



Finance & Economics Club

**MnAnalyse**

# Reliance Acquires Hamleys

By Team - Capitalis Investire





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# Reliance

Reliance Industries Limited (RIL) is an Indian multinational conglomerate company headquartered in Mumbai, India. It owns businesses across India engaged in energy, petrochemicals, textiles, natural resources, retail, and telecommunications. It is the [largest publicly traded company](#) in India by market capitalization.

The company is ranked [96th on the Fortune Global 500](#) list of the world's biggest corporations as of 2020. Reliance continues to be India's largest exporter, accounting for 8% of India's total merchandise exports with a value of [₹1,47,755 crore](#) and access to markets in 108 countries. It is also the [highest income taxpayer](#) in the private sector in India.





# Major Breakthroughs



**1977**

The company held its Initial public offering (IPO) by issuing 2.8 million equity shares of ₹10 each.

**1993**

Reliance turned to the overseas capital markets for funds through a global depository issue of Reliance Petroleum.

**2002**

Reliance announced India's biggest gas discovery (at the Krishna Godavari basin) in nearly three decades and one of the largest gas discoveries in the world

**2006**

Reliance entered the organised retail market in India with the launch of its retail store format under the brand name of 'Reliance Fresh'. By the end of 2008, Reliance retail had close to 600 stores across 57 cities in India.

**2010**

Reliance entered the broadband services market with the acquisition of Infotel Broadband Services Limited,



# Hamleys



Hamleys is a **British multinational** toy retailer and one of the **oldest** toy stores in the world. It is named after William Hamley, who founded a toy shop called "**Noah's Ark**" at No. 231 High Holborn in **1760**. It moved to its current site on Regent Street in 1881. It receives around five million visitors each year. The chain has **15 outlets** in the United Kingdom and also has more than 90 franchises worldwide. After ensuring that it wouldn't alienate their competition, the **Lines Bros toy company**, Hamleys' largest debtor, purchased the company and reopened the Regent Street store.



# Timeline



**2003**

Hamleys was bought by the Baugur Group, an Icelandic investment company.

**2012**

Groupe Ludendo, a toy retailer based in France with shops located in Belgium, Spain, and Switzerland, bought Hamleys for a reported £60 million.

