CHAPTER 4

STANDARD CAUSAL FACTORS BEHIND CONTEMPORARY MERGERS AND ACQUISITIONS IN INDIA

4.1 Introduction

A substantial growth of acquisitions and mergers by the corporate sector by both the MNCs and the domestic firms has been witnessed in India since the 1990s. In fact, with liberalization, the corresponding changes in industry climates acted as a spur for merger and TO activities. The question that arises is what could be the possible causes behind the trend of corporate consolidation. The immediate reply may be that firms would be better off by entering into a merger transaction than without it. The existing owners of the acquired firm gain as they acquire liquidity (for instance, they get money with which they can meet the pending expenditure of their company), or use the cash to diversify; the owners of the bidder firm gain because the acquired company is a good buy. To be more precise, the owners of the target firm sell because the bidder firm makes an offer too lucrative to reject. Apart from this, the acquiring firm may attain greater market power, realise economies of scale, better integration of production facilities, plant specialisation, lower transportation costs and similar efficiencies relating to specific manufacturing, servicing or distribution operations of the merging firms and to some extent, also the diversification of risk through diversification of operations over several industries/products. Also, there may be situations, where there may be no immediate gain from mergers but prospective gains may promote such unifications. Moreover, there are many corporate fusions, which may take place with no apparent well-designed motive on the part of any player. It may be so that buying up of firms would be the best way that the acquiring firm can spend the money that it has accumulated.

The mergers and acquisitions observed in India are found to be many and diverse with different causal factors active in the cases of domestic and foreign firms. The objective of this chapter is to discuss the standard causal factors promoting mergers and TOs in the manufacturing sector in India over 1994 to 1998. Several reasons like synergy, expansion of operations, gaining profit, achieving economies of scale, consolidation, brand building, gaining access to market, cashflow, entry into new sectors, making up loss, gaining liquidity, acquiring size, raising exports, etc. have been identified from the reportings of our different journalistic sources. Apart from these, there are certain other factors that are apparently non-economic. Some of these are family feud, TO fad, religious or clannish overtone, etc. Cases of mergers prompted by these factors have also been reported by the media. In the sections that follow, some of these factors are discussed in the Indian context in terms of appropriate case studies, in reference to our sample cases listed in Appendix 3.1 of Chapter 3. Section 4.2 discusses the standard economic reasons that induced the Indian firms to enter into mergers and acquisitions over this period. Section 4.3 lists the apparently non-economic causes behind such corporate consolidations. Finally, Section 4.4 briefly sums up the spirit of the discussion and also traces out the agenda to be discussed in the next three chapters.
The case studies abounding the sections of this chapter have been compiled by collating and analysing the corporate information regarding the course and strategies of these mergers and TOs in India over 1994-98 as obtained from various newspaper and journalistic sources and also from various issues of the Stock Exchange Official Directory of the Bombay Stock Exchange. Each case of merger and TO has more than one cause behind it. Hence, the classifications of mergers under different causal factors may sometimes appear to be somewhat artificial, as a particular case could also have rightly fallen into some other classification. However, this element of artificiality, could not be helped. In each case, we have tried to focus on the particular classification, but have nonetheless mentioned the other factors promoting the mergers. The causes were not always explicit. In such cases, we had to dig out the causes from the reportings and from the statements of persons concerned with the industries involved in the mergers. In several cases we have provided a detailed analysis of the mergers. But this method could not be applied to all the case studies made in this chapter because of paucity of appropriate data and information. For each causal factor there could be many appropriate case studies. However, for space considerations we will refer to only a few cases for each factor.

4.2 The Economic Reasons Prompting Mergers and Takeovers in India

4.2.1 Synergistic Operating Economies

Synergy prospects are expected to exist in a merger or TO. Synergy takes place when the combination of firms or activities results in a situation where the total is more than the sum of the individual parts. The gains obtained by operating together through the combination of resources and efforts by consolidating firms result into synergistic operating gains through saving in operating costs. The resulting economies are known as synergistic operating economies. The synergy-driven mergers would reap the benefits of stronger distribution and marketing network, inter-brand support and larger market especially in the cases of horizontal mergers, in which there are more chances of eliminating duplicate facilities. Among others, synergy is possible in areas such as production, finance and technology. Synergy through consolidation can be easily identified in the case of horizontal mergers. Synergy present in the cases of vertical and conglomerate integrations is generally financial synergy.

Building up expensive assets, like a huge distribution and marketing network and recognised brand name, takes a long time and effort and investment. Mergers and TOs are considered by firms as a relatively inexpensive alternative to enhance market presence and increase market share, by eliminating competition, protecting existing markets and strengthening retail outlets and sales depots to rationalise distribution. In this way the merged company can obtain operational and market strength.
Case Study

**Hindustan Lever Limited – Tata Oil Mills Company Limited merger**

Hindustan Lever Limited (HLL) took over Tata Oil Mills Company Limited (Tomco) in 1993 and eventually merged Tomco with itself in December, 1994. With this Tomco ceased to exist. Among the terms of mergers decided by the shareholders of the two companies at separate meetings in June 1993 was that, HLL would be given full rights to use trade marks / brand names of the products manufactured, marketed, sold or distributed by Tomco, and its associate companies, viz., Tata Vashishti Detergents Ltd., Industrial Perfumes Ltd., International Fisheries Ltd. and Kalyani Soap Industries Ltd. However, HLL would not be allowed to use the words, “TATA”, “Tomco”, “TATEX” and/or “TATA PRODUCT” on any of its products and/or labels, wrappers, cartons, and/or containers thereof from the date of receiving all approvals.

**The Acquiring Company – HLL**

HLL is a Unilever subsidiary, where Unilever has a majority stake. It was incorporated in 1933 under the name of Lever Brothers (India) Private Ltd. The name was changed to HLL in 1956, following a number of amalgamations of a few wholly owned subsidiaries of Unilever Ltd. with Lever Brothers (India) Private Ltd. The company manufactures soaps and detergents, toilet preparations, vanaspati, animal feeding stuff, etc., glycerine and nickel catalysts and chemicals and chemical products. The chemicals division is taken care of by Hind Lever Chemicals Ltd. since 1996. Some of the popular brands of HLL are Surf, Sunlight, Wheel, Lifebuoy, Lux, Rexona, Dove in the detergent and soap market, Fair & Lovely, Close Up, Pepsodent, Denim in the personal care products and Dalda in the food segment.

HLL is the country’s largest company in the soaps, detergents and household and personal care sectors with a sales turnover of Rs. 7819.71 crore in 1998 (Rs. 2100 crore in 1995). The survey made annually by *Business Today* on the basis of CMIE data have been ranking HLL among the top ten companies according to the values of market capitalisation (Rs. 11,780 crore as on 31.12.1996). By market capitalisation of a company we mean the price per share times the number of shares outstanding. The *Business Standard* survey provides annual ranking of companies on the basis of net sales. HLL also figures there as one of the highest ranking companies. The market capitalisation and sales figures of HLL as well as their annual ranking over 1992 to 1998 is shown in Table 4.1.
**Table 4.1**

Market Capitalisation and Sales Figures of HLL and their Ranks over 1992 to 1998

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Capitalisation (Rs. Crore)</th>
<th>Rank</th>
<th>Sales (Rs. Crore)</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>2,310.0</td>
<td>5</td>
<td>1501.95</td>
<td>3</td>
</tr>
<tr>
<td>1993</td>
<td>5,180.0</td>
<td>2</td>
<td>1735.64</td>
<td>6</td>
</tr>
<tr>
<td>1994</td>
<td>10,639.0</td>
<td>2</td>
<td>2058.47</td>
<td>6</td>
</tr>
<tr>
<td>1995</td>
<td>8,617.0</td>
<td>2</td>
<td>2787.48</td>
<td>13</td>
</tr>
<tr>
<td>1996</td>
<td>10,354.5</td>
<td>2</td>
<td>3347.41</td>
<td>NA</td>
</tr>
<tr>
<td>1997</td>
<td>12,220.8</td>
<td>1</td>
<td>6584.36</td>
<td>8</td>
</tr>
<tr>
<td>1998</td>
<td>NA</td>
<td>NA</td>
<td>7819.71</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: *Business Today* and *Business Standard*, various issues.

**Acquired company – Tomco**

Tomco had been one of the major competitors of HLL in the soaps and detergent markets. But Tomco's performance had deteriorated of late. For the Tata group, Tomco was fast turning into a loss-making concern as shown in the figures in Table 4.2 of pre-depreciation profits and operating profit. It is only due to positive non-operating surplus (income through sale of asset etc.) that the pre-tax profit and net profit figures turned out to be positive during this period.

**Table 4.2**

The Profit Performance of Tomco over 1986-1992

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Gross Profit (Rs. Crore)</th>
<th>Interest (Rs. Crore)</th>
<th>Pre-depreciation Operating Profit (Rs. Crore)</th>
<th>Operating Profit (= Pre-depreciation Operating Profit - Depreciation (Rs. Crore))</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.3.86</td>
<td>-60.59</td>
<td>643.17</td>
<td>-703.75</td>
<td>-912.25</td>
</tr>
<tr>
<td>31.3.87</td>
<td>156.75</td>
<td>701.68</td>
<td>-544.92</td>
<td>-762.92</td>
</tr>
<tr>
<td>31.3.88</td>
<td>34.25</td>
<td>882.30</td>
<td>-843.04</td>
<td>-1061.09</td>
</tr>
<tr>
<td>31.3.89</td>
<td>802.09</td>
<td>554.96</td>
<td>-142.86</td>
<td>-362.86</td>
</tr>
<tr>
<td>31.3.90</td>
<td>1735.06</td>
<td>1097.41</td>
<td>673.65</td>
<td>318.65</td>
</tr>
<tr>
<td>31.3.91</td>
<td>1831.16</td>
<td>1290.67</td>
<td>540.49</td>
<td>222.99</td>
</tr>
<tr>
<td>31.3.92</td>
<td>548.09</td>
<td>1834.56</td>
<td>-1295.46</td>
<td>-1659.71</td>
</tr>
</tbody>
</table>

We can also meaningfully compare the return on capital employed (pre-tax profit + interest payment)/(shareholders' funds + fixed liabilities) and return on shareholders' funds (net profit after tax / shareholders' funds) for HLL and Tomco, since both companies operate on similar markets. It is observed from Table 4.3 that the figures for Tomco turn out to be very low compared to those for HLL.

<table>
<thead>
<tr>
<th>Year</th>
<th>Return on Capital Employed (Percentage per annum) HLL</th>
<th>Return on Capital Employed (Percentage per annum) Tomco</th>
<th>Return on Shareholders' Funds (Percentage) HLL</th>
<th>Return on Shareholders' Funds (Percentage) Tomco</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>30.43</td>
<td>25.65</td>
<td>22.67</td>
<td>5.01</td>
</tr>
<tr>
<td>1988</td>
<td>32.49</td>
<td>13.10</td>
<td>25.44</td>
<td>4.54</td>
</tr>
<tr>
<td>1989</td>
<td>30.35</td>
<td>12.90</td>
<td>24.05</td>
<td>7.27</td>
</tr>
<tr>
<td>1990</td>
<td>32.85</td>
<td>15.85</td>
<td>25.79</td>
<td>16.01</td>
</tr>
<tr>
<td>1991</td>
<td>36.77</td>
<td>13.00</td>
<td>30.74</td>
<td>15.22</td>
</tr>
<tr>
<td>1992</td>
<td>50.27</td>
<td>11.68</td>
<td>30.11</td>
<td>1.69</td>
</tr>
</tbody>
</table>

Source: Computed from data available in Bombay Stock Exchange Official Directory various issues.

Note: For HLL, the accounting period was December to December. For Tomco, it was March to March.

The figures for sales / capital employed, which is a measure of how effectively the capital has been employed shows a declining trend for Tomco. This is shown in Table 4.4.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales / Capital employed (percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>654.91</td>
</tr>
<tr>
<td>1988</td>
<td>328.90</td>
</tr>
<tr>
<td>1989</td>
<td>298.07</td>
</tr>
<tr>
<td>1990</td>
<td>289.95</td>
</tr>
<tr>
<td>1991</td>
<td>246.92</td>
</tr>
<tr>
<td>1992</td>
<td>214.98</td>
</tr>
</tbody>
</table>

Source: Computed from data available in Bombay Stock Exchange Official Directory various issues.

For the Tatas however, the Tomco sell-off can be viewed as a divestment of this loss-making unit. It was an exit by the Tatas from the soaps and detergents made in order to refocus their operations, so as to restructure. The primary reason behind Tomco's
heavy dependence on outside liabilities. We reproduce some figures in Table 4.5 and Table 4.6 to show Tomco's dependence on borrowed funds vis-a-vis shareholders' funds, and consequent burden of interest charges.

