

# Merger & Acquisition A New Trend in Indian Economy

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## **Introduction:**

Two heads are better than one. M & A (Merger & Acquisition) and corporate restructuring are a big part of corporate finance. M & A transactions bring separate companies together to form large company it is way to expand ownership boundaries. Consolidation through M&As (Merger & Acquisition) has become a major trend across the globe. This wave was driven by globalization, technological changes, and market deregulation and liberalization. M&A activity has been predominant in sectors like steel, aluminum, cement, auto, banking and finance, computer software, pharmaceuticals, consumer durables, food products, agro-chemicals and textiles. Generally, M&As aim at achieving greater efficiency, diversification and market power.

Many companies find that the best way to get ahead is to expand ownership boundaries through mergers and acquisitions. Mergers create synergies and economies of scale, expanding operations and cutting costs. Investors can take comfort in the idea that a merger will deliver enhanced market power. The functions of synergy allow for the enhanced cost efficiency of a new entity made from two smaller ones - synergy is the logic behind mergers and acquisitions. An M&A deal can be executed by means of a cash transaction, stock-for-stock transaction or a combination of both. A transaction struck with stock is not taxable.

Until up to a couple of years back, the news that Indian companies having acquired American-European entities was very rare. However, this scenario has taken a sudden U turn. Nowadays, news of Indian companies acquiring foreign businesses is more common than other way round. Indian economy, extra cash with Indian corporate, Government policies and newly found dynamism in Indian businessmen have all contributed to this new acquisition trend. Indian companies are now aggressively looking at North American and European markets to spread their wings and become the global players. The increasing engagement of the Indian companies in the world markets, and particularly in the US, is not only an indication of the maturity reached by Indian Industry but also the extent of their participation in the overall globalization process.

Indian economy has been growing with a rapid pace & has been emerging at the top, be it IT, R&D, pharmaceutical, infrastructure, energy, consumer retail, telecom, financial services, media, and hospitality etc. It is second fastest growing economy in the world with GDP touching 9.3 % last year. Investors, big companies, industrial houses view Indian market in a growing and proliferating phase, whereby returns on capital and the shareholder returns are high. Both the inbound and outbound mergers and acquisitions have increased dramatically. The combination movements between two or more companies on a large scale have been seen at the end of nineteenth century and the beginning of twentieth century in order to avoid competition & to obtain economy of large scale production. According to AS-14(Accounting Slandered) amalgamation is down in two ways i.e. Amalgamation in nature of Merger and Amalgamation in nature of Purchase.

### **Objects of Amalgamation & Merger:**

The event of amalgamation comes to arise for achieving following objects-

- Economical
- Control on business
- More production
- Control over market
- More capital



## The top 10 acquisitions made by Indian companies worldwide

Acquirer	Target Company	Deal Value (\$ Billion)	Industry Sector	Country Targeted	Date
Tata Steel	Corus Group	\$12.2	Steel	UK	30 Jan.,2007
Vodafone	Hutch Esser	\$11.1	Telecom	Canada	11 Feb.,2007
Hindalco Industries	Novelis Inc.	\$ 6.0	Steel	Canada	12 Feb.,2007
Ranbaxy Lab.	Daiichi Sankyo	\$ 4.5	Pharmacy	Japan	11 Jun.,2008
ONGC	Imperial Energy	\$ 2.8	Oil & Gas	London	5 Jan.,2009
Tata Tele services	NTT DoCoMo	\$ 2.7	Telecom	Japan	12,Nov.,2008
HDFC Bank	Centurion Bank of Punjab	\$ 2.4	Banks	India	22 Feb.,2008
Tata Motors	Land Rover from Ford Motor	\$ 2.3	Automobiles	USA	25March,2008
Sterlite Industries	Asarco LLC	\$ 1.8	Metal	USA	8 March, 2009
Suzlon Energy	Wind Turbine producer Repower	\$ 1.7	Power	South Africa	30March,2007

If you calculate top 10 deals itself account for nearly US \$ 47.5 billion. This is more than double the amount involved in US companies' acquisition of Indian counterparts.