**2015**

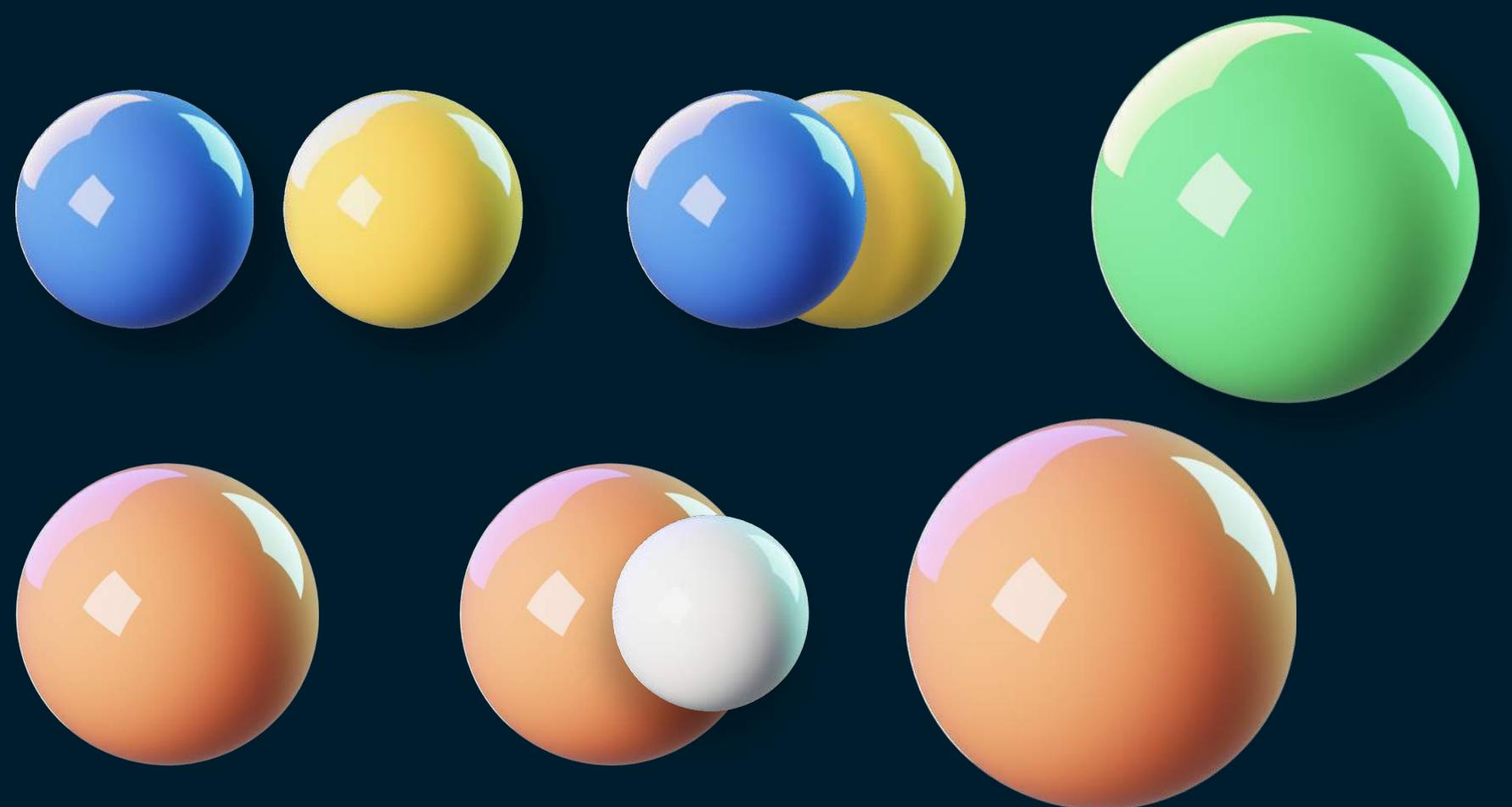
It was reported that Groupe Ludendo was negotiating the sale of Hamleys, possibly to a Hong Kong company owned by a relative of the owner of department store House of Fraser. It was subsequently purchased by C.Banner, a sizeable Chinese footwear and fashion wear conglomerate based in Nanjing.

**2019**

Indian retail company, Reliance Retail, part of the Reliance Industries, announced that it had acquired Hamleys for £67.96 million (around ₹620 crores) in an all-cash deal.



