

## A Study on Mergers and Acquisitions in India

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### Abstract

*Collaborations, strategic alliances, powerful partnerships will strengthen the economy. Encouragements from Governments through legislations and tax concessions will further strengthen mergers and acquisitions. This study focuses on factors for the failure of mergers and acquisitions globally and more particularly in India and to review the success mantra for effective implementation of mergers and acquisitions. This research paper is conceptual in nature. The studies undertaken guide the management and persons involved not to fail to understand the reasons for pre and post merger failures. Understanding culture, training of managers to develop change agents, communication to stake holders, building targets, developing a new culture, leader to lead, careful planning and implementation at each stage of mergers make merger successful. Mergers and acquisitions have become a common phenomenon in recent times. Companies have been actively involved in mergers and acquisitions domestically as well as internationally. The increased competition in the global market has prompted the Companies to go global for mergers and acquisitions as an important strategic choice. Mergers & Acquisitions (M&A) are the strategic growth devices in the hands of more and more Companies not only to stay in the competition but also to extend their margins, market share and dominance globally. The scale and the pace at which merger activities are coming up are remarkable. In the sense, mergers and acquisitions has become a strategic concept to grow quickly for a number of leading companies' world over. The booms in mergers and acquisitions suggest that the organizations are spending a significant amount of time and money either searching for companies to acquire or worrying about whether some other company will acquire them.*

**Key Words:** Mergers and Acquisitions, Stake holders, strategic Choice, Implementation, Failure & Success, Mantra.

### INTRODUCTION

The mergers and acquisition play a significant role in the industrial sector of any economy. "Some people run the race on their own without purposes. Running by individual takes time. Collaborations and strategic alliances make the race winning" Peter Drucker. It is neither capital nor knowledge, but the ability to form powerful partnership. All over the world record number of mergers and acquisitions deals takes place throughout the year. Mergers and acquisitions result in privatization of the public undertakings in Europe, North America, China, Brazil which indicates that the trend towards rapid growth of private Equity Funds. Winning depends on ability to understand the entities to merger implement and succeed. Government of India brought section 2 (IB) and 72A under the Income-Tax Act in order to encourage mergers,

acquisitions and demerger of companies. Capital gain on transfer of properties, exchange of shares and debentures by Transferor to Transferee Company are exempted provided certain conditions are fulfilled mainly to attract mergers and acquisitions of companies to strengthen the economy. The Indian companies have moved from horizontal, vertical, hostile merger to strategic mergers not only in India but also globally. After liberalization of Indian economy to global, the strategic mergers and conducive environments help Indian companies to meet global challenges through mergers and acquisitions.

### OBJECTIVES OF THE STUDY:

- 1) To provide theoretical framework of Mergers and Acquisitions in India.

- 2) To know the Impact of mergers on the performance of firms.
- 3) To know the Failure factors of Mergers.
- 4) To know the sins of Acquisitions.
- 5) To illustrate the cost and benefits of Mergers.
- 6) To provide the Success Mantra of Mergers and Acquisitions.

#### SCOPE OF THE STUDY:

The current study is confined to only to the Indian Mergers and Acquisitions. The other countries mergers and Acquisitions aspects are not considered for the present study.

#### TYPES OF MERGER:

A Merger is a combination of two or more companies into one company. In India, mergers are called as amalgamations, in legal terms. The acquiring company, (also referred to as the amalgamated company or the merged company) acquires the assets and liabilities of the target company (or amalgamating company). Typically, shareholders of the amalgamated company get shares of the amalgamated company in exchange for their existing shares in the target company. Merger may involve absorption or consolidation. –

Merger and amalgamation: the term merger or amalgamation refers to a combination of two or more corporate entity into a single entity. Forms of merger that can happen a) absorption- one bank acquires the other. b) consolidation- two or more banks combine to former a new entity. In India the legal term for merger is amalgamation. Other ways of classifying merger is upon the basis of what type of corporate combine. It can be of following types- 1) Vertical merger: This is the merger of the corporate engaged in various stages of production in an industry. A vertical merger (entities with different product profiles) may help in optimal achievement of profit efficiency. Consolidation through vertical merger would facilitate convergence of commercial banking, insurance and investment banking. E.g.: a mobile producing company merges with the company which provides them parts of mobile and software. 2) Horizontal merger5c- This is the merger of the corporate engaged in the same kind of business. E.g.: Merger of bank with

