



Corporate Marriages: A Critical Analysis on Mergers and Acquisitions in India

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ABSTRACT

‘United we stand, divided we fall’ may be current theme where the whole world is at the verge of great depression, and under such tough situation, strategy of merger and acquisition play vital role in improving profitability but also helps to avoid competition, increase efficiency and market share. The new industrial policy 1991 has paved way for better corporate strategy and has contributed significantly in the growth of Indian industry. The article has mainly focused on the current trend of mergers and acquisitions in India.

Keywords : mergers, acquisitions, corporate strategy, drivers

INTRODUCTION

Mergers and acquisitions have been proved boon in the period of depression for all. In recent months two mega mergers at local level and global level induced many researchers to think again the old method of survival. The purpose of the M&A is mainly to establish control, reduce competition and increase profitability in the long run. In earlier days before the era 1991, the process of M&A was looked like pressurized – threatened undertakings. The reason was obvious and none another than the fear of implications of MRTP, but afterwards the process got momentum and considered as a corporate strategy to do business.

Merger is a process of joining together of two previously separate corporations. A true merger in the legal sense occurs when both businesses dissolve and fold their assets and liabilities into a newly created third entity. This entails the creation of a new corporation.

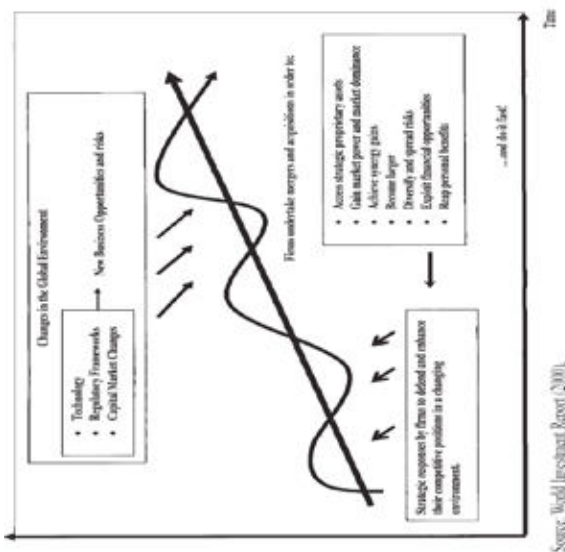
The word acquisition means buyout or takeover, it may be friendly or hostile in nature. Sometimes it may be referred as a purchase of small company by a big one.

Cross Border Mergers and Reverse mergers

Cross border mergers means merger of entity corporate in India with another entity corporate outside India. For e.g. Tata's acquisition of Corus. Sometimes we may also found Reverse merger in which to avoid listing compliance a private company acquires a public company and get the status of public company. This may easily help a private company to change its status.

Need for M&A

The following fig.1, tells about the needs of M&A, the reason why Tata Motors attracted towards buying Land Rover and Jaguar brand at premium price. There is always tug of war between the company's ambition for expansion and internal environment being resistance to adaptation or new changes. Somehow the company has to overcome from these difficulties and choose ideal time and partner for mergers and acquisitions. Global M&A is one of the most happening and fundamental element of corporate strategy in today's world. Many companies around the world have merged with each other with a motive to expand their businesses and enhance revenue.



Source: World Investment Report (2001)

- One of the main objective of behind M & A is to get the advantage of economies of scale, which may be in the form of production cost or in the form of cost of research and development
- The strategy may be to get ready made market share with established number of customers, which in return lead to increase in market share.
- Working in a fragmented segment will help a large company to minimize risk factor; therefore diversification from existing area may be the key factor for M & A.
- The hidden desire of top level manager to build up king Size Empire, may without any apparent reason attracted M & A.

Merger and Acquisition Strategy Process

The merger and acquisition strategies may differ from company to company and also depend a lot on the policy of the respective organization. However, merger and acquisition strategies have got some distinct process, based on which, the strategies are devised.

- Strategic business drivers or inducing factors
 - Types of market – area
 - Types of product
 - Technology parameters
- Identification of obstacles
 - Liquidity position
 - Availability of credit/Debt market situation.
 - Legal framework and compliance.
- Eligible entities

Identification of companies eligible as per the company's profile for M & A, identification through market research, advice from merchant bankers as well as board members.

- Primary evaluation
 - Cost – benefit analysis
 - Analysis of M & A cost (i.e. cost of acquisition)
 - Post M & A cost benefit analysis
- Selection of entities
 - Enlist companies as per the cost benefit and select the best one
- Finalizing the strategy
 - After completing all the process, finalize the process of completing M & A.