Table 4.5
Dependence of Tomco on Borrowed Funds over March 1988 to March 1992

<table>
<thead>
<tr>
<th>Date</th>
<th>Borrowings as a Percentage of Total Liabilities</th>
<th>Outside Liabilities as a Percentage of Total Liabilities</th>
<th>Shareholders' Funds as a Percentage of Total Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.3.88</td>
<td>45.71</td>
<td>76</td>
<td>24</td>
</tr>
<tr>
<td>31.3.89</td>
<td>47.24</td>
<td>78</td>
<td>22</td>
</tr>
<tr>
<td>31.3.90</td>
<td>51.21</td>
<td>79</td>
<td>21</td>
</tr>
<tr>
<td>31.3.91</td>
<td>54.94</td>
<td>83</td>
<td>17</td>
</tr>
<tr>
<td>31.3.92</td>
<td>45.32</td>
<td>78</td>
<td>22</td>
</tr>
</tbody>
</table>


Table 4.6
Selected Financial Ratios for Tomco over March 1988 to March 1992

<table>
<thead>
<tr>
<th>Date</th>
<th>Interest Payments as a Percentage of Gross Profits</th>
<th>Debt-Equity Ratio (%)</th>
<th>Current Assets (CA)/Current Liabilities (CL) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.3.88</td>
<td>2576.05</td>
<td>187.54</td>
<td>265.67</td>
</tr>
<tr>
<td>31.3.89</td>
<td>67.94</td>
<td>217.69</td>
<td>257.11</td>
</tr>
<tr>
<td>31.3.90</td>
<td>63.25</td>
<td>245.54</td>
<td>291.15</td>
</tr>
<tr>
<td>31.3.91</td>
<td>70.48</td>
<td>316.80</td>
<td>301.12</td>
</tr>
<tr>
<td>31.3.92</td>
<td>336.36</td>
<td>201.72</td>
<td>274.53</td>
</tr>
</tbody>
</table>

Source: Computed from data available in Bombay Stock Exchange Official Directory various issues.

The CA/CL ratio, commonly referred to as the current ratio provides a test of solvency and determines short term financial strength of the company. The high levels CA /CL Ratio show that a lot of fund procured by Tomco had been locked up in CA rather than being invested in fixed assets and in upgrading technology. Figures in Table 4.7 indicate that a large proportion of these CA consist of funds tied up in inventories and in sundry debtors, which primarily exclude the wholesalers and retailers to whom trade credit is extended.
Table 4.7

A Time Profile of the Inventory and Sundry Debtors, as a Percentage of Tomco's Total Assets over March 1988 to March 1992

<table>
<thead>
<tr>
<th>Date</th>
<th>Inventories as a Percentage of Total Assets</th>
<th>Sundry Debtors as a Percentage of Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.3.88</td>
<td>38</td>
<td>35</td>
</tr>
<tr>
<td>31.3.89</td>
<td>33</td>
<td>41</td>
</tr>
<tr>
<td>31.3.90</td>
<td>40</td>
<td>37</td>
</tr>
<tr>
<td>31.3.91</td>
<td>28</td>
<td>41</td>
</tr>
<tr>
<td>31.3.92</td>
<td>23</td>
<td>52</td>
</tr>
</tbody>
</table>


Throughout the 1980s, Tomco suffered from very high input costs due to rising prices on non-edible oils and other inputs, as well as bloated up wage bills, resulting from rising dearness allowances. Table 4.8 gives the shares of stocks consumed and wages and salaries as a percentage of total value of sales for the period 1983 to 1992 of Tomco, as well as that of HLL to provide a comparison.

Table 4.8

A Comparison between HLL and Tomco with respect to Use of Inputs and Associated Costs over 1983-92

<table>
<thead>
<tr>
<th>Date</th>
<th>Shares of Stock consumed as a Percentage of Total Net Sales—Tomco</th>
<th>Shares of Stock consumed as a Percentage of Total Net Sales—HLL</th>
<th>Share of Wages and Salaries as a Percentage of Total Net Sales—Tomco</th>
<th>Share of Wages and Salaries as a Percentage of Total Net Sales—HLL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>62</td>
<td>54</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>1984</td>
<td>64</td>
<td>60</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>1985</td>
<td>66</td>
<td>66</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>1986</td>
<td>65</td>
<td>57</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>1987</td>
<td>66</td>
<td>54</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>1988</td>
<td>65</td>
<td>57</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>1989</td>
<td>63</td>
<td>56</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>1990</td>
<td>61</td>
<td>55</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>1991</td>
<td>62</td>
<td>57</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>1992</td>
<td>64</td>
<td>54</td>
<td>9</td>
<td>3</td>
</tr>
</tbody>
</table>


Note: For HLL, the accounting year ends in December. For Tomco, it ends in March.
Table 4.9 gives the capacity utilisation figures for Tomco and HLL. The figures indicate that in all the three markets where both Tomco and HLL have been operating (soaps, detergents and glycerine), Tomco's capacity utilisation rate was steadily falling and except in soap, installed capacity in other two products remain underutilised.

### Table 4.9

<table>
<thead>
<tr>
<th>Year Ended:</th>
<th>Soap</th>
<th>Synthetic Detergents</th>
<th>Glycerine</th>
<th>Year Ended:</th>
<th>Soap</th>
<th>Synthetic Detergents</th>
<th>Glycerine</th>
</tr>
</thead>
<tbody>
<tr>
<td>HLL</td>
<td></td>
<td></td>
<td></td>
<td>Tomco</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31.12.89</td>
<td>188.0</td>
<td>306.0</td>
<td>130.0</td>
<td>31.3.90</td>
<td>184.0</td>
<td>73.0</td>
<td>95.0</td>
</tr>
<tr>
<td>31.12.90</td>
<td>209.0</td>
<td>219.0</td>
<td>196.0</td>
<td>31.3.91</td>
<td>182.0</td>
<td>32.0</td>
<td>80.0</td>
</tr>
<tr>
<td>31.12.91</td>
<td>226.2</td>
<td>227.2</td>
<td>194.9</td>
<td>31.3.92</td>
<td>167.0</td>
<td>26.0</td>
<td>59.0</td>
</tr>
</tbody>
</table>


The reasons behind such underutilisation of capacity can be explained by a slackening of demand and exogenous disturbances affecting supply. As already mentioned, Tomco was ridden high production costs. High costs apart, all the factories were affected by power shortage. The factory at Sewri in Bombay was heavily affected by Industrial disputes.

On the demand side, the company had to face severe competition. In the detergents market, the small sector put up an effective competition. With economic liberalisation introduced during the late 1980s and early 1990s, competition from big operators also started mounting up in the soap as well as the detergents market. High cost structure of the company became more of a hindrance in the face of such competition. Export demand, which has always been a mainstay of the company became erratic and uncertain, after the collapse and disintegration of the USSR which was a major importer. The export data for the period March 1988 to March 1992 in Table 4.10 confirm this.

### Table 4.10

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Exports (Rs. Crore)</td>
<td>10.27</td>
<td>5.91</td>
<td>28.72</td>
<td>8.22</td>
<td>7.51</td>
</tr>
</tbody>
</table>


Prospects from the merger

HLL and Tomco had almost identical lines of production. This acquisition and subsequent merger helped Lever to consolidate its position in the soaps and detergents market. Also it provided synergy and easy access to established brand
name. This was a clear case of horizontal merger for HLL for the two companies share a similarity in product lines. On the basis of the production and sales figures available in December 1992, we construct Table 4.11, which confirm this similarity.

Table 4.11

Percent of Production Volume and Sales of different Products of HLL and Tomco in March 1992

<table>
<thead>
<tr>
<th>Products</th>
<th>HLL Production Volume (%)</th>
<th>Tomco Production Volume (%)</th>
<th>HLL Sales (%)</th>
<th>Tomco Sales (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soaps</td>
<td>41.80</td>
<td>71.40</td>
<td>51.25</td>
<td>65.47</td>
</tr>
<tr>
<td>Synthetic Detergents</td>
<td>35.50</td>
<td>3.56</td>
<td>26.05</td>
<td>20.51</td>
</tr>
<tr>
<td>Glycerine</td>
<td>1.16</td>
<td>0.80</td>
<td>2.10</td>
<td>1.50</td>
</tr>
</tbody>
</table>


This merger exhibited production synergy for HLL, as both the companies were engaged in soaps and detergents production. With Tomco, came five soap and four detergent brands, a number of joint venture projects and foreign collaborations as well as a manufacturing capacity through several factories and a distribution network. By this amalgamation, HLL could now make use of Tomco's brands like Moti, Jai, O K, Hamam and 501 to compete with the other players in the market. It could also use Tomco's vast unutilised capacity, and its large distribution network covering 2,400 stockists and the million retail outlets. HLL could also reduce transportation costs and enlarge its presence in Kerala and Tamil Nadu, where it had hitherto, no manufacturing units, through Tomco's seven manufacturing facilities. HLL's production base in South India had been its weak point since only one of its nine factories were located in South India (Andhra Pradesh). Merger with Tomco was expected to remedy this weakness, since two of Tomco's seven manufacturing units were in South India (in Kerala and Tamil Nadu). In sum, it was the first significant acquisition for HLL [1].

**Hindustan Lever Limited – Brooke Bond Lipton India Limited merger**

Hindustan Lever Limited (HLL) entered into an in-group amalgamation in the nature of a merger with Brooke Bond Lipton India Limited (BBLIL), another Unilever subsidiary. Amalgamation in the nature of a merger means that the assets are to be transferred at book values and so would be the position of the reserves. The share swap ratio was 9 shares of HLL for 20 shares of BBLIL. The amalgamation was with effect from 1.1.1996.

The conglomerate merger was designed as a part of Unilever's strategy to consolidate the company as a strong food processing entity, through a route that would necessarily involve shorter gestation period than the setting up of new ventures. The synergy identified in this merger was financial synergy whereby the cash flow of HLL could be used to strengthen the food brands of BBLIL.
Table 4.12 reveals that most of the global acquisitions of Unilever was in the processed and frozen food segment. Internationally, Unilever was then passing through a process of change, illustrated by its buying of 64 companies since 1992 and divesting 28 others. Its focus was on foods industry, and it pursued a policy of concentrating on the emerging markets as shown by Table 4.12. HLL-BBLIL merger could be taken as one facet of the worldwide gameplan of Unilever, designed as a part of Unilever's strategy to consolidate its Indian subsidiary as a strong food processing entity, through a route that would necessarily involve shorter gestation period than the setting up of new ventures.

Table 4.12

<table>
<thead>
<tr>
<th>Country</th>
<th>Acquired Company/ Joint Venture</th>
<th>Acquired product and associated service range</th>
<th>Year of acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Ctea SA, a local tomato foods business</td>
<td>Tomato foods</td>
<td>1994</td>
</tr>
<tr>
<td>Brazil</td>
<td>Cica, a local tomato foods business</td>
<td>Tomato foods</td>
<td>1993</td>
</tr>
<tr>
<td>Canada</td>
<td>Two manufacturing units of Beatrice Foods; Unilever also signed a long-term agreement whereby Beatrice will market and distribute Unilever ice-cream and frozen products in four Canadian provinces.</td>
<td>Ice-cream and frozen foods</td>
<td>Acquisition in May 1994</td>
</tr>
<tr>
<td>China</td>
<td>8 joint ventures since 1986. 70% stake, valued at $25 million, in a joint venture with a local detergents manufacturer based in Zhangiakou, near Beijing, for fabric detergent manufacture.</td>
<td>Detergents, etc.</td>
<td>1986 onwards</td>
</tr>
<tr>
<td>France</td>
<td>Frozen foods and ice-cream major Ortiz-Miko, at an acquisition cost of $330 million.</td>
<td>Frozen foods and ice-creams</td>
<td>March 1994</td>
</tr>
<tr>
<td>Italy</td>
<td>Bertolli edible oils business from Cirio-Bertolli-De Rica.</td>
<td>Bertolli edible oils business comprising the Bertolli olive oil brand, production and marketing operations in Italy and sales operations overseas.</td>
<td>April 1994</td>
</tr>
</tbody>
</table>
As a subsidiary of the Anglo-Dutch multinational, Unilever, entering into the arena of the market for corporate control in the form of mergers and TOs, was not new either for HLL or BBLIL. We have already seen in Table 4.12 that the global parent has successfully implemented this policy in its operations worldwide. In India too, both HLL and BBLIL have entered into various acquisitions, joint ventures, and mergers, which we demonstrate deal-by-deal in Table 4.13.

