MERGERS & ACQUISITIONS – A TOOL FOR SUSTAINABLE GROWTH - A GENERAL ANALYSIS

Ms.Monika Bhatia

Assistant Professor Ansal University, Gurgaon (Haryana)

ABSTRACT

Mergers and acquisitions (M & As) have been a very important market entry strategy as well as expansion strategy. Mergers & Acquisitions is an effective strategy to expand a business, acquire global footprint and increase shareholder's value. The present paper examines the positive impact of mergers and acquisitions on the efficiency and growth of the organizations. The present paper seeks to analyze the impact of top mergers & acquisitions that took place in India during the period 2009-2012. The study is entirely based on the secondary data and literature. The related data and literature have been collected from the various articles published in distinguished reputed Journals and leading newspapers, like Economic Times & Business Standard. The various books related to finance and management of national and foreign writers have also been considered.

INTRODUCTION:

An entrepreneur may grow its business either by internal expansion or by external expansion. In the case of internal expansion, a firm grows gradually over time in the normal course of the business, through acquisition of new assets, replacement of the technologically obsolete equipments and the establishment of new lines of products. But in external expansion, a fir acquires a running business and grows overnight through corporate combinations. These combinations are in the form of mergers, acquisitions, amalgamations and takeovers and have now become important features of corporate restructuring. They have been playing an important role in the external growth of a number of leading companies the world over. They have become popular because of the enhanced competition, breaking of trade barriers, free flow of capital across countries and globalization of businesses. In the wake of economic reforms, Indian industries have also started restructuring their operations around their core business activities through merger, acquisition and takeovers because of their increasing exposure to competition both domestically and internationally.

Corporate India is waking up to the new millennium imperative of mergers and acquisitions in a desperate search for a panacea for facing the global competition. This is hardly surprising as stiff competition is, in a sense, implicit in any bid to integrate the national economy with the global economy. The ongoing process of liberalization has exposed the unproductive use of capital by the Indian corporate both in public and private sectors. Consolidation through mergers and acquisitions (M & As) is considered one of the best ways of restructuring structure of corporate units. The concept of mergers and acquisitions is very much popular in the current scenario, so it is significantly popular concept, after 1990s, where India entered in to the Liberalization, Privatization and Globalization (LPG) era. The winds of LPG are blowing over all the sectors of the Indian economy but its maximum impact is seen in the industrial sector. It caused the market to become hyper-competitive. As competition increased in the economy, so to avoid unhealthy competition and to face international and multinational companies, Indian companies are going for mergers and acquisitions. Basically, a merger involves a marriage of two or more entities. Merger is defined as blending of two or more entity into a single entity. The shareholders of each blending entity will become the substantially the shareholders in the entity which is to carry on the blended entity. [1]

It is true that the terms Mergers and Acquisitions are used in a way that it seems, both are synonymous. But, the fact is that, there is a slight difference in the two concepts. In case of a Merger, two firms, together, form a new company. After merger, the separately owned companies become jointly owned and get a new single identity. When two firms get merged, stocks of both the concerns are surrendered and new stocks in the name of new merged company are issued. Generally, Mergers take place between two companies of more or less of same size. In these cases, the process is called Merger of Equals. But, in case of Acquisition, one firm takes over another and establishes its power as the single owner. Here, generally, the firm, which takes over, is the bigger and stronger one. The relatively less powerful smaller firm loses its existence after Acquisition and the firm which takes over, runs the whole business by its' own identity. Unlike Merger, in case of Acquisition, the stocks of the acquired firm are not surrendered. The stocks of the firm that are bought by the public earlier continue to be traded in the stock market. But, often Mergers and Acquisitions become synonymous, because in many cases, the big firm may buy out a relatively less powerful one and thus compels the acquired firm to announce the process as a Merger. Although, in reality an Acquisition takes place, the firms declare it as a Merger to avoid any negative impression.

Another difference between Merger and Acquisition is that, when a deal is made between two companies in friendly terms, it is proclaimed as Merger, even in case of a buyout. But, if it is an unfriendly deal, where the stronger firm swallows the target firm, even when the target company is not willing to bepurchased, then it is called an Acquisition.

The 1980's bore witness to a decade of aggressive mergers, acquisitions and takeovers. The mergers and acquisitions scenario is hotting up in India. According to Price water house Coopers, the value of M&A deals announced in the first six months of 2005 was $6.9 billion, compared to $2.9 billion in the first half of 2004, and more than the $5.2 billion in the whole of 2004. People who are eager to explain their system for making creamy profits by investing in common stock are concerning the corporate at cocktail parties. Fortunately, these bores go into temporary hibernation whenever the market goes down.

