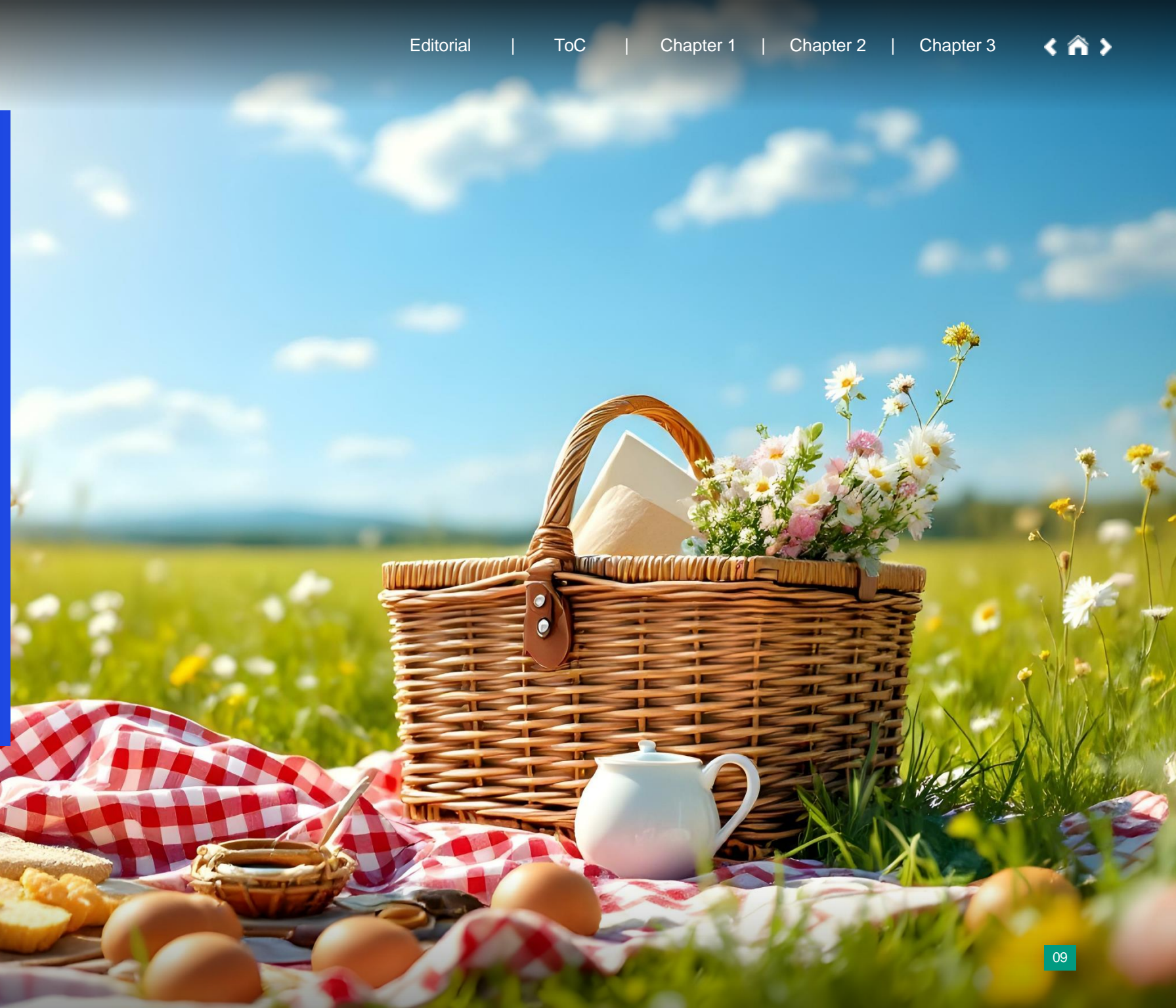


CHAPTER 2

# Benchmarking trends - purchase consideration paid in business combinations



## Introduction

Mergers and acquisitions (M&A) in India have undergone a significant transformation in recent years, driven by regulatory reforms, economic shifts, and evolving market dynamics. With the government actively promoting foreign direct investment (FDI) and streamlining corporate laws, India has become an attractive destination for both domestic and cross-border M&A transactions.

