

TRENDS AND PROGRESS OF MERGERS AND ACQUISITION IN INDIA

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Abstract

Mergers and Acquisitions have long been an important component of corporate strategy as well as represent an important alternative for strategic expansion through inorganic growth. Mergers and Acquisitions as growth strategy have received attention both from developed as well as emerging economies, they have extensively used by manager as an expansion strategy. Globalization and liberalization have led firms from emerging markets like India to become more aggressive and opt for mergers and acquisition to fight the competitive battle. In this background, the present analyses the trends and progress of M&A in India during pre and post liberalization period. To meet this objectives the researcher has been used CMIE data base of M&A, Kar (2006) M&A data bank and other secondary sources. Finally the outcome of the paper is, the M&As deals have significantly increased during the period 1990 to 2000, while between 2001 to 2014 this percentage has significantly decreased.

Keywords: Mergers and Acquisitions, Inorganic Growth, Liberalization.

INTRODUCTION

Mergers and Acquisitions have long been an important component of corporate strategy as well as represent an important alternative for strategic expansion through inorganic growth. Mergers and Acquisitions as growth strategy have received attention both from developed as well as emerging economies, they have extensively used by manager as an expansion strategy. Globalization and liberalization have led firms from emerging markets like India to become more aggressive and opt for mergers and acquisition to fight the competitive battle. In Indian industry, the pace for mergers and acquisitions activity picked up in response to various economic reforms introduced by the Government of India since 1991, in its move towards liberalization and globalization. The Indian economy has undergone a major transformation and structural change following the economic reforms, and "size and competence" have become the focus of business enterprises in India. Indian companies realized the need to grow and expand in businesses that they understood well, to face growing competition; several leading corporate have undertaken restructuring exercises to sell off non-core businesses, and to create stronger presence in their core areas of business interest. Mergers and acquisitions emerged as one of the most effective methods of such corporate restructuring, and became an integral part of the long-term business strategy of corporate in India. Over the last decade, mergers and acquisitions in the Indian industry have continuously increased in terms of number of deals and deal value.

REVIEW OF LITERATURE

In today's liberalized economy the corporate has experienced a major restructuring through M&A route. Mergers and Acquisitions have been considered as a popular strategy for Growth and Expansion. It has attracted lot of attention in last 10 decades in India; many scholars have studied trends of M&A in India, some of those have been reviewed and presented in Table-1.1.

Table -1.1, A summary of studies on Concepts and Trends of M & A

Contributors	Key Findings
R. Srivassan et.all (2009)	Merger is for making large size of the firm but no guarantee to maximize profitability on sustained business and there is always risk of improving performance after merger
Mehta Jay and Kakani Ramkumar (2006)	M&A strategy is an Imperative for the state to create few large bank
Morris Knapp et.all (2006)	Post-merger results significantly exceeds those of the industry in first five years after the merger
Panwar (2011)	The trend of consolidation in Indian banking industry has for been limited mainly to restructuring of weak bank
Joyadeep Biswan (2004)	The FDI and Cross border merger are not alternative in developing countries like India
Vijay and Saxena (2004)	The economic advantage of M&A have been outlined
Kar (2006)	Indian Companies have been adopted Merger and

	Acquisition as a strategy for growth and expansion
Agarwal (2003)	The merger activity had demonstrated a significant trend after 1995
Kumar & Rajib (2007)	India has been a late comer in the M&A process due to unfriendly regulation and restrictive laws

The common finding that can be drawn on the basis of existing studies that the M&A activity in India increased after liberalization and most of the Indian firm have adopted M&A strategy for growth and expansion. Only few studies are available for trend and progress of mergers and acquisition in India. Hence the aim of this study is know the present trend of Mergers and Acquisition in India.

