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Merger and Acquisitions in India and in the World: A Trend Analysis and Future Forecasting.

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Abstract:

Corporate restructuring through Merger and Acquisitions has become a major weapon for the corporate houses throughout the world to fight with intense competition posed by Globalization. The pace of this type of activity has further got oxygen with deregulation of various types of restrictive laws by Govt. in various times. In India after 1991 after liberalization of Indian economy, vigorous reforms in Indian corporate sector has taken places which has changed the outlook to view competition and also forced the firms to consolidate their positions in their respective areas of operations through Merger and Acquisitions. Merger and Acquisitions has been considered as the most effective form of corporate restructuring than other forms like, joint venture, strategic alliance, divestment etc. Merger and acquisition (M&A) activities have increased rapidly since 2000. Historically, M&As have shown a cyclical pattern. There have been six waves of M&As for the past 100 years; these are those of the early 1900s, 1920s, 1960s, 1980s, 1990s, and 2000s.The trends of mergers and acquisitions in India have changed over the years. The immediate effects of the mergers and acquisitions have also been diverse across the various sectors of the Indian economy.

Keyword: Deregulation: Divestment: Globalization: Liberalization: Merger and Acquisition: Strategic alliance:

Objective of The study

- To analyze the trends, concerns, and issues involved in mergers & acquisitions with special reference to India.
- To work out the impact of mergers & acquisitions as well as causes of failure of mergers & acquisitions.
- To analyze the trends, concerns, and issues involved in mergers & acquisitions in the world.
- To identify the impact and future prospects of global M&A'S in Indian Industry.

Review of Literature

- Marina Marty nova, Sjoerd Oosting and Luc Renneboo (2007) studied the long-term profitability of corporate takeovers in Europe, and found that both acquiring and target companies significantly outperformed the median peers in their industry prior to the takeovers, but the profitability of the combined firm decreased significantly following the takeover. However, the decrease became insignificant after controlling for the performance of the control sample of peer companies.

- Raymond Noe (2002) studied that 60-80% of all mergers are financial failures when measured by their ability to outperform the stock market or to deliver profit increases. Anne Freedma (2002). Those findings are further supported in a study by A.T Kearney that shows 58% of mergers failing to achieve their stated goals, and

- Suh-kyung Yoo (2001) studied that a survey of 1,000 companies revealed that more than two-thirds of companies failed.

CAUSES OF FAILURE OF MERGERS AND ACQUISITIONS

- Overpayment: This is very common cause of failure of acquisition & mergers. De Pamphilis D (2005) found that overpayment often has destroys consequences. Overpayment leads to expectation of higher profitability which is not possible. Excessive goodwill as a result of overpaying needs to be written off which reduces the profitability of the firm.

- Integration issues: Strau (2007) studied that business cultures, work ethics, etc. Needs to be flexible and adaptable. Inefficiencies or administrative problems are a very common occurrence in a merger which often nullifies the advantages of the mergers.

- Faulty Strategic Planning and unskilled execution: Schuler, R.S. Jackson, S.E. Luo, (2004): Faulty Strategic Planning and unskilled execution often leads to problems over expectation of strategic benefits is another area of concern surrounding mergers. *These issues lead to failures of mergers.* Mike Harriso (2001) found that planning is a crucial exercise that will help determine the success or failure of a merging organization. However, many merging organizations do not have adequate or complete integration and implementation plans in place. Only one out of five companies that have acquired another has developed a clear and satisfactory implementation plan.

- *Corporate Culture Differences:* Irene Rodger (1999). Business International states that poor communications and inability to manage cultural differences are the two main causes of failed mergers.

- Maria Koul Cultural differences that cannot be resolved affect communications, decision-making, productivity and employee turnover at all levels of the organization. All the best laid plans – exhaustive analyses of strategies, marketing tactics, legal issues, etc. – can fall apart if the people cannot work together. If the two workforces fail to unite behind the strategic goals underlying the consolidation, even the best financial deals and most rigorous legal contracts fail to guarantee success.

