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GOODWILL IN M&A: INDIA'S MOST EXPENSIVE ACCOUNTING RESIDUAL

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ABSTRACT

Goodwill represents one of the most significant yet least verifiable components of modern merger and acquisition transactions, arising from expectations of future synergies, brand value, market position, and other intangible benefits. This article examines whether existing legal, financial, and commercial due diligence frameworks in India are capable of adequately assessing the risks associated with goodwill valuation before a transaction is completed. Through an analysis of major transactions such as Vedanta-Cairn, Tata Steel-Corus, and the proposed Zee-Sony merger, it argues that information asymmetry, governance concerns, valuation uncertainty, and promoter-driven market dynamics often result in acquisition premiums that are insufficiently scrutinized and subsequently lead to substantial goodwill impairments. The article further evaluates the limitations of the current regulatory framework under Indian Accounting Standards, SEBI regulations, and the Companies Act, 2013, highlighting its predominantly reactive approach to goodwill risk. It concludes by advocating for dedicated goodwill stress-testing, stronger board oversight, independent valuation review, and enhanced disclosure requirements to improve accountability and risk assessment in Indian M&A transactions.

THE PROBLEM WITH PAYING FOR TOMORROW

In April 2015, Vedanta Limited announced what remains one of corporate India's largest-ever goodwill impairment charges, approximately Rs 20,000 crore, relating primarily to its acquisition of Cairn India in 2011 when Brent crude was trading above $100 per barrel.[2] By the time the write-down arrived, oil prices had roughly halved. A year later, Tata Steel, which had acquired Anglo-Dutch steelmaker Corus for $13 billion in 2007, had collectively written down over £2 billion from its books,

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[2] 'Vedanta Books Rs 20,000-cr Impairment Charge on Oil Business' (*Business Standard*, 30 April 2015).

with analysts estimating the European business to be worth a third or less of what Tata had paid.[3] These are not isolated episodes. They are symptomatic of a deeper structural problem: that goodwill, the single largest intangible asset in most major M&A transactions, remains chronically difficult to value, and that conventional due diligence processes are often ill-equipped to detect that difficulty before a deal closes.

This piece argues that existing legal, financial, and commercial due diligence frameworks, as practised in India, do not adequately interrogate goodwill at the pre-closing stage, and that the risks this creates fall disproportionately on acquirers, minority shareholders, and, eventually, the courts.

THE PECULIAR NATURE OF GOODWILL

Goodwill in an acquisition context arises where the purchase price exceeds the fair value of identifiable net assets of the target. Under Ind AS 103, which governs business combinations in India and is substantively aligned with IFRS 3, goodwill is not amortised but is instead tested annually for impairment under Ind AS 36.[4] This much is settled law and accounting. What is less settled is what goodwill actually *represents*.

In practice, goodwill is a residual, a catch-all for anticipated synergies, brand premium, customer relationships, workforce capability, and strategic positioning. Its value depends almost entirely on projections about the future: future cash flows, future market share, future operating efficiencies. Because none of these can be verified at the time of acquisition, goodwill is structurally optimistic. The acquirer pays today for a future that may never materialise.

This explains why goodwill figures so prominently in post-acquisition disappointments. Acquirers experiencing lower post-acquisition profitability are more likely to have acquired targets with higher information asymmetry.[5] In simple terms: the less you know about the target, the more you tend to pay for it, and the more you tend to pay for it, the more likely that payment is captured as goodwill.

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[3] 'What Went Wrong with Tata Steel UK Operations' (*Business Today*, 21 April 2016); 'What the Tata Steel Write-Off Reveals' (*Business Standard*, 21 May 2013).

[4] Institute of Chartered Accountants of India, *Indian Accounting Standard 103: Business Combinations*; *Indian Accounting Standard 36: Impairment of Assets*.

[5] Chen et al., cited in 'Do Key Audit Matter Disclosures About M&A Transactions Predict Future Performance?' (2025) *Review of Accounting Studies* (Springer).

THE INFORMATION ASYMMETRY PROBLEM

The "winner's curse" in M&A is well-documented: competitive bidding environments systematically incentivise overpayment, particularly where valuation uncertainty is high.[6] Goodwill is the accounting manifestation of this phenomenon. But the winner's curse is only part of the story.

