
MERGING THE INTANGIBLES: TRADEMARK, GOODWILL AND THE LEGAL BATTLES OF BRAND VALUE IN INDIAN M&A

Anika Ballal, Symbiosis Law School, Pune

Sannidhi Sawant, Symbiosis Law School, Pune

ABSTRACT

The modern knowledge-based economy has witnessed the worth of a corporation being derived mainly in terms of its intangible assets, where trademarks and goodwill have become the prime movers behind merger and acquisition (M&A) policies. This article discusses merger and acquisition's intangible assets in the Indian context within the framework of legal and commercial environments. Complexity in corporate, intellectual property (IP), and tax laws is discussed through the analysis of the multi-layered regulatory framework encompassing the Companies Act, 2013, the Trade Marks Act, 1999, and the Income Tax Act, 1961. The evolution of the judicial mind, particularly the historic Supreme Court judgment in *CIT v. Smifs Securities Ltd*¹, which revolutionized the tax treatment of goodwill at its very core, is analysed through this report. Through a study of high-profile case studies, ranging from the international Rolls Royce takeover to local epics such as Modern Foods and Jet Airways, the research shows that IP due diligence failures are a key reason for deal collapses and value loss. The article concludes by summarizing major commercial and legal conclusions, presenting a collection of practical recommendations for lawyers and highlighting the pivotal position these intangible assets play as India's digital economy keeps on surging forward.

Keywords: Goodwill, Trademark, Brand Value, Mergers

¹ *CIT v. Smifs Securities Ltd.*, (2012) 348 ITR 302 (SC).

Introduction: The Ascendance of Intangibles

The contemporary corporate landscape has seen a deep paradigm shift, moving away from a model based on physical, tangible assets to one in which intellectual capital and brand equity hold unprecedented value. This shift has placed intangible assets at the centre of strategic business decisions, most notably in the context of mergers and acquisitions. The worth of a company's brand, reputation, and customer relationships items together represented by goodwill and trademarks now often surpass the value of its tangible plant and stock. One of the best examples of this trend is the Coca-Cola Company, whose market capitalization between 2006-07 far exceeded its book capital, the difference largely due to the value of its brand. India, in turn, is a fertile soil for this development. With a red-hot M&A market² driven by robust domestic demand, supportive demographics, and a benign regulatory climate, the nation has turned into a worldwide M&A hub.³

Research Questions

This report addresses the following core research questions:

- **Statutory Framework:** How does the multi-layered Indian legal framework, comprising the Companies Act, the Trademarks Act, and the Income Tax Act, collectively define and regulate the transfer of trademarks and goodwill?
- **Valuation and Due Diligence:** What are the primary legal and commercial challenges in accurately valuing and securely assigning these intangible assets?
- **Judicial Precedent:** How have landmark judicial pronouncements, particularly on the depreciation of goodwill, shaped the legal landscape, and what are the implications for deal structuring?
- **Evolving Landscape:** What are the emerging regulatory trends and technological innovations impacting the treatment and transfer of intangible assets in M&A?

² Surbhi Gupta & Shruti Bedi, *Mergers and Acquisitions in India: An Analysis of Trends and Patterns in the Post-Liberalization Era*, 22 *Glob. Bus. Rev.* 213 (2023).

³ Michael Ewens, Ryan H. Peters & Sean Wang, *Acquisition Prices & the Measurement of Intangible Capital*, NBER Working Paper No. 25960 (June 2019).

Legal Regulation Analysis: Literature review

The legal environment governing M&A in India is an intricate tapestry woven from various statutes, rules, and regulatory authorities.⁶ A successful transaction involving intangible assets necessitates a simultaneous and coordinated approach to navigate this fragmented landscape. The following sections analyse the key legal instruments and bodies that govern the transfer of trademarks and goodwill.

The Companies Act, 2013

The Companies Act, 2013⁴ is the major law that governs corporate restructuring in India. Its legislative provisions pertaining to M&A are in Sections 230 to 240, which deal with schemes of arrangement, amalgamation, and merger. The National Company Law Tribunal (NCLT), instituted under this Act, occupies a pivotal position in monitoring and approving these proposals, making sure they are fair, transparent, and in the best interest of all concerned stakeholders. The Act also includes a streamlined fast-track merger procedure for specific types of companies like small companies or parent-subsidiary companies, which lightens the procedural load and time taken to completion.

