# LEGAL ANALYSIS OF MERGERS & ACQUISITION DEALS: AN OVERVIEW OF TATA GROUP

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## 1. Introduction

Tata Group is India's one of the oldest and most respected conglomerates. It has been at the top of major corporate agreements and arrangements that have shaped its path in an ever-changing global market. These transactions, including demergers, mergers, strategic investments, asset purchases, and outright acquisitions, are critical to the group's efforts to develop, diversify, and compete across industries. In recent years, Tata Group has strategically maneuverer its corporate structure to enhance operational efficiency, optimized resource allocation, and focus on capitalizing to compete in emerging market opportunities. From the restructuring of its flagship companies like Tata Motors and Tata Steel to the foray into new sectors through strategic investments and acquisitions, Tata Group's corporate deals reflect a dynamic approach to navigating the complexities of modern business landscapes.

Founded in 1868 by Jamshedji Tata, the group has a legacy spanning over 150 years. With a varied portfolio covering many industries, including automotive, steel, information technology, telecommunications, hotels, and more, the firm has grown into a global powerhouse. Tata Group commit to excellence and social responsibility that make it India's one of the largest and most admired business conglomerates. As of the latest available data, Tata Group boasts a formidable net worth, with a combined market capitalization of over USD 365 billion, making it one of the top conglomerates in Asia and beyond.[1]

With a strategic vision and a never-ending quest for innovation, the Tata Group has continuously shown that it is capable of adjusting to shifting market conditions and grasping new possibilities. Strategic investments that aim to diversify its income sources, increase shareholder value, and expand its reach across important industries and geographies are at the core of its growth strategy. However, behind the scenes of these strategic manoeuvres lies a

[1] *https://www.business-standard.com/companies/news/at-365-billion-tata-group-s-market-value-more-than-pakistan-s-economy-124021900442_1.html*

complex web of legal considerations that underpin the execution and outcomes of such transactions. The Companies Act, competition regulations, National Company Law Tribunal (NCLT) orders, tax laws, and other regulatory frameworks play a crucial role in shaping the legal landscape within which Tata Group operates.

## 2. Acquisitions:

A major component of the Tata Group's growth strategy has been acquisitions, which have allowed the conglomerate to grow its operations and have access to new markets and technologies. For example, Tata Steel became one of the top manufacturers of steel in the world after acquiring Corus Group in 2007. Similarly, the acquisition of Jaguar Land Rover (JLR) by Tata Motors in 2008 aided the company's rise to the top ranks of luxury car makers worldwide.[2]

Tata Group's acquisition strategy sets it apart from other businesses. The company opts to send only a handful of employees to integrate new acquisitions, rather than deploying large groups of employees. This approach allows the company to create a healthy partnership that jointly develops a vision for the acquisition, rather than imposing its own vision on the acquired company.

### *2.1. The Jaguar Land Rover (JLR) acquisition*

Jaguar Land Rover (JLR) was bought for $2.3 billion by Tata Motors, with no cash or debt involved from Ford Motor Company in 2008. The deal included transfer of ownership and free licenses for all intellectual property rights, manufacturing facilities along with two design centres in the UK and a global sales network to Tata motors. Long-term supply agreements were signed between the two companies for supplying engines, stampings, and other components. Ford provided transition support in IT, accounting, and access to testing facilities. Both companies continued to collaborate on design, hybrid technologies, and powertrains. While the deal was being finalised, Ford Motor Credit Company financed Jaguar Land Rover dealers and customers.[3]

***Key Motives of the Deal***

1) Acquiring Jaguar Land Rover provided significant boost for revenue synergies, including:
   a) Larger international distribution for Tata.

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[2] *https://www.tutor2u.net/economics/reference/business-growth-acquisitions-made-by-tata-group*

[3] https://media.jaguarlandrover.com/node/4917#:~:text=ROBOTS%20TAKING%20OVER?%20%2D-,PANEL%20DEBATE,Ford%20Motor%20Company%2C%20and%20Mr.

b) Broader product ranges.
c) Enhanced customer service.

2) Tata gained access to world-class engineering capabilities through the acquisition.
3) This strategic move positioned Tata as a formidable player in the global automotive industry.
4) The deal leveraged the strengths and resources of Jaguar Land Rover to Tata who aim to drive innovation and growth within its own portfolio.