As M&A transactions continue to rise, discussions surrounding their accounting and financial reporting have gained momentum. In India, Ind AS 103, *Business Combinations*, sets out the accounting principles for mergers,

acquisitions, and other forms of business combinations.

In case of acquisitions, the standard requires entities to recognise, and measure acquired assets and liabilities at their fair value through a Purchase Price Allocation (PPA) method. PPA method determines how the purchase price of an acquired entity is allocated among its assets and liabilities. This may result in recognition of intangible assets which did not exist in the acquired entity's books before the acquisition. Any residual value left is attributed to goodwill or capital reserve.

## Profile of companies covered

In this article, we analysed business combinations disclosed in the consolidated financial statements<sup>1</sup> of the top 200 listed companies on the National Stock Exchange (NSE), by market capitalisation<sup>2</sup> for the financial years ended 31 March 2023 (FY23) and 31 March 2024 (FY24). Of the 200 companies, 23 companies (primarily banks and insurance companies) were under Indian GAAP and hence excluded for the purpose of

this analysis. The analysis focuses on identifying trends related to allocation of purchase consideration based on business combination disclosures in financial statements of these 177 companies.

The companies included in this analysis are grouped into 18 broad sectors, based on the sector classification defined in NSE as on 6 May 2025.

## Sectoral overview

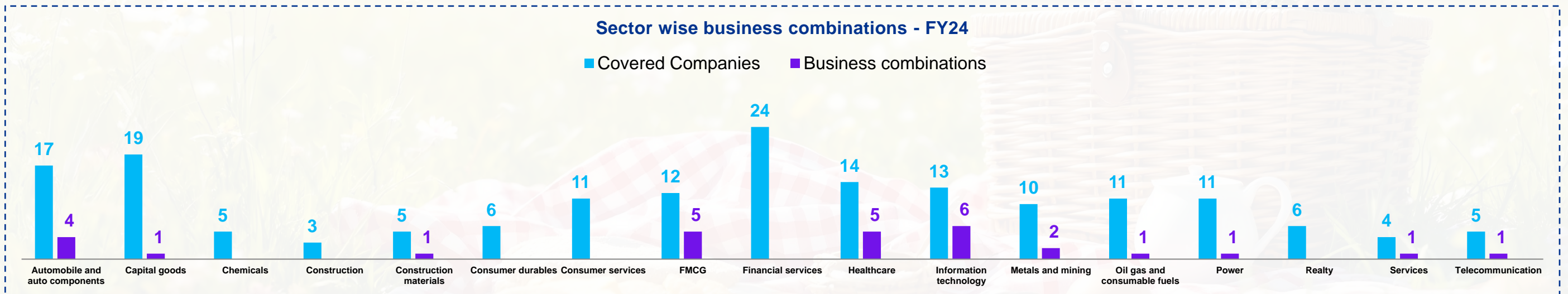
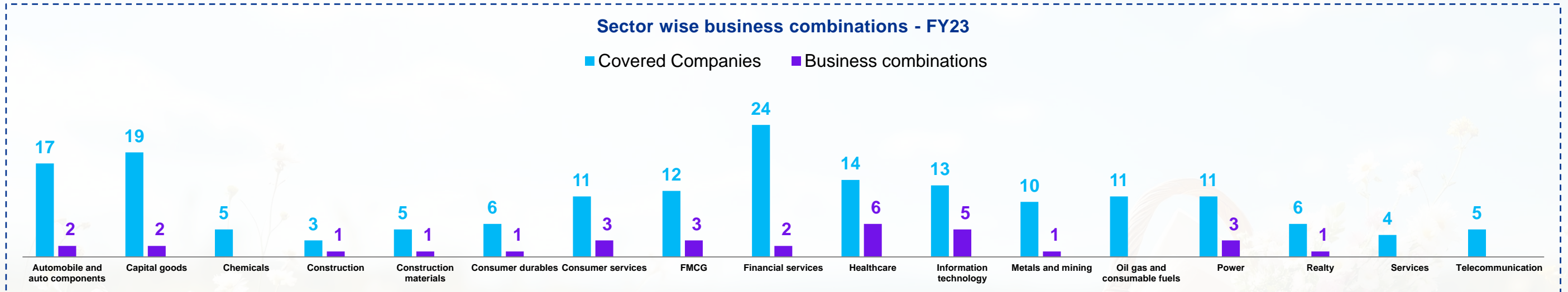
This analysis sought to cover all types of business combinations such as acquisition of control through share purchase, legal merger etc. Further, the analysis did not consider business combinations under common control

covered by Appendix C of Ind AS 103 and PPAs in relation to acquisition of associates and joint ventures. The total number of business combinations identified out of the 177 companies covered for FY24 were 28 and for FY23 were 30 (Covered Companies).



