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A STRUCTURAL SNAPSHOT ON MERGERS AND ACQUISITIONS: INDIAN PERSPECTIVE

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Abstract
Merger and Acquisition are not the same terminologies but often it is used interchangeably. In acquisition one organization purchase a part or whole another organization. M&As have played an important role in the transformation of the industrial sector of India since the Second World War period. The economic and political conditions during the Second World War and post–war periods (including several years after independence) gave rise to a spate of M&As. The objective of our study is to review the literature to study history of M&A, phases, Motives and different methods used for measuring performance; evaluate the benefits and shortcomings; investigate whether there have been new developments in the techniques used over the last few years. Indian companies are focusing on their core areas and expanding mostly in related areas of strength which is helpful in realization of synergistic benefits.

Introduction
Merger and Acquisition are not the same terminologies but often it is used interchangeably. In acquisition one organization purchase a part or whole another organization. While in merger two or more than two organizations constitute one organization (Alao 2010). Merger is the legal activity in which two or more organizations combine and only one firm survive as a legal entity (Horne and John 2004). As per the definition of Georgios (2011) in a merger, two or more firms approach together and become a single firm while in acquisition big and financially sound firm purchase the small firm. Khan (2011) presented a definition of merger as two or more firms close together and form one or more firms. Durga, Rao and Kumar (2013) defined mergers and acquisitions as activities involving takeovers, corporate restructuring, or corporate control that changes in ownership structure of firms. M&As have played an important role in the transformation of the industrial sector of India since the Second World War period. The economic and political conditions during the Second World War and post–war periods (including several years after independence) gave rise to a spate of M&As. The inflationary situation during the wartime enabled many Indian businessmen to amass income by way of high profits and dividends and black money (Kothari 1967). This led to "wholesale infiltration of businessmen in industry during war period giving rise to hectic activity in stock exchanges. There was a craze to acquire control over industrial units in spite of swollen prices of shares. The practice of cornering shares in the open market and trafficking of managing agency rights with a view to acquiring control over the management of established and reputed companies had come prominently to light. The net effect of these two practices, viz of acquiring control over ownership of companies and of acquiring control over managing agencies, was that large number of concerns passed into the hands of prominent industrial houses of the country (Kothari, 1967). As it became clear that India would be gaining independence, British managing agency houses gradually liquidated their holdings at fabulous prices offered by Indian Business community. Besides, the transfer of managing agencies, there were a large number of cases of transfer of interests in individual industrial units from British to Indian hands. Further at that time, it used to be the fashion to obtain control of insurance companies for the purpose of utilising their funds to acquire substantial holdings in other companies. The big industrialists also floated banks and investment companies for furtherance of the objective of acquiring control over established concerns. Merger and acquisition is a very important tool for the expansion of business in different countries and the researchers from all over the world are taking interest to work in this field (Goyal and Joshi 2011). If we go into the history of Merger and Acquisition, M & A were started from the United States back in the eighteen century. In Europe, the M & A begins in nineteen century (Focarelli, Panetta and Salleo 2002). Maximum research on M & A has been done in the United States and Europe market. Comparatively little research work had been done on M & A in the developing countries like Pakistan, India, Malaysia and Bangladesh.

Recent Developments in Mergers and Acquisitions in India
The functional importance of M&As is undergoing a sea change since liberalisation in India. The MRTP Act and other legislations have been amended paving way for large business groups and foreign companies to resort to the M&A route for growth. Further The SEBI (Substantial Acquisition of Shares and Take over) Regulations, 1994 and 1997, have been notified. The decision of the Government to allow companies to buy back their shares through the promulgation of buy back ordinance, all these developments, have influenced the market for corporate control in India. M&As as a strategy employed by several corporate groups like R.P. Goenka, Vijay Mallya and Manu Chhabria for growth and expansion of the empire in India in the eighties. Some of the companies taken over by RPG group included Dunlop, Ceat, Philips Carbon Black, Gramaphone India. Mallya"s United Breweries (UB) group was straddled mostly by M&As. Further, in the post

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liberalization period, the giant Hindustan Lever Limited has employed M&A as an important growth strategy. The Ajay Piramal group has almost entirely been built up by M&As. The south based, Murugappa group built an empire by employing M&A as a strategy. Some of the companies acquired by Murugappa group includes, EID Parry, Coromondol Fertilizers, Bharat Pulverising Mills, Sterling Abrasives, Cut Fast Abrasives etc. Other companies and groups whose growth has been contributed by M&As include Ranbaxy Laboratories Limited and Sun Pharmaceuticals Industries particularly during the later half of the 1990s. During this decade, there has been plethora of M&As happening in every sector of Indian industry. Even, the known and big industrial houses of India, like Reliance Group, Tata Group and Birla group have engaged in several big deals.

