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CROSS BORDER MERGERS AND ACQUISITIONS ACTIVITY IN INDIA

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Abstract

Globalization is a new and emerging concept. In 1990s, all the countries in the world have realized the importance of the concept of "world as a single economy". India entered the global market to improve the economy and the corporate enterprises have worked for expanding the profit base. In the ongoing process of globalization India's corporate activities are highly regulated by government policies and regulations. Corporate restructuring is one of the measures promoting globalization in India. Corporate restructuring has gained considerable importance all over the world, because of intense competition, globalization and technological changes.

Keywords: *Globalization, Foreign investments, Corporate restructuring, Mergers and Acquisitions.*

INTRODUCTION

In pursuance of these objectives, restrictions in India were placed on the corporate sector as per the provisions of various laws and regulations like Monopolistic and Restrictive Trade Practices, Industrial licensing policy etc. The MRTP Act 1969, placed restrictions on the expansion of an enterprise, establishment of new enterprise, division of undertakings, consolidation of undertakings, acquisition and transfer of shares of undertakings in order to check concentration of economic power, control the growth of monopolies and prevent various restrictive trade practices likely to result from operation of economic system. The provision of FERA, 1973 placed restrictions on foreign investments in the country. These restrictions remained in vogue for over two decades and proved incompatible in keeping, pace with the global economic developments to achieve the objective of faster economic growth. So, the government had to review its entire policy framework and initiate required measures for economic liberalization.

Though, the government began initiating steps towards liberalization in the post 1985 period, the real opening up of the economy started with the statement on industrial policy made in June 1991. This statement indicated continuity with change, the main thrust being on relaxation in industrial licensing, foreign investments, transfer of foreign technology and monopolies and restrictive trade practices laws. Since1991, there have been many industrial and economic reforms which have striven to clear the obstacles to faster the industrial development. MRTP Act has been amended and most of the sections restricting the expansion of companies have been deleted. Changes have also been made in FERA to permit Foreign Direct Investment. The new Act, Foreign Exchange Management Act, 1999 (FEMA) has been introduced. Industrial licensing has been abolished in almost all industries.

In the process of globalization, every country wishes to integrate its economy with the global economy and seize global opportunities for local growth. Globalization may be defined as "planning for production, marketing, finance and other activities of business to compete successfully in the world market". Many countries in the world are going to expand their global business activities. Globalization is a new and emerging concept. In 1990s, all the countries in the world have realized the

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importance of the concept of "world as a single economy". India entered the global market to improve the economy and the corporate enterprises have worked for expanding the profit base.

In the ongoing process of globalization India's corporate activities are highly regulated by government policies and regulations. Corporate restructuring is one of the measures promoting globalization in India. Corporate restructuring has gained considerable importance all over the world, because of intense competition, globalization and technological changes. Further, the structural reforms initiated in the early 1990s have also compelled the corporate enterprises to go for restructuring. The Indian industry also to adopt different types of focused strategies like corporate restructuring by shedding non-core activities as well as mergers and acquisitions. The process will accelerate with opening of the economy to attract foreign investment. However, in India, the corporate restructuring is still in adolescent stage. The status of regulatory frame work is also being devised. In the years to come, the role of different regulating institutions involved in corporate restructuring viz., Securities Exchange Board of India, Company Law Board, Stock Exchange and Shareholders' Bodies etc. will crystallize.

Corporate restructuring refers to "the changes in ownership, business mix, assets mix and alliances with a view to enhance the shareholder value." Hence, corporate restructuring may involve ownership restructuring, business restructuring and assets restructuring. A company can affect ownership restructuring through Mergers and Acquisitions, Leveraged Buy-outs, Buy-back of Shares, Spin-offs, Joint Ventures and Strategic Alliances. Business restructuring involves the reorganization of business units or divisions; it includes diversification into new business, outsourcing, divestment, brand acquisitions etc.