### Table 4.12 (contd.)
Global Acquisition by Unilever

<table>
<thead>
<tr>
<th>Country</th>
<th>Acquired Company/Joint Venture</th>
<th>Acquired product and associated service range</th>
<th>Year of acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>TO of Kanebo’s stake in the joint venture company Kanebo-NSC. (National Starch Company, a subsidiary of Unilever) in Osaka. Kanebo NSC is a 20-year old joint venture manufacturing adhesives, resins and speciality chemicals with sales in the region of $160 million.</td>
<td>adhesives, resins and speciality chemicals</td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>Purchase of 90% of the shares of a local company — Severnoye Syaniye, a Petersburg-based manufacturer of lotions, aftershaves and colour cosmetics.</td>
<td>lotions, aftershaves and colour cosmetics.</td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>Entry into the ice-cream market of the country through a 70% stake in a joint venture with the local National Cooperative Dairies (NCD; South Africa’s largest operator in the dairy industry and controls over 50% of the national milk supply).</td>
<td>Ice-cream</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>Purchase of 60% of the stake (which gives management control) in Spanish frozen foods company — Fudesa.</td>
<td>Frozen vegetables and frozen fish</td>
<td>December 1994</td>
</tr>
<tr>
<td>Venezuela</td>
<td>Helados Tio Rico icecream business from the Venezuelan Cisneros group</td>
<td>Ice-cream</td>
<td>February 1995</td>
</tr>
</tbody>
</table>

Table 4.13

Deals of HLL and BBLIL in post-NIP Regime

<table>
<thead>
<tr>
<th>Period</th>
<th>Deal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-November, 1992</td>
<td>The plantation companies, Tea Estate India Limited and Doom Dooma Tea Estate merged with Brooke Bond India Limited (BBIL). Unilever thus raises stake in BBIL up to 51% through the merger of BBIL with the two plantation companies, where Unilever had a 74% stake. Unilever raises its stake in Lipton India Limited (LIL) to 51% from 40% by bringing in Rs. 33 crore. BBIL and LIL (an HLL subsidiary since 1970) merged to form Brooke Bond Lipton India Limited (BBLIL), a premier foods company.</td>
</tr>
<tr>
<td>March 1993</td>
<td>Tomco merged with HLL and Unilever’s stake raised to 51% in HLL.</td>
</tr>
<tr>
<td>April 1993</td>
<td>Kissan and Dippy’s taken over from United Breweries Ltd. (UB)</td>
</tr>
<tr>
<td>July 1993</td>
<td>The marketing and distribution business of Dollops ice-cream, acquired from Cadbury.</td>
</tr>
<tr>
<td>December 1994</td>
<td>BBLIL strikes an alliance with Kwalqty, taking over the marketing and distribution network of the latter.</td>
</tr>
<tr>
<td>April 1995</td>
<td>Milkfood 100% ice-cream of Jagatjit Industries and BBLIL announce a marketing and distribution pact through strategic alliance.</td>
</tr>
<tr>
<td>May 1995</td>
<td>Pepsi sells BBLIL its tomato paste processing plant in Punjab.</td>
</tr>
<tr>
<td>April 1996</td>
<td>BBLIL merged with HLL</td>
</tr>
<tr>
<td>February 1998</td>
<td>Lakmc sells 50% holding as well as Lakmc’s trademarks (belonging to wholly-owned subsidiary Lakmc Brands) to HLL.</td>
</tr>
</tbody>
</table>


*Acquired company*

BBLIL was formed under the name Brooke Bond & Co. (India) Ltd. The name was changed to Brooke Bond India Ltd. once in 1922 and then again in 1967. It acquired its present name after its amalgamation with Lipton India, Ltd., another Unilever subsidiary, in 1993. The activities of BBLIL included blending and packing tea and coffee and distribution of these products in India and abroad; manufacture of paper and two and three wheelers and to carry on the business of export and trading house.

BBLIL through its acquisitions of various food processing companies since 1992, became India's one of the leading food and beverages company and a market leader in black tea, processed coffee, ice cream, frozen desserts, and tomato products, with a net sales of Rs. 2108 crore in the calendar 1995. The major brands of BBLIL were Kwality-Walls range of ice creams, Brooke Bond tea -- Red Label, Green Label and Yellow Label, jams, ketchup, squashes and purees of Kissan, packed vegetables branded -- Birds Eye and Bru and Rich coffee in the coffee segment.
Prospects from the merger

Table 4.14
Comparative Financials of HLL and BBLIL over 1994-95

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (S)</td>
<td>3782</td>
<td>2112.5</td>
<td>2843.2</td>
<td>1860.4</td>
<td>5894.5</td>
<td>4703.6</td>
</tr>
<tr>
<td>Operating Profits (OP)</td>
<td>416</td>
<td>198</td>
<td>356</td>
<td>182</td>
<td>614</td>
<td>538</td>
</tr>
<tr>
<td>Operating Margin (OM)</td>
<td>11</td>
<td>9.4</td>
<td>12.5</td>
<td>9.8</td>
<td>10.4</td>
<td>11.4</td>
</tr>
<tr>
<td>Gross Profits (GP)</td>
<td>396</td>
<td>174</td>
<td>326</td>
<td>160</td>
<td>570</td>
<td>486</td>
</tr>
<tr>
<td>Cash Profit (CP)</td>
<td>270.5</td>
<td>147.1</td>
<td>205.7</td>
<td>114.7</td>
<td>417.6</td>
<td>320.4</td>
</tr>
<tr>
<td>Net Profit (NP)</td>
<td>246.8</td>
<td>126.5</td>
<td>182.2</td>
<td>99.1</td>
<td>373.3</td>
<td>281.3</td>
</tr>
<tr>
<td>Depreciation (D)</td>
<td>23.7</td>
<td>20.6</td>
<td>23.5</td>
<td>15.6</td>
<td>44.3</td>
<td>39.1</td>
</tr>
<tr>
<td>Tax (T)</td>
<td>20</td>
<td>24</td>
<td>30</td>
<td>22</td>
<td>44</td>
<td>52</td>
</tr>
<tr>
<td>Interest (I)</td>
<td>372.3</td>
<td>153.4</td>
<td>302.5</td>
<td>144.4</td>
<td>525.7</td>
<td>446.9</td>
</tr>
<tr>
<td>Net Profit Margin (NP as a % of S)</td>
<td>6.5</td>
<td>6.0</td>
<td>6.4</td>
<td>5.3</td>
<td>12.5</td>
<td>11.7</td>
</tr>
<tr>
<td>Net Worth (NW)</td>
<td>638</td>
<td>412</td>
<td>537</td>
<td>352</td>
<td>1050</td>
<td>889</td>
</tr>
<tr>
<td>GP/NS</td>
<td>11.8</td>
<td>8.4</td>
<td>11.5</td>
<td>8.7</td>
<td>10.5</td>
<td>10.4</td>
</tr>
<tr>
<td>NP/NW</td>
<td>38.7</td>
<td>28.2</td>
<td>35.4</td>
<td>28.2</td>
<td>35.6</td>
<td>32.5</td>
</tr>
</tbody>
</table>


Note: Sales: Net of excise but including other income.
Operating Profits: Profits before tax, depreciation and interest.
Operating Margin: Operating Profits as a Percentage of Sales.
Gross Profits: Operating Profit less tax.
Tax: Operating Profit less Gross Profit.
Cash Profits: Profits after tax and interest but before depreciation.
Net Profits: Profits after tax, depreciation and interest.
Depreciation: Cash Profits less Net Profits.
Interest: Operating Profits less depreciation less tax.
Interest Margin: Interest as a Percentage of Net Sales.
Net Profit Margin: Net Profit as a Percentage of Sales.
It is evident from the Table 4.14 that HLL’s cash availability was larger than BBLIL over 1994-95. However, the group’s growth opportunities were identified to be with BBLIL in the processed food market. The thrust on leadership in the processed foods market would require large amounts of money because of the high expenditure on advertising and sales promotion. Hence the idea behind the merger could be that, HLL’s cash accruals would fund capital-intensive investment plans of the high-growth foods business of BBLIL. The idea was to grow through investments and operating as a bank with the excess cash available with HLL and make better use of the common talent pool available with the two companies.

Table 4.15
The Distribution Network of HLL and BBLIL

<table>
<thead>
<tr>
<th></th>
<th>HLL</th>
<th>BBLIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>C&amp;F Agents</td>
<td>50</td>
<td>50-x</td>
</tr>
<tr>
<td>Retail Stockists</td>
<td>3,500</td>
<td>2,500</td>
</tr>
<tr>
<td>Urban Retail Outlets</td>
<td>14,50,000</td>
<td>2,90,000</td>
</tr>
<tr>
<td>Rural Retail Outlets</td>
<td>3,00,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Salesforce</td>
<td>400</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: Compiled from “Can HLL Leverage the Mega-Merger?” Business Today, May 7-21, 1996.
Note: HLL shares some C&F Agents with BBLIL.

With the merger, BBLIL was legally dead and the surviving entity post-merger, was rechristened HLL. The new entity had ten divisions, formed out of the five existing divisions of HLL, namely personal care products, detergents, speciality chemicals, agri-based products and exports and six divisions of BBLIL, which are culinary products, beverages, frozen foods, oils, fats and dairy products, animal and poultry feeds and exports. The export divisions of both the companies was merged into a single entity, making it the tenth division. The brands of the combined company is shown in Table 4.16 [2].

Table 4.16
The Product Profile of HLL after its merger with BBLIL

<table>
<thead>
<tr>
<th>Product</th>
<th>Major Brand</th>
<th>Marketshare (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DETERGENTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Powders</td>
<td>Surf Wash Boosters</td>
<td>36.5</td>
</tr>
<tr>
<td></td>
<td>OK</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Revel</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rin Power White</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sunlight</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wheel</td>
<td></td>
</tr>
<tr>
<td>Cakes/Bars</td>
<td>OK</td>
<td>36.7</td>
</tr>
<tr>
<td></td>
<td>Rin</td>
<td></td>
</tr>
<tr>
<td></td>
<td>501</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wheel</td>
<td></td>
</tr>
</tbody>
</table>
Table 4.16 (contd.)
The Product Profile of HLL after its merger with BBL1L

<table>
<thead>
<tr>
<th>Product Major</th>
<th>Brand</th>
<th>Marketshare (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOOTHPASTE</td>
<td>Close-Up</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>Pepsodent</td>
<td></td>
</tr>
<tr>
<td>SKINCARE</td>
<td>Fair&amp;Lovely</td>
<td>49</td>
</tr>
<tr>
<td>SHAMPOOS</td>
<td>Clinic</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>Sunsilk</td>
<td></td>
</tr>
<tr>
<td>COOKING OIL</td>
<td>Flora</td>
<td>6.8</td>
</tr>
<tr>
<td></td>
<td>Gold Seal</td>
<td></td>
</tr>
<tr>
<td>SAUCES</td>
<td>Kissan</td>
<td>47</td>
</tr>
<tr>
<td>SQUASHES</td>
<td>Kissan</td>
<td>N.A.</td>
</tr>
<tr>
<td>TOILET SOAPS</td>
<td>Premium</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dove</td>
<td>33.5</td>
</tr>
<tr>
<td></td>
<td>Le Sancy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Liril</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lux International</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pears</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Moti</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Popular</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lifebuoy</td>
<td>76.8</td>
</tr>
<tr>
<td></td>
<td>Lux</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rexona</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hamam</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jai</td>
<td></td>
</tr>
<tr>
<td>DAIRY PRODUCTS</td>
<td>Anispray</td>
<td>N.A.</td>
</tr>
<tr>
<td></td>
<td>Milkana</td>
<td></td>
</tr>
<tr>
<td>JAMS</td>
<td>Kissan</td>
<td>63</td>
</tr>
<tr>
<td>FROZEN VEGETABLES</td>
<td>Green Valley</td>
<td>N.A.</td>
</tr>
<tr>
<td>EDIBLE FATS</td>
<td>Dalda</td>
<td>N.A.</td>
</tr>
<tr>
<td></td>
<td>Blue Band</td>
<td></td>
</tr>
<tr>
<td>COFFEE</td>
<td>Filter</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cafe Gold</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td>Brooke Bond</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Green Label</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Instant</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bon</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Tripti</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bru</td>
<td></td>
</tr>
<tr>
<td>TEA</td>
<td>Lipton Yellow Label</td>
<td>68</td>
</tr>
<tr>
<td></td>
<td>3 Roses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Taj Mahal</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lipton Green Label</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Brooke Bond Red Label</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Super Dust</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tiger</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ruby</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Top Star</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Taaza</td>
<td></td>
</tr>
</tbody>
</table>
Table 4.16 (contd.)

The Product Profile of HLL after its merger with BBLEL

<table>
<thead>
<tr>
<th>Product</th>
<th>Major Brand</th>
<th>Marketshare (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FROZEN DESSERTS</td>
<td>Kwality-Wall’s</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Dollops</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Milkfood</td>
<td></td>
</tr>
<tr>
<td>BAKERY FATS</td>
<td>Golden Seal</td>
<td>N.A.</td>
</tr>
<tr>
<td></td>
<td>Silver Seal Margarine</td>
<td></td>
</tr>
<tr>
<td>NOODLES</td>
<td>Top Ramen Smoodles</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Compiled from “Can HLL Leverage the Mega-Merger?” Business Today, May 7-21, 1996.

Note: Marketshares are recorded from ORG-Business Today estimates.

