CHAPTER - 7
CONCLUSION

The study was carried out with a view to understand the rise of the M & A phenomena as also to reveal whether the wealth maximization proposition a guiding philosophy for financial function, leads to shareholders’ wealth maximization or not. Hereunder, an attempt is made to present the summary of the findings though detailed analysis is given in the previous chapters and offers some suggestions. This chapter is divided into three parts. Part-1, narrates the summary of the finding while part-2 presents the recommendations and the last part presents the future areas for research.

7.1. Summary of Findings

Indian business enterprises were subjected to rigorous regulatory regime before 1990s. This has led to asymmetrical growth of Indian corporate enterprises during that period. The transformations initiated by the Government since 1991, has influenced the governance of Indian business enterprises. Indian corporate enterprises are refocusing on the lines of global competitiveness, market share, core competency, and consolidation. This process of refocusing has further been hastened by the arrival of foreign competitors. In this backdrop, both the foreign and Indian companies are engaging in mergers activities to scale up their operations.

7.1.1. Mergers and Acquisitions in India

- In the earlier years, trend of cross-border M & A in terms of purchases by developed countries were marginally higher than their sales, indicating a
small part of capital flowing into developing countries. On the contrary, cross-border M & A in terms of sales were slightly higher than the purchases in the developing countries whereas cross-border M & A in terms of sales were slightly lesser than the purchase in the developing countries. The share of developing countries in the total cross border M & A was lower, it has seen increase in their net purchases after 2009.

- Out of overall cross-border purchases, the share of two continents i.e. Europe (USD 129371 million (50.35 per cent)) and North America (USD 98436 million (38.31 per cent)) constituted 88.66 percent of the values in 2003 and their dominance has been continuing until 2011 as net purchases of two continents represented 90.02 per cent. However, the share was reduced substantially to 70.71 per cent in 2010. The average share of two continents was 87.78 per cent.

- Out of the overall cross-border purchases by countries from developing economies, the share of two continents i.e. Latin America & the Caribbean and the Asia constituted 92.62 per cent of the values in 2002 and their dominance has been continuing till 2011 as net purchases of two continents represented 86.94 per cent.

- The value of cross-border M & A of Indian companies reported a fluctuating trend from year 2002 until May 2011. In 2002, net sales and net purchase were $1698 million and $270 million respectively. However, in 2003, cross-border net purchases increased to $1362 million while net sales declined to $949 million. In 2007 total value of overseas net purchases were $29083 million while net sales were $4405 million, highest during the period under study. The cross border net purchases yet again picked up in 2010 as total value of overseas M & A was $26421
million but probably same trend was disrupted in the year 2011 with total value of M & A was $74 million. Whereas cross border net sales noticed decrease in 2010 and 2011.

- Interesting observation is that in maximum years, total values of cross-border purchases were higher than total value of sales except for the year 2002, 2004, 2009, and 2011. The difference between the net purchases and the net sales for the year 2005 was on account of only 4 deals but the value was $1351 million.

- Purchases of foreign companies by Indian companies were found to be increasing and same trend was noticed in global cross-border M & A and started reverse trend where purchases from developing countries was higher than their sales. This evidently points to the fact that Indian companies now have a preference to expand their market outside India adjacent to the domestic market.

- It is worth noting from the study that during the period 2002-03 to 2010-11, about 802 companies in India participated in M & A and of them majority were in Service sector. However, manufacturing sector is also in the direction of M & A, whereas finance and primary sectors had significantly low impact. The study revealed companies acquired by Indian and foreign companies, registered by SEBI have undergone significant structural changes in terms of financial management, change in control, and consolidation of holding in the target company. It also showed that individual business people did the majority of acquisitions but their equity share holding was critical in the change of control of the target company.

- Indian companies had 634 M&A and other continents companies purchased 168 Indian companies during the studied period.

- Around 79% companies acquired in India belongs to Indian company (it included companies registered in India) while 9%, 6%, 3% and 2.6%
companies belong to Europe, Africa, other Asian countries and North America respectively. The percentages of Asia-India continent is very high i.e. 79% as most of Indian campingness acquired by Indian companies or Indian Professional Individuals.