REVIEW OF LITERATURE:

Harris. (2000) the analyzed the impact of horizontal mergers of US hospital's technical efficiency pre- and post-merger. By using DEA approach, they found a positive impact on hospital's level of efficiency. Constant returns-to-scale model indicated an overall reduction in input utilization after merger as compared to variable returns-to-scale model.

Ravindra P. Purohit (2000) stated the dynamics of globalization is now a major force in shaping development in countries. The basic reasons behind this globalization are rapid advances in and convergence of information and communication technology. Increasing availability of capital at global level has also played major role.

Saple V. (2000) in his research thesis on "Diversification, Mergers and their Effect on Firm Performance: A Study of the Indian Corporate Sector", he concludes that the target firms were better than industry averages while the acquiring firms had lower than industry average profitability. Overall, acquires were high growth firms which had enhanced the performance over the year prior to the merger and had a higher liquidity.

Giles (2000) also reported that one of the main reasons for failure of a merger or acquisition is based on human resources neglect. Companies which have failed to recognize the importance of human resources in their organizations and their role in the success of integration have failed to reach success. This is particularly critical in the area of mergers and acquisitions. Human Issues in mergers and acquisitions which have been the most sensitive issue have been often ignored).

Zhu et al (2004) The further add that communication during a merger needs to vary in its openness, depending on the nature of information to be communicated, goals of the organization, specific needs and concerns of the employees, and different needs and expectations of acquiring and acquired company employees. Once the deal is closed, the organization needs to decide on their reward strategy.

Dash (2004) the analyzed the financial impact of mergers on the shareholders of the acquirer firms. The study found that on an average mergers lead to value destruction, irrespective of their pattern over a long period of time and the destruction is relatively greater in the case of unrelated mergers.

Dr. Neena Sinha, Dr. K.P. Kaushik & Ms. Timcy Chaudhary (2010) in their research article on “Measuring Post Merger and Acquisition Performance: An Investigation of select Financial Sector Organizations in India”, they observe the impact of mergers and acquisitions on the financial efficiency of the selected financial institutions in India. The study consists of two stages; Firstly, by using the ratio analysis approach, they calculate the change in the position of the companies during the period 2000-2008. Secondly, they examine changes in the efficiency of the companies during the pre and post merger periods by using nonparametric Wilcoxon signed rank test. The findings of the study indicate that Mergers and Acquisitions cases in India show a noteworthy correlation between financial performance and the Mergers and Acquisitions deal, in the long run, and the acquiring firms were able to generate additional value.

Gupta, M. A., Kumar, R., & Upadhyayula, R. S. (2012), Success of a Merger or Acquisition - A consideration of influencing factors. International Journal of Management Practice, 5(3): 270-286.Mergers and Acquisitions (M&As) continue to be a dominant business strategy for organizations. Despite evidence of greater number of failures than successes, organisations still view Mergers & Acquistions as a beneficial strategic activity. This paper looks at the different factors that impact the success or failure of a merger at each stage of the process and brings out the factors that managers need to keep in mind to ensure a successful merger

Jharkharia, S. (2012), Supply chain issues in mergers and acquisitions: A Case from Indian aviation industry. International Journal of Aviation Management, 1(4): 293-303.This paper aims at understanding the importance of supply chain integration in mergers and acquisitions (M&A) with a focus on the aviation industry. A comprehensive literature review is followed by the case of a merger from the Indian aviation industry. Managers who were involved with the task of M&A in their organisations were interviewed for this research. It is observed that apart from concentrating on the long term financial and marketing synergies, it is also important to give due consideration to the supply chain synergies at every stage of the Mergers & Acquistions process. The supply chain of the new organisation should pick up the best characteristics from each of the value chains of the merging entities. An early involvement of supply chain managers in merger process may help in identifying the potential operational synergies. Based on the literature and experiences of the merged entities it is observed that the results of mergers and acquisitions will go on the expected lines only by the early involvement of supply chain leadership in premerger talks and later by proper restructuring of the supply chain of the new organisation.

