The Indian economy has undergone a major transformation and structural change during the past decade or so as a result of economic reforms introduced by the Government of India since 1991 in the wake of policy of economic liberalization and globalization. In this liberalized era, size and "core competence" have become the focus of every business enterprise. Naturally, this requires companies to grow and expand in businesses that they understand well. Thus, leading corporate houses have undertaken a massive restructuring exercise to create a formidable presence in their core areas of interest. Mergers and acquisitions (M&As) is one of the most effective methods of corporate restructuring and has, therefore, become an integral part of the long-term business strategy of corporate. This chapter deals with following three areas of research.

Today, the business environment is rapidly changing with respect to competition, products, people, process of manufacture, markets, customers and technology is embedded in all these functions. It is not enough if companies keep pace with these changes but are expected to beat competitors and innovate in order to continuously maximize shareholder value. Inorganic growth
strategies like mergers, acquisitions, takeovers and spinoffs are regarded as important engines that help companies to enter new markets, expand customer base, cut competition, consolidate and grow in size quickly, employ new technology with respect to products, people and processes. These are all post liberalization effect. Before 1991 it was not the same.

In earlier years, India was a highly regulated economy. Though government participation was overwhelming the economy was controlled in a centralized way by government participation and intervention. In other words, economy was closed as economic forces such as demand and supply were not allowed to have a full-fledged liberty to rule the market. There was no scope of realignments and everything was controlled. In such a scenario, the scope and mode of corporate restructuring was very limited due to restrictive government policies and rigid regulatory framework. These restrictions remained in vogue, practically, for over two decades. These, however proved incompatible with economic system in keeping pace with the global economic developments if the objective of faster economic growth were to be achieved. The Government had to review its entire policy framework and under the economic liberalization measures removed the above restrictions by omitting the relevant sections and provisions.

The real opening up of the economy started with the industrial policy, 1991 whereby ‘continuity with change’ was emphasized and main thrust was on relaxations in industrial licensing, foreign investments, and transfer of foreign technology etc. For instance, amendments were made in MRTP Act, within all restrictive sections discouraging growth of industrial sector. With the economic liberalization globalization and opening up of economies, the Indian corporate sector started restructuring to meet the opportunities and challenges of competition.

The economic and liberalization reforms, have transformed the business scenario all over the world. The most significant development has been the integration of national economy with ‘market-oriented globalized economy’. The multilateral trade agenda and the world trade organization (WTO) have been facilitating easy and free flow of technology, capital and expertise across the globe. A restructuring wave is sweeping the corporate sector the world over, taking within its fold both big and small entities comprising old economy businesses, conglomerates and new economy companies and even the infrastructure and service sector. From
banking to oil exploration and telecommunication to power generation petrochemicals to aviation, companies are coming together as never before. Not only this new industries like e-commerce and biotechnology have been exploding and old industries are being transformed. Never have the mergers and acquisitions been so popular, from all angles – policy considerations, businessmen’s outlook and even consumers’ point of view. Courts too have taken empathic view towards mergers. The classic example is the remark by Supreme Court in HLL – TOMCO merger case; where in the court had stated that in this era of hyper competitive capitalism and technology change industrialists have realized that mergers/acquisitions are perhaps the best route to reach a size comparable to global companies so as to effectively compete with them. The harsh reality of globalization has dawned that companies which cannot compete globally must sell out as an inevitable alternative.