- In India, out of 802 acquisition deals, 528 (65.8%) numbers of acquisition deals completed with objective of change in control while only 167 (20.8%) deals completed with objective of consolidation of holding and only 107 (13.3%) acquisition deals were successfully achieved objective of substantial acquisition.

- The Indian target companies acquired by Indian industrialists also witnessed similar trend as maximum acquisitions completed with intention of change in control i.e. 425 deals (67.2%). Whereas companies acquired with purpose of consolidation of holdings were 129 deals (20.3%) while Indian companies’ under the objective of substantial acquisition concluded 79 deals (12.7%) in domestic market. The investment made by all the continent companies where maximum acquisitions successfully completed were with intent of change in control of target companies.

- No trend is visible during the period in India since M&A were showing up and down year on year. In the year 2008-09, 113 (16.1%) Indian companies acquired as compared to 58 (8.3%) in the year 2004-05. However, in the year 2009-10 M&A activities decreased to 10.8% (76 deals) but in the year 2010-11 again upward trend was noticed in Indian financial market i.e. 12.6% (101 deals). Around 50% difference observed between highest number of acquisitions and lowest number of acquisitions because of downfall in M&A activities by Indian companies in Indian market.

- Indian companies completed 64 deals (10.1%) in the year 2002-03 while decline was seen in the year 2003-04 by 8 deals and it further decreased by
13 deals in the year 2004-05. The increasing trend observed from 2006-07 onwards till 2008-09 as 85 deals (13.6%) and 90 deals (13.6%) were concluded respectively but decline was noticed in the year 2009-10 while increasing trend observed in 2010-11.

- The market value of shares acquired of target companies ranged from ₹1 to ₹7315. Of this 64.2% was accounted for by companies having market value of less than ₹50.
- The market value of shares acquired by Indian companies in the range of ₹1-199, approximately 92% (580 deals).

7.1.2. Literature Review

- Review of literature provides inconclusive evidence with regards to motives of takeovers. The agency theory, hubris, and synergy independently failed to provide clue to M & A activity.
- Presence of one motive is accompanied by another. Along with synergy, hubris or agency has been at work causing divestiture or spin-off at a later date.
- Sirower (1997) conducted study to examine whether M & A is good for shareholders or presumably for the economy. He concluded that synergies were only realized through post-merger integration of both processes and people, where a premium has been paid for the acquisition. The slower the integration the slower the recognition of synergies and was more expensive. Adding synergy means creating value that not only didn’t yet exist but was not yet expected.
- Joseph (2001) tried to link strategic intent to the implications of integration that result. He stated that all M & A occur for either to deal with over-
capacity through consolidation in mature industries; to roll-up competitors in geographically fragmented industries; to extend into new products or markets; as a substitute for R&D; or to exploit eroding industry boundaries by inventing an industry.

7.1.3. Legal aspects of Merger and Acquisition

- Law concerning the takeover, amalgamation, and merger has evolved over a period of time in-line with changes in the economic environment both locally as well as globally. Competition Law is one such example, which has replaced the MRTP Act, 1969.

- The Committee was established by SEBI to recommend enhancements in the Takeover Code. The new amendments announced by SEBI have fundamentally been made on the basis of the report submitted by the Takeover Regulations Advisory Committee, under the chairmanship of Mr. C. Achuthan.

- The report formulated by committee taking into account the rapidly increasing level of M&A activity, the rising refinement of the takeovers Indian market, SEBI’s decade-long regulatory proficiency in capital markets, and several legal verdicts concerning to the Takeover Code.

- On the basis of research and existing best procedures in other states jurisdictions, the Committee has recommended several amendments to the exiting Takeover (SAST) Regulation of 1997. The result of these
modifications has been to achieve the amended code considerably in line with worldwide takeover regulations.

- The objectives of SAS1 are to protect the interest of investors in the securities market for a listed company providing amongst others, a chance for the public shareholders to exit where there is a significant acquisition of equity shares or voting rights or control over a listed company, consolidation of holdings by dominant shareholders and associated disclosures and punishments for non-compliance.

