Chapter 1

INTRODUCTION
# CHAPTER I
## INTRODUCTION

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CHAPTER I
INTRODUCTION

The most important term rotating around the corporate world is “Strategy”. Strategy is often used interchangeably with policies, approaches or objectives. Strategy refers to plan of action implemented by corporates to accomplish their desired goals.

1.1 Strategy

The term “Strategy” refers to direction that the company chooses to follow to accomplish its mission. It normally refers to policies or approaches. The main purpose of strategy is to accomplish organisational goals and objectives (Davies, 2000).

A winning strategy requires organisational support. Organisational support comes when all members of the organisation engages in the overall strategy development process (Calfee, 2006).

1.1.1 Levels of Strategy

Strategies may be formulated at three different levels namely, corporate level, business level and functional level. Corporate level strategy focusses on expectations of stakeholders while business level strategies centre on future plans of business. Functional strategy ponders on departmental aspects in business. Pretorius & Maritz (2011) have discussed the forms of strategy making approaches.

Corporate strategies are approaches charted out and implemented by business entities to accomplish their desired outcomes. Business firms may operate with numerous objectives other than maximisation of profits. These objectives can be accomplished only through effective strategies. Strategies are usually crafted for either long-term or medium-term. Short range planning will not come under strategy. Corporates formulate unique strategies to counter challenges or threats emerging from the external business environment. During the past, strategy formulation was associated only with big corporates. However, current business environment has warranted all enterprises, irrespective of their size and business, to craft and implement effective strategies. Hence, strategies have become part and parcel of business.
Business entities may formulate attacking and defensive strategies to tide over their competitors and shine distinctly in the market. Entities are in need of effective strategies to solve their immediate and routine problems and challenges.

1.1.2 Process of Strategic Planning

Strategic planning is drafted and implemented in a phased manner. The process of strategic planning may be laid down as under:

| Purpose | Assessment | Objective | Strategy |

**Fig. 1.1: Process of Strategic Planning**

Strategic planning process starts with assessing the purpose or need for strategy formulation. Assessment includes environmental and organisational assessments. In the case of former assessment, external threats and opportunities are assessed while in the case of latter, internal threats and weaknesses are assessed.

1.1.3 Benefits of Corporate Strategy

Following are the efficacies derived by business entities from strategy implementation:

1. Resolution of conflicts involving management and employees;
2. Improvement of consistency in action;
3. Effective identification of strengths and weaknesses of the enterprise;
4. Rational prediction of credible threats and opportunities;
5. Enhancement in efficiency of resource allocation;
6. Improvement in business growth;
7. Develops effective communication process;
8. Unveils changing environment to facilitate rational decision-making;

1.2 Corporate Restructuring

Business enterprises grow and expand in the course of existence. Such growth warrants corporate restructuring in the form of M&A, takeovers, demergers, disinvestments and franchising. Corporate restructuring is a business expansion strategy used by business
firms to bring about betterment in their performance in relevant market. Some companies will acquire the business for reorganising purpose and sell them off to other owners at profit (Proctor, 2001). Corporate restructuring is a business expansion strategy used by business firms to improve their stand in market by bettering their position over competitors. The process of corporate restructuring commences from an effective designing of the process of restructuring, which shall be the duty of the company secretary who will take the responsibilities over these processes. There is no simple decision which will be applied in all the restructuring cases (Champlin, 1998).

Until the early 1990s, Indian economy was a closed one. Corporate restructuring seldom occurred during this period. The era was marked by strict Government intervention limiting corporates liberty to draft and implement such expansion strategies. However, this closed set-up incapacitated Indian economy from competing with global players. The country confronted numerous economic problems which necessitated implementation of structural changes in the form of opening up of the economy. This led to the formulation of liberalisation, globalisation and privatisation policy resulting in the opening up of the Indian economy. Many strict legislations and policies were replaced with liberal ones and the Industrial Policy of 1991 is one such policy. Opening up of the Indian economy led to innumerable benefits for the corporate sector with improvement in access to better and sophisticated technology and infrastructure (Aggarwal, 2009). This empowered Indian enterprises to start restructuring programmes to encounter problems and challenges posed by the market. Furthermore, the World Trade Organisation reign has led to the free flow of financial and other resources across the globe, compelling all the Indian corporates, irrespective of their size, to undertake corporate restructuring programmes.

1.2.1 Objectives of Corporate Restructuring

Indian corporates started involving themselves in corporate restructuring at a rapid pace. Generally, companies engage in corporate restructuring with the following objectives:

1. To face cut-throat competition prevalent in the related market;
2. To minimise risk;
3. To bring about changes in activities of the firms;
4. To utilise surplus finance available with companies by investing in profitable projects.

However, objectives of resorting to corporate restructuring may differ from company to company. Corporates might resort to financial restructuring, market restructuring, technology restructuring or organisational restructuring. Financial restructuring refers to adjusting the capital base by raising finance from the market for investing in new projects while market restructuring refers to executing adjustments in market segments. Technology restructuring denotes variations in technology due to adoption of new and innovative technologies while organisational restructuring signifies enhancement in competencies of personnel in business enterprises.

1.2.2 Forms of Corporate Restructuring

Godbole (2009) has discussed various forms of corporate restructuring. The different forms of Corporate Restructuring have been displayed in Figure 1.2.

