JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

TRENDS AND PERSPECTIVES ON CORPORATE MERGERS IN CONTEMPORARY INDIA

[i]**Prof. BASAVARAJ S. PATIL**

[1] Assistant Professor, Department of Commerce, KLE's Jagadguru Gangadhar College of Commerce, Hubballi.

INTRODUCTION

Mergers and acquisition have been prominent in the advanced capitalist countries since the late 19th century. But only in recent times have they become a regular phenomenon in developing countries like India. The corporate sector in India has witnessed a substantial growth of mergers and acquisitions since 1990s. Through the first wave of M & As (1990-95) the Indian corporate sectors seem to have been bracing up to face foreign competition. While the second wave (since 1995) saw a significant involvement of multinational firms. The macroeconomic policy changes in India facilitated the third wave of mergers since 2000 (2th century) i.e overseas acquisitions by the Indian firms. A large number of mergers were between firms belonging to same business groups and product lines with a view to increase their controlling blocks and market power.

OBJECTIVES

The main objective of this paper is to understand the motives and implication of merger waves in India during the second half of 1990s. The choice period of analysis was subject to availability of adequate information relating to performance of variables of a period five years before and after M& As. The analysis has been conducted in a comparative perspective by classifying the acquiring firms into two categories in terms of ownership namely Indian owners and foreign owned.

THIS PAPER IS DIVIDED INTO SIX SECTIONS NAMELY.

1. Policy reforms and trends of M&As
2. Theories on motives and implications of M&As
3. Sample data and methodology

4. Impact of M&As on the performance of acquiring firms
5. Source of financing and some plausible issues for corporate governance
6. Conclusion

1. **Policy reforms and trends of M&As**: A paradigm shift in the industrial policy by government of India, made M&As as possible in the first place. In 1991 the restrictive provisions of the Monopolies and Restrictive Trade Practices (MRTP) Act relating to licensing of enterprises for expansion, amalgamations and takeovers of business enterprises and acquisition of foreign technology and foreign investment were removed. The foreign exchange regulation act (FERA) was substantially altered in early 1993. With the openings up of the economy. All restriction on FERA companies with respect to borrowing funds or raising deposits in India as were as taking over or holding stakes in India nationals were allowed to start joint venture abroad and accept directorship in overseas companies. Foreign institutional investments (FIIs) have been allowed to entire into capital market. Foreign Exchange Management Act (FEMA) was introduced in 2000 which allowed companies to invest 100 percent of the proceeds of their American Deposits Receipts (ADRs) and Global Depositary Receipts (GDRS) issues for acquisitions for foreign companies and direct investment in joint ventures. The change in policy regime in 2005 allowed Indian firms to invest in entities broad up to 200% of their net worth. Without any profitability or exchange earning conditions.

However in India competition policy act was introduced in 2002 by setting up the competition commission of India (CCI) to omental anti completive practices life collusive bidding, bid rigging to dominant Cos. And reverse merges. In 1992 Govt. of India set up Securities and Exchange Board of India (SEBI) , Under SEBI Act 1992, SEBI came out with regulation on substantial acquisition of shares and takeovers.

It is now clear that structural adjustment programme and new industrial regime adopted by the Govt. of India allows business houses to undertake without restriction any programme of expansion, merger and acquisition.

Substantial growth of M&As in the Indian corporate sector has been witnessed since 1990s. For instance the total no. of M&As has sharply increased to 1370 during 2000-2006 from 291 during 1990-95.

The policy shift that facilitated M&As has had implications for various industry groups study observed that firms in beverages, chemical, drugs, pharmaceutics, cement, electronics sector shave has a relatively high involvement in M&As activity. Recent study reported that foreign acquisition by Indian firms has increased from 46 in 1994 to 130 in 2005.

2. Theories on Motives and implications of M&As

The theories on M&As extend over the terrains of industrial sector, financial economics and international business studies. The financial economics literature and international business research classify the merger motive into four types namely.

- **a.** Efficiency enhancing measures
- **b.** Concentration and monopoly enhancing
- **c.** Driven by macro - economic changes
- **d.** Driven by financial motives

a. Mergers as efficiency enhancing measures: Mergers can create collective organizational structure in which the parties have mutual confidence and that enhances efficiency. Mergers in general can lead to efficiency increase through bargaining that always occur in the Grossman Hart-Moor paradigm. Increased efficiencies can flow from economic of scale, scope in the larger post-merger operations, greater control over key inputs, product rationalization, combining marketing, advertisement and distribution and cutting down overlapping research and development (R&D).

b. Mergers as enhancing concentration and monopoly: The immediate effect of merger is to increase the degree of concentration as it reduces the number of firms. In mergers artificial barriers can be raised and strengthened by product differentiation through legal rights in design, patent and know how. Mergers can develop active market for corporate control encourage manages empiric build not only to increase monopoly power but also to avoid takeover by becoming a larger firm in terms of their controlling block. It is also argued that the diffuse equity ownership can also make managers to run the firm on their own benefits at the expenses of investors.

