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Introduction:
Mergers & Acquisitions
CHAPTER - 1

INTRODUCTION: MERGERS AND ACQUISITIONS

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1.1 INTRODUCTION

In the fast changing business world, companies have to strive hard to achieve quality and excellence in their fields of operation. 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 or sustained improvement in sales. External growth can be achieved by merger and acquisition of existing business firms. Mergers and Acquisitions (M&A) are quite important forms of external growth. In today’s globalized economy, mergers and acquisitions are being increasingly used the world over as a strategy for achieving a larger asset base, for entering new markets, generating greater market shares/additional manufacturing capacities, and gaining complementary strengths and competencies, to become more competitive in the marketplace. Mergers and Acquisitions (M&A) are an extensive worldwide phenomenon and Mergers and Acquisitions (M&A) have emerged as the natural process of business restructuring throughout the world.

The last two decades have witnessed extensive mergers and acquisitions as a strategic means for achieving sustainable competitive advantage in the corporate world. Mergers and Acquisitions (M&A) have become the major force in the changing environment. The policy of liberalization, decontrol and globalization of the economy has exposed the corporate sector to domestic and global competition. Mergers and Acquisitions (M&A) have also emerged as one of the most effective methods of corporate structuring, and have therefore, become an integral part of the long-term business strategy of corporate sector all over the world. Almost 85 percent of Indian companies are using M&A as a core growth strategy.

All our daily newspapers are filled with cases of mergers, acquisitions, spin-offs, tender offers, and other forms of corporate restructuring. Thus important issues both for business decision and public policy formulation have been raised. No company is regarded safe from takeover possibility. On the more positive side Mergers and Acquisitions may be critical for the healthy expansion and growth of the company. Successful entry into new product and geographical markets may require Mergers and
Acquisitions (M&A) at some stage in the company’s development. Successful competition in international markets may depend on capabilities obtained in a timely and efficient fashion through Mergers and Acquisitions (M&A). Many have argued that mergers increase value and efficiency and move resources to their highest and best uses, thereby increasing shareholder value. To opt for a merger is a complex affair, especially in terms of technicalities involved. Thus, Mergers and Acquisitions (M&A) for corporate sector are the strategic concepts to take it up carefully.

Until up to a couple of years back, the news that Indian companies having acquired American-European entities was very rare. However, this scenario has taken a sudden U turn. Nowadays, news of Indian Companies acquiring foreign businesses is more common than other way round.

Buoyant Indian Economy, extra cash with Indian corporate, Government policies and newly found dynamism in Indian businessmen have all contributed to this new merger and acquisition trend. Indian companies are now aggressively looking at North American and European markets to spread their wings and become the global players.

The Indian IT and ITES companies already have a strong presence in foreign markets; however, other sectors are also now growing rapidly. The increasing engagement of the Indian companies in the world markets, and particularly in the US, is not only an indication of the maturity reached by Indian Industry but also the extent of their participation in the overall globalization process.

If you calculate top 10 deals it account for nearly US $ 21,500 million. This is more than double the amount involved in US companies’ merger and acquisition of Indian counterparts.

Have a look at some of the highlights of Indian Mergers and Acquisitions scenario as it stands.
Indian outbound deals, which were valued at US$ 0.7 billion in 2000-01, increased to US$ 4.3 billion in 2005, and further crossed US$ 15 billion-mark in 2006. In fact, 2006 will be remembered in India’s corporate history as a year when Indian companies covered a lot of new ground. They went shopping across the globe and acquired a number of strategically significant companies. This comprised 60 per cent of the total mergers and acquisitions (M&A) activity in India in 2006. And almost 99 per cent of merger and acquisitions were made with cash payments.

1.2 HISTORY OF MERGERS AND ACQUISITIONS

The development of mergers & acquisitions (M&A) is not an invention of recent times. The first appearance of M&A in a high frequency evolved at the end of the 19th century. Since then, cyclic waves are observed with different waves emerging due to radical different strategic motivations. The following table draws out the timeline of M&A development and clarifies strategic motivations underlying each wave.

The activity in mergers and acquisitions in the past century shows a clustering pattern. The clustering pattern is characterized as a wave and they occur in burst interspersed with relative inactivity. When we discuss these merger waves, economics usually refer to 6 specific waves starting from 1890. The length and start of each wave is not specific, but the end of each wave usually falls with a major war or the...
beginning of a recession/crisis. Furthermore, the first and second wave was only relevant for the US market, while the other waves had more geographical dispersion. Especially in wave five, where besides US, UK and continental Europe, Asia also had a significantly increased M&A market.

A general conclusive theory about the M&A waves is not available yet, although there seems to be industry-specific factors that trigger the waves because different industries experience increased M&A activity at different times. The following table shows the summary of the Mergers and Acquisitions waves.

<table>
<thead>
<tr>
<th>WAVES</th>
<th>PERIOD</th>
<th>FACET</th>
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<tbody>
<tr>
<td>First Wave</td>
<td>1897-1904</td>
<td>Horizontal Mergers</td>
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<td>Second Wave</td>
<td>1916-1929</td>
<td>Vertical Mergers</td>
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<td>Third Wave</td>
<td>1965-1969</td>
<td>Diversified Conglomerate Mergers</td>
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<td>Forth Wave</td>
<td>1984-1989</td>
<td>Co-generic mergers, hostile takeovers, corporate raiders</td>
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<td>Fifth Wave</td>
<td>1992-2000</td>
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<td>Sixth Wave</td>
<td>2003-2008</td>
<td>Globalization, private equity, shareholder activism</td>
</tr>
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(Source: York University)

WAVE - 1: 1897-1904

The first wave followed after a period of economic expansion, and an important characteristic was the simultaneous consolidation of manufacturers within one industry. This within industry consolidation led to horizontal consolidation of major industries and created the first “giants” in the oil, mining and steel industries, among others. Furthermore, the horizontal mergers led to the creation of monopolies. According to Stigler (1950), mergers “permit a capitalization of prospective monopoly profits and a distribution of portions of the capitalized profit”. In 1890 the Sherman Antitrust Act 1, which limits cartels and monopolies, was passed but it was not yet clear in the beginning so the direct impact was limited. The creation of monopolies was therefore not being restricted.
The first wave was also characterized by “friendly” deals and by cash financing. Having said this, we still do not know why the merger wave started in the first place.

In the first place, laws on incorporations were evolving and were implemented more rigorously at the end of the nineteenth century. Before proper legislation, entrepreneurs had an unlimited liability on their assets which means that growth of your company also means greater exposure and greater risk. Improvement of laws on incorporations led to limited liability for entrepreneurs. Furthermore, economic expansion and the development of the modern capital market, i.e. the improvement of the New York Stock exchange, also boosted the number of mergers because capital needed to acquire, or merge, became more accessible.

The end of the first wave came due to a more rigorous enactment of the new antitrust laws, e.g. the Sherman Antitrust Act. Besides this, the stock market crashed around 1905 which resulted in a period of economic stagnation. Furthermore, the beginning or threat of the First World War is also pointed as a cause of the end of the first identified wave, also known as the “Great Merger Wave”.