Apart from the two large mergers by HLL, there are instances of other synergy-driven mergers and TOs in the manufacturing sector in India over 1994-1998. A few of these are discussed below.

**Cimmco Ltd. - Indian Plastics Ltd. and Cimmco Spinners Ltd. merger**

The two subsidiaries of Cimmco Ltd. of Siddharth Kumar Birla, the Indian Plastics Ltd. (later known as Xpro India), manufacturer of thermoset mouldings and Cimmco Spinners Ltd., manufacturer of cotton yarn, a 100% export oriented unit merged with the parent company Cimmco Ltd., in 1994. Cimmco Ltd. is a multi-product company, which includes co-extruded plastic sheets and cast plastic films. This in-house merger was horizontal in product profile. The merged company was named as Cimmco Birla Ltd. This merger was accomplished as a part of major restructuring exercise. This was expected to synergise the outputs of the different divisions. The decision to merge came at a time when Cimmco was planning to optimise its profits. The merger was expected to add substantially to the profitability of all the units of Cimmco through increase in marketshare. Bringing Indian Plastics into the fold was expected to supplement Cimmco Ltd.’s clout in plastics. It already had a plastics unit at Faridabad, which marketed its products under the Expro India brand name. And, merging with Cimmco Spinners would allow Cimmco Ltd. to increase its presence in the textile arena, with both spinning and spinning machinery [3].

**Cimmco Birla Ltd. - Biax Ltd. merger**

Cimmco Birla Ltd. merged with Biax Ltd. in 1994. Biax Ltd. was an S.K. Birla group company incorporated in June 1988 and was engaged in manufacturing biaxially-oriented polypropylene. It was a horizontal merger that was done as part of larger restructuring to attain sharper business focus. This followed the group philosophy that companies in the comeback trail should merge with large entities in the group for acquiring greater strength in the increasingly competitive marketplace. Also, the focus was on the synergies that could be developed through amalgamations. The merger would also widen the scope of activities of the Xpro division of Cimmco, which basically handled all the plastic related operations of the company. With the
plastics division growing in strength, it was thought fit to merge Biax Ltd. with Cimmco to bring a wider range of plastic products within its purview [4].

Nicholas Piramal India Ltd. - Sumitra Pharmaceuticals and Chemicals Ltd. merger
The Ajay Piramal group took over Hyderabad-based bulk drug maker Sumitra Pharmaceuticals and Chemicals Ltd. (SPCL), a loss-making company of Ramesh Jain family, through their pharmaceutical major, Piramal Healthcare Ltd. (this company was originally a multinational, Roche Products of India Ltd. that was taken over by the Piramals in 1993). SPCL had recorded encouraging results till 1994-95, with the turnover touching Rs. 65.2 crore that year. However, the half-yearly sales for 1995-96 was only Rs. 9.97 crore and the company made losses of Rs. 12.88 crore during that period. The difficulties of SPCL were partially attributed by the industry to labour trouble and the problems that it had in its alliances with Pharmaceutical Products of India Ltd.

SPCL had the largest single-location synthetic bulk drug plant in India in the private sector. It had 450,000 litres of reactor capacity, and had exported half of its production since inception. SPCL manufactured bulk drugs such as ibuprofen, an analgesic and anti-inflammatory, aildiazem and diltiazem, a cardiovascular, quinolones like, ciprofloxacin, enrofloxacin and pefloxacin, ranitidine, an anti-ulcerant and ondanseteron, an anti-emetic. Apart from a bulk drug manufacturer, SPCL was also a deemed export house and had other trading businesses, which had no synergy with NPIL.

In view of this, mode of TO of Sumitra Pharmaceuticals by NPIL was arranged so as to preserve synergy between the two companies. NPIL entered into an agreement with Sumitra Pharmaceuticals, under which the company’s assets and liabilities pertaining to the bulk drug division was acquired by NPIL and the non-pharmaceuticals division remained with the original promoter and NPIL had nothing to do with them. The manufacturing plant, offices and other equipment were transferred to Piramal along with Rs. 61 crore in liabilities. In return, all shareholders of Sumitra Pharmaceuticals were issued one share of NPIL for every 20 shares they held. This reduced Sumitra Pharmaceuticals’ capital from Rs. 20.78 crore to Rs. 51 lakh and the face value of the shares stood reduced at Re. 0.25. The stock was eventually delisted from the stock exchanges where it traded.

SPCL was merged with NPIL in October 1995. The acquisition and merger was expected to considerably improve the position of the healthcare business of the Piramal group. There would also be a synergy between the products of the target firm and those of NPIL [5].

Eveready Industries India - McLeod Russel (India) Ltd. merger
McLeod Russel (India) Ltd. was merged with its subsidiary, Eveready Industries India (formerly Union Carbide India Limited) with retrospective effect from 1.4.1996. Union Carbide India Limited, the dry battery giant was the Indian subsidiary of the US MNC, Union Carbide Corporation. The merged entity was named Eveready Industries. McLeod Russel, a Williamson Magor group company
owned by BM Khaitans had acquired Union Carbide Corporation’s controlling stake of 50.9% in Eveready Industries in November 1994 for a consideration of around Rs.300 crore. McLeod Russel had also raised funds through public-cum-rights-issue to finance the acquisition. Reportedly, McLeod Russel was to use Eveready Industries’ distribution network to market packet teas. Also, this distribution and marketing network for dry cell batteries could also be used to enormous advantage for introducing other products such as alkaline batteries and button cells. Apart from the production and marketing synergies, the merger is also expected to provide financial synergies. At the time of merger, both Eveready and McLeod Russel had a borrowing limit of about Rs.300 crore. The post-merger entity was expected to be in a position to substantially raise its borrowing limit [6].

**Reliance Industries Ltd. - Reliance Polypropylene Ltd. and Reliance Polyethylene Ltd. merger**

Reliance Industries Ltd. (RIL) merged with itself its two subsidiaries, Reliance Polypropylene Ltd. (RPPL) and Reliance Polyethylene Ltd. (RPEL), known as the Reliance twins. The merger was effective from 1.1.1995. The amalgamation was expected to give significant synergy benefits and position. RIL is to become a leading player in the plastics market. [7].

**EID Parry - Bharat Pulverising Mills TO**

EID Parry of the Madras-based Murugappa group took over some assets (the Thane plant and machinery and current assets) of Bharat Pulverising Mills (BPM) of Bombay, the pesticides division of the O P Jindal group in end 1995 at a price of Rs. 40 crore. It was a case of horizontal TO in the nature of sale of assets as against the outright sale of company. The Jindals had earlier taken over BPM for its real estate potential. With the acquisition of BPM by EID Parry, the Jindals were to retain the name BPM although they would have no manufacturing business after the sale of the pesticide unit. They would only have real estate business.

According to Parry sources, this TO was made because BPM provided perfect synergy with Parry’s pesticides business. Parry is one of the largest formulators and distributors of pesticides in the country. It did not have manufacturing facilities for technical grade pesticides. It had been buying technical grade pesticides from companies like BPM. This move was expected to help Parry to source raw material for their formulations locally and give them a 2-year lead in setting up manufacturing facilities for technical grade [8].

**Rank Aqua Estates Ltd. - Aquamarine Foods Ltd. TO**

Rank Aqua Estates Ltd. (RAEL), the aqua-culture project in India took over the management control of Aquamarine Foods Ltd. (AFL), an ailing company in 1994. The TO involved the transfer of the promoters’ shareholding held by Mr. Vijay Kumar and associates to RAEL and its nominees.

*Prospective gains from TO*

This TO was expected to help AFL to save on marketing costs, costs of setting up of a hatchery and processing plant that it originally planned, get assured processing at
RAEL and a ready supply of feed from Somkan Marine Foods Ltd, RAEL’s sister concern. The synergy was between the feed mill that would supply the feed to AFL at a decent price as also support AFL with seed from RAEL’s hatchery and processing. As far as RAEL is concerned, the TO would provide synergy. The 55-acre project had a hatchery of 300-million pi. per annum and a state-of-the-art processing plant with a capacity to process 4,500 tonnes of marine products per annum. Its own farm could supply only 1,500 tonnes of marine products and the rest was being sourced from outside. The problem was expected to be solved with the TO as AFL would be able to supply another 1,000 to 1,500 tonnes [9].

**Modern Threads India Ltd. - Modern Woollen Ltd. merger**
Modern Threads India Ltd. (MTIL), of Bhilwara, engaged in the manufacture of synthetic yams merged with itself the woollen yarn division of Modern Woollen Ltd. (MWL), located also in Bhilwara in 1994. It was an in-house merger between two companies of the Modern group. In exchange for its biggest division, MWL got 1.39 lakh shares of MTIL and the shareholders of MWL got 11.19 equity shares of MTIL for every 100 shares of MWL held.

**Acquired company - MWL**
MWL had two divisions, namely the woollen yarn division and the terry towel division. The latter was a 100% export oriented unit. It hived off its largest division, woollen yarns and merged it with MTIL.

**Prospective gains from merger**
This restructuring was made to gain synergy in operations and economic benefits due to locational advantage as both the companies were located in Bhilwara and had common customer base [10].

**Shah and Motasha group - Polymer division of the Premier Auto Electric Ltd. merger**
Shah and Motasha group, which owns Royal Cushion Vinyl Floorings (RCVFL), acquired the polymer division of the Premier Auto Electric Ltd. (PAEL), a Walchand group company. The polymer division had a capacity to manufacture 1,500 tonnes per annum of engineering plastic products from polyurethane. The products find application in the manufacture of automobile seats. For the acquirer, the acquisition brings about a synergy with its backward integration project to manufacture car seats [11].

**Balrampur Chini Mills Ltd. - Babhnan Sugar merger**
Balrampur Chini Mills Ltd (BCML), the flagship company of Calcutta based Saroogis took over and then merged Babhnan Sugar with itself. With this horizontal merger BCML expected to emerge as the largest sugar company in India after taking into account the additional capacity that it has already brought under its fold by acquiring two sick sugar mills (Munderwa and Burwal privatised by the Uttar Pradesh State Sugar Corporation). By integrating several sugar mills into one large entity, BCML expected to derive the synergies of operations that only the strength of a single company could seize in a rapidly growing sugar industry. Moreover, it also considered the potential of synergy from combined managerial strength. [12].
Jindal Strips Ltd. - Jindal Ferro Alloys merger
Jindal Strips Ltd. (JSL), of the O.P. Jindal group merged with itself Jindal Ferro Alloys (JFA), which manufactures ferro chrome and sells to JSL plant at Hisar for the production of stainless steel. JSL apart from producing stainless steel, also manufactures mild steel cold rolled coils, mild steel slabs, hot rolled mild steel coils and sponge iron. It was an in-house vertical merger. This vertical merger is expected to give a financial synergy in the form of reduced cost of production through integration of operations [13].

4.2.2 Entry through Consolidation

Mergers and acquisitions have been taken as entry routes to desired sectors in the country by many firms. Several cases are cited below.

Case Study

Dilip Piramal - Klockner Windsor Ltd. TO
Dilip Piramal, a non-resident Indian, took over 40% equity stake of Klockner Windsor Ltd. (KWL), one of India's leading company in plastic injection moulding machinery. As against KWL's sales turnover in 1992-93 of Rs. 90 crore, the figure in 1993-94 stood to be around Rs. 100 crore. This TO of management control followed his acquisition of Klockner Ferromatik Desma of UK, a Shell company, which held 40% equity of KWL. Name of the acquired company was changed to DGP Windsor. This acquisition gave Piramal an access to India's market leadership in plastic injection moulding machinery which was erstwhile earned by KWL. Hence, it was a case of entry through merger [14].

BBIL - Acquisition of Dollops Icecreams business
BBIL acquired Dollops Icecreams business from Cadbury India in 1994 with effect from 17.7.93. This was a parlour brand that Levers bought from Cadbury's. With this acquisition BBIL made an entry into the frozen food business with a view to have an all-India presence in the branded ice-cream market. This acquisition gave Levers 600 outlets and 30 parlours [15].

Torrent Pharmaceuticals Ltd. - India Infusions Ltd. TO
Torrent Pharmaceuticals Ltd., through its subsidiary Torrent Investments Private Ltd. (TIPL) acquired the management control of India Infusions Ltd. (IIL) in 1994 by purchasing over 3 lakh shares from the promoters of the company, at Rs. 10 per share. This constituted 18.77% of the share capital of IIL, which gave Torrent the management control over the acquired company.

Acquired company - IIL
IIL was one of the first companies to manufacture anti-bacterial intra-venous (IV) fluids in India. It was a loss-making unit at the time of acquisition. Its accumulated loss in 1993 was Rs. 2.2 crore that completely wiped out its share capital of Rs. 1.6 crore.
**Factor prompting the TO**
Torrent Pharmaceuticals made an entry into the manufacture of IV fluid through the acquisition of in-house manufacturing capacity of intra-venous (IV) fluids till 1994. Torrent Pharmaceuticals, which was also in the business of IV fluids, got this product manufactured from outside sources [16].