OBJECTIVES AND METHODOLOGY

The main aim of the present study is to examine the trends and progress of Mergers and Acquisitions in India. To meet the above objectives the researcher has used secondary data. The secondary data has been collected from CMIE data base of M&A, Kar (2006) data bank of M&A and Rajesh Kumar and other articles and Journals.

M & A DURING PRE-LIBERALIZATION PERIOD

During the pre-liberalization licensing era (prior to 1991), several companies indulged in unrelated diversification based on the availability of licenses. The companies thrived in spite of their inefficiencies, because the total capacity of the industry was restricted due to the licensing policy. The policy of decontrol and liberalization coupled with globalization of the economy, exposed the corporate sector to sever domestic and global competition, this was further accentuated by recessionary trend. During the post-Independence period large number of M&As occurred in industries like Jute, Cotton textiles, sugar, insurance, banking, electricity and tea plantation. It has been found that, although there were a large number of M&As in the early post independent period, the anti-big government policies and regulations of the 1960s and 1970s seriously deterred M&As (Kar 2006). This does not, of course, mean that M&As were uncommon during the controlled regime. The deterrent was mostly to horizontal combinations which result in concentration of economic power to the common detriment. There were many conglomerate combinations. In some cases even the government encouraged M&As; especially for sick units. Further, the formation of the life insurance corporation and nationalization of the life insurance business in 1956 resulted in the takeover of 243 insurance companies. There was a similar development in general insurance business. The National Textile Corporation (NTC) took over the large number of sick textile units.

Further between 1951 and 1974, a series of governmental regulations were introduced for controlling the operations of large industrial organizations in the private sector. Such regulations influenced considerably the growth strategies adopted by the companies. Some of the important regulations were industries Development and Regulation Act, 1951, Import Control Order 1957-58, Monopolies and Restrictive Trade Practice Act, 1969, and Foreign Exchange Regulation Act 1973. These regulations along with other influenced the pattern as well as pace of diversification undertaken by different categories of companies in India. The table 3.1 shows the Mergers and Acquisition during Pre-Liberalization period (Prior to 1990)

Table 3.1, M&As during the Pre-Liberalization period (Prior to 1990)

Year	Number of Mergers	Number of Acquisition	Total
1974-79	156	11	167
1980-84	156	15	171
1985-89	113	91	204

Source: B Rajesh kumar data; M&As: Text&Cases, Tata Mcgrw-Hill, NewDelhi
Report: CMIE Database.

M & A DURING POST-LIBERALIZATION PERIOD

The shift in industrial policy in 1991 paved the way for first wave of M&A in India. Policy reforms facilitating M&A begins with the removal of restrictive provisions of Monopolies and Restrictive Trade Practices (MRTP) Act followed by reforms in Foreign Exchange Regulation Act (FERA) in 1993 and Foreign Exchange Management Act (FEMA) in 2000. But at the same time in order to abolish forces which reduce competition, the Competition Policy Act 2002 decided to establish a Competition Commission of India (CCI). This commission aimed at checking the anti-competitive activities such as formation of cartels, collusive bidding, and consolidation via M&A which could cause market dominance abuses. The economic reforms in India have significantly reduced firm level rigidities. Corporate restructuring in recent years is a response to the opportunity provided by policy in order to meet the emerging competitive challenges. The firms, in the process, are reportedly trying to retain competitiveness and increase their value. The rapid growth of Indian economy has

encouraged domestic enterprises to undertake more aggressive investment activities which have resulted in a tremendous growth of M&A in the last decade. Domestic firms have taken steps to consolidate their position to face increasing competitive pressures and multinational enterprises (MNEs) from India have taken this opportunity to increase their presence and control in foreign markets.