- *Power Politics:* Randall S. Schuler, Susan E. Jackso (2001) observed that there is a tendency to assume that power disputes are more common in the case of acquisitions than mergers, there is no such thing as "a merger of equals". Further, it was clear that the distribution of power was not equally spread out. "We felt like we were marrying up, and it was clear that they thought they were marrying down."

MERGER WAVE IN THE WORLD

There have been many interesting trends in recent merger and acquisition history. M&A has become a worldwide phenomenon as opposed to being mainly catered in United States. Other trend includes the rise of emerging market acquirer, which have bought a very different type of bidder to the takeover scene.

Six period of merger activity, often called merger wave, have taken places in the world especially in the U.S history. This period has characterized by cyclic activity; that is, high level of merger activity followed by relatively fewer deals. The first four waves occurred between 1897 and 1904, 1916 and 1929, 1965 and 1969, and 1984 and 1989. Merger activity declined at the end of 1980s but resumed again in early 1990s to begin the fifth merger wave. We have also seen a relatively short but intense merger wave between 2003 and 2007.

The various merger waves provoked major changes in the structure of the world as well as the U.S business which resulted in forming the collection of small and medium sized business to the current form of thousands of multinational corporations.

MERGERS AND ACQUISITIONS IN INDIA: THE LATEST TRENDS

Mergers and Acquisitions are key forms of corporate restructuring. The mergers and acquisitions come into existence from the post independence period in India. But very few M&A took place in India prior to 1990s due to Industrial Development and Regulation Act 1951, FERA Act, MRTP Act. After 1890s especially after liberalization in 1991, there was a through cut domestic and global competition. This leads to a big wave of M&A. Takeover cases started only in the year 1996 and then onwards this mode of M&A has gained importance. The Tata Group had 126 M&As deals from April 1998 to March 2008. The number of deals really picked up in the year 1999 with total of 1453 deals as compared to only 172 deals in 1998. The years 2000, 2007 and 2008 saw decline in the deals by 22%, 2% and 24% respectively due to the global credit crisis. M&A has a decreasing trend from the year 2000 to 2008.

The trends in Indian M&A, which recorded a rapid increase between 2003 and 2007 registering a compounded annual growth rate of 95% at $70 billion. Though it dipped following the global crisis of 2008 only to recover soon to hit a fresh peak of $50 billion by 2010. The robust sector of Telecom, which with an innovative support from the regulatory authority saw a progressive growth post-liberalization it recorded the highest M&A activity during the year with an aggregate of $14.6 billion investment powered by the acquisition of Hutch Essar by Vodafone and Tata Tele buying the NTT Docomo of Japan. Oil & gas sector with $11.2 billion ((Reliance Natural) and Pharma Sector with $ 6.24 billion led the charge of the M & A brigade. This underscored not only India Inc's appetite for going global, but

making M & A its critical tool of business strategy for survival and growth.
There has been a considerable shift seen in 2010 in the outlook of Indian companies which relooked at M&A's as one of their key growth strategies. During the year 2010, Indian companies were involved in a record total of 627 M&A deals, including both cross-border and domestic transactions. 283 of these deals, whose announcements included the transaction value, totaled a massive $ 65.9 billion which were significantly higher when compared to 2009 which witnessed a total of 413 M&A deals (including 183 deals with an announced value of $18.4 billion). The manufacturing companies emerged as the most active dealmakers during 2010, led by JSW Steel acquiring a controlling 42% stake in Ispat Industries.