**Godrej Soaps Ltd. - Translekttra Domestic Products Ltd. TO**
Godrej Soaps Ltd. took over 85% stake of Translekttra Domestic Products Ltd. (TDPL) of R. Mohan for a consideration of Rs. 85 crore in 1994. By taking over Transelektra, the Godrej group also became part-owner in Worldwide Technologies, the Pondicherry-based modem maker, in which Transelektra held 26% stake.

*Acquired company — TDPL*
TDPL was India's one of the largest insect-repellant companies with a 50% market share in the insect-repellant market in 1994, which made the well-known “Good Knight” and “Hit” brands of mosquito mats. It also made the popular brand of disposable diapers, “Snuggy”.

*Prospective gains from the TO*
This TO gave Godrej two popular brands, Good Knight and Hit by which it could make an entry in the pesticide market of India that already had big players like Bayer. Moreover, this acquisition of brands together with “Snuggy” diapers was also expected to add, to Godrej’s strength in the consumer goods industry in India. According to company sources, the idea of the acquisition was to use it as a stepping stone to capture the global markets. Godrej perceived an enormous market for Transelektra's mosquito-repellent mats in other Third-World countries, with some investment in product development and high-tech inputs. Moreover, Godrej perceived a potential domestic market for the mosquito-repellent in the semi-urban and rural markets. [17]

**Rossell Industries - Punjab National Fertilisers and Chemicals Ltd. TO**
Rossell Industries (formerly known as Jokai India), a Calcutta-based company of Y.K. Modi took over the ownership control of Punjab National Fertilisers and Chemicals Ltd. (PNFC) in 1994. By paying a price of Rs. 18 per share for the 68.50 lakh shares to the controlling party, Modi took over the 51% ownership of the company for a sum of around Rs. 12.33 crore.

*The acquired company - PNFC*
PNFC was a Punjab-based profit-making company that was controlled by Punjab Industrial Development Corporation (PIDC). It manufactured soda ash and ammonium chloride.

*Reason prompting the acquisition*
The objective was to make a re-entry into the chemicals and fertiliser industry by Modi who had given up control over Modi Alkalies and Chemicals Ltd. to his brother, in early 1994. [18]
4.2.3 Economies of Scale

By achieving economies of scale by amalgamating production facilities a company can standardise product specifications, improve quality of product and expand its market. In other words, reduce cost and retain and improve market share.

Case Study

**Khaitan Hostombe Spinels Ltd. – Chemical beneficiation plant of India Magnesite Product Ltd., merger**

Khaitan Hostombe Spinels Ltd. (KHSL) merged with itself a chemical beneficiation plant belonging to India Magnesite Product Ltd. in 1996. India Magnesite Product Ltd. is a joint venture of Tamil Nadu Magnesite Ltd. (Tanmag), a government of Tamil Nadu undertaking and the Khaitan group of Calcutta, in 1996.

KHSL is a Calcutta-based Khaitan group company. India Magnesite Product Ltd., a chemical beneficiation plant, is a major player in the magnesia industry. It has a mine in Pirhagarh in the Kumaon Hills of UP and two operating plants with another one in the commercial production process. It took over India Magnesite Product Ltd., a joint venture of Tamil Nadu Magnesite Ltd. (Tanmag), a government of Tamil Nadu undertaking and the Khaitan group of Calcutta. India Magnesite was made a division of KHSL, the transfer of the unit being done on the basis of an asset sale. The unit was transferred with a view to extract maximum synergies from the activities of the various magnesia business of KHSL. Such a move would serve many purposes including bringing about economies of scale through the reduction in overheads and costs and more cost-effective financing for the project, according to company sources. By this acquisition, KHSL was expected to achieve the unique distinction of being the only magnesia manufacturer in the world offering the existing range from 85% purity up to 99.5% purity of magnesia under a single roof. [19].

4.2.4 Diversification

Mergers and acquisitions are motivated with the objective to diversify the activities and obtain advantage of joining the resources for enhanced debt financing and better serviceability to shareholders. Such amalgamations result in creating conglomerate undertakings. Diversification is sometimes resorted to as an entry strategy in a particular industry. Also diversification may lead to economies of scope. This route is usually adopted when an organisation spots a company in a sunrise industry, which could be much more effectively utilised by the group for its overall growth.

Case Study

**Zuari Agrochemicals - Continental Float Glass TO**

Zuari Agrochemicals, KK Birla Company and a manufacturer of nitrogenous fertilizers took over Continental Float Glass promoted by UP Minerals Development Corporation The acquisition meant a diversification for Zuari into the manufacture of
float glass in India. This also implied quest for larger market share by the acquiring company. From the point of the target company, it is a case of privatization [20].

P. Pajarathinam and Associates - Tungabhadra Sugar Works Ltd., Benares State Bank, Raj Air TO
The TO of Tungabhadra Sugar Works Ltd. in Karnataka, Benares State Bank, Raj Air and similar ailing companies by P. Pajarathinam and Associates (PRA) were reportedly parts of its diversification scheme in order to become a conglomerate. In this connection it may be mentioned that Lalit Sheth of Raj Travels and Tours reacquired Raj Air from (PRA) PRA had acquired 75% stake in Raj Air from Sheth in January 1995 and renamed it Raj Global Airways [21].

4.2.5 Brand Acquisition

Easy access to established brand names has also induced certain mergers and TOs in India in recent times.

Case Study

Pepsi Foods Private Ltd. - Duke and Sons Private Ltd. TO
Pepsi Foods Private Ltd., the New York-based soft drinks company took over the century old Bombay-based soft drinks company, Duke and Sons Private Ltd., which owned brands like Mangola, Duke's Lemonade and Duke's Soda. Through this horizontal acquisition Pepsi could get two powerful brands, Soda and Mangola [22].

Mafatlal group - Laffennuhle TO
Mafatlal group of industries through a group company, which belongs to the Rs. 3000 crore Arvind Mafatlal group, took over Laffennuhle, the German fabric producer. This horizontal TO was reported to be the first major acquisition of foreign fabric company by an Indian company. With this TO, the Mafatlal group could acquire the manufacturing facilities and the brandname of Laffennuhle [23].

SmithKline Beecham Plc. - Paracetamol-based analgesic brand Crocin of Duphar Interfran Ltd Acquisition
The UK-based SmithKline Beecham Plc, the Anglo-American company purchased the paracetamol-based analgesic brand Crocin of Duphar Interfran Ltd. Crocin was estimated to contribute Rs. 30 crore to the sales of around Rs. 60 crore of Duphar-Interfran. The deal was finalised on 18.1.1996.

According to industry data, Duphar’s sales of tablets and capsules as a whole declined from Rs. 38.01 crore in March 1994 to Rs. 37.82 crore in March 1995. For six months ended September 1995, Duphar recorded a sales of Rs. 31.46 crore, up from Rs. 28.64 crore in the corresponding period in 1994. However, net profit at Rs. 0.36 crore was down substantially from Rs. 0.69 crore.

Apart from indications from financial data of the downward tilt of Duphar’s sales and net profit over 1994-95, the Duphar sources said that since the Crocin brand was moving rapidly towards becoming an over-the-counter drug, resulting in increased
competition, the company anticipated a further loss of market share and pressure on
the company's profit margins.

It may be mentioned in this context that SmithKline Beecham already had a presence
in India through the health beverage Horlicks. The Beecham group had acquired
worldwide interests of Horlicks Ltd. back in 1969. However, with this acquisition of
Crocin brand, SmithKline Beecham would be associated with two big brands in
different businesses, Horlicks and Crocin. [24].

4.2.6 Cashflow

Case Study

Goodvalue Marketing Company - Periyar Chemicals TO

Goodvalue Marketing Company, a Bombay-based group focusing in eco-friendly bio­
foods, bio-fertilisers and bio-pesticides took over the majority shares of Periyar
Chemicals, a unit manufacturing formic acid, owned by Aspinwall and Company.
According to reportings production in Periyar Chemicals had stopped in February
1995 since cash flow did not provide means of meeting wages and other running
expenses. According to sources, the existing management team, technicians and
workmen was retained in the new set up. Apart from the diversification plans of
Goodvalue Marketing into chemicals and non-chemicals using Periyar Chemical's
premises, the latter was motivated to sell of because of its cashflow problems [25].

4.2.7 Attaining Size

Aspirations of firms to grow in size through consolidations can be in terms of
production, sales, capacity, shareholding etc. A few such cases have been
documented below.

Case Study

JCT Ltd. - JCT Fibres Ltd. TO

JCT Ltd., the parent company of the Thapar group took over JCT Fibres Ltd., a loss­
making sick company of the group through an in-house merger with effect from
1.4.94.

Acquired company—JCT Fibres

JCT Fibres was set up in 1986 to manufacture polyester staple fibre with a capacity of
18,000 tonnes. JCT Fibres began incurring losses in the first year of its operation in
1989. The reason for the losses has been attributed to an extremely low capacity
utilisation of 25%. Its loss in 1989 was estimated to be Rs. 13 crore. In 1992, its
capacity utilisation improved to 100% and the annual production reached a level of
26,000 tonnes. But because of the loan liability of the company of Rs. 50 crore, its net
worth got eroded and it was referred to BIFR in 1992. However, this loan was
converted into equity by the parent company, JCT Ltd. which was designed to save
JCT Fibres from being a BIFR case. However, in spite of the effort by JCT in 1992
and also increase in capacity utilisation of JCT Fibres to 100% since 1992, the loss by the company was substantial, although it had registered a fall in 1994 from what it was in 1993. This information is tabulated in Table 4.17.

Table 4.17
An Estimate of the Losses of JCT Fibres over 1989 to 1994

<table>
<thead>
<tr>
<th>Year</th>
<th>Losses (Rs. Crore)</th>
<th>Capacity utilisation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>13</td>
<td>25</td>
</tr>
<tr>
<td>1993</td>
<td>60</td>
<td>100</td>
</tr>
<tr>
<td>1994</td>
<td>45</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Compiled from “JCT Fibres going to be merged with parent co from April 1” *Economic Times*, 22.3.1994.

**Reasons for merger**
The merger move had been made to achieve two goals. One was to help JCT become a large integrated polyester manufacturing company with an annual PSF/PFY capacity of over 59,000 tonnes a year. The other was cross-subsidisation in the sense that JCT Fibres' losses would be wiped out in one stroke and as a division of JCT Ltd., it would contribute to the company's profits [26].

**Acquisitions of Tata Tea – Borjan Tea Estate and Konikar Dalim of Assam and Watawala Plantations Limited of Sri Lanka**

**Acquiring company**
Tata Tea Ltd. (TTL) was incorporated in 1962 as a private limited company and was converted into a public limited company in 1963. Initially it was named Tata-Finlay Ltd. Consequent upon the change in the shareholding of the company, the name was changed to TTL in 1983.

TTL commenced business soon after incorporation and its production activities include the cultivation of tea, coffee, cardamom, etc., plantations and manufacturing, selling and exporting instant tea and blended and packeted teas. The estates are situated in Assam, West Bengal, Kerala, Tamil Nadu and now in Sri Lanka.

During 1994-95, TTL acquired Borjan Tea Estate of Rameshwar Kejriwal & Sons Ltd.in the "quality tea belt" of Golaghat distrist in Assam at a price of Rs. 110 a kg. TTL also acquired Konikar Dallim, a small tea garden (with an area of around 244 hectares, and production of about 4 lakh kg) based in Jorhat in early 1996 at a price of about Rs. 105 per kg, i.e. at a cost of a little over Rs. 4 crore. During 1995-96, with a view to establish production basis, jointly with local partners, TTL also acquired 51% (90,12,000 equity shares of Sri Lankan Rs. 10 each) stake of Watawala Plantations Ltd., a profit-making regional tea plantation company owned by Sri Lankan
government. Watawala Plantations Ltd. had under its management, a group of 20 estates with a tea crop of approximately 7.6 million kg.

**Acquired company — Borjan Tea Estate**  
Borjan Tea Estate produced about 6.5 kg of green leaf. Borjan is situated quite close to TTL's existing garden at Lattakoojan. This vertical acquisition marked TTL's first major acquisition in tea. The aim was to increase the production base by introducing its own agricultural practices to improve yields over the years. This would then raise TTL's total output on a worldwide basis by a considerable amount.

**Acquired company — Konikar Dalim**  
The garden, Konikar Dalim, was owned by the Calcutta-based company, Sheo Prasad Surendra Kumar Private Ltd., a family which also owned another estate, Baishabi. Konikar was believed to have been sold off to TTL after an internal asset restructuring between the brothers.

Konikar Dalim was strategically located being virtually an out-division of Tata Tea's Teok Tea Estate. According to TTL sources, this acquisition was expected to help the company to increase the production of tea from Teok, which at the time of acquisition of Konikar Dalim, manufactured around 5.5 to 6 lakh kg and was also embarking on an expansion plan. Since, Konikar Dalim did not have any tea factory, the entire green leaf production would be transported to Teok for tea production. Hence this acquisition, a vertical one was also strategically done to increase the production of TTL.