- There are three major changes in the takeover code, which are different from the earlier takeover code, i.e., the Initial Threshold limit provided for open offer an obligation is increased from 15% to 25% of the voting rights of the target company. The increase in open offer increased from 20% to 26% and Abolition of Non-compete fees

- Practical experience has shown that the majority of M & A cases notified to the commission are cleared quite quickly. The Act, itself lays down stringent time lines - the Commission must take a view within 90 working days from the day it has obtained complete information failing which the combination is deemed to have been approved.

- Further global experience suggests that hardly four per cent of the all notified combinations are taken up for a detailed scrutiny by the competition authorities, of which 50% are approved, and a further 25% are approved with modifications. So far no case, has been rejected by CCI.
7.1.4. Wealth Effect of Mergers and Acquisitions: An Event Study

- On an average, M & A events involving the domestic as well as foreign acquirers were not value enhancing as average CAR (-180, +180) of total sample size for Indian as well as foreign companies were equals to 0%.

- Interestingly, at total sample size as well as at Indian and foreign companies level average CAR (-11, +11) is found to be negative i.e. -0.17%, -0.21% and -0.08% respectively. This finding is consistent with negative acquirer returns reported by Eger (1983).

A. Industry Group Analysis

- On an average for the 23 day CAR (-11, +11) the shareholders of acquirers company lost by 2.22% for Primary sector, 1.08% for Manufacturing sector, while shareholders of acquirers gained by 1.48% in Services sector but companies from Financial sector registered loss of 1.06%.

- In pre event window, shareholders of acquiring companies lost by 13.67% for Primary sector, 5.96% for Manufacturing sector while shareholders of Service sector had gained by 7.64% but shareholders of Financial sector had lost by 32.67%.

- The post event window i.e. CAR (0, +180) explained reverse trend compared to pre event window as shareholders from Primary sector gained by 11.69%, 5.55% for Manufacturing sector but shareholders
from Service sector lost by 7.82% but shareholders of Financial sector had gained by 32.86% and it was significant at 95% level compared to Service sector.

- The CAR (-180, +180) showed no gain or no loss as average CAR was close to 0% for Indian companies as well as for foreign companies and industries like Primary, Manufacturing and Service sector also highlighted average CAR tending to 0%. This finding is similar to hubris hypothesis (Roll, 1986).

B. **CAR of Acquiring Group**

- The median values of event window and post event window were negative i.e. CAR (-11, +11) for -0.4% and CAR (0, +180) for -1.33% while pre event window showed positive return (1.03%) although these values are having less than the mean values for the same event window period.

- The event window showed lost value by 4.5% for Primary sector, 1.18% for Manufacturing sector, while marginal gained by 0.12% notice in Services sector but companies From Financial sector registered loss of 0.33%

- During the pre-event window i.e. CAR (-180, 0) the shareholders of acquiring companies lost by 14.2% for Primary sector, 0.45% for Manufacturing sector while shareholders of Service sector had gained by 3.19% but shareholders of Financial sector had lost by 28.49%.
• The post event window i.e. CAR (0, +180) explained reverse trend compared to CAR (-180, 0) as Primary sector gained by 11.97%, 0.67% for Manufacturing sector but Service sector lost by 3.57% whereas Financial sector had gained by 29.65%.

C. CAR of Target Companies

• The median values of event window and pre event window were positive i.e. CAR (-11, +11) for 0.27% and CAR (-180, 0) for 6.88% while post event window showed negative return (-7.13%) although these values are having less than the average values for the same event window period.

• The event window (-11, +11) showed loss of value by 3.44% for primary sector, 0.79% for manufacturing sector, while Service sector gained by 2.10% and companies from Financial sector registered gain of 1.78%.

• The pre event window i.e. CAR (-180, 0) the shareholders of target companies lost by 0.67% for Primary sector while shareholders of Manufacturing, Service and Finance sectors had shown gain of 9.32%, 7.00% and 15.35% respectively.

• The post event window noticed reverse trend compare to pre event window as Primary sector gained by 0.68% whereas Manufacturing, Service and Finance sectors had shown loss of 9.28%, 6.70% and 15.07% respectively.
D. **CAR of Indian and Foreign Companies:**

- The average values of event window and pre event window were negative (-0.21% and -2.2) while post event window showed positive return (1.82%) for Indian companies and same trend was also noticed for foreign companies i.e. event window (-0.08), pre event window (-4.86%) and post event window (4.6%).