The "Corporate restructuring" is an umbrella term that includes mergers and acquisition, divestitures and liquidations and various types of battles for corporate control·The essence of corporate restructuring lies in achieving the long run goal of wealth maximization. This study is an attempt to highlight the impact of corporate restructuring through merger and acquisition on the shareholders value in the Indian context. Thus, it helps us to know, if merger and acquisition gains value for shareholders (both those who own the firm before the M&A and those who own the firm after the M&A), how these value gains have be created and achieved or failed.

Further, it will also focus on issues involving ownership and controls. This leads logically to the subject of leveraged buyouts. It was during 1980s that many of the new tools which made leveraged buyouts possible, including high yield or junk bonds, found favour.

Earlier M&A activities were largely restricted to IT and telecom sectors. They have now spread across the economy. As Businessworld recently reported, this is the fourth wave of corporate deal-making in India.

Review of Literature

A number of studies, research papers, articles, magazines and newspapers have been reviewed for the purpose of this study, which are listed in the Bibliography.

Andrade, G. Mitchell, M. and Stafford, E. (2001) [3] analyses through empirical research that mergers and acquisitions has revealed a great deal about their trends and characteristics over the last century. A profusion of event studies has demonstrated that mergers seem to create shareholder value, with most of the gains accruing to the target company.

Ghosh (2001) [4] outlined whether a merger is considered a financial success can depend on the benchmark Chosen. Sometimes the benchmark is the post-merger share price performance of other merging firms. Oftentimes the benchmark is whether the share price of the firm rose relative to an industry specific average or an all industry average. In other instances, revenue growth relative to recent trends appears to be the benchmark. The best benchmark might consist of a financial performance index based on a set of matched firms in the same industry that did not go through a merger event.

Bild, M., Guest, P. (2002) [5] **analyses that according to**traditional accounting method acquisitions result in a significant improvement in profitability. That also increases the shareholder's value.

Campa, J.M. and Hernando, I. (2004) [7] analyses that *the value generated to shareholders by the announcement of mergers and acquisitions involving firms in the European Union over the period 1998–2000. Cumulative abnormal shareholder returns due to the announcement of a merger reflect a revision of the expected value resulting from future synergies or wealth redistribution among stakeholders. Target firm shareholders receive on average a statistically significant cumulative abnormal return of 9% in a one-month window centred on the announcement date. Acquirers' cumulative abnormal returns are null on average.*

Palepu, Krishna G. and Jonathan Barnett, (2004) [6], Additional discussion of shareholder interests can be added to this case. Consider three groups of investors: 1. Mr. Hewlett. (Heir of co-founder), 2. Undiversified individual shareholders (perhaps inherited stock from family), 3. Institutional investors (mutual funds, pension plans), which represent 55%. How should mutual fund managers think about voting their shares? Based on the likely profitability of HP after the merger? Or based on the total value of the portfolio? Individual investors might consider the former, mutual fund managers the latter. Consolidation may be good for the PC industry, even as it reduces competitiveness in the medium term.

Frank T. Delaney, Sam C. Wamuziri, (2004) [8]outlinedthat one of the primary motives behind any strategic corporate decision is to maximize shareholder value. Strategic decisions for UK construction firms are made with the objective of maximizing the wealth of the company's shareholders. The overall results indicate that related construction mergers create wealth for shareholders of the target firms.

K. Ramakrishnan, (2010) [9] analyses that the acquired firm shareholders enjoy significant wealth gains of 11.6 per cent in a 21-day event window period, whereas the acquiring and combined firm shareholders do not do so. The redistribution of shareholder wealth on merger announcement in India seems to be following a pattern similar to that found in many other studies, though the quantum of gains to the target shareholders is larger. Managers may also have to factor-in the impact of the transfer of corporate control from the acquired to the acquiring firm on their assessment of shareholder wealth effects before announcing mergers.

Eddie Chi-man Hui, Ann Yu, Russell Lam, (2010) [10] indicates that on land acquisition announcement there is a significant positive price reaction. Also the market capitalization and debt-to-equity ratio of a firm is associated negatively with the level of abnormal price reaction. This study has identified significant positive abnormal stock return following the news of land acquisitions by developers in the context of Hong Kong. It has also documented negative correlation between abnormal stock return and two specific factors of a firm, namely, market capitalization and debt-to-equity ratio.

