

# INVITATION OF EXPRESSION OF INTEREST FROM MERCHANT BANKER

*FOR INDUCTION OF STRATEGIC INVESTOR IN M/S. GOA AUTO  
ACCESSORIES LTD*

EDC Ltd., a Financial and Investment Corporation of Government of Goa owns 100% stake in M/s. Goa Auto Accessories Ltd.(GAAL). EDC Ltd. desires to induct strategic investor in GAAL. The proposals are invited from SEBI Registered Merchant Bankers (MB) to assist EDC Ltd., in the above process. Complete proposal in the prescribed format as per the Information Memorandum may be submitted to EDC Ltd., at the following address before 16<sup>th</sup> November,2009.

Chief General Manager (Resources)

**EDC Ltd.,**

EDC House, 1<sup>st</sup> floor

Dr. Atmaram Borkar Road

Panaji, Goa 403 001

Telephone: 91-0832-2224634, 2423680, 2425430

Fax No.91-0832-2224938

Email:edcpanaji@edc-goa.com

Website:www.edc-goa.com

**INFORMATION MEMORANDUM**  
-  
**STRATEGIC INVESTOR**  
**FOR GAAL**

**OCTOBER - 2009**

## **STRATEGIC INVESTOR FOR GAAL**

EDC Ltd., a Financial and Investment Corporation of Government of Goa own 100% stake in Goa Auto Accessories Ltd (GAAL). EDC desires to induct a strategic investor in this company in order to optimize the benefits of core competence in the field of auto ancillaries. Proposals are invited from SEBI Registered Merchant Bankers (MB) to assist EDC in this process.

The responsibilities of the MB would, inter alia, cover rendering of advice and assisting EDC in the process identification of suitable strategic investor/disinvestment of its equity stake in GAAL, assessment and valuation of GAAL, suggesting measures to enhance sale value, preparing a detailed Confidential Information Memorandum, marketing of the offer, inviting and evaluating the bids, providing assistance during negotiations with prospective buyers, providing assistance in drawing up the sale/other agreements and the contract with MB ends with receipt of first tranche of payment from the Strategic Investor.

### **About EDC:**

EDC Ltd. is primarily a financial institution established by the Government of Goa to promote industrial investment within the State. EDC has also been assisting units located in the Union Territory of Daman, Dadra and Nagar Haveli also.

EDC Ltd, earlier known as Economic Development Corporation of Goa, Daman & Diu Limited was incorporated in 1975 as a limited company to act as the State Industrial Development Corporation. It has also been accorded the twin status of SFC and SIDC by IDBI and SIDBI.

### **Goa Auto Accessories Limited:**

Incorporated in 1976, GAAL is a wholly owned subsidiary of EDC Ltd. GAAL, an ISO/TS16949 certified company, is involved in manufacture of Brake shoes and other auto components at its Factory located at Honda, Goa. It has been supplying machined parts to TATA Motors and pressed products to Automobile Corporation of Goa Ltd., which in turn supplies to TATA Motors. TATA Motors has awarded the prestigious “Certified Quality Supplier” status to GAAL. .

Due to financial losses incurred during the last 7 years, arising from recessionary cycle of the Auto sector witnessed in the 1990's, GAAL was registered as a sick company under BIFR in 2002. However, in 2006 the company deregistered from the BIFR after its financial restructuring exercise. The company which had attained cash profits till 2006-07, has started incurring cash losses due to severe recession in auto industry and global meltdown.

### **Strategic investor**

- Induction of strategic investor with established track record in the auto ancillary industry and
- Commitment towards continuing and improving facilities at GAAL.

EDC wants to divest its holding in GAAL to a strategic investor in a phased manner. Initially, EDC would offload **50%** of the stake. The prospective strategic investor will have substantial control in management of the company. The entire stake will be offloaded to the strategic investor by **March 2012**. EDC's role after that would be as a lender for loans, if any, outstanding with the company.

Protection for workforce: The strategic investor will retain the manpower of the company for a period of at least 3 years from date of disinvestment of 100% of EDC's stake in GAAL.

### **Appointment of Merchant Banker (MB)**

- Selection of a MB will be a two step process; technical bid evaluation and financial bid evaluation
- Interested MBs may send in their proposals. The proposal should be received by 15:00 hrs on **16/11/2009**.
- The proposal should be in two parts; each in a separate sealed envelope and superscribed as 'Technical Bid and 'Financial Bid'. These two envelopes should be put into a larger envelope sealed, superscribed as '**Merchant Banking for Strategic Investor in GAAL - 2009**' and addressed to

The Chief General Manager, (Resources)  
EDC Limited,  
1st Floor, EDC House,  
Dr. A. B. Road,  
Panaji, Goa 403001.

### **Technical bid**

- The technical part should contain the following:
  - Description of the MB;
  - Experience profile;
  - Members of the proposed deal team and their CVs; and
  - Understanding of the proposal by the MB and its approach and methodology towards the assignment.
- The technical part should specifically contain the following particulars

Registration with SEBI
Experience in handling M&A and equity placement mandates of companies with turnover size between Rs.50 million to Rs.300 million
Experience (and success) in sell side mandates of similar sized companies
Experience in handling mandates in auto ancillary sector
Experience in handling M&A, Equity/Debt Placement or Capital Restructuring mandates in Goa

### **Financial Bid**

- The MB has to submit his financial proposal as follows:
  - Financial quote as fees for the assignment, which shall be submitted in terms of percentage of sale proceeds to be received by EDC
  - The MB should also quote drop dead fees in absolute amount (Rupees).
- The submitted quotes should include the remuneration for the MB, out-of-pocket expenses on travelling and lodging and service tax.

- First, a shortlist of top three MBs (as per the technical scores) would be made on the basis of evaluation of technical bids.
- Financial bids from MBs, other than those short-listed, would be returned unopened after the entire process of selection of MB is over.
- The short-listed MBs would be intimated of the time and location of opening of financial bids. The intimation shall be posted at least three working days before the opening of the financial bids. The financial bids shall be opened in the presence of representatives of short-listed MBs who prefer to be present.
- Upto Stage III, EDC shall release payments as a percentage of drop-dead fees for the assignment.

<b>Stage (as indicated below)</b>	<b>Fees</b>
Completion of Stage II	35%
Completion of Stage III	35%

- Final payment shall be released after the completion of the transaction, defined as “Receipt of first tranche of payment from the Strategic Investor”.

#### **Evaluation of Financial Quotes**

- The lowest quote (L1) shall be given full marks (75%). Quotes from other MBs shall be given marks in inverse proportion of what their quote compares with the lowest quote.
- 25% of the marks for financial bid are allocated to drop-dead fees. The proposal with lowest ‘drop-dead fees’ shall be awarded 25%. Quotes of ‘drop-dead fees’ from other MBs shall be given marks in inverse proportion of what their ‘drop-dead fees’ compares with the lowest quote.
- A composite technical and financial score for each MB shall be obtained. The aggregate technical marks obtained by each MB shall be multiplied by 60% and aggregate financial marks obtained shall be multiplied by 40%. These two marks would then be added up to form the composite score. MB with highest composite score would be invited for negotiations before award of the mandate.
- EDC has its estimate of drop-dead fees. Where the quantum of drop-dead fees indicated by the MB with highest marks exceeds EDC’s estimate, EDC would enter into negotiations. If the negotiations are not successful, EDC would approach the MB with the next highest marks.

EDC reserves the full right to accept or reject any proposals without assigning any reasons thereon. EDC also reserves full right to delay, alter or cancel any part or in full, its proposal for induction of strategic partner.

### **Involvement of Merchant Banker (MB)**

The Merchant Banker under the guidance of EDC is expected to broadly execute the following listed steps:

#### Stage I

- 1) Background study of the company.
- 2) Internal review of the company.
- 3) External review of the industry.
- 4) SWOT analysis.
- 5) Listing of critical issues pertaining to the company.
- 6) Business valuation.

#### Stage II

- 1) Preparation of Information Memorandum.
- 2) Bid invitation.
- 3) Bid documentation.
- 4) Marketing of the proposal for wider response
- 5) Fixing of Reserve Price (As approved by Board of EDC).

#### Stage III

- 1) Bidding process – including due diligence (i.e. plant visits, receipt of bids, etc)

#### Stage IV

- 1) Bid evaluation based on qualitative and quantitative criteria.
- 2) Receipt of financial quotes and opening of financial quote.
- 3) Negotiation with short-listed party.
- 4) Signing of Share Purchase agreement, ratification subject to BIFR approval (After approval by Board of EDC).
- 5) Other regulatory approvals.
- 6) Contract with MB ends with receipt of first tranche of payment from the Strategic Investor.

## ABOUT GAAL

GAAL, incorporated in 1976, is a wholly owned subsidiary of EDC Ltd. GAAL is engaged in manufacture of Brake shoes, selector shafts, spring pins and other auto components. Its factory located at Honda, Sattari, an industrially backward area, spread over a plot admeasuring 20,412 sq.mts. The land is on a 99-year lease from Goa-IDC. The factory is located at a distance of 50 kms by road from Panjim while the nearest railway station is at Thivim located at a distance of 35 kms from the factory.

### **Operations:**

GAAL commenced commercial operations in 1983 and most of the critical machines like center-less grinding machines, induction hardening and press machines were bought in the early 1980's. Company has from time to time purchased other balancing equipment mainly for quality/productivity improvement. The operations of GAAL are classified into three divisions – Machine shop, Press shop, fabrication shop.

Machine shop	The machine shop division manufactures components like shifter shafts and spring pins for various types of TATA Motor vehicles. GAAL supplies almost 60-80% of TATA's requirements for shafts. GAAL is currently manufacturing 65 types of machined components for different type of vehicles manufactured by TATA Motors.
Press shop	The press shop division manufactures items like brake shoe assembly, anchor plate, , oil baffle gussets connectors, etc. for TATA vehicles.
Bus-body Assembly & fabrication	The company ventured into the fabrication of assembly for bus-body division of M/s. Automobile Corporation of Goa Ltd (ACGL), which involve fabrication of Roof, Side structures, Floor & Windows. Now, it is contemplated to manufacture pressing parts/components required for the bus-body structure.

GAAL has well set production systems and quality control procedure, which ensure that the product is as per the requirements of the customer. Based on a consistent track record, TATA Motors has made GAAL as its Certified Quality Supplier. Through long years of operation, GAAL has also developed capability to produce new products as per the demands of the customer. GAAL has obtained prestigious ISOTS/16949 Certificate in 2009, to meet the quality requirement of Tata Motors.

GAAL also utilizes the services of contract labourers depending upon requirement from each department.

## Financial Position

A summary of financial results of GAAL during FY 2004-05 to 2008-2009 is as under.

### Profit & Loss Account:

	(Rs mn)				
<b>Year ended March 31</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Income from Operations	80.63	88.11	91.36	82.54	66.71
Total Expenses	75.80	86.63	87.67	82.36	70.91
PBIDT	4.83	1.48	3.69	0.18	-4.20
PAT	2.16	-1.05	1.25	-2.46	-6.50
Net Cash Accruals	5.94	2.71	2.61	-1.26	-5.50

Turnover of GAAL, during the first three years under review showing an increasing trend, mainly due to increased off-take from Tata Motors Ltd., due to revival of auto industry. However, turnover has decreased due to low off-take from TATA motor due to recession in auto industry. The impact of recession was very severe in 2009 due to economic slow down and global financial meltdown. During the first three years, the company generated cash profit due to improved sales. However, the company incurred cash losses in 2007-08 and 2008 -09.

The company procured critical Induction Hardening Machine in 2006 to augment in-house production capacity. The company also ventured into fabrication of bus-body structures for ACGI in 2007, wherein the customer supplied major fixtures. It is planned to manufacture pressing components required for bus-body structures and in that direction the company has already procured in June 2009 one Hydraulic Press Brake and one Hydraulic Shearing Machine.

The table below gives highlights of financial position of GAAL.

### Balance Sheet

	(Rs mn)				
<b>As on March 31</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Net Block	6.66	5.51	8.33	8.02	7.80
Net working capital	4.13	10.44	9.24	10.22	1.44
Loans from EDC	6.56	6.56	6.56	4.56	3.49
Other loans	0.17	0.04	2.37	1.83	0.86
<b>Net Worth</b>	<b>3.62</b>	<b>4.71</b>	<b>5.96</b>	<b>3.50</b>	<b>-3.00</b>
Including: Share Capital	6.70	25.90	25.90	25.90	25.90
Share Application Money	19.20	--	--	--	--
Cumulative Redeemable Preference Shares	30.00	30.00	30.00	30.00	30.00

The net worth of GAAL turned negative in FY-2001-02 due to automobile recession since 1998 and as a result of which the company was registered with BIFR. However, due to infusion of funds by EDC Ltd., to the extent of Rs.492.00 lakhs, the net worth of the company became positive in 2004. From 1<sup>st</sup> December 2006 the company got deregistered from BIFR.

The net worth of the company improved during the first three years under review due to better performance. In 2009, the net worth has again become negative due to the losses incurred on account of severe recession in the auto sector.

The management of GAAL has taken various steps to improve the overall efficiency, but core problems of limited customers; high overheads and low capacity utilization continue to adversely affect the performance of the company.

**SCHEDULE 'A'**

**MERCHANT BANKERS INFORMATION**

1. Name of applicant with full address :
2. Tel. No.
3. Fax No.  
Email :  
Contact person/mobile no.:
4. Constitution:
5. SEBI Registration No.  
(enclose proof of Category I Merchant Banker)
6. Place of Business.
7. Turnover/Profit for last 3 years  
(Enclose copy of audited statement of accounts for last 3 years )
8. Experience profile : - list of cases handled/completed.  
Detailed information on the following:
  - Experience in handling M&A and equity placement mandates of companies with turnover size between Rs.50 million to Rs.300 million
  - Experience (and success) in sell side mandates of similar sized companies
  - Experience in handling mandates in pharmaceutical sector
  - Experience in handling M&A, Equity/Debt Placement or Capital Restructuring mandates in Goa
  - Also indicate the value of similar assignments undertaken.

( Please enclose supporting documents )
9. Details of litigations if any.

**SCHEDULE 'B'**

**Members of the proposed deal team and their CVs**

( Use separate sheet for different Team members )

Name

Qualification

Membership of Professional Institutes.

Total experience in the field

Experience in particular field.

From when in this Company.

**Give details of employment record for last 10 years**

<b>S.No.</b>	<b>Year (From - To)</b>	<b>Organisation</b>	<b>Position</b>	<b>Type of work done</b>

Achievements :

**SCHEDULE 'C'**

**Understanding of the proposal by the MB and its approach and methodology towards the assignment in detail to be followed with time frame**

**SCHEDULE 'D'**

**Give brief information about best 5 projects completed or in progress.**

**SCHEDULE 'E'**

**Give any other relevant information.**