Statistics of Merger and Acquisitions

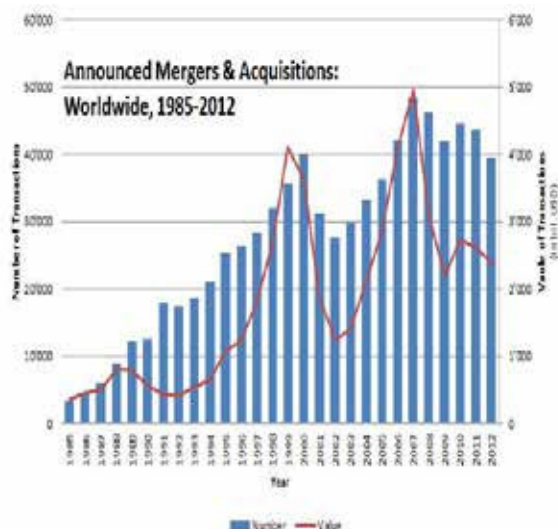


Figure 2

There was a tremendous growth in worldwide M & A, during the period from 1985 to 1999, the number of transactions were increased from 4,000 to 41,000, whereas the value of transactions have been increased from 3000 bl US \$ to approx. 4,000 bl US \$.

From the year 1999 to 2012, there was a drastic decline in M & A, the number of transactions had come down to 12,000 and amount of investment was reduced to 1,500 bl US \$.

Afterwards from 2002, there was a steep rise in number of transactions and amount of M & A, resultant in to 50,000 and 5,000 bl US \$ respectively.

The period from 2007 to 2009 again of great decline, the number of transactions was reduced by 45% and amount of M & A was reduced by 60%.

Period from 2009 to 2012 was turbulent, and has shown irregular movement.

Considering the trend of M & A, we can conclude that under the condition of economic recovery, there may be some chances of further development in M & A activities.



Figure 3

Figure 1, depicts that from the year 1999 to 2011 there was a constant increase in the trend of mergers and acquisitions. There were approx. 300 transactions amounted to approx. 10 bl. US \$ which was increased to 1500 transactions and approx. to 60 bl US \$. During the period of 12 years there was five times increment in number of transactions and almost six times increment in the amount of takeover.

If we compare the figure of worldwide statistics of M & A with indian perspective. We can conclude that almost the activities at world level will make the 'herd behaviour' psychology, which leads the domestic firm or companies for M & A strategy in the year 2007 and 2009.

In 2010 Indian scenario was different and shows relatively opposite condition compare to worldwide M & A announcement.

Comaprison of Indian annouced M & A and GDP

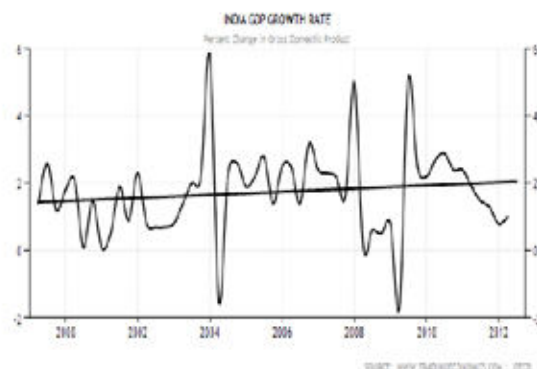


figure 4

In the year 2004, there was decline in GDP rate in India, which was near about 2%, if we compare the year with annouced M & A in india, it was a time for steep rise in M & A activity.

In the year 2005, indian GDP rate shows positive trend where as M & A announcement trend was downward slopping.

In the year 2012, both has postiveliy corelated and shown a declining trend.

Summary and findings

It is not always, rosy pictures for M & A, it may be termed as 'Fair Weather Friends', however it is great opportunity to take over the companies in recession, but on other hand the cost of maintaining those companies requires deep insight and long

term vision.

It is rightly said that, in recession the cash holders are king, however it is very difficulty to find scarce cash, which is inevitable part of M & A process.

The sharp fall in share prices has also made corporate world ugly, scarcity of cash, low bargaining power due to bad financial health may lead to high cost of acquisition in the form of high cost of debt as loan money become dearer.

Due to regualtion of corporate governance, legal complexities, the M & A activity is seen with a critical evaluation, and somewhere the following legal compliances become hurdle for a successful M & A.

The market demand, in current situtaion plays vital role, due to reduction in demand, the market share looks less lucrative, and with an object to get market share through M & A will become a nightmare.

Issues on M&A in India

Valuation of business is an important point in M&A process, there must be accuracy from both sides, valuation includes assets valuation, historical earning valuation, future earning perspective, cash flow valuation etc.

Cultural differences will also play essential role while mergers and acquisition, non acceptability at domestic environment may lead to failure of merger.

Human resources may become hurdle in the process due to issue related to promotion, new hierarchies, losing ranks etc. (e.g. SBI with SBS).

Conclusion

At present we can find, M & A shows tremendous growth and playing actively in all the sectors of industry. It should be admitted that the impact of liberalization and globalization positively affected process. However one should always look towards the pros and cons before going towards M&A as it will not always reward you handsomely sometime it may be the extra burden to carry on.

Abbreviations

M & A Mergers and Acquisitions
GDP Gross Domestic Product
US United States
\$ dollar
bl billion

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