

Case Study-1

The Indian sugar industry has long been a critical component of the country's agricultural and industrial economy, driven by domestic consumption, export demand, and government policies promoting ethanol blending. In this competitive landscape, **Greenfield Agro Ltd.**, a leading listed sugar manufacturer with a strong presence in western India, sought to expand its market dominance by acquiring **Sunrise Sugars Pvt. Ltd.**, a struggling but asset-rich competitor based in South India. The **₹1,200 crore all-cash deal** was not just a consolidation play but a strategic move to capitalize on synergies, regulatory incentives, and operational efficiencies.



Greenfield Agro was a well-established player in the sugar sector, with integrated operations spanning sugarcane farming, sugar refining, and ethanol production. The company had a robust balance sheet, with annual revenues exceeding **₹5,000 crores** and a **debt-to-equity ratio of 0.8**, reflecting prudent financial management. Greenfield had invested heavily in distillery operations, aligning with the Indian government's push for **20% ethanol blending in petrol by 2025**. However, its geographical reach was limited, with most facilities concentrated in Maharashtra and Gujarat. To diversify its footprint and reduce regional risks, Greenfield eyed expansion into South India, where sugarcane yields were higher due to favorable climatic conditions.

Sunrise Sugars, on the other hand, was a **debt-laden but operationally sound company** with three sugar mills and an advanced ethanol distillery in Karnataka. Despite its strong infrastructure, Sunrise had been struggling with liquidity issues, owing to **₹800 crores in debt** and inefficient working capital management. The company had accumulated tax losses of **₹450 crores**, making it an attractive target for a profitable acquirer like Greenfield. However, Sunrise's financial distress had led it into insolvency proceedings under the NCLT, and its lenders were keen on a resolution that maximized recovery.

The acquisition made strategic sense for Greenfield due to **market expansion and regional diversification**, as it lacked a strong presence in South India, where Sunrise had established supply chains and farmer relationships. The deal gave Greenfield access to Karnataka's high-yielding sugarcane belt, reducing dependency on existing regions. Sunrise's modern ethanol distillery was a key attraction, complementing Greenfield's biofuel strategy aligned with government incentives. Tax benefits through unabsorbed tax losses could shield future profits, subject to **Section 79 restrictions** on ownership changes. Lenders agreed to a **haircut on debt**, making the acquisition financially viable. Operational synergies such as logistics optimization (saving **₹120 crores annually**) and technology transfer opportunities further enhanced the rationale.

Deal Structure and Funding

The acquisition was structured as an **all-cash transaction**, funded through a mix of **70% debt** (bank loans and External Commercial Borrowings or ECBs) and **30% equity** (internal accruals and preferential promoter allotments). Regulatory approvals from **SEBI, NCLT, and RBI** were critical due to the open offer trigger and foreign debt component.

Greenfield's valuation approach included a **Discounted Cash Flow (DCF) valuation** projecting an equity value of **₹2,238 crore**, using a **WACC of 12%** and a terminal growth rate of **4%**. However, due to Sunrise's insolvency and liquidity risks, the final pricing was based on an **EV/EBITDA multiple of 8x**, valuing Sunrise at **₹1,200 crore**. Greenfield negotiated a debt haircut with lenders and planned to monetize surplus land to partly fund the acquisition.

The ECB portion exposed Greenfield to forex risk, which was hedged through forward contracts pegged at **₹82/USD** against the spot rate of ₹83/USD. This reduced currency risk on repayments. The company carefully monitored its **debt-to-equity ratio**, which rose post-acquisition, and managed interest cost impacts through long-term planning.

Post-Acquisition Challenges and Integration

Following the acquisition, Greenfield conducted a detailed **purchase price allocation**, discovering that Sunrise's inventory was overstated by **₹50 crore**. This was corrected through a **prior-period adjustment** in consolidated financial statements and an impairment loss was recognized in accordance with accounting standards. Goodwill arising from the deal, amounting to **₹320 crore**, was subjected to mandatory annual impairment testing.

Operationally, Greenfield implemented **Activity-Based Costing (ABC)** to identify inefficiencies in logistics, cane procurement, and ethanol production. Centralized procurement improved supplier bargaining power and logistics were optimized using fleet analytics. Transfer pricing policies were introduced to ensure arm's length transactions within the group, particularly for ethanol sales. Legacy GST disputes amounting to **₹80 crore** were addressed to regularize input tax credits, and labour contracts were aligned with compliance requirements such as ESIC and Provident Fund.

Despite initial earnings per share (EPS) dilution caused by increased interest expense, synergies in logistics and ethanol production drove an ROI of **15% by the third year**, validating the acquisition rationale.

Regulatory, Tax, and Compliance Issues

The acquisition process involved strict adherence to regulations. SEBI's disclosure requirements were complied with, including **pre-deal public announcements, board approvals, and post-deal financial impact reporting**. Trading restrictions and insider trading controls ensured no information leaks prior to deal announcements. The board was reconstituted to include independent directors, and internal audit scope was extended.

Tax authorities closely scrutinized the utilization of Sunrise's unabsorbed tax losses, governed by **Section 79 of the Income Tax Act**. Due to ownership changes exceeding 49%, restrictions

applied, but exceptions were available under insolvency resolution plans. Greenfield also addressed capital gains tax implications for Sunrise shareholders. Indirect tax complexities, especially related to GST on ethanol supplies, were resolved through thorough reconciliations and clarifications, with ethanol supplies attracting a **12% GST rate**.

ECB funding required compliance with FEMA regulations, including adherence to the **automatic route borrowing limits**, minimum maturity periods, and reporting requirements via RBI's Form 83.

Financial Analysis and Valuation

The DCF model forecasted Free Cash Flow to Equity (FCFE) growth ranging from **11% in Year 1 to 15% in Year 5**, with a terminal growth rate of 4%. Present value calculations yielded an enterprise value of **₹3,037 crore**, less **₹800 crore** debt, resulting in equity value of approximately **₹2,238 crore**.

However, the final acquisition price of **₹1,200 crore** reflected market realities, including Sunrise's insolvency risks and lenders' willingness to accept haircuts. The multiple-based valuation approach (8x EV/EBITDA) was more conservative and aligned with distressed asset pricing.

The Weighted Average Cost of Capital (WACC) was computed at **9.225%**, balancing cost of debt (9%) and equity (15%) weighted by the capital structure and tax shield effects.

Conclusion

1. The acquisition allowed Greenfield Agro to expand regionally and diversify product offerings strategically.
2. Valuation methods combined theory and market reality, balancing intrinsic value with insolvency risk.
3. Complex tax and regulatory compliance issues, including FEMA, GST, and Section 79 restrictions, were managed effectively.
4. Operational integration focused on cost control, logistics efficiencies, and transfer pricing adherence.
5. The acquisition ultimately delivered a 15% ROI by Year 3, supported by disciplined financial and governance frameworks.