The Trademarks Act, 1999

The Trademarks Act, 1999⁵ specifically governs the legal transfer of brand identity. A trademark is considered a property that can be assigned and transferred, subject to legal provisions. A crucial distinction is made between an assignment with goodwill and one without.

- **Assignment with Goodwill:** This is the standard and legally sound approach, where the trademark is transferred along with the business reputation, customer base, and associated rights. This ensures the assignee can continue to use the mark for the same business segment, preserving the public's association of the brand with a particular product or service.⁶
- **Assignment without Goodwill (Assignment in Gross):** This type of transfer, also

⁴ Companies Act, 2013, §§ 230–240.

⁵ **Trade Marks Act, 1999**, §§ 37, 38, 42 (India).

⁶ N. Singh, *Goodwill Depreciation and the Income Tax Act: A Critical Appraisal of Indian Jurisprudence*, 14 Nat'l L. Sch. India Rev. 201 (2023).

known as a "bare transfer," occurs when a trademark is sold alone, divorced from the business it represents.¹⁰ Courts will often invalidate such a transfer as an illegal assignment-in-gross because it misleads consumers by separating the brand symbol from the product's underlying substance and quality. This type of assignment requires express permission from the Registrar under Section 42 of the Trademarks Act, 1999.

The Income Tax Act, 1961⁷

The tax implications of intangible assets are governed by the Income Tax Act, 1961. The central point of legal contention has historically been the eligibility of goodwill for depreciation under Section 32 of the Act⁸. This section allows depreciation on tangible assets and a specific list of intangible assets, including patents, copyrights, trademarks, licenses, and franchises, or "any other business or commercial rights of a similar nature". While the term "goodwill" was not explicitly included in this list, assesses have long claimed depreciation by arguing it falls under the catch-all phrase of "other business or commercial rights".

Regulatory Authorities

Several regulatory bodies play a crucial oversight role, adding another layer of complexity to the legal framework:

- **Competition Commission of India (CCI):** The CCI reviews M&A deals to prevent monopolistic practices and ensure fair competition. The introduction of the new Deal Value Threshold (DVT) has significantly expanded its scrutiny, particularly for high-value, asset-light transactions.⁹
- **Securities and Exchange Board of India (SEBI):** SEBI regulates M&A transactions involving listed companies, ensuring transparency and protecting investor interests through mandatory disclosures.¹⁰
- **Reserve Bank of India (RBI):** The RBI is instrumental in regulating cross-border M&A

⁷ Income-Tax Act, 1961.

⁸ Income-Tax Act, 1961, § 32(1)(ii); Finance Act, 2021 (India).

⁹ Competition Commission of India (Combinations) Regulations, 2024 (India).

¹⁰ Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, Gazette of India, Extraordinary, pt. III, sec. 4 (Sept. 2, 2015) (India).

and ensuring compliance with foreign exchange regulations.¹¹

The legal framework's fragmented nature requires a multi-disciplinary approach. For instance, a merger scheme might be sanctioned by the NCLT under the Companies Act, but if the intellectual property assignment is improperly executed without the transfer of goodwill, the entire transfer could be challenged and invalidated under the Trademarks Act.

Table 1 provides a concise overview of the key statutes and their relevance to intangible assets in M&A.

Statute	Key Provisions	Primary Role	Relevance to Trademarks/Goodwill
Companies Act, 2013	Sections 230-240	Corporate restructuring and merger approval via NCLT	Governs the overall scheme of arrangement; ensures stakeholder protection and transparency.
Trademarks Act, 1999	Sections 37, 38, 42	Specific legal framework for trademark ownership and transfer	Defines and regulates assignment with and without goodwill; ensures brand integrity and consumer protection.
Income Tax Act, 1961	Section 32(1)(b)	Taxation and depreciation of assets	Determines the eligibility of goodwill and other intangible assets for tax-deductible depreciation.
Competition Act, 2002	New Deal Value Threshold	Prevents anti-competitive practices; regulates market consolidation	Imposes a new layer of scrutiny on high-value deals, including those driven by intangible assets.

CRITICAL ANALYSIS

Goodwill: A Valued Asset, a Legal Contention

Goodwill, when it comes to M&A, is an intangible asset that reflects the amount of purchase price in excess of the net fair market value of all tangible and identifiable intangible assets acquired. It exists based on a firm's reputation, brand equity, customer relationships¹², and capacity to earn greater profits than its competitors.¹³ They are required to be tested annually for impairment. A major challenge here is that valuing intangible assets such as customer bases and brand reputation is complex and subjective in nature.

