

Professional Opportunities in Due Diligence



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What is Due Diligence (DD) ?

- The idea of due diligence is derived from the practice of taking care and caution in entering into a new transaction
- Due Diligence is the process of evaluating a prospective business decision by getting information about the financial, legal, and other material (important) state of the other.

Due Diligence Cycle

The due diligence as a process consists of five stages, they are as follows

- Pre - engagement
- Understanding
- Due Diligence Program
- Substantial Verification
- Reporting

Classification of Due Diligence

Following are the different classifications of the due diligence process

- Classification by Function
- Classification by Process
- Classification by Transaction
- Classification by Scope
- Classification by Perspective

Classification by Function

- Commercial Due Diligence
- Legal Due Diligence
- Operational Due Diligence
- Business Strategy/ Management Culture Due Diligence
- Environmental Due Diligence
- Human Resource Due Diligence
- Marketing Due Diligence
- Business Environment Due Diligence

Classification by Process

- Initial/Preliminary Due Diligence
- Full Due Diligence
- Ongoing Due Diligence
- Cold Due Diligence
- Hot Due Diligence
- Quick/Fast Due Diligence

Classification by Transaction

- Private Equity
- Mergers and Acquisitions
- Joint Ventures
- Venture Capital
- Purchase of Business
- Investment in Business
- Loans for Business
- Partnership in Business
- Substantial Supply to Business

Classification by Scope

- Financial and Accounting
- Tax
- Information Technology
- Strategic and Commercial
- Legal
- Operational

Classification by Perspective

- Investor Due Diligence
- Target Side Due Diligence

Due Diligence Process

Due Diligence process consists of 3 important steps

Step I: Requesting information.

Step II: Gathering information.

Step III: Reporting on information

Professional Opportunities for Chartered Accountants

I. Consultancy

- Growth in M&A and Private equity activity in India
- Quality due diligence specialists
- Other opportunities – bank funding, partnership, joint ventures
- IPO Candidates

Professional Opportunities for Chartered Accountants

- International Business Partners
- Strategic Alliance Partners
- Merger & Acquisition Targets Consultants and Representatives
- Franchisees
- Distributors, suppliers and vendors
- Patent Due Diligence in biotechnology transactions

Professional Opportunities for Chartered Accountants

- Licensing Due Diligence
- IT Due Diligence /Cyber Due Diligence Process
- Information Security Due Diligence Process
- Human Rights Due Diligence Process
- Customer Due Diligence Process
- International Trade Due Diligence

Professional Opportunities for Chartered Accountants

- Legal Due Diligence
- IPR Due Diligence
- Anti Money Laundering Due Diligence
- Tax Due Diligence

Professional Opportunities for Chartered Accountants

II. Compliance

Opportunities in the arena of Due Diligence Compliance are as follows

- Cyber Laws - Information Technology Act 2000
- IFRS and Indian Accounting Standard Compliance Due Diligence Process

Professional Opportunities for Chartered Accountants

- Term Loan and Project Loan Due Diligence
- Setting Standards for Operational Due Diligence
- FCRA Due Diligence
- Financial Due Diligence
- Due Diligence Report under Consortium/Multiple Banking Arrangements

Professional Opportunities for Chartered Accountants

III. Certifications

- Capital Market Laws,
- Banking Laws
- Such other enactments as may be specified from time to time

Tax Due Diligence

- The main activities involved in a tax due diligence are
 - reviewing of corporate tax returns and computations,
 - review of correspondence with tax authorities,
 - understanding the details of tax investigations
 - audits by foreign tax authorities,
 - understanding the analysis of corporate tax and deferred tax provisions in financial statements,
 - review of tax payment procedure every quarter.

Real Estate Due Diligence

The process includes

- gathering necessary documents such as contracts, official plan designation, licenses and policies,
- financial statements and
- copies of other documents such as the
 - engineering reports,
 - environmental reports,
 - survey and legal description,
 - property tax details,
 - physical inventory of furnitures and fixtures.

Real Estate Due Diligence

While verification of the above list of documents provides a better picture of the real estate in question, a personal visit to the site and physical inspection completes the verification process or the due diligence process. It is important to buy the right property, at a right price and at the right time.