With the increasing number of Indian companies opting for mergers and acquisitions, India is now one of the leading nations in the world in terms of mergers and acquisitions. Among the different Indian sectors that have resorted to mergers and acquisitions in recent times, telecom, finance, FMCG, construction materials, automobile industry and steel industry are worth mentioning. The situation of mergers and acquisitions in India has undergone a sea change in the last couple of years. In Indian corporate sector mergers and acquisitions of foreign companies by the Indian companies has been latest trend. There are different key factors like dynamic attitude of Indian entrepreneurs, buoyancy in economy, favourable government policies, additional liquidity etc. behind the changing scenario of trends of mergers and acquisition in India. The IT and ITES sector have already played a dominant role in global market. The other Indian sectors are following the same trends. The increase participation of the Indian companies in the global corporate sector has further facilitated the merger and acquisition activities in India

Table 1. M&A'S Deal Both in Terms of Value and Volume

Acquirer	Target Company	Country Targeted	Deal Value($ml)	Industry
Tata Steel	Corus Group	UK	12,000	Steel
Hindalco	Novelis	Canada	5,982	Steel
Videocon	Daewoo Electronics corp.	Korea	729	Electronics
Dr.Reddy's Lab	Betapharm	Germany	597	Pharmaceutical
Suzlon Energy	Hansen Group	Belgium	565	Energy
HPCL	Keneya Petrolium Refinary Ltd.	Keneya	500	Oil and Gas
Ranbaxy Labs	Terapia SA	Romannia	324	Pharmaceutical
Tata Steel	Natsteel	Singapore	293	Steel
Videocon	Thmson SA	France	290	Electronics
VSNL	Teleglobe	Canada	239	Telecom

Source: Compiled from different source.

Total number of merger and acquisition (M&A) deals of Indian companies in 2014 rose to 1,177 – valuing at about USD 50 billion – the highest ever in a decade and the momentum is set to pick even higher this year. M&A deals contributed close to USD 38 billion from 573 deals and Private Equity (PE) deals contributed USD 12 billion from 604 deals. E-commerce within the Information & Technology (IT) space was the major contributor for PE investments with about USD 4 billion being raised from over 100 deals.

Table 2. Detail of M&A'S Deals Both in Terms of Value and Volume

Deal Summary	Volume			Value ($ ml)		
year	2011	2012	2013	2011	2012	2013
Domestic	216	234	220	5036	6078	5749
Cross Boarder	288	262	221	39577	14507	17891
Merger and Internal Restructuring	140	102	59	-	14799	4546
Total M&A	644	598	500	44613	35384	28186
Private Equity	373	401	450	8751	7378	10392
Grand Total	1017	999	950	53363	42764	38578

Source: *Annual Report of Ministry of External Affairs.*

The US was the most active cross-border partner, followed by Japan, UK, Germany and France. The US was the most active cross-border partner. Companies from the US were the most prominent with regard to cross-border transactions involving Indian players. They were involved as acquirers in 71 inbound deals worth US$1.5 billion and targets in 38 outbound deals worth US $ 1billion.

Figure:1 India's cross border Partners

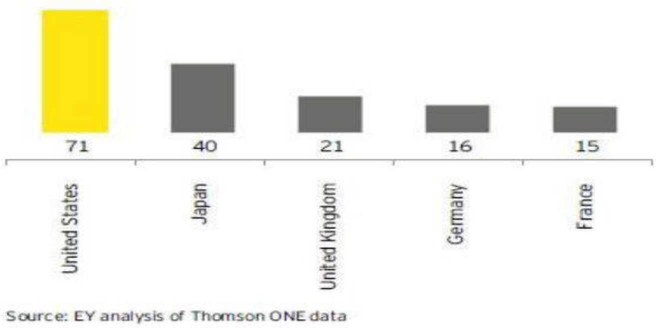
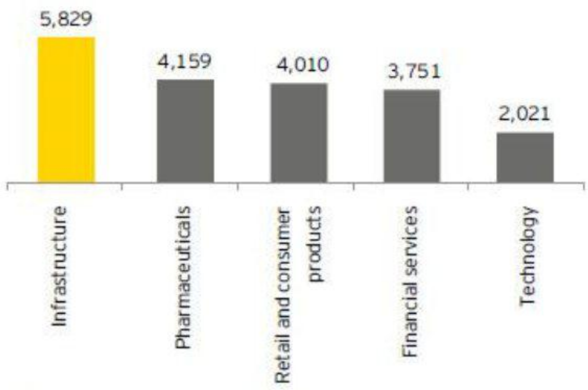


Figure: 2 Value deals –Sector wise

By value, infrastructure was at the forefront, followed by pharmaceutical, and retail and consumer products.



