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HISTORY OF MERGERS AND ACQUISITIONS IN INDIA: PAST ACTIVITIES AND FUTURE POSSIBLITIES

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Abstract

The phenomenon of mergers and acquisitions has been an area of keen interest for almost every management student. The present research paper tries to explore and present the world of mergers, amalgamations, acquisitions and takeovers in a substantial manner. The study tries to explore the legal, regulatory, social, economic, and financial dimensions of the subject under the covers. It attempts to explore the complex, multi-layered and multidimensional world of mergers and acquisitions with a different approach. One of the most important dimensions in today's scenario is the increase in internationalization of global economy through mergers and acquisitions.
This has made mergers and acquisitions an essential part of the new economic paradigm around the entire globe.
There is a discussion of the probable reasons for this phenomenon, which in turn highlight the significant opportunities that remain for Mergers &Acquisitions research in future.

HISTORY OF MERGERS AND ACQUISITIONS RESEARCH

Introduction

Mergers and acquisitions continue to be a supremely popular form of corporate development. In 2004, 30,000 acquisitions were done globally, which equals to one transaction in every 18 minutes. The sum of these acquisitions was $1,900 billion, which was higher than the GDP of a number of large countries.
However, except their popularity, acquisitions seem to provide at best a mixed performance to the

wide range of stakeholders involved. The phenomenon of rising Mergers and Acquisitions activity has been observed in the whole world. Although this phenomenon started very early in developed countries (1895 in US & 1920s in Europe), but in developing countries this is a recent happening. In Indian context, Mergers and Acquisitions activity started mainly due to economic reforms that begun in 1991. In recent years, the Mergers and Acquisitions have increased hugely in India and various forms of this growing strategy can be easily seen across various economic fronts. Mergers and Acquisitions fathom multidimensional activities like acquisition of stake and assets controlling of different firms. Apart from this, there is numerous purposes for different types of Mergers and Acquisitions observed in the world of corporate. This research paper is an attempt taken to provide a bird eye view for the concept of Mergers and Acquisitions from the industry and regulatory point of view and different kind of motives behind Mergers and Acquisitions. However, it is a point of argument that this specialization has happened at the cost of developing a more holistic and complete understanding of what determines their performance and what results they bring.

MEANING AND DEFINATION OF MERGERS AND ACQUISITIONS

The term Mergers and Acquisitions is generally used as a synonym but together these words combine more than one form of financial and economic transactions for acquiring ownership in the other companies. Specific and independent meaning and definitions of these two different forms of transactions used are discussed as below.

Mergers:

As per the definition provided by Sherman and Hart (2006) it has been stated that "Merger is basically a combination of two or more companies in which buying firm acquires the assets and liabilities of the buying firm. The buying firm may act like a different organization post Merger; it never loses its original identity." It can be explained that in a Merger one of the two existing companies which participate in Mergers & Acquisitions losses its identity into another existing company. Another way can be that one of the existing companies may enter into forming a new company and merge the separate identities into a fresh company by not only transferring their businesses and undertakings but also all other assets and liabilities to the newly set up company.

There is no effect on the shareholders of the company who will continue to have shareholding in the merged company also. These shareholders will get an allotment of fresh shares in the merged company in lieu of the shares acquired by them in the merging company. As per the share exchange ratio decided in the terms and regulations of Merger which had been approved previously by all or at least the identified shareholders of the merging company and the merged company in the separate meetings of the general bodies and approved and allowed by the court.

MERGERS AND ACQUISITIONS IN INDIA

Mergers and Acquisitions have been one of the powerful tools used for transformation of the industrial sector of India post Second World War period. The mayhem created by economic and political conditions in the Second World War and post war periods increased the trend of Mergers and Acquisitions. Kothari in his research mentioned that in the period of wartime the high inflationary crisis attracted many Indian businessmen to consolidate income by choosing the way of high profits and dividends and black money (Kothari 1967).

This opened the gate to "A big amount of high infiltration of businessmen in industry during war period which in turn increased cumbersome activities in stock exchange market.

At that time a craze developed to acquire control over industrial units overlooking the fact of dipping prices of shares. This rat race practice of cornering shares altogether in open market and ill trafficking of managing agency rights was highly observed. This was a tactics for acquiring control over the management of established companies.

The combined impact of these two practices which was to acquire wholesome control over ownership of companies and remote control over the managing agencies resulted in slipping of a considerable number of small companies into the hands of big business houses of the country (Kothari, 1967).

It became absolutely clear in 1946 that India would gain independence, managing agency houses of Britain liquidated their holdings at a rapid rate at unbelievable prices offered to them by Indian business communities.

British government readily transferred managing agencies and handed individual industrial units from British hands to Indian ones.

At that time point of time in history, it was in vogue to acquire control of insurance companies for making use of their funds for acquiring holdings even in other companies.

The big industrialists also floated banks and investment companies for enhancing their control over already established concerns. The post-war period is regarded as an era of Mergers and Acquisitions. Industries like insurance, banking, electricity, jute, cotton textiles, sugar, and tea plantation went through numerous Merger and Acquisitions. It has been found that, although, there were a large number of Mergers and Acquisitions in the early post-independence period, the government policies and regulations which came in the year of 1960s and 1970s seriously deaccelarated Mergers and Acquisitions. This does not, of course, mean that Mergers and Acquisitions were uncommon during the controlled regime. The deterrent was mostly to horizontal combinations which resulted in empowering of economic power to the common detriment. However, there were many conglomerate combinations. In some cases, even the Government encouraged Mergers and Acquisitions; 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 the general insurance business. The national textiles corporation (NTC) took over a large number of sick textiles units (Kar 2004).

HISTORY OF MERGERS AND ACQUISITIONS IN INDIA

Introduction of the phenomenon of Mergers and Acquisitions to Indian corporate happened in the year 1988. During that period of time a very insignificant part of businesses in India used to hold hands, and mostly it happened to be a friendly acquisition including negotiable deals. The most important factor that allowed just a handful of companies to get into the merger was regulatory and prohibitory provisions of MRTP Act of 1969. In this Act it was quite evident that any company or any firm has to undergo a pressurized and hectic procedure to get approval for Mergers and Acquisitions for performing the required action.

In the year of 1988 Indian corporate experienced one of the biggest business acquisitions or company mergers. Swaraj Paul of Escorts Ltd overpowered DCM Ltd and it was one of the well-known ineffective unfriendly takeover bid ever witnessed. After this many other Non-Residents Indians came out to acquire various companies against their stock exchange portfolio.

Post Second World War, Mergers and Acquisitions have been a significant tool used for the transformation of the industrial sector in India. The economic, social and political conditions not only during the period of Second World War but post these wars also, there was a rise in spate of Mergers and Acquisitions. The situation of inflation during the wartime made it possible for many Indian businessmen to amass income by the means of high profits, dividends and black money. This resulted in the wholesale infiltration of businessmen in industry during the period of war giving boost to hectic activity in stock exchanges.

CORE FINDINGS

(i) Regulatory changes and economic reforms have been major reasons for bringing significant changes in Merger and Acquisitions scene in India.

(ii) Acquisitions have become more popular than the Mergers in Indian context due to facilitation from SEBI Takeover code, 1997, and also due to convenience in handling such transaction in comparison to mergers that create more post-integration challenges for acquirers. However, the cost of acquisitions is also on the rise and this higher cost of acquisition is probably one reason why growth rate of acquisition has come down during the study period.

(iii) With service sector contributing more than 57% of Indian economy, majority of Merger and Acquisitions in India during study period have been in service sector. Within that the financial services sector has seen a significant rise in Merger and Acquisitions and the trend is likely to continue in future.

(iv) The major reasons for increasing consolidations in India are the industry specific advantages, cost reduction, exploiting core competence and global competition. These factors have skewed the Merger and Acquisitions activity in India towards horizontal and vertical mergers and acquisitions. The diversified Merger and Acquisitions have been thus reduced to negligible number.

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