Since SEBI (Substantial Acquisitions of Shares and Takeovers) Regulation Act, 1997 came into existence, 1,011 companies have been taken over for various purposes, which include consolidation, change in control in management and substantial acquisition. The most important objective of the acquisitions has been change in management control. The number of open offers grew from two in 1994 to 98 and 2001-02. Bulks of M&A deals have been on cash basis. Among industries where the takeovers were more common, the finance and information technology industries scored heavily on the number of companies acquired, the amounts involved in these industries were small. On the basis of amount spent, the electronic and electrical industry occupied the first position, followed by metal and cement and construction. Since entry barriers are low in the economy, the rate of rate of creation of new companies is extremely high and so are the chances of M&As. Since most internet start up are small, unilocal outfits, staffed by fewer people compared to brick and mortar behemoths, the actual process of integration is less burdensome and less painful. M&As enabled the widening of the portfolio of product and services increases geographical coverage and reduces the marketing cost and gestation period. Very often, M&As have been found useful to consolidate the market position. For instance, in the cement industry, the French firm Lafarge bought the cement unit owned by Tisco and Gujarat Ambuja acquired DLF Cement.

The empirical findings are contrary to the expected results, mainly because increase of shareholders value is not always the only motivator for M&As. Often mergers are initiated because companies face the threat of existence. The threat may be caused from the size or nature of a particular market or from demand for greater scale of economies, or when multinationals with access to relatively cheaper source of capital, seek to gain a market share through acquiring domestic firms. Table 3.2 shows the of Trends Mergers and Acquisitions In India during Post Liberalization Period

Table-3.2, Trends Mergers and Acquisitions in India during Post Liberalization Period

Year	Total Mergers	Total Acquisitions	Total M&A
1990	NA	NA	01
1991	NA	NA	00
1992	NA	NA	02
1993	NA	NA	07
1994	NA	NA	22
1995	-NA-	-NA-	33
1996	-NA-	-NA-	124
1997	-NA-	-NA-	248
1998	80	650	269
1999	193	572	387
2000	294	1183	1477
2001	319	1048	1367
2002	381	843	1224
2003	642	1664	1047
2004	272	797	1069
2005	370	867	1237
2006	-NA-	-NA-	1141
2007	954	283	1237
2008	970	186	1156
2009	704	102	806
2010	815	122	937
2011	879	152	1031
2012	697	96	793
2013	583	121	704
2014	304	128	432

Source: M&A database, CMIE and Kar(2006)

Table-3.3, Growth rate and Percentage of Trends of M&A deals in India During Post Liberalization period

Year	Total M & A	CUM(TOTAL)	Trend	Growth Rate	Share (%)	CUM (%)
1990	1	1	----	0	0.01	0.01
1991	2	3	200.00	100.00	0.01	0.02
1992	7	10	350.00	250.00	0.04	0.06
1993	22	32	314.29	214.29	0.13	0.19
1995	33	65	150.00	50.00	0.20	0.39
1996	124	189	375.76	275.76	0.74	1.13
1997	248	437	200.00	100.00	1.48	2.61
1998	269	706	108.47	8.47	1.61	4.21
1999	387	1093	143.87	43.87	2.31	6.52
2000	1477	2570	381.65	281.65	8.82	15.34
2001	1367	3937	92.55	-7.45	8.16	23.50
2002	1224	5161	89.54	-10.46	7.31	30.81
2003	1047	6208	85.54	-14.46	6.25	37.06
2004	1069	7277	102.10	2.10	6.38	43.44
2005	1237	8514	115.72	15.72	7.38	50.83
2006	1141	9655	92.24	-7.76	6.81	57.64
2007	1237	10892	108.41	8.41	7.38	65.02
2008	1156	12048	93.45	-6.55	6.90	71.92
2009	806	12854	69.72	-30.28	4.81	76.74
2010	937	13791	116.25	16.25	5.59	82.33
2011	1031	14822	110.03	10.03	6.15	88.48
2012	793	15615	76.92	-23.08	4.73	93.22
2013	704	16319	88.78	-11.22	4.20	97.42
2014	432	16751	61.36	-38.64	2.58	100.00
TOTAL	16751	----	----		100.00	

Source: Authors calculation from M&A database, CMIE and Kar (2006)

The following important observations can be made from table 3.2 & 3.3 above.

