

## **MERGERS AND ACQUISITIONS OF INDIAN COMPANIES: A PRAGMATIC ANALYSIS**

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### **ABSTRACT**

This paper presents secondary study on mergers and acquisitions by Indian Companies on a Global Context and its impact on the companies . This paper can be extended to further research by conducting analysis on quantitative data it is found that only limited number of studies conducted in the area of mergers and acquisition in India why companies are going for mergers and acquisition. The emphasis is on what benefits the companies are getting through these process and what all steps they have to consider before going for mergers and acquisitions (abbreviated M&A) process. The phrase M& A refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining different companies Companies undertake mergers and acquisitions based on strategic business motivations that are, in principal, economic in nature.

**Key Words:** Mergers, Acquisitions, Quantitative data, corporate strategy, strategic business, economic

### **INTRODUCTION**

Mergers and acquisitions (M&A) are defined as consolidation of companies. Differentiating the two terms, *Mergers* is the combination of two companies to form one, while *Acquisitions* is one company taken over by the other. M&A is one of the major aspects of corporate finance world. The reasoning behind M&A generally given is that two separate companies together create more value compared to being on an individual stand. With the objective of wealth maximization, companies keep evaluating different opportunities through the route of merger or acquisition.

Merger is combination of two or more companies into a single company where one survives and the other loses its entity and a new company is formed. The survivor acquires the assets as well as liabilities of the merged company.

### **Overview**

A merger is a tool used by companies for the purpose of expanding their operations often aiming at the increase of their long term profitability, usually mergers occur in a consensual (occurring by mutual consent) setting

### **Statement of the problem**

A study on mergers and acquisitions activity by Indian Companies on a global context and its impact on Indian Companies.

### **Need for the Study**

The phrase mergers and acquisitions or M&A refers to the aspect of corporate strategy and management dealing with the merging and acquiring of different companies. In recent time's Indian companies, hungry for growth and flush with cash, went shopping across the globe and snapped up significant and strategic buys across a host of industries.

Mergers and acquisitions is one of the hottest events and topics of discussion among Indian companies. In recent time's Indian Companies hungry for growth and flush with cash went shopping across the globe and snapped up significant and strategic buys across a host of industries.

Many Indian companies are opting for mergers and acquisitions as a tool for expanding their operations in to foreign markets in order to increase their profitability . This study aims to identify the factors and conditions that have caused this recent surge in mergers and acquisition. It is necessary to analyse trends and also identify the challenges faced by Indian companies in order to get a significant insight into the scenario in mergers and acquisitions

### **Objectives of the study**

1. To study the concept of mergers and acquisitions as a tool used by companies for the purpose of expanding and increasing profits.
2. To study the mergers and acquisitions scenario trends in India
3. To analyze the reason why Indian Companies are going global with a series of mergers and acquisitions.

### **Data Collection**

Secondary data was collected through Newspapers, Magazines, Journals, Internet, Periodicals etc



### **Ten biggest Mergers and Acquisitions deals in India**

Tata Steel acquired 100% stake in Corus Group on January 30, 2007. It was an all cash deal which cumulatively amounted to \$12.2 billion.

Vodafone purchased administering interest of 67% owned by Hutch-Essar for a total worth of \$11.1 billion on February 11, 2007.

India Aluminium and copper giant Hindalco Industries purchased Canada-based firm Novelis Inc in February 2007. The total worth of the deal was \$6-billion.

Indian pharma industry registered its first biggest in 2008 M&A deal through the acquisition of Japanese pharmaceutical company Daiichi Sankyo by Indian major Ranbaxy for \$4.5 billion.

The Oil and Natural Gas Corp purchased Imperial Energy Plc in January 2009. The deal amounted to \$2.8 billion and was considered as one of the biggest takeovers after 96.8% of London based companies' shareholders acknowledged the buyout proposal.