- Companies from India showed loss of value by 3.16% for Primary sector, 0.91% for Manufacturing sector, while gained by 1.31% in Services sector but companies from Financial sector registered loss of 0.33% in event window. Whereas foreign companies gained for Primary and Service sectors by 0.59% and 1.79% but Manufacturing and Finance sectors shown loss by 1.48% and 1.81% respectively.

- In pre event window the shareholders of Indian acquiring companies lost by 19.93% for Primary sector, 4.05% for Manufacturing sector and 25.76% for Finance sector while shareholders of Service sector had gained by 7.59%. However, foreign companies lost by 10.52% in Manufacturing sector and 53.38% in Finance sector whereas shareholders shown gain for Primary, and Service sectors by 5.11% and 7.73% respectively.

- In post event window explained reverse trend compared to pre event window for foreign and Indian companies as Primary and Service sectors registered lost by 6.88% and 7.64% respectively but Manufacturing and Finance sectors noticed profit by 9.97% and 53.84% respectively for foreign companies. Whereas Indian companies noticed gain for Primary, Manufacturing and Finance sectors by
17.88%, 3.7% and 25.86% respectively while Service sector had lost by 7.59%.

E. Measurement of Combined Value

- The median values of event window and pre event window were positive return i.e. (0.09% and 6.45%) while post event window showed negative return i.e. -6.11.
- The event window showed loss of value by 7.94% for Primary sector, 0.6% for Manufacturing sector, and 0.6% for Finance sector while gained by 2.07% notice in Services sector.
- In pre event window, highlighted loss of value for Primary and Finance sectors by 16.1% and 19.88% while Manufacturing and Service sector noticed gain by 5.27% and 13.54% respectively.
- In post-event window explained opposite trend compared to pre event window as Primary and Finance sector noticed gain of value i.e. (14.26% and 20.88%) while Manufacturing and Service sectors noticed loss of value by 4.72% and 11.67% respectively.

The examination of behavior of CAR during pre and post event period suggests that market behaviour appears to be consistent with semi-strong form of market efficiency and that market does not reward the M & A. However, this remains inconclusive, as in case of financial services the shareholders have gained. This may be due to infirmities in the market. Hence, it would be safe to infer that market penalizes the takeover bid, as it does not put value on such activity.
7.1.5. Case studies

A. An aborted takeover of L&T by RIL
   - RIL and L&T case appear to refute hubris hypothesis but it may be so due to weak regulatory regime and inefficient market institutions, which have been utilized effectively by the RIL management.

B. Case of Hutch takeover by Vodafone
   - It was surprising to note that the value of wealth from the date of events decreased in maximum event windows for Vodafone. This may be due to the low profile of HTI in telecom business when compared to Vodafone.

C. Case study of RIL and Bharti AXA Life Insurance
   - After reviewing, the third case of RIL and Bharti AXA Life Insurance Company showed positive CAR in all the event windows. The role of CCI in this process is highly significant.

7.2. Recommendations:

The outcomes of the reform initiated in different sectors have been to introduce new laws and setting-up of regularity institutions. Besides, liberalizing the extant regulations which in own way have created more ruffles then ironing-out the inefficiency in the market.

To ensure efficient and transparent working of the market for corporate control following suggestion are offered.

- M and A remains a matter of multiple regulatory agencies such as, CCI, SEBI, Court and Government of India which are require to be approach for
multiple clearance and reporting. Therefore, there is a need to have one
window clearance for M & A, which are not hostile.

- Tax law needs to be modified such that retrospective tax penalty is not
  imposed in M & A particularly when share-to-share deal is there.

7.3. Future Areas of Research

Since not many research efforts are seen in the area of M & A, it offers vital
scope for further research. Following are the areas in Indian setting in future
researchers.

- Corporate governance and M & A
- Cultural integration in M & A
- Corporate disclosure and M & A
- Analysis of value creation in domestic and cross-border M & A and their
disparities, if any
- Relationship between outward FDI and cross-border M & A.
- Analysis of companies who have multiple cross-border M & A and their
effects on profit and turnovers at company level and group level.