Chapter I
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Introduction

Mergers and acquisitions are a means of corporate expansion and growth. They are not the only means of corporate growth, but are an alternative to growth by internal or organic capital investment. From time to time, companies have preferred the external means of growth through acquisitions to internal growth. Indeed, mergers and acquisitions have tended to follow a historic pattern of 'waves' with periods of frenetic takeover activity punctuating periods of relative sedateness.

The terms 'merger', 'acquisition' and 'takeover' are all part of the mergers and acquisitions parlance. In a merger, the corporations come together to combine and share their resources to achieve common objective.

Whereas in an acquisition the acquired firm becomes the subsidiary of the acquirer. A 'takeover' is similar to an acquisition and also implies that the acquirer is much larger than the acquired. Where the acquired firm is larger than the acquirer, the acquisition is referred to as a 'reverse takeover'. Although the terms merger and acquisition are often used interchangeably, they have precise connotations in certain contexts, such as when acquirers choose which accounting rules to apply in consolidating the accounts of the two firms involved.

The days of globalisation are in and there is a spate of mergers, acquisitions, restructuring which are sweeping the corporate world. These terms can be defined as follows:
**Mergers** - It is defined as a combination of two or more companies into a single company where one survives and others lose their corporate existence. The survivor acquires the assets as well as the liabilities of the merged company or companies. Generally, the company that survives is the buyer that retains its identity and the seller company is extinguished. Mergers in other words are defined as amalgamation.

"The fusion of two or more enterprises through direct acquisition by one of the net assets of the other or others. In a merger no new concern is created." **Eric L. Kohler.**

Thus a merger entails combining of the two companies, where only one company survives and the other goes out of existence. The surviving company is known as the “Acquirer” while the defunct company is known as the “Acquired” or “Target” company. After the merger the target ceases to exist. Only the acquiring company continues its existence. The acquiring company may pay for the shares of the acquired company either in cash or by offering its own shares in exchange.

It means combination of two or more companies into a single company where the owners of both the companies retain their identity or control over the merged company and continues to have control in the same proportion in the merged company.

**Acquisition** - It is the purchase by one company of the controlling interest in the share capital of another existing company. An acquisition may be affected by:

"An acquisition is said to occur if one corporation buys either assets, net assets (assets - liabilities) or stock of another corporation." **Robert N. Anthony**
In an acquisition the acquirer can buy the assets by an agreement with the management or the shareholders. The stock of the corporation can be bought either from the open market or by an agreement with the above mentioned parties.

**Takeovers**—“A series of transactions whereby a person (individual, group of individuals or company) acquires control over the assets of a company, either directly by becoming the owner of those assets or indirectly by obtaining control of the management of the company.”

From the above definition we can see that there is not really much difference between an acquisition and a takeover. The main point of difference between the two is the element of willingness on part of both, the buyer and the seller, taking part in the transaction. In an acquisition the seller’s management is a willing partner to the combination of corporate entities, as opposed to a takeover, which is usually characterized by unwillingness and hostility.

Acquisition and takeovers do not necessarily entail combination of companies. The companies remain independent and there is a change only in the control of the company.

**CONSOLIDATIONS**—“The combination of two or more enterprises, accomplished by the transfer of net assets to a new corporation organized for that very purpose.” *Eric L.Kohler*

The combination of two companies in a consolidation leads to the formation of an entirely new company. A consolidation normally takes place between two organizations of the same size.
AMALGAMATIONS- “A combination under a single head of all or a portion of assets and liabilities of two or more business units by merger or consolidation.” Eric L. Kohler

In an amalgamation, after the transaction, the amalgamated companies lose their existence and form themselves into a separate legal entity.

It means two or more companies coming together and forming a new company and/or transfers the undertaking to the existing company where the amalgamating company loses its identity.

Amalgamation and merger are different terms but as far as India is concerned same are considered as synonymous and used interchangeably.

I have also considered both terms as one and the same.

Consolidation Merger:

It is basically a fusion of two existing companies into a new company. All assets, liability and stocks of the consolidating companies stand transferred to a new company. It involves a merger of a subsidiary company with its parent. Reasons behind such a merger are to stabilise cash flows and to make funds available to the subsidiary.

Circular Combination:

Companies producing distinct products seek amalgamation to share common distribution and research facilities to obtain economies by elimination of cost on duplication and promoting
market enlargement. The acquiring company obtains benefits in the form of economies of resource sharing and diversification.

The terms Merger, Acquisition and Take-over are all part of the M&A parlance. In a merger, the companies come together to combine and share their resources to achieve common objectives. The shareholders of the combining firms often remain as joint owners of the combined entity. An acquisition resembles more of an arm's-length deal, with one firm purchasing the assets or shares of another, and with the acquired firm's shareholders ceasing to be owners of that firm.