**Acquired company — Watawala Plantations Ltd.**  
Watawala had a captive capacity of six million kg of tea. The entire tea production of Sri Lanka was also exported from there.

The acquisition was carried out through TTL's Sri Lankan company, Estate Management Services Private Limited (EMSPL), in response to the Sri Lankan government's offer to sell 51% in several regional plantations, in December 1995. TTL offered Rs. 306 million ($ 6.1 million) through a global bidding held at the Colombo Stock Exchange. Watawala Plantations was a high profit making company and produced some of the best known tea brands in the international markets, such as "Sharon" and "Kanilworth". TTL participated in the auctions, through its Sri Lankan joint venture, Estate Management Services Private Ltd. The shares were offered at the rate of Sri Lankan Rs. 10 a share, at the Colombo stock exchange, and TTL offered Rs. 30 per share and bagged the whole lot. The day-to-day management of the Watawala Plantations was handed over to TTL on 10.1.1996.

For TTL, it was an opportunity to acquire production base in a major tea growing country. With this acquisition, TTL would become the world's largest integrated tea company. TTL also became the first Indian company to have a majority shareholding in the plantation sector in Sri Lanka [27].
4.2.8 Rise in Stake

A number of mergers and TOs have been accomplished so as to raise the stakes of a company or the promoter group in the acquired company. A considerable number of such cases has been listed in Appendix 3.1 of Chapter 3. A prime objective behind the hiking of stakes alter the equity holding pattern of the company would be to acquire greater control over the same.

Case Study

**HLL - Vashisti Detergents Ltd. TO**

Vashisti Detergents Ltd. (VDL) was an ailing detergents company with Rs. 25.69 crore equity capital belonging to Tomco. VDL was a joint venture between Tomco and Maharashtra Petrochemicals Corporation Ltd. (MPCL). Tomco held 21.8% stake, which was later possessed by HLL, following Tomco's TO by HLL in December 1994. MPCL had 11.1% stake. Apart from this, the FIs held round 5%, GIC held 0.8% and banks 15.4% of the capital. The remaining 45.9% of VDL was held by the public and the corporates. HLL took over VDL after its acquisition of Tomco and it also acquired an additional 11.1% stake (28.52 lakh shares) belonging to MPCL in VDL, at a "predetermined price" of around Rs. 7 crore (i.e., at an acquisition price of Rs. 24.50 per share), according to a contract which specified that Tomco would pick up MPCL's shares in VDL at the "predetermined price", after February 1996. The contract was now obligatory on HLL. The deal was to raise HLL's stake in VDL to 32.9% and turn it into an HLL associate (a minimum of 26% promoter stake is required for associate company status). VDL manufactured toilet soap, detergent cakes and powder, fatty acids, glycerine, waxes and related items which would complement the product line of HLL and help it to gain a greater marketshare. [28].

**Whirlpool Corporation Inc. - Kelvinator of India Ltd. Acquisition**

Whirlpool Corporation Inc. of US acquired 51% stake in Kelvinator of India Ltd. (KIL) in 1994. Whirlpool purchased 1.86 crore shares of KIL through a preferential issue, at a price of Rs. 155 per share at a premium of Rs. 145 per share making an investment of Rs. 288.3 crore for the acquisition. The TO formalities was completed in February 1995. Of this 51%, Whirlpool Corporation Inc. acquired Electrolux's 11.83% equity stake in Kelvinator of India Ltd. (KIL). Electrolux held the stake through its subsidiary, the US-based White Consolidated Industries (WCI), the parent of Kelvinator International Corporation, which in turn is the technical and financial collaborator of KIL. Electrolux acquired WCI in August 1991 and gained control of 11.83% in WCI's Indian subsidiary, KIL. The acquisition of controlling stake of KIL by Whirlpool Corporation Inc. was a horizontal acquisition as both the companies were in the white goods sector.

Reason for acquisition

With Whirlpool's acquisition of Electrolux's stake in KIL, Whirlpool's holding in KIL rose to 51%. The reason for this is that the equity base of KIL expanded from Rs. 17.63 crore to Rs. 36 crore to give Whirlpool a majority stake. This altered the
equity pattern, reducing the holding of all current shareholders by about half in percentage terms. So, Electrolux's holding of 11.83% came down to 5.91%.

Apart from gaining a controlling stake in KIL through the rise in equity, this acquisition was also expected to give Whirlpool a network of more than 3000 dealers in India [29].

**Ricoh Corporation - Gestetner (India) TO**

The Japanese company Ricoh Corporation, a world leader in the office automation and photographic products took over Gestetner Holdings, UK in 1995. By virtue of this acquisition, Ricoh also took over the 49% stake that Gestetner Holdings had in Gestetner India. According to Gestetner sources, another 1.5% shares was offered to Ricoh at the market rate. Ricoh's stake in the Indian company rose indirectly with Gestetner Holding's stake rising to 51%.

In 1994 Gestetner introduced digital copiers to the Indian market. Digital Copiers are copy printing machines (Copy Printer) which develop a greater number of copies in less time. This new product can be hooked to any computer and has a capacity to print 120 copies a minute compared to the 30 copies by normal photocopiers. The cost of each Copy Printer was around Rs. 8 lakh in 1995 and was expected to suit the institutional market. Gestetner Holdings' efforts to make India its sourcing base for the Asia-Pacific region was expected to provide its Indian subsidiary the benefit of higher value addition and realisations due to the better product line of Gestetner, UK.

Gestetner India mainly produced traditional office products such as hand operated stencil duplicating machines which found its market in rural areas where electrification is either absent or insignificant. In the domestic market, it had the advantage of a well-established network of over 22 sales and service centres.

The TO of Gestetner Holding Inc. By Ricoh of Japan added a new dimension to the benefits accrued by Gestetner (India) Ltd. Until 1995, the relation between Ricoh and Gestetner had been one of manufacturer and vendor. But, under the new set up, Gestetner (India) was expected to benefit from the new products and latest technology of Ricoh. On the part of Ricoh, an objective was to utilise the facilities in Calcutta for sourcing some of its products like digital duplicators in the international market. Ricoh on the one hand planned to look into the prospect of traditional product market and also to enter into the high technology areas of digital copying and printing [30].

**Jindal Strips Ltd.- Jindal Ferro Alloys merger**

Jindal Strips Ltd. (JSL) is the flagship company of the Rs. 2,500 crore, O.P. Jindal group. It is one of the largest companies in the stainless steel sector; it also manufactures mild steel cold rolled coils, mild steel slabs, hot rolled mild steel coils and sponge iron. Jindal Ferro Alloys (JFA) manufactured ferro chrome and sold to JSL plant at Hisar for the production of stainless steel. The merger between JSL and JFA was an in-house merger. The reason behind the merger was to provide synergy as a large production of JFA was being consumed by JSL. And also, the move
allowed Jindals to have an increased stake in the combined company, since they already had a sizeable holding (around 42%) in JFA [31].

4.2.9 Concentration on Core Competence

Case Study

Mutual acquisitions between divisions of HLL and Stepan Chemicals
In 1995, HLL took over the detergent business of its subsidiary, Stepan Chemicals as a part of its restructuring exercise. HLL acquired the assets of Stepan in terms of the two factories in Rajpur (Punjab) and Dharwar (Karnataka), inclusive of staff and other facilities, at a consideration of Rs. 91 crore and integrated it with its own detergents division and started to coordinate manufacturing, marketing and distribution as an integrated process. As against this, Stepan Chemicals in reciprocal arrangement, acquired plant and staff of the fertiliser and bulk industrial chemicals division of HLL at Haldia in West Bengal by paying Rs. 143 crore to HLL. Stepan also got HLL’s popular DAP brand Paras, as a part of the package. Prior to the restructuring, HLL’s product portfolio in the bulk chemicals division consisted of sulphuric and sulphonie acid and range of phosphatic fertilisers and products. This acquisition of HLL’s fertiliser division and the staff by Stepan, by exchanging its own popular detergent brand, Wheel with HLL, came about, in a swap deal which came into effect from 1.1.1996. This swap was expected to result in a straight Rs.51 crore profit for HLL.

The deal was part of HLL’s restructuring of the chemicals division and to keep the Unilever subsidiary’s business interest in India clearly in keeping with those of the Anglo-Dutch parent. Unilever had taken a global decision to concentrate on four distinct areas, food, detergent and soaps, personal products and specialty chemicals. In India, BBLIL was to concentrate on and develop the food business, while HLL would take care of the other three. The fertiliser and bulk chemicals did not fit the HLL scheme. But the bulk chemicals business with a strong portfolio of phosphatic fertilisers including a capacity of 2.5 lakh tonnes of DAP and some other phosphates was regarded by HLL as an area of domestic importance with considerable potential in India. Hence a mutual swap was arranged between HLL and Stepan Chemicals so that the chemicals business could be hived off to a subsidiary.

Hind Lever Chemicals Ltd.
Stepan Chemicals, a BIFR case in the early eighties was acquired by HLL as a sick company, at the behest of the Punjab government and FIs. HLL held 59.63% of Stepan’s equity. The TO by HLL was accomplished in the early eighties to create a manufacturing base for low-cost popular detergent brands. Stepan was nursed back to health when HLL started to produce its brands through it. The detergent powder branded “Wheel” belonged to HLL but was licenced to Stepan by the parent company. This helped Stepan to develop a large network of co-packers and HLL backed it actively with technology and product development strategies.
With the restructuring, Stepan Chemicals was formally rechristened Hind Lever Chemicals Ltd (HLCL) in 1996. By being outside the direct Unilever fold, HLCL was allowed to choose its partners in the case of future tie-ups with technology-suppliers. The tie-up is considered to be an important factor in the fertiliser business as technology is closely guarded in this sector. However, the management control on HLCL would rest with HLL at all points of time. Table 4.18 and Table 4.19 show the financial performance as well as the capacities of business transferred from HLL to HLCL in 1996.

Table 4.18

Financial Performance of Business Transferred from HLL to HLCL
(Rs. Crore)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>198.91</td>
<td>213.70</td>
<td>240.31</td>
<td>269.48</td>
<td>371.35</td>
</tr>
<tr>
<td>Other income</td>
<td>0</td>
<td>1.55</td>
<td>6.18</td>
<td>5.58</td>
<td>0</td>
</tr>
<tr>
<td>Total income</td>
<td>198.91</td>
<td>215.25</td>
<td>246.49</td>
<td>275.06</td>
<td>371.35</td>
</tr>
<tr>
<td>PBIT</td>
<td>17.20</td>
<td>21.84</td>
<td>25.93</td>
<td>30.06</td>
<td>28.57</td>
</tr>
<tr>
<td>Depreciation</td>
<td>3.52</td>
<td>4.15</td>
<td>4.58</td>
<td>2.02</td>
<td>1.70</td>
</tr>
<tr>
<td>PBIT excluding other income *</td>
<td>13.68</td>
<td>17.69</td>
<td>21.35</td>
<td>28.04</td>
<td>26.87</td>
</tr>
<tr>
<td>Interest</td>
<td>1.18</td>
<td>3.59</td>
<td>2.47</td>
<td>3.74</td>
<td>0.05</td>
</tr>
<tr>
<td>PBT</td>
<td>12.50</td>
<td>14.10</td>
<td>18.88</td>
<td>24.30</td>
<td>26.82</td>
</tr>
<tr>
<td>PBIT excluding other income *</td>
<td>13.68</td>
<td>16.14</td>
<td>15.17</td>
<td>22.46</td>
<td>26.87</td>
</tr>
</tbody>
</table>


Note: * The other income is on account of arrears of price subsidy received during the years from Govt. of India (DAP was under the Retention Pricing Scheme and price control since August 25, 1992.)
Table 4.19

Capacities Transferred from HLL to HLCL

<table>
<thead>
<tr>
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<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Installed</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>capacity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DAP</td>
<td>153450</td>
<td>153450</td>
<td>153450</td>
<td>153450</td>
<td>153450</td>
</tr>
<tr>
<td>STPP</td>
<td>37500</td>
<td>40000</td>
<td>50000</td>
<td>50000</td>
<td>50000</td>
</tr>
<tr>
<td>Sulphuric acid</td>
<td>121500</td>
<td>121500</td>
<td>121500</td>
<td>121500</td>
<td>121500</td>
</tr>
<tr>
<td>Phosphoric acid</td>
<td>41850</td>
<td>41850</td>
<td>41850</td>
<td>41850</td>
<td>41850</td>
</tr>
<tr>
<td><strong>Production</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DAP</td>
<td>111009</td>
<td>178908</td>
<td>68075</td>
<td>170083</td>
<td>207011</td>
</tr>
<tr>
<td>STPP</td>
<td>22700</td>
<td>24465</td>
<td>26263</td>
<td>27196</td>
<td>30863</td>
</tr>
<tr>
<td>Sulphuric acid</td>
<td>61876</td>
<td>70779</td>
<td>75426</td>
<td>94753</td>
<td>111488</td>
</tr>
<tr>
<td>Phosphoric acid</td>
<td>16489</td>
<td>18801</td>
<td>18663</td>
<td>20322</td>
<td>22917</td>
</tr>
</tbody>
</table>


This mutual swap of unrelated divisions between HLL and Stepan Chemicals demonstrate a case of advantageous situation for HLL. HLL obtained the controlling rights over the profit-making industrial chemicals company HLCL and at the same time could consolidate its own core business of soaps and detergents [32].