![Forms of Corporate Restructuring](image)

**Fig. 1.2:** Forms of Corporate Restructuring

I. Expansion

1. Merger: Merger symbolises legal combination of two or more corporates engaged in related or unrelated business. For example, Fortis Healthcare (India) Limited, a well developed chain of speciality hospitals operating in different parts of India with New Delhi as headquarters, and Fortis Healthcare International Pte Limited, a Singapore-based organisation, struck a merger deal on September 2011, leading to the incorporation of “Fortis Healthcare Ltd”.

2. Acquisition: Acquisition signifies the corporate action of a company gaining control over assets and management of another corporate entity. For instance, Zee Entertainment Enterprises Limited, formally named as Zee Telefims, a Maharashtra-based Indian mass
media subsidiary company of Essel Group, founded by Subhash Chandra, acquired 48.4% of shares of ETC Network, which was operating two popular TV Channels of etc and etc Punjabi, on February 2002.

3. Takeovers: Takeovers refers to buying the assets of one company by another. Takeovers may be hostile or friendly.

   a. Hostile takeovers: In this type of takeover, the acquirer company will not consult the management of target company regarding the takeover. Instead, they directly approach the shareholders of the target company and acquire shares from them without obtaining consent of the management. The instance of hostile takeover can be illustrated with an example. India Cements Limited is a Tamil Nadu-based private cement manufacturing company. This company was incorporated on 1946 by S.N.N. Sankaralinga Iyer. The company started its first manufacturing plant in Tamil Nadu during 1949. During the year 1978, Andhra Pradesh Industrial Development Corporation (APIDC) promoted Raasi Cement Limited. In 1998, India cements succeeded in acquiring Raasi cements without the consent of its management, by winning the support of its key shareholders.

   b. Friendly takeover: In this case, the takeover process is approved by the management and board of directors of the target company. Friendly takeover may be illustrated with a real time example. Johnson & Johnson, incorporated on 1886, is a US-based giant in pharmaceutical industry. Crucell is a Netherlands-based biotech company, specialising in vaccines and antibodies. During 2011, offer of the former company was accepted by the latter, transforming Crucell into a subsidiary of Johnson & Johnson. This is considered to be one of the best examples of friendly takeover.

4. Tender offers: It refers to the offer made by the one party to the shareholders of the opponent to tender the shares for the sale. The process of tender offers may be illustrated with a practical example. GlaxoSmithKline plc (GSK) is a multinational pharmaceutical company established in the year 2000. This company is located in Brentford, England and it has a subsidiary company in India, GlaxoSmithKline Pharmaceuticals Limited. GSK has announced the share tender offer to increase its stake in the GlaxoSmithKline
Pharmaceuticals Limited. In the announcement, the company has stated that this offer will exist from February 18, 2014 to March 5, 2014.

5. Joint venture: It is a popular business concept in which two companies join together to accomplish a specific task. The joint venture will last for a definite period. During this period, the related parties will pool their resources and work towards a common cause. The concept of joint venture may be illustrated with an example. Indian Oil corporation and Gail (India) Limited succeeded to strike a joint venture deal. Both started a new venture called “Green Gas Limited” in October 7, 2005. The main aim of this company is to provide Piped Natural Gas (PNG) for domestic, commercial & industrial consumers and Compressed Natural Gas (CNG) for automobile consumers in cities of Agra and Lucknow.

II. Sell-offs

1. Spin-offs: It is an arrangement wherein a new corporate entity is formed by selling shares of an existing parent company. The spin off announcement of HCL Infosystems on January 2013 is a classic example of spin off arrangement. The company announced the spin-off of its three businesses of hardware, learning and services into wholly-owned subsidiary units. The hardware business was transferred to subsidiary company named as “HCL System Integration Limited”, while the learning business got transferred to “HCL Learning Limited” and the services business got transferred to subsidiary company named as “HCL Care Limited”.

2. Divestures: In this sell-off arrangement, a part of business of a corporate entity is sold to an alien party. The case of Videsh Sanchar Nigam Limited (VSNL) is a good case of divestures. VSNL was an Indian Government owned telecommunication services providing company until 2002. In 2002, the Indian Government decided to divest the company through public bidding. Tata group emerged successful in the bidding and after the bidding process was completed, VSNL was attached to the Tata Group and was subsequently renamed as “Tata Communications”.

III. Corporate Control

1. Buy-backs: In a buy-back arrangement, the corporate entity repurchases its ownership interest in the form of buying back shares from existing shareholders. The repurchase of
shares by Anil Agarwal's “Cairn India Limited” is a standing example for buy-backs. The company based at Gurgaon of Haryana, belongs to oil and gas industry. The company announced buying back of its shares held by its promoters, “Cairn Energy Plc” on January 2014 with the motive of having a better control over its affairs.

2. Corporate contest: Corporate contest indicates a condition under which shareholders or a company endeavours to power through a modification in management of an entity either through takeover efforts or proxy fights. This results due to discontent or displeasure among existing or new shareholders about the management of company affairs. The merger deal between Hewlett-Packard (HP) and Compaq is a stand out example of Corporate Contest. Carly Fiorina was the CEO of HP during 1999-2000. During 2001, HP and Compaq succeeded in striking and materialising a merger deal despite stiff opposition from many outside players.