WAVE - 2: 1916-1929

The second merger wave started in the 1910s, where the primary focus of merger activity was in the food, paper, printing and iron industry but the wave was significantly smaller in magnitude than the first wave. Where the first wave exceeded more than 15% of the total assets in the US market, the second wave had in impact of less than 10%. The second wave followed after the First World War in times of economic recovery and increasing concerns about monopoly power. As opposed to the first wave, this wave characterizes itself as a creator of oligopolies. At the end of the wave, industries were no longer dominated by one large corporation, but rather by two or more. Especially small companies, which “survived” the previous wave, were active on the M&A market. The objective of these companies was to gain economies of scale so that they were better equipped against the power of the previous monopolist. Logic behind the emergence of the oligopolies is that the merged companies of the previous wave were faced with restricted resources due to the
previous crisis and greater enforcement of antitrust laws; especially the Sherman’s act.

Similar to the first wave was the “friendly” character of the deals, but the prevalent source of financing switched from cash to equity.

The end of the second merger wave was caused by the market crash of 1929 which started the “Great Depression” which led to a world-wide depression in the following years.

**WAVE - 3: 1965-1969**

Due to the “Great Depression” and the following Second World War, the activity on the M&A market slowed down significantly. The new wave started only in the 1950’s and coincided with further restrictions which needed to prevent anticompetitive mergers and acquisitions. This resulted in the development of a new business organization. Mergers in the first and second wave usually involved horizontal (wave 1) or vertical (wave 2) integration, but the third wave gave rise to the concept of diversification. Similar to the second wave was that equity was the dominant source of financing.

The method of diversification led to the rise of conglomerates, which are large corporations that consists of numerous businesses not necessarily related. Example of a conglomerate is General Electric, which has interest in a vast number of businesses including healthcare, transportation and energy. Diversification can be a method to reduce the cash flow volatility through reduction in the exposure to industry specific risk. The conglomerate will be less vulnerable to shocks in one industry because it generates income in different, maybe unrelated, industries so that loss of income in one industry can be offset by other industries. Due to conglomerate creation, growth opportunities in unrelated businesses can be exploited. Finally, a conglomerate will create its own internal capital market which is especially useful when outside capital is expensive.

The diversification process also led to changes in the market structure. Chandler (1991) with his concept of the Multidivisional Enterprise stated that:
“structure follows strategy and the most complex type of structure is the result of concatenation of several basis strategies”. Interpretation can be that the strategy of corporations leads to changes in the market structure. The diversification led to an increased distance between the managers at the headquarters and the divisional managers. Besides possible inefficiencies associated with increased communication lines, the addition of the numerous businesses also led to a decision overload at the company headquarters.

Whether the third wave began due to the stricter enactment of antitrust laws which led to increased diversification and “empire” building is still up for debate. Clear is that in the third wave the percentage of corporations active in unrelated business increased from 9% to 21% among the Fortune 500 companies, which suggest that diversification plays a key role in the third wave. The third merger wave slowed down and the end of the 1970s and collapsed completely in 1981 when there was an economic recession due to a significant oil crisis.

**WAVE - 4: 1984-1989**

The fourth merger wave started in the 80s, and was quite different then its previous one. Foremost, the bids were usually hostile which meant that the bids did not have the target’s management approval. Second, the size of the target was also significantly larger than in the previous wave. Furthermore, the dominant source of financing shifted from equity to debt and cash financing.

According to Ravens craft (1987) the beginning of the wave could have been a bargain hunt taken place in a depressed stock market, where the conglomerates of the previous wave divested their divisions. Sudi Sudarsanam (2003) states that in the fourth wave divestitures constituted about 20-40% of the M&A activity. Apparently there was a simultaneously expansion and downsizing of businesses, where the expanding corporations made use of the divestitures to increase their competitive position.

Schleifer and Vishny (1991) view the new merger wave as one that is characterized by “bust-up” takeovers, where large parts of the target were divested
after acquiring. Besides these bust-ups, the concept of leveraged buy-out (LBO) emerged. In a LBO, the firms’ own management uses large amounts of outside debt to acquire the company. After acquisition, large fractions of the assets are sold as was the case with the bust-up takeovers.

The fourth wave started to eliminate the inefficiencies that were created by the conglomerate mergers in the third merger wave. Morck, Schleifer and Vishny (1990) show that in the 1980s a bid on a target firm, which is competing in the same industry, has a positive relationship with stock market return for the shareholders of the bidding firm. For bids on unrelated targets the opposite holds. This indicated that the market had a negative attitude towards unrelated diversification, a strategy appreciated in the third merger wave.

After 1989 M&A activity gradually slowed down and yet another stock market crash led to the end of the wave.

**WAVE - 5: 1992-2000**

The 1990s was a decade of great economic prospect. The financial markets were booming and a globalization process was developing. The merger activity also boomed in continental Europe where it almost equaled the US market. Due to globalization the number of cross border acquisitions increased significantly. In order to keep up with the economic growth and the global opportunities, organizations searched outside their domestic borders to find a target company. Growth was an important driver for merger activity. Corporations wanted to participate in the globalization of the economy. This created some “mega” deals that were unthinkable before this wave. Some major mergers were: Citibank and Travelers, Chrysler and Daimler Benz and Exxon and Mobil.

The fifth wave started due to technological innovations, i.e. information technology, and a refocus of corporations on their core competences to gain competitive advantage. This resource-based view leads to a better focus to gain a sustainable competitive advantage through the best use of their resources and capabilities.
The nature of the merger was prevalent friendly, and the dominant source of financing was equity.

The end of the wave was once again caused by an economic recession. The beginning of the new millennium started with the burst of the internet bubble, causing global stock markets to crash.

**WAVE - 6: 2003 - 2007**

The Sixth Wave saw the introduction of globalization, as established corporate companies emphasized the need to create a multi-national reach. Private Equity boomed as shareholders looked to spread ownership of their companies between themselves, day-to-day management and institutional investors.

