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ANALYTICAL STUDY OF MERGERS AND ACCQUISITIONS IN DEVELOPING AND DEVELOPED COUNTRIES

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ABSTRACT

The last one and a half decades have undergone great change, due to financial crises in the world corporations were required to think differently for the development of their organizations. If we visualize last 25 years even tax laws & corporate law got changed tremendously, which has forced the developing and developed countries to rethink its financial strategies considering their financial results and trends of last decade. Now the companies are not looking only to the financial results of their companies & economy of the countries but they are forced to see beyond that, due to globalization the world has become one small village, which has allowed the companies to see the growth potentiality of their companies with respect of developing countries like India, Pakistan, Bangladesh, Africa, Bhutan etc. This paper is an attempt to understand mergers in the developed countries like USA, UK, as a sample, the attempt was to compare these countries with India to know how merger pattern is different in developed countries as compared to the developing countries, the strategic change with reference to mergers and acquisition can be understand in better way, Which will allow the reader to understand few concepts about mergers with reference to the different tax laws, and companies law. The fundamental understanding that financially week companies gets absorbed in strong companies is not always correct. There can be various reasons for going in to merger. The reader of this paper will have better idea in understanding practicality of mergers.

Key words: Mergers & Acquisition, absorption, amalgamation, reconstruction

INTRODUCTION

Today we are living in the age of mergers and acquisition, companies are preferring to adopt mergers for various reasons. When a company was taken over by another company the taking over company has two options. The first option is to merge both the companies into one and operate as a single entity and this option known as 'merger'. And the second option is to operate the taken over company as an independent company, may be with changes in management and policies and this option known as 'takeover' or 'change of management'. Mergers are used for improving competitiveness of companies and gaining competitive advantage over other companies through gaining greater market share, broadening the portfolio to reduce business risk, entering new markets and geographical and capitalizing on economies of scale. Everyday investment bankers arrange mergers and acquisitions transactions, which bring separate companies together to form large ones. When they are not creating big companies from smaller ones, corporate finance deals do the reverse and break up companies through spin-off, carve-out and tracking stocks. Deals can be worth hundreds of millions, or even billions of dollars or rupees. They can dictate the fortunes of the companies involved for years to come. For a CEO, leading a merger can represent the highlight of a whole career

History of Mergers & Acquisition in India

In India, with the onset of liberalization and economic restructuring the words like mergers, acquisitions, takeovers have become buzz-words. India has emerged as one of the top countries with respect to merger deals. Indian companies have been involved in merger in India domestically as well as internationally.

Till 1970s the merger activity was on low key in Indian discussions were generally conducted across the board and negotiated settlements reached among the parties concerned but for a few rare cases. When Swaraj Paul launched the famous raids on DCM Ltd. And Escorts Ltd. The role of financial institutions was brought under considerable scrutiny. Swaraj Paul was a forerunner and his bid constituted a watershed in the corporate history of the country. With this shareholders began to matter in a more real sense to the controlling interest and things like earning per share, price earnings ratio, market price etc. Because of this a new trend of another sort and a group of financially strong individuals entered the merger game to make their presence felt as industrialists. In the early days some of the big names in this game were Ram Prasad Goenka, M.R.Chabria, Sudarshan Birla, Srichand hinduja, Vijay Mallya and Dhirubhai Ambani. After this in 1990s many of this continued to be in this game and some new name like Hindusthan Lever Ltd., Arvind group, Eicher group, Rajarathinam, Ajay Piramal got added to the list.The first wave of merger movement was between 1970s to 1980s and the second wave was between 1988 to 1992.

In Indian industry merger activity picked up in response to various economic reforms introduced by the government of India since 199+1, in its move toward LPG. In this wave 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. Indian companies realized the need to grow and expand in businesses. To face growing competition several leading corporate have undertaken restructuring exercises to sell off non core business and create strong presence in their core areas of business interest. Merger emerged as one of the most effective method of such corporate restructuring and became an integrate restructuring and term business strategy of corporate in India.

After 1992 the third wave was started with different policies which adopted by government. Necessary changes were incorporates including FERA, MRTP ACT and IDRA. Because of this the benefits of taking over a company are lucrative. The private policy of the government also encouraged the merger activity in this wave. After carefully guarding the enterprises it floated, the government is selling part of those enterprises. Ahmadabad Electricity Company is the example of this type. With the help of MRTP ACT and FERA so many multi-national corporations are merging in Indian subsidiaries. The Brooke Bond India and Lipton India are example of this. But after some time when Indian subsidiaries companies are not available, the multi-national corporation buying the suitable Indian companies and entering in the Indian market. Coco-Cola's tie-up with Parle is the example of this. Indian companies felt the need of restructure their own business. In this process the companies are identifying their core competencies that will help them to cope with tomorrow and then they buy those companies. These activities occurred in chain related. In Indian company also use conglomerated type. Tata Company is example of this. With the help of Board for Industrial and Financial Reconstruction the sick company also fined the buyers in these years. So in India merger and acquisition activity take place with different types and in different areas.