another bank. 3) Conglomerate merger5d- A conglomerate merger arises when two or more firms in different markets producing unrelated goods join together to form a single firm. An example of a conglomerate merger is that between an athletic shoe company and a soft drink company. The firms are not competitors producing similar products (which would make it a horizontal merger) nor do they have an input-output relation (which would make it a vertical merger) 4) -> Acquisition5e: This may be defined as an act of acquiring effective control by one corporate over the assets or management of the other corporate without any combination of both of them. Case of oracle major software firm has agreed to acquire a majority stake in Indian banking software company I-flex Solutions. It can be characterized in terms of the following: a) The corporate remain independent. b) They have a separate legal entity. -> Take over:5f Under the monopolies and restrictive trade practices act, lake over means acquisition of not less than 25% of voting powers in a corporate.

#### IMPACTS OF MERGER:

- 1) **Diversification**- When two firms merge their risk in investing assets diversify accordingly. When a firm is operating alone then they don't have many options to diversify their portfolio investment that they can get after merger.
- 2) Mergers and Acquisition allows firms to obtain efficiency gains through cost reductions(cost synergies) , revenue increases( revenue synergies)
- 3) Broader array of products- When two firms merge they have diversified variety of products and after the merger each consumer in both the firms will be benefited with the range of products or services to choose from.
- 4) Mergers and Acquisition helps firms to widen its consumer portfolio but it also leads to a more diversified range of services and offer scope economies by optimizing the synergies between the merged activities.

5) Domestic mergers cut costs for both the partners whereas for the majority of cases including domestic and cross border mergers and acquisition, the impact on profitability is insignificant but a clear trend to diversify the sources of revenue was apparent

6) In terms of cost efficiency and revenue efficiency it has been noticed that in domestic merger organization get the benefit of cost efficiency( reduction in operating cost) and in cross border merger organization get the benefit of revenue efficiency (increase in revenue) because of the benefit of geographical expansion and diversification.

7) Improvement in the activities of organization, however, offer benefits from product complementarities which helps to enhance revenues.

8) Efficiency may be improved after merger and acquisition, if the acquiring company is more efficient already and brings the efficiency of the target up to its own level by providing its managerial expertise, policies and other operations

## **MERGERS AND ACQUISITIONS IN INDIA**

M&As have played an important role in the transformation of the industrial sector of India since the Second World War period. The economic and political conditions during the Second World War and post-war periods (including several years after independence) gave rise to a spate of M&As. The inflationary situation during the wartime enabled many Indian businessmen to amass income by way of high profits and dividends and black money (Kothari 1967). This led to “wholesale infiltration of businessmen in industry during war period giving rise to hectic activity in stock exchanges. There was a craze to acquire control over industrial units in spite of swollen prices of shares. The practice of cornering shares in the open market and trafficking of managing agency rights with a view to acquiring control over the management of established and reputed companies had come prominently to light. The

net effect of these two practices, viz of acquiring control over ownership of companies and of acquiring control over managing agencies, was that large number of concerns passed into the hands of prominent industrial houses of the country (Kothari, 1967). As it became clear that India would be gaining independence, British managing agency houses gradually liquidated their holdings at fabulous prices offered by Indian Business community. Besides, the transfer of managing agencies, there were a large number of cases of transfer of interests in individual industrial units from British to Indian hands. Further at that time, it used to be the fashion to obtain control of insurance companies for the purpose of utilising their funds to acquire substantial holdings in other companies. The big industrialists also floated banks and investment companies for furtherance of the objective of acquiring control over established concerns. The post-war period is regarded as an era of M&As. Large number of M&As occurred in industries like jute, cotton textiles, sugar, insurance, banking, electricity and tea plantation. It has been found that, although there were a large number of M&As in the early post independence period, the anti-big government policies and regulations of the 1960s and 1970s seriously deterred M&As. This does not, of course, mean that M&As were uncommon during the controlled regime. The deterrent was mostly to horizontal combinations which, result in concentration of economic power to the common detriment. However, there were many conglomerate combinations. In some cases, even the Government encouraged M&As; especially for sick units. Further, the formation of the Life Insurance Corporation and nationalization of the life insurance business in 1956 resulted in the takeover of 243 insurance companies. There was a similar development in the general insurance business. The national textiles corporation (NTC) took over a large number of sick textiles units (Kar 2004).

