New Ages of Mergers & Acquisitions In 21st Century In India

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Abstract- *Mergers and acquisitions have become the buzzword in today s business world. Globalization is one of the key contributors to the rising pace of mergers. In every country, some economic factors have a bearing on corporate restructuring exercises like mergers and acquisitions. Important among them are the political system obtaining in the country, cultural profile of the companies and the policies of the government of the day. These factors have to be favourable for mergers to take place. Merger and acquisition activity in India is booming. In particular, the percentage of cross-border transactions has risen significantly. Flow of FDI"s are greatly encouraged with enactment of new laws and tweaking of existing policies. In the IT sector phenomenal growth of cross-border transactions is recorded. Foreign online firms are focusing on companies in the digital space to gain access to skilled talent and a burgeoning market. The paper presents a brief discussion about mergers, acquisitions, types of offer, types of mergers, process, pros & quons of mergers, profile of recent M&A companies*

Keywords- Mergers, Acquisitions, types of mergers, process in mergers, challenges in mergers.

I. INTRODUCTION

Meaning:

MERGER

Merger is said to occur when two or more companies combine into one company. Merger is defined as a 'transaction involving two or more companies in the exchange of securities and only one company survives'

ACQUISITION

Acquisition is an act of acquiring effective control by a company over the assets (purchase of assets either by lump sum consideration or by item-wise consideration) or management (purchase of stocks/shares or gaining control over Board) of another company without combining their businesses physically. Generally a company acquires effective control over the target company by acquiring majority shares of that company.

II. KEY CONCEPTS/DEFINITIONS IN INDIA M&A PERSPECTIVE:

- **Open offer:** Open offer for a target company result in tendering of their shares at a certain price to a buyer. This will provide an exit option to the shareholders

- **Threshold limits**
  a) Acquisition of 25 percent or more shares or voting rights: An acquire wanting to get 25% or more shares, will need to make an open offer before acquiring such additional shares.
  b) Acquisition of more than five percent shares or voting rights in a financial year: An acquirer can acquire more than 5 percent of the voting rights in any financial year ending March 31, only after making an open offer if the acquirer holds more than 25% of the shares of the target company
  c) Maximum permissible non-public shareholding in a listed company. The maximum number of shares which can be effectually held by promoters or the maximum allowable non-public shareholding in a listed companies (other than public sector companies) is 75 percent of the share capital.

- **Hostile offers / bids:** A hostile bid is one which is an unsolicited bid by a person, without any arrangement or memorandum with persons presently in control. Any person with or without having any shares in a target company, can make an offer to get shares of a listed company subject to minimum offer size of 26 percent.

- **Voluntary open offer:** A voluntary open offer is made by a person who either by in person or through others acting in concert if any, holds 25% or more shares in the target company but less than the maximum allowable non-public shareholding limit.

- **Competitive offer:** Competitive offer is by a person, other than the acquirer who has made the first public announcement. A competitive offer shall be made within 15 working days of the date of the Detailed Public Statement (DPS) made by the acquirer who has made the first Public Announcement.

- **Conditional offer:** This is an offer in which the acquirer has stipulated a minimum level of acceptance is known as a conditional offer. If the number of shares validly tendered in the conditional offer, are less than the minimum level of acceptance stipulated by the acquirer, then the acquirer is not bound to accept any shares under the offer.

- **Eligible shareholders:** All shareholders of the target company other than the acquirer, persons acting in concert with him and the parties to underlying agreement which prompted the open offer including persons supposed to be acting in tandem with such parties
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- **Identified date:** Identified date means the date which is 10 working days prior to the beginning of the tendering period, for the purposes of defining the shareholders of the target company.

III. TYPES OF CORPORATE MERGERS:

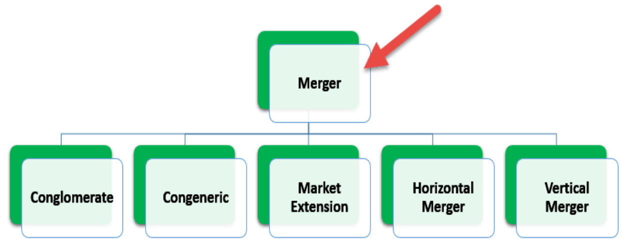
- **Horizontal Merger**: merger of two direct competitor companies that make the same products for sale in the same market.

- **Conglomeration Merger**: Competitors from various industries but merge for a common purpose

- **Product-Extension Merger**: Companies sell different products of related categories.

- **Market-Extension Merger**: Companies sell same products in different markets

Mergers can take place through purchase of assets, purchase of common shares, exchange of shares for assets and exchange of shares for shares.



IV. PROCESS OF MERGERS & ACQUISITIONS

- **Business Valuation:** This step includes examination and evaluation of both the present and future market value of the target company. A thorough research is done on the history of the company with regards to capital gains, organizational structure, market share, distribution channel, corporate culture, specific business strengths, and credibility in the market.

- **Proposal Phase:** Proposal phase is a phase in which the company sends a proposal for a merger or an acquisition with complete details of the deal including the strategies, amount, and the commitments.

- **Planning Exit:** In the process the management has to evaluate all financial and other business issues like taking a decision of full sale or partial sale along with evaluating on various options of reinvestments.

- **Structuring Business:** Deal After finalizing the merger and the exit plans, the new entity or the takeover company has to take initiatives for marketing and create innovative strategies to enhance business and its credibility.

- **Stage of Integration:** This stage includes both the company coming together with their own parameters. It includes the entire process of preparing the document, signing the agreement, and negotiating the deal. It also defines the parameters of the future relationship between the two.

- **Operating the Venture:** This operation is attributed to meet the said and predefined expectations of all the companies involved in the process. The M&A transaction after the deal include all the essential measures and activities that work to fulfill the requirements and desires of the companies involved.

V. MERGERS & ACQUISITIONS IN RECENT TIMES

WALMART-FLIPKART

Walmart bought the controlling stake, **Flipkart** is valued at more than $20bn. The deal also saves **Flipkart**, which was running out of cash in its battle with **Amazon**. Both competitors have been "burning cash" in massive sales and discounts pegged to Indian festivals in a bid to acquire more customers. On may 19, Walmart officially announced to acquire 77% stake in Flipkart for $16bn.

COMPANY	INDUSTRY
WALMART(ACQUIRING COMPANY)	E-COMMERCE
FLIPKART(TARGET COMPANY)	E-COMMERCE

TYPE OF TAKEOVER	FRIENDLY TAKEOVER
PURCHASE CONSIDERATION	$16 BILLION

TATA STEEL-BHUSHAN STEEL

Tata steel (Bamnipal steel) acquire Bhushan steel on 18-may-2018. Tata steel will acquire 72.65% stake by settlement amount equivalent to Rs. 35200 cr. and Rs 1200 cr to operation creditors . Banks like BOI, SBI, BOB, AXIS and CENTRAL BANK will get a stake of 12% in the company. The merger thus approved by the NCLT by invoking Insolvency & Bankruptcy Code (IBC) Act.

COMPANY	INDUSTRY
TATA STEEL(ACQURING COMPANY)	STEEL
BHUSHAN STEEL (TARGET COMPANY)	STEEL

TYPE OF TAKEOVER	UNDER INSOLVENCY BANKRUPTCY CODE (IBC) ACT
PURCHASE CONSIDERATION	35200 CRORES

L&T – MINDTREE

India's first ever hostile takeover of Mindtree by L&T. After Mindtree's shares were oversubscribed in recent open offer, L&T is now the single largest shareholder. Mindtree looked for various ways, which included finding a white knight to buy Siddhartha's shares and buyback of shares. The founders and their family had put together had only 13.32 percent, which was not enough to fend off any takeovers. L&T were successful in acquiring 60% stake in Mindtree.

COMPANY	INDUSTRY
L&T INFOTECH(ACQUIRING COMPANY)	INFORMATION TECHNOLOGY
MINDTREE (TARGET COMPANY)	INFORMATION TECHNOLOGY

TYPE OF OFFER	OPEN OFFER
TYPE OF TAKEOVER	HOSTILE TAKEOVER

VI. ADVANTAGES OF MERGERS & ACQUISITIONS

- **Inflow of funds:** No doubt, when the company merges there is an inflow of cash into business. To be precise, the unused cash can be effectively utilized post-merger for the growth and development of the business.
- **Variegated products:** sales slump is rare. By merging with a company in the same industry, the merging company is effectively reducing competition and paving the way for monopoly.
- **Synergy**: This leads small companies to seek merger with large companies in the same industry. Post-merger, the small company can integrate with the large company and achieve synergy in the product portfolio, thereby reducing marketing costs, franchisee costs and marketing departments overheads. This can be mathematically represented as **2+2=5**
- **Tax Benefit:** This is also one of the implied reasons why companies seek merger. To avoid being taxed heavily, larger companies seek merger with the smaller foreign company and avail of a tax rebate on the newly formed business by moving into low tax jurisdiction zone.
- **Price**: Price fixing can be tricky sometimes. There could be hubris effect, which means firms overstating or over-quoting the price. These decisions are irreversible and can create problems.
- **Merger Policies:** Another important fact is that, post-merger, employees find it difficult to adjust to the companies new policies and regulations. This may lead to attrition or layoffs. Especially, when there is a merger, employee's grievances cell should address the issues of employees, thereby controlling attrition.

VII. CHALLENGES POSED BY MERGERS

- **Universal thinking**: The foremost requirement for companies is to come out of their primitive technologies and adapt themselves quickly to the changing dynamics of the industry. The company should always keep itself abreast of the emerging technologies and innovations.

- **Pricing and valuations**: Both the parties should not only focus on the price and valuation of the merger, but also on the long term benefit derived from the merger.

- **Abiding by the local government regulations**: An acquisition is always bound by local rules and regulations, merger laws, labour laws, etc. of the country concerned. So the companies have to abide by the host country's rules and regulations.

- **Adaptability to change**: Companies have to be ready to adapt or flexible in the overseas market, if it is a foreign market. The product might be a hit in the domestic market but need not necessarily be so in the overseas market.

- **Different methods of marketing strategy**: The company could be benefitted by employing the local people. The production of the company may go up as a result since the entity will get to exploit the expertise of the local people.

- **Corporate social responsibility or CSR**: The company has some social responsibility to shoulder – it owes something to the local community like providing education to the under-privileged, caring for the environment, providing clothing and food to the needy, etc.

VIII. CONCLUSION

The economy has exposed the corporate sector to domestic and global competition. Mergers and Acquisitions (M&A) emerged as one of the most effective methods of corporate restructuring and therefore became an integral part of the long-term business strategy of corporate sector all over the world. Almost 85 percent of Indian companies are using M&A as a core growth strategy.