

# Mergers and Acquisitions in India

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## I. INTRODUCTION

Prior to the 1990s, Indian businesses were under a rigorous supervision regime. As a result, during that time, Indian corporate firms grew haphazardly. The government's 1991 reforms have had an impact on how Indian businesses operate and are governed, leading to the adoption of various growth and expansion strategies by corporate firms. During that time, mergers and acquisitions (M&As) have been a frequent occurrence. The Indian economy is not new to M&A. Indian business organizations are currently emphasizing on the areas of core competence, market share, global competitiveness, and consolidation. Historically, firms have also used M&As to expand. In addition, the entry of international competitors has accelerated this process of refocusing. In light of this, Indian corporations have restructured, mostly through mergers and acquisitions, in an effort to establish a strong presence and grow in their primary areas of focus.

## II. MERGER

Combining two or more businesses into one, where one survives and the other ceases to exist, is referred to as a merger. Every asset, stock, and liability of the combined firm or companies are acquired by the surviving company. The seller is often the extinguishing company, and the buyer is the surviving company. For instance, Hindustan Co. Ltd. and Indian Reprographics Ltd. joined together to establish HCL Limited. In India, amalgamation is another name for a merger. The acquiring company, also known as the merged company or the amalgamated company, takes over the obligations and assets of the acquired firm, also known as the target company, the merging company, or the amalgamating company. The shareholders of the merging firm usually receive their shares in the merged company in return. The firm that

is merged into another company is referred to as the transferor company, and the company that is amalgamated into the transferor company is referred to as the transferee company. Usually, an amalgamation occurs when two or more businesses that operate in the same industry or have some operational synergy come together. Once more, corporations may merge all of their assets, liabilities, and stocks in exchange for payment in the form of

1. An equity stake of the transferee company in order to diversify their operations or to expand their services.

2. The transferee company's debt

3. Money or a combination of the two

A merger is different from consolidation in that the surviving corporation assumes all of the merging company's rights, obligations, and privileges. Through this strategy, businesses officially consolidate asset ownerships that were previously under the jurisdiction of distinct entities. Depending on the connections between the companies involved, mergers can take several forms, some of which are covered below:

1. Horizontal Merger: A horizontal merger is when two businesses that aren't directly competing with one another join forces. In other words, those businesses are prepared to sell same-type products to consumers who are part of the same market.

2. Vertical Merger: A vertical merger is when a company and a supplier or a customer and a company combine. For instance, a tire manufacturer and a rubber manufacturing company might combine.

3. Product extension Merger: A merger is the joining of two businesses that offer distinct goods in the same market. Those products might have some similarities.

4. Market expansion Combination: Market expansion Two businesses that sell the same product but in separate markets come together in a merger.

5. Conglomeration Merger: In a concentration merger, the companies involved have no goods or markets in

common. In actuality, they have no shared corporate affiliation.

### III. ACQUISITION

An acquisition is typically when a larger company buys out a smaller one. Another name for an acquisition is a buyout or takeover. Buying a target firm or corporate asset in whole or in part is known as an acquisition. The process of purchasing a business with the intention of enhancing its strengths or deficiencies is known as business acquisition. Though it more precisely refers to integrating all of the interests of two companies into one stronger company, a merger is comparable to an acquisition. The final effect is to expand the company more quickly and profitably than typical organic expansion would permit. Purchasing a business from another without creating a new one is known as an acquisition. Acquisitions include the acquisition of Corus by the Tata Group.

One can carry out a takeover in the following ways:

**Open Market Purchase:** The buyer purchases the company's listed shares on the stock exchange. This is how hostile takeovers are typically started.

**Friendly or negotiated acquisition:** In a negotiated transaction, the acquirer purchases shares of the target firm from one or more current shareholders, who are probably promoter shareholders.

**Preferential allocation:** The acquirer invests money in the target firm and purchases shares of it through a preferential allocation of stake.