Today, conglomerates are being formed by combining businesses. Where synergies are not achieved, demergers do take place. Demergers connote division of business and such division could mean division of line of activity or division of undertaking or division of territories. Demergers might take place to facilitate family arrangements of promoters controlling an enterprise. They have also become the order of the day. With the increasing competition and the economy, heading towards globalization, the corporate restructuring activities are expected to occur at a much larger scale than at any time in the past. Corporate restructuring play a major role in enabling enterprises to achieve economies of scale, global competitiveness, right size and host of other benefits including reduction of cost of operations and administration. The process of restructuring through mergers and amalgamations has been regular feature in developed and free economy nations like Japan, USA and European countries with special reference to UK where hundreds of mergers take place every year. Mergers and acquisitions of multinational corporate houses across the borders has become a normal phenomenon. The present stand of Government is that monopoly is not necessarily bad provided market dominance is not abused. In this era of capitalism and technological advancements, industrialists have realized that mergers/acquisitions are perhaps the best route to reach a size comparable to global companies so as to effectively compete with them. The harsh reality of globalization has ultimately dawned and companies that cannot compete globally change hands.
The M&A activity has its impact on various diverse groups such as corporate management, shareholders and investors, investment bankers, regulators, stock markets, customers, government and taxation authorities, and society at large. Therefore, it is not surprising that it has received considerable attention at the hands of researchers world over. A number of studies have been carried out abroad especially in the developed capital markets of Europe, Australia, Hong Kong, and US. These studies have largely focused on different aspects, viz., (a) the rationale of M&As, (b) allocation and redistribution role of M&As, (c) effect of takeovers on shareholders' wealth, (d) corporate financial performance, etc. Some studies have also been carried out to predict corporate takeovers using financial ratios. M&As, being a new phenomenon in India, has not received much attention of researchers. In fact, no comprehensive study has been undertaken to examine various aspects especially after the Takeover Code came into being in 1997. This study has been undertaken to fill this gap.

The popularity of acquisitions is reflected also in the wide interest mergers and acquisitions have received within the research community. The biggest problem regarding M&As, as identified by a large majority of researchers, is that on average their effect on the acquiring firm's post-acquisition performance ranges from slightly negative to zero. Likewise, acquiring firms' directors are dissatisfied with the performance of around 50% of their acquisitions. Existing research has been unable to find specific factors that improve acquisition performance, although multiple have been proposed. Meta-analysis of the four most common factors suggested by earlier research, and found that none of them has a significant effect on post-acquisition performance.

These results do not, however, imply that further attempts to explain M&A performance is a futile or useless attempt. From a research perspective they actually present an interesting dilemma, since the amount of acquisitions continues to increase despite their obvious challenges and lack of observed benefits. It is insufficient to state only that the average post-acquisition

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1 comprehensive review, e.g. Parvinen, 2003
3 Schoenberg, 2003
4 King et al. (2004)
performance gain is zero, since “this mean hides a large variance in acquirer gains”\(^5\). Interestingly, for example, if only the worst performing 2\% of all acquisitions undertaken between 1998 and 2001 are excluded, the aggregate shareholder returns during this time are positive\(^6\). This indicates that there are still undiscovered factors that contribute to acquisition performance. King had also one finding of the paper who conclude that “researchers simply may not be looking at the „right‟ set of variables as predictors of post-acquisition performance”\(^7\).

Some recent studies have been able to determine some of these variables. Compared to most extant research, these studies have taken a somewhat different perspective to acquisitions. Instead of attempting to find generic predictors of post-acquisition performance that are applicable to all acquisitions, they instead focus on determining if some sub-groups of the whole set of acquisitions exhibit above-average performance. For instance, it has been shown that acquisitions where the target is a private company\(^8\) and acquisitions involving Internet companies\(^9\) can create above-normal returns. This paper takes a similar approach by focusing on acquisitions of divested assets as a subgroup of all acquisitions. The extant acquisition research does not typically make a distinction between acquisitions of full companies compared to acquisitions of divested assets that other firms are selling. Yet, in most cases when a company divests some of its assets, they are actually sold to some other firm, and it is likely that divestitures have somewhat different characteristics as acquisition targets compared to stand-alone firms. The idea behind this study is to find out if these differences are also reflected in the post-acquisition performance of the company buying the assets.