At the time when the sixth merger wave started, interest rates were low after the recession in the economy. The interest rates were kept low even though the economy was starting to recover, and as a result it gave a major boost to the private equity business. Like the fifth wave, companies financed mergers through the use of equity and a new wave was triggered. On the other hand, Martynova and Renneboog (2005) claim that the reason why the merger wave occurred was mainly due to the delay of transactions after the 9/11 terrorists attack in the US. At that time there was a highly unsecure market and investments were withhold. As the market began to return to normal and the uncertainty vanished, investments exploded and triggered a new wave. Sudarsanam (2010) explained the merger wave as a result of emerging markets. UK and the EU have the same characteristics of their merger waves during this period. Thus it was a relatively short, but nonetheless intense merger wave. It came to a rapid end when the subprime crisis started in 2007.
## Chapter 1: Introduction: Mergers and Acquisitions

### Table 1.2: Summarized Mergers & Acquisitions Waves

<table>
<thead>
<tr>
<th>Wave</th>
<th>Period</th>
<th>Predominant Means of Payments</th>
<th>M &amp; A Outcomes</th>
<th>Predominant Nature of M&amp;As</th>
<th>Beginning of Wave</th>
<th>End of Wave</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wave 1</td>
<td>1893-1904</td>
<td>Cash</td>
<td>Creation of Monopolies</td>
<td>Friendly</td>
<td>Economic Expansion, new laws on Incorporation, Technological Innovation.</td>
<td>Stock Market Crash, WW-I</td>
</tr>
<tr>
<td>Wave 2</td>
<td>1910s-1929</td>
<td>Equity</td>
<td>Creation of Oligopolies</td>
<td>Friendly</td>
<td>Economic recovery, Better enforcement of antitrust law.</td>
<td>The Great Depression</td>
</tr>
<tr>
<td>Wave 3</td>
<td>1955-1975</td>
<td>Equity</td>
<td>Diversification/ Conglomerate Building</td>
<td>Friendly</td>
<td>Strengthening law on Anti-competitive M&amp;A’s, Economic recovery after WW-II.</td>
<td>Market Crash due to an oil crises</td>
</tr>
</tbody>
</table>

(Source: Tilburg University)
Future Outlook: Seventh Wave

In the context of finance, there is little interest in the history of M&A, and it is likely that many errors that occurred in earlier periods will reoccur. Understanding history can help us identify the proximity to a new wave of M&A.

In 2014, optimism seems to be returning to the market, and the value of mergers and acquisitions globally reached 1.75 trillion U.S. dollars in the first six months of the year, an increase of 75% over the same period last year and the largest volume of transactions since 2007. What is observed is that the business environment after the 2008 crisis, characterized by risk aversion and a focus on organic growth by firms, is dissipating.

It is true that we are living in a more volatile era in terms of market growth, but companies are beginning to understand that this volatile world is the new standard; after all, there will always be wars and countries with difficulty to honor their sovereign debt payments. In such an environment, it may not be possible to rely only on organic growth and cost cutting to deliver consistent financial results. Managers seem to once again believe that it is easier to buy growth than build it.

1.3 CONCEPTS AND DEFINITIONS OF M & A

M&As are taking place all over the world irrespective of the industry, and therefore, it is necessary to understand the basic concepts pertinent to this activity. The given below (Figure) is the clear presentation of the notion of M&A.
1.3.1 MERGER

Merger is said to occur when two or more companies combine into one company. Merger is defined as a ‘transaction involving two or more companies in the exchange of securities and only one company survives’.

When the shareholders of more than one company, usually two, decide to pool resources of the companies under a common entity it is called ‘merger’.

If as a result of a merger, a new company comes into existence it is called as ‘amalgamation’. The merger of Bank of Punjab and Centurion Bank resulting in formation of Centurion Bank of Punjab; or merger of Indian Rayon Ltd, Indo Gulf Fertilizers Limited (IGFL) and Birla Global Finance Limited (BGFL) to form a new entity called Aditya Birla Nuvo is an example of amalgamation.

As a result of a merger, one company survives and others lose their independent entity, it is called ‘absorption’. The merger of Global Trust Bank Limited (GTB) with Oriental Bank of Commerce (OBC) is an example of absorption. After the merger, the identity of GTB is lost. But the OBC retains its identity.
1.3.2 ACQUISITION

**Acquisition** is an act of acquiring effective control by a company over the assets (purchase of assets either by lump sum consideration or by item-wise consideration) or management (purchase of stocks/shares or gaining control over Board) of another company without combining their businesses physically. Generally a company acquires effective control over the target company by acquiring majority shares of that company. However, effective control may be exercised with a less than majority shareholding, usually ranging between 10 percent and 40 percent because the remaining shareholders, scattered and ill organized, are not likely to challenge the control of the acquirer. **Takeover** is considered as a form of acquisition. Takeover is a business strategy of acquiring control over the management of target company—either directly or indirectly.
1.3.3 TYPES OF MERGERS AND ACQUISITIONS

Figure-1.4 Types of M&A

When two or more companies dealing in similar lines of activity combine together then horizontal M&A takes place. The merger of Tata Oils Mills Company Ltd. (TOMCO) with Hindustan Lever Ltd. (HLL) is a horizontal merger.

A vertical M&A is one in which the company expands backwards by M&A with a company supplying raw materials or expands forward in the direction of the ultimate consumer. The vertical M&A will bring the companies of same industry together who are involved in different stages of production, process or operation. Vertical M&A may take the form of forward or backward M&A. The merger of Reliance Petrochemicals Limited (RPCL) with Reliance Industries Limited (RIL) is a vertical merger with backward linkage as far as RIL is concerned and the merger of Cement manufacturing company with civil construction company is also a vertical merger with forward linkage.

Market-extension merger involve two companies that sell the same products in different markets.

Product-extension merger involve two companies selling different but
related products in the same market.

**Conglomerate** M&A involves the integration of companies entirely involved in a different set of activities, products or services. The merger of Mohta Steel Industries Limited with Vardhaman Spinning Mills Limited is a conglomerate M&A.

When the management of acquiring and target companies mutually and willingly agrees for takeover, it is called **friendly M&A**. The acquisition of the controlling interest (45 percent shares) of Universal Luggage Mfg. Company Ltd. by Blow Plast Ltd. and Ranbaxy by Daiichi Sankyo are the examples of a friendly M&A.

When the acquisition is ‘forced’ or against the wish of the target management, it is called **hostile M&A**. Hostile M&A takes the form of **tender offer** wherein the offer to buy the shares by the acquiring company will be made directly to the target shareholders without the consent of the target management. The takeover of Shaw Wallace, Dunlop, Mather & Platt and Hindustan Dorr Oliver by Chhabriases and the takeover of Ashok Leyland by Hindujas are the examples of hostile M&A.

**Bailout** M&As are resorted to bailout the sick companies, to allow the company for rehabilitation as per the schemes approved by the financial institutions.

**Strategic M&A** involves operating synergies, i.e., two companies are more profitable combined than separate.

In **financial M&A**, the bidder usually believes that the price of the company’s stock is less than the value of company’s assets.

**Reverse M&A** is the merger of a large (financially sound/ profit-making) company with a small (financially weak/ loss-making) company.

**Downstream M&A** is the merger of a parent company with its own subsidiary.

**Upstream M&A** is the merger of a subsidiary company with its own parent company.

**Defacto M&A** has economic effect of merger as per legal provisions, but is entered
in the form of acquisition of assets.

**Cash M&A** occurs when certain shareholders accept cash for their shares, while other shareholders receive shares in the surviving company.

**Short-Term M&A** takes place when a parent company acquires the total voting power in a subsidiary.

### 1.3.4 OTHER FORMS OF CORPORATE RESTRUCTURING

1.3.4.1 **Amalgamation:** Amalgamation is an arrangement where two or more companies consolidate their business to form a new firm, or become a subsidiary of any one of the company. For practical purposes, the terms amalgamation and merger are used interchangeably. However, there is a slight difference. Merger involves the fusion of two or more companies into a single company where the identity of some of the companies gets dissolved. On the other hand, amalgamation involves dissolving the entities of amalgamating companies and forming a new company having a separate legal entity.