Due to license era unrelated diversification, friendly takeover, conglomerate merger and hostile bids by buying equity shares are some the types of mergers in India in the last 40 years. For Example Swaraj Paul made an attempt to raid on

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Escorts Ltd and DCM Ltd but the attempt failed to succeed. The Hindujas followed negative technique and took over Ashok Leyland and Ennore Foundaries. Chhabria Group acquired stake in Shaw Wallace, Dunlop India and Falcon Tyres Goenka group from Calcutta(Kolkata) took over Ceat tyres, the Oberoi-Pleasant hotels of Rane group, Tata Tea acquired 50% of the equity shares of Consolidated Coffee Ltd from resident shareholders in 1989 are some of the hostile mergers. Hindustan Computers, Hindustan Reprographic, Hindustan Telecommunications and Indian Software Ltd. were merged to form HCL Ltd. TATA and Corus(Steel), Ranbaxy and Daiichi (Pharma), Global Trust Bank and Oriental Bank of Commerce (banking), HDFC and Centurian Bank of Punjab(banking), Indian Airlines and Air India(Airlines), Indian Oil and Russian Oil Company, Kingfishers Air and Air-Deccan, TATA acquired Land Rover and Ford Icon from Ford, National Carriers Air India And Indian Airlines, Lord Krishna Bank and Centurion Bank and Vodafone and Hutchison Essar are some of the mergers in recent times. In 1997 Sun Pharmaceuticals, signed merger deal with Israeli major, Tara Pharmaceuticals which included an option agreement but Tara postponed the deal to avoid merger process and agreement failed. Vodafone acquired Hutch outside India but luckily the Supreme Court rejected the contention of the Income Tax department to pay a fine of around Rs.15,000 crores. The recent mergers are strategic mergers. The leading mergers since 2006 are telecom sector.

#### **FAILURE FACTORS OF MERGERS AND ACQUISITIONS**

Most mergers fail at the execution stage itself. The two cultures do not get along easily at an early stage of mergers but two talented minds are heading for the door. There are such instances, such as the marriage of HP and Compaq that are troubled from the start. More than two-thirds of transactions that fail do so at an early stage of execution. Daimler Chrysler, for example, neglected early on to establish a proper set of

guiding principles based on strategic intent of merger, and misfired to align the leadership and integrate the cultures of the two organizations. There are no set of rules for the implementation and success story of merging. Merging companies fail to develop a set of rules linked to the merger's strategic intent. Perfection may not be possible, but these set of rules will assure that all decisions drive the combined entity in the same direction. Ground rules for planning provide nuts-and-bolts guidance for how the planning teams should act as they begin to put the face of the merged entity in black and white. These rules should help for how decisions are to be made and how conflicts should be resolved. Post-close transition plans can be lacking due to the daunting complexity of any integration such as the culture of the companies, a resistance to share information and top-down accountability and unwillingness to follow a methodical decision timeline. All relevant stakeholder groups—both internal and external—must receive communication about the transaction, early and often. Management must strive to understand how these groups view the deal and how they might react to changes such as new pricing, vendors' elimination and adjustments in service and personnel.

#### **FIVE SINS OF ACQUISITIONS:**

- 1) Straying too far a Field.
- 2) Striving for Bigness.
- 3) Leaping before looking.
- 4) Overpaying.
- 5) Failing to Integrate well

#### **COST & BENEFITS OF A MERGER: (when 'A' Firm Acquires 'B')**

To calculate NPV to Company A, we have to identify the Benefit and Costs of the Merger

$$\text{The Benefit} = PV - (PV + PV)$$

The cost of the merger, from the point of view of firm A, assuming that compensation to firm B is paid in Cash, is equal to the cash payment made for acquiring firm B less the present value of firm B as a separate Entity.

Thus,

$$\text{Cost} = \text{Cash} - \text{PV} \quad \text{B}$$

NPV of the Merger from the point of view of Firm 'A'

$$\text{NPV to A} = \text{Benefit} -$$

**Cost**

NPV of the Merger from the point of view of Firm 'B'

$$\text{NPV to B} = (\text{Cash} - \text{PV})$$

**B**

### SUCCESS MANTRA OF MERGERS AND ACQUISITIONS

1. Execution-related failures can be avoided provided you need to establish a program integration team early in the process that can respond to the execution risks inherent in all transactions. For instance, managers at the middle level were sent to various Godrej sites for training so that they could have a firsthand experience of systems and practices and such managers were playing as change agents.
2. The first step taken in the restructuring process was to establish clear channels of communication with the employees. They have to depend on the intrinsic strengths of the company rather than the external helps.
3. The board and management should have separate counsel during mergers to ensure unbiased advice and fair representation of shareholders views.
4. Build your targets with some stretch and expect that your people will find a way to get there.
5. Management must set a vision, align leadership around the cultural integration and hold substantive events to give employees a chance to participate. Detailed plan of action and well articulated expectations of change in behavior to inter-connect the culture plan to the business goals.
6. With proper planning and attention to detail throughout the merger process—from determining strategic planning and direction, transaction design, and post merger integration

require dynamic leader to lead, execute and integrate. 323.