# Mergers And Acquisitions



## Merger

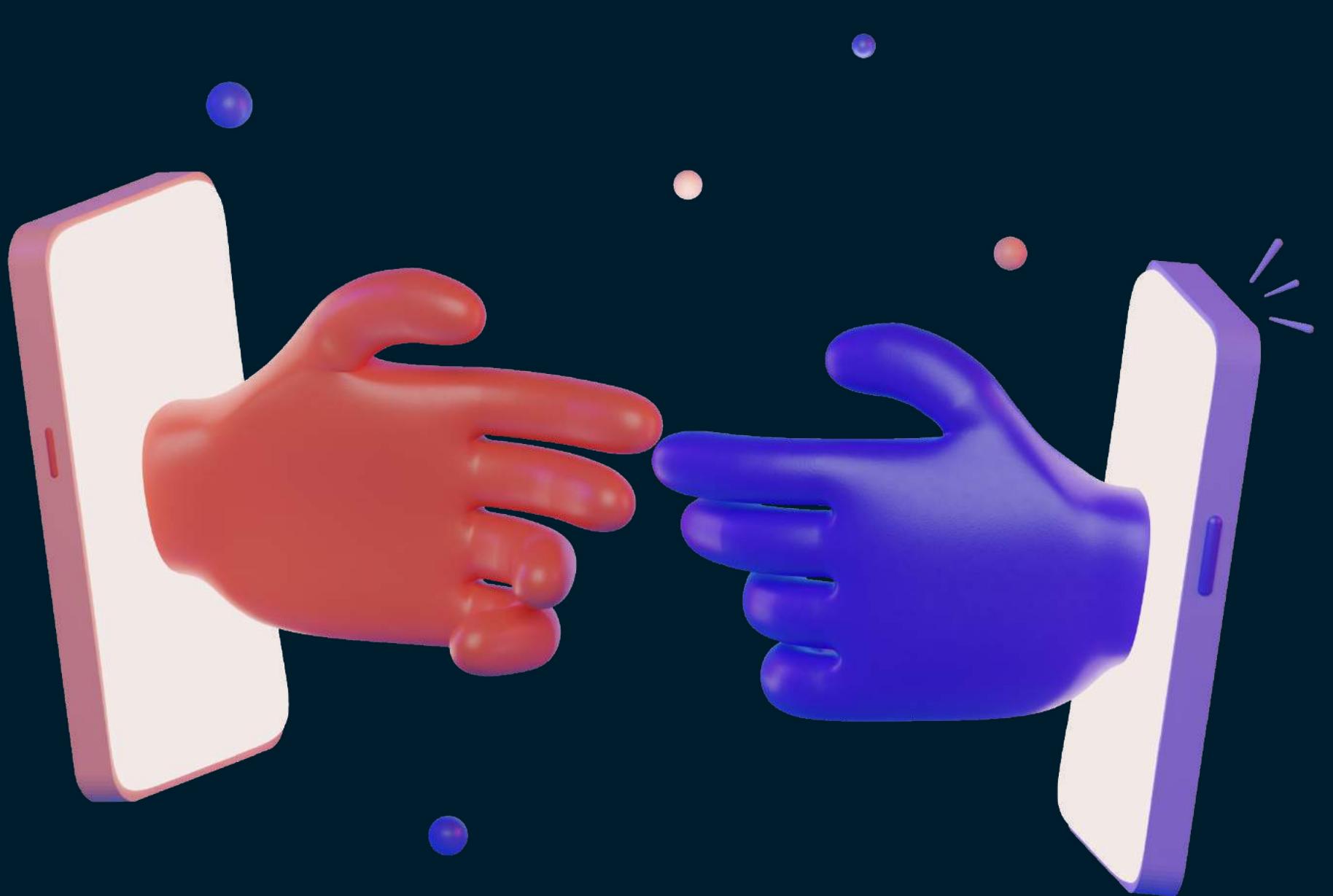
A merger is the combination of two firms, which subsequently form a new legal entity under the banner of one corporate name. A merger describes two firms of approximately the same size that join forces to move forward as a single new entity rather than remain separately owned and operated. This action is known as a merger of equals. A purchase deal will also be called a merger when both CEOs agree that joining together is in their companies' best interest.

## Acquisition

When one company takes over another and establishes itself as the new owner, the purchase is called an acquisition. In an acquisition, one company purchases the other outright. Unfriendly or hostile takeover deals, where target companies do not wish to be purchased, are also regarded as acquisitions.



# Reasons For M&A



## Diversification

A diversifying acquisition can raise the productivity of capital when the particular skills and one merger partner's knowledge of the industry are applied to the competitive problems and opportunities facing the other partner.

## Gaining A Competitive Advantage

A company may want to expand into different markets where a similar company is already operating rather than start from ground zero. So the company may just merge with the other company.

## Surviving

It's never easy for a company to willingly give up its identity to another company, but sometimes it is the only option for the company to survive. Several companies used mergers and acquisitions to grow and survive during the global financial crisis.



# Organic Growth

- Organic growth refers to the development of a business through internal processes, relying on its resources.
- Strategies for organic growth include optimization of processes, reallocation of resources, and new product offerings.
- Measuring organic growth is done by comparing revenues year over year and comparable-store sales.
- Organic growth stands in contrast to inorganic growth, external growth, such as through mergers and acquisitions.

# Inorganic Growth

Inorganic growth is growth from buying other businesses or opening new locations.

Acquisitions can help immediately boost a company's earnings and increase market share.