- A total of 16,751 M&A transactions have occurred during the entire period from 1995 to 2014. The maximum numbers of M&A transactions are repeated during the 2000 (i.e. 1477) which lowest are observed during periods 1990-1995.
- The number of M&A during early period of post liberalization period. Are found to be negligible in comparison to those during the later part of study period. There were only 65 M&A during year 1990 to 1995. This figure rose to 1477 in 2000. Further within this period, a considerable decline is observed as year-on- year increase in M&A. From 65 M&A between 1990 to 1995, the number rose by a significant 124 in 1996 which 275.76% increase from the 1990-95. In the following year however, the total M&A deals increased 248, accounting for a comparatively 100% growth on year-on- year basis. The year 1998 recorded the worst increase during this period of only 21 M&A deals in comparison to previous year figure that accounts for a negligible 8.47% increase. The percentage increase in M&A deals improved during the years 1999 & 2000 accounts 387 and 1477 deals with 43.87% & 281.65% growth respectively. The total number of M&As reported during this 10 years period is 2570 which accounts for 15.34% of the total (i.e 16,571) M&As recorded during the entire period of the study.

- The total number of M&A deals recorded during the period from 2001 to 2014 are 14.18% and accounts for about 84.66% of M&A deals during the period of the study. The examination of year on year growth of M&A deals however indicates a considerably low growth rate during this period. The M&A deals saw a decline -8.78% (from 1469 in 2001 to 1340 in 2002) during the year 2003. An improvement of this percentage increase in M&A deals is observed in the years 2004 and 2005 which are recorded 2.10% and 15.72% in both the years respectively. However, again in the year 2006, the M&A deals decreased to 1141 from 1237 and then percentage decreased dropped significantly to 7.76%. Further between 2007 to 2014, there were very less positive growth of M&A in 2007, 2010 and 2011, which are recorded the growth rate of 8.41%, 16.25% and 10.03% respectively and rest of the years, the growth rate of M&A have been declined.
- The graph of total number of M&A during post liberalization period (i.e., 1990-2014) is depicted in Figure 3.1, it shows that the numbers of deals have been increased up to 2001 and then after, the numbers of deals significantly decreased. The growth rate of M&A between 1990 and 2014 shown in Figure 3.2, it reveals that, there is high fluctuation in growth rate of M&A deals and Figure 3.3 presents the percentage of market share of M&A between 1990 and 2014, it shows that, the M&As deals have significantly increased during the period 1990 to 2000, while between 2001 to 2014 this percentage has significantly decreased.