In a merger, a new entity may be formed subsuming the merging firms, whereas in an acquisition the acquired firm becomes the subsidiary of the acquirer firm.

OBJECTIVES OF THE STUDY

Most diversified companies which indulge in long term strategic planning for the future, face many different courses of action, which they could possibly pursue. There is inevitably some element of trade-off between different alternatives. One such choice is between Mergers/Acquisitions and internal development to achieve growth. However while making the choice the basic strategy of the concern should be kept in mind.

The long-term survival of any corporation depends on its continued ability to develop strength relative to its competitors. Success on achieving this strength depends on the ability to shift resources from well established mature businesses to newer and emerging activities with growth potential within this ongoing process of self renewal, the company must decide whether the
basic strategy of the organization would be more amenable for a shift of resources through Mergers and Acquisitions or through internal redistribution and development. The main objectives are as:

1. To study the merger and acquisition in Indian scenario and recent developments.
2. To study the reasons strategies benefits and managerial effectiveness of merger and acquisition.
3. To study the planning, procedure to be adopted for merger and acquisition.
4. To Study the process of valuation of firms basic used for exchanging ratios and accounting aspects of merger.
5. To study the post merger the organization of selected units.

So, the whole study aims at the following objectives:

i) Opportunity for growth
ii) Need for faster growth
iii) Access to capital and brand
iv) Gaining complementary strengths
v) Acquire new customers
vi) Need to enhance skill sets
vii) Expand into new areas
viii) Widen the portfolio of addressable market
RESEARCH METHODOLOGY

For proposed study, the primary and the secondary information have been collected. The nature of study is such that the researcher has to depend mainly on secondary data which has been collected from publications, records & reports, selected companies & institutions on Mergers and acquisitions with the practices adopted by different firms, type of merger adopted, valuation from all perspectives, accounting methods adopted.

An attempt has been made to arrive at certain conclusion and to make appropriate suggestions so that the role of mergers & acquisitions in the globalisation of the Indian economy may prove to be glorious in the coming years.

HYPOTHESIS

The work is essentially based on secondary sources, hence hypothesis are being tested by using published materials.

Studies have attempted to relate merger activity to the business cycle measured by industrial production, stock prices and trading business incorporation’s, interest rates, and so on. The findings of these studies are that merger activity is cyclical and roughly coincident with stock price movements. The peak of M&A activity tends to precede the peak in the general business cycle, and increases in interest rages precede declines in M&As. Based on these associations hypotheses of merger timing are formulated.
1. Mergers are used to increase capacity immediately to get into an expanding market.

2. Mergers are a less risky alternative to purchasing new plants and equipment.

3. Expectation difference between shareholders and outsider increases during periods of rising stock prices resulting in an assessment of under valuation by outsiders.

4. Management optimism during economic upturns is expressed in increased merger activity.

5. Since acquiring firms rely heavily on borrowed funds, increases in interest rates affect merger activity adversely.

REVIEW OF LITERATURE

In the presence of the above objectives of the "Role of Mergers and Acquisitions in the globalisation of the Indian economy", the researcher has surveyed the bibliography of several books, journals, newspaper, Magazine, dissertations and thesis available in the Maulana Azad Library, Faculty of Commerce, Aligarh Muslim University, Aligarh, Delhi University, Delhi, Jawaharlal Nehru University, Delhi and Jamia Millia Islamia Universtiy, Delhi and also visited the several offices of the different multinational companies.

Arestis, Philip (2004) "What global economic crisis?" he has discussed the failure of mergers and disadvantages in any economy after cross-border acquisitions.
Awasthi, D. S. (1990) “Globalisation of Indian economy: In this study an attempt has been made to touch each aspect of mergers and acquisition in the globalisation of Indian economy through different case studies.


Das, Debendra Kumar (1997) “Globalisation and development: experience and challenges” he has described that competition is becoming global and companies have to compete not only in their domestic markets, but also in foreign markets in order to maintain their competitive edge.

Devine, Marion (2003) “Successful mergers: getting the people issues right"; he has studied main issues of mergers and acquisitions so that objectives can be achieved.

Dixon, Datrick (2002) “Future wise: six faces of the global change”, he has find out the main six elements of M & A which took place globally.

Ellis, Rod (1985) “Understanding second language acquisition” He has studied causes and impact of mergers and acquisitions.

Galbraith, Kate (1996) “Globalization he has find out the general importance and basic elements of globalization in the economy of a country.
Gaughan, A. Patrick (1999) “Merger, Acquisition and corporate restructurings,” he has given legal framework and merger strategy through different tools. He ha also discussed tax issues and leveraged buyouts.

Gelder, Sicco Van (2003) “Global brand strategy”, has described that how name game formula work and essentials of brand strategy in mergers.