**Torrent Pharmaceuticals – India Infusions merger**

Torrent Pharma Ltd. (TPL) merged with itself India Infusions Ltd. (IIL) According to reporting sources, the market for large volume parentals both in India and abroad was growing strongly. The proposed merger was considered to be strategically advantageous to TPL because TPL was manufacturing Ciproflaxacin and Fluconazole-based large volume parentals on loan-licence basis. TPL, as a result of the merger, could become a manufacturer of these in its own right, helping the group to consolidate its position in the field [33].

**Whirlpool of India Ltd. – Whirlpool Washing Machines Ltd, merger**

Whirlpool of India Ltd. (formerly Kelvinator of India) merged Whirlpool Washing Machines Ltd. (formerly TVS Whirlpool Ltd) with itself. It was a horizontal merger between the two entities of Whirlpool in India into one company as a part of the restructuring programme of Whirlpool Corporation's operations in India, so as to consolidate the operations of the white goods sector [34].

**Intrinsic Automation System Private Ltd. – Electronic cash register division of Kelvinator of India Ltd, TO**

Intrinsic Automation System Private Ltd. (IASPL) took over the electronic cash register division of Kelvinator of India Ltd. (KIL). It was a horizontal acquisition. This was the only division that remained with KIL after its TO by Whirlpool, USA. IASPL acquired 700 ECRs valued at Rs. 50 crore from KIL. According to company sources, it was a major breakthrough for IASPL as this acquisition would strengthen its own ECR division with the resulting brand synergy. KIL’s ECRs, carrying a well
accepted brand name, Registerex, would help IASPL to consolidate its position in the market for ECRs [35].

**Rallis India Ltd. - Khatau Junker Ltd. TO**

Rallis India Ltd., market leader in agrochemicals business manufactures a complete range of agrochemicals products. It also has interests in fertilisers, pharmaceuticals and fine chemicals. It has factories in Ankleshwar, Aurangabad, Mumbai, Calcutta and Madras and markets urea and other fertilisers for Tata Fertilisers Limited. It also exports garments and marine foods. Its core competencies are however, agrochemicals and fine chemicals.

Rallis was a profit-earning company when it took over the agrochemicals capacity of Khatau Junker Ltd. (KJL), a Mahendra Khatau group company in 1995. The half-yearly results for Rallis for 1994-95 showed a 60% increase in sales and two-fold rise in profit-margin. This horizontal acquisition of agrochemicals business of KJL was expected to give Rallis a position to consolidate its manufacturing position in the agrochemicals industry as its existing capacity could increase by an estimated amount of 30% with the acquisition of 1500 tonnes of malathion, 800 tonnes of dimethoate and 600 tonnes of monoprotophos from KJL.

KJL had two primary businesses, agrochemicals and dyestuffs. Of the total sales turnover of Rs. 68 crore, accruing to KJL in 1994, 56% was attributed to dyestuffs and 44% to agrochemicals. KJL had three plants at Ankleshwar that manufactured malathion, dimethoate and monoprotophos. KJL had expanded its agrochemical capacities in the nineties. KJL had a capacity to manufacture 1,500 tonnes of malathion, 800 tonnes of dimethoate and 600 tonnes of monoprotophos at its Ankleshwar unit. Of these products, the company had managed to sell only malathion to the export market and it had been compelled to sell monoprotophos at very low price or at long credits. Dimethoate was driven out of the market by the mere presence of the major competitor, Rallis. KJL had not been producing at full capacity and had been reporting losses in its agrochemicals division. Also, with the fall in import duties after liberalisation and entry of competitors in the market, KJL found itself too small to be a significant player in the market. KJL had realised that in order to become a significant player in the agrochemical industry, it either needed to be big or required a considerable amount of backward integration in its operations.

After exploring several possibilities of recovery, including tapping the capital to retire its deband make the agrochemicals venture profitable, or for that matter, selling one of the three plants at Ankleshwar, etc., KJL decided to sell the entire capacity of agrochemicals. This seemed to be the immediate solution to reduce financial costs like interest depreciation of running the three plants. This move of KJL stemmed from its strategy to refocus its operations by divesting its loss-making agrochemicals business and concentrating on dye-stuff segment.

Rallis' interest in KJL's agrochemicals business followed from the company's plan to expand its manufacturing capacities to cater to the domestic demand and step up export performance. Instead of going in for a greenfield unit, the company preferred taking over an existing unit so as to create an entire manufacturing complex.
Moreover, for Rallis, which already had one plant at Ankleshwar, acquiring additional capacities in the same area was found to be advantageous [36].

**Hindustan Ciba Geigy – Sandoz merger**
The merger of the Swiss pharmaceutical MNCs, Sandoz Ltd. and Ciba Geigy Ltd. into a new company Novartis, was announced in March 1996. The merger was approved by an overwhelming 98.7% majority of Ciba-Geigy shareholders on 25.4.1996 and also by an overwhelming majority of Sandoz shareholders on 24.4.1996, creating Novartis Ltd.

At this point of time, the shareholding pattern in HCG was as follows. Ciba-Geigy held 40%, Ciba India, a new 100% holding company of Ciba-Geigy held 11% (which it obtained from the FIIs, including some finance companies and mutual funds who together held 21% in the company), Cibatul held 10%, the Indian FIIs held 10% and the balance 29% was held by public. Ciba Geigy then increased its stake in its subsidiary HCG, from 40% to 51%. Sandoz then already had a 51% stake in Sandoz India.

As a follow-up of the worldwide merger of the parent companies, the Indian subsidiaries of the global parents, viz., Hindustan Ciba-Geigy (HCG) and Sandoz India Ltd. merged their Indian operations in 1996. The merger was approved by the board of directors of the two companies on 28.10.96. This merger deal was a part of the consolidation of the local operations.

According to sources, the synergies and opportunities expected by the two companies worldwide applied to India as well. Synergies were expected in the pharmaceuticals sector as well as in the agribusiness sector (seeds, soya, etc.). While Sandoz makes medicines for the oncology (cancer), nervous system and anti-allergy segments, Ciba concentrates mainly in the anti-inflammatory, tuberculosis and epileptic segments. In pharmaceuticals, the therapeutic range was expected to be broadened, while in agribusiness a depth of products, i.e., more choice in the same markets was expected. Also, the field force and manufacturing capabilities would broaden and add to synergy [37].

**4.2.10 Export Promotion**

*Case Study*

**Tata Tea Ltd. - Asian Coffee Ltd. TO**
Tata Tea Ltd. acquired Meadak-based Asian Coffee Ltd., a 100% export oriented unit, manufacturing instant coffee through an open offer to buy 55% equity in the exchange ratio 1:5 under Rule 40 B of the Listing Agreement. Tata Tea already held 9.5% stake in Asian Coffee, which was acquired from the management in 1992. This acquisition was designed as a part of restructuring of Asian Coffee, keeping in mind the changing scenario in the global market. This TO was intended to enhance the company's presence in the coffee business. Industry sources said that the acquisition would help Tata Tea in raising its exports considerably, at a time when exports of tea
had suffered a setback and the price of coffee had shot up by 40% in the past few months [38].

**Akar group - Uvift Metallizers Ltd. TO**

Ahmedabad-based Akar group of the Seth family of Ahmedabad took over the management control of Uvift Metallizers Ltd. (UML) in July 1994. UML was a Rs. 32.33 crore sick unit located at Waluj, near Aurangabad in Maharashtra. UML was promoted by Vimal Kumar Jhunjhunwala and his NRI brother Vinod Jhunjhunwala set up in 1991 at a cost of Rs. 35 crore (at a price of Rs. 2.50 per share). Commercial production at UML had however not started at the time of TO. It manufactured multilayer printed/non-printed metallized laminated films and papers for flexible packaging. The total equity of the company was Rs. 12.36 crore of which the promoters held 35.44%, the mutual funds and FIs held 31.18% and the remaining was held by public. The TO was done under a revival scheme of the consortium of ICICI, IDBI, SBI and other banks, with a 15% waiver of the interest burden of promoter stake of Rs. 18 crore. With UML's labour and other machinery under one roof, this TO was expected to place Akar among the leaders in packaging industry. Also it gave Akar international standards and export opportunity and position [39].

**IFB group of Bijon Nag - Anantapur Textiles Ltd. TO**

Calcutta-based IFB group of Bijon Nag took over the management control of Anantapur Textiles Ltd. (ATL), a Rs. 25 crore turnover sick cotton yarn spinning mill in the Midnapur district of West Bengal that was controlled by the Mondol family of Sidheshwari group. The plant of ATL made both yarn and textiles. It was basically a rural-based industry and caters to traditional segments. The TO that was conglomerate in nature took place in 1995. According to "in principle" agreement, the Mondols handed over the management control to IFB but continued to hold an equity position in the company. ATL was to be left alone as a separate entity, which could expand and diversify according to needs. The merger was designed as a part of IFB group's maiden foray into the textiles industry. IFB group already had a presence in yarn exports and the acquisition would give them the much-needed manufacturing base to export the goods. The textile plant of ATL had the advantage of a well-known brand image and was running in good condition both in terms of productivity and profits. Moreover, the labour size was also not a problem for IFB as the workforce was not as surplus as in other textile mills [40].

**GKW - Powmex Steels Ltd. merger**

The K.K. Bangur group took over the Orissa-based ailing company Powmex Steel Ltd. (PSL) in early 1996 by acquiring 24% of the promoter's stake. PSL was later merged with a K.K. Bangur group company, GKW with the share swap of one GKW equity of Rs. 10 for 12 shares of PSL of the same value. The amalgamation stood effective from 1.10.1995.

**Acquired company**

PSL was originally promoted by Mr. G.B.K. Rao, Mr. G. Hari Babu and their associates in the assisted sector at Bolangir district of Orissa for manufacturing high speed steel and tool and alloy steel in technical collaboration with Bohler of Austria. The steels were used for the manufacturing of cutting tools, deep drawing and extrusion tools. PSL started commercial production in February 1992 and produced...
50 tonnes of high-speed steel. Thereafter, it began making tool and alloy steels also. Its production continued till June 1992. The project ran into a major cost overrun presumably due to delays in commissioning and problems in technology absorption and finally failed to achieve a break-even. Before the TO, PSL was referred to BIFR after losses eroded its net worth. It incurred a net loss of Rs. 14.89 crore on net sales of Rs. 19.48 crore in 1994-95.

**Acquiring company**

GKW was incorporated in West Bengal in 1931, as a private limited company under the name Henry Williams India (1931) Ltd. The name was changed to Guest Keen Williams Ltd. in 1934, on the purchase of large interest in the company by Guest Keen and Nettlefolds Limited of England. The company was converted to a public limited company in 1956. The name was later changed to GKW Ltd.

GKW has four operating divisions viz., precision pressing division, steel division, fastener division and engineering and forging division. These divisions of GKW function through seven manufacturing units in Maharashtra, West Bengal and Karnataka. The products manufactured by the different operating divisions of GKW are shown by Table 4.20 below.

**Table 4.20**

<table>
<thead>
<tr>
<th>Operating division</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Precision pressing division</td>
<td>Precision presswork for electrical, automotive and textile industries, stampings and strip wound cores for electrical industry</td>
</tr>
<tr>
<td>Steel division</td>
<td>Electrically melted alloy steels, rolled and bright bars</td>
</tr>
<tr>
<td>Fasteners division</td>
<td>Bolts, nuts, screws, and other fasteners</td>
</tr>
<tr>
<td>Engineering and forging division</td>
<td>Drop upset and press forgings</td>
</tr>
</tbody>
</table>

**Factors prompting the merger and prospects therefrom**

For ailing PSL, which needed immediate rationalisation of its operations, the merger was expected to enable it to have the benefits of GKW's engineering skills and expertise of professional management. Moreover, the product range of GKW and PSL complemented and supplemented each other. According to Bangur, PSL, which could produce high-speed steels through both powder material and conventional ingot routes, had no problem with quality with the conventional route. GKW proposed to maximise production of high-speed steels at PSL through this route first before activating the powder material route in future. With a number of auto majors, both Indian and foreign, then expected to enter the production of a series of new generation cars and vehicles, it was felt that indigenous demand for high speed steels and alloy steels would increase manifold in the coming years. Besides, through this merger GKW was expected to eventually become one of the largest producers of Indian high-speed steel market as PSL had the largest capacity for it. In fact, this merger was also thought to help GKW to contribute towards import substitution as indigenous user industries of high-speed steel were still dependent on imports to a
large extent. FIs and banks had also believed that this merger would ensure PSL’s quick revival and growth and as such they had also approved the corporate amalgamation.

