

An Empirical Study on Mergers and Acquisitions Trends in India**Ramanath HR**

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Abstract

The purpose of this research paper is to analyse the role of mergers and acquisitions in Indian context. This research paper aims at analysing the number of deals and the value of deals in India between 2013 and 2017. The study begins with the concept of mergers and acquisitions, benefits, drawbacks, types of mergers and acquisitions, and due diligence. The idea behind this research paper is to know whether the mergers and acquisition activities in India have shown upward trend or downward trend. It is also aimed at understanding the volume of these activities during the study period.

Key words: Mergers and Acquisitions, Merger Wave, Trends in Mergers and Acquisitions in India

Introduction

Over a period of time organisations have realised that they cannot win the market unless they become strong, versatile and viable. Competition is ever increasing and the complexities are growing every day. Therefore, the organisations have started combining themselves with a company that can offer competitive edge for both of them. The organisations have realised the importance of combination to achieve synergy. Such combinations are called mergers and acquisitions. The basic purpose of such arrangements is to boost the growth of the organisations, generate better economies of scale and increase returns to their shareholders.

History of Mergers and Acquisitions in India

Until 1988 the concept of Mergers and Acquisitions in India was not popular. Due to globalisation, promising economic trends, government policies, better performance of stock market, and the like attracted the attention of many organisations from different sectors to go for mergers and acquisition activities. Of late organisations have realised the importance of long term benefits of mergers and acquisitions. This led to the positive trends in mergers and acquisition activities. The organisations have seen the benefits of synergy reflected in the form of increased profits, reduction in expenses and reduction in overall cost of capital.

Meaning of Mergers and Acquisitions

Mergers and acquisition of companies result into a combination of two companies. In order to differentiate mergers and acquisition, a merger combines two companies into one. In the case of acquisition, one company takes over another company. Whether it is a merger or acquisition, the purpose is to maximize the wealth of the shareholders and to create value for them.

Types of Mergers

The mergers can broadly be classified into five categories. They are:

Horizontal Merger: It is a merger between two companies directly competing with each other. These companies will have similar product lines and markets. Mergers of this kind would help companies in utilising the economics of scale and increasing their market power.

Vertical Merger: The companies that are on the same supply chain will go for such mergers. A sugar factory may merge with a sugar farming company. Such mergers are an example for backward integration. A sugar factory may merge with a confectionary company. Such mergers are an example for forward integration. The purpose of vertical merger is better quality control and flow of information.

Market – extension Merger: It is a merger between companies dealing in the same products but in different markets. The purpose of such mergers is to get bigger market and client base.

Product – extension Merger: It is a merger between companies dealing in the related products but operating in the same market. The purpose of such mergers is to combine related products together to increase customer base and profitability.

Conglomerate Merger: It is a merger between two companies that are unrelated. Conglomerate mergers may be classified into a pure conglomerate merger and a mixed conglomerate merger. In the case of pure conglomerate merger the companies operate in distinct markets with unrelated products. In the case of mixed conglomerate merger companies come together to extend their product offerings.

Benefits of Mergers and Acquisitions

Benefits of mergers and acquisitions are innumerable. Following are some of the benefits of mergers and acquisitions:

- a) **Economies of Scale:** Due to merger, the company becomes large. Because of this, the company is in apposition to procure raw materials in huge quantities and gets voluminous discount. It is also true that the company can manufacture goods in large quantities and can sell its products at an affordable price. Economies of scale can be classified into technical economies, bulk-buying economies, financial economies, and organisational economies.
- b) **Tax Benefits:** Tax benefit would be available to a profit making company that acquires a loss making company. The merged company can offset the loss against its profit, thereby gets tax benefits.
- c) **Financial Resources:** The merged company would be in a better position to get loans at a subsidised interest rate. Also, the merged company gains credit worthiness in the market.
- d) **Exploring Global Markets:** In the case of cross-border mergers, the company gets an opportunity to enter into global markets. This enhances the profit making capacity of the company.
- e) **Growth and Expansion:** Due to the strong capital base and efficiency, the merged company would be in a better position to expand its operations both within the country and outside the country. This would help the merged company to make its presence felt in both domestic and international market.
- f) **Facing Competition:** One of the basic objectives of merger is to avoid competition. By merging with its competing company, the company prevents compaction from its rival company. Also, the merged company is in a position to supply goods and offer services at competitive prices.
- g) **Research and Development:** The merged company is in a position to invest more money on research and development activities. This helps the company in bringing innovative products in the market and getting first mover advantage.
- h) **Increased market share:** Because of affordable and innovative products, the merged company would be in a better position to increase its market share, which otherwise would require more number of years.

Limitations of Mergers and Acquisitions

- a) **High price of goods:** Merger may reduce competition in the industry. This offers a bigger advantage to the new company to charge higher price to the goods and services provided by the company. Because of this consumers are forced to pay higher prices for the products and services of the newly formed company.

- b) **Dis-economics of scale:** The size of the new company may be unmanageable. Because of the massiveness scale of the new company, the company may not have necessary capacity to handle the bigger organisation.
- c) **Difference in corporate culture:** The corporate culture of two different companies is difficulty to manage. If there is no harmony between the employees of the organisation, the very purpose of merger would be defeated.
- d) **Cost:** Though the cost of operations of a merged company is reduced considerably, the cost of acquisition and complex legal issues may involve huge amount of money in the form of consulting fees.
- e) **Loss of jobs:** Due to mergers, company may reduce manpower as a cost cutting measure. This happens when company feels that it is better to run one production facility instead of two separate facilities. This leads to layoffs of specialised and skilled employees.

Objectives of the study

The present study has the following objectives

1. To understand meaning and types of mergers
2. To know the benefits and drawbacks of mergers
3. To analyse the trends in mergers and acquisitions in India

Trends in Mergers and acquisitions in India

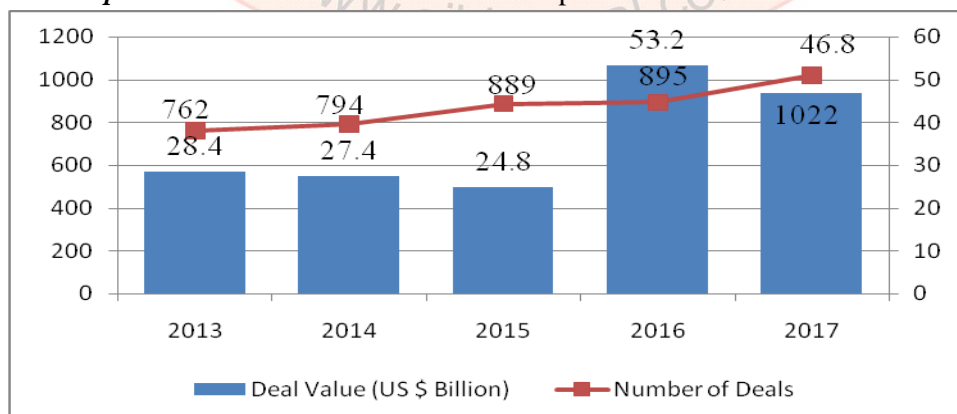
The data is collected from EY’s Transactions Annual. Data comprises of the number of deals and the deal value in terms of US \$ Billion. This data aims at analysing the trends in the number of mergers and acquisition activities and their total deal value. The data is distributed in two tables. Table1 deals with the number of deals and the value and Table 2 deals with number of deals over Billion dollars. Table two captures the volume and number of companies in which the deal money is over billion dollars. Both these tables are aimed at understand how M & A activities are gaining popularity in India.

