



## The Pattern of Merger and Acquisitions in India

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### ABSTRACT

*Mergers and Acquisitions as growth strategy have received attention from developed as well as emerging economies. Globalization and Liberalization have led firms from emerging markets like India to become more aggressive and opt for Mergers and Acquisitions to fight the competitive battle. Mergers and Acquisitions are one of the mechanisms by which firms gain access to new resources; via resource redeployment, they increase revenues and reduce cost. The average number of 239.93 mergers has occurred with an amount of Rs. 3, 82,134.04 millions during the period of the study. There has been a considerable shift seen in 2011-12 in the outlook of Indian companies which relooked at acquisitions as one of their key growth strategies. Indian companies were involved in a recorded total of 1210 acquisitions deals. The increased participation of the Indian companies in the global corporate sector has further facilitated the Mergers and Acquisitions activities of open offers in India. There is no constant increase or decrease either in the number or in the amount of sale of assets.*

**KEYWORDS : Mergers, Acquisitions, Open offers, Sale of assets**

### Introduction:

Mergers and Acquisition are key forms of corporate restructuring. The Mergers and Acquisitions come into existence from the post independent period in India. But very few Mergers and Acquisitions took place in India prior to 1990s due to Industrial Development and Regulation Act, FERA Act, MRTP Act. After 1990s especially after Globalization in 1991, there was a through cut domestic and global competition. This leads to a big wave of Mergers and Acquisitions. Takeover cases started only in the year 1996 and then onwards this mode of Mergers and Acquisitions has gained lot of importance.

Mergers and Acquisitions in India have evolved through a distinct phase of regulations. On one side of the regulatory spectrum there has been a discouragement to the formation of combinations due to fear of concentration of economic power in the hands of few and on the other side there have been encouragement to varied forms of Mergers and Acquisitions due to reasons of optimum utilization of resources, social benefits and growth of competitiveness of Indian corporate sector. The changing regulations and increased competition and competitiveness of Indian corporate firms brought about sustainable change in strategy formulations. The real impetus for Mergers and Acquisitions in India came from the economic reforms of Liberalization, Privatization and Globalization introduced by the Government. The economic reforms, through the relaxation of controls and regulations on production, trade and investment were aimed at increasing competition, improving efficiency and growth of the Indian corporate sector.

### Objectives of the study:

In this study, an attempt is made to examine the pattern of Mergers and Acquisitions in India. The principal objectives of the study are as follows;

1. To identify the pattern of the number and amount of Mergers and Acquisitions.
2. To analyse the number and amount of open offers of Mergers and Acquisitions.
3. To discuss the number and amount of sale of assets.

### Pattern of Mergers:

Now, it is aimed at identifying the pattern of the number and amount of Mergers occurred during the period from 1999-00 to 2013-14. The Table – I presents the relevant data of number of Mergers and the amount of Mergers from the period of 1999-2000 to 2013-14.

**Table - I**

**Number and Amount of Mergers**

Year	No. of Mergers	Amount of Mergers (Rs. Millions )
1999-00	189 (-)	138950.21 (-)
2000-01	126 (-33.33)	80197.17 (-42.28)
2001-02	119 (-5.55)	90606.23 (12.97)
2002-03	158 (32.77)	103612.66 (14.35)
2003-04	156 (-1.26)	113869.15 (9.89)
2004-05	299 (91.66)	363665.66 (219.37)
2005-06	311 (4.01)	680491.87 (87.12)
2006-07	295 (-5.14)	819142.36 (20.37)
2007-08	350 (18.64)	409890.95 (-49.96)
2008-09	300 (-14.28)	234100.14 (-42.88)
2009-10	373 (24.33)	868551.2 (271.01)
2010-11	216 (-42.09)	229490.52 (-73.57)
2011-12	234 (8.33)	291257.76 (26.91)
2012-13	220 (-5.98)	312745.6 (7.37)
2013-14	253 (15.00)	995439.16 (218.19)
Average (X)	239.93	382134.04

Source: Various issues of CMIE Reports.

Note: Figures in brackets represent the growth rates.

The data of the Table – I reveals that an average number of 239.93 mergers have occurred with an amount of Rs. 3,82,134.04 Millions during the entire period from 1999-00 to 2013-14. The maximum number of mergers 373 was reported during the year 2009-10, while the lowest number of mergers 119 was reported at during the year 2001-02. There were only 126 mergers with a lowest amount of Rs.