Mr. S.H. Kapadia,(2012) as retired as Chief Justice of India on 29th September 2012. He was elevated to the bench of Supreme Court of India on 18th December, 2003 wherein he dealt with matters under SEBI Act, 1992, Companies Act, 1956, RBI Act, Mergers & Acquisitions, Banking Regulation Act, Taxation, Information Technology and validity of Indian Accounting Standards. Prior to his role as Chief Justice of India, he also served as Chief Justice of Uttaranchal High Court, Additional and Permanent Judge of the Bombay High Court, Judge of the Special Court (Trial of

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Offences Relating to Transactions in Securities) Act, 1992, Judge of Special Court dealing in matters related to Accounts and Finances of Banks and Financial Institutions.

Khan (2012) studied pre and post-merger financial performance appraisal of acquiring banks in India through ratio Analysis. The result indicated that the post Merger & Acquistion have not created difference in the financial Performance of the acquiring banks.

OBJECTIVES OF THE STUDY

In this study, an attempt is made to examine industry wise Analysis of Mergers and Acquisitions in India. The principal objectives of the study are as follows.

1. To identify the top most acquisitive nation with regard to the cross border Mergers and Acquisitions
2. The top most targeted nation with regard to the cross border Mergers and Acquisitions.

It is proposed to analyse the Industry-wise open offers for Mergers and Acquisitions in India with a view to identify which industry has attracted the maximum number of Mergers and the Substantial Mergers and Acquisitions of share deals and also which industry lost its importance. For this purpose, the Indian industries have been broadly classified in to the following industry groups.

SCOPE OF THE STUDY

The study covers “Pattern of Cross Border Mergers and Acquisitions activity in India” is focused on the following broad aspects:

a) To identify the top most acquisitive nation with regard to the cross border Mergers and Acquisitions.
b) Presenting the trends and patterns of Mergers and Acquisitions in cross border at aggregate level, industry-wise Bringing out inter-industry.

SOURCES OF DATA

Source of the study is based on secondary data.

Secondary Source of Data: The Secondary source of data for studying “Pattern of Cross Border Mergers and Acquisitions activity in India” is collected from the monthly issues of RBI Bulletins, Annual Reports of RBI, Reports on Currency and Finance of RBI, CMIE Reports. Further, the additional relevant data pertaining to the Mergers and Acquisitions are also collected from World Investment Reports, World Development Reports, etc. The different websites relevant to the topic are also used for collecting relevant data.

DELIMITATIONS OF THE STUDY

The following are some of the limitations of the study:

i) The study is based on the aggregate analysis of Mergers and Acquisitions in cross border activity. Therefore, the generalizations drawn from the study may not be uniformly applicable to entire corporate sector.
ii) The study depends upon availability of comparable data for the period is covered. Therefore, paucity of data may hinder to carry out such analysis. Hence, it is restricted to a few aspects, sometimes to a limited part of the study period.
iii) Secondary data is collected from more than one source. The gap in one source is tried to fill up by adopting the data available from some other sources.

iv) While calculating the percentages, averages, and other statistical measures, the resultant figures are approximated. Though enough care is taken in approximation, sometimes the totals may not be exactly tallied.

CROSS BORDER MERGERS AND ACQUISITIONS

Globalization has spurred an unprecedented surge in cross-border Mergers and Acquisitions activity. Cross-border Mergers and Acquisitions have become a fundamental characteristic of the global business landscape. Cross-border Mergers and Acquisitions are one mode of entry for Foreign Direct Investors to host economies. The ownership advantage, location advantage and internalization advantage, factors such as the search for market power, efficiency gains through synergies, size, diversification, and financial motivations affect the decision of firms to undertake cross-border Mergers and Acquisitions. Organizations which aspire to expand across geographies are funding their cross-border acquisitions through a mix of local and foreign financing. Most of the international leading financial advisors are playing significant role in the process of Mergers and Acquisitions in India. The following table presents the value of Mergers and Acquisitions and number of Deals taken place in the country during the year 2013 with the involvement of financial advisors along with their Ranking.