3. Standstill agreements: These agreements are struck voluntarily to check hostile takeovers.

4. Antitakeover amendments: This refers to enacting modifications in bylaws of a corporate entity with the intention of complicating merger deals.

IV. Changes in Ownership Structure

1. Exchange offers: In this arrangement, debt or other non-equity forms of finance are exchanged for common stock in the form of conversion of former into latter.

2. Share repurchases: This arrangement denotes repurchase of outstanding shares of an entity by set of investors.

3. Going private: This process refers to the purchase of an entire entity by a small group of investors.

4. Leveraged buy-out: In this process, merger or acquisition is effected by a corporate entity using borrowed funds. The acquisition deal between Apollo tyres and Cooper Tire & Rubber Company is a popular instance of leveraged buy-out. This deal is considered as one of the most popular deals in India during the recent past. Apollo tyres executed the deal through borrowed funds, which led to excessive debt burden for the company due to high deal price.
1.3 Mergers and Acquisitions

The most important expansion strategy used by corporates to achieve an immediate growth is Mergers and Acquisitions (M&A). M&A is an important mechanism used by corporates endeavouring for external growth in short notice (Rhe´aume & Bhabra, 2008).

Though M&A is an old phenomenon prevalent in India from the age old days, its popularity was overshadowed. Very few business entities in the past undertook M&A deals and those which succeeded in striking such a deal were accomplished through friendly acquisition deals struck to take advantage of taxation laws. This trend continued till 1991, as the Indian corporates were under the strict preview and control of the Indian Government till then. Their corporate restructuring decisions were strictly monitored and controlled by the Government through various legislations. However, the liberalisation era sparkled since 1991 and the subsequent liberal industrial policy of the Government paved the way for M&A waves in India (Vyas et al. 2012).

The liberalisation policy executed on 1991 by the Government of India witnessed series of Government concessions for business entities engaging in corporate restructuring. Furthermore, foreign corporates entered Indian market by acquiring Indian companies while Indian companies also ventured into foreign markets by acquiring foreign companies. The benefits derived by Indian corporates acquiring domestic and foreign companies may vary significantly (Mann & Kohli 2011). The volume of M&A transactions has swelled in India during the past decade. M&A has gained its importance in India (Ramakrishnan, 2010). Value of M&A has also witnessed massive increase during this period largely due to cross-border deals undertaken by Indian corporates. However, the value and volume of M&A deals sharply differ from industry to industry in the country.

1.3.1 Motives of Mergers

Corporates use the expansion strategy of mergers with some motive, though these motives seldom are disclosed by them (Ray, 2010). However, the general investors will be immensely interested in knowing the motives behind merger deals as such deals significantly affect their investment decisions, either directly or indirectly. Media plays a substantial role in investigating into and revealing these hidden motives. Corporates acquiring other entities will proceed in this direction to accomplish certain goals. They will have strong reasons,
which may be either personal or organisational in nature, to strike a merger deal. Many authors such as Lausberg & Stahl (2009), Lahovnik (2011), Liu, Low & Niu (2011), Banga & Gupta (2009) and Trautwein (1990) have thrown light on the general motives behind corporates engaging in mergers. Corporates may engage in mergers for financial reasons, protective or growth reasons. Financial reasons for corporates entering into merger deals may be to enhance their financial capacity, reducing cost of production and ultimately maximising profits. Corporates might also venture into merger deals due to protective reasons such as shielding their existing market share while they may also have growth reasons such as accessing new markets behind merger deals.

Following are some of the common motives of corporates striking merger deals.

1. To spread operation risk to the target company;
2. To venture directly into new markets;
3. To achieve a speedy penetration into related market;
4. To produce synergy;
5. To satisfy egoistic needs by deriving prestige associated with acquiring entities;
6. To attain market leadership;
7. To limit competition in the market;
8. To generate additional revenue;
9. To reduce cost of production;
10. To enhance market strength by retaining existing market share and accessing the market controlled by the target company;
11. To avail tax benefits;
12. To acquire whatever comparative advantages the target company might have;
13. To implement innovation in existing business mechanism by collaborating with the target company;
14. To avail benefits of mutual exchange of technology and strategies;
15. To tide over challenges prevalent in the local market.
1.3.2 Reasons for Selling

Corporate entities forced to be target companies in a merger or acquisition deal have to sell their business to another entity largely due to their weakening financial position (Ray, 2010). However, there may be other important reasons for such entities to sell their businesses, which are summarised as under:

1. To pay debts: Companies which are caught in debt trap may be forced to sell their business to tide over their debt crisis. 3i Infotech Limited, an Indian multinational IT company, incorporated on 1993, was involved in providing BPO services. The company was performing well with core values of innovation, insight and integrity, dedicating itself to values of “Empowering Business Transformation”. However, the company was engulfed by serious debt crisis and it decided on 2013 to sell its assets to tide over its debt crisis and turn to growth path.

2. To sell loss making business: Companies may be engaged in different businesses, products or markets. In case one business is sustaining huge loss and the company cannot foresee any betterment in the scenario, it may decide to sell this business rather than closing down, as the latter decision may result in many issues such as labour problems. Sony Corporation, a Japanese multinational company, is a popular company, concentrating on electronics and entertainments business. The company had a “Visual Audio Intelligent Organizer” (VAIO) division, concentrating on personal computers. Since this division became a loss-making unit, Sony decided to sell its personal computer business and this sale was executed on February 2014.