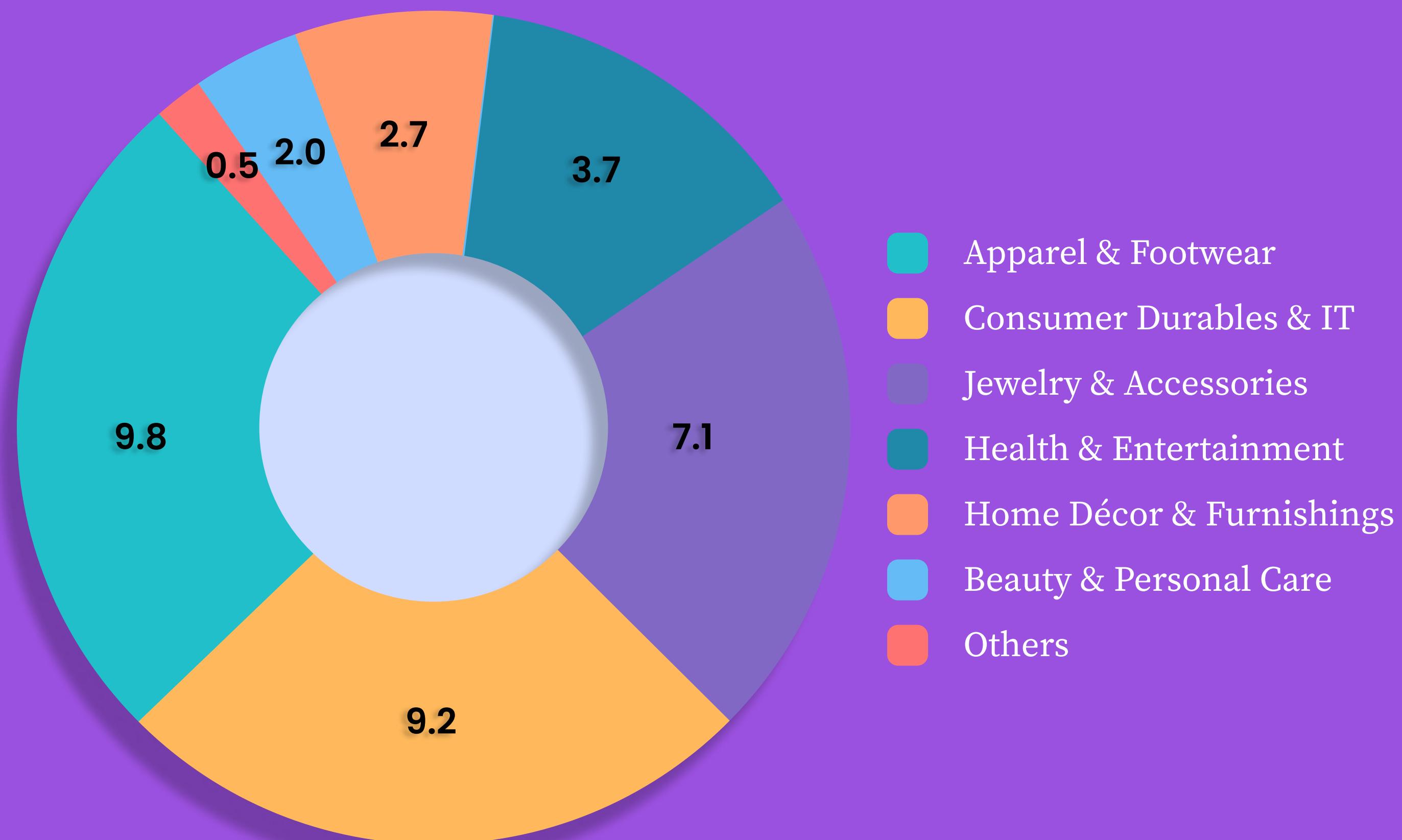
The downside of inorganic growth via acquisitions is that the implementation of technology or integration of the new employees can take time.

Inorganic growth involving the opening of new stores can capitalize on high-traffic areas, but it can also cannibalize existing stores.

Mergers And Acquisitions Are A Form Of Inorganic Growth



# Retail Sector



The retail sector accounts for over 10% of the country's gross domestic product (GDP) and around 8% of the employment.

