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Mergers and Acquisition: A Growth Strategy of Corporate Sectors

Abstract

The concept of mergers and acquisitions is very much popular in the current scenario, so it is significantly popular concept, after 1990s, where India entered in to the Liberalization, Privatization and Globalization (LPG) era. The winds of LPG are blowing over all the sectors of the Indian economy but its maximum impact is seen in the industrial sector. It caused the market to become hyper-competitive. As competition increased in the economy, so to avoid unhealthy competition and to face international and multinational companies, Indian companies are going for mergers and acquisitions. From this backdrop the main aim of the paper is to know the concept and background and mergers and acquisitions and the paper also highlights the reasons and recent developments of mergers and acquisitions. Finally the study reveals that the M & A is an inorganic growth strategy, which has been used by the corporate sectors for their growth and expansion

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Introduction

An entrepreneur may grow its business either by internal expansion or by external expansion. In the case of internal expansion, a firm grows gradually over time in the normal course of the business, through acquisition of new assets, replacement of the technologically obsolete equipments and the establishment of new lines of products. But in external expansion, a firm acquires a running business and grows overnight through corporate combinations. These combinations are in the form of mergers, acquisitions, amalgamations and takeovers and have now become important features of corporate restructuring. They have been playing an important role in the external growth of a number of leading companies the world over. They have become popular because of the enhanced competition, breaking of trade barriers, free flow of capital across countries and globalization of businesses. In the wake of economic reforms, Indian industries have also started restructuring their operations around their core business activities through merger, acquisition and takeovers because of their increasing exposure to competition both domestically and internationally.

Mergers and acquisitions (M & As) have been a very important market entry strategy as well as expansion strategy. This present era is known as competition era. In this era companies, to avoid the competition, go for merger, and enjoy sometimes monopoly. Corporate India is waking up to the new millennium imperative of mergers and acquisitions in a desperate search for a panacea for facing the global competition. This is hardly surprising as stiff competition is, in a sense, implicit in any bid to integrate the national economy with the global economy. The ongoing process of liberalization has exposed the unproductive use of capital by the Indian corporate both in public and private sectors. Consolidation through mergers and acquisitions (M & As) is considered one of the best ways of restructuring structure of corporate units.

The concept of mergers and acquisitions is very much popular in the current scenario, so it is significantly popular concept, after 1990s, where India entered in to the Liberalization, Privatization and Globalization (LPG) era. The winds of LPG are blowing over all the sectors of the Indian economy but its maximum impact is seen in the industrial sector. It caused the market to become hyper-competitive. As competition increased in the economy, so to avoid unhealthy competition and to face international and multinational companies, Indian companies are going for mergers and acquisitions.

Basically, a merger involves a marriage of two or more entities. Merger is defined as blending of two or more entity into a single entity. The shareholders of each blending entity will become the substantially the shareholders in the entity which is to carry on the blended entity.

Objectives and Methodology of The Study

The main aim of the paper is to know the concepts and background of the Mergers and Acquisitions. Other objectives of the study are as follows,

1. To study the reasons for mergers and acquisitions
2. To examine the recent developments in mergers and acquisitions

To meet the above objectives, the researcher used secondary data. The required secondary data have been collected from various journals, Articles, books and websites.

History of Mergers and Acquisition

Most of the mergers and acquisitions are an outcome of the favorable economic factors like the macroeconomic setting, escalation in the GDP, higher interest rates and fiscal policies. These factors not only trigger the M & A process but also play an active role in laying the mergers and acquisition strategies between bidding and target firms. The history of mergers and acquisitions can be traced back to the 19th century which has evolved in different phases mentioned as under:

From 1897 – 1904

During this period merger took place between the firms which were anti-competition and enjoyed their dominance in the market according to their productivity in sectors like electricity, railways, etc. Most of the mergers during this period were horizontal in nature and occurred between the steel, metal and construction industries.

From 1903 – 1905

Most of the mergers which took place during the first phase were considered as unsuccessful for not being efficient enough to attain the required competence. The crash was stimulated by the decelerating of the world's financial system in 1903, which was followed by a stock market collapse in 1904. During this phase the authorized structure was not encouraging either. Later the apex judiciary body issued its directive on the anti-competitive mergers stating that they could be de-merged by implementing the Sherman Act.