In November 2008 NTT DoCoMo, the Japan based telecom firm acquired 26% stake in Tata Teleservices for USD 2.7 billion.

India's financial industry saw the merging of two prominent banks - HDFC Bank and Centurion Bank of Punjab. The deal took place in February 2008 for \$2.4 billion.

Tata Motors acquired Jaguar and Land Rover brands from Ford Motor in March 2008. The deal amounted to \$2.3 billion.

2009 saw the acquisition Asarco LLC by Sterlite Industries Ltd's for \$1.8 billion making it ninth biggest-ever M & A agreement involving an Indian company.

In May 2007, Suzlon Energy obtained the Germany-based wind turbine producer Repower. The 10th largest in India, the M&A deal amounted to \$1.7 billion.

**Stages involved in any M&A:**

**Phase 1: Pre-acquisition review:** this would include self assessment of the acquiring company with regards to the need for M&A, ascertain the valuation (undervalued is the key) and chalk out the growth plan through the target.

**Phase 2: Search and screen targets:** This would include searching for the possible apt takeover candidates. This process is mainly to scan for a good strategic fit for the acquiring company.

**Phase 3: Investigate and valuation of the target:** Once the appropriate company is shortlisted through primary screening, detailed analysis of the target company has to be done. This is also referred to as due diligence.

**Phase 4: Acquire the target through negotiations:** Once the target company is selected, the next step is to start negotiations to come to consensus for a negotiated merger or a bear hug. This brings both the companies to agree mutually to the deal for the long term working of the M&A.

**Phase 5: Post merger integration:** If all the above steps fall in place, there is a formal announcement of the agreement of merger by both the participating companies.

**Recent Mergers and Acquisitions**

Acquirer	Target Company	Deal Size	Comments
Flipkart	Myntra	USD 300 mn	Acquisition led to scripting fo largest ecommerce stories
Asian Paints	Ess Ess bathroom products	undisclosed	to be one stop provider in home décor space
RIL	Network 18 Media & Investments	Rs 4000 cr	78% percent shares were taken over by RIL
Merck	Sigma	USD 17bn	Acquisition to boost lab supply business of Merck
Sun Pharma	Ranbaxy	USD4bn	increase presence in global and domestic markets
TCS	CMC		merger to consolidate IT business
Tata Power	PT Arutmin Indonesia	Rs 47.4bn	Purchased 30% stake
Group Lactalis	Tirumala Milk	USD 275 mn	lactalis entry into India
CSP CX	Aditya Birla Minacs	USD 260 mn	Aditya Birla's exit from IT industry
Thomas Cook	Sterling India	Rs 870cr	Entry into hospitality business
Yahoo	Bookpad	USD 15 mn	First acquisition made by Yahoo
Kotak Bank	ING Vysya	USD 2.4bn	All share deal
Ola cabs	Taxi for sure	USD200mn	Acquisition of competition

### ***What to Look for M&As***

It's hard for investors to know when a deal is worthwhile. The burden of proof should fall on the acquiring company. To find mergers that have a chance of success, investors, should start for looking some of the criteria

- A reasonable purchase price- A premium of say 10% above the market price seems with the bounds of level headedness. A premium of 50% on the other hand, requires synergy of stellar proportions for the deal to make sense, stay away from companies that participate in such contests
- Company that pay in cash tend to be more careful when calculating bids and valuation some closer to target. when Stock is used as the currency for acquisition, discipline can go by the wayside.
- Sensible appetite- An acquiring company should be targeting a company that is smaller and in business that the acquiring company knows intimately. Synergy is hard to create from companies to disparate business areas. Sadly companies have a bad habit of biting off more than they can chew in mergers.

Mergers are awfully hard to get right , so investors should look for acquiring companies with a health grasp of reality

### ***Scope for Further Research***

1. The study can be extended to more sectors based on availability of data in future.
2. An analysis of contribution of various sectoral factors on operating and financial performance of acquirers during post merger period may be undertaken to provide deeper insight into determinants of post merger performance.

