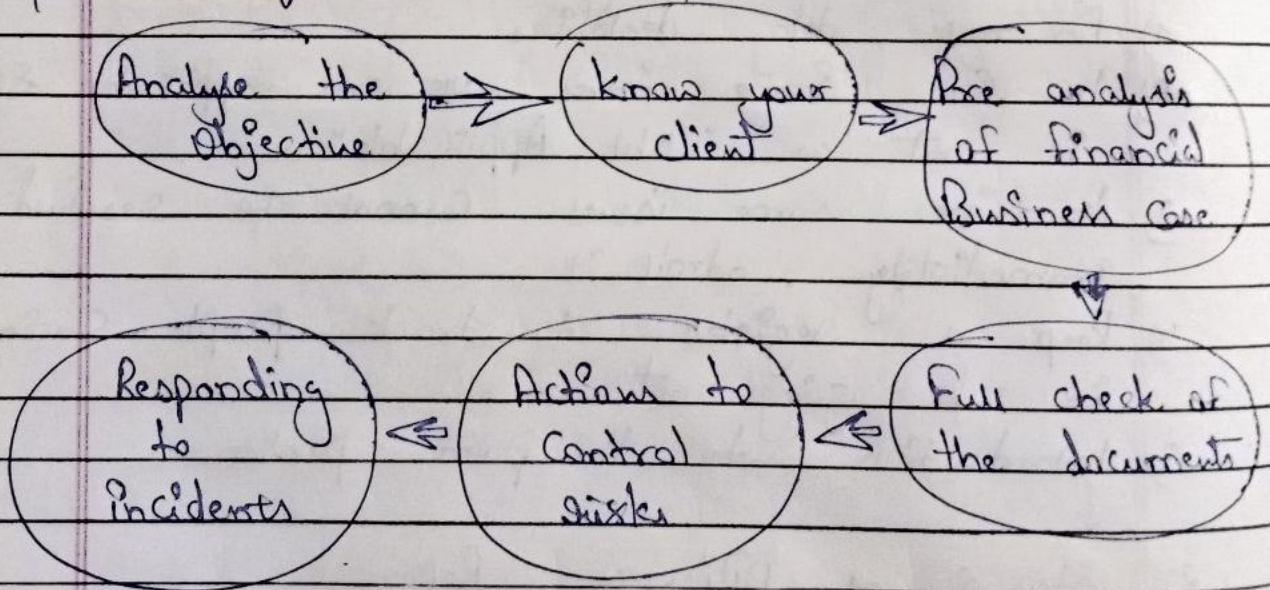
* Process & Stages of DD :-



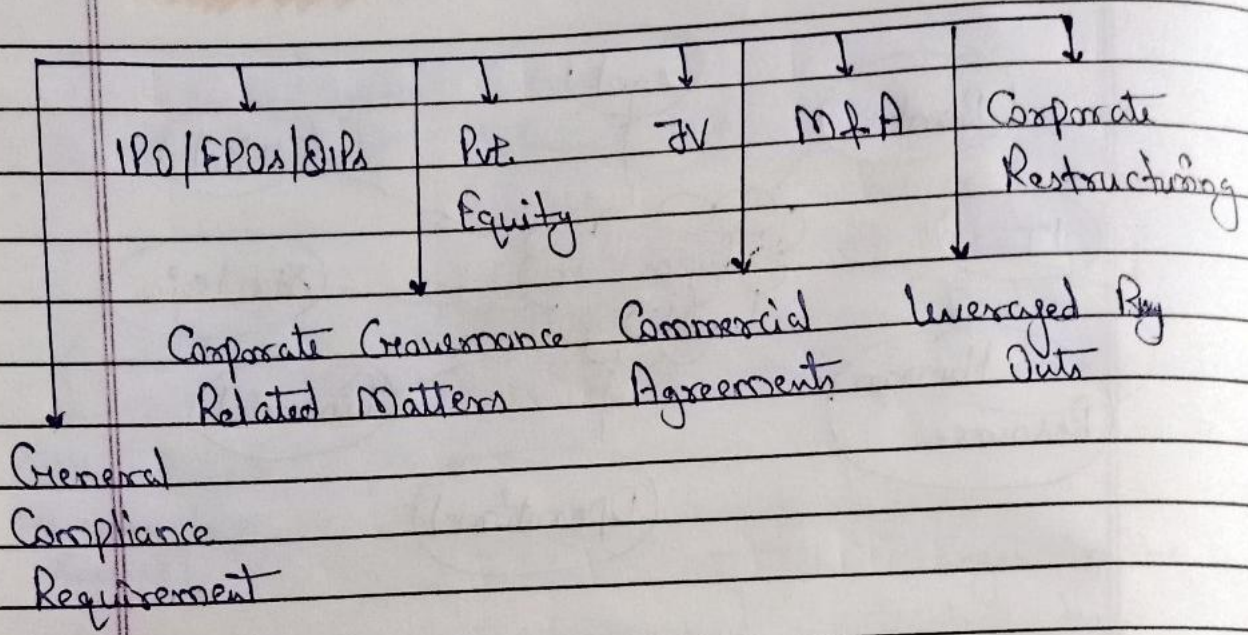
⇒ Outcomes of DD Reports :-



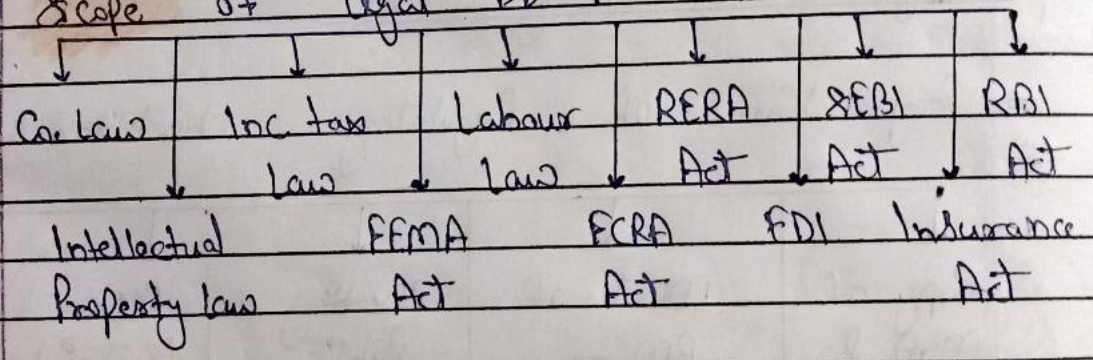
* Techniques of DD & Risk Assessment :-