From 1916 – 1940

Unlike the preceding phase, this period concentrated on mergers between oligopolies, rather between anti-competitive firms. The mergers and acquisitions process was triggered by the financial boom which was seen after the World War I. The expansion further lead to developments in the fields of science and technology and the emergence of infrastructure firms which provided services for required growth in railroads and transportation by automobiles. The government strategies laid in 1920s made the corporate ambiance supportive enough for firms to work in harmony. Financial institutions like government and private banks also played a significant part in aiding the mergers and acquisitions process. The mergers which occurred during 1916-1929 were horizontal or multinational in nature. Most of these industries were the manufacturers of metals, automobile tools, food commodities, chemicals, etc.

This phase ended in 1929 with a massive decline in stock market followed by great depression. However, the tax exemptions in 1940s encouraged the conglomerates to involve themselves in M & A activities.

From 1965 – 1970

Most of the mergers from 1965-70 were horizontal mergers and were triggered by elevating stock and interest rates, and stern implementation of anti-trust rules and regulations. During this phase the bidding companies were small in size and fiscal strength than the target companies. These kinds of mergers were sponsored by equities, thereby eliminating the roles of banks which they actively played in investment activities earlier. In 1968, the Attorney General decided to break the multinationals which resulted in the end of merging activities after than. The decision was triggered by the inefficient performance of the multinationals. But 1970s saw the emergence of mergers which made their mark by performing effectively. Some of them were INCO merging with ESB, OTIS Elevator with United Technologies and Colt Industries with Garlock Industries.

From 1981 – 1989

This phase saw the acquisition of the companies which were much bigger in size as compared to the firms in previous phases. Industries like oil and gas, pharmaceuticals, banking, aviation combined their business with their national and international counterparts. Cross border buyouts became regular with most of them being unfriendly in nature. This phase came to an end with the introduction of anti acquisition laws, restructuring of fiscal organizations and the Gulf War.

From 1992 till present

This period was stimulated by globalization, upsurge in stock market boom and deregulation policies. Major mergers were seen taking place between telecom and banking giants out of which most were sponsored by equities. There was a change in the attitude of the industrialists, who opted for mergers and acquisitions for long term profitability rather than short lived benefits. Promising economic trends, investments by corporate and revised government policies motivated the participation of many conglomerates to contribute in the acquisition trend.

Therefore, we can conclude that as long as business entities exist and the economic factors are favorable, the trend of mergers and acquisitions will continue. The economic history has been divided into Mergers Waves based the mergers activities in the business world are showed in below Table-2.1

Table-1.1 Merger Waves and their types

Period	Name	Facet
1897-1904	First wave	Horizontal Mergers
1916-1929	Second wave	Vertical Mergers
1965-1969	Third wave	Diversified Conglomerate Mergers
1981-1989	Fourth wave	Co generic Mergers, Hostile takeover; Corporate Raiding
1992-2000	Fifth Wave	Cross Border Mergers
2003-2008	Sixth Wave	Shareholders activism, Private Equity, LBO

Reasons for Mergers and Acquisition

Although companies acquire and merge with others for a variety of reasons, the main reason such mergers and acquisitions take place is that the purchasing company seeks improved financial performance. Some of the following attributes could, in theory, help improve the acquirer's financial performance:

1. **Increased Revenue and/or Market Share:** This would typically occur when the buyer takes over a major competitor, reducing its competition and thus building up its market power by capturing increased market share. If it has a dominant enough position, it could then exercise greater power in setting prices as well.
2. **Economy of Scale:** A combined company can usually cut its fixed costs by removing duplicate departments, teams and operations, thus lowering the company's costs relative to the same revenue stream, which would result in increasing profit margins.
3. **Cross-Selling:** This refers to the complementary products an acquiring company can sell to the customers of its acquired company. As an example, a bank buying a stock broker could sell its banking products to the stock broker's customers. At the same time, the broker could poach the bank's customers for brokerage accounts.
4. **Geographical, Product, or Other Diversification**: Diversification of any kind can usually smooth the earnings results of a company. This, in turn, smooths the stock price of a company, giving conservative investors more confidence in investing in the company.
5. **Synergy:** Often, managerial economies such as the increased chances of managerial specialization. Another example would be the purchasing economies due to larger order size and bulk-buying discounts.
6. **Absorption of Similar Businesses Under Single Management:** So if complementary companies can come together, they can often save considerable money by spreading management over a wider scope of employees and operations.
7. **Tax Consequences:** A money-making company can buy a money- losing and use the target's loss as their advantage by reducing their tax liability. Some governments have cottoned onto this tactic and seek to minimize it. In the United States and many other countries, laws have been enacted to limit the ability of profitable companies to buy loss making companies, limiting the tax motive of an acquiring company.