The relatively few existing studies regarding acquisitions of divested assets are mostly from the field of corporate finance. Results from important studies show that these acquisitions range from value neutral\(^10\) to positive\(^11\) for the acquirer shareholders. However, there is also evidence of significant positive abnormal returns when the transaction price is revealed at time of the

\(^5\) Capron and Pistre, 2002: 781
\(^6\) Moeller, Schlingemann and Schultz, 2005
\(^7\) et al. (2004: 197)
\(^8\) Capron and Shen, 2007
\(^9\) Uhlenbruck, Hitt and Semadeni, 2006
\(^10\) Datta, Iskandar-Datta and Raman, 2003
\(^11\) Jain, 1985; Rosenfeld, 1984
acquisition announcement\textsuperscript{12} and when the buyer and the seller operate in related businesses\textsuperscript{13}. Acquisitions of subsidiaries, a special case of divestments, have also been shown to yield significantly positive returns to bidders.\textsuperscript{14}

The Indian IT and ITES companies already have a strong presence in foreign markets; however, other sectors are also now growing rapidly. The increasing engagement of the Indian companies in the world markets, and particularly in the US, is not only an indication of the maturity reached by Indian Industry but also the extent of their participation in the overall globalization process.\textsuperscript{15}

<table>
<thead>
<tr>
<th>Acquirer</th>
<th>Target Company</th>
<th>Country Targeted</th>
<th>Deal Value (SmI.)</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tata Steel</td>
<td>Corus Group plc</td>
<td>UK</td>
<td>12,000</td>
<td>Steel</td>
</tr>
<tr>
<td>Hindalco</td>
<td>Novelis</td>
<td>Canada</td>
<td>5,982</td>
<td>Steel</td>
</tr>
<tr>
<td>Videocon</td>
<td>Daewoo Electronics Corp.</td>
<td>Korea</td>
<td>729</td>
<td>Electronics</td>
</tr>
<tr>
<td>Dr. Reddy's Lab.</td>
<td>Betapharm</td>
<td>Germany</td>
<td>597</td>
<td>Pharmaceutical</td>
</tr>
<tr>
<td>Suzlon Energy</td>
<td>Hansen Group</td>
<td>Belgium</td>
<td>565</td>
<td>Energy</td>
</tr>
<tr>
<td>HPCL</td>
<td>Kenya Petroleum Refinery Ltd.</td>
<td>Kenya</td>
<td>500</td>
<td>Oil &amp; Gas</td>
</tr>
<tr>
<td>Ranbaxy Labs.</td>
<td>Terapia SA</td>
<td>Romania</td>
<td>324</td>
<td>Pharmaceutical</td>
</tr>
<tr>
<td>Tata Steel</td>
<td>Natsteel</td>
<td>Singapore</td>
<td>293</td>
<td>Steel</td>
</tr>
<tr>
<td>Videocon</td>
<td>Thomson SA</td>
<td>France</td>
<td>290</td>
<td>Electronics</td>
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<tr>
<td>VSNL</td>
<td>Teleglobe</td>
<td>Canada</td>
<td>239</td>
<td>Telecom</td>
</tr>
</tbody>
</table>

(Source: Mergerstate 2010)

\textsuperscript{12} Sicherman and Pettway, 1992
\textsuperscript{13} Sicherman and Pettway, 1987
\textsuperscript{14} Fuller, Netter and Stegemoller, 2002
\textsuperscript{15} Mergerstate 2010
1.1 Mergers and Acquisitions – The World Trend

M&A has a very long history; it has been existed at least since the 1900s\textsuperscript{16}. However, the saliency of M&A has increased considerably during the past two decades as numerous US firms have adopted M&A as a common corporate strategy to expand their organizational capabilities and to take better competitive market positions\textsuperscript{17}. This propagation continued during the 1990s, and beyond, including 7,809 M&A transactions with a total value of $1.19 trillion in the United States in 1998 alone\textsuperscript{18}. That trend is consistent in last decade also.