3. To increase shareholders value: Some companies may feel it advisable to sell part of its inefficient business so that its shareholders value is maximised.

4. To rise funds for investing in new projects: Sometimes, corporates may need additional finance to invest in profitable projects. They may sell their part of existing business to mobilise finance needed to invest in such projects.

5. Attractive offers: Sometimes, corporates may receive attractive offers by companies endeavouring to purchase existing businesses. This may instigate them to sell their business.
These are the five important reasons for corporates selling their assets or business. The ultimate goal of such sale will be to dispose inefficient business and maximise shareholders value.

1.3.3 Stakeholders in the Process of M&A

Many stakeholders are involved in the process of M&A. These stakeholders may be broadly classified under the two major heads of internal and external. These stakeholders play a significant role in each merger or acquisition deal and each of them have varied expectations out of such a deal. Hence, any M&A deal will have a lasting impact on stakeholders and conversely, such deals when executed will exert an important impact on the stakeholders. Employees and board of directors constitute the internal stakeholders, while external stakeholders consist of customers, shareholders, industry analyst, press and general public. Employees, customers and shareholders exert strong impact on M&A decisions while general public, industry analyst and press will exert a lesser level of influence (Ray, 2010).

1.3.4 Forms of Mergers

Merger or Amalgamation refers to combination or consolidation of two or more entities. The company which is buying another company is the “Acquirer”, while the company which is sold is termed as “Target Company”. There are two popular forms of mergers (Kumar, 2011). These two forms of mergers are Absorption and Consolidation.

1. Merger through absorption: In this case, one company merge into another. For example, if Y Ltd. merges with X Ltd., resulting in the former losing its identity and the latter retaining its identity, it is a merger through absorption. Simply stating, X Ltd. + Y Ltd. = X Ltd. is merger by absorption. For instance, during 1989, Tata Fertilisers Limited (TFL) and Tata Chemicals Limited (TCL) forged a merger deal resulting in the formation of “Tata Chemicals Limited”. This is a merger through absorption as TFL has lost its identity and TCL has retained its identity. The merger process in this case yielded grand results as the merger deal was followed with bonus issues at the rate of 1:2 during 1990-91 and 3:5 during 1995-96.

2. Merger through consolidation: In this case, merger deal between two distinct corporate entities results in the formation of a new entity. For instance, merger deal between
X Ltd. and Y Ltd. resulting in the formation of Z Ltd. Is a case of merger through consolidation, wherein both X Ltd. and Y Ltd. have lost their respective entities and a new company in the form of Z Ltd. has been formed. In simple terms, X Ltd. + Y Ltd. = Z Ltd. is merger through consolidation. The merger deal during 1986 between the four companies of Hindustan Computers Limited, Hindustan Instruments Limited, Indian Software Company Limited and Indian Reprographics Limited leading to the formation of a new corporate entity of “HCL” is a classic example of merger through consolidation wherein all the four companies have lost their respective entities leading to the formation of a new entity.

1.3.5 Types of Mergers

Mergers may be of various kinds such as horizontal, vertical, conglomerate, downstream, upstream and reverse mergers. A detailed description about these different kinds of mergers is given as under:

1. Horizontal mergers: Merger deal between two or more entities engaged in similar business is termed as “Horizontal Mergers”. Companies engaged in same business may feel it effective to join together to avoid competition among themselves and strike a horizontal merger deal. For instance, the merger deal on 2010 between the two private sector banks of Industrial Credit and Investment Corporation of India (ICICI) and Bank of Rajasthan in which the latter bank merged into the former bank is a classic example of horizontal merger. Bank of Rajasthan branches started functioning as branches of ICICI.

2. Vertical mergers: Merger deals effected between companies which are complementary to each other is referred to as “Vertical Merger”. A company may engage in merger deal with those companies which are a stakeholder in its supply chain to minimise cost of its final product. For example, X Ltd. merging with Y Ltd. which is engaged in marketing of its product is a case of “Vertical Merger”. The merger deal effected on 2004 between FLAG Telecom and Reliance is a classic example of vertical merger. The former company is an international company, engaged in providing network transport and communications services. On 2004, the shareholders of FLAG Telecom decided to merge with Reliance since which the company started providing services of Reliance to its customers. This first international deal of Reliance is a good example of vertical merger.
3. Conglomerate mergers: Merger deals effected between two or more corporate entities which are totally unrelated is referred to as “Conglomerate Mergers”. This type of merger may be used by companies aspiring to venture into a market which is totally new and unrelated. This merger deal will have no impact on competition element prevalent in the market in which the companies to the merger deal are operating. For example, merger deal between X Ltd. engaged in cement business and Y Ltd. engaged in automobile business is an instance of conglomerate merger. For instance, Larsen & Toubro Limited (L&T), a popular Indian multinational company, engaged in construction, struck a merger deal with Voltas Limited, a popular air conditioning (home appliances) company. The merger deal between these two companies is a classic example for conglomerate mergers.

4. Downstream mergers: In this merger process, the holding company merges into its subsidiary companies. For instance, ICICI Bank was established as a wholly owned subsidiary of ICICI Ltd. On 1994. ICICI Bank is the leading bank in private sector. The parent company, ICICI Ltd. merged with its subsidiary company of ICICI Bank. This is a classic instance of downstream merger.