Peter Navarro, Philip Bromiley, Pedro Sottile, (2010) [11] The research suggests a variety of business cycle related practices dealing with staffing, capital investment, acquisitions and divestitures, capital financing, credit policy, pricing, and advertising may improve firm performance.

Greg Filbeck, Raymond Gorman, Diane Parente, Xin Zhao, (2010) [12] The results show that the Good to Great firms had unexceptional performance when compared to other benchmark lists of firms, on an ex-ante orex-post basis. From a management perspective, the advice that one might obtain from Good to Great should be carefully examined by managers before they implement it, only to find that great is not really so great. The paper explains methodological design and is valuable to managers who are seeking advice for opportunities that enhance shareholder wealth.

Grace Qing Hao, John S. Howe, (2011) [13] outlined that at least some one-step mergers could benefit shareholder's wealth from using the two-step structure. The authors provide several explanations for the continued use of one-step mergers. Although there is some literature on freeze outs of minority shareholders, no one has examined two-step mergers in comparison with one-step mergers.

BikramJit Singh Mann, ReenaKohli, (2011) [14] The study indicates that both domestic and cross-border acquisitions have created value for the target company shareholders on the announcement. Nonetheless, the analysis of cross-border effect as well as regression analysis makes it evident that value creation is higher for domestic acquisitions as compared to cross-border acquisitions due to the influence of various bid-specific factors. Thus, in India, bid-related variables are the fundamental drivers of the target's announcement wealth gains irrespective of the nationality of the acquirer.

V.K. Nangia, RajatAgarawal, Vinay Sharma, K. Srinivasa Reddy(2011) [15] (case study) Markets are becoming highly connective, accessible and communicative and reaching maturity at a very high phase. Acquisition is a choice to enhance the emerging and diversified markets. This case paper presents insights on Vedanta – Cairn India cross-border acquisition deal in Indian oil and exploration industry. This case synchronizes the gap between strategic planning and outcome of actions. The study exclusively evidences the reaction of stocks of all attached parties against acquisition announcement and compares with market performance.

Rajesh Srivastava, (2012) [16]summaries the perceived importance of brand equity factors to M&A decision making. Although this strategy carries a high price tag, it offers quick returns, including access to new markets or a stronger position in current markets. A study on the recent acquisition and mergers in the pharmaceutical industry indicates that there is consolidation in medical devices, generic and consumer health segment of healthcare industry. It studies two recent mergers which indicate that many times these decisions are based on emotion than rationality .Therefore, it is suggested that managers should be more rational while taking decisions on mergers or acquisition.

Jin-huiLuo, Di-fang Wan, (2012) [17]The paper finds evidence of a significant non-monotonic relationship between large shareholdings and firm level overinvestment. It also finds that state-owned firms and firms with more independent directors experience lower level of overinvestment. However, firms with more frequent meetings experience a higher level of overinvestment. The paper's findings indicate that concentrated ownership is not always a bad thing. The crux of the matter is how to induce large shareholders' incentive to monitor managers' opportunistic behaviors and restrict their motivation to expropriate minority shareholders.

Ioannis C. Thanos, Vassilis M. Papadakis (2012) [18] According to this book review, **r**esults indicate that accounting-based measures of performance have been used in 36 studies. Also, in these studies, there exists much heterogeneity with respect to the operationalization of M&A performance, the time lag, and the level of analysis.

NEED AND SIGNIFICANCE OF MERGERS & ACQUISITION

There are many reasons behind mergers and acquisitions. For instance, a particular company is very good at administration while some other company is good at marketing strategies or in operations. If the expertises of both are amalgamated, it produces synergy. A new company is formed in the process, which has a potential much higher and superior to what the individual companies previously had. In quantitative terms, the following benefits are achieved through mergers & acquisitions.

- The very first advantage of M&A is **synergy** that offers a surplus power that enables enhanced performance and cost efficiency. When two or more companies get together and are supported by each other, the resulting business is sure to gain tremendous profit in terms of financial gains and work performance.