Both PSL and GKW had foreign connections. PSL had been successful in receiving trial orders from the UK and was in the process of tapping new markets in Canada, West Asia and other African countries despite losses. It had also entered into a “know-how” collaboration with Bohler GES MBH of Austria for manufacture of both cobalt and non-cobalt grades of high-speed steel. For GKW, General Motors of the US had entered into a tie-up in 1995 to source 40% of its specific auto components for its Opel Astra. At this juncture, this consolidation was considered to be a strategic move to accelerate GKW’s diversification and expansion plans. This merger was regarded as a "synthesis of synergy" as the merger would provide GKW an opportunity to diversify into a related product line with demand growth in domestic as well as export markets. According to Bangur, this merger was expected to increase the turnover of GKW by at least Rs. 100 crore and more than 50% of this additional turnover would come from higher exports [41].

4.3 Additional Causes behind Mergers and Acquisitions in India

Our sample of mergers and acquisitions in India over 1994 to 1998 shown in Appendix 3.1 of Chapter 3 exhibits certain other motives that have been identified for mergers and TOs in India. These are neither economic nor institutional, to begin with. Some varieties of such mergers and acquisitions are listed below.

4.3.1 TO Fad

It is sometimes observed that in a period with spree for mergers and acquisitions, there may be some firms who participate in this activity just because it becomes trendy and appears to be profitable. Since such TOs are usually unplanned, the acquisitions do not remain sustainable after some time. Moreover, in India, when majority of the corporates were aiming at concentration on the core, any case of haphazard acquisitions would attract attention. Although it is generally difficult to identify such cases and distinguish them from the cases of diversification by conglomerates, yet this can be concluded if most of the TOs accomplished by the acquirer fail to be successful within a very short period of time then it can be designated a TO fad.

Case Study

The TOs by Rajarathinam

P. Rajarathinam and Associates (PRA) was a group that was built up through acquisitions. The group companies in 1995 were Deve Sugars Ltd., The Benaras Bank Ltd., Deve Paints Ltd., Deve Annapoorna Foods & Beverages Ltd., Apollo Tube and Steel Industries Ltd., Madras Motor Finance & Guarantee Company Ltd., EBF Finance Ltd., Rajadhiraj Industries Ltd., ABC Marketing Ltd. and Telematics India Limited. PRA took over Tungabhadra Sugar Works Ltd (which became part of
his closely-held company Deve Sugars Ltd.), Benaras State Bank Ltd., a private sector bank based at Varanasi, Garware Paints Ltd., an ailing company, declared sick by BIFR in 1995 and similar other companies, mainly the sick ones. Although the apparent motive could be diversification of PRA into a conglomerate, yet it has also been attributed to the TO mania of this group. It is reported that the series of TOs by PRA since 1994 ultimately collapsed. We elaborate two acquisitions by PRA.

**Apollo Tubes Ltd.**

PRA acquired 42% shares of Apollo Tubes Ltd. (APL) of the Raunaq group in 1994. APL had its steel tubes making unit at Ranipet in Tamil Nadu. Ranipet plant set up in 1975 had a steel tube making capacity of 55000 tonnes. It was sold out by the Raunaq group, partly because of family problems and also partly, because of the problems in managing the company from a distance.

APL was a profit making company. Its sales turnover had increased from Rs. 24 crore to Rs. 49 crore over 1989-94. For the year ended March 31, 1993, it reported a gross profit of Rs. 6.24 crore, net profit of Rs. 1.02 crore, net worth of Rs. 2.52 crore and earning per share of Rs. 7.28. The company also came out with a rights cum public issue offering Rs. 10 a share at a premium of Rs. 5 for Rs. 7 crore for modernisation and working capital needs. All these imply that financial reasons must not have prompted the Raunaq group to offer their company for TO. According to reports, APL was sold out by the Raunaq group, partly because of family problems and also partly, because of the problems in managing the company from a distance.

**Garware Paints**

PRA acquired 17.01% controlling stake of Garware Paints at a negotiated price of Rs. 40 per share in December 1994. Nearly 3% stake was acquired by Rajaratham himself and the balance was purchased through his private investment companies. Garware was forced to sell the controlling stake to PRA because even the banks had refused to meet the working capital requirements of the company. The refusal by the banks implied that there was hardly any possibility of the promoters turning the sick company around. The acquired company was named Deve Paints Ltd. (DPL).

Subsequently in March 1995, the Rajaratham group announced an open offer to acquire an additional stake up to 20% of the company’s equity. The open offer closed on 21.4.1995. However, the acquirers were restrained from proceeding in the open offer by the stay order of the Coimbatore Court pursuant to a complaint by two shareholders. It may be noted in this connection that the open offer for Deve Paints was reported to be the first major offer after the formulation of TO guidelines by Sebi.

In spite of all ambitious expansion plans for DPL, including modernisation of technology, introduction of newer varieties of paints, marketing of different branded building materials like ceramics, tiles, doors, granites, etc., and also plans regarding the financing of these projects, the company was declared sick by BIFR in 1995. By March 1995, the net worth of the company had been totally eroded by its accumulated losses, which mounted to Rs. 24.22 crore against the net worth of Rs. 16 crore. The company was also said to have arrears of inter-corporate deposits of about Rs. 20
crore. The consistent losses incurred by the company had been attributed to inadequate working capital.

According to a BIFR report in 1995, a sum of Rs. 30 crore would be required to turn around the ailing company through modernisation programme including a thorough upgradation of the plant. However, the representatives of DPL could commit to bring in only 30% of the total cost of the scheme including the monetary value of the sacrifices by way of equity. Thus, DPL was left at the behest of BIFR [42].

4.3.2 Family Feud

Another factor which is observed to cause merger activity is internal family feud. Given the prevalence of family ownership and family management in the Indian companies, family dispute becomes boardroom imbroglio. Internal disequilibrium in the family may threaten the fortunes of the company due to inefficient management, and initiate the shareholders including the Financial Institutions (who are the large shareholders) to sell their stakes to some other party that would be able to raise the value of shareholders' wealth. All this may prompt the promoters to get their businesses restructured, leading to resulting mergers.

Case Study

The Restructuring in the Bhartia family through mergers and TQs

Vam Organics Ltd. (VOL), the flagship company of the Bhartia group merged with itself, Ramganga Fertiliser Ltd. (RFL), the only ailing company of the group under the BIFR approved merger cum rehabilitation plan. RFL was referred to the BIFR in October 1993. The company suffered accumulated losses of Rs. 5.23 crore while the net worth of the company was Rs. 3.84 crore as on 13.3.1990. The merger was okayed by Bhartia brothers and approved by BIFR on 7.9.1994. The merger took place in December, 1994 with retrospective effect from 1.4.1992 (which was the transfer date, as per the draft scheme). The merger scheme envisaged that the entire undertaking of RFL would be transferred to VOL and the promoters of VOL would allot 1 share of VOL to each shareholder for every 10.35 shares of the sick company. The erstwhile fertiliser company RFL became a division of VOL. Income tax benefits under Section 72 A of the Income Tax Act 1961, amounted to Rs. 1.73 crore, as accumulated losses of RFL were allowed to be carried forward and set-off by VOL. Also, another reason behind the merger was family tussle among the brothers who decided late in 1993 to amicably partition the assets of the Bhartia family. [43]

4.4 Concluding Remarks

On the basis of the discussion made above it emerges that the merger and TO activities taking place in India in the post 1991 period have been induced by various economic and apparently non-economic causal factors. In fact, a single consolidation
activity may actually be an outcome of the operation of several forces and cannot be attributed to any single force. We have however labeled an acquisition activity under that specific causal force, which appeared to be the most pronounced in that particular case.

The factors that we have discussed above must have definitely played a significant role in promoting mergers and TOs in India in the 1990s. But prevailing economic and policy environment brought about by the change in policy regime with the adoption of the NIP in July 1991 has definitely been instrumental in the realisation of these motivational factors inducing the recent mergers and TOs in India. The next three chapters would concentrate on the prevailing institutional and policy arrangement in India and their relation with the contemporary corporate restructuring in the form of mergers and TOs. However, before we go into the next chapter a need is felt at this juncture to briefly introduce the institutional setting in India before and after the economic reforms programme and consequent liberalization in 1991.

4.4.1 Institutional Setting in India Before and After Liberalization

Pre-Liberalization Institutional Scenario

The institutional framework for economic policy-making in India was created in the fifties. The socialistic pattern of society adopted by the Parliament in 1956 envisaged a mixed economy for India. Accordingly, India adopted a socialistic pattern of development through planned industrialisation; it was a strategy of industrialisation with active government intervention Moreover, concentration of economic power into private hands and the dominance of foreign capital were deemed to be the two things that should be avoided at any cost during the period of industrialisation. As a result, an extremely regulated industrial structure developed.

The Industrial Licensing Act laid the foundations for administrative controls on industrial capacity. A license was needed to start or expand substantially any industrial activity giving employment to more than fifty workers. Special restrictions were put in the way of expansion by ‘dominant’ companies [44] and those with significant foreign ownership. Monopolistic and Restrictive Trade Practices (MRTP) Act, promulgated in 1969 prevented the acquisition of monopoly power in the private sector by restricting the growth of large business houses by administrative fiat. The inflow of foreign capital and technology was regulated by the Foreign Exchange Regulation Act (FERA) since 1947; FERA was amended in 1973 and a new Section 29 was inserted, which for the first time defined a “foreign” company for legal purposes. The FERA stipulations barred the foreign companies from raising their shareholding in their Indian affiliates above 49% in the upper limit [45]. Sections 370 and 372 of the Companies Act, 1956 prevented inter-corporate loans and investments respectively which play a vital role in corporate growth.

On the whole, rigidities were brought into the system by licensing, MRTP, FERA, sectoral reservations, scale barriers, high tariff, import quotas, etc., the stipulations of which were not static but varied from time to time, depending on the internal and external policy environment. Under such a system, the Indian companies were considered to remain under protection from foreign competition and also supposed to
face internal constraints in the form of barriers to entry to new businesses and restrictions on expansion of existing firms. Merger and TO activities also came under surveillance because of their potential to restrict competition.

**Institutional Arrangement after 1991**

The significant change in the industrial environment in India has been brought about through a series of economic reforms in the 1990s. The economic liberalization in 1991 and the adoption of the NIP and associated measures involved structural policy changes in relation to the industrial sector, the trade regime, foreign investment, foreign technology, the public sector and the financial sector in the form of trade liberalization, direct foreign investment (DFI) liberalization and domestic deregulation. It included delicensing industry; revising the monopolies and foreign exchange regulations to give big companies more latitude in expanding and engaging foreign ownership and also dismantling of protections in trade to a significant extent. The changes in government policies in the NIP, 1991 precisely include:

- abolition of government control on pricing of securities through the repeal of the Capital Issues Control Act, 1947 and abolition of the office of the CCI. The companies can approach capital market after clearance by SEBI;
- the setting up of Sebi as a non-statutory board in 1988 and vested with statutory powers in January, 1992 — armed with necessary authority and powers for regulation and reform of the capital market and protect the interests of the investors through the Sebi Act 1992;
- relaxation of FERA — consequent freer attitude towards foreign collaboration, both technical as well as financial, and specially, a more open door policy towards DFI and also the role of foreign institutional investors (FIIs) in purchasing domestic corporate shares;
- freedom of Indian companies to enter foreign capital markets through Euro-issues and Global Depository Receipts (GDRs), whereby Indian companies could raise funds abroad;
- rapid dismantling of tariff and non-tariff barriers on imports;
- the policy of across-the-board delicensing of all but a few core sectors;
- repeal of certain sections and provisions (antitrust laws etc.) MRTP Act by the MRTP (Amendment) Act;
- public sector reforms and associated divestment of a portion of equity of the going public sector concerns in favour of the private sector.

On the whole, the NIP in India related to industrial licensing policy, foreign investment, foreign technology agreements, MRTP Act, FERA and the public sector policy. These changes brought about through the NIP pointed out to three definite
directions that are supposed to have given a boost to the merger and TO activities in
India after 1991. These are:

a. stock market reforms and securitisation
b. the opening up of the economy
c. policy changes with respect to domestic production and the role of the public
   sector.

The next three chapters of this thesis weave around these features.
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To rectify these deficiencies in the system, Sebi, in the end of 1995, appointed a committee, headed by P. N. Bhagwati, former Chief Justice of India, to review and revise the 1994 TO code and recommend changes. The draft TO code formulated by the Committee was released on 28.8.1996. With the avowed aim of protecting the interests of shareholders, transparency and
equity, without discouraging the process of TOs, the Committee sought to provide an orderly framework of regulations in which TOs could occur.