5. Upstream mergers: In this instance, a subsidiary company merges into its parent company. Indo-Burma Petroleum Company limited (IBP), a Burma-based company, formerly known as Jamal's oil Company limited, shifted its headquarters to Kolkata. This company is engaged in petroleum industry as a subsidiary of Indian Oil Corporation (IOC) since 2002. During May 2007, IBP merged with its parent company of IOC. This is a classic example of upstream mergers.

6. Reverse mergers: Merger deal struck between companies with strong and weak financial position is termed as “Reverse Mergers”. Since this merger deal involves sick units, regulations of BIFR have to be complied with by companies engaging in this sort of merger deals. Gujarat-Godrej Innovative Chemical Limited (GGICL) was incorporated on 1988. On April 1, 1994, the company merged with Godrej Soaps Limited (GSL). After the merger, GSL introduced “Cinthol fresh”. During 1994-95, this company acquired the world’s largest mosquito mats manufacturing company, Transelektra Domestic Products Limited. The merger deal between GGICL and GSL is a classic example of reverse merger.
1.4 Overall M&A Value

According to the Mergermarket 2013 trend report, M&A value has been declining globally since 2007. M&A values indicate the value of M&A transactions which have taken place globally. Figure 1.3 portrays the overall M&A value as well as the quarter-wise M&A values in US$bn.

![Figure 1.3: Overall M&A Value](source: Mergermarket 2013 Trend Report)

It can be inferred from Figure 1.3 that M&A deals have witnessed a sharp rise during 2007. However, during 2007, value of M&A deals have started declining since the third quarter of the year. Hence, it can be said that there has been an abnormal spurt in M&A deals during 2007. However, the value of M&A transactions have started depleting steadily from
2008 and during the overall period of 2007-13, value of M&A deals have sharply decreased from 3668.7 to 2215.1, witnessing a 40 percent fall in value.

The details of cross boarder & global M&A deals and volume are shown in Figure 1.4. The comparison between global and cross border values is displayed in this figure. This figure also exhibits the volume of deals and its comparison between global and cross border.

![Cross Boarder Vs Global M&A Deals and Volume](image)

*Source: Mergermarket 2013 Trend Report*

**Fig. 1.4: Cross Boarder Vs Global M&A Deals and Volume**

Figure 1.4 indicates that there is a step wise increment in the volume and value from 2004 to 2007. After 2007, both M&A volume and value have decreased heavily. The global and cross border are moving in a same direction with respect to the volume and values. The figure indicates that before 2007 there is gradual increase and after 2007 there is greater fall in the trend. The sector wise differences between 2012 and 2013 are displayed in Figure 1.5. The figure includes the comparison of values and volumes.
Figure 1.5 displays industry wise M&A deals value and market shares during 2012-13. The figure provides elaborate details about M&A deals which have taken place in different industries. It can be inferred from the figure that the value of M&A deals during 2012 has been the highest in respect of energy, mining & utilities industry. The technology, media & telecommunications (TMT) industry has managed to top the list during 2013 while energy, mining & utilities industries have lost their prominence during this year. Consequently, during 2013, share of TMT industry in the M&A deals have increased and those of energy, mining & utilities industries have slumped. It is worthy to note that leisure industry companies have low M&A deals during both the years and hence the share of this industry in M&A deal have been at the low during the said period.
1.5 Value of M&A in Emerging Markets

Developing countries such as Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand and Turkey constitute the emerging markets. The value of M&A deals in these emerging markets have been depicted in Figure 1.6.

![Chart showing the value of M&A deals in emerging markets from 2007 to 2013.](Source: Mergermarket 2013 Trend Report)

**Fig. 1.6: Value of M&A Deals in Emerging Markets**

It can be inferred from Figure 1.6 that there has been a drop in the value of M&A deals since 2007. However, the value has drastically augmented during 2010 to 52 percent. It can be observed that the value of M&A deals is directly related to volume of such deals. It is
worthy to note that the value of M&A deals has increased during the period of 2007-13 at a snail pace of 8 percent.

The inbound and outbound details of M&A deals in emerging markets have been portrayed in Figure 1.7.

![Graph showing volume and value of inbound and outbound M&A deals in emerging markets.]

*Source: Mergermarket 2013 Trend Report*

**Fig. 1.7: Volume and Value of Inbound and Outbound M&A Deals in Emerging Markets**

It can be observed from Figure 1.7 that the value and volume of M&A deals has witnessed a gradual increase during the period of 2004 to 2007, and the trend has been almost the same in case of both inbound and outbound deals. However, it can be inferred that inbound deals outsmart outbound deals in emerging markets. It is interesting to note that after recession, values of inbound and outbound cross-border M&A deals is on the increase,
indicating that foreign corporates have preferred to venture into growing markets by acquiring companies in such markets.

The industry wise details of M&A deals have been portrayed in Figure 1.8.

![Sector Wise M&A Value in Emerging Markets](image)

**Fig. 1.8: Sector Wise M&A Value in Emerging Markets**

It can be inferred from Figure 1.8 that during the two years of 2012 and 2013, energy, mining & utilities industries have the highest value of M&A deal of US$ 161.1bn and US$ 131.8bn respectively. As a result, this industry has the highest market share of 30.8 percent in 2012 and 27 percent in 2013. Leisure industry happens to have the lowest market share even in emerging markets during 2012. However, during 2013, the value of M&A deals has been at an increase in respect of few industries such as leisure, pharmaceuticals, medical & biotech, real estate, TMT and others, resulting in an increase in market share for these industries.
1.6 M&A Growth in India

India is one of the important emerging markets in the world. Figure 1.6 displays the value of M&A deals of emerging markets has witnessed an increase since 2007. However, the value and volume of M&A deals in India since 2007 has been witnessing a downward trend. The value and volume of M&A deals in respect of India have been displayed in Figure 1.9.