Table 1. World-wide Mergers and Acquisitions Ranking

Name of the Financial Advisor	Value US $ Billions	Number of Deals	Rank in 2012	Rank in 2013
Goldman Sachs & Co	248,577.3	158	1	1
JP Morgan	205,327.0	110	3	2
Morgan Stanley	169,508.0	141	2	3
Bank of America Merrill Lync	168,714.6	78	8	4
Credit Suisse	117,244.0	100	5	5
Deutsche Bank	102,742.7	80	4	6
Barclays	102,512.4	78	6	7
Lazard	97,787.3	108	9	8
Citi	91,145.7	103	7	9
Centerview Partners LLC	66,723.6	13	15	10
Industry Total	978,829.4	16,206	-	-

Source: Thomson Reuters database.

The data of the above table reveals that the Goldman Sachs & Co. contributed highest value of Mergers and Acquisitions US $ 248,577.3 billion with the highest number of deals. Goldman Sachs maintained the top position for worldwide announced Mergers and Acquisitions advisory work during year to year 2013. The firm also placed first in US and European. The analysis of top 10 most acquisitive nations indicates that the United States of America was the biggest Acquisitive nations with the 24 per cent of contribution followed by United Kingdom, China, Canada and Japan with the contribution of 21 per cent, 17 per cent, 9 per cent, 7 per cent and 6 per cent respectively. As against

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this Austria, Germans, Italy and Singapore are the least acquisitive nations among the top 10 nations by contributing only 4 per cent by each nation.

The JP Morgan and Morgan Stanley financial advisors are placed 2nd and 3rd ranks in the year 2013 by inter changing their rank from the year 2012. The Bank of America Merrill Lync provided US $168,714.6 billion value of mergers with the 78 mergers deals and placed in 4th rank in the year 2013 whereas, it was 8th rank in 2012. The Centerview Partners LLC provided a least amount of US $ 66,723.6 billion with least number of 13 deals and placed 15th and 10th rank in the year 2012 and 2013 respectively. It can observe that all the leading financial advisors contributed a huge amount of Mergers and Acquisitions US $ 978,829.4 billion with the highest number of deals 16,206 in the year 2013. It shows the flow of foreign investments how they are flowing into India.

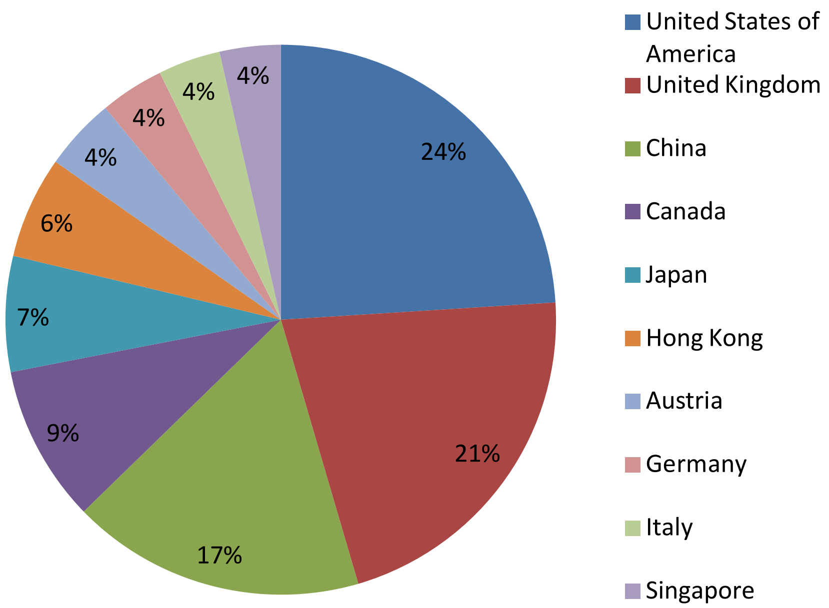
CROSS - BORDER TOP 10 MOST ACQUISITIVE NATIONS

Many companies resort to Mergers and Acquisitions in order to capture a larger market share at global level. The key to success of a Mergers and Acquisitions lies in the ability of the acquirer. The data relevant to the cross border top 10 most acquisitive nations is presented in the table 2.