¹¹ FEMA (Non-Debt Instruments) Rules, 2019; RBI Master Direction(s) on Cross-Border M&A.

¹² Kyle Ffrench, *LBB: Leveraged Brand Buyouts and the Value behind the Brand*, 20 J. HIGH TECH. L. 459 (2020).

¹³ Elvir Causevic & Ian D. McClure, *Effectively Discharging Fiduciary Duties in IP-Rich M&A Transactions*, 14 BERKELEY BUS. L.J. 87 (2017).

The Depreciation Debate: A Chronicle of Judgments

Tax treatment of goodwill in India was a matter of hot legal discussion for decades. Taxing authorities were not convinced about granting depreciation on goodwill as it was a non-depreciable asset. The controversy was seemingly resolved by the landmark Supreme Court judgment in

CIT v. Smifs Securities Ltd. (2012)¹⁴.

In this case, the Supreme Court ruled that goodwill acquired on amalgamation was a "business or commercial right of a similar nature" and thus eligible for depreciation under Section 32 of the Income Tax Act, 1961¹⁵. The court applied the principle of *ejusdem generis*, interpreting the catch-all phrase to include goodwill as a right that helps in carrying on a business with a particular reputation. This judgment did not just grant depreciation; it fundamentally changed goodwill's legal status from a mere accounting entry to a quantifiable, monetizable capital asset.

However, the Court did not rule on the validity of goodwill creation itself, which left open a new set of legal questions. Subsequent cases, such as ***Dy. CIT v. Toyo Engg***¹⁶. India Ltd., raised the issue of whether goodwill could be created as a "mere book entry" or if there was a need to demonstrate a "flow of consideration" that exceeded the fair market value of the assets and liabilities acquired. This shifted the legal focus from a definitional debate to a substantive one about valuation and transaction-specific evidence, underscoring the need for meticulous record-keeping and robust valuation reports. The legal position has thus evolved from a simple question of "if" goodwill is depreciable to a more complex one of "how" it is valued and created, making a defensible PPA process even more critical for a successful transaction.

¹⁴ *Comm'r of Income Tax v. Smifs Sec. Ltd.*, (2012) 348 ITR 302 (SC).

¹⁵ The Income Tax Act, 1961, No. 43, Acts of Parliament, 1961, § 32 (India)

¹⁶ *United Breweries Ltd. v. Addl. CIT*, IT (TP) A No. 561/Bang/2016 (ITAT Bangalore).

Table 2 provides a brief timeline of the evolution of the judicial stance on goodwill depreciation.

Case/Period	Judicial/Tribunal Stance	Key Rationale
Pre-2012	Scepticism on allowing depreciation; seen as a non-depreciable asset.	Goodwill not explicitly mentioned in Section 32; not considered a business right.
CIT v. Smifs Securities Ltd. (2012) - Supreme Court¹⁶	Goodwill is an intangible asset and eligible for depreciation.	Falls under the category of "business or commercial rights of a similar nature" under Section 32(1).
United Breweries Ltd. (2016) - Bangalore Tribunal¹⁷	Accepts goodwill as a depreciable asset but questions its valuation.	Dispute over valuation methods and whether the goodwill amount was properly assigned.
Dy. CIT v. Toyo Engg. India Ltd. (2015) - Mumbai Tribunal¹⁸	Questions the creation of goodwill as a mere book entry.	Emphasizes the need for a demonstrable "flow of consideration" exceeding the fair value of net assets.

Trademarks: The Shield of Brand Identity

Trademarks are the legal and commercial "shield" of a company's brand, and their valuation and transfer are a core component of any M&A transaction. The value of a trademark is not inherent; it is derived from the brand recognition, market presence, and financial performance it symbolizes.

Valuation and Due Diligence

Trademarks can be valued using a variety of methods, including the Cost Approach, Market Approach, and Income/Future Revenue Approach. The income-based approach, which forecasts a brand's potential to generate future revenue, is often considered the most suitable for intangible assets. However, valuation is inextricably linked to due diligence. A trademark's value is dependent on its legal standing, proper registration, and freedom from encumbrances, litigation, or infringement risks.

Case Studies in Brand Value: Lessons from Legal Battles

The abstract principles of IP law gain significant clarity when viewed through the lens of real-

world M&A transactions. The cases of **HUL's Modern Foods Debacle¹⁷**, **Jet Airways' Trademark Misalignment¹⁸**, **Amazon vs. Future Retail¹⁹** demonstrate that due diligence failures, rather than a lack of legal provisions, are a primary cause of brand-related M&A failures in India.