80,197.17 Millions during the year 2000-01. Then after there was a continuous increase year to year and reached an amount of Rs. 8, 19,142.36 millions in the year 2006-07. The revival of industrial activities due to investment sentiment of acquirer companies during the year 2009-10 the amount of mergers witnessed an impressive growth of 271.01 per cent from the level of (-) 42.88 per cent in 2008-09.

#### Pattern of Acquisitions:

In the fast changing business world, companies have to strive hard to achieve quality and excellence in their fields of operation.<sup>1</sup> Every company has the prime objective to grow profitably. The profitable growth for the companies can be possible internally as well as externally. The internal growth can be achieved either through the process of introducing or developing new products or by expanding or by enlarging the capacity of existing products are sustained improvement in sales.<sup>2</sup> External growth can be achieved by acquisition of existing business firms.<sup>3</sup>

An acquisition is the purchase by one company of controlling interest in the share capital or all are substantially all of the assets and/or liabilities of another company. The Table – II presents the data of number and amount of acquisitions were taken place from 1999-00 to 2013-14.

**Table - II**  
**Number and Amount of Acquisitions**

Year	No. of Acquisitions	Amount of Acquisitions (Rs. Millions)
1999-00	836	3,08,618.60
2000-01	821 (-1.79)	2,81,964.10 (-8.63)
2001-02	803 (-2.19)	2,58,265.10 (-8.40)
2002-03	671 (-91.64)	2,02,553.20 (-21.57)
2003-04	653 (-2.68)	3,13,441.40 (54.74)
2004-05	638 (-2.29)	5,39,183.40 (72.02)
2005-06	791 (23.98)	8,78,463.60 (62.92)
2006-07	1,043 (31.85)	21,90,384.10 (149.34)
2007-08	1,075 (3.06)	9,26,303.40 (-57.71)
2008-09	670 (-37.67)	7,15,082.00 (-22.80)
2009-10	592 (-11.64)	13,98,587.30 (95.58)
2010-11	642 (8.44)	15,45,142.10 (10.47)
2011-12	1,210 (88.47)	17,58,271.90 (13.79)
2012-13	972 (-19.66)	11,50,591.40 (-34.56)
2013-14	936 (-3.70)	19,53,582.90 (69.78)
Average(X)	823.53	961362.3

Source: Various issues of CMIE Reports.

Note: Figures in brackets represent the growth rates.

The data of the Table – II reveals that the number and amount of acquisitions were fluctuating from year to year. Thus, there was no clear cut trends were noticed. However, the average number 823.53 acquisitions were taken place with an amount of Rs. 9, 61,362.3 Millions during the period under review. The highest number of acquisitions 1,210 was recorded in the year 2011-12 with the growth rate of 88.47 per cent compared with the 2010-11. Similarly, the highest amount of acquisitions Rs. 21, 90,384.10 Millions was evident in the year 2006-07 with an impressive growth rate of 149.34 per cent from the level of 62.92 per cent in the year 2005-06. Whereas, the least number of 592 acquisitions with an amount of Rs. 13, 98,587.30 Millions were recorded in the year 2009-10 then after it was rapid increase between

2009-10 and 2011-12 registering a compounded annual growth 88.47 per cent with an amount of Rs. 17, 58,271.90 Millions with the growth rate of 13.79 per cent. There has been a considerable shift seen in 2011-12 in the outlook of Indian companies which relooked at acquisitions as one of their key growth strategies. Thus, Indian companies were involved in a recorded total of 1210 acquisition deals.

#### Mergers & Acquisitions Activity: Open Offers:

An open offer is an offer from either the promoters or a big investor to buy shares from the open market at a fixed price. Most of the open offers come at a premium to market price. These open offers could be voluntary or compulsory. Generally, open offer is a secondary market offering that is similar to a rights issue in which a shareholder is given the opportunity to purchase stock at a price that is lower than the current market price. The purpose of such an offer is to raise cash for the company. In this situation the companies which are intended to acquire the business of other companies they prepared to purchase the stock to control over the business activities of the target company as an activity of Mergers and Acquisitions.

Now, it is proposed to analyze the number and amount of open offers of Mergers and Acquisitions from 1999-00 to 2013-14. The following Table – III presents relevant data of the open offers as an activity of Mergers and Acquisitions.