Investment in Business Due Diligence

The process includes review of its

- management team,
- business conditions,
- projections,
- philosophy, and
- investment terms and conditions.

Investment in Business Due Diligence

Due diligence verifies any business opportunities that survive the initial screening stage. This verification process consists of checking the accuracy of

- business plans,
- audited accounts, and
- management accounts;
- getting replies to warranty and other standard questionnaires;
- patent searches; and
- technical studies.

Purchase of Business Due Diligence

- The process of buying and selling a company requires a thorough due diligence of all key elements of the business. The following areas require review
 - Sustainability of business
 - Competition
 - Financials
 - Organization Infrastructure
 - Potential Abilities
 - Technology
 - Sales & Marketing
 - Business to Business Fit

Venture Capital Due Diligence

Before venture capitalists make an investment in your company, they will conduct business due diligence. It involves

- A review of the market for the product of the company
- A background check on the founders and key management team
- The competition for the company
- Discussions with key customers of the company
- An analysis of financial projections for the business
- A review of any holes in the management team

Venture capitalists will also have their lawyers conduct a legal due diligence

Private Equity Due Diligence

- There are basically three steps in private equity due diligence process they are
 - Top- down review
 - Overview of the relevant fund manager
 - Ensure that risks related to the potential commitment are mitigated through an in-depth due diligence process

Mergers and Acquisitions Due Diligence

Due diligence process in mergers and acquisitions are performed in four steps.

- **Step 1** - Identification, in which information is gathered and risks are identified. The risk management team will review recent operations by the risk management department and assemble any and all lost data.
- **Step 2** - Concerns the law, as all pending and prior litigation the company may be undergoing is identified and assessed. Insurance policies are also reviewed in this step, as are the company's environmental issues. Lastly, all loss run prior to mergers and acquisitions are analyzed.

Mergers and Acquisitions Due Diligence

- **Step 3** - Involves the summarization of all the data that's been collected. The summarized data is then analyzed and the exposures compared to existing coverage by insurance. Recommendations will then be given to the due diligence team.
- **Step 4** - Occurs after mergers and acquisitions are finalized. This step involves visiting new business locations, consolidation of the companies' insurance programs, and fixing any administrative issues that may have arisen during the business acquisitions.

Information Technology Due Diligence

- Assessing the information technology function of a potential acquisition or investment is an important part of due diligence.
- The steps in due diligence process will be to understand
 - Current state of IT Capabilities,
 - Cost Savings,
 - Performing Risk Assessment
 - Identifying the Corrective Actions and
 - Outlining the future scenarios for IT in an organization.

Commercial Due Diligence

A commercial due diligence process generally covers the following Sustainability of competitive advantage and revenues/income

- Achievability of business plan projections
- Target specific market/industry-related investment risks
- Strategic/market-related value-creating opportunities
- Implications for financial performance/valuation.

Legal Due Diligence

- A legal due diligence consists of a scrutiny of all, or specific parts, of the legal affairs of the target company with a view of uncovering any legal risks and provide the buyer with an extensive insight into the company's legal matters. Additionally, a legal due diligence often improves the buyer's bargaining position and ensures that necessary precautions in relation to the transaction be taken.

Investor Due Diligence

Due diligence from a buyer's or investors perspective, appraising a potential acquisition involves more than the scrutiny of balance sheets. Buyer side considerations:

- Pay the right price
- Avoid unpleasant surprises and unforeseen risks
- Understand what you are buying
- Address deal objectives
- Give comfort to investors

About the Author

- *CA. Rajkumar S Adukia is an eminent business consultant, academician, writer, and speaker. He is the senior partner of Adukia & Associates.*
- *In addition to being a Chartered Accountant, Company Secretary, Cost Accountant, MBA, Dip IFR (UK), Mr. Adukia also holds a Degree in Law and Diploma in Labor Laws and IPR.*
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About the Author

- *He has been coordinating with various Professional Institutions, Associations, Universities, University Grants Commission and other Educational Institutions.*
- *Authored more than 50 books on a vast range of topics including Internal Audit, Bank Audit, SEZ, CARO, PMLA, Anti-dumping, Income Tax Search, Survey and Seizure, IFRS, LLP, Labour Laws, Real estate, ERM, Inbound and Outbound Investments, Green Audit etc.*
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Thank You