1. Where consolidated financial statements were not applicable to the respective company, standalone financial statements were considered for the analysis.
2. The list of companies is determined based upon market capitalisation as of 6 May 2025.

The chart below provides a sectoral overview of the total number of business combinations vis-a-vis the total count of Covered Companies:



[Source: KPMG in India's analysis, 2025 based on the primary data gathered from NSE 177 companies as of 6 May 2025]

# 1. Analysis of goodwill, intangible assets and property, plant and equipment (PPE) to total purchase consideration

## How to read this section

Out of the sectors identified above, those sectors that had three or more business combinations across FY23 and FY24 in aggregate ('Identified Sectors'), have been covered by further analysis.

Further, in instances where an entity engaged in multiple business combinations within a single year, the data has been aggregated for that year.

## Our analysis

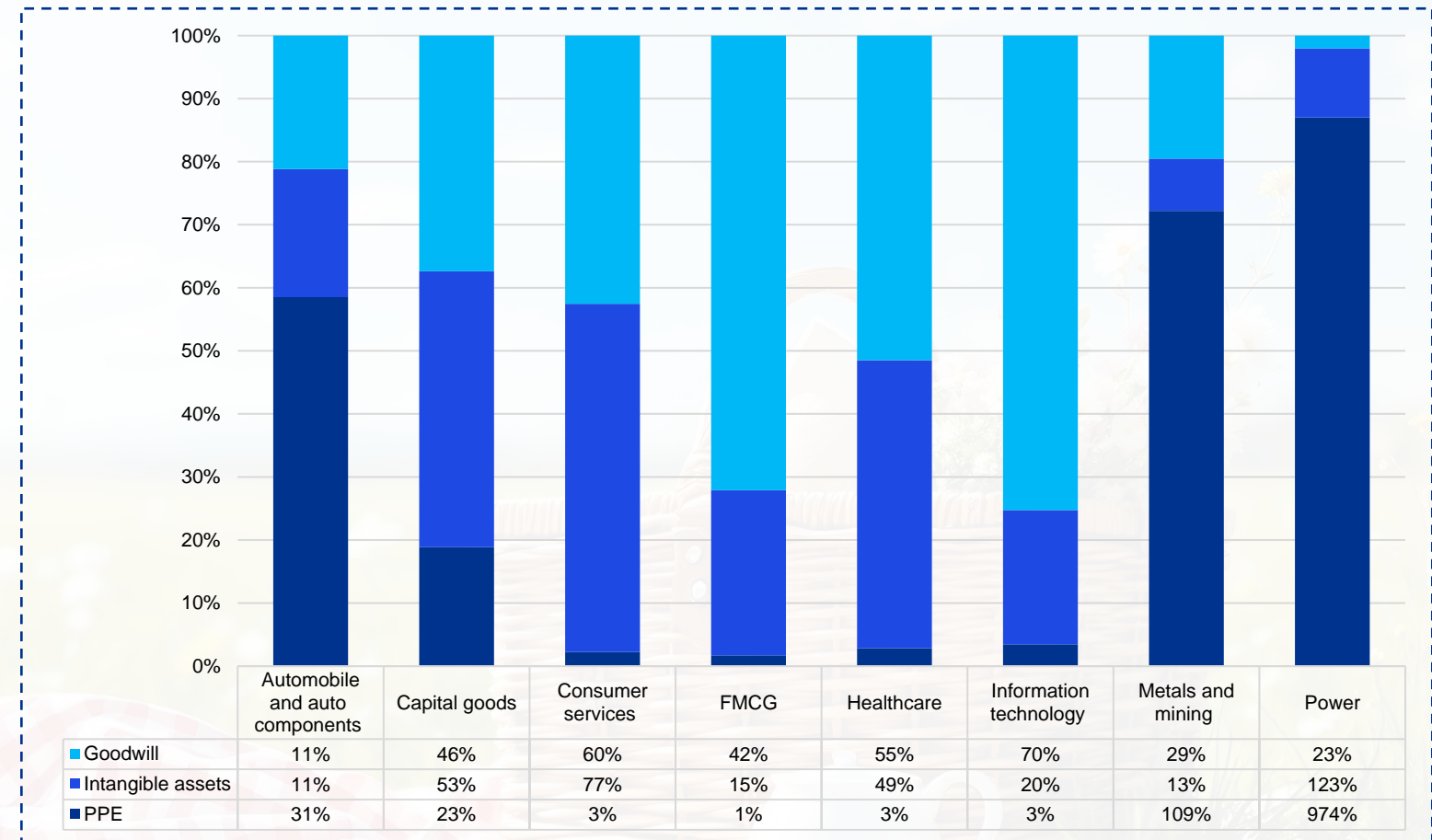
This analysis revealed that intangible assets and goodwill contributed almost 90 per cent of the total enterprise value in sectors such as capital goods, consumer services, Fast Moving Consumer Services ('FMCG'),