In India, a significant proportion of M&A targets are promoter-driven businesses where financial disclosures are limited, related-party transactions are common, and the quality of management information systems often falls short of what public-market acquirers expect. The asymmetry between what the seller knows and what the acquirer can reasonably discover is often considerable. Sellers understand their revenue quality, client stickiness, key-person dependencies, and regulatory exposures far better than any due diligence team working under time and access constraints. This information gap tends to be priced into the deal as goodwill, because where the acquirer cannot verify value, they substitute optimism.

There is also an agency dimension. Boards of acquiring companies are often under pressure to grow, to demonstrate strategic ambition, or to outmanoeuvre competitors. Deal advisors, investment banks, financial advisors, are compensated on deal completion, not deal performance. These structural incentives compound the valuation problem: the people best placed to identify goodwill overvaluation have economic reasons not to.

WHERE DUE DILIGENCE FALLS SHORT

Legal due diligence in Indian M&A transactions typically covers title, contracts, litigation exposure, regulatory compliance, intellectual property, and employment matters. Financial due diligence examines historical financials, working capital, debt, and tax exposure. Commercial due diligence analyses market position, competitive dynamics, and customer concentration. Each of these workstreams is valuable. None of them is designed to ask the central question that goodwill demands: *are the assumptions underlying this purchase price realistic?*

The problem is structural. Legal due diligence is backward-looking by design, it identifies risk in what exists. Goodwill is a claim about what will exist. Financial due diligence verifies historical numbers but is rarely equipped to challenge the DCF or comparable company multiples that generate the purchase price in the first place. Commercial due diligence can challenge strategic assumptions but seldom

[6] Richard Thaler, 'Anomalies: The Winner's Curse' (1988) 2(1) *Journal of Economic Perspectives* 191; Fuller et al., 'The Winner's Curse in Acquisitions of Privately-Held Firms' (2017) 39 *Journal of Financial and Quantitative Analysis*.

produces a revised valuation. No single workstream, nor the aggregate of all three, is configured to pressure-test the premium that ends up on the balance sheet as goodwill.

Consider the Tata-Corus deal. No serious observer suggests due diligence was absent. The acquisition was one of the most complex and well-advised cross-border deals of its era. Yet Tata paid at the peak of the commodity cycle, incorporating goodwill premised on European steel demand trajectories that proved wildly optimistic.[7] The due diligence apparatus, competent as it was, was not designed to interrogate whether the premium itself was defensible.

The Zee-Sony saga offers a different but equally instructive lesson. When Sony called off the proposed $10 billion merger in January 2024 after more than two years of negotiations, the implied valuation of Zee, including the goodwill that the combined entity would have carried, collapsed sharply, with Zee's shares plunging approximately 31% in the immediate aftermath.[8] One central issue was corporate governance: undisclosed liabilities, pending regulatory actions, and promoter-related complications that the due diligence process either did not surface or could not adequately price. In transactions where goodwill is partly derived from brand equity and market presence, reputational and governance risk must be treated as goodwill risk, because a brand subject to regulatory scrutiny is worth materially less than a clean one.

THE REGULATORY GAP

Ind AS 103 and Ind AS 36 together create a post-transaction framework for goodwill: recognise, allocate to cash-generating units (CGUs), test annually for impairment. This framework is technically sound. The problem is that it is reactive. Impairment is recognised after value has been destroyed, not before it is paid away. Annual impairment testing under Ind AS 36 is also susceptible to management discretion, the assumptions underlying value-in-use calculations (discount rates, terminal growth rates, future cash flow projections) offer considerable latitude, and the timing and magnitude of impairment charges frequently lag the economic reality they are meant to capture.[9]

SEBI's 2025 amendments to the SAST Regulations address one dimension of this problem by mandating that valuations for takeover transactions involving infrequently traded shares be conducted by independent registered valuers qualified under Section 247 of the Companies Act, 2013, rather than

[7] 'India Inc Sees Asset Impairment Surge to Rs 1.6 Trn as Slowdown Bites' (*Business Standard*, 14 June 2020).

[8] 'Sony Calls Off $10 Billion Merger with Indian TV Giant Zee Entertainment Enterprises' (*Variety*, 22 January 2024); 'India's Zee Entertainment Dives 31% After Sony Calls Off Mega Merger' (*CNBC*, 23 January 2024).

[9] International Accounting Standards Board, *Exposure Draft: Business Combinations — Disclosures, Goodwill and Impairment* (IASB/ED/2024/1, March 2024).

being certified by merchant bankers or chartered accountants alone.[10] This is a positive development, but its scope is limited. It addresses the open-offer price, what minority shareholders receive, not the goodwill embedded in the acquisition premium that the board has already decided to pay.