***Laws governing cross-border mergers and acquisitions***

Sections 234 of the Companies Act, 2013 and Rule 25A of the Companies (Compromises, Arrangements and Amalgamations) Rules of 2016 deals in merger and acquisitions including cross-border deals. Section 234 of the Companies Act states that domestic mergers shall apply *mutatis mutandis* to cross-border mergers and acquisitions. According to this provision, a foreign company can merge with an Indian Company registered under this Act with the prior approval of RBI and the companies are obligated to provide the terms and considerations of the merger or acquisition.[4]

Rule 25A of Companies (Compromises, Arrangements and Amalgamations) Rules, 2016, additionally, allows an Indian business may combine with a foreign firm as long as it complies with Sections 230-232 of the Companies Act and has the RBI's prior approval.[5]

On this note, RBI has issued guidelines for cross-border merger transactions under Companies (Compromises, Arrangements and Amalgamation) Amendment Rules, 2017 to provide a framework and address the issues that arise from the merger or acquisition between Indian and Foreign Companies.[6]

***Aftermath of the deal***

From Tata's perspective, the acquisition of Jaguar Land Rover (JLR) resulted in significant value and strategic benefits.

**Value Terms:**[7]

[4] *Section 234, Companies Act, 2013*
[5] *https://www.taxmanagementindia.com/visitor/detail_act.asp?ID=24872*
[6] *https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=40288*
[7] *https://economictimes.indiatimes.com/news/company/corporate-trends/tata-motors-ride-jlr-to-top-most-valuable-brands/articleshow/6812200.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst*

- The value of the Tata Motors-JLR brand increased 172% in the following year.
- Tata Motors' market capitalization increased tenfold, and the brand value reached $8.45 billion driven by sales growth and profitability.

**Strategic Benefits:**[8]

- Tata Motors entered the luxury car and premium SUV segments, expanding its product portfolio significantly.
- Tata's investment of over 22 billion pounds led to the rebuilding, integration, and expansion of JLR's line up with shared platforms, new powertrains, and proprietary technologies, enhancing its competitiveness and market position.

### *2.2.The Air India acquisition*

On January 27, 2022, through its wholly-owned subsidiary *Talace Pvt Ltd*, Tata Sons acquired Air India with a winning bid of Rs 18,000 crore from government of India. As a result of this, the Tata Group now owns 100% of Air India as well as full ownership of its subsidiary Air India Express (AIXL), a low-cost carrier that specialises in short-haul international operations. Tata presently also has a majority stake of 50% in the joint venture Air India SATS, which provides ground-based airport services and cargo handling.[9]

***Compliance with the Competition Act, 2002***

Section 6(2)[10] of the act read with notification[11] regarding de minimis exemptions released by the Competition Commission of India (CCI) and Section 5(a) of the act provides for the threshold for activating a requirement of notifying the CCI and any exempts deals that do not meet the criteria. The two criteria under the notification for exemptions include any enterprise being acquired (the target company), here, Air India, having:

i. Combined assets valuing less than INR 350 crore, or

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[8] *https://www.autocarpro.in/news-international/tata-jlr-journey-billion-pounds-billion-pounds-29749*
[9] https://www.tata.com/newsroom/business/air-india
[10] *Section 6. Regulation of combinations.*
*"(1) No person or enterprise shall enter into a combination which causes or is likely to cause an appreciable adverse effect on competition within the relevant market in India and such a combination shall be void.*
*(2) Subject to the provisions contained in sub-section (1), any person or enterprise, who or which proposes to enter into a combination, 1[shall] give notice to the Commission, in the form as may be specified, and the fee which may be determined, by regulations, disclosing the details of the proposed combination,*
*...."*
[11] https://www.cci.gov.in/combination/legal-framwork/notifications/details/9/0

ii. Combined turnover valuing less than INR 1000 crore.