Mergers of foreign corporations with Indian Corporations:

Merger of foreign companies by the Indian businesses has been the latest trend in the Indian corporate sector. There are different factors that played their parts in facilitating the mergers in India, like Favourable Government Policies, Buoyancy in economy, Additional liquidity in the corporate sector, Dynamic attitudes of the Indian entrepreneurs are the key factors behind the changing trends of mergers and acquisitions in India. A survey among Indian corporate managers in 2006 by Grant Thornton found that M & A are a significant form of business strategy for Indian corporate. The main objectives behind M & A transactions are Improving revenues and profitability Faster growth in scale and quicker time to market Acquisition of new technology or competence Eliminate competition and increase market share Tax shield and investment savings So M & A have turned out to be a part of strategies for expansion and growth.

Notable mergers of "Indian companies" :

1. Tata Steel acquired 100% stake in Corus Group on January 30, 2007. It was an all cash deal which cumulatively amounted to $12.2 billion.
2. Vodafone purchased administering interest of 67% owned by Hutch-Essar for a total worth of $11.1 billion on February 11, 2007.

3. India Aluminium and copper giant Hindalco Industries purchased Canada-based firm Novelis Inc in February 2007. The total worth of the deal was $6-billion.
4. Indian Pharma Industry registered its first biggest in 2008 M&A deal through the acquisition of Japanese Pharmaceutical Company Daiichi Sankyo by Indian major Ranbaxy for $4.5 billion.
5. The Oil and Natural Gas Corporation purchased Imperial Energy Plc in January 2009. The deal amounted to $2.8 billion and was considered as one of the biggest takeovers after 96.8% of London based companies' shareholders acknowledged the buyout proposal.
6. In November 2008 NTT DOCOMO, the Japan based telecom firm acquired 26% stake in Tata Teleservices for USD 2.7 billion.
7. India's financial industry saw the merging of two prominent banks - HDFC Bank and Centurion Bank of Punjab. The deal took place in February 2008 for $2.4 billion.
8. Tata Motors acquired Jaguar and Land Rover brands from Ford Motor in March 2008. The deal amounted to $2.3 billion.
9. 2009 saw the acquisition Asarco LLC by Sterlite Industries Ltd's for $1.8 billion making it ninth biggest-ever M&A agreement involving an Indian company.
10. In May 2007, Suzlon Energy obtained the Germany-based wind turbine producer Repower. The 10th largest in India, the M&A deal amounted to $1.7 billion.

Mergers in the United States of America:

In U.S all the merger occurred when an economy experienced sustained high rates of growth and coincided with particular development in business environment. Golbe and White classified merger into four waves, as the wave of the turn of the century, in the late 1920s, in the late 1960s, in the 1980s. Weston, Chung and Hoag have classified merger's waves in to five as, the wave of 1895-1904, the wave of 1922-1929, the wave of 1940-1947, the wave of 1960s, and the wave after 1980s.Merger specialists have identified five merger waves in the history of United States are as under...