The global trend basically driven by trends of developed countries. It is clear from the beside chart that overall volume of the world that before recession of the year 2008, trend was upward. The volume of M&A was reached to $ 4,346 in 2007, from $ 1,345 billion. Out of $ 4,346 billion, the

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure2.png}
\caption{Global M&A by region}
\end{figure}

40% contribution was from developed countries of Europe, 30% from USA and rest was from Asian countries. The same trend is observed in the cross border M&A volume. From total global volume average 40% to 45% is contributed from cross border mergers and acquisitions. Further, trends in US, Europe, BRIC economies and in India can be gauged for better clearance\textsuperscript{19}.

\begin{flushright}
(Source: Mergerstate 2010)
\end{flushright}

\textsuperscript{16} Gaugan, 1999
\textsuperscript{17} Buono and Bowditch, 1989, Sally Raid, 2007
\textsuperscript{18} Guaghan, 1999
\textsuperscript{19} Mergerstate, 2010
1.1.1 Trend in USA

Trends in merger activity analyze historical trends in merger activity especially USA. USA with its well developed capital markets offers opportunities to identify potential targets among others by the stock price as well as provision of funds for rapid industry consolidation. In the decade of 1990’s however global competition, deregulation as well as complex and rapidly changing technologies have been the motivations for merger activity. The experience of US in 1980’s and 1990’s shows that mergers were prevalent in industries experiencing rapid technological change, deregulation, price stocks or increased foreign competition. Regulators are looking beyond the competitive effects of mergers in terms of size of the transaction to potential for improving operating efficiency.

| 1897 – 1904 | First Wave | Horizontal consolidation, Survival of the fittest |
| 1916 – 1929 | Seconded Wave | Increasing Concentration |
| 1965 – 1969 | Third Wave | Conglomerate Era |
| 1981 – 1989 | Forth Wave | The Dumping Decade |
| 1990 – 2009 | Fifth Wave | The Era of Mega Mergers |

(Source: Mergerstate, Feb. 2010)

The first wave had started in US long back in late 18th century with primary focus on survival or horizontal consolidation. With development, M&A was used as increasing market concentration. In post world war, USA was established as super power nation replacing UK. Therefore, the era of conglomerates was started in late 1960s. The fourth wave can be referred as dumping decade when USA was hot spot for goods and services of all worlds. The last segregation of M&A wave can be alleged from 1990 to 2009 where mega deal had taken place. The field of mergers and acquisitions is saturated and used for other purposes like tax benefit, corporate restructuring, leverage benefit, cost advantage etc.
1.1.2 Trend in Europe
The decade of 1990’s saw a sharp increase in cross border mergers as creation of first of single market and then single currency encouraged companies to become more international. It has already seen above that trend of mergers and acquisitions in Europe go hand in hand with USA.

In the year 2007, the total contribution of Europe in global volume of M&A was nearly 40%. Before the year 2003, the trend of mergers and acquisitions can be presented as follows. It is clear from the below graph that enormous growth in total value of deals in the year 1999 because of establishment of historical union of territory with common currency. As per the research of Grant Thornton in the year 2009, overall 37 per cent of businesses in the region expect to make acquisitions in the next three years, up from 30 per cent last year. A survey conducted by Institute of Mergers, acquisitions and alliances (MANDA) reflected that there were some notable differences across individual countries, for example Poland showed the greatest increase (up 29 per cent to 59 per cent) whereas more modest rises were recorded in France, Germany and Sweden, and fewer respondents in Denmark and Italy anticipated making an acquisition in the next three years (down to 41 per cent and 20 per cent respectively). For European businesses, access to new geographic markets was considered the most important driver behind their acquisition plans followed by a desire to build scale. Commenting on the survey, Karine Curtis,

(Source: Thomson financial security data, 2007)

20 Thomson security data, 2007
21 Grand Thornton, 2009
partner at Grant Thornton, France, remarks, “The current strength of the euro against the pound and the dollar is encouraging companies to consider cross-border acquisitions. I am working with a number of businesses who believe now is an opportune time to make strategic acquisitions in the UK.”