Normally, there are two types of amalgamations. The first one is similar to a merger where all the assets and liabilities, and shareholders of the amalgamating companies are combined together. The accounting treatment is done using the pooling of interests method. It involves laying down a standard accounting policy for all the companies and then adding their relevant accounting figures like capital reserve, machinery, etc. to arrive at revised figures.

The second type of amalgamation involves acquisition of one company by another company. In this, the shareholders of the acquired company may not have the same equity rights as earlier, or the business of the acquired company may be discontinued. This is like a purchase of a business. The accounting treatment is done using a purchase method. It involves recording assets and liabilities at their existing values or revaluing them on the basis of their fair values at the time of amalgamation.
1.3.4.2 **Consolidation:** In a consolidation, an entirely new firm is created, and the two previous entities cease to exist. Consolidated financial statements are prepared under the assumption that two or more corporate entities are in actuality only one. The consolidated statements are prepared by combining the account balances of the individual firms after certain adjusting and eliminating entries are made.

1.3.4.3 **Joint Venture:** Two or more businesses joining together under a contractual agreement to conduct a specific business enterprise with both parties sharing profits and losses. The venture is for one specific project only, rather than for a continuing business relationship as in a strategic alliance.

1.3.4.4 **Strategic Alliance:** A partnership with another business in which you combine efforts in a business effort involving anything from getting a better price for goods by buying in bulk together to seeking business together with each of you providing part of the product. The basic idea behind alliances is to minimize risk while maximizing your leverage.

1.3.4.5 **Partnership:** A business in which two or more individuals who carry on a continuing business for profit as co-owners. Legally, a partnership is regarded as a group of individuals rather than as a single entity, although each of the partners file their share of the profits on their individual tax returns.

**1.4 SIGNIFICANCE OF MERGERS AND ACQUISITIONS**

A survey among Indian corporate managers in 2006 by Grant Thornton found that Mergers and Acquisitions (M&A) are a significant form of business strategy today for Indian Corporate. The main objects, in particular, behind any M&A transaction are shown below.
1.4.1 OBJECTIVES OF MERGERS AND ACQUISITIONS

However, in general the objects of the M&A can be explained as follows: Focus on core strength, operational synergy and efficient allocation of managerial capabilities and infrastructure.

1.4.1.1 Financial Objectives

- **Economy of scale**: This refers to the fact that the combined company can often reduce its fixed costs by removing duplicate departments or operations, lowering the costs of the company relative to the same revenue stream, thus increasing profit margins.

- **Economy of scope**: This refers to the efficiencies primarily associated with demand-side changes, such as increasing or decreasing the scope of marketing and distribution, of different types of products.

- **Increased revenue or market share**: This assumes that the buyer will be absorbing a major competitor and thus increase its market power (by capturing increased market share) to set prices.

- **Cross-selling**: For example, a bank buying a stock broker could then sell its banking products to the stock broker's customers, while the broker can sign up the bank's customers for brokerage accounts. Or, a manufacturer can acquire and sell complementary products.

- **Synergy**: For example, managerial economies such as the increased opportunity of managerial specialization. Another example is purchasing economies due to increased order size and associated bulk-buying discounts.

- **Taxation**: A profitable company can buy a loss maker to use the target's loss as their advantage by reducing their tax liability. In the United States and many other countries, rules are in place to limit the ability of profitable companies to "shop" for loss making companies, limiting the tax motive of an acquiring company.

- **Geographical or other diversification**: This is designed to smooth the earnings results of a company, which over the long term smoothen the stock price of a company, giving conservative investors more confidence in investing in the
company. However, this does not always deliver value to shareholders (see below).

- **Resource transfer:** resources are unevenly distributed across firms (Barney, 1991) and the interaction of target and acquiring firm resources can create value through either overcoming information asymmetry or by combining scarce resources.

- **Vertical integration:** Vertical integration occurs when an upstream and downstream firm merges (or one acquires the other). There are several reasons for this to occur. One reason is to internalize an externality problem. A common example of such an externality is double marginalization. Double marginalization occurs when both the upstream and downstream firms have monopoly power and each firm reduces output from the competitive level to the monopoly level, creating two deadweight losses. Following a merger, the vertically integrated firm can collect one deadweight loss by setting the downstream firm's output to the competitive level. This increases profits and consumer surplus. A merger that creates a vertically integrated firm can be profitable.

- **Hiring:** some companies use acquisitions as an alternative to the normal hiring process. This is especially common when the target is a small private company or is in the startup phase. In this case, the acquiring company simply hires ("acquhires") the staff of the target private company, thereby acquiring its talent (if that is its main asset and appeal). The target private company simply dissolves and little legal issues are involved.

- **Absorption of similar businesses under single management:** similar portfolio invested by two different mutual funds namely united money market fund and united growth and income fund, caused the management to absorb united money market fund into united growth and income fund.

- **Access to hidden or nonperforming assets** (land, real estate).
1.4.1.2 Other Objectives

- **Diversification**: While this may hedge a company against a downturn in an individual industry it fails to deliver value, since it is possible for individual shareholders to achieve the same hedge by diversifying their portfolios at a much lower cost than those associated with a merger.

- **Manager's hubris**: Manager's overconfidence about expected synergies from M&A which results in overpayment for the target company.

- **Empire-building**: Managers have larger companies to manage and hence more power.

- **Manager's compensation**: In the past, certain executive management teams had their payout based on the total amount of profit of the company, instead of the profit per share, which would give the team a perverse incentive to buy companies to increase the total profit while decreasing the profit per share (which hurts the owners of the company, the shareholders).

- **Customer satisfaction**: Sometimes companies suggest they are merging to better serve their customers.

1.4.2 MOTIVES FOR MERGERS AND ACQUISITIONS

Companies make mergers and acquisitions for a long list of reasons. Most of these reasons are good, in that the motivation for the transaction is to maximize shareholder value.

Theoretically, companies should pursue a merger or an acquisition only if it creates value—that is, if the value of the acquirer and the target is greater if they operate as a single entity than as separate ones. Put another way, a merger or acquisition is justified if synergies are associated with the transaction. Synergies can take three forms: operating, financial, or managerial.

**Operating Synergies** arise from the combination of the acquirer and target’s operations. A first type of operating synergies is revenue enhancement. It includes gaining pricing power in a particular market or being able to increase sales volume by accessing new markets—for example, by leveraging one company’s sales force or distribution network, or by selling one company’s products to the other company’s customers. A second type of operating synergies is cost reduction. As mentioned
earlier, many companies view M&As as a way to reach a critical size and, consequently, be able to benefit from economies of scale with lower production costs. An acquisition might also generate cost savings in advertising, marketing, or research and development. Revenue enhancement and cost reduction are more likely in cases of horizontal integration and can also play a role in vertical integration.