![Fig. 1.9: M&A Growth in India](source: Mergermarket 2013 India Trend Report)

Figure 1.9 highlights that the trend of value and volume of M&A deals in India is at the decrease. The value is at the lowest on 2013 during the past seven years. The value and volume of M&A deals in India has been at the highest during 2007. However, there has been a drastic slump in the value and volume of M&A during 2008, suggesting that corporates have hesitated to engage in M&A deals in India after recession, leading to a sharp dip in value of M&A deals in India.

The value and volume of both inbound and outbound cross border M&A deals engaged by Indian corporates have been portrayed in Figure 1.10.
It can be inferred from Figure 1.10 that volume of inbound and outbound M&A deals has shown a decreasing trend during 2009. It is clear that the cross-border activities of Indian companies have been minimised since 2007. This decline is however, not due to legal procedures. It is contributed to by the outcomes of previous M&A deals. The outcome of M&A deals will directly influence the M&A decisions of corporates. The figure shows that number of inbound deals outsmart the number of outbound deals. However, since 2007, the value and volume of cross-border activities in India has drastically changed.

The sector wise volume of M&A deals during 2012 and 2013 has been displayed in Figure 1.11.
It can be inferred from Figure 1.11 that the volume of M&A deals in India has decreased in 2013 in respect of almost nine industries when compared with 2012. The overall deal volume of 2013 is 267 while volume of 2012 is 280. During 2012, industrials & chemicals sector has contributed to maximum M&A deals, followed by business services,
pharmaceuticals, medical & biotech and consumer industries. During 2013 also, industrials & chemicals industry have contributed to the most of M&A deals. Hence, it can be observed that volume of M&A deals in India has been at a decrease during the last year.

1.7 Top M&A Deals in India

Indian corporates have empowered themselves to be capable and willing to pay huge sums of money to acquire assets of leading companies in the market. Since 2007, many Indian corporates have involved themselves with M&A deals involving huge sums of money. Details of acquirer, acquired company, deal size and deal date involving huge value have been displayed in Table 1.1.

Table 1.1: Details of Ten Top M&A Deals in India

<table>
<thead>
<tr>
<th>Acquirer</th>
<th>Acquired Co/Assets</th>
<th>Deal Size ($bn)</th>
<th>Deal Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tata Steel</td>
<td>Corus</td>
<td>13.6</td>
<td>Apr 2, '07</td>
</tr>
<tr>
<td>Vodafone</td>
<td>Hutchison</td>
<td>10.9</td>
<td>Feb 11, '07</td>
</tr>
<tr>
<td>Bharti</td>
<td>Zain (Africa)</td>
<td>10</td>
<td>Mar 30, '10</td>
</tr>
<tr>
<td>Vedanta</td>
<td>Cairn India</td>
<td>9</td>
<td>Aug 16, '10</td>
</tr>
<tr>
<td>Hindalco</td>
<td>Novelis</td>
<td>6</td>
<td>Feb 11, '07</td>
</tr>
<tr>
<td>Vodafone</td>
<td>Essar</td>
<td>5</td>
<td>Mar 31, '11</td>
</tr>
<tr>
<td>Daiichi</td>
<td>Ranbaxy</td>
<td>4.6</td>
<td>Jun 12, '08</td>
</tr>
<tr>
<td>Abbott</td>
<td>Piramal</td>
<td>3.7</td>
<td>May 21, '10</td>
</tr>
<tr>
<td>ONGC</td>
<td>Imperial</td>
<td>2.6</td>
<td>Dec 30, '08</td>
</tr>
<tr>
<td>Apollo Tyres</td>
<td>Cooper</td>
<td>2.5</td>
<td>Jun 12, '08</td>
</tr>
</tbody>
</table>

Source: Times Business, The Times of India, Chennai on 13th June, 2013

Table 1.1 highlights details about the top ten M&A deals struck by Indian companies. Tata Steel, Vodafone, Bharti, Vedanta, Hindalco, Vodafone, Daiichi, Abbott, ONGC and Apollo Tyres are the big Indian giants which are involved in these top deals.

Three top deals have been struck during each of the years of 2007, 2008 and 2010 while a solitary deal has been successfully executed during 2011. The deal of Tata Steel acquiring Corus on April 2, 2007 for 13.6 billion dollars is the biggest of the whole lot of big M&A deals, followed by Vodafone acquiring Essar for 10.9 billion dollars on 31/03/2011.

The biggest deal struck by Tata steel is also the most interesting deal of the lot. The company had to encounter numerous challenges during the deal, most important being the
funding structure. The company executed this deal to establish its supremacy in India and to venture into the foreign market though there were many critics about value of the deal.

Vodafone is considered as one of the giants in Indian telecom industry. It acquired around 67 percent stake of Hutchison Telecommunications International Limited (HTIL) in Hutch-Essar. In July 2007, the company was renamed as “Vodafone Essar”. The company executed this deal to utilise the spurt in demand for mobile handsets in India during 2007.