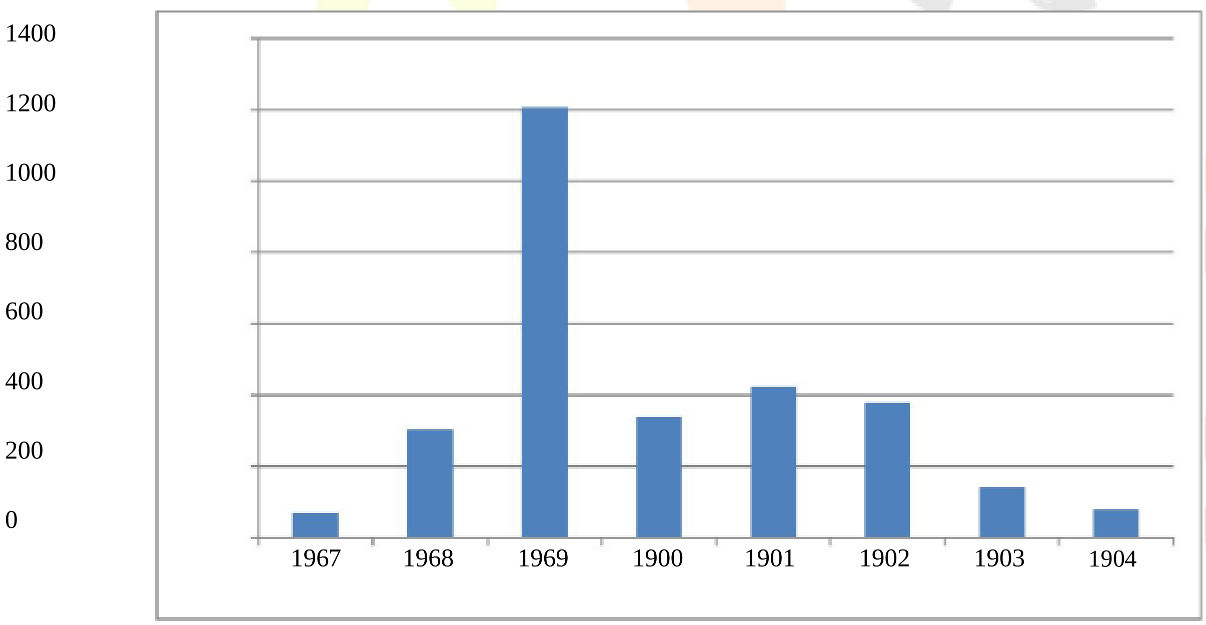
First Merger Wave:

The first merger wave occurred between 1897 and 1904. The movement reached its peak in 1899 and almost ended in 1903. When a several economic recession set in. here show number of mergers occurred in first wave.

Table 1.1 Numbers of Mergers During First Merger Wave in U.S.

Year	Numbers of Merger
1897	69
1898	303
1899	1208
1900	340
1901	423
1902	379
1903	142
1904	79

Numbers of Mergers during First Merger Wave in U.S.



During this phase merger occurred between companies, which enjoyed monopoly over their lines of production like railroad, electricity etc. This movement consisted mainly of horizontal merger. For this reason, this merger period is known for its role in creating large monopolies.

Types of Mergers during First Merger Wave (%)

Types of Merger	%
Horizontal	78.3
Vertical	12.0
Horizontal and vertical	9.7

This period is also associated with the first billion dollar megamerger. According to a National Bureau of Economic research study by professor Ralph Nelson, eight industries…primary metals, food, products, petroleum product, chemicals, transportation, equipment, fabricated, metal product, machinery and bituminous coal experienced the greatest merger activity. These industries accounted for approximately 2/3 of all mergers during this period. So this merger wave was accompanied by major changes in economic infrastructure and production technology by the turn of the century.

Second Merger Wave:

The second merger wave began during World War 1 and continued until the stock market crash of October 29, 1929. Many combinations in this period occurred outside the previously consolidated heavy manufacturing industries. The public utilities and banking industries were among the most active groups. This period witnessed a transformation of a near monopoly to an oligopoly. A large portion of mergers in the 1920s represent product extension mergers. Because of heighten governmental vigilance that occurred toward the end of the first merger wave, merger during the second merger wave faced increased governmental scrutiny. Markham and stocking emphasized major development in transport, communication, merchandising as the motivational factors of these mergers. So overall the second merger wave was characterized by oligopolies rather than monopolies. The reasons for the end of this wave were October 29, 1929 stock market crash and the great depression. After this there was a long lull. There were no pervasive motives for this merger movement other than the conventional ones. However government's regulation and tax policies were pointed out by some economists as having motivated mergers in this period.