**Financial Synergies** come from lower financing costs. Big companies usually have access to a wider and cheaper pool of funds than small companies. One rationale for the third wave of M&As was that diversifying into unrelated businesses enabled companies to reduce risk and, therefore, increase their debt capacity and lower their before tax cost of financing. The risk reduction benefit is compounded by the beneficial tax treatment of debt relative to equity. Thus, the more debt a company has in its capital structure, the lower its cost of financing, net of taxes. History has shown, however, that companies tend to overestimate the risk reduction and tax benefits associated with M&As. Although financial synergies are a source of value, particularly in the case of leveraged transactions such as LBOs, they should not be the only motivation for a merger or acquisition.

**Managerial Synergies** arise when a high-performing management team replaces a poor-performing one. One advantage of acquisitions is that they give the acquirer the opportunity to remove incompetent managers, which could improve the target’s performance.

Unfortunately, not all M&As are motivated by the goal of creating shareholder value. Research has shown that some managers look after their own self-interest instead of shareholders’. They might use M&As to build empires and diversify their human capital, even if little or no value is associated with the merger or the acquisition. Managers also sometimes suffer from hubris; they are overconfident in their ability to negotiate a good deal for their shareholders and then run the combined entity. Thus, they tend to overpay for their acquisitions. Last, some managers go through an acquisition spree to deliver growth and earnings targets, even if the acquisitions are not strategically sound or have a negative effect on the company’s profitability and ability to create shareholder value. One can also summarize the motives of M & A as shown in table 1.3.
Table : 1.3 Motives of M & A

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<tr>
<td>Growth</td>
<td>Investment of Surplus Funds</td>
<td>Entrepreneur’s Personal Compulsions</td>
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<td>Scale of Operations</td>
<td>Higher Market Capitalization</td>
<td>Retention of Management Talents</td>
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<td>Competition</td>
<td>Reducing Costs</td>
<td>Removal of Inefficient Management</td>
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<td>Market Share</td>
<td>Tax Planning/Tax Benefits</td>
<td>Quality of Management</td>
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<td>Acquiring Size</td>
<td>Revival of Sick Units</td>
<td>Lobby Power</td>
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<td>Backward Integration</td>
<td>Increasing EPS</td>
<td>Emergence as an MNC</td>
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<td>Forward Integration</td>
<td>Creation of Shareholder Value</td>
<td>Emergence as a Conglomerate</td>
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<td>Synergy</td>
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<td>Core Competence</td>
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<td>Diversification</td>
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<td>Reduction of Risk</td>
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<td>Balancing Product Cycle</td>
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<td>Mgt of Recession</td>
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<td>Entry into New Markets/New Segment</td>
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(Source: Raghunandan,B.V.,www.slideshare.net)

1.4.2 Advantages of Mergers and Acquisitions

- The most common reason for firms to enter into merger and acquisition is to merge their power and control over the markets.
- Another advantage is Synergy that is the magic power that allow for increased value efficiencies of the new entity and it takes the shape of returns enrichment and cost savings.
- Economies of scale is formed by sharing the resources and services (Richard et al, 2007). Union of 2 firm's leads in overall cost reduction giving a competitive advantage, that is feasible as a result of raised buying power and longer production runs.
- Decrease of risk using innovative techniques of managing financial risk.
- To become competitive, firms have to be compelled to be peak of technological developments and their dealing applications. By M&A of a small business with unique technologies, a large company will retain or grow a competitive edge.
• The biggest advantage is tax benefits. Financial advantages might instigate mergers and corporations will fully build use of tax-shields, increase monetary leverage and utilize alternative tax benefits (Hayn, 1989).

1.5 DISADVANTAGES OR LIMITATIONS OF Mergers AND ACQUISITION

The advantage and disadvantages of merger and acquisition are depending of the new companies short term and long term strategies and efforts. That is because of the factors likes' market environment, Variations in business culture, acquirement costs and changes to financial power surrounding the business captured. So following are the some disadvantages or limitations of merger and acquisition (M&A).

Disadvantages: Following are the some difficulties

• Loss of experienced workers aside from workers in leadership positions. This kind of loss inevitably involves loss of business understand and on the other hand that will be worrying to exchange or will exclusively get replaced at nice value.

• As a result of M&A, employees of the small merging firm may require exhaustive re-skilling.

• Company will face major difficulties thanks to frictions and internal competition that may occur among the staff of the united companies. There is conjointly risk of getting surplus employees in some departments.

• Merging two firms that are doing similar activities may mean duplication and over capability within the company that may need retrenchments.

• Increase in costs might result if the right management of modification and also the implementation of the merger and acquisition dealing are delayed.

• The uncertainty with respect to the approval of the merger by proper assurances.

• In many events, the return of the share of the company that caused buyouts of other company was less than the return of the sector as a whole.

• The merger and acquisition (M&A) reduces flexibility. If a rival makes revolution and may currently market vital resources those are of superior quality, shift is tough. The change expense is majorly the distinction between the particular merger worth and also the merchandising value of the firm that can be of larger distinction.
1.6 DIFFERENCES BETWEEN MERGERS AND ACQUISITIONS

Although merger and acquisition are often used as synonymous terms, there is a subtle difference between the two concepts.

In the case of a merger, two firms together form a new company. After the merger, the separately owned companies become jointly owned and obtain a new single identity. When two firms merge, stocks of both are surrendered and new stocks in the name of new company are issued. Generally, mergers take place between two companies of more or less same size. In these cases, the process is called Merger of Equals.

However, with acquisition, one firm takes over another and establishes its power as the single owner. Generally, the firm which takes over is the bigger and stronger one. The relatively less powerful, smaller firm loses its existence, and the firm taking over, runs the whole business with its own identity. Unlike the merger, stocks of the acquired firm are not surrendered, but bought by the public prior to the acquisition, and continue to be traded in the stock market.

Another difference is, when a deal is made between two companies in friendly terms, it is typically proclaimed as a merger, regardless of whether it is a buyout. In an unfriendly deal, where the stronger firm swallows the target firm, even when the target company is not willing to be purchased, then the process is labeled as acquisition. Often mergers and acquisitions become synonymous, because, in many cases, a bigger firm may buy out a relatively less powerful one and compel it to announce the process as a merger. Although, in reality an acquisition takes place, the firms declare it as a merger to avoid any negative impression.

1.7 PROCESS OF MERGERS & ACQUISITIONS

Merger and acquisition process is the most challenging and most critical one when it comes to corporate restructuring. One wrong decision or one wrong move can actually reverse the effects in an unimaginable manner. It should certainly be followed in a way that a company can gain maximum benefits with the deal.

Following are some of the important steps in the M&A process:
Business Valuation

Business valuation or assessment is the first process of merger and acquisition. This step includes examination and evaluation of both the present and future market value of the target company. A thorough research is done on the history of the company with regards to capital gains, organizational structure, market share, distribution channel, corporate culture, specific business strengths, and credibility in the market. There are many other aspects that should be considered to ensure if a proposed company is right or not for a successful merger.

Proposal Phase

Proposal phase is a phase in which the company sends a proposal for a merger or an acquisition with complete details of the deal including the strategies, amount, and the commitments. Most of the time, this proposal is send through a non-binding offer document.