Conditions for declaring any transaction as a combination in India under section 5(a)(i)[12] includes:

i. parties to jointly have assets more than 2000 INR crore, or
ii. parties to jointly have a turnover more than 6000 INR crore.

| Name of the Parties | Assets (as of 31st March 2021) (INR crore) | Turnover (for FY 2020-21) India (INR crore) |
|---|---|---|
| Air India | 63,317.23 | 8,224.19 |
| AIXL | 4,529.50 | 920.66 |
| AISATS | 213 | 730 |
| **Combined** | **68,059.73** | **9847.85** |

| Name of the Parties | Assets (as of 31st March 2021) (INR crore) | Turnover (for FY 2020-21) India (INR crore) |
|---|---|---|
| Talace | 0.08 | - |
| Tata Sons | 102,969.01 | 9,460 |
| **Combined** | **1,71,028.82** | **19,334.85** |
| **Target (Combined)** | **68,059.73** | **9847.85** |

The combined turnover of the target as well as the acquirer far exceeds the required limits. Therefore, this transaction cannot be exempted from notifying the commission and is also a combination under section 5(a)(i), and therefore needs to be notified under section 6(2) of the act. The merger was eventually notified to the commission, which was approved by the CCI on December 20, 2021.

12 https://www.indiacode.nic.in/show-data?abv=null&statehandle=null&actid=AC_CEN_22_29_00005_200312_1517807324781&orderno=5&orgactid=AC_CEN_22_29_00005_200312_1517807324781

***Effects of the acquisition***

- Air India's average daily revenue doubled.[13]
- The domestic air traffic market share of the Tata-Air India rose to 25.2% with only three major competitors, namely Indigo (54.8%), Spice Jet (10.5%), and Go Air (8.8%).[14]
- The Tata Group's reputation for integrity, ethics, and commitment to quality strengthened Air India's brand image.

### 3. Strategic Investment:

In addition to well-known acquisitions, Tata's strategic investments in startups and developing firms have had a significant influence, demonstrating the group's business strategy to recognise and support potential initiatives through diversification, synergy, and corporate responsibility.[15] In 2015, Tata invested in Paytm and Urban Company and changed the Indian business landscape. Following the investment, Paytm grew with an estimated 30% upside, according to Goldman Sachs. On the other side, Tata's investment in Urban Company has been critical to India's gig labour employment market, particularly for women, with operational revenue expected to increase by 45% by 2023.[16]

The acquisitions of BigBasket and 1mg have further exemplified Tata's commitment to supporting startups and zeal for technology investment. BigBasket, a prominent grocery delivery startup, and 1mg, an e-pharmacy platform, have both received support through Tata Strategic Management Group (TSMG).[17] These investments not only provide financial backing but also signify Tata's dedication to fostering potential startups and aiding them in establishing a strong foothold in their respective sectors.

#### *3.1. The BigBasket Deal*

Tata group, through its wholly owned subsidiary, Tata Digital, acquired 64.3 per cent shares of

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[13] *https://infra.economictimes.indiatimes.com/news/aviation/since-acquisition-by-tata-sons-a-year-ago-average-daily-revenue-has-doubled-air-india/97372982#:~:text=ETInfra%20Newsletters,Read%20by%20100%20Industry%20Professionals*

[14] *https://cbcl.nliu.ac.in/competition-law/reviewing-merger-control-regime-and-analysing-competition-in-the-aviation-industry-tata-air-india-case-study/*

[15] https://www.linkedin.com/pulse/secret-business-strategy-tata-why-does-own-so-many-companies-garg/

[16] https://etinsights.et-edge.com/how-ratan-tatas-strategic-investments-transformed-industries/

[17] Tata Strategic Management Group (TSMG) is the strategy centre of excellence for the Tata group. TSMG works closely with the Chairman's Office and the leadership of Tata group companies to develop and support implementation of the group's business strategy. TSMG also helps Tata companies in developing and incubating new business ideas.

the e-grocery platform BigBasket (Supermarket Grocery Supplies Private Ltd (SGS)) for around ₹9,500 crore. Following the deal Tata became the majority and the largest stakeholder in the company, and provided for an exit route to other previous investors including Alibaba. This deal had been termed as the "largest investment by an Indian conglomerate in an Indian startup." [18] This investment by Tata was strategic in terms of expanding presence in consumer digital ecosystem including sectors like retail and travel.