**Table – III**  
**Mergers & Acquisitions Activity: Open Offers**

Year	No. of Open Offers	Amount of Open Offers (Rs. Millions)
1999-00	89	35,045.20
2000-01	75 (-15.7)	26,251.00 (-25.1)
2001-02	96 (28.0)	47,903.50 (82.5)
2002-03	108 (12.5)	54,647.20 (14.1)
2003-04	73 (-32.4)	15,639.70 (-71.4)
2004-05	73 (0.0)	72,320.50 (362.4)
2005-06	118 (61.6)	76,430.30 (5.7)
2006-07	103 (-12.7)	1,25,735.90 (64.5)
2007-08	124 (20.39)	1,63,601.40 (30.1)
2008-09	87 (-29.8)	1,32,257.90 (-19.2)
2009-10	87 (0.0)	1,60,716.40 (21.5)
2010-11	103 (18.4)	6,55,943.60 (308.1)
2011-12	73 (-29.1)	45,696.10 (-93.0)
2012-13	83 (13.7)	1,63,782.40 (258.4)
2013-14	69 (-16.9)	4,12,096.70 (151.6)
Average(X)	90.73	1,45,871.2

Source: Various issues of CMIE Reports.

Note: Figures in brackets represent the growth rates.

The analysis of the data reveals that the number and amount of Mergers & Acquisitions activity related to open offers were fluctuating from year to year. Thus, there was no clear – cut trends were remerged. The highest number of open offers were recorded at 1,18,103 and 124 with an amount of Rs.76,430.30 Millions, 1,25,735.90 Millions and Rs 1,63,601.40 Millions during the period 2005-06,2006-07 and 2007-08 respectively. This was mainly on account of private equity firms, which played a major role in the world at mergers and acquisitions for three years. The Indian Information Technology and Information Technology enabled Services Sectors have already proved their potential in the global market. The other Indian corporate sectors are also following the game trend. The in-

creased participation of the Indian companies in the global corporate sector has further facilitated the mergers and acquisitions activities of open offers in India.

In the year 2010-11 the mergers and Acquisitions activity of open offers mobilised the recorded amount of Rs.6, 55,943.60 Millions with the growth rate of 308.1 percent. There are different factors that played their parts in facilitating the mergers and acquisitions in India such as, favourable government policies, buoyancy in economy, additional liquidity in the corporate sector and dynamic attitudes of the Indian entrepreneurs are the key factors behind the changing trends of mergers and acquisitions in India.

The least number of 89 open offers of mergers and acquisitions with a meagre amount of Rs. 35,045.20 millions were noticed in the year 1999-00, then after it was rapid increase between 1999-00 and 2007-08 registering a compound growth rate of 467 per cent with an amount of Rs. 1,63,601.40 millions with the growth rate of 30 per cent. However, the average number 90.73 open offers mergers and acquisitions were taken place with an amount of Rs. 1, 45,871.2 millions during the period of the study.

#### Mergers and Acquisitions Activity: Sale of Assets

The sale of a small or medium sized business is usually structured as either equity sale or an asset sale. Which structure is right for the firm depends on various circumstances. Generally buyers prefer asset sales, whereas, sellers prefer stock sales. In an equity sale, the buyer purchases the equity from the owner or owners of the target company – stock in the case of a corporation and membership interests in the case of Limited Liability Company. The business is transferred to the new owners, corporate entity and all, the target company becomes a wholly – owned subsidiary of the purchaser. There is no change in the status of the target entity itself and its contracts, assets and liabilities remain with the entity.

In an asset sale, specified assets are transferred from the target company to the purchaser, while the corporate or limited liability company Entity remains in place and continues to be owned by its owners this assets transferred might be all of this target company's assets, or they might be more limited in scope similarly some or all of the targets liabilities might be transferred to the purchaser or retained by the target company, although most of the liabilities after stay with the target.

In an asset sale the target company's sale assets, and sometimes its liabilities are also transferred the buyer. The ownership of the targets corporate or limited liability company shell does not change hands. Note that while the buyer's legal transactions are with the target's equity holders in any equity sale, the transactions us with the target itself in asset sale.

In an asset sale, the seller retains possessions of the legal entity and the buyer purchases individual's assets of the company, such as equipment, fixtures, leaseholds, licenses, goodwill, trade secrets, trade names, telephone numbers and inventory etc. Asset sales generally do not include cash and the seller typically retains the long term debt obligations. This is commonly referred to as a cash-free, debt-free transaction. Normalised net working capital is also typically included in a sale net working capital often includes accounts receivable, inventory, prepaid expenses, accounts payable and accrued expenses. An asset sale provides the purchaser with the ability to choose which assets to acquire and to leave any unwanted assets with the seller.