While some mergers and acquisitions end up bringing value to all stakeholders involved, it is not uncommon for some shareholders in a deal to be shortchanged, and as a result suffer a financial loss due to the merger or acquisition.

Mergers and Acquisitions in India

India in the recent years has showed tremendous growth in the M&A deal. It has been actively playing in all industrial sectors. It is widely spreading far across the stretches of all industrial verticals and on all business platforms. The increasing volume is witnessed in various sectors like that of finance, pharmaceuticals, telecom, FMCG, industrial development, automotives and metals. The volume of M&A transactions in India has apparently increased to about 67.2 billion USD in 2010 from 21.3 billion USD in 2009. At present the industry is witnessing a whopping 270% increase in M&A deal in the first quarter of the financial year. This increasing percentage is mainly attributed to the increasing cross-border M&A transactions. Over that increasing interest of foreign companies in Indian companies has given a tremendous push to such transactions. Large Indian companies are going through a phase of growth as all are exploring growth potential in foreign markets and on the other end even international companies is targeting Indian companies for growth and expansion. Some of the major factors resulting in this sudden growth of merger and acquisition deal in India are favorable government policies, excess of capital flow, economic stability, corporate investments, and dynamic attitude of Indian companies. The recent merger and acquisition 2011 made by Indian companies worldwide are those of Tata Steel acquiring Corus Group plc, UK based company with a deal of US $12,000 million and Hindalco acquiring Novelis from Canada for US $6,000 million. With these major mergers and many more on the annual chart, M&A services India are taking a revolutionary form. Creating a niche on all platforms of corporate businesses, merger and acquisition in India is constantly rising with edge over competition.

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

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".

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.

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.

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.

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.

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.

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.

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.

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).

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.

Yahoo- Book Pad

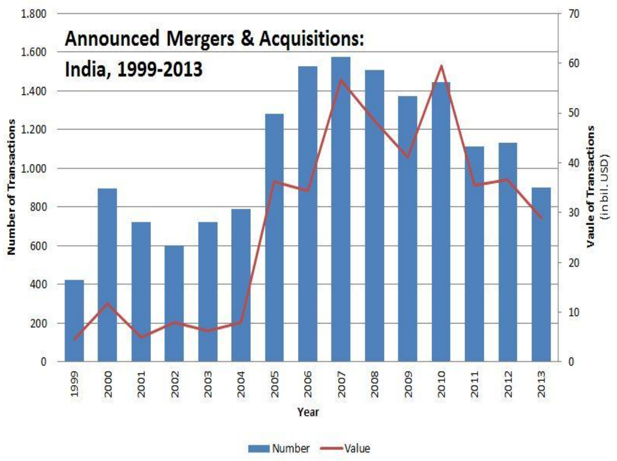
The search engine giant, Yahoo, acquired the one year old Bangalore based startup Book pad for a little under $15 million, though the exact amount has not been disclosed by either of the two parties concerned. While the deal value is relatively small, this was the first acquisition made by Yahoo, and was much talked about and hence finds a mention in our list. Book pad was founded by three IIT Guwahati pass outs and allows users to view, edit and annotate documents within a website or an app

Table-1.2 Top 10 acquisitions made by Indian companies worldwide

Acquirer	Target Company	Country Targeted	Deal Value Dollar in Million	Industry
Tata Steel	Corus Group Plc	U.K	12000	Steel
Hindalco	Novelies	Canada	5982	Steel
Videocon	Daewoo Electronic Groups	Korea	729	Electronics
Dr. Reddy's Labs	BetaPharm	Germany	597	Pharma ceutical
Suzlon Energy	Hansen Group	Belgium	565	Energy
HPCL	Kenya Petroleum Refinery Ltd.	Kenya	500	Oil and Gas
Ranbaxy Labs	Terapia SA	Romania	324	Pharma ceutical
Tata Steel	NatSteel	Singapore	293	Steel
Videocon	Thomson SA	France	290	Electronic
VSNL	Teleglobe	Canada	239	Telecom

. Source: http://ibef.org

Figure-1.1 Announced Mergers & Acquisitions in India (1999-2013)



Source:http://www.imaa-institute.org/images/figure _announced mergers & acquisitions (india).jpg

It can be seen from the figure 1.1, during the last 15 years mergers and acquisition has shown an increasing in trend. During the year 2006 and 2007 highest M&A are announced. Hence the year 2007 is called as mergers year.