### ***Motive behind M&A***

Merger of the companies takes place for certain strategic business reasons. But the most common reasons are stated below:-

***Increasing Capabilities:*** This process comes from expanded research and development opportunities. It may be undertaken by the companies to leverage costly manufacturing operations. Capability comes from acquiring unique technology platform rather than trying to build it.

***Diversification of products and services:*** Complimenting of current product or service is also one of the reason behind the merger of the companies. Two firms may be able to combine their products or services to gain competitive edge over the others in the market place.

***Cutting Cost:*** Two companies having similar products or services can create a large opportunity to reduce costs. When companies merge, frequently they have an opportunity to

combine locations or reduce operating costs by integrating and streamlining support functions.

**Surviving:** It's never easy for a company to willingly give up its identity to another company, but sometimes it is the only option in order for the company to survive. A number of companies used mergers and acquisitions to grow and survive during the global financial crisis from 2008 to 2012.

During the financial crisis, many banks merged in order to deleverage failing balance sheets that otherwise may have put them out of business

### **Recommendations**

While carefully-constructed acquisitions are already creating real value for Indian companies, there are many challenges ahead. The analysis suggests that a successful M&A strategy must concentrate on

#### 1. The challenges to increased cross-border expansion

There is scope for far greater global growth as more Indian managers are exposed to global operations and gain confidence to make the move themselves. It also highlights the need for a dedicated management team to give clear strateging direction to any acquisition and integration process

#### 2. How these challenges can best be overcome

The opportunities and challenges of India's global expansion identifies that

### **Flexible organizational structures are essential**

The execution of complex M&As often intensifies the incentives on leaders to maintain a tight-hold of the organizational reins. Paradoxically successful integration actually requires a much more flexible and fluid approach by management to ensure the ability to adopt cultural , social and other factors that vary across markets .Development of flexible organizational structures are the most critical capability for the success of globalization strategies. Establishing flexible but clear structures and processes an assigning leadership responsibilities has to form an important part of pre integration planning and include careful consideration for personal and cross cultural issues.

### **Due diligence must be comprehensive**

The due diligence for cross border transactions need to cover unknown market landscapes as well as additional factors like governance legislative and regulatory rules and processes "Complying with regulations in overseas markets" was the most commonly highlighted capability for success.

### **Location decisions need a strategic approach**

With potential acquisition targets often spread through multiple countries, care must be taken to incorporate a wide range of country-specific factors into the decision making

process, For example decisions should take into account longer term regional growth prospects and political ramifications . Issues such as which location's standards to harmonies to and what organizational governance models to use should also be assessed in some cases, it may be best to leave the operating model of the acquired entity untouched and allot it to carry on with business as usual, just under new ownership

Indian companies looking to gain market share in foreign countries should watch how previous Indian companies have fared their attempts, noting their experiences and avoiding their mistakes. This allows faster and cheaper entry into the foreign market place once the decision is made

### ***Strong Communication is fundamental to success***

A successful integration process relies on effective , consistent and regular communication from company leaders to all constituencies including customers, employees, regulators, shareholders, partners, suppliers and competitors. Internal stakeholders should feel they are positively contributing towards a better future, one in which they themselves will benefit.

### **CONCLUSION**

The basic reason behind mergers and acquisitions is that organizations merge and form a single entity to achieve economies of scale, widen their reach, acquire strategic skills, and gain competitive advantage. In simple terminology, mergers are considered as an important tool by companies for purpose of expanding their operation and increasing their profits, which in façade depends on the kind of companies being merged. Indian markets have witnessed burgeoning trend in mergers which may be due to business consolidation by large industrial houses, consolidation of business by multinationals operating in India, increasing competition against imports and acquisition activities. Therefore, it is ripe time for business houses and corporate to watch the Indian market, and grab the opportunity,

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