Seller's point of view, assets sales generate higher taxes because while intangible assets, such as goodwill are taxed at capital gains rates. The other hard assets can be subject to higher ordinary income tax rates. Whereas, the asset sales allow buyers to step-up" the company's depreciable basis in its assets. By allocating a higher value for assets that depreciate quickly (like equipment, which typically has a 3-7 year life) and by allocating lower values on assets that amortize slowly (like goodwill, which has a 15 year life). The buyer can gain additional tax benefits. This reduces taxes sooner and improves the company's cash flow during the vital first years. In addition, buyers prefer asset sales because they more easily avoid inheriting potential liabilities, especially contingent liabilities in the form of product liability, contract disputes, product warranty issues or employee law suits.

However, asset sales may also present problems for buyers certain assets are more difficult to transfer due to issues of assignability, legal ownership and third party consents. The examples of more difficult to transfer assets include certain intellectual property, contracts, leases and permits, obtaining consents and refilling permit applications can slow down the transaction process with this back drop information it is decided to examine the number and amount of sale of assets in the process of mergers and acquisitions. The following Table – IV present the relevant data of sale of assets as an activity of Mergers & Acquisitions.

**Table - IV**  
**Merger & Acquisitions Activity: Sale of Assets**

Year	No. of Sale of Assets	Amount of Sale of Assets (Rs. Millions )
1999-00	307	78,421.60
2000-01	298 (-2.93)	40,564.10 (-48.27)
2001-02	176 (-40.93)	54,836.90 (35.18)
2002-03	153 (-13.06)	48,767.40 (-11.06)
2003-04	177 (15.68)	34,673.20 (-28.90)
2004-05	126 (-28.81)	48,512.60 (39.91)
2005-06	158 (25.39)	1,18,859.30 (145.00)
2006-07	178 (12.65)	1,02,986.00 (-13.35)
2007-08	154 (-13.48)	99,053.70 (-3.81)
2008-09	124 (-19.48)	1,17,073.90 (18.19)
2009-10	115 (-7.25)	1,49,809.20 (27.96)
2010-11	101 (-12.17)	7,44,628.20 (397.05)
2011-12	138 (36.63)	1,28,411.30 (-82.75)
2012-13	123 (-10.86)	1,89,419.90 (47.51)
2013-14	126 (2.43)	1,59,697.70 (-15.69)
Average (X)	163.36	26988.63

Source: Various issues of CMIE Reports.

Note: Figures in brackets represent the growth rates.

It is evident that the number and amount of sale of assets were fluctuating from year to year, thus there was no clear cut trends were identified. The reason for this situation is the structure of business sale as an asset sale or a stock sale is complicated because the parties involved benefit from opposing structures. However, the average number 163.36 sale of assets was taken place with an average amount of Rs. 26,988.63 millions.

The highest number of sale of assets 307 was recorded with lowest amount of Rs. 78,421.60 millions in the year 1999-00. As against this the lowest number of sale of assets 101 was noticed with the highest amount of Rs. 7,44,628.20 millions with the growth rate of 397.05 per cent. Normally, the sale of assets in the process of Mergers and Acquisitions is influenced by various circumstances, which are varying from year to year. Thus, there is no constant increase or decrease either in the number or in the amount of sale of assets.

#### Conclusions:

The revival of industrial activities due to investment sentiment of acquirer companies during the year 2009-10 the amount of mergers witnessed an impressive growth of 271.01 per cent from the level of (-) 42.88 per cent in 2008-09. The highest number of acquisitions 1,210 was recorded in the year 2011-12 with the growth rate of 88.47 per cent compared with the 2010-11. Similarly, the highest amount of acquisitions Rs. 21, 90,384.10 Millions was evident in the year 2006-07

with an impressive growth rate of 149.34 per cent from the level of 62.92 per cent in the year 2005-06. The highest number of open offers were recorded at 1,18,103 and 124 with an amount of Rs.76,430.30 Millions, 1,25,735.90 Millions and Rs 1,63,601.40 Millions during the period 2005-06,2006-07 and 2007-08 respectively. This was mainly on account of private equity firms, which played a major role in the world at mergers and acquisitions for three years. The highest number of sale of assets 307 was recorded with lowest amount of Rs. 78,421.60 millions in the year 1999-00. As against this the lowest number of sale of assets 101 was noticed with the highest amount of Rs. 7,44,628.20 millions with the growth rate of 397.05 per cent.

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