“The current strength of the euro against the pound and the dollar is encouraging companies to consider cross-border acquisitions.” The above figure of number of deals shows the overall trend of the last decade of the mergers and acquisitions in Europe.

1.1.3 Trend in BRIC economies

Overall, businesses in the less established M&A markets of Brazil, Russia, India and mainland China show the biggest changes since our last study, with only 41 per cent of companies intending to make acquisitions in the next three years compared to 59 per cent in the year 2009. Mainland Chinese companies in particular, which showed a burst of enthusiasm for deal making in the year 2009, have revised their plans in the new climate, with only 41 per cent now looking for targets as against 67 per cent previously. Indian organisations are also much less acquisitive (down to 30 per cent from 46 per cent), although Brazilian and Russian companies are only marginally less likely to be seeking targets than last year. Nonetheless, even among mainland Chinese and Indian companies there remain strong strategic factors encouraging them towards transactions. In particular, acquisitive businesses in the BRIC economies are increasingly inclined to consider cross-border transactions, up from 17 per cent to 22 per cent. Reflecting on the findings, Pankaj Karna, partner at Grant Thornton, India, notes, “For Indian businesses with cash resources or ready access to funding, cross-border M&A offers the opportunity to progress up the value chain by acquiring established brands or new technology.”

Mainland China and India also show the biggest fall in businesses planning a public listing in the next three years. Whereas a year ago 60 per cent of PHBs in mainland China and 37 per cent in

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22 Karine Curtis – Grand Thornton, 2009
23 Grand Thornton, IBR, 2009
24 Grand Thornton, IBR, 2009
India were bullish about listings, this year the figures have dropped to 20 per cent and 22 per cent respectively\(^\text{25}\).

1.2 Trend in India
Indian companies have been active and visible players within this new M&A trend. According to Accenture’s analysis of data from Thomson Financial, as many as 543 M&A deals were completed by Indian companies both at home and abroad in 2007, with a total value of US$30.4 billion. This represents a compound annual growth rate (CAGR) of 28.3 percent in deal value over the period 2000-2007. The figure 4 illustrates the increase in both the number and size of deals over this period. Beyond the headline-grabbing megadeals like Tata-Corus, there has been a broader trend of Indian companies of all sizes using M&A as a vehicle to achieve their ambitions for growth. If we exclude mega-deals (with a value of US$1 billion or above), the number of deals by Indian companies in the 5 years up to 2008 has increased at 20 percent (CAGR), while the value of these deals has increased by over 15 percent (CAGR). Indian deal sizes are relatively small by global standards and mega-deals make a significant impact on India’s M&A trends.

Figure 4: M&A transactions by Indian companies 2000-07

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\(^{25}\) Grand Thornton, IBR, 2009
In fact, the average size of all M&A transactions by Indian companies in 2007 (including five mega-deals) was about US$56 million, compared to a global figure of over US$100 million. Cross-border acquisitions made up nearly three quarters of the total value of M&A deals by Indian acquirers in 2007, and the majority of those transactions were in developed economies rather than in developing economies - US$20 billion versus US$2.6 billion respectively in 2007\(^26\).

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\(^{26}\) Mergerstate, 2009
However, it is clear from the figure 6 that increasing importance of emerging economies is validated by the relative growth rates; the volume of deals in developing economies grew at 23.8 percent CAGR over 2000-2007, compared to a rate of 19.6 percent for developed economies. India does not currently have a sovereign wealth fund, (a state owned investment organization that invests in other countries), although discussions are now underway to evaluate this option seriously. India is the world’s eighth largest holder of foreign assets and fourth largest holder of foreign exchange reserves, yet these reserves are still being invested in low-risk OECD government securities and bank deposits yielding less than five percent. If India does decide to join the world’s dozen existing sovereign wealth funds, we can expect the country to have a greater impact on the global trends and dynamics of M&A. Looking forward, following India’s slight dip in M&A activity in the second half of 2007, most experts predict continued strong M&A activity through 2008, with a marginal shift away from mature markets and towards Asia-Pacific markets.