healthcare and information technology sectors, although there were variations amongst companies in the relevant sectors.

The automobile, power and metals and mining sectors recorded a higher percentage of PPE, which may be attributable to higher investment in plant and machineries in these sectors.

Further, metals and mining and power sectors saw business combinations where a large number of borrowings were acquired as part of the business combinations. Hence, the total purchase consideration was significantly lower than the PPE and intangible assets.

The adjacent chart represents proportion of goodwill, intangible assets and PPE<sup>3</sup> to total purchase consideration paid:



[Source: KPMG in India's analysis, 2025 based on the primary data gathered from NSE 177 companies as of 6 May 2025]

3. The chart excludes other components such as other assets and liabilities acquired as a part of the business combination.

## 1.1 Sectoral analysis of goodwill and intangible assets

The analysis further delves to discuss the proportion of goodwill and intangible assets in companies across the Identified Sectors. Column A in the tables 1 and 2 subsequently represent the number of companies in that sector that undertook business combinations and column B in the said tables represent a sectoral analysis of goodwill and total intangible assets in relation to the purchase consideration paid. Within the Identified Sectors, certain companies exhibited proportions of goodwill and intangible assets that significantly deviated from the sector averages (outliers).

For the averages to be a better representative and not distorted by outliers, the analysis was refined by excluding such companies where goodwill and intangible assets as the percentage of purchase consideration significantly deviated from the sector average. Columns C and D in the subsequent tables 1 and 2 reflect the results of these refined analysis. The tables also include the count of business combinations considered in both the initial and refined analyses, providing transparency into the sample size used for each calculation.

**Table 1: Trends in goodwill**

Industry	Number of business combinations (A)	Average (in per cent) (B)	Number of business combinations after excluding outliers (C)	Average after excluding outliers (in per cent) (D)
Automobile and auto components	5	11	3	48
Capital goods	3	46	2	55
Consumer services	3	60	2	60
FMCG	8	42	6	43
Healthcare	11	55	8	60
Information technology	11	70	9	74
Metals and mining	3	29	3	31
Power	4	23	2	30

[Source: KPMG in India's analysis, 2025 based on the primary data gathered from NSE 177 companies as of 6 May 2025]



### Our analysis highlights the following trends

- Information technology and consumer services sectors stand out with the highest average goodwill percentages, at 70 per cent and 60 per cent respectively before excluding outliers.
- Based on the refined analysis, consumer services and FMCG emerged as the most stable sectors in terms of goodwill as a percentage of purchase consideration, showing almost no / minimum impact from the exclusion of outliers.
- There was a sharp increase in the average for automobile and auto components, as two companies in the group of Covered Companies did not recognise any goodwill on their acquisitions.