⇒ Transactions Covered Under Legal DD :-



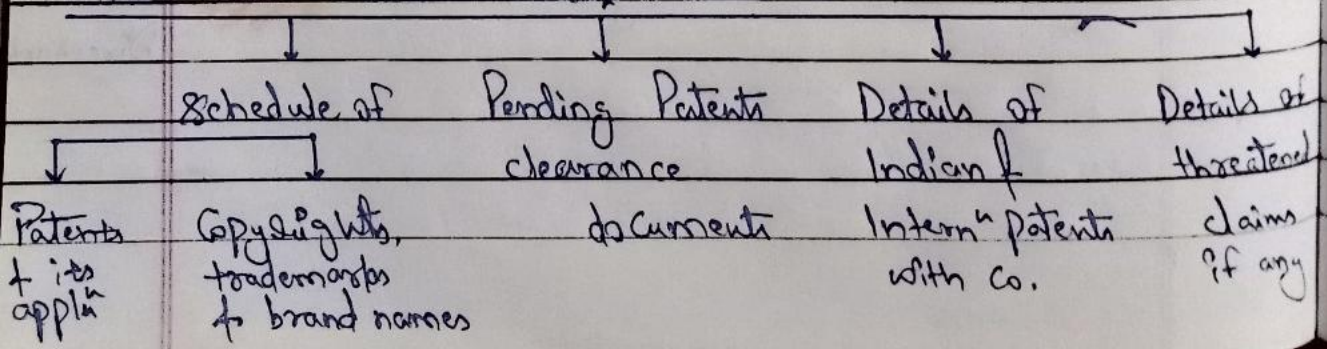
⇒ Scope of legal DD :-



⇒ Intellectual Property Law :-

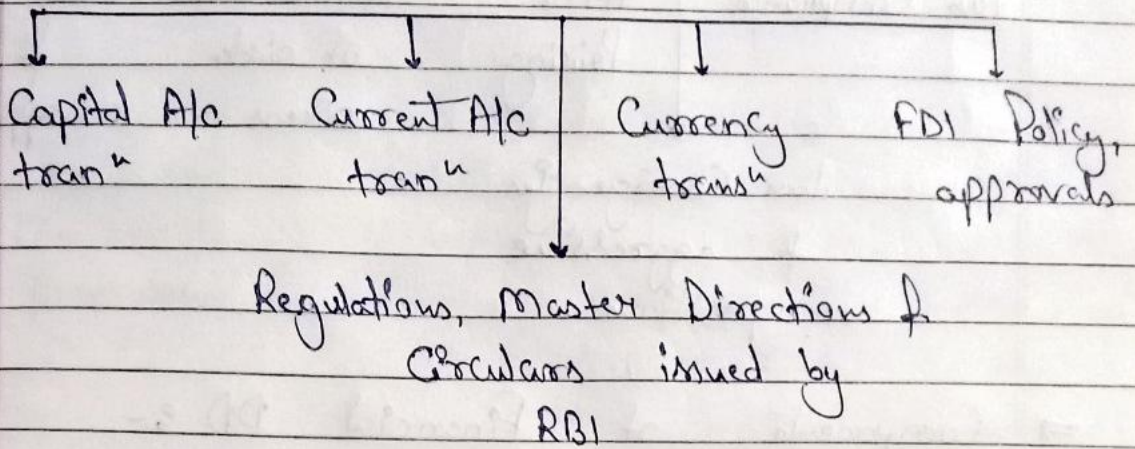
⇒ Imp words → Patents, Copyrights, Design, Trademarks, Brands etc.