The deal has been notified under section 6(2) competition act, 2002 to the competition commission of India for the following agreements:

i. Securities Subscription Agreement dated 29.01.2021 (SSA)
ii. Share Purchase Agreements dated 29.01.2021 (SPAs)
iii. Business Services Agreement (BSA) (proposed)

The commission examined the deal on the on the premise of having any appreciable adverse effect on competition (AAEC) in India in any of the relevant market(s). The deal was scrutinised to having horizontal overlaps horizontal overlaps as Trent Ltd. (Trent), Tata Consumer Products Limited (TCPL) and Tata Smartfoodz Ltd. (Tata Smartfoodz), entities belonging to Tata Sons Group, are engaged in the manufacturing and sale of certain Relevant Products in India. The deal was unique in the sense that there exists upstream as well as downstream vertical arrangement also. Upstream arrangement where manufacture and sale of food and grocery products by Tata group entities and at Downstream arrangement where market for B2B sales where BigBasket is present.

Although there was an incremental market share in the deal, the commission opined that the merger would not raise any significant competition concern and competitors would continue to pose competitive pressure on the Parties. Hence the commission approved the acquisition of 64.3% of SGS' total share capital.[19]

The deal proved to be strategic as it positioned Tata Group as a major player in the fast-growing Indian e-grocery market, allowing it to compete more effectively with rivals like Reliance's JioMart and Amazon. The acquisition was seen as a precursor to BigBasket's eventual public listing in 2025, which would provide Tata Group with an opportunity to unlock further value

[18]*https://timesofindia.indiatimes.com/business/india-business/tata-digital-acquires-majority-in-bigbasket/articleshow/83048096.cms*
[19] *Combination Registration No.C-2021/03/822*

from this investment.[20]

### *3.2. The 1mg Deal*

In June 2021, Tata Digital Limited (TDL) acquired a 58.7% stake in 1mg for a cash consideration of ₹720 crore and increased its stake to 62.97% by the end of 2021. The investment in 1mg aligns with the Tata Group's objective of developing a digital ecosystem that answers customer requirements across categories in a cohesive way. The increase in e-pharmacy usage during the COVID-19 epidemic, as well as expected future development, point to a potential market opportunity that Tata intends to capitalise on with this strategic purchase. E-pharmacy, e-diagnostics, and teleconsultation are essential components of this ecosystem and have been among the fastest-growing areas in this market, since they facilitated access to healthcare throughout the pandemic. [21] [22] Again in 2022, Tata Digital along with other investors invested an additional $40 million in funding in 1mg, valuing the company at around $1.25 billion and making it a unicorn.

***Put-Call Option Agreement***

During the deal, Tata Digital has entered into a put-call option agreement with the founders of 1mg where TDL can acquire the balance stake in 1mg for ₹448 crore. A put-call option is a financial contract that gives the holder the right to purchase (call option) or sell (put option) a certain asset at a predefined price, known as the strike price, within a specified time frame, known as the expiration date.

In this deal, the contract signed provides for:

- Tata Digital has the right (call option) to acquire the remaining 37% stake held by the 1mg founders in the future for ₹448 crore (strike price).
- The 1mg founders have the right (put option) to sell their remaining stake to Tata Digital in the future.

The put-call option agreement allows Tata Digital to eventually acquire full control of 1mg within the next 5 years (expiration period). This means if Tata Digital is unable to take 1mg

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[20] *https://retail.economictimes.indiatimes.com/news/food-entertainment/personal-care-pet-supplies-liquor/big-basket-aims-to-turn-profitable-in-8-months-eyeing-ipo-in-2025/108253052*
[21] *https://www.tata.com/newsroom/business/tata-digital-1mg-healthcare-marketplace*
[22] *https://timesofindia.indiatimes.com/business/india-business/tatas-to-buy-51-in-1mg-for-230mn/articleshow/83414924.cms*

public through an IPO in the next 5 years, the 1mg founders can sell their remaining 37% stake to Tata Digital for ₹448.75 crore (around $60 million). [23]

***Significance of the deal***

- Tata's strategic move into the e-pharmacy sector marks its second significant deal with startups after acquiring BigBasket.
- Tata's goal to combine many consumer services into one platform is shown in the creation of the super app TATA NEU, which is housed under Tata Digital and is driven by the collaboration between 1mg and BigBasket.
- This acquisition puts Tata in direct competition with Reliance Industries and Amazon in the booming e-commerce and e-pharmacy businesses establishing a competitive marketplace.