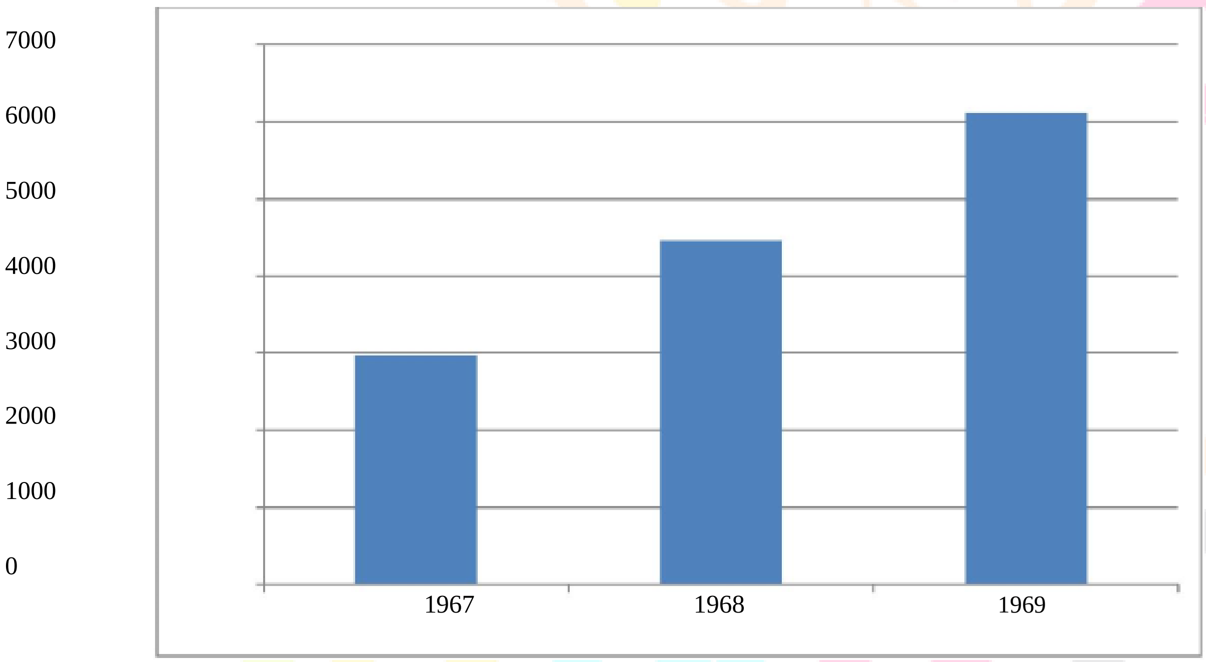
Third Merger Wave:

The third merger wave took place during 1965-1969 and focus of these merger shifted from horizontal and vertical types of conglomerate type. Merger activity reached its peak during the 3 year period of 1967 through 1969. This period was also one of a booming economy. In this time majority of the target firms significantly small than acquiring firms. Mergers were inspired by high stock price, interest rate and strict enforcement of antitrust laws.Here are the numbers of mergers took place during peak time of the wave.

Numbers of Mergers During 1967-1969 (Third Merger Wave) in U.S.

Year	Numbers of Merger
1967	2975
1968	4462
1969	6107

Numbers of Mergers During 1967-1969 (Third Merger Wave) in U.S.



Following the recession in 1970, the U.S economy entered a long period of expansion, during which takeovers trended upward. Since 1976, mergers have been concentrated in such service industries as commercial and investment banking, finance, insurance, wholesale, retail, broadcasting and health care and in natural resource areas. This trend reflected the increasing importance of these industries in the U.S. economy. Another characteristic of the merger activity is that divestitures became a substantial portion of merger activity.

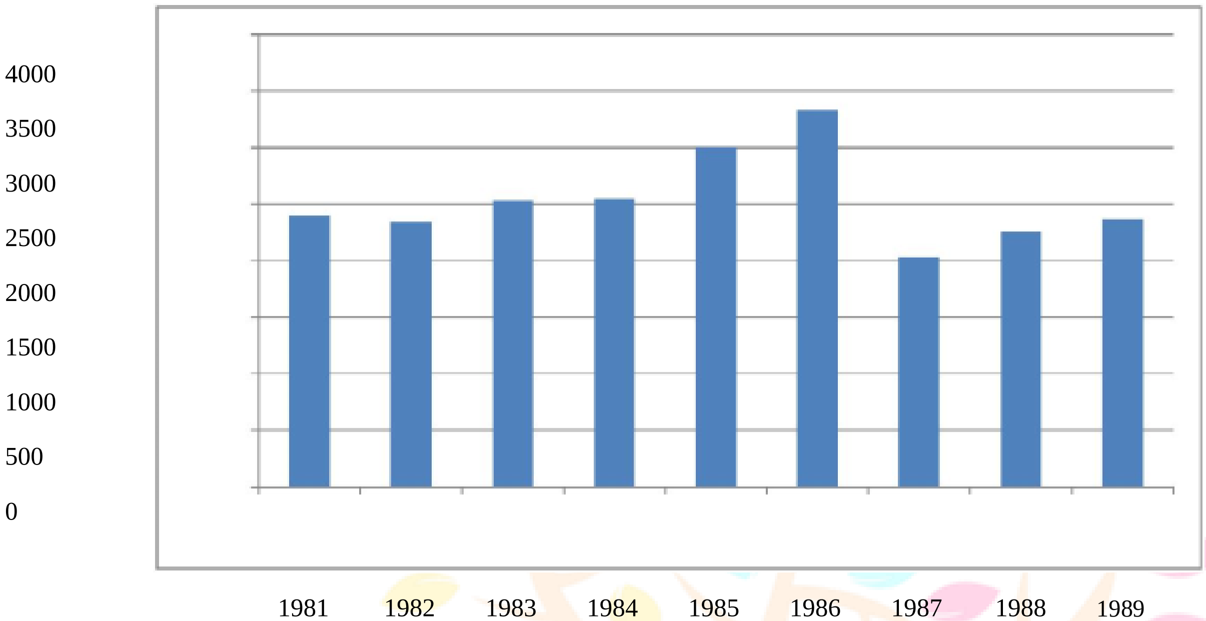
Fourth Merger Wave:

The fourth merger wave that started from 1981 and ended by 1989 was characterized by merger targets that were much larger in size as compared to the previous wave. Merger took place between oil and gas industries, pharmaceutical industries, banking and airline industries. Most of merger which occurred during this wave were friendly. This period included more hostile takeover than pervious merger waves. In this wave billion dollars range become common. Dept was more widely used to finance mergers.Here show the numbers of mergers took place between 1981 and 1989

Numbers of Mergers During Forth Merger Wave in U.S.

Year	Numbers of Mergers
1981	2395
1982	2346
1983	2533
1984	2543
1985	3001
1986	3336
1987	2032
1988	2258
1989	2366

Chart 1.3 Numbers of Mergers During Forth Merger Wave in U.S.



Fifth Merger Wave:

This merger wave was inspired by globalization, stock market boom and deregulation. This wave merger took place mainly in the banking and telecommunication industries. They were mostly equity financed rather than dept financed. The mergers were driven long term. This wave ended with burst in the stock market bubble and economic slow-down.

Scenario of Mergers in United Kingdom

Merger waves in the U.K have a far shorter history than those occurring in the U.S. nothing akin to a substantial merger wave transpired before the 1960, although there was a small wave in the 1920s which was inspired by the widespread introduction of mass production technologies in the U.K following the end of the First World War. These new technology resulted in a sharp increase in productivity and a matching increase in share price. This sudden brush of productivity and profitability generated a spate of mergers that resulted in substantial increase in concentration in many manufacturing industries. During 1939 to 1945, trade associations and cartels continued to dominate and the competitive environment prevalent in the early part of the century was destroyed. Owing to the outbreak of the Second World War, government had to have a high degree of control on the trade and industry and formation of cartels during this period. As the war come to the end, the government wanted to bring back the competitive environment into the economy but the industries wanted to maintain existing structure that's why traditional industry of Britain could not compete successfully with foreign competition. In 1944 the employment policy was issued which suggested the trade association should play a useful role in improving efficiency and the mergers to be encourages to take advantage of economic of scale.

After that period in during 1945 to 1965, most of the legislative work relating to the regulation of cartels, MRTP ACT gives rise to the constitution of the monopolies and restrictive practices commission. Though the commission was not successful, in performing its job, it became obvious that a great many malpractices were prevalent in the British industry. The first real merger wave in the U.K was in the 1960s and coincided with the internationalization of world economy. The british government decided that large firms were needed to compete effectively on the international stage and to achieve this goal the IRC was created with a brief of encourage the development of such companies through horizontal mergers which made up the majority of mergers in this wave. In 1965, the monopolies and mergers act was passed which prohibited any merger that was contrary to the public good and created the MMC to rule on contentious cases. This law focused on horizontal mergers as the public good was generally associated with market share and consumer choice. Though out this letter period, the proportion of horizontal merger dropped and conglomerate deals grew corresponding. In 1973, the Fair Trading Act was passed requiring the director general of fair trading to keep the commercial activities relating to goods and services under constant review. It is responsibility of the director to scrutinize all mergers.

The next period of excessive merger activity took place in the 1980s and marked a change in emphasis when compared to the previous waves. This wave had been mostly about increasing the size of companies but in the 1980s, the emphasis changed to the control of corporate assets as a commodity. In the early part of the 1980s the stock market was rising sharply reflecting growing profits and business confidence. The financial services industry had just been deregulated which further contributed to the growth of the wave. This period of excessive restructuring also incorporated some features of merger and acquisition activity previously unseen in the U.K and imported from the U.S, increased hostility, the use of leverage and a large number of buy outs all of which took place in this wave. The London Stock Exchange suffered a major crash in 1987 but this was not enough to stop the wave, however the moment to keep going until 1989.And the most recent merger wave in the U.K took place in the 1990s and was again spurred on by deregulation of more British Industries coupled with the 1 policy of privatizing government.

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