Source: EY analysis of Thomson ONE data

Future Prospects of Cross Border M&A In India:

- With the increasing number of Indian companies opting for mergers and acquisitions, India is now one of the leading nations in the world in terms of mergers and acquisitions. 2014 has been an encouraging year for India's business environment, as well as the M&A landscape. After experiencing a long period of lull, the Indian economy seems set towards accelerated growth.

- The newly-found business optimism, on the back of strong macroeconomic fundamentals, a stable government at the helm and an improved pace of economic reforms, is expected to continue through 2015 and drive M&A activity.

- Inbound M&A activity is expected to rise further .The Indian Government's move to strengthen ties with other key economies, such as the US, China, Japan and Australia, is expected to boost bilateral trade and create opportunities for inbound investments.

- Among the different Indian sectors that have resorted to mergers and acquisitions in recent times, telecom, finance, FMCG, construction materials, automobile industry and steel industry are worth mentioning.

- The "Make-in-India" campaign is envisioned to reignite growth in Indian manufacturing sector.. The Government's focus to speed-up project approvals and improve ease of doing business in the country have uplifted the morale of corporate leaders. Furthermore, clearance of pending reforms related to land acquisition bill and GST, coupled with the recently concluded coal block auctions would further boost investor sentiment.

- On domestic front last year are likely to continue in 2015. Sectors like healthcare, pharmaceuticals and retail & consumer products are likely to witness a wave of consolidation in 2015 as companies, driven with the need to generate high growth are eyeing opportunities to strengthen market presence and add revenue streams.
- Outbound activity by Indian Companies recorded an improvement last year in terms of volume and is expected to remain stable in 2015. Companies in sectors like technology, automotive and pharmaceuticals will continue to assess acquisition opportunities overseas. However, historically active sectors for outbound transactions such as oil & gas and mining are expected to see subdued activity.

Table 3. Proposed Major M&A deals yet to conclude:

Sl. No	Name of the Acquirer	Expected Deal Size ($)	Target Company	Type	Industry
1	Amazon .com	1.2B	Jabong.com	Inbound	e-commerce
2	Adana Power	680M	Korba West Powr Co.Ltd	Domestic	Power
3	Tech Mahindra	240M	Lightbridge Communicatons corporation	Outbound	Information technology
4	Balaji Telefilms	NA	Marinating Films	Domestic	Media Entertainment
5	Majesco Inc(US arm of Mastek Ltd)	NA	Marinating Films	Outbound	Information Technology
6	Nihon Nohyaku	NA	Hyderabad Chemicals Ltd	Inbound	Chemicals
7	Pricol Limited	NA	Mellin do Brazil	Outbound	Auto component
8	Tata Power	NA	Ideal Energy Projcts	Domestic	Powr
9	Birla Corporation Ltd.		Lafarge India Private Limited	Outbound	Cement

(Compilation of information from various sources by Researcher)

Conclusion:

Globally, acquisition of Arcelor by Mittal Steels, Daewoo Trucks by Tata motors and domestically acquisition of Air Sahara by Jet Airways further emphasizes that companies are aiming to foster the synergies by economies of scale apart from other criterion such as gaining new market, maintaining existing share, etc. M&As have been found to be beneficial in the sense that Indian companies grew in size, and attain better market share which is substantiated by empirical analysis.

Further, it has been observed that M&As in India are strategic in nature that motives range from growth and expansion to high quality of human resources, strong brand presence and global identity and leadership. To remain ahead of competitors, business leaders need to have a global vision, be pro-active, able to take calculated risk and initiate and manage acquisition and consolidation process smoothly.

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. Therefore, it is good time for business houses and corporate to watch the Indian market going global, and grab the opportunity.

M&As have been found to be beneficial in the sense that Indian companies grew in size, and attain better market share which is substantiated by empirical analysis. Throughout the period of study, turnover increased after the companies experienced an M&A.

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