Govindarajan, Vijay (2001) “The quest for global dominance, transforming global presence into global competitive advantage”, he has made an attempt to get the each and every aspect of global advantage in mergers and acquisitions.

Grundy, Tone (2003) “Smart things to know about mergers and acquisition”, he has find out basic elements through a successful mergers can be achieved.

Habeck, M. Max and Kroger Fretz and Tram, R. Michel (2000) “After the merger” their main objective is to make companies successful in times of economic turmoil and get win-win situation.

Hertz, Noreena (2001) “The silent takeover: global capitalism an the death of democracy.” She has find out the limitations and disadvantages of mergers and acquisition.

Hubbard, Nancy (1999) “Acquisition strategy and implementation”, this study can be broken into four district sections: reasons for success and failure, the psychology of acquiring, a process of acquiring and fine case studies, which demonstrate how, the process works.
Lawrence, Peter (2002) “The change game how today’s global trends are shaping tomorrow companies”, he has find out the success of mergers through different statistical tools.

Mahmud, Jaffar (2003) “Indian economy” he has emphasized on micro as well as macro level of economy in the globalisation.

Marks, Mitchlee (2003) “Charging backup the hill: workplace recovery after mergers, acquisitions and downsizing”, he has discussed the post mergers and acquisitions situation in details.

Mathhews, Clifford (1999) “Managing international joint ventures: he route to globalize your business: he has discussed the basic route of mergers as to achieve the ventures in the international market.

Michael, V. P. (2002) “ Globalization, liberalization and strategic management” his work based on strategic financial planning, valuation and cost of capital etc.”


Peter, Llloyd (2003) “Global trend policy 2002, world economy” he has presented world economy’s features through this special issue.

Rao, P. Mohana (1999) “Merger and Acquisitions of companies: Current trends in takeovers and globalization”, he has highlighted the current issues of mergers that it has assumed an international dimension due to global economic integration.
Stiglitz, E. Joseph (2002) “Globalization and its discontents” he has highlighted various dimensions of the mergers failure and how it is unable to create wealth for shareholder through global mergers.

Sudearsanam, P. S. (1977) "The essence of mergers and acquisitions", he has emphasized on Mergers & Acquisitions that are undertaken by companies to achieve certain strategic and financial objectives.

Thakur, Devendra (1995) "Globalization and International business" he has discussed the trends of Gross-border takeover activity.

Thakur, M. Jayant (2000) “ESOPs” he has described issues involved in implementation and use of ESOPs an SEBI's guideline.

Trompenanars, Fons (2003) “Business across cultures”, he has discussed cross border central aspects; how it facilitate the basic consumer in a country.

Verma, J. C. (1977) “Bharat Publishing House Corporate mergers, Amalgamations and takeovers” he has discussed the corporate bids & defences in takeovers, procedure for mergers and acquisitions and the Role EBIs.

Weston, J. Fred and Chung, S. Kwang and Hoag, E susan (200) “Merger, restructuring and corporate control”. In this study an attempt has been made to find out that M &A, restructuring and corporate control activities represent a new industrial force that will lead the Indian economy.
On the basis of above literature, it can be easily summed up that through there are a lot of book, reports, statements, case studies and articles on the sub subject, yet these can not be considered as sufficient material for purposeful analyses. My work to present “The role of M & A in the globalization of the Indian economy” can be considered as an addition to what is already available on the subject.

LIMITATIONS

Possible precautions and efforts were made to ensure the validity of the research however the study was limited in its scope. A work of the nature requires an extensive study of the available literature but the purity of literature is a great impediment in this respect.

No merger can be successful if strategic synergies are missing. No matter how strong the motivation, if the companies have entirely different products, markets, systems and cultures, the merger is doomed to be failure.

Due to non-availability of fund and time, the researcher visited only Aligarh and New Delhi for the collection of data. Therefore, its finding may not hold true for the whole Indian economy.

Hence, the study has been conducted on under several limitations, still researcher is confident that the conclusion drawn would be fruitful and able to provide a useful base for the success of mergers ad acquisitions in the Indian economy.
DESIGN OF THE STUDY

The main emphasis of this research work has been given to evaluate the role of mergers and acquisitions in the Indian economy in total there are seven chapters to analyze the present research work chapter are presents the introductory framework of the study & second on chapter are presents the introductory framework of the study & second on “merger strategy” In chapter three discussion has been made on “legal framework” whereas chapter four evaluates the” valuation measures and acquisitions”. The main emphasis has been given to conceptual framework, tax aspects an financial analysis of M & A.

Chapter five presents “SEBI’s guidelines on M & A and chapter six is dedicated to “Case Study' which is main tool of evaluation the performance of mergers & Acquisitions. Last and final chapter seven deals with laying down “Conclusions and suggestions.”

In the next chapter research has made an emphasis on “Merger Strategy".