Literature Review

A survey of the available literature on M&As and its impact on the different aspects of corporate entities has been carried out. Further, research studies specific to India and their limitations and research dimensions for the present study has been found out. Evaluating the performance of corporations involved in M&As has been the subject of a great deal of research. Khemani (1991) states that there are multiple reasons, motives, economic forces and institutional factors that can be taken together or in isolation, which influence corporate decisions to engage in M&As. It can be assumed that these reasons and motivations have enhanced corporate profitability as the ultimate, long-term objective. It seems reasonable to assume that, even if this is not always the case, the ultimate concern of corporate managers who make acquisitions, regardless of their motives at the outset, is increasing long-term profit. However, this is affected by so many other factors that it can become very difficult to make isolated statistical measurements of the effect of M&As on profit. The "free cash flow" theory developed by Jensen (1988) provides a good example of intermediate objectives that can lead to greater profitability in the long run. This theory assumes that corporate shareholders do not necessarily share the same objectives as the managers. The conflicts between these differing objectives may well intensify when corporations are profitable enough to generate "free cash flow," i.e., profit that cannot be profitably re-invested in the corporations. Under these circumstances, the corporations may decide to make acquisitions in order to use these liquidities. It is therefore higher debt levels that induce managers to take new measures to increase the efficiency of corporate operations. According to Jensen, long- term profit comes from the re-organization and restructuring made necessary by takeovers. Most of the studies on impact of M&As can be categorized according to whether they take a financial or industrial organization approach. One way to measure the performance is to monitor the share prices after the M&A deal is struck. Empirical studies of this type indicate that a target firm’s shareholders benefit and the bidding firm’s shareholders generally lose (Franks & Harris, 1989). The most commonly employed financial approach examines trends in the share prices of corporations involved in M&As and compares them with a reference group of corporations. Corporate performance is considered to have improved if the returns to shareholders are greater after the M&As. The results obtained using this approach, largely in the United States and also in Canada, show that corporate takeovers generally have favourable consequences for shareholders of the target companies.

Waves in Mergers

The first wave started from 1897 and lasts until 1904. In the recorded period, M&A started to grow in those firms and Organizations who want to get benefit from their manufacturing, as being a single seller in the market, like railroads, light & Power, etc. The discussed period appeared on screens as horizontal mergers and happened in the profound industries (Fatima and Shehzad, 2014). Maximum of the deals that were started in the first period of M&A proved to be unsuccessful as the deals failed to accomplish the set goals and objectives.

The second period of M&A started from 1916 and lasted until 1929. The core objective in this period was to enter businesses into the deal of mergers and acquisitions that want to enjoy oligopoly and not monopoly. The Hi-tech expansion as the progress of railroads and transportation took place in the said time period. This M&A wave was horizontal or conglomerate (Golubov & Petmezas, 2013). Firms and organizations that have entered into the deal of M&A were the key producers of Ore and mineral, food items, oil & fuel, transport and chemical etc. Banks played a serious role in assisting the deals of M&A. Banks like Investment banks granted loans to the investors on easy instalments. The wave proved to be crumpled of the share market in 1929.

The third wave of merger happened in 1965 and ended in 1969. Most of the deals were conglomerated in nature. The deals of Mergers and acquisitions were mainly backed from the capital of owners and banks appeared to be off screen. The wave started to move towards the end as consolidation of unlike firms and organizations stated to post unsatisfying results in

The fourth wave of mergers (1981-89) was exceptional in terms of noteworthy role of hostile mergers. Hostile mergers had turned out to be a tolerable type of business extension by the 1980s. According to Golubov & Petmezas (2013), the merger that was initiated between the oil and gas, pharmaceutical, banking and airlines are basically recorded in the fourth wave.

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The fifth wave started from 1992 and lasted until 2000. The wave gets its inspiration from the worldwide increased and boom in the share market and consequently happened deregulation. This wave took place in banks and telecom segments. The deals were backed by equity capital to a certain extent as compared to debt finance (Kouser & Saba, 2011).

The sixth merger wave (2003-2007) was described by merging in the metals, oil & gas, Utilities telecoms banking and Health care centers. This wave was fuelled by expanding globalization and support by the Government of specific nations like France, Italy, and Russia to make solid national and worldwide champions. Private equity buyers assumed an indispensable part, representing a quarter of the general takeover movement, empowered by the accessibility of credit that businesses were readied to give at low interest rate. Cash financed deals were significantly more pervasive over this period (Alexandridis, 2012)

Research Limitations on Mergers and Acquisitions

The survey highlights the following limitations of the various studied examined above and some of these issues are sought to be addressed in this paper.

1. Number of merger cases analysed by various studies is much less and have taken only mergers and leaving acquisitions.
2. It is noticed that none of the studies dealt comprehensively on trend of M&As for the post 1991 period according to industry classifications groups.
3. From the survey of Indian M&As literature, it is mainly found that apart from growth and expansion, efficiency gains and market power are the two important motives for M&As. Apart from measuring post merger profitability of the merged entity, there have been no reported works on these issues in the Indian context.

Techniques used for M&A's

- Accounting Return
- Event Studies
- Economic Value Added
- Residual Income Approach
- Questionnaire method
- Case Study Approach
- Innovative Performance

Motives of M&A's

a) Agency Motive
b) Synergy Motive
c) Managerial Efficiency

Conclusion

Over the years several studies have been carried out to evaluate whether Mergers and Acquisitions have been value enhancing or destructive of organizations. The methods that have been used to analyze acquisition performance are varied. The objective of our study is to review the literature to study history of M&A, phases, Motives and different methods used for measuring performance; evaluate the benefits and shortcomings; investigate whether there have been new developments in the techniques used over the last few years. Indian companies are focusing on their core areas and expanding mostly in related areas of strength which is helpful in realization of synergistic benefits. Further, it has been observed that M&As in India are strategic in nature that motives range from growth and expansion to high quality of human resources, strong brand presence and global identity and leadership.

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