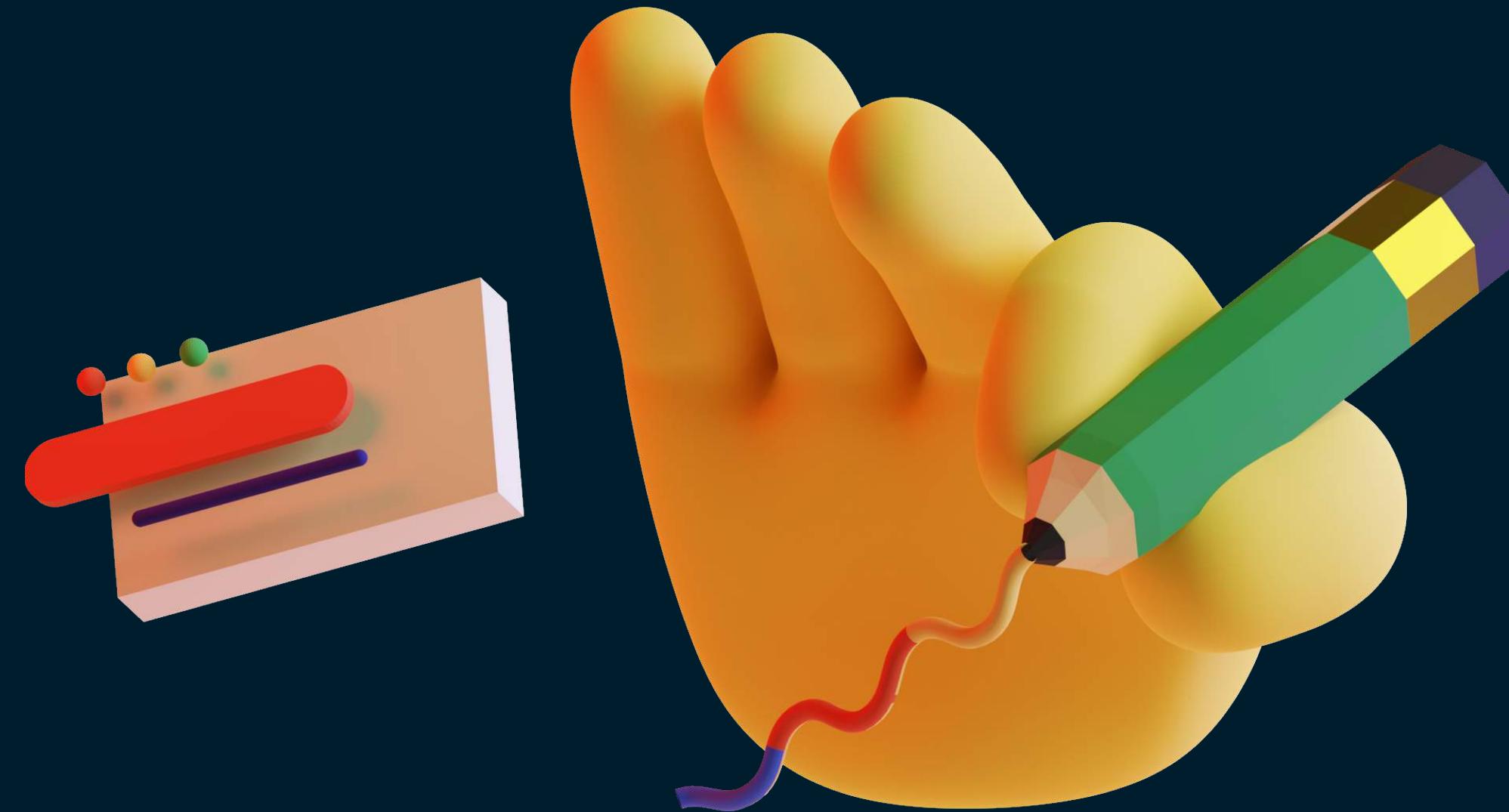
The Indian retail trading has received Foreign Direct Investment (FDI) equity inflow totaling US\$ 3.44 billion during April 2000-December 2020.

E-commerce is probably creating the biggest revolution in the retail industry and the customers have the ever-increasing choice of products at the lowest rates.