**Bail-out takeovers:** are when a profitable business buys out a financially troubled business in order to save it.

### IV. MERGERS AND ACQUISITIONS IN INDIA

Since the Second World War, M&As have been heavily involved in the development of India's industrial sector. Numerous M&As were prompted by the political and economic climate of the Second World War and the years following it, especially the years following independence. Due to the wartime inflationary environment, many Indian businessmen were able to accumulate wealth through black money, high profits, and dividends (Kothari 1967). This resulted in "tumultuous activity in stock exchanges during the war period due to wholesale infiltration of

businessmen in industry." Even though share prices were skyrocketing, there was a frenzy to gain control of industrial entities. Cornering shares on the open market and trafficking managing agency rights to gain control over the administration of well-known and established businesses have become widely known practices. The combined result of these two practices—gaining influence over managing agencies and the ownership of businesses—was that many issues ended up in the hands of the nation's leading industrial firms (Kothari, 1967). When it became evident that India will soon become an independent nation, British managing agency houses sold off their interests at the amazing prices that the Indian business sector was willing to provide. In addition to the transfer of managing agencies, there were numerous instances where Indians acquired interests in specific industrial units from British owners. Furthermore, taking over insurance companies in order to leverage their money to buy sizable stakes in other businesses was popular at the time. The large manufacturers also established banks and investment firms in order to achieve their goal of taking over well-established businesses.

It is believed that M&As were common during the post-war era. Numerous M&A transactions took place in sectors such as tea plantations, banking, insurance, sugar, cotton textiles, jute, and electricity. Although there were a lot of M&As in the early post-independence era, it has been discovered that the 1960s and 1970s anti-big government laws and regulations significantly discouraged M&As. This does not imply that M&As were rare under the restricted regime, of course. The main disincentive was against horizontal combinations, which lead to the concentration of economic power at the expense of everyone. Conglomerate combinations were many, nevertheless. Even the government has occasionally supported M&A, particularly for ailing units. In addition, the establishment of the Life Insurance Corporation and the 1956 nationalization of the life insurance industry led to the acquisition of 243 insurance firms. The general insurance industry saw a comparable change. As per Kar (2004), the National Textiles Corporation (NTC) assumed control of numerous ill textile operations.

## V. RECENT DEVELOPMENT IN MERGERS AND ACQUISITIONS

Since liberalization in India, the functional significance of M&As has undergone a radical transformation. Large company groups and international corporations can now use M&A as a growth strategy thanks to amendments made to the MRTP Act and other laws. Additionally, the 1994 and 1997 SEBI (Substantial Acquisition of Shares and Takeover) Regulations have been notified. These developments, along with the government's decision to let corporations to repurchase their shares through the enactment of buyback ordinances, have affected the Indian corporate control market.

M&As were a tactic used in the 1980s by a number of corporate organizations, including R.P. Goenka, Vijay Mallya, and Manu Chhabria, to establish and expand their empire in India. Among the businesses acquired by the RPG group were Gramophone India, Philips Carbon Black, Dunlop, and Ceat. Mallya's United Breweries (UB) group was mostly straddled by mergers and acquisitions. Furthermore, M&A has been a key growth strategy for the massive Hindustan Lever Limited in the post-liberalization era. Nearly all of the Ajay Piramal group's growth has come from M&A. Using M&A as a tactic, the Murugappa group, centered in the south, established an empire. Sterling Abrasives, Cut Fast Abrasives, Bharat Pulverising Mills, Coromondol Fertilizers, and EID Parry are a few of the businesses that the Murugappa Group has purchased. Sun Pharmaceuticals Industries and Ranbaxy Laboratories Limited are two such businesses and organizations whose expansion has been aided by M&As, especially in the latter part of the 1990s. There have been several M&As in every area of Indian industry over the past ten years. Even India's well-known and sizable industrial organizations, such as the Tata Group, Birla Group, and Reliance Group, have entered into a number of significant agreements.

## VI. PROCESS OF MERGERS AND ACQUISITIONS

For every business considering a merger or acquisition, the merger and acquisition process is a major concern. This is the case because the benefits that arise from a merger or acquisition can be

significantly impacted by the process of the merger or acquisition. In order to optimize the advantages of a merger or acquisition agreement, the merger and acquisition process should be designed in this way. There are several steps that make up the merger and acquisition process. Any merger process's profitability is ensured by its methodical execution.

Step 1: Initial evaluations or company appraisals - The target company's market value is evaluated at this initial stage of the merger and acquisition process. In this evaluation procedure, the company's predicted future market value is taken into account in addition to its existing financial performance. The business that plans to buy the target company thoroughly investigates the target company's past operations. Strict scrutiny is given to the company's goods, capital needs, organizational design, and brand value.

Step 2: Proposal Phase - Following a thorough examination and assessment of the target company's performance in the market, the merger or acquisition proposal is made in the second step. This offer is typically made by issuing a non-binding offer document.

Step 3: Make an exit strategy - The target company engages in exit planning when a company chooses to buy it out and the target company consents. The target company schedules the appropriate exit. It takes into account every option, including partial and full sales. Additionally, the organization plans taxes and assesses reinvestment choices.

Step 4: Organized Promotion - The target company participates in the marketing process and works to attain the maximum selling price after completing the exit plan. The target company focuses on the business deal's structure in this step.

Step 5: Purchase Agreement or Merger Agreement Origination - In the event of an acquisition deal, the purchase agreement is made in this step. The final agreement documents are created at this stage in the event of a merger as well.

Step 6: Integration Stage - The two businesses are combined through a merger or acquisition in this last phase. At this point, it is guaranteed that the new joint

venture will adhere to the same policies and procedures across the board.

## VII. THE DEAL OF MERGER AND ACQUISITION

The purchase or merger agreement has been written down below. Before a merger or acquisition is actually completed, a number of elements influence the process's overall success. With a "tender offer," the merger and acquisition process officially begins. A tender offer is one in which the intention is to buy all or a portion of the shareholders' shares. The price that has been set for the same is higher than the going rate. The Securities and Exchange Commission, or SEC, has created laws that require that any individual or business that purchases 5% of a company's stock notify the SEC. A tender offer might be classified as "friendly" or "unfriendly." A business that plans to eventually purchase another business buys out all of the target company's shares. Only 5% is the upper limit, though, and the remaining shares are reported as SEC. The quantity of shares (both those that have been purchased and those that are still outstanding) is declared to the SEC. With the help of investment bankers and financial consultants, the acquiring business determines the total price it is willing to pay for the target company and its assets. Following that, the tender offer is made public, alerting shareholders to the offer price and the dates for accepting or rejecting it.

Response of the intended business:

The target business can react in any of the ways listed below to the aforementioned sequence of action:

(I) Accept terms of offer: A merger or acquisition agreement is reached if senior executives and managers believe the offer price can be accepted.

(II) The shareholders of the target firm will attempt to negotiate the merger or acquisition agreement if the terms provided by the acquiring company are unacceptable. The subject company's top management and shareholders will attempt to resolve conflicts so they don't lose their jobs while still acknowledging the target company's interest.

(III) Seeking a White Knight: A White Knight is a different business that wants to engage in a friendly takeover of the target business in order to prevent the target business from becoming the victim of a business that plans a hostile takeover of the target business.

(IV) Using a Poison Pill: The target firm tries to make its shares or assets less desirable to the company trying to rewrite the story by taking a poison pill. There are two ways the target company could accomplish it:

(a) The target company's current shareholders can purchase shares at a reduced price by employing a "flip in."

(b) Through the use of a "flip over": This enables shareholders to purchase shares of the acquiring business at a reduced price following the merger.

Finalization of the merger or acquisition agreement

The merger or acquisition agreement is signed, resulting in a transaction, once the target business has ultimately accepted the tender offer and met all legal requirements. Throughout the transaction, the business that purchases the target business may pay with cash, stock, or both.

## VIII. IMPACT OF MERGER AND ACQUISITIONS

The effects of mergers and acquisitions on different divisions