c. Mergers as driven by macroeconomic changes: M&As are undertaken to compensate for instabilities such as wide fluctuations in demand and product mix, excess capacities related to slow sales growth and declining profit margins. Macroeconomics changes become the context or provided opportunities for M&As. Andrade Mitchell and Stafford argued that the decade of deregulations during the 1990s caused M&As in U.S. The study shows that industry shocks are a primary source of takeover activity. Economics forces that have acted to encourage cross border M&As. A view relating to macroeconomics changes to merge moves in particularly relevant in the context of transnational economies and developing countries under neoliberal reforms.

d. Mergers as driven by financial motives: Availability of capital to finance acquisitions and innovations in financial markets such as junk bonds among the reason for cross border merges. The valuation difference of share prices lead to acquisition of firms that are low values from the point of view of outsiders. Interest rate also lead to acquisitions as acquiring firms depends heavily on borrowed funds.

The study argued that in many cases among the motives for mergers could have been desire to improve financial position of the firms, through viable capital structure and desire of the firms to exploit the opportunity provided by the initial post liberalization opportunity in Indian stock market.

Financial motives are major determinants of M&As n our country. Paul Sweezy (1994-249) had spoken of the enormous growth of a financial superstructure atop the real productive base of world economy.

1995-2000 grouped into 2 categories domestic M&As cross border M&As and checked whether there is significant difference in their performance between the premerger and post-merger phase. The performance has been measured in terms of price cost margin, rate of returns, shareholders profit, debt equity ratio, dividend per equity, market share, export intensity, r& D intensity etc.

3. Sample Data and Methodology

Own list of M&As are constructed by comprising information available from different sources. The list of amalgamations mergers can be collected from the division of research and statistics of the department of co affairs and the list of take overs can be collected from the monthly review of Indian economy published by the economics intelligence service Centre for monitoring Indian economy (CMIE).

For this study the period of M&As is five years i.e. 1995-2000. during this period the 2 percent of total number of M&As occurred in the Indian Manufacturing sector. It consisted of 84 domestically owned acquiring forms and 31 foreign owned acquiring firms involved in M&As in the manufacturing sector during this period, Our sample included only those MNCs related acquiring firms that were already operating in India s foreign subsidiaries. Our sample was reduced in size because we have selected only those firms for which necessary data was available. Sample cases chosen for this study include 7% horizontal M&As 18%. Vertical M&As 11% conglomerate. It has been distributed into 52 categories.

The main objective of this paper is to examine whether there is any significant difference in their performance between pre-merger and post-merger. For our analysis the total M&As during 1995-2000 grouped into 2 categories domestic M&As cross border M&As and checked whether there is significant difference in their performance between the pre-merger and post-merger phase. The performance has been measured in terms of price cost merging, rate of returns, shareholder profit, debt-equity ratio, dividend per equity, Market share. expert intensity, R&D intensity etc.

4. Impact of M&As on the performance of acquiring firms

We observed that the profitability ratio in terms of rate of return and shareholders profit of all acquiring firms has either remained stable or declined during the post M&As period compared to pre M&As period. The debt equity ratio of all acquiring firms decreased. The R&D intensity of majority of acquiring firms has declined. Export intensity for all acquiring firms has shown slight improvement. Further our study shown that the capacity utilization ratio has declined during the post-acquisition period. From the pre and post-merger performance analysis it is noticed that shareholder equity (dividend/equity) has increased after merger although it is not statistically significant. Our analysis has further shown that the shareholders of acquiring firms were paid better returns a dividends, probably to win the shareholders confidence in the post-merger phase. This has been done in comparative framework by grouping all M&As in to two categories again namely M&As involving domestic firms and M&As involving foreign owned firms.

5. **Sources of Financing and issues for corporate governance.**

An earlier analysis of the major sources of funds of sample 54 firms involved in mergers during the first phase 1990-95 shows that 71% of the total assets of the acquiring firms in the period 1990-95 was mobilized from external sources. The capital market accounted for 33% of the total funds acquired and the current liabilities for another 21%.

However the firms involved in mergers during the second phase 1995-2000 have changed their corporate financing strategies. The acquiring firms were depending more on external financing in 1995 . Among these capital market accounted for 34% and borrowing accounted for 22%.

The new trend of internal financing of the corporate sector conforms t the so called pecking order theory of financing corporate growth. It suggest that firms resort to financing their investment form internal sources in order to maintain family ownership and control of corporatizations.

Conclusion

The evidence suggest that new economic environment of the 1990s has facilitated M&As between companies under domestic or foreign ownership firms under the same business groups and similar product line dominated the merge wave. The average performance of acquiring firms based on all indicators during 1990-2005 was relatively better than that of the manufacturing sector.

The new anit-trust regulation in India in the 1990s has helped foreign and Indian firms to expand their product market share through M&As.

This paper could not deal with aspects such as the impact of M&As on capital formation balance of payment, employment generation, managerial and marketing skills, quality of services and prices.