⇒ Items that need to be seen - DD :-

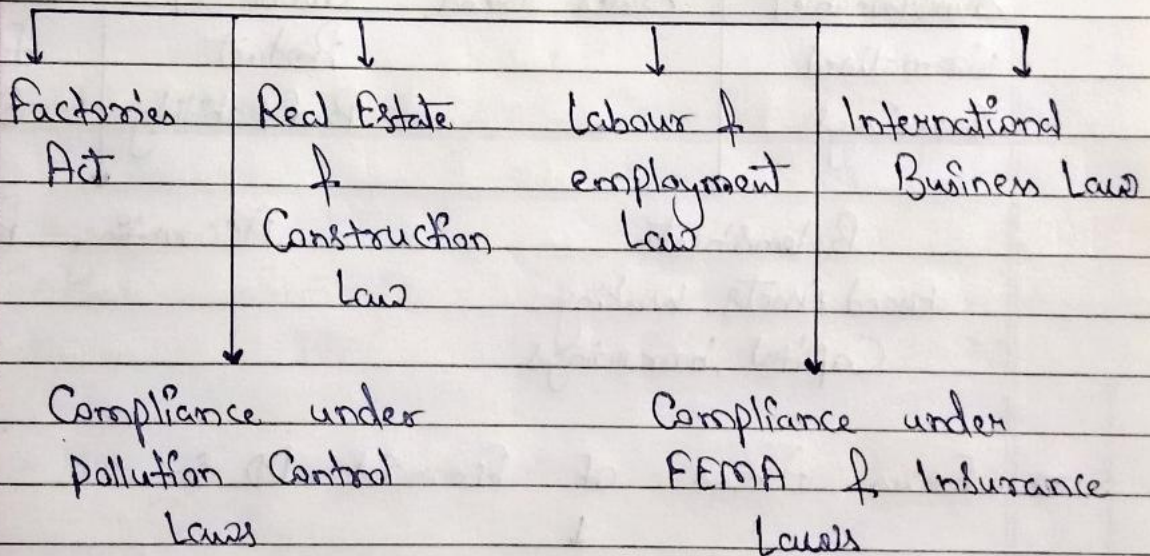


* FEMA Due Diligence :-

⇒ Following are Covered under the FEMA DD:-

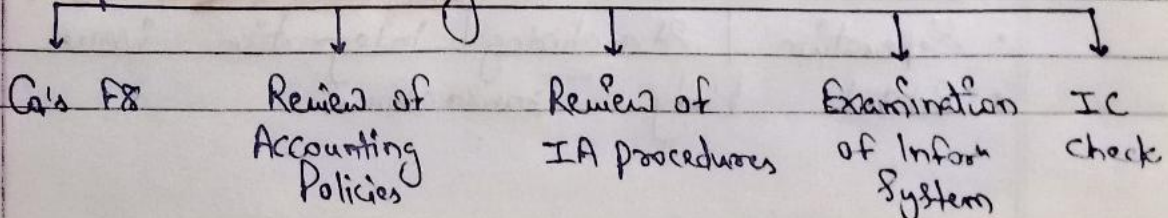


* Other Business Laws :-

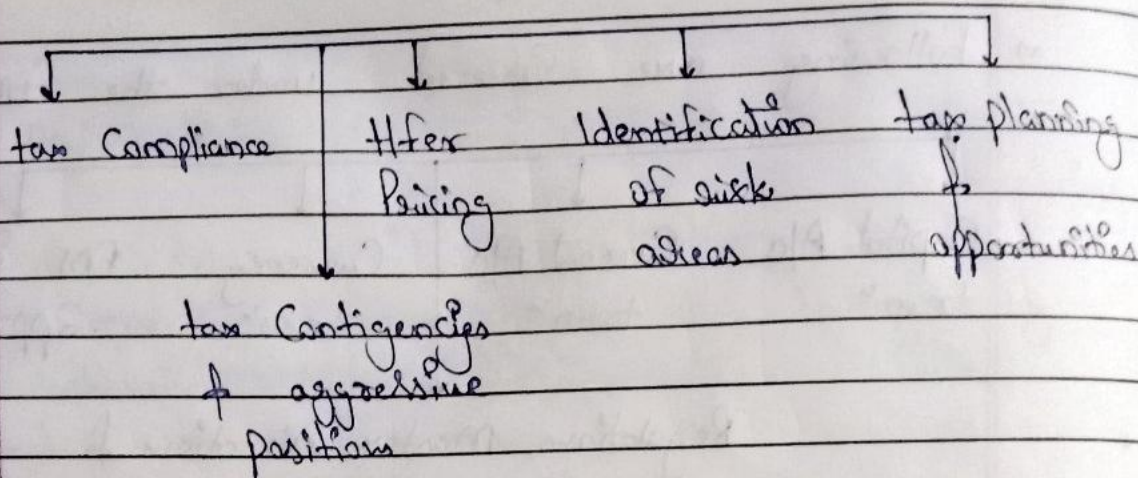


* Financial DD :-

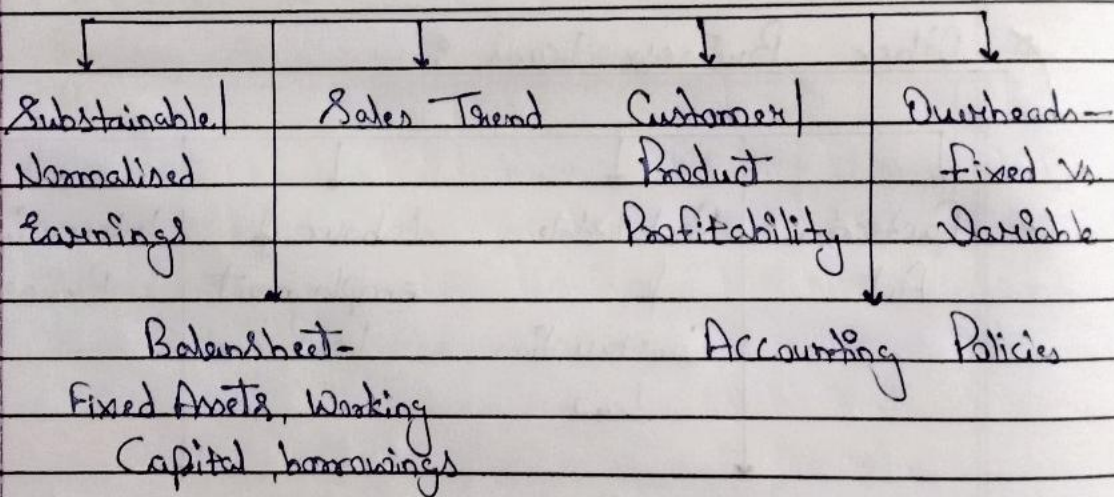
⇒ Deep understanding



⇒ Tax DD :-



⇒ Components of Financial DD :-

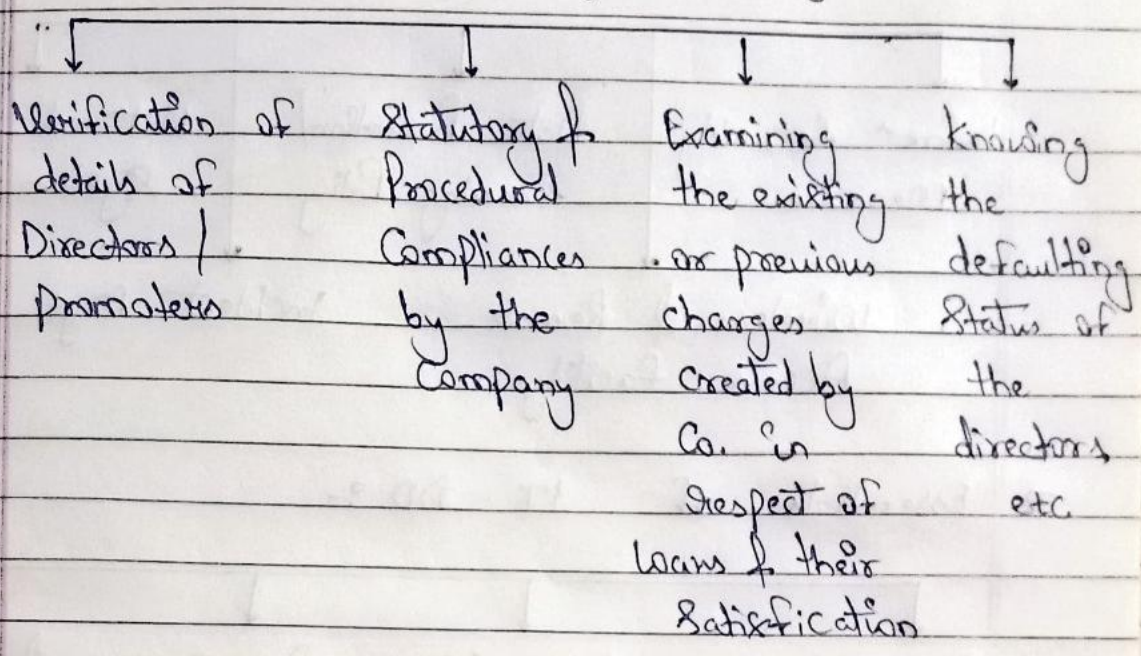