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# SWOT Analysis





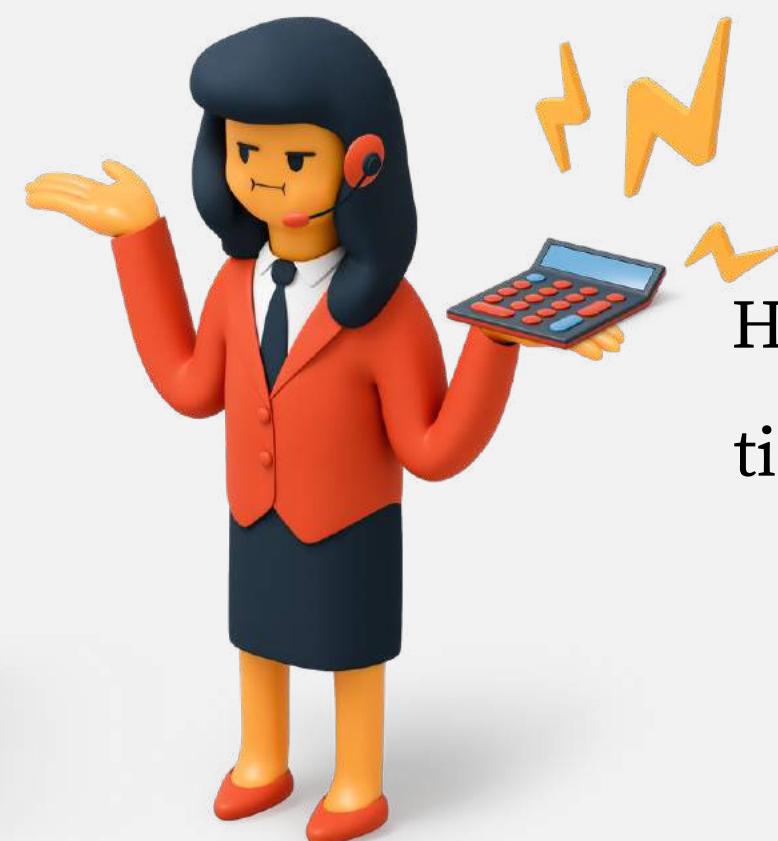
# Strengths

- It would allow Reliance to establish a strong foothold in the toys sector in India, which has an enormous child population.
- It can be integrated with the existing system of reliance retail stores so as to provide a complete shopping experience to the customers. It would also lead to an increase in consumer loyalty towards the company as the customers will find all the required things without leaving the stores.
- The acquisition will also allow reliance to leverage Hamley's expertise in selling toys worldwide. Reliance can also leverage its global presence.



# Weaknesses

In the Indian market, even though the child population is enormous, the number of children whose parents can afford Hamley products at current prices is very small.



Hamleys has failed to generate profits for some time so it would require a lot of investment and efforts to turn the situation around.

The company Hamleys obtains most of its revenue via physical stores which themselves see a decline in popularity.



# Threats

- Hamleys, even now has very little presence in the online domain. This can prove a massive threat in the long run as most businesses are now going online.
- Cheap similar toys from China pose a considerable threat to its business in the country and around the world.
- Falling popularity of the brand Hamleys around the globe also poses a huge threat.

# Opportunities

Entering the toy market can be used as a gateway into the vast and booming child, and baby care market in India as the parents who visit Hamleys can also be lured to buy baby or child care products from there itself.

The current online retail boom in the country can be leveraged to sell more products online.

The existing foothold in western nations can be strengthened by investing more money into marketing abroad.

Lowering the price of products in price-sensitive markets like India can attract many customers, hence expanding the consumer base and market share.