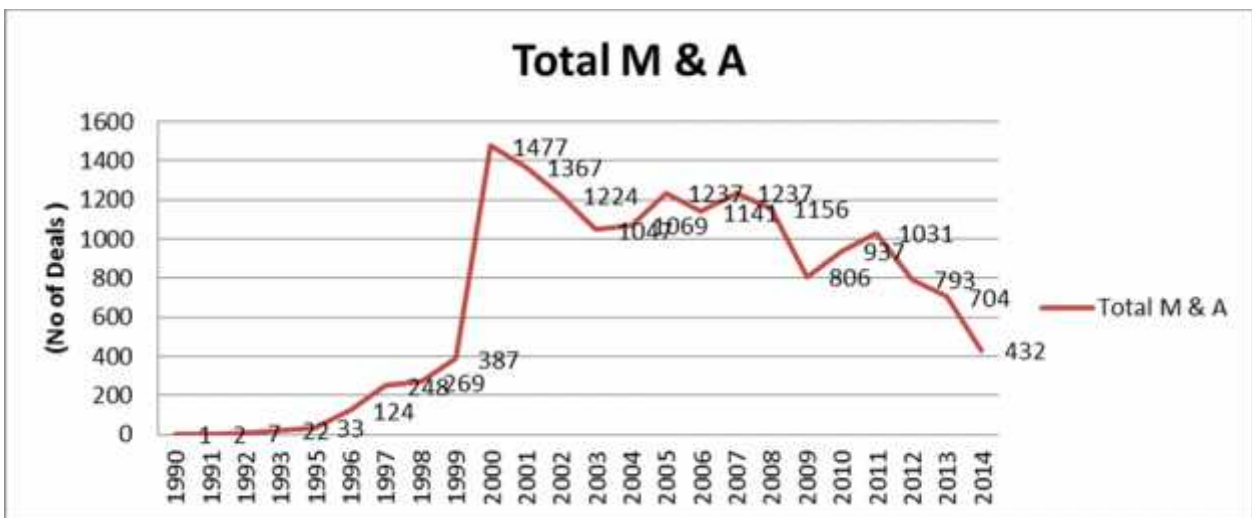


Fig:-3.1, Total number of M&As during post liberalization



Fig-3.2

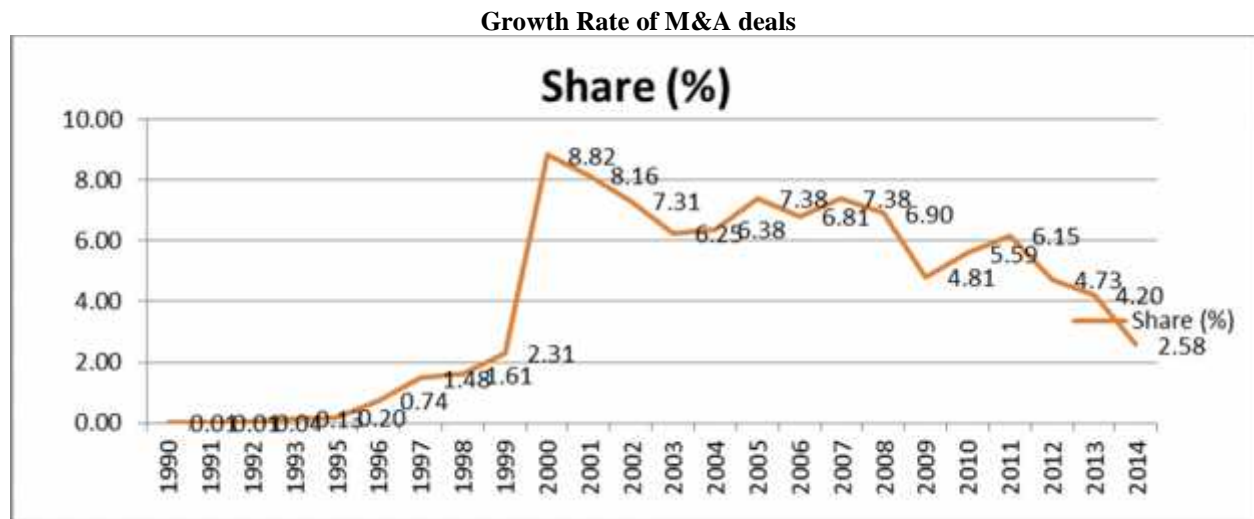


Fig:-3.3, Percentage of Share M&A during the period 1990 to 2014

CONCLUSION

Mergers and acquisitions are strategic decisions taken for maximization of a company's growth by enhancing its production and marketing operations. They are being used in a wide array of fields such as information technology, telecommunications, and business process outsourcing as well as in traditional businesses in order to gain strength, expand the customer base, cut competition or enter into a new market or product segment. In Indian industry, the pace for mergers and acquisitions activity picked up in response to various economic reforms introduced by the Government of India since 1991, in its move towards liberalization and globalization. Hence the paper conclude that, the M&As deals have significantly increased during the period 1990 to 2000, while between 2001 to 2014 this percentage has significantly decreased.

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