7. Tell employees what you can and what you can't tell them at the moment, why, and when you will be in a position to do so.

8. Training to employees before merger: One company may have entrepreneurial and risk taking style of functioning. Other company may have extreme authoritative and procedural orientation. Middle level managers were sent to various Godrej sites (An Indian Company) for training so that they could have a firsthand experience of systems and practices and such managers were playing as change agents.

9. Carefully give importance to rename, logo, colour, check in counter, check in staff, redesign of the reception, rebranding, consultancy firm and the leader to lead the Jumbo.

10. Insure your post merger legal battles in India. Even mergers happen between two entities outside India can attract Income tax in India if there is a remote link with Indian entities before or after mergers.



Here is a list of some of the **most happening mergers and acquisitions in India in the year 2014**, listed in random order.

#### **1. Flipkart- Myntra:**

The huge and most talked about takeover or acquisition of the year. The seven year old Bangalore based domestic e-retailer acquired the



online fashion portal for an undisclosed amount in May 2014. Industry analysts and insiders believe it was a **\$300 million or Rs 2,000 crore deal**.

Flipkart co-founder Sachin Bansal insisted that this was a “completely different acquisition story” as it was not “driven by distress”, alluding to a plethora of small e-commerce players either having wound up or been bought over in the past two years. Together, both company heads claimed, they were scripting “one of the largest e-commerce stories”.

#### **2. Asian Paints- Ess Ess Bathroom Products:**

Asian paints signed a deal with Ess Ess Bathroom products Pvt Ltd to acquire its front end sales business for **an undisclosed sum in May, 2014**.

“The company on May 14, 2014 has entered into a binding agreement with Ess Ess Bathroom Products Pvt. Ltd and its promoters to acquire its entire front-end sales business including brands, network and sales infrastructure,” Asian Paints said in a filing to the BSE on Wednesday.

Ess Ess produces high end products in bath and wash segment in India and taking them over led to a 3.3% rise in share price for Asian paints.

#### **3. RIL- Network 18 Media and Investments:**

Reliance Industries Limited (RIL) took over 78% shares in Network 18 in May 2104 for **Rs 4,000 crores**. Network 18 was founded by Raghav Behl and includes moneycontrol.com, In.com, IBNLive.com, Firstpost.com, Cricketnext.in, Homeshop18.com, Bookmyshow.com while TV18 group includes CNBC-TV18, CNN-IBN, Colors, IBN7 and CNBC Awaaz.

#### **4. Merck- Sigma Deal:**

One of the leading Indian manufacturers, Merck KGaA took over US based Sigma-Aldrich Company for **\$17 billion in cash**, hoping the deal will help boost its lab supplies business.

Sigma is the leading supplier of organic chemicals and bio chemicals to research laboratories and supplies groups like Pfizer and Novartis with lab substances.

#### **5. Ranbaxy- Sun Pharmaceuticals:**

Sun Pharmaceutical Industries Limited, a multinational pharmaceutical company

headquartered in Mumbai, Maharashtra which manufactures and sells pharmaceutical formulations and active pharmaceutical ingredients (APIs) primarily in India and the United States bought the Ranbaxy Laboratories. The deal is expected to be completed in December, 2014.

Ranbaxy shareholders will get 4 shares of Sun Pharma for every 5 Ranbaxy shares held by them. The deal, **worth \$4 billion**, will lead to a 16.4 dilution in the equity capital of Sun Pharma.

#### **6. TCS- CMC:**

Tata Consultancy Services (TCS), the \$13 billion flagship software unit of the Tata Group, has announced a merger with the listed CMC with itself as part of the group’s renewed efforts to consolidate its IT businesses under a single entity.

At present, CMC employs over 6,000 people and has annual revenues worth Rs 2,000 crores. The deal was inked a few days back. TCS already held a 51% stake in CMC.