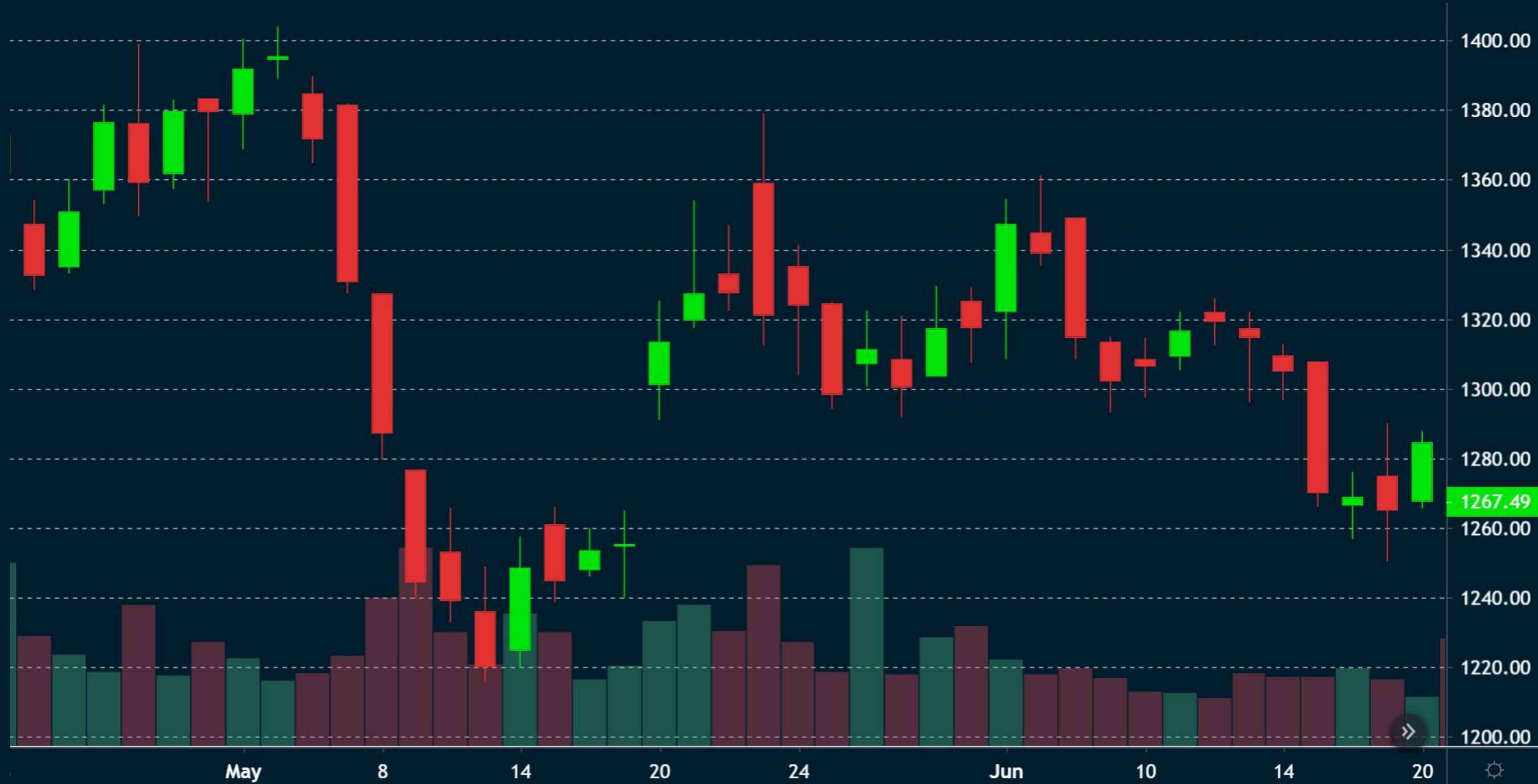
# What Is Synergy?

- Synergy is the concept that the value and performance of two companies combined will be greater than the sum of the separate individual parts.
- If two companies can merge to create greater efficiency or scale, the result is what is sometimes referred to as a synergy merge.
- The expected synergy achieved through a merger can be attributed to various factors, such as increased revenues, combined talent and technology, and cost reduction.
- In addition to merging with another company, a company can also create synergy by combining products or markets, such as when one company cross-sells another company's products to increase revenues.



