Executive Summary

Indian economy embraced the open market system of Liberalisation, Privatisation and Globalisation in the year 1991. There has been no stopping the growth of the country, since then. The Gross Domestic Product of India has seen a steady increase over a period of time. Other economic indicators also have shown a positive trend. India ranks amongst the first three nations in terms of Foreign Direct Investments. The overall investment climate of the country has been positive in the last one and a half decade.

In this light, large scale Mergers and Acquisition activity has been recorded in India since the year 2000. The year 2007 was record breaker year for Mergers and Acquisitions in India, when deals worth around US $ 69.4 billion were struck. After, the global recession in the year 2008, M&A activity has once again gained pace. The year 2010 witnessed M&A activity of US $ 67.2 billion in India. Globally, 23000 deals were struck with a value of US $ 4.7 trillion. India has been ranked as the twelfth most favoured nation for M&As in the year 2010. Inbound as well as outbound deals have increased manifold in the recent years. Indian Companies are on the global shopping spree! Many Indian companies have acquired giant conglomerates the world over. A few prominent examples are the acquisition of Corus, one of the largest steel producing companies in the UK, by the Tata group, acquisition of Novelis of Canada by Hindalco, and ONGC’s Acquisition of Imperial Energy (A UK based firm operating in Russia).

Mergers and Acquisitions are strategies through which companies can grow and expand. Increasing size, gaining through economies of scale, entering new markets, acquiring new technology, increasing research and development strength, increasing product line etc. are a few reasons why companies resort to M&As.

Indian companies are riding on the high waves of a rapid economic growth, which further increases the need for speedy expansion. This need for fast growth has been further fuelling the M&A activity in India.

There are several theories behind M&As which have been globally accepted. The most important one is the theory that M&As increase the efficiency of the firms under
consideration. M&As are considered to be positive activities which can lead to growth, synergy and market power. M&A activities are taken up with the assumption that shareholders’ wealth will be enhanced. However, it has been noticed in many instances that M&As do not create any positive value for the shareholders or the companies under consideration. There are many studies which prove that M&As do not create any value for the acquiring companies and sometimes they negatively impact the performance of the firms. This type of conflicting literature intrigued the researcher and the researcher was motivated to take up this study. This study was taken up in order to understand the dynamics of M&A deals in the Indian economy.

This study was taken up with the following objectives:

- To study the change in the post merger performance of selected Merging Indian companies.
- To study the strength of the change in performance of the selected companies.
- To understand the impact of certain independent parameters such as year of merger, industry in which the merger has taken place, Pre merger performance and percentage change in sales on the post merger performance.
- To understand the trend of M&As in the Indian economy.

This data used in this study was extracted from the Prowess Database of CMIE, annual reports of Companies, CMIE journals, RBI Manuals and website, Union Budget and Economic Survey, 2011, Department of Industrial Policy and Promotion etc.

All ‘A’ group companies listed on the Bombay Stock Exchange which undertook the merger process between the years 01/04/2000 and 31/03/2006 were considered for the study. The performance was analysed using 3 years pre merger and 3 years post merger data for the selected companies.

Operating performance parameters were used for the comparision of pre and post merger performance of the selected companies.

Data was analysed using Descriptive statistics and Non parametric Matched Sample Pair test of Wilcoxon. The normality of data was checked using the Kolmogrov-Smirnov and the Shapiro-Wilk tests. The relative scale of importance of the parameters was found out
using the pairwise comparison method of decision making. The strength of change in the
performance of the companies was ascertained using this method.
Regression analysis was used to find out the effect of the certain independent variables on
the performance of the companies.

The major findings of the study were:

1. It was found that on the whole, there was some change in the post merger
performance of the companies. This change was mostly found to be significantly
positive. In some cases for the categorized samples, a positive change was
recorded but, this change was not significant. However, no significant negative
change in post merger performance was observed.

2. According to the pairwise comparison method of decision making, the Return on
Net Worth and the Return on Capital Employed emerged as the most important
performance parameters.

3. Upon running the regression, it was found that the post merger increase in sales
was the most important independent variable which affected the post merger
performance of the firms.

The importance of M&A as strategic tools for growth and expansion is ever increasing.
In India, the mergers and acquisition activity has been gaining lot of importance since the
last decade. The positive economic trends have also added flavor to the deals. However,
the merger and acquisition phase in India is still in the Introductory- growth phase.
Several changes are taking place in the government norms regarding mergers and
takeovers. Indian companies also need to understand that the process of M&A is a
complex one. The conclusion of the deal is just the first part of the merger process. The
post merger integration between the merging and acquired company is very important.
India is a modern emerging economy and a lucrative investment destination for foreign
investors and corporates. Hence, the scope for M&A in India is very bright.