**Table 2: Trends in total intangible assets (other than goodwill)**

Industry	Number of business combinations (A)	Average (in per cent) (B)	Number of business combinations after excluding outliers (C)	Average after excluding outliers (in per cent) (D)
Automobile and auto components	5	11	3	60
Capital goods	3	53	2	30
Consumer services	3	77	3	77
FMCG	8	15	6	82
Healthcare	11	49	9	48
Information technology	11	20	8	22
Metals and mining	3	13	2	31
Power	4	123	2	154

[Source: KPMG in India's analysis, 2025 based on the primary data gathered from NSE 177 companies as of 6 May 2025]



### Our analysis highlights the following trends

- While power saw the highest percentage of intangible assets recognised as a percentage of total consideration paid, it was driven by a lower purchase consideration in the said sector, owing the acquisitions of borrowings of the acquirees.
- Consumer services saw the most stable trend, with no outliers, highlighting the concentration of the purchase consideration in intangible assets, that included brands and trademarks and intellectual property rights.
- Healthcare and information technology sectors also showed stable trends with brands and trademarks and technical know-how being the largest contributor in the healthcare sector and customer relationship contracts driving the technology sector.
- The largest variances before and after excluding outliers were observed in automobile and auto components sector and the FMCG sector as one large acquisition in each sector did not result in any acquisition or recognition of intangible asset.



## 1.2 Analysis of the nature of intangible assets recognised

For the analysis of the nature of intangible assets recognised, we have considered sectors from the table 2 above where more than two business combinations were recorded during the years FY23 and FY24 (after excluding outliers in the relevant sectors).

The count in the table below represents how many companies in that relevant sector recognised the said intangible asset.

**Table 1: Trends in nature of intangible assets recognised**

Sector	Customer relationship assets	Technical know-how	Brands and trademarks	Intellectual property rights
Automobile and auto components	3	2	-	1
Consumer services	-	-	2	2
FMCG	1	-	4	1
Healthcare	1	2	5	-
Information technology	8	-	3	-

[Source: KPMG in India's analysis, 2025 based on the primary data gathered from NSE 177 companies as of 6 May 2025]