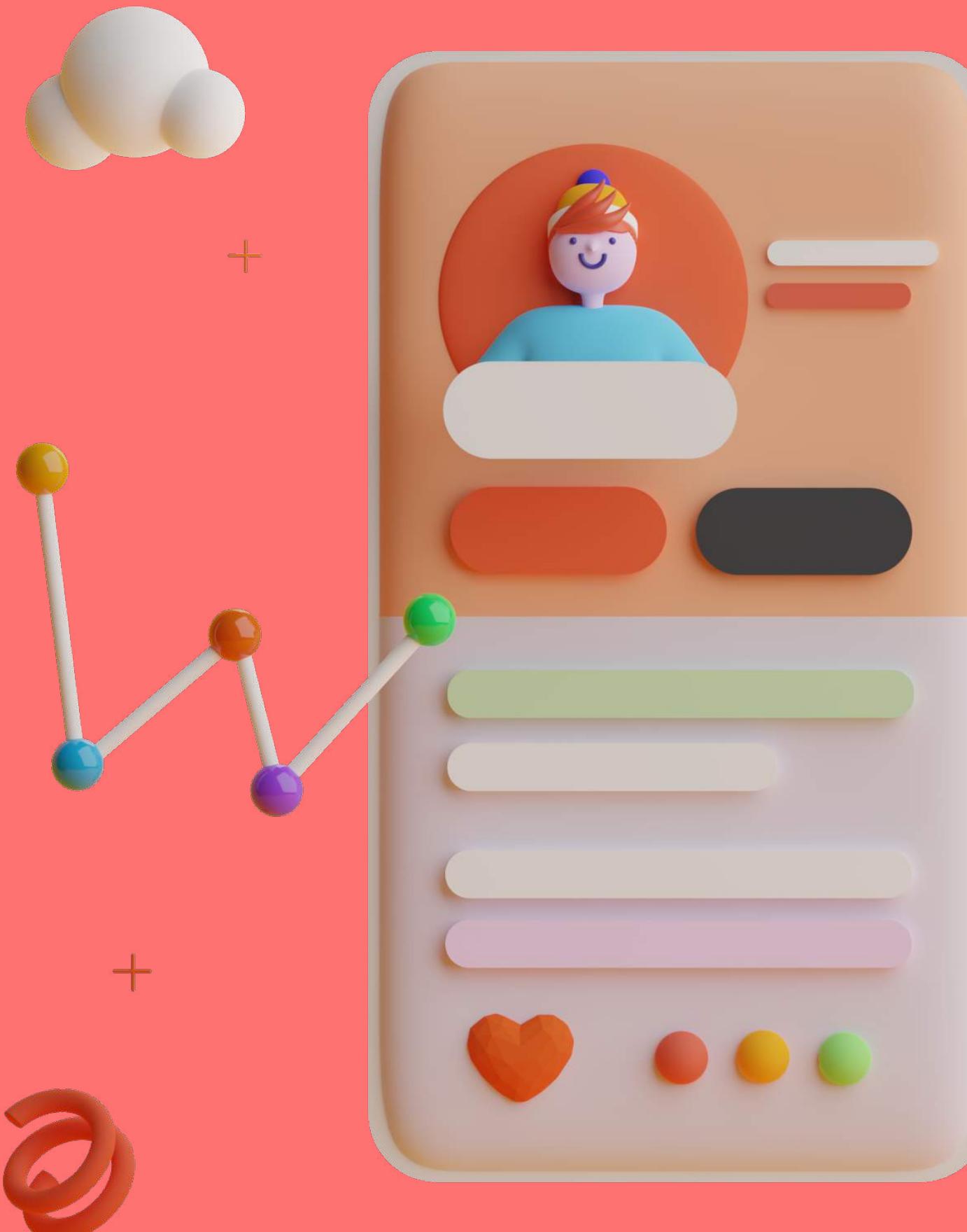


# Stock Market



May 2019 to June 2019

Reliance Industries rose 1.08% to Rs 1268.70 at 10:38 IST on BSE after the company announced acquisition of british toy retailer Hamleys for GBP 67.96 million on 19th of May 2019. This indicates the confidence that the investors have in the acquisition.



# Acquisition Type

## Congeneric Acquisition

Two businesses that serve the same consumer base in different ways, such as a TV manufacturer and a cable company.

# Synergy Type

## Revenue Synergy

A revenue synergy is when, as a result of an acquisition, the combined company is able to generate more sales than the two companies would be able to separately.



# Opinion

## Was this M&A successful?

- The Acquisition is expected to be **successful** in the longer run, even though current operations are hampered due to the covid-19 pandemic. If exploited properly, it can lead to **huge financial gains** over a period of time.
- However, reliance must work on the shortcomings of Hamleys, like **low presence** in online retail and **falling popularity**. If not corrected, these shortcomings can prove to be a major hindrance to the acquisition's success.
- Reliance must also take hold of the opportunities available and expand into related sectors and **diversify** the businesses of Hamleys.





# Meet The Team



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# Meet The Team



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# Gratias Tibi

A case study on acquisition  
By - Capitalis Investire