Biggest Mergers and Acquisition of 2014

Mergers and acquisitions came roaring back this year, with global deal values and volumes showing tremendous resilience. Indeed, 2014 was the best year for mergers and acquisitions since before the financial crisis, with strength spread across market sectors and global regions. True, fourth-quarter numbers have yet to come out, but the most recent data is still impressive when it comes to this year's mergers and acquisitions. Global deal volume topped $3 trillion — a more than 50% increase from 2013, according to Thomson Reuters. In the U.S., mergers and acquisitions were particularly robust. For the 12 months ended Nov. 30, the U.S. M&A market saw the number of deals worth at least $1 billion rise 43% year-over-year to 295, according to data from FactSet. Top 10 M&A of 2014 in at global level and their value of deal and Nature are explained in Table-2.3.

Table-1.3 The Top 10 M&As Deal of 2014

S N	Acquiring Company	Target Company	Deal Amount $ in billion	Nature of Industry
01	Kindor Morgan Inc (KMI)	El Paso Pipeline Partner (LP)	76	Energy
02	Comcash Corporation (CMCSA)	Time Warner Inc (TWC)	70	Television
03	At & T Inc (T)	DirecTV (DTV)	67	Television
04	Actavis (ACT)	Allergan (AGN)	66	Pharmaceutical
05	Medtronic Inc (MDT)	Covident (COV)	43	Health care
06	Halliburton Co (HAL)	Baker Hughu Inc (BHI)	35	Oil
07	Reynolds American Inc (RAI)	Lorillard Inc (LO)	27	Pharmaceutical
08	Actavis (ACT)	Forest Laboratories	25	Pharmaceutical
09	Facebook Inc (FB)	WhatsAPP	22	Software
10	Novarties AG	Glaxo Smith Kline (GSK)	20	Pharmaceutical

Table-1.4

Top 10 Deals (Largest M&A Transactions)

Rank	Year	Acquiror**	Target**	Transaction Value	Transaction Value
				(bil. USD)	(bil. EUR)
1	1999	Vodafone AirTouch PLC	Mannesmann AG	202.8	204.8
2	2000	America Online Inc	Time Warner	164.7	160.7
3	2007	Share holders	Philip Morris Intl Inc	107.6	68.1
4	2007	RFS Holdings BV	ABN-AMRO Holding NV	98.2	71.3
5	1999	Pfizer Inc	Warner-Lambert Co	89.2	84.9
6	1998	Exxon Corp	Mobil Corp	78.9	68.4
7	2000	Glaxo Wellcome PLC	SmithKline Beecham PLC	76	74.9
8	2004	Royal Dutch Petroleum Co	Shell Transport & Trading Co	74.6	58.5
9	2000	AT&T Inc	BellSouth Corp	72.7	60.2
10	1998	Travelers Group Inc	Citicorp	72.6	67.2

Source: http://www.imaa-institute.org/statistics-mergers-acquisitions.html

Findings and Conclusion:

From the above conceptual study of Mergers and Acquisition, the following major findings have been identified;

1. The concept of merger and acquisition in India was not popular until the year 1988. During that period a very small percentage of businesses in the country used to come together, mostly into a friendly acquisition with a negotiated deal. The key factor contributing to fewer companies involved in the merger is the regulatory and prohibitory provisions of MRTP Act, 1969. According to this Act, a company or a firm has to follow a pressurized and burdensome procedure to get approval for merger and acquisitions.
2. Large Indian companies are going through a phase of growth as all are exploring growth potential in foreign markets and on the other end even international companies is targeting Indian companies for growth and expansion. Some of the major factors resulting in this sudden growth of merger and acquisition deal in India are favorable government policies, excess of capital flow, economic stability, corporate investments, and dynamic attitude of Indian companies.
3. Volume is tremendously increasing with an estimated deal of worth more than $ 100 billions in the year 2007. This is known to be two times more than that of 2006 and four times more than that of the deal in 2006. Further to that, the percentage is continuously increasing with high end success in business operations.
4. Presently India has emerged as one of the top countries entering into merger and acquisitions.
5. The year 2014 was also the best year for mergers and acquisitions since before the

financial crisis, with strength spread across market sectors and global regions.

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