### *3.3. Investments by TATA POWER*

**i. Central Electricity Supply Utility of Orissa Limited**

Tata Power Company Limited (TPCL) acquired the Central Power Supply Utility of Odisha (CESU) as part of a planned expansion into the power distribution industry. The Odisha Energy Regulatory Commission (OERC) issued Tata Power a Letter of Intent (LoI) to take over the distribution and retail supply of power in five Odisha circles: Bhubaneshwar, Cuttack, Puri, Paradip, and Dhenkanal. Tata Power would possess a 51% ownership share with managerial control in the deal, with the Odisha government owning the other 49%. This decision is consistent with Tata Power's goal to provide a dependable, economical, and high-quality power supply and exceptional customer service supported by new technologies.

This deal was bought into questions by the Competition Commission of India (CCI) as Tata Power did not notify the commission of the acquisition instead just followed the OERC regulations. CCI took a lenient view and imposes a nominal penalty of INR Five Lakhs (INR 5,00,000/-) on TPCL under the Section 43A[24] of the Act that prescribes the extent of penalty that can be levied for failure to file notice under section 6(2).

ii. **Investment in Renewable energy**

Tata Power Renewable Energy Ltd (TPREL), a subsidiary of Tata Power, has signed two

[23] *https://www.thehindubusinessline.com/companies/tata-sons-in-put-call-option-with-1mg-founders/article65794343.ece*

[24] *Section 43A, Competition Act, 2002,*

Memoranda of Understanding (MoUs) in Jan 2024 with the Tamil Nadu government to invest a total of Rs 70,800 crore in renewable energy projects in the state. It includes the solar cell manufacturing facility at Tirunelveli.[25] The Tamil Nadu Electricity Regulatory Commission (TNERC) is the key regulatory body that oversees the procurement of solar power by distribution licensees in the state. The Electricity Act, 2003 provides the legal framework, empowering TNERC to specify terms and conditions for determination of tariff and promote renewable energy sources.

This investment will support India's ambitious renewable energy goals and transition to a more sustainable energy future. It will also significantly improve the state's renewable energy infrastructure and help sustainably meet the country's growing energy demands. Additionally, it will foster technological advancements, create approximately 3,000 green job opportunities, and strengthen TPCL's position as a leading player in the renewable energy sector through strategic partnerships.

## 4. Demergers:

The Tata Group has strategically used demergers to increase shareholder value and streamline business operations. Notable examples include Voltas' 1998 demerger of its white goods segment and Tata Chemicals' 2019 separation of its consumer product business into Tata Global Beverages. Furthermore, the sale of the Lakme brand and assets to Hindustan Unilever in 1997 was another key restructuring move by the business. These strategic initiatives have allowed the companies to focus on their core strengths, optimise capital allocation, and create distinct entities for improved market valuation, demonstrating the Tata Group's proactive approach to increasing competitiveness and growth across its diverse business portfolio. The most recent one being the Tata Motors' division into separate entities for Commercial Vehicles and Passenger Vehicles.

### *4.1. Separate entities for Commercial and Passenger Vehicles*

The Board of Directors of Tata Motors Limited (TML) has approved the proposal to demerge Tata Motors Ltd into two separate listed companies, one for the Commercial Vehicles (CV) business and its related investments and one for the Passenger Vehicles business, which includes Passenger Vehicles (PV+EV), and Jaguar Land Rover (JLR), and its related

[25] *http://timesofindia.indiatimes.com/articleshow/106621663.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst*

investments. The demerger will be carried out under an NCLT plan of arrangement, and all TML shareholders will continue to have the same ownership in both listed corporations.[26]

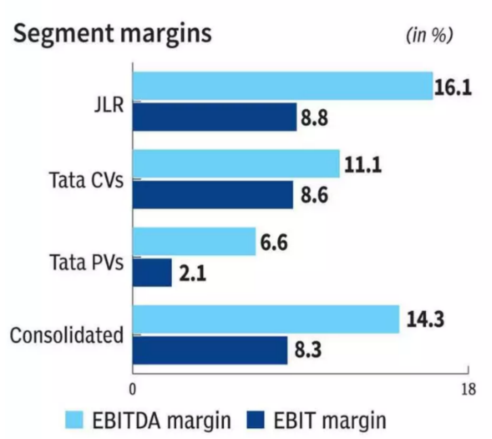
The motive behind this step reflects the company's aims to unlock value by allowing each business to pursue its strategies independently. It would allow the self-sustainability of the Passenger Vehicles segment distinctly from the commercial vehicle segment. Additionally, the demerger is seen as a logical progression following the subsidiarization of the PV and EV businesses, empowering them to deliver higher growth with greater accountability. Since there are limited synergies between the CV and PV businesses, while on the other hand there exists significant synergies across PV, EV, and JLR, particularly in areas like electric vehicles, autonomous vehicles, and vehicle software, the demerger as a strategic step to harness these opportunities and enhance shareholder value is justified.