Planning Exit

When any company decides to sell its operations, it has to undergo the stage of exit planning. The company has to take firm decision as to when and how to make the exit in an organized and profitable manner. In the process the management has to evaluate all financial and other business issues like taking a decision of full sale or partial sale along with evaluating on various options of reinvestments.

Structuring Business Deal

After finalizing the merger and the exit plans, the new entity or the take over company has to take initiatives for marketing and create innovative strategies to enhance business and its credibility. The entire phase emphasize on structuring of the business deal.

Stage of Integration

This stage includes both the company coming together with their own
parameters. It includes the entire process of preparing the document, signing the agreement, and negotiating the deal. It also defines the parameters of the future relationship between the two.

Operating the Venture

After signing the agreement and entering into the venture, it is equally important to operate the venture. This operation is attributed to meet the said and pre-defined expectations of all the companies involved in the process. The M&A transaction after the deal include all the essential measures and activities that work to fulfill the requirements and desires of the companies involved.

1.8 STRATEGIES FOR MERGERS AND ACQUISITIONS

Merger and Acquisition Strategies are extremely important in order to derive the maximum benefit out of a merger or acquisition deal. A sound strategic planning can protect any merger from failure. Through market survey and market analysis of different mergers and acquisitions, it has been found out that there are some golden rules which can be treated as the Strategies for Successful Merger or Acquisition Deal.

Strategies:

- Before entering in to any merger or acquisition deal, the target company's market performance and market position is required to be examined thoroughly so that the optimal target company can be chosen and the deal can be finalized at a right price.
- Identification of future market opportunities, recent market trends and customer's reaction to the company's products are also very important in order to assess the growth potential of the company.
- After finalizing the merger or acquisition deal, the integration process of the companies should be started in time. Before the closing of the deal, when the negotiation process is on, from that time, the management of both the companies requires to work on a proper integration strategy. This is to ensure that no potential problem crop up after the closing of the deal.
• If the company which intends to acquire the target company plans restructuring of the target company, then this plan should be declared and implemented within the period of acquisition to avoid uncertainties.

• It is also very important to consider the working environment and culture of the workforce of the target company, at the time of drawing up Merger and Acquisition Strategies, so that the employees of the target company do not feel left out and become demoralized. Strive to keep the employees informed, encourage feedback, be honest about what's ahead, and make sure people stay focused by ensuring the best possible start for the newly expanded company.

1.9 SUCCESS OR FAILURE OF MERGERS AND ACQUISITIONS

The large volume of local and international research studies available regarding the issue of merger failure and success, despite varying research objectives and methodologies, are consistent in their findings that large numbers of Merger and Acquisition transactions fail to reach potential. However, any specific elements of the merger and acquisition process have yet to be identified as the critical success or failure factor impacting on the performance of a transaction. It is more likely that a range of issues and elements are responsible for M&A failure.

There are basically two broad issues responsible for success or failure of M&A transactions. These two issues are ‘Fit’ issues and ‘Process’ issues. ‘Fit’ issues are those which assess the position of the acquirer and the target. The acquirer has limited ability to influence the fit issues; however there are some factors over which control can be asserted. ‘Process’ issues are those over which the acquirer can exert a large degree of control.
Figure-1.5 Fit Issues and Process Issues

**WHY MERGER FAILS**

The main reasons for mergers failure are “autonomy, self-interest, culture clash” all included or lies in leadership. At both implementation and negotiation stages, mergers fail due to failure of leadership. Lack of leadership qualities of managers may cause mergers and acquisitions a failure. Leadership is, thus a crucial management task in strategic restructuring.

The following are the reasons for failure of mergers:

- Mergers fail in providing economies of scale.
- Un-utilization or minimum utilization of staff and working hours.
- The inability to appeal country-wide and regionally to refunders.
- Personal desires
  - Desire towards authority but not to responsibility.
  - Desire towards to control and commanding/directing the subordinates.
    - The people, who are having the negative views on mergers.
    - The negative believes of the partners and the people in the society.
    - Inefficient and inactive person of a leader or director in merged firm.
    - The inability of preparing national policy issues, which are interested by the members in the merged firm.
- The inability of the leader in bridging the cultures within the merged organization.
- Lack of leadership qualities of merged organizations’ directors and partners.

In addition to the above, many mergers fail, which may be broadly classified into the following “seven sins”, which seem to be committed too often by those making acquisitions:
1. Paying too much.
2. Assuming a boom market won’t crash.
3. Leaping before looking.
4. Straying too far afield.
5. Swallowing something too big.
6. Marrying disparate corporate cultures.
7. Counting on key managers staying.

1.10 IMPACT OF MERGERS AND ACQUISITIONS

Just as mergers and acquisitions may be fruitful in some cases, the impact of mergers and acquisitions on various sects of the company may differ. In the article below, details of how the shareholders, employees and the management people are affected has been briefed.

Mergers and acquisitions are aimed at improving profits and productivity of a company. Simultaneously, the objective is also to reduce expenses of the firm. However, mergers and acquisitions are not always successful. At times, the main goal for which the process has taken place loses focus. The success of mergers, acquisitions or takeovers is determined by a number of factors. Those mergers and acquisitions, which are resisted not only affects the entire work force in that organization but also harm the credibility of the company. In the process, in addition to deviating from the actual aim, psychological impacts are also many. Studies have suggested that mergers and acquisitions affect the senior executives, labor force and the shareholders.
1.10.1 Impact of Mergers and Acquisitions on workers or employees

Aftermath of mergers and acquisitions impact the employees or the workers the most. It is a well known fact that whenever there is a merger or an acquisition, there are bound to be layoffs.

In the event when a new resulting company is efficient business wise, it would require less number of people to perform the same task. Under such circumstances, the company would attempt to downsize the labor force. If the employees who have been laid off possess sufficient skills, they may in fact benefit from the lay off and move on for greener pastures. But it is usually seen that the employees those who are laid off would not have played a significant role under the new organizational set up. This accounts for their removal from the new organization set up. These workers in turn would look for re employment and may have to be satisfied with a much lesser pay package than the previous one. Even though this may not lead to drastic unemployment levels, nevertheless, the workers will have to compromise for the same. If not drastically, the mild undulations created in the local economy cannot be ignored fully.

1.10.2 Impact of mergers and acquisitions on top level management

Impact of mergers and acquisitions on top level management may actually involve a "clash of the egos". There might be variations in the cultures of the two organizations. Under the new set up the manager may be asked to implement such policies or strategies, which may not be quite approved by him. When such a situation arises, the main focus of the organization gets diverted and executives become busy either settling matters among themselves or moving on. If however, the manager is well equipped with a degree or has sufficient qualification, the migration to another company may not be troublesome at all.

1.10.3 Impact of mergers and acquisitions on shareholders

We can further categorize the shareholders into two parts:
1.10.3.1 Shareholders of the acquired firm

The shareholders of the acquired company benefit the most. The reason being, it is seen in majority of the cases that the acquiring company usually pays a little excess than it what should. Unless a man lives in a house he has recently bought, he will not be able to know its drawbacks. So that the shareholders forgo their shares, the company has to offer an amount more than the actual price, which is prevailing in the market. Buying a company at a higher price can actually prove to be beneficial for the local economy.