¹⁷ *Modern Food Indus. Emp. Union v. Union of India*, (2001) 8 SCC 600.

¹⁸ *State Bank of India v. Jet Airways (India) Ltd.*, CP (IB) No. 2205/MB/2019 (NCLT Mum. order dated June 22, 2021).

¹⁹ *Amazon.com NV Inv. Holdings LLC v. Future Retail Ltd.*, (2022) 1 SCC 209.

Table 3 provides a comparative analysis of these landmark cases, illustrating how the failure to apply existing legal principles diligently can lead to significant financial strategic losses.

Case Name	Legal Issue	Key Fact Pattern	Court's Decision/Outcome	Key Takeaway
Rolls Royce / Volkswagen	IP ownership, due diligence failure	Volkswagen acquired physical assets but failed to secure the brand name, which BMW had already acquired.	Lengthy negotiations led to BMW acquiring the Rolls Royce brand.	Verifying legal ownership of key IP assets is non-negotiable for a successful acquisition.
HUL / Modern Foods	Post-merger brand management, IP enforcement	HUL acquired a dominant legacy brand, but a lack of brand protection and poor enforcement led to commercial unviability.	The brand's equity declined, leading to its eventual sale to a private equity firm.	Due diligence is a continuous process; post-merger IP management is crucial to preserving brand value.
Jet Airways	Ambiguous IP ownership, corporate governance	The company's trademark was owned by a founder's separate entity, not the company itself.	Identified as a major threat during the IPO, requiring a separate, costly acquisition of the mark.	Ambiguous ownership structures can create regulatory and financial hurdles during corporate events.
Amazon v. Future Retail	Contractual dispute, pending litigation	Amazon opposed Reliance's acquisition of Future Group, citing a non-compete clause.	Led to court cases, regulatory delays, and ultimately Future Group's financial collapse.	High-stakes litigation can derail M&A deals, causing uncertainty, delays, and reputational damage.

Emerging Trends and the Regulatory Horizon

The Indian M&A landscape is not static. It is constantly shaped by new regulatory events and technological advancements that affect how intangible assets are handled.

The New Deal Value Threshold (DVT)

One such advancement is the introduction of the Deal Value Threshold (DVT) under the Competition (Amendment) Act, 2023.¹⁴ The CCI now requires pre-notification for any merger where the transaction value crosses INR 20 billion and the target enterprise possesses "substantial business operations in India". This new regulation is a forward-thinking step taken by the CCI to catch high-value, asset-light deals specifically in the digital space that had otherwise gone under the radar because they did not cross conventional asset- or revenue-based thresholds. This reflects a change in the regulatory thinking of India from mere protection of domestic industries to promoting fair competition in high-growth, future-centric industries.

Cross-Border M&A and Valuation Disparity

Indian businesses have traditionally struggled to leverage their high-valuation multiples in acquisition of currency in cross-border markets based on regulatory barriers and the unavailability of depth in the market for Indian securities. More recently, however, regulatory reforms enabling the exchange of Indian shares for foreign securities at fair market value have greatly facilitated this process, making it more flexible and innovative transaction structures possible. This makes more combinations between Indian and non-Indian enterprises possible without requiring substantial cash payments.

Technology and Innovation in M&A

Technology is also impacting the M&A process, specifically in due diligence. Increasing use of AI-based software can make it easier to review large and complicated IP portfolios. They can undertake repetitive tasks like organization, record-keeping, and report-generating activities, avoiding expensive oversights and leaving human experts to deal with more detailed legal and strategic analysis.

Conclusion: Synthesizing the Intangible

In the complex Indian M&A world, the worth of a deal is not anymore in tangible assets such

as factories and machinery. Rather, the authentic value of a deal lies in the commercial and legal integrity of its trademarks and goodwill. The analysis presented here demonstrates that the successful transfer and monetization of these intangible assets require a sophisticated, multi-disciplinary approach to navigate a fragmented but increasingly robust legal framework.

As India's digital economy matures, the legal battles over intangible assets will only intensify. The new Deal Value Threshold introduced by the CCI is a testament to this reality, signalling the government's intent to regulate the high-value, asset-light transactions that will define the future of business. A robust and defensible valuation is crucial to mitigate tax-related challenges, and a proactive post-merger IP management strategy is critical to preserving and growing brand value. Ultimately, in the world of M&A, the ability to "merge the intangibles" will be the ultimate determinant of a deal's success.

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