#### **7. Tata Power- PT Arutmin Indonesia:**

India’s largest private power producer, Tata Power, purchased 30% stake in Indonesian coal manufacturing firm for **Rs 47.4 billion**. Earlier this year, they sold off 5% of its stake in PT Arutmin Indonesia (Arutmin) and PT Kaltim Prima Coal (KPC) for Rs. 250 billion due to falling coal prices globally. It plans to sell the remaining 25% stake for \$ 1 billion soon too.

#### **8. Tirumala Milk – Lactalis:**

The largest dairy player in the world, Groupe Lactalis SA, acquired the 18 year old Hyderabad based Tirumala Milk products for a **whopping Rs 1750 crore (\$275 million)** in January, 2014.

Founded in 1896 by D Brahmanandam, B Brahma Naidu, B Nageswara Rao, Dr N Venkata Rao and R Satyanarayana, Tirumala is the second largest private dairy company in South India.

Lactalis acquired 100% of their shares.

#### **9. Aditya Birla Minacs- CSP CX:**

Aditya Birla Nuvo Ltd (ABNL) owned ABNL IT & ITeS Ltd. was sold to a Canadian based technology outsourcing firm marking Aditya Birla’s exit for the IT industry.

The deal was chalked out with a group of investors led by Capital Square Partners (CSP) and CX Partners (CXP) for **\$260 million** (approximately Rs. 1,600 crore).

#### **10. Sterling India Resorts- Thomas Cook India:**

Billionaire Prem Watsa owned Thomas Cook India bought the Sterling Resorts India for Rs 870 crores in , marking Thomas Cook's entry into the hospitality sector. Thomas Cook had earlier acquired Ikya Human Solutions in 2013.

#### **11. Yahoo- Bookpad:**

The search engine giant, Yahoo, acquired the one year old Bangalore based startup Bookpad for a little under \$15 million, though the exact amount has not been disclosed by either of the two parties concerned. While the deal value is relatively small, this was the first acquisition made by Yahoo, and was much talked about and hence finds a mention in our list.

Bookpad was founded by three IIT Guwahati pass outs and allows users to view, edit and annotate documents within a website or an app.

### **CONCLUSION**

Primary purpose of mergers and acquisition is to reduce competition and protect existing markets in the economy. Overall mergers and acquisitions have their own pros and cons. But mergers are good for the growth and development of country only when it does not give rise to competition issues. Mergers improve the competition edge of the industry in order to compete in the global market but mergers shrink the industry because number of firms reduces.

But in the recent years these trends has been changed. One striking feature which was noticed in comparison to domestic mergers and cross border mergers was that in domestic mergers if no competition issue were raised then cost will reduce because of reduction in operating cost. But in case of cross border mergers it has been noticed that revenue tends to improve without imposing negative impact on consumers. Setting of priorities in advance is beneficial for the acquiring company.

Too many mergers inside or outside can be harmful for the economy and leads to economic failure. From society's point of view too many mergers should be avoided. But we cannot restrict all mergers which includes at least one big player in the economy instead we should reconsider our competition policies.

There are many reasons to fail but a few reasons to Success of a merged entity. Failures are not stepping stones to success with respect to mergers and acquisitions. Definitely, everyone understands that if new software fails by even by 0.1%, the software fails by 100%. In the same way if merger is not successful by 100%, it is considered failure. The studies undertaken guide the management and persons involved not to fail to understand the reasons for pre and post merger failures. The government of India brought legislations under Income tax Act to encourage Indian companies to acquire companies outside India and multinationals taking over Indian companies by increasing foreign holdings in Indian companies such as insurance and telecommunication sectors. The acquiring company can set-off losses of the acquired company out of the operating profits earned and save tax. Understanding culture, training of managers to develop change agents, communication to stake holders, building targets, developing a new culture, leader to lead careful planning and implementation at each stage of mergers make merger successful.

mergers and acquisitions (M & A) is the area of corporate finances, management and strategy dealing which deals with purchasing and/or joining with other companies.

Though the two are often mentioned together, a merger is very different from an acquisition.

A merger, in a nutshell, involves two corporate entities joining forces and becoming a new business entity, with a new name. It usually involves two companies of same size and stature joining hands.

An acquisition, on the other hand, involves one bigger business taking over a smaller company which may be absorbed into the parent company or run as a subsidiary. The company being taken over is referred to as the 'target company' in the corporate world.

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