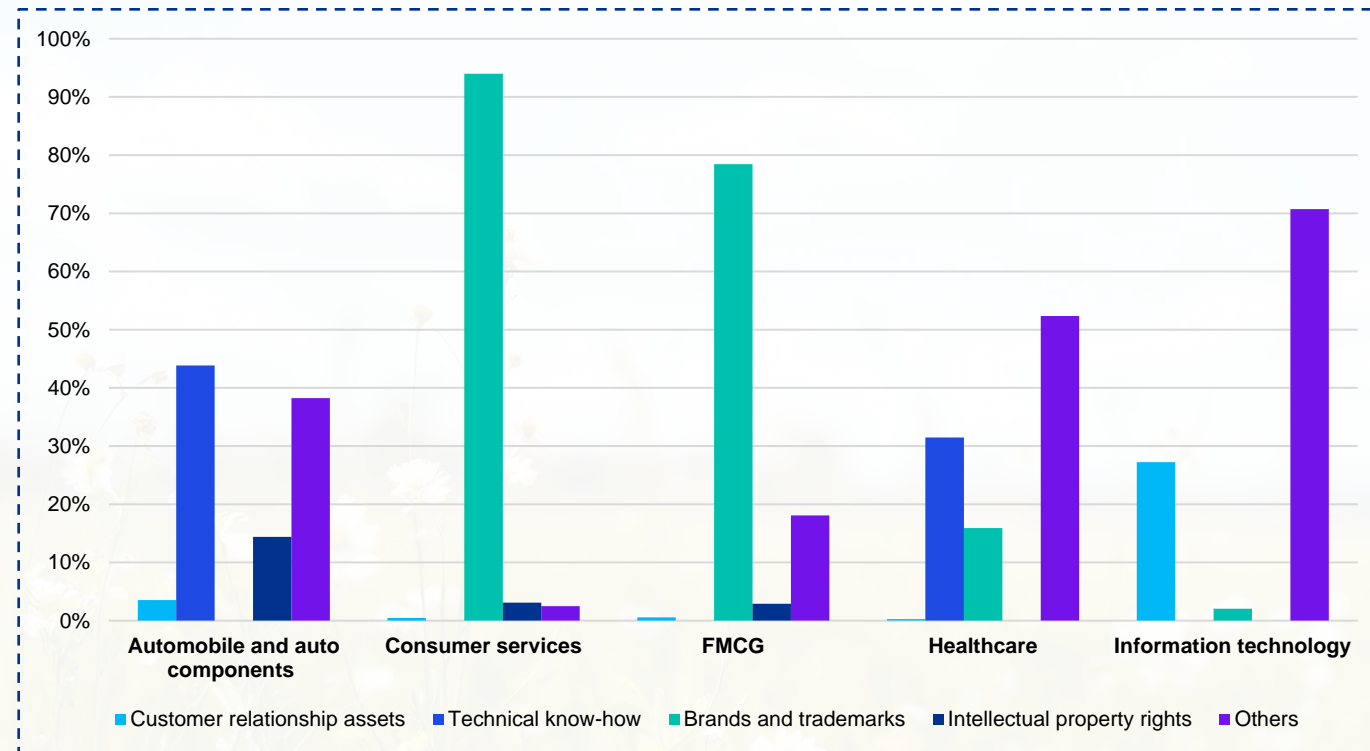


### Our analysis highlights the following trends

- Transactions where more than two different class of intangible assets were identified, pertained majorly to three sectors- automobile and auto components, healthcare and FMCG.
- Customer relationship assets were identified as intangible assets in all the companies as part of business combination within the information technology sector.
- In the automobile and auto components and healthcare sectors, technical know-how emerged as one of the primary intangible asset, which may be largely due to the substantial research and development efforts that characterise these sectors.
- Due to the nature of products and brands in the FMCG and healthcare sectors, brands and trademarks played a significant role in their overall intangible asset valuation.



A sectoral break-up of nature of intangible assets recognised, as a percentage of total intangible assets recognised in the business combination, is represented below:



### Our analysis highlights the following trends

- Consumer services and FMCG sectors saw 90 per cent and 80 per cent respectively of the total intangible assets concentrated in brands.
- Further, technical know-how contributed to approximately 30 per cent and 40 per cent of the total intangible assets recognised in healthcare and automobile and auto components sectors respectively.
- While information technology sector saw 27 per cent of the total intangible assets concentrated in customer relationship assets, around 71 per cent was also contributed by other intangible assets. The break-down of such other intangible assets were unavailable in the respective financial statements.
- The healthcare sector saw approximately 52 per cent of the total intangible assets being represented by other intangible assets, the break-down of which was unavailable.

[Source: KPMG in India's analysis, 2025 based on the primary data gathered from NSE 177 companies as of 6 May 2025]

## Bottom line

In the dynamic landscape of mergers and acquisitions, PPA goes beyond compliance requirement - it is a strategic lever that can significantly influence a company's financial reporting, tax planning, and investor confidence.

Through PPA, intangible assets like brands and trademarks, customer contracts, patents, etc. are identified and systematically amortised, directly affecting the future earnings of the combined business. Further, any residual value allocated to goodwill will be subject to impairment testing with and any impairment loss will also directly impact the

profitability of the business.

Another key area that may be impacted by PPA is income taxes. Differences between the fair values and book values of PPE and intangible assets acquired as a part of business combination can result in deferred tax liabilities or assets. Additionally, most intangible assets recognised through PPA, except goodwill, are tax deductible, reducing future taxable income. Therefore, a well-structured allocation between goodwill and intangible assets can substantially affect an entity's future tax-related cash outflows.

Beyond financial implications, a proper identification of intangible assets also offers a clearer picture of acquired businesses' economic value. For CEOs and CFOs, PPA is a powerful tool to communicate the rationale and expected benefits of a transaction. It helps articulate how the acquisition aligns with long-term growth strategies, whether through synergies, market expansion, or innovation.

To ensure this, acquiring entities often engage valuation experts, tax advisors and M&A specialists to conduct a pre-acquisition PPA. This proactive approach ensures the PPA is well-structured before the deal is finalised,

enabling a more accurate assessment of the transaction's impact on the post-acquisition income statement. This approach also enables timely and effective communication of the outcomes of PPA that directly impact key financial metrics such as EBITDA, Earnings per share, Return on invested capital, to key stakeholders such as boards, investors, analysts, etc.

As businesses navigate this landscape, a deep understanding of benchmarking trends, including industry-specific allocations, offers essential insights for making informed decisions.