The IASB, for its part, has recognised the inadequacy of the current regime. Its March 2024 Exposure Draft on Business Combinations, Disclosures, Goodwill and Impairment proposes amendments to IFRS 3 that would require acquirers to disclose, at the time of acquisition and in subsequent reporting periods, quantitative information about expected synergies and the actual performance of acquisitions relative to stated objectives.[11] As India's Ind AS framework is substantively convergent with IFRS, these proposals are directly relevant to Indian practice and have yet to be incorporated. The National Financial Reporting Authority (NFRA), which oversees compliance with Ind AS, has thus far not issued any guidance specific to goodwill valuation quality in M&A transactions.

A UNIQUE INDIAN DIMENSION: THE PROMOTER PREMIUM

There is a characteristic feature of Indian M&A that amplifies the goodwill problem and has received insufficient attention. A large share of Indian acquisitions involve promoter-controlled targets, where the seller's information advantage is compounded by concentrated ownership and opaque governance. In such transactions, the stated rationale for the premium, synergies, brand value, market access, may in fact reflect a control premium paid to disentangle a promoter from a business, or to acquire regulatory relationships and political goodwill that cannot be disclosed or independently verified.

This creates a category of embedded goodwill that is uniquely resistant to standard valuation methodology. Discounted cash flow analysis cannot price a relationship. Comparable company multiples do not capture proximity to a regulator. Yet these intangible value drivers, which in certain sectors (telecom, infrastructure, financial services) may represent the bulk of the transaction value, end up impounded in the goodwill figure. When the relationship sours, the regulator changes, or the political environment shifts, the impairment arrives. But by then, the consideration has been paid and the deal is closed.

[10] SEBI (Substantial Acquisition of Shares and Takeovers) (Amendment) Regulations, 2025; 'SEBI Amends SAST Regulations to Mandate Independent Valuation of Infrequently Traded Shares' (*Taxmann*, December 2025).
[11] IASB/ED/2024/1 (n 8).

RECOMMENDATIONS

The foregoing analysis suggests that India's M&A ecosystem requires a recalibration, not just at the regulatory level, but at the level of practitioner norms.

First, the due diligence framework should incorporate a dedicated goodwill stress-testing exercise. This means engaging valuation specialists, distinct from the M&A financial advisors, to independently challenge the purchase price allocation and the assumptions underlying each component of the goodwill premium. The conflict inherent in relying on completion-fee-driven advisors to identify reasons not to complete a deal is obvious and should be structurally addressed.

Second, boards of acquiring companies should be required to document and disclose the basis for the goodwill premium to their audit committees prior to closing. The Companies Act, 2013, through its provisions on board duties and related-party transactions, already imposes fiduciary obligations that arguably require this level of scrutiny. The NFRA, which has shown willingness to act in audit quality enforcement, should issue guidance specifying the minimum information that boards must obtain and record before approving a material acquisition premium.

Third, SEBI should consider extending its independent valuation mandate, currently focused on offer-price mechanics, to encompass the intangible asset assumptions underlying open-offer acquisitions, particularly where goodwill is expected to exceed a material threshold of the total enterprise value. This would align India more closely with the direction of global regulatory thinking reflected in the IASB's 2024 Exposure Draft.

Fourth, post-acquisition synergy disclosures should be standardised. Currently, acquirers make effusive synergy claims at the time of announcement and face no structured obligation to account for whether those synergies were realised. Requiring listed companies to disclose, on an annual basis, the performance of material acquisitions against the objectives stated at closing, a reform the IASB is now actively pursuing, would impose market discipline on the optimism that currently gets capitalised as goodwill.

Fifth, commercial due diligence must evolve beyond market analysis to include a structured assessment of the sustainability of the target's competitive advantages, particularly in sectors where goodwill derives from key-person dependency, regulatory access, or relationship capital. These factors should be explicitly addressed in any fairness opinion or valuation report submitted to the board.

CONCLUSION

The recurring pattern of large Indian acquirers writing down goodwill, years after transactions that were heralded as transformational, is not merely the consequence of adverse markets or bad luck. It reflects a systemic failure in how goodwill risk is assessed and disclosed at the pre-closing stage. The accounting framework absorbs the damage after the fact. The legal framework has not yet developed the tools to prevent it. Until boards, advisors, and regulators treat goodwill not as an accounting residual but as a risk-bearing claim on an uncertain future, and design due diligence processes accordingly, Indian acquirers will continue, in far too many cases, to overpay.