⇒ Focus Areas of Financial DD :-

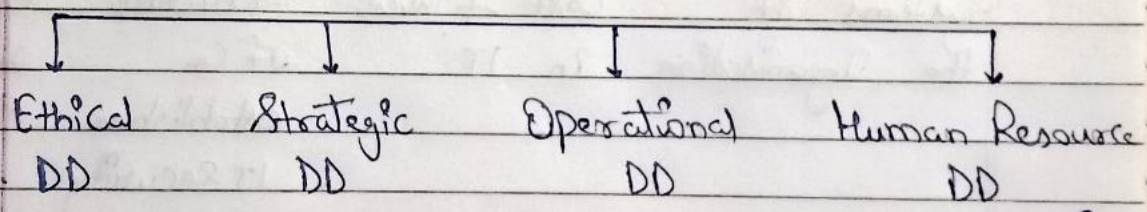
- Quality of earnings, gross margin & Cash flows
- Quality of assets — Working Capital
- Net Debt
- Potential liabilities & Commitments
- Separation / Structuring / Integration issues
- Related Party Transactions.

* Bank Due Diligence

⇒ Objective of Conducting DD by the bank :-



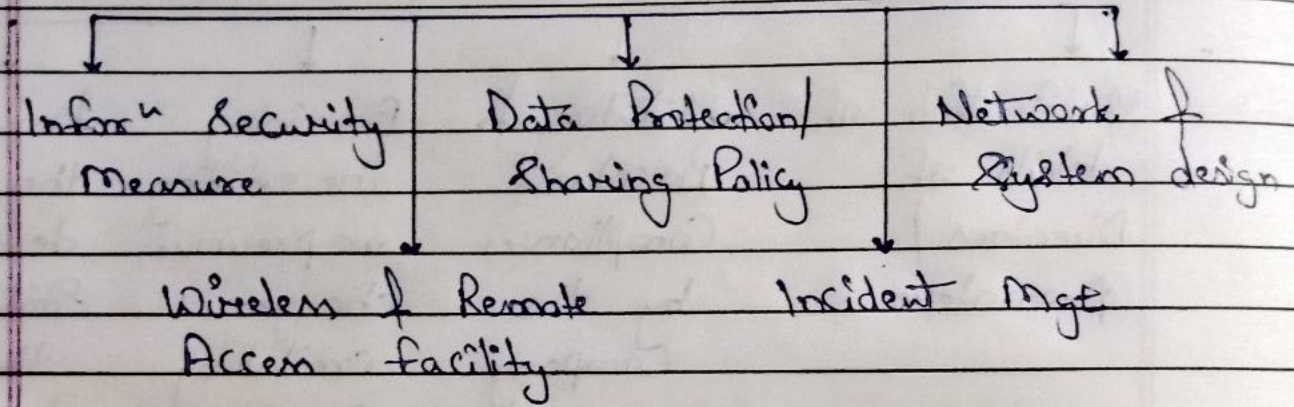
* Certain Other Types of Due Diligence :-



- List of employees, their positions & Salaries
- All employment Contracts with Non-Disclosure, Non-Solicitation & Non-Competition Agreem. b/w Co. & its employees.
- Employee Benefit Schemes & Schedule of grants of such Schemes
- Details of options given / vested under ESOP scheme

* Information Technology Due Diligence :-

⇒ The Inforⁿ Security DD Covers :-



⇒ Essentials of IT DD :-