Bharti Airtel is one of the largest mobile service providers in India. It has acquired the African based mobile telecommunications company called Zain. The deal has enhanced the customer base for Airtel.

Mr. Anil Agarwal is controlling the Vedanta group. Vedanta company belongs to the metals and mining industry. The company had no experience in the field of oil. This company has ventured into the oil market by acquiring Cairn India Limited.

Hindalco Industries is a subsidiary company of the Aditya Birla Group. Hindalco deals with aluminium business. It acquired Novelis on February 11, 2007. Novelis was also dealing with aluminium business. This integration has won Hindalco industry a great strength in the aluminium industry.

Vodafone group revised their deal with the Essar group on 2011. On 2011, the chairman of Essar Group, Mr. Shashi Ruia, has revealed that the subscribers’ base has increased in Vodafone Essar. The chairman also stated that their group is enjoying a good relationship with Vodafone.

Daiichi Sankyo is a Japan-based pharmaceutical company. The subsidiary of this company is India-based Ranbaxy Laboratories which is also dealing with pharmaceuticals. The company has struck a deal with its subsidiary, which has significantly enhanced its market strength in the pharmaceutical industry.

Piramal Healthcare Limited is one the divisions of Piramal Group. The company has mainly concentrated on health care business. Abbott Laboratories was also engaged in the same business of health care. The latter company purchased the former company on 2010 to enhance its market strength.

Imperial Energy Corporation is an UK-based petroleum company. Oil and Natural Gas Corporation (ONGC) is a public sector organisation having headquarters in Dehradun,
India, engaged in petroleum business. ONGC has struck a merger deal with Imperial for pooling energy resources.

Cooper Tire & Rubber Company is an American-based company, dealing with tire business. Apollo Tyres is an Indian-based tyre company with headquarters at Haryana, India. These two companies struck a merger deal with the intention of enhancing the market strength of Apollo tyres in the tyre market.

It can be observed from the above discussion that nine of the ten top M&A deals in India have been related deals. These deals have been struck to enhance the market strength of these companies in their respective market by eliminating competition. Since the acquirer and target companies are engaged in the same business, these deals involve limited risk.

1.8 Need for the Study

M&A are considered as the most effective corporate restructuring and expansion strategy used by corporates in recent years. Corporate restructuring is executed largely to maximise corporate performance and shareholders wealth. Shareholders wealth is influenced by many factors relating to the nature of such restructuring deals and performance of the respective companies. Corporate consultants actively analyse shareholders wealth and corporate performance for their own clients. Academicians on their part are interested to know about the overall impact of M&A deals.

Various research studies about impact of merger deals on shareholders wealth have yielded conflicting results. Studies conducted by Jayaraman, Khorana & Nelling (2002), Subeniotis et al (2011), Peng & Isa (2012), Ramakrishnan (2010), Rhéaume & Bhabra (2008) and Uddin & Boateng (2009) have revealed that merger deals doesn’t result in enhancement of wealth of shareholders of the acquiring companies, while some other studies such as those conducted by Kiymaz (2006), Laabs & Schiereck (2008) and Mann & Kohli (2012) have revealed conflicting results that merger transactions have resulted in enhancement of shareholders wealth. Studies conducted by Rani, Yadav & Jain (2013) and Kumar & Bansal (2008) have revealed that merger transactions enhances corporate performance while those studies conducted by Singh & Mogla (2010) and Singh & Mogla (2008) revealed that the performance of corporate engaging in merger deals has shrunk.
It can be observed from the above discussion that corporate restructuring through merger deals may prove to be a success or failure for acquiring companies.

The volume of M&A deals have witnessed a downward trend in India since 2007. The overall M&A activities in India have declined by 11.5 percent during 2013 (Thomson Reuters). This downward trend is attributed to by various reasons. The proposed study tries to analyse the reasons for such a downward trend in India. This study also proposes to analyse whether merger deals result in acquiring companies gaining some advantageous situation. Furthermore, the impacts exerted by merger announcements on investment decisions of equity investors have also been explored.

1.9 Research Questions

Equity investors analyse various factors before deciding to invest in stock market. Some investors may feel that corporate restructuring strategies of companies will magnify their wealth by enhancing share value. Hence, investors will keep a vigil on such announcements and make their investment decisions after thoroughly analysing various such factors. The proposed study has made an attempt to analyse the perception of equity investors about merger announcements and assess the impact of such corporate restructuring strategies on shareholders wealth and corporate performance. Towards this objective, the following research questions have been addressed in this study:

1. Does a merger announcement exert an immediate impact on shareholders wealth?
2. Does a merger deal bring improvement in corporate performance of acquiring companies?
3. Does corporate performance of companies indulging in merger deals exert any impact on shareholders wealth?
4. What are the factors influencing investors perception about merger-based investment decisions?
1.10 Objectives of the Study

1. To assess the effect of mergers on shareholders wealth;
2. To analyse the impact of mergers on corporate performance;
3. To gauge the performance-related factors determining wealth of shareholders of companies engaging in mergers;
4. To assess the perception of investors about merger deals;
5. To measure the preferred motives of merger deals from the view point of investors;
6. To analyse the merger-related factors determining investment decisions of investors.