- **Cost efficiency** is another beneficial aspect of merger and acquisition. This is because any kind of merger actually improves the purchasing power as there is more negotiation with bulk orders. Apart from that staff reduction also helps a great deal in cutting cost and increasing profit margins of the company. Apart from this increase in volume of production results in reduced cost of production per unit that eventually leads to raised economies of scale.
- With a merger it is easy to **maintain the competitive edge** because there are many issues and strategies that can e well understood and acquired by combining the resources and talents of two or more companies.
- A combination of two companies or two businesses certainly **enhances and strengthens the business network** by improving market reach. This offers new sales opportunities and new areas to explore the possibility of their business.
- With all these benefits, a merger and acquisition deal **increases the market power of the company** which in turn limits the severity of the tough market competition. This enables the merged firm to take advantage of hi-tech technological advancement against obsolescence and price wars. (19)

BEST MERGERS & ACQUISITION DEALS OF INDIA IN LATE 2009-2012

Reliance Industries shares jump after $7.2 billion BP deal

Shares in Indian energy major Reliance Industries bucked a subdued Mumbai market and rallied nearly 5% after a $7.2 billion deal with BP was seen as boosting the company's outlook

Fortis's Acquisition of Wockhardt Hospitals

In late 2009, Fortis Healthcare Ltd. (Fortis), a hospital chain established by the promoters of Ranbaxy Laboratories Limited (RLL), acquired 10 hospitals of the Wockhardt Hospitals Group (Wockhardt Hospitals), a subsidiary of Wockhardt Ltd. (Wockhardt) for Rs. 9.09 billion. The acquisition was hailed by experts as the biggest in the Indian healthcare industry. It was expected to benefit both Fortis and Wockhardt Hospitals. Through this acquisition, Fortis was able to expand its network of hospitals. Besides, the acquisition helped it have a presence in the southern, eastern, and western states of India thereby fortifying its position as one of the leading healthcare providers in India. It would also give Fortis access to Wockhardt Hospitals' management team. Moreover, it was also expected to help Fortis realize its ambition of owning 6,000 beds and becoming a US$ 1 billion revenue earning company by the end of 2012.

iGate acquires majority stake in Patni Computers

The acquisition will brought together two highly recognized information technology outsourcing companies with complementary industry verticals, and facilitate sustained long-term growth for the combined entity. The combination created a compelling go-to-market strategy with iGATE's differentiated iTOPS and outcomes-based business model augmented by Patni's delivery expertise and focus on micro-verticals.

iGATE realized multiple synergies from this combination:

- Opportunity to play in larger deals and more verticals
- Opportunity to cross-sell key solutions to a broader client base
- Opportunity to enhance win ratio based on selling combined strengths
- Efficiencies in operations and delivery services
- Economies of scale from consolidation of shared services

The aggregate price for the shares to be purchased in the open offer assuming full tender was USD 301 million. With the completion of the deal, the combined headcount of both the entities stood at 24,834 globally as on Sep 30, 2010.

GVK Power acquires Hancock Coal

GVK, which includes acquiring majority holding in coal resources and railway line and port infrastructure projects of Hancock Coal, offered the Hyderabad-based company option for long term coal supply contracts for the purchase of up to 20 million tonnes every year. This helped them increase 7,500 megawatts of power generating capacity

Essar Energy Stanlow Refinery Deal with Royal Dutch Shell

The acquisition raised Essar's capacity to 800,000 barrels a day.

Aditya Birla Group acquired Columbian Chemicals

Doubled their capacity from one million tons to two million tonnes. The acquisition helped the Aditya Birla Group to extend its geographical reach and in giving a foothold in North and South America, strengthening position in Europe and in emerging markets.

Mahindra & Mahindra acquired Ssangyong

M & M was able to strongly utilise the strong R & D capabilities of SsangYong. The fact that they have not been very good since 2003 in developing new models because of poor management was a problem. Mahindra was able to combine its strength in sourcing and marketing with SsangYong's strong capabilities in technology. Even SsangYong has been making operating profits since the beginning of 2010 and has even decreased costs as well as its workforce.

The Vedanta – Cairn acquisition

The acquisition was a landmark event for the global natural resources sector and for India. Cairn possesses an inevitable talent pool and Vedanta welcomed it to their family. They worked together and could double their current capacity.

Adani Enterprises took over Abbot Point Coal

For the year ended March 31, 2012, consolidated income increased by 49% to Rs 39,356 crore, against Rs 26,405 crore in the previous year. The consolidated EBIDTA rose by 24% to Rs 5,546 crore against Rs 4,465 crore in the last year, driven by higher contribution from coal trading & port business. The consolidated net profit stood at Rs 1,839 crore compared to Rs 2,476 crore in the last fiscal. Adani Enterprises maintained leadership position by importing 36 million MT of coal and captured 50% market share in FY12.

Aditya Birla Group plans to acquire Terrace Bay Pulp Mill in North America

The Group will be investing more than $250 million in a phased manner to convert the mill to produce dissolving grade pulp with a capacity of 2,80,000 tpa. Until the conversion, which is likely to happen in FY16, the mill will produce and sell paper grade pulp. The paper grade pulp mill should restart by October 2012.