### Merger & Acquisition in times of Financial Crises:-

The global picture in 2007 Merger markets estimated the global M&A market to be doing around US\$ 3,600 billion worth of mergers in about 15,700 deals. Over the next three years, as the financial markets in the West melted and many industries and geographies witnessed negative growth, the number of mergers as well as the total value went down, to hit \$1,800 billion in 9,400 deals in 2009. in short 40% numbers of deals come down & the total value of deals struck globally affected

#### Global M & A Activity:

Year	Value (in \$ Billion)	Volume (Exact No.)	% Change in value across Year
2007	3,635	15,675	-
2008	2,425	12,775	- 33.30
2009	1,770	9,390	- 27.00

Above table reveals the global M & A activities. Global volume of M & A has been reduced during the year 2008-09. It shows that drastic reduction in such activity started since 2008 it only due to the impact of recession.

In India Merger & Acquisition as affected just like on global level. In 2007, India had completed 860 deals value at \$ 59 billion. In 2009 the deals volume come down to 650 deals of Merger & Acquisition at \$ 17 billion only. A quick calculations can easily tell us that the valuations fallen drastically.

## **Merger & Acquisition Progress in the Year 2007:-**

In year 2007 Indian companies exercised their ambitions of domestic and global acquisitions. Three deals alone involving Tata-Corus, Vodafone-Hutchison-Essar and Hindalco-Novelis involved a total of \$29 billion. These were amongst the biggest deals India has ever seen.

On the contrary side the Indian's Bharti Airtel and South Africa's MTN would be Indian's biggest ever M & A deal. The potential value of Bharti Airtel-MTN deal would amount to \$ 23 billion. As per the agreement MTN & its shareholders would acquire 36% economic interest in Bharti Airtel, while Sunil Mittal Promoted Bharti Airtel would acquire 49% stack in South Africa MTN.

## **Impact of Merger & Acquisition:-**

Lot of research has been undertaken in the area of Merger & Acquisition and its impact on shareholders of acquiring and acquired companies in developed countries. It is observed that M & A impact on share prices of both the companies and affected on profitability. Most of the studies undertaken revealed that M & A fails to create value for the shareholders of acquiring companies.

\* Dodd P. finds that shareholders of bidder have faced negative return of -7.22% & -5.50%, whereas the shareholders of other company gained positively abnormal returns on the announcement of merger proposals.(10 days before and 10 days after announcement).

\* Firth M. in his research found that in U.K. Merger & Acquisition resulted in benefits to the acquired firm's shareholders whereas acquiring companies shareholders put to the losses.

\* Moeller, Schlingemann and Stulz analyzed 12023 acquisitions over the period of 1980 & 2001. They found that average dollar change in wealth of acquiring firm shareholders was negative around the time of announcement. The most of the studies found that Merger & Acquisition failed to create wealth for acquirer company shareholders. In India, the example of Tata Steel also supposed the above finding as the announcement of acquisition of Corus from UK, the shareholders of Tata Steel company put the heavy losses. Though the shareholders of acquiring company do not gain from Merger & Acquisition, it is argued that from social prospective, it is beneficial as the net effect of it, in general is positive. Hence it concluded that in general Merger & Acquisition create value.

**Conclusion:-**

Merger & Acquisition have become very popular over the years especially during the last two decades owing to rapid changes that have taken place in the business environment. Business firms now have to face increased competition not only from firms within the country but also from international business giants thanks to globalization, liberalization, technological changes and other changes. It is unfortunate that in many deals only financial and economic benefits are considered while neglecting the cultural and people issues.

Making the mergers work successfully is a complicated process which involves not only putting two organizations together but also involves integrating people of two organizations with different cultures, attitudes and mindsets. Therefore, there is also a need to develop appropriate methodologies to effectively measure the performance of the Merger & Acquisition and their effects on the shareholders.

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