**Sales and financials**

| | Vehicle sales (in numbers) | | Consolidated revenue | |
|---|---|---|---|---|
| | FY23 | FY24 (9 months) | FY23 | FY24 (9 months) |
| Commercial vehicles | 4,13,539 | 2,86,406 | ₹70,800 cr | ₹57,201 cr |
| PVs + EVs | 5,41,087 | 4,17,844 | ₹47,900 cr | ₹37,923 cr |
| JLR (excluding China joint venture) | 3,34,176 | 2,91,113 | £22.8 b | £21.1 b |

Source: Company documents & investor info

The company's PV business will benefit from a number of factors, including increased adoption of electric vehicles (EVs), ongoing premiumization trends in the SUV segment, a more diverse product portfolio driven by its Jaguar Land Rover (JLR) business, growing acceptance of its products in Indian markets, and a shift towards technologically advanced offerings. Meanwhile, the CV segment is likely to profit from increased infrastructure




[26] https://www.tatamotors.com/press-releases/tata-motors-to-demerge-its-businesses-into-two-separate-listed-companies/#:~:text=The%20demerger%20will%20be%20implemented,independently%20under%20their%20respective%20CEOs.

development initiatives, an emphasis on improving public transit, and an upcoming replacement cycle.

***Law governing demergers***

A demerger such as this is governed primarily by the Companies Act, 2013, along with relevant rules and regulations. Sections 230 to 234 of the Act outline the legal provisions governing arrangements, compromises, and amalgamations, including demergers. Section 230 specifies the powers of the National Company Law Tribunal (NCLT) to sanction compromise or agreements, including demergers.[27] Sections 231-233 provide detailed procedures for such arrangements, including the submission of applications, convening of meetings, and issuance of orders by the tribunal.

Companies can carry out demergers under Section 232[28] by going through a systematic procedure that includes getting permission from shareholders, creditors, and regulatory agencies. The provision protects minority interests, establishes criteria for shareholder and creditor approval of schemes, and requires that essential paperwork be filed with several institutions such as the registrar, RBI, SEBI, and others. Furthermore, Section 232 seeks to protect public funds and creditors' interests while supporting the effective implementation of demergers, mergers, and amalgamations in accordance with regulatory requirements and control.

## 5. Concluding Remarks

The key takeaway from TATA Group's mergers, acquisitions, and transactions is its ability to navigate the constantly changing business landscape with strategic agility and insight. The TATA Group's approach to mergers and acquisitions is dedicated to development, diversity, and innovation, demonstrating its capacity to capitalize on new opportunities while optimizing operating efficiency and increasing shareholder value. The company's proactive approach to mergers and acquisitions indicates a strong awareness of industry trends, technical improvements, and customer preferences. TATA Group has demonstrated a readiness to adapt to changing market conditions and grow its footprint in key industries through strategic

[27] *Section 230, Companies Act, 2013*
[28]*https://www.indiacode.nic.in/show-data?abv=null&statehandle=null&actid=AC_CEN_22_29_00008_201318_1517807327856&orderno=236&orgactid=AC_CEN_22_29_00008_201318_1517807327856*

acquisitions such as Jaguar Land Rover and investments in startups such as BigBasket and 1mg.

Furthermore, TATA Group's demergers emphasize simplifying operations, unlocking value, and forming different businesses to increase market price. By separating Commercial and Passenger Vehicles, TATA Group hopes to allow each division to pursue independent objectives and create greater growth with more responsibility. Overall, the TATA Group's mergers and acquisitions demonstrate a dynamic and forward-thinking attitude to corporate growth and sustainability. The company's strategic insight and dedication to innovation and corporate responsibility position it for long-term success in a competitive global market. The TATA Group's capacity to adapt to changing market conditions, seize new opportunities, and drive long-term growth through strategic mergers and acquisitions demonstrates its resilience, adaptability, and vision for long-term success.