Table 1: Number of M & A Activities in Indian Companies

Year	Deal Value (US \$ Billion)	Number of Deals
2013	28.4	762
2014	27.4	794
2015	24.8	889
2016	53.2	895
2017	46.8	1022

Source: EY analysis of Thomson ONE Data

Graph 1: M & A Activities in Indian Companies between 2013 and 2017



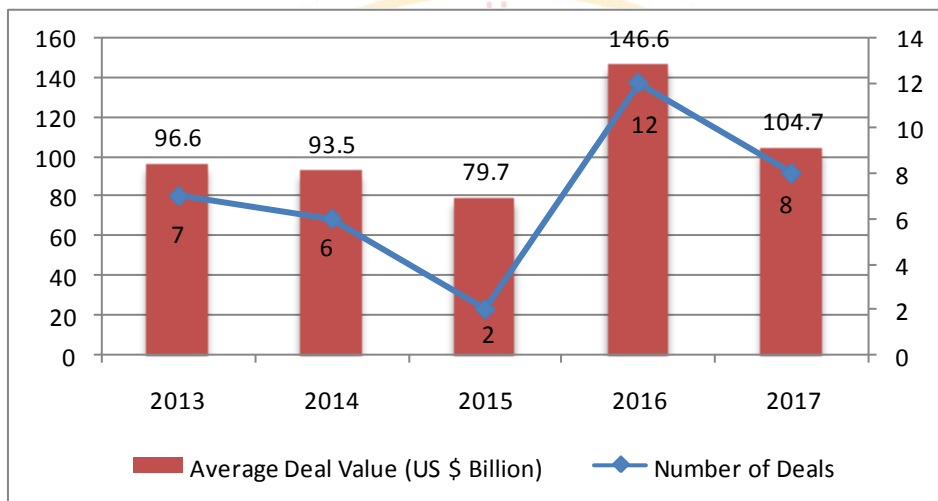
From the above table, it is evident that the number of M & A activities from 2013 to 2015 did show decreasing trend. During 2016, the M & A activities showed remarkable growth both in terms of number of deals and deal value. Again in 2017, M & A activities showed decreasing trend.

Table 2: Number of companies and average Deal size between 2013 and 2017

	Number of Deals	Average Deal Value (US \$ Billion)
2013	7	96.6
2014	6	93.5
2015	2	79.7
2016	12	146.6
2017	8	104.7

Source: EY analysis of Thomson ONE Data

Graph: Number of companies and average Deal size between 2013 and 2017



Analysis: Year 2016 and 2017 witnessed good number of deals in billion dollar plus deal value. During 2016 there were 12 deals crossing billion dollar deals. This is reduced to 8 in 2017. Not only that the average deals is less compared to 2016.

Geographical Distribution of Deals

Number of mergers and acquisition activities are classified into domestic, inbound, and outbound. The following table shows the number of deals and their geographical spread.

Table 3: Geographical Distribution of Deals between 2015 and 2017

Year	Domestic		Inbound		Outbound	
	Number	Value (US \$ Million)	Number	Value (US \$ Million)	Number	Value (US \$ Million)
2015	485	16360	258	9949	146	3708
2016	528	22658	204	20901	163	9640
2017	682	37939	203	6517	137	2356

Source: EY analysis of Thomson ONE Data

Analysis: From the above table it is observed that the domestic deals have shown increasing trend year on year from 2015 to 2017. There has been corresponding increase in terms of deal amount

between these periods. Inbound deals maintained almost the same trend in 2016 and 2017. Though outbound deals have increased considerable during 2016, it witnessed declining trend in the year 2017.

Findings

Following are the findings of the study

1. Number of M & A deals have shown increasing trend between 2013 and 2017.
2. Though the number of deals have shown increasing trend in the year 2015, the overall deal size was the lowest compared to all the years under consideration.
3. Though the deal size was less in the year 2017 compared to 2016, the year witnessed the highest number of M & A deals.
4. 2016 and 2017 witnessed many deals valued over billion plus.
5. On an average, domestic, inbound and outbound deals showed consistent trend in terms of number of deals.

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