1.11 Scope of the Study

1.11.1 Shareholders Wealth and Its Determinants

S&P CNX 500 companies which have struck merger deals during the past decade have been considered for this study and the abnormal returns made available to shareholders due to the merger deal has been estimated using mean adjusted model. This study measures the immediate effect of merger announcements on shareholders wealth.

To analyse various factors determining shareholders wealth, the financial variables namely profitability, liquidity, turnover and asset utilisation of the companies which have engaged in merger deals along with incorporation year and announcement year of these companies have been considered.

1.11.2 Impact of Merger on Corporate Performance

Mergers deals struck by Indian companies belonging to six different industry during the period of 1st April 2007 and 31st March 2008 have been considered for this study and prevalence of significant difference in profitability, liquidity, turnover and asset utilisation of these corporates before and after the execution of merger deals have been analysed to assess the impact of merger deals on corporate performance of companies engaged in mergers.

1.11.3 Perception of Investors

Perception of investors about merger deals of corporate have been assessed based on primary data collected by administering a well structured interview schedule to 513 Equity investors selected at a random from the cities of Puducherry and Chennai.
1.12 Significance of the Study

The proposed study will give important suggestions to investors, companies and authorities regulating merger deals. Investors preferring to invest in equity stock will make their investment decision after considering various factors. Similarly, their merger-based investments will also be influenced by many factors. Further, shareholders wealth will be influenced by merger deals of companies which may be in the long-run or short-run. This study shall be of immense utility to shareholders as it identifies the time span within which shareholders can maximise their benefits out of merger deals. This study also tries to gauge the perception of investors about various corporate strategies and various motives behind merger transactions. The study has also collected useful inputs from investors about the likely policies to be followed by corporate planning to go for mergers. These inputs will be of immense utility to companies aspiring to strike a merger deal.

Finally, this study tries to capture perception of investors about the process of mergers and the regulatory machinery involved in regulating merger deals. In India, SEBI is the regulatory authority for merger deals. SEBI formulates guidelines for companies indulging in merger deals. Based on the perception of investors about regulating merger deals, SEBI can formulate effective guidelines for monitoring merger deals.

1.13 Conceptual Model of the Study

The conceptual model arrived at for this study has been displayed in Figure 1.12. The model consists of five constructs namely process, impact, environment, motives and mergers. The first construct of “Process of mergers” consists of variables pertaining to processes governing merger deals. The process-related variables included in this study are availability of investment managers, transparency in the process of M&A, insider trading during mergers, adequate rules, SEBI control and public announcements about mergers. The variables included under “Impact of mergers” include shareholders, employee relationship, customers, production, management and the market which have been influenced by merger deals. Variables used for assessing investors perception about “Environment of Merger” includes variables related to the environment prevalent in India relating to M&A such as volume of mergers, cross border deals, expectation about cross border deals, finance and environment which prevails to help M&A. Variables which have been included to assess the
Motives behind M&A deals are market advantage, revenue advantage, economic advantage, cost advantage, risk free growth and new market entry. The construct of “Merger” includes the variables of investors investment decisions based on mergers announcements.

Fig. 1.12: The Conceptual Model

The proposed conceptual model endeavours to assess the factors which have a bearing on investors’ investment decisions. Since the model appears like the alphabet “M”, this model is named as “M Model”, with the letter “M” signifying “Mergers”.

1.14 Hypotheses for the Conceptual Model

Six alternative hypotheses have been formulated for this study. These Hypotheses have been listed as under:

H1: “Environment related to merger influences the process of mergers”;
H2: “Motives behind mergers influences the impact of mergers”;
H3: “The process of mergers influences merger-based investment decisions of investors”;
H4: “Impact of mergers influences merger-based investment decisions of investors”;
H5: “Environment related to M&A influences merger-based investment decisions of investors”;
H6: “Motives behind mergers influences merger-based investment decisions of investors”.
1.15 Thesis Chapterisation

The proposed research report shall consist of seven chapters.

The first chapter entitled, “Introduction” starts with a brief description about expansion strategies of corporate and the meaning of Mergers and the theoretical framework of M&A and popular cases to illustrate these concepts. This chapter also consists of the important topics of research questions, need for the study, objectives of the study, scope of the study, significance of the study, conceptual model formulated for the study and hypotheses formulated for the study.

The second chapter designated, “Review of literature” throws light on past studies conducted in the area relevant to the proposed research.

The third chapter labeled, “Research Methodology” enlightens the methodology adopted for the conduct of the proposed study.

The fourth chapter designated, “Impact of merger announcements on shareholders wealth & corporate performance” attempts to analyze the impact exerted by merger deals on shareholders wealth and corporate performance.

The fifth chapter entitled, “Investors perception about merger-based investment decisions” discusses the findings derived from analyzing primary data. This chapter also highlights various issues related to investment decisions of equity investors.

The sixth chapter labeled, “Factors influencing investors merger-based investment decisions” discusses various factors influencing merger-based investment decisions of investors.

The seventh chapter entitled, “Summary of findings, suggestions, implications, conclusion and scope for further research” presents a brief summary of results of the study. This chapter gives the researcher’s recommendations based on results of the study. This chapter also consists of implications of the study, conclusion of the study and possibilities for further research in related areas.
1.16 Research Framework

Figure 1.13 illustrates the various stages involved in this research work.

Fig. 1.13: Research Framework