Table 2. Cross-border Top 10 Most Acquisitive Nations

Country	($. Millions)	Rank
United States of America	50525	1
United Kingdom	45236	2
China	36303	3
Canada	19394	4
Japan	14332	5
Hong Kong	12650	6
Austria	8939	7
Germany	7923	8
Italy	7699	9
Singapore	7573	10
Total	210574	

Source: Thomson Reuters database.



CROSS-BORDER TOP 10 MOST TARGETED NATIONS

Targeted Nation is a Nation whose company shares or voting rights are acquired/being acquired or whose control is taken over/being taken over by an acquisitive nations company. The Cross-border Top 10 most targeted nations details for the year 2013 are presented in the table 3.

Table 3. Cross-border Top 10 Most Targeted Nations

Country	($. Millions)	Rank
United States of America	51415	1
Germany	32292	2
Netherlands	20147	3
United kingdom	19942	4
Australia	15567	5
China	13435	6
India	11239	7
Hong Kong	10911	8
Canada	10543	9
Peru	8002	10
Total	193493	

Source: Thomson Reuters database.

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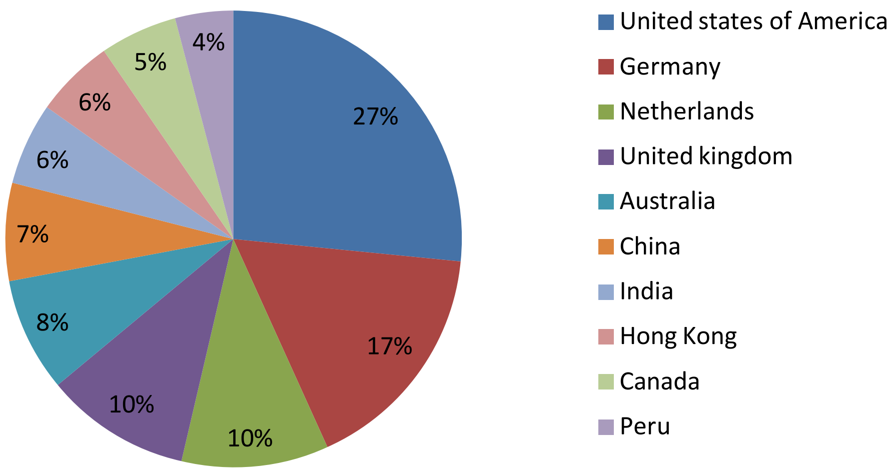

The data of above table reveals that the United State of America is the first positions with 27 per cent of total targeted nation's acquisition value. The Germany stood in second place with the 17 per cent followed by Netherlands and United Kingdom representing 10 per cent each. Whereas Australia representing 8 per cent, China 7 per cent. India and Hong Kong representing 6 per cent each in the total acquisition value of top ten nations. Canada represented by 5 per cent only. Peru is least targeted nations among the top ten by representing only 4 per cent.

CONLUSION

The While undergoing any Mergers and Acquisitions activity the acquirer company should clearly indentify the opportunities for providing competitive bench marking measurements for fast improvement in company such as increase in share price and market share, productivity levels and profitability. The corporate Mergers and Acquisitions should lead to faster growth in scale and quicker time to market, acquisition of new technology or competence and eliminate competitions and increase market share along with tax shield and investment saving. Measure the market and technical trends accurately to forecast the future growth and development potentials of the merging company in various aspects.

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