Yatra.com plans to acquire 100% Stake in Travelguru.com

The acquisition of Travelguru will strengthen Yatra.com's position as the leading company in the Indian online travel space and substantially extend its position as the premiere aggregator and seller of domestic hotels and holidays in India, adding to its already strong offerings for flights and outbound holidays

CONCLUSION

Mergers & acquisitions are a very important tool of sustainable growth and development of organizations. The shareholders value of the target companies improves significantly in the post merger and acquisition period. The return on assets (ROA) of the target companies improves significantly in the post merger and acquisition period. There is an increase in Net operating profit after taxes of the target companies before and after M&A. The Discounted cash flows of the target companies improve significantly in the post merger and acquisition period. There is a reduction in cost, increase in market share and customer base, increased economies of scale.

Bibliography:

1. Pandey I. M. "Financial Management-Corporate Restructuring ", Edition-2005, Vikas publishing house New Delhi.

2. Kothari, C.R. "Research Methodology Methods and Techniques", WashwaPrakashan, 2011.

3. Andrade, G. Mitchell, M. andStafford, E. (2001) 'New evidence and perspectives on acquisitions', Journal of Economic Perspectives, vol. 15, pp. 103-120.

4. Ghosh, Aloke ,"Does Operating Performance Really Improve Following Corporate Acquisitions?" 7 Journal of Corporate Finance, (2001), 151-178.

5. Bild, M., Guest, P. (2002), "Do Takeovers Create Value? A Residual Income Approach on U.K Data, *ESRC Centre for Business Research*, University of Cambridge Working Paper No. 252

6. Palepu, Krishna G. and Jonathan Barnett , "Hewlett-Packard-Compaq: The Merger Decision." Harvard Business School Publishing, (2004).

7. Campa, J.M. and Hernando, I.(2004)." Shareholder value creation in European M&A". *European Financial Management*, 10, 47–81.

8. Frank T. Delaney, Sam C. Wamuziri, (2004) "The impact of mergers and acquisitions on shareholder wealth in the UK construction industry", Engineering, Construction and Architectural Management, Vol. 11 Iss: 1, pp.65 – 73

9. K. Ramakrishnan, (2010) "Redistribution of wealth on merger announcements in India", Management Research Review, Vol. 33 Iss: 8, pp.798 – 810

10. Eddie Chi-man Hui, Ann Yu, Russell Lam, (2010) "The impact of an announcement of land acquisition in auctions on real estate firms' stock return in Hong Kong", Property Management, Vol. 28 Iss: 1, pp.18 – 32

11 Peter Navarro, Philip Bromiley, Pedro Sottile, (2010) "Business cycle management and firm performance: Tying the empirical knot", Journal of Strategy and Management, Vol. 3 Iss: 1, pp.50 – 71

12.Greg Filbeck, Raymond Gorman, Diane Parente, Xin Zhao, (2010) "Good to great: lessons for managers", Management Research Review, Vol. 33 Iss: 12, pp.1187 – 1208

13. Grace Qing Hao, John S. Howe, (2011) "Does merger structure matter?", Managerial Finance, Vol. 37 Iss: 12, pp.1112 – 1136

14. BikramJit Singh Mann, ReenaKohli, (2011) "Target shareholders' wealth creation in domestic and cross-border acquisitions in India", International Journal of Commerce and Management, Vol. 21 Iss: 1, pp.63 – 81

15. V.K. Nangia, RajatAgarawal, Vinay Sharma, K. Srinivasa Reddy, "Conglomerate diversification through cross-continent acquisition: Vedanta weds Cairn India", Emerald Emerging Markets Case Studies Collection, (2011)

16. Rajesh Srivastava, (2012) "The role of brand equity on mergers and acquisition in pharmaceutical industry: when do firms learn from their merger and acquisition experience?", Journal of Strategy and Management, Vol. 5 Iss: 3

17. Jin-huiLuo, Di-fang Wan, (2012) "The non-monotonic governance effects of large shareholdings in Chinese listed companies: an overinvestment perspective", Corporate Governance, Vol. 12 Iss: 1, pp.3 – 15

18. Ioannis C. Thanos, Vassilis M. Papadakis (2012), The Use of Accounting-Based Measures in Measuring M&A Performance: A Review of Five Decades of Research, in Cary L. Cooper, Sydney Finkelstein (ed.) *Advances in Mergers and Acquisitions (Advances in Mergers & Acquisitions, Volume 10)*, Emerald Group Publishing Limited, pp.103-120

19. http://www.mergersandacquisitions.in