The basic reason behind this is today mergers and acquisitions have emerged as one of the most effective methods of such corporate restructuring and have therefore, become an integral part of the long term business strategy of corporate in India. Three distinct trends can be seen in the mergers and acquisitions activity in India after the reforms in 1991.

The first wave can be seen as the wave of consolidation within the Indian companies tried to prepare for the aggressive competition. The Second wave is all about the foreign acquisitions.

The last wave that we have been witnessing about Indian companies venturing abroad and making acquisitions in developed and developing countries. The last wave is also witnessed the maturity of the sector where M&A is used as multiple purpose like Corporate restructuring, tax advantage, market concentration, leverage benefits or cost advantage. It is very much clear that Indian companies have significantly increased Mergers and Acquisitions in

<table>
<thead>
<tr>
<th>Table 3: Merger Waves in India</th>
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</thead>
<tbody>
<tr>
<td>First Wave</td>
</tr>
<tr>
<td>Second Wave</td>
</tr>
<tr>
<td>Third Wave</td>
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</tbody>
</table>

27 Thomson Security data, 2009
28 Journal for Mergers & Acquisitions, HBR, 2008
recent periods in terms of cross border acquisitions. Indian M&A transactions are primarily driven by the desire for growth. Indian companies are leveraging their low-cost advantage to create efficient global business models; they are seeking entry into fast-growing emerging markets and market-share in profitable developed economies; they are looking to augment their knowledge, reach and capabilities through acquisitions of companies for their brands, technology, and talent and product portfolios. Moreover, the competition to achieve these benefits is intense, heightening the need for speed.

1.3 About the Research

It is apparent that the mergers and acquisition sector is one of the crucial for any economy. Therefore, it is really essential to have complete knowledge about it. This empirical study is basically a step towards understanding mergers and acquisitions sector at micro as well as macro level. The major objective of the study is to conduct in depth analysis of mergers and acquisitions sector in India in recent times. The objective is broadly categorized in five different sub objectives. Firstly, it study would be incomplete unless trend analysis in detail is conducted. In this research project the trend analysis is conducted in detail i.e. the trend for last 20 years is evaluated by two ways. That is the year wise analysis and sector wise analysis. With this trend analysis one can get an idea about the most attractive sector for the mergers and acquisition. As such it is indeed one of the most preferred ways to exercise corporate restructuring process or to enter in to new market or to implement diversification process.

Secondly, the study cannot be concluded unless the post merger long run impact is measured. In this study post mergers impact is measured for three years before the merger and three years after the merger for 30 samples from the different industries with help of different measures for commenting on liquidity, profitability, leverage and the different activities of the organization. Total six years analysis is done based on different measures of Management accounting.

Thirdly, impact on shareholders wealth is analyzed with help of different statistical tools. Since, the shareholders are the main owners of the organization and their long term impact on investment would be measured by the second objective i.e. analyzing profitability impact of the
organization. But that is not enough. For shareholders it is equally necessary to have vision on short term impact on shareholders' wealth. Shareholders' wealth can be divided into two ways: i.e. price of the share in market and dividend earned per share. The net profitability increases will be measured in the sample study in second sub objective but short run gain from the market is equally necessary. It was analyzed by taking sample of 30 recent mergers. Different statistical tools are applied to get that based on market return and the script return. Thirdly, the approach of corporate was evaluated based on 50 samples of mergers and acquisitions managers and consultants. A detailed questionnaire was drafted to have exposure about the different approaches that corporate uses for valuation as well as following the regulations for mergers and acquisitions. Finally, the procedural aspect of mergers and acquisitions from the strategic angle was evaluated and commented on financial synergy based on a case study of Nirma and Core group.

Thus, the research project would produce insight for future managers and consultants of mergers and acquisitions. This will give detail idea about handling the process. Apart from this, taxation aspects, legal aspects and accounting aspects of mergers and acquisitions are covered in this research.