1.10.3.2 Shareholders of the acquiring firm

They are most affected. If we measure the benefits enjoyed by the shareholders of the acquired company in degrees, the degree to which they were benefited, by the same degree, these shareholders are harmed. This can be attributed to debt load, which accompanies an acquisition.

1.11 IMPORTANT TERMS RELATING TO MERGERS AND ACQUISITIONS

Important terms relating to mergers and acquisitions are vital to the understanding of the entire process of mergers and acquisitions.

Every word encountered in the process of mergers and acquisitions need to be carefully understood for a sound understanding of the subject.

There are many important terms relating to mergers and acquisitions. These terms may appear to be completely unrelated to mergers and acquisitions but nevertheless, these terms may indicate a very important process in mergers and acquisitions. Some of the important terms relating to mergers and acquisitions are as follows:

**People pill**

Under some circumstances of hostile takeover, the people pill is used to prevent the takeover. The entire management team gives a threat to put in their papers if the takeover takes place. Using this strategy will work out provided the management team is very efficient and can take the company to new heights. On the other hand, if the management team is not efficient, it would not matter to the
acquiring company if the existing management team resigns. So, the success of this strategy is quite questionable.

**Sandbag**

Sandbag is referred to as the process by which the target firm tends to defer the takeover or the acquisition with the hope that another company, with better offers may takeover instead. In other words, it is the process by which the target company "kills time" while waiting for a more eligible company to initiate the takeover.

**Shark Repellent**

There are instances when a target company, which is being aimed at for a takeover resists the same. The target firm may do so by adopting different means. Some of the ways include manipulating shares as well as stocks and their values. All these attempts of the target firm resisting its acquisition or takeover are known as shark repellent.

**Golden parachute**

Is yet another method of preventing a takeover. This is usually done by extending benefits to the top level executives lest they lose their portfolio/jobs if the takeover is affected. The benefits extended are quite lucrative.

**Raider**

May be referred to an acquiring company, which is always on the look out for firms with undervalued assets. If the company finds that a company (target) does exists whose assets are undervalued, it buys majority of the shares from that target company so that it can exercise control over the assets of the target firm.

**Saturday Night Special**

Saturday Night Special is referred to as an action of the corporate companies, whereby one company makes an attempt to takeover another company all of a sudden.
by executing a public tender offer. The name is derived from the fact that such attempts were made towards the weekends. However, such practices have been stopped as per Williams Act. It has now been obligatory that if a company acquires more than 5% of stocks from another company, this has to be reported to the SEC or the Securities Exchange Commission.

**Macaroni defense**

This is referred to the policy wherein a large number of bonds are issued. At the same time the target company also assures people that the return on investment for these bonds will be higher with the takeover has taken place. This is another strategy embraced by the target firm for not succumbing to the pressures of the acquiring company.

1.12 **MERGER AND ACQUISITION ACCOUNTING**

Merger and acquisition accounting is done either by the purchase or pooling of interests methods. There are some differences between these two accounting methods which are discussed in the following page.

1.12.1 **Purchase Method**

The asset and liabilities of the merged company are presented at their market values as on the date of acquisition, in order to ensure that the resulting values of the accounting process are able to reflect the market values. This refers to the value, which was recorded before the final settlement of the acquisition deal at the time of bargaining.

In this process, the total liabilities of the joint company equal the sum of individual liabilities of the two separate firms. The purchase price then determines the amount by which the acquiring firm's equity is going to increase.

However, one of the drawbacks with purchase method is the chance that it may overrate depreciation charges.

This is because the book value of assets used in accounting is generally lower than the fair value if there is inflation in the economy.
1.12.2 Pooling of Interests Method

In this method, transactions are considered as exchange of equity securities. Here, assets and liabilities of the two firms are combined according to their book value on the acquisition date.

The total asset value of the joint company equals the sum of assets of the separate firms. In this case, the accounting income is found to be higher than in the purchase method, as the depreciation in the pooling method is calculated based on the historical book value of assets.

1.13 COSTS OF MERGERS AND ACQUISITIONS

Costs of Mergers and Acquisitions are calculated in order to check to the viability and profitability of any Merger or Acquisition deal. Any company finalizes a merger deal only after calculating the cost of merger. In case of acquisition, when a company buys out another firm, it calculates the costs in order to determine how beneficial will be the takeover.

The different methods adopted for this cost calculation are the Replacement Cost Method, Discounted Cash Flow Method, Economic Profit Model, Comparative Ratio calculation method and Synergy: The Premium for Potential Success.

1.13.1 Replacement Cost Method

In Replacement Cost Method, cost of replacing the target company is calculated and acquisitions are based on that. Here the value of all the equipments and staffing costs are taken into consideration. The acquiring company offers to buy all these from the target company at the given cost. Replacement cost method isn't applicable to service industry, where key assets (people and ideas) are hard to value.

1.13.2 Discounted Cash Flow (DCF) Method

Discounted Cash Flow (DCF) method is one of the major valuation tools in
mergers and acquisitions. It calculates the current value of the organization according to the estimated future cash flows.

Estimated Cash Flow = Net Income + Depreciation/Amortization - Capital Expenditures - Change in Working Capital

These estimated cash flows are discounted to a present value. Here, organization's Weighted Average Costs of Capital (WACC) is used for the calculation. DCF method is one of the strongest methods of valuation.

1.13.3 Economic Profit Model

In this model, the value of the organization is calculated by summing up the amount of capital invested and a premium equal to the current value of the value created every year moving forward.

Economic Profit = Invested Capital x (Return on Invested Capital - Weighted Average Cost of Capital)

Economic Profit = Net Operating Profit Less Adjusted Taxes - (Invested Capital x Weighted Average Cost of Capital)

Value = Invested Capital + Current Value of Estimated Economic Profit

1.13.4 Comparative Ratios –

The following are two examples of the many comparative metrics on which acquiring companies may base their offers:

Price-Earnings Ratios (P/E Ratio)

This is one of the comparative methods adopted by the acquiring companies, based on which they put forward their offers. Here, acquiring company offers multiple of the target company's earnings.

Enterprise-Value-to-Sales Ratio (EV/Sales)

Here, acquiring company offers multiple of the revenues. It also keeps a tab on the price-to-sales ratio of other companies.
1.13.5 Synergy: The Premium for Potential Success

For the most part, acquiring companies nearly always pay a substantial premium on the stock market value of the companies they buy. The justification for doing so nearly always boils down to the notion of synergy; a merger benefits shareholders when a company's post-merger share price increases by the value of potential synergy.

Let's face it, it would be highly unlikely for rational owners to sell if they would benefit more by not selling. That means buyers will need to pay a premium if they hope to acquire the company, regardless of what pre-merger valuation tells them. For sellers, that premium represents their company’s future prospects. For buyers, the premium represents part of the post-merger synergy they expect can be achieved.

The following equation offers a good way to think about synergy and how to determine whether a deal makes sense. The equation solves for the minimum required synergy:

\[
\frac{\text{Pre – Merger Value of Both Firms} + \text{Synergy}}{\text{Post – Merger Number of Shares}} = \text{Pre – Merger Stock Price}
\]

In other words, the success of a merger is measured by whether the value of the buyer is enhanced by the action. However, the practical constraints of mergers, which we discuss in part five, often prevent the expected benefits from being fully achieved. Alas, the synergy promised by deal makers might just fall short.

1.14 MERGERS AND ACQUISITIONS IN INDIA

India in recent past has seen great potential in case of Merger and Acquisition (M&A) deals. It is being played vigorously in many industrial sectors of the economy. Many Indian companies have been growing the inorganic way to gain access to new markets and many foreign companies are targeting Indian companies for their growth and expansion. It has been spreading far and wide through various verticals on all business platforms.

The volume of M&A deals has been trending upwards particularly in the fields of pharmaceuticals, FMCG, finance, telecom, automotive and metals. Various factors which lead to this robust growth of mergers and acquisitions in India were
liberalization, favorable government policies, economic reforms, need for investment, and dynamic attitude of Indian corporations. Almost all sectors have been opened up for the foreign investors in different degrees which has attracted this market and enabled industries to grow.

The post-world war period was regarded as an era of M&As. Large number of M&A’s occurred in industries like jute, cotton textiles, sugar, banking & insurance, electricity and tea plantation.

However after independence, during the initial years, very few corporations came together and when they did it was a friendly negotiated deal. The reason behind less number of companies involved in mergers and acquisitions were due to the provisions of MRTP act, 1969 wherein such a firm had to follow a pressurized procedure to get approval for the same which acted as a deterrent.

Although this doesn’t mean that mergers and acquisitions in India were uncommon during this controlled system. In fact there were cases where the government encouraged mergers to revive the sick units. Additionally the creation of Life Insurance Corporation (LIC) and nationalization of life insurance business resulted in takeover of 243 insurance companies in the year 1956.
The concept of mergers and acquisitions in India was not very popular until the year 1988. This year saw an unfriendly takeover by Swaraj Paul to overtake DCM Ltd. which later had turned out to be ineffective.

After the economic reforms that took place in the 1991, there were huge challenges in front of Indian industries both nationally as well as internationally. The intense competition compelled the Indian companies to opt for M&A’s which later on became a vital option for them to expand horizontally and vertically. Indian corporate enterprises started refocusing in the lines of core competence, market share, global competitiveness and consolidation.

The early nineties saw M&A transactions led by Indian IT and pharmaceutical
firms primarily to place themselves near to their major clients in other developed economies and also break into new markets for expansion.

In this backdrop, Indian corporate enterprises undertook restructuring exercises primarily through M&A’s to create a formidable presence and expand in their core areas of interest. Since then there has been no looking back and India is being considered one of the top countries entering merger and acquisitions. However, the complications involved in the acquisition process has also increased caused by evolving legal frameworks, funding concerns and competition norms which pose a constraint for the deal to be successful.

1.14.1 Recent trends of Mergers and Acquisitions in India

There are various factors that facilitate mergers and acquisitions in India. Government policies, resilience in economy, liquidity in the corporate sector, and vigorous attitudes of the Indian businessmen are the key factors behind the fluctuating trends of mergers and acquisitions in India.

Considering the trends in previous years, Year 2012 saw a slowdown in mergers and acquisitions in India. It hit a three year low down by almost 61% from its preceding year. This was majorly caused by the tough macro-economic climate created due to euro zone crisis and other domestic reasons such as inflation, fiscal deficit, and currency depreciation. However that year also saw a key trend that emerged and it was the increase in domestic deals compared to cross border M&As. The domestic agreement value stood at USD 9.7 billion, up by almost 50.9% in comparison with 2011.
This year 2014, has started off on a positive note for inbound M&A deals in India which has so far seen 15 deals in the first two months. The general elections due in the coming months would have a huge impact on the on the mergers and acquisitions in India. Though the investment sentiments have improved the foreign companies are awaiting the effect of elections before putting in money in India.

The country is strong enough in its rudiments which will drive its business and economic growth.

1.14.2 Challenges to Mergers and Acquisitions in India

With the increase in number of M&A deals in India, the legal environment is increasingly becoming more and more refined. M&A forms a major part of the economic transactions that take place in the Indian economy. There are a few challenges with mergers and acquisitions in India which have been discussed below;

Regulatory Ambiguity: M&A laws and regulations are still developing and trying to catch up with the global M&A scenario. However because of these reasons the interpretation of these laws sometimes goes for a toss since there is ambiguity in understanding them.
Several regulators interpreting the same concept differently increase confusion in the minds of foreign investors. This adversely affects the deal certainty which needs to be resolved if the Indian system wants to attract investments from foreign economies.

Legal Developments: There have been consistently new legal developments such as the Competition Act, 2002, the restored SEBI Takeover Regulations in 2011 and also the notification of limited sections of the new Companies Act, 2013, has led to issues in India relating to their interpretations and effect on the deals valuations and process.

Shareholder Involvement: Institutional investors in the minority position have become active in observing the investee companies. Proxy advisory companies are closely scrutinizing the related party transactions, appointment of several executives and their remuneration. There are cases where the approval of minority shareholders is required. The powers to the minority shareholders have been revamped, one of them includes to sue company against oppression and mismanagement.

These are some of the issues that pose a challenge towards the growth of mergers and acquisitions in India which need considerate attention from the government to make our market attractive for foreign investment.

On a positive note Confederation of Indian Industry (CII), the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) – the three main regulators of the mergers and acquisition activities – have been striving hard to further liberalize the norms that have been one of the biggest contributors to the country’s industrial expansion.

1.15 FUTURE OUTLOOK OF M & A IN INDIA

India is becoming a highly sought after destination for M&A deals. This also means that it is now more vulnerable to the impulses and uncertainties of the global economic scenario. Considered to be the lifeblood of Indian business now, it needs the support and constancy to ensure that it remains progressive in the coming years.
India must concentrate upon refining the processes, increasing the simplicity in doing business abroad and the legalities involved in them. It is not wrong to say that the mergers and acquisitions in India and the system related to that are in the infant stage but this economy is huge enough to provide opportunities to foreign investments.

The key to success keeping fundamentals in place i.e. to bring into line acquisitions to the entire business strategy, plan and execute a vigorous integration process and take adequate Mergers and Acquisitions in India.

CONCLUSION

The last two decades have witnessed extensive mergers and acquisitions as a strategic means for achieving sustainable competitive advantage in the corporate world. Mergers and Acquisitions (M&A) have become the major force in the changing environment. The policy of liberalization, decontrol and globalization of the economy has exposed the corporate sector to domestic and global competition. Mergers and Acquisitions (M&A) have also emerged as one of the most effective methods of corporate structuring, and have therefore, become an integral part of the long-term business strategy of corporate sector all over the world. Almost 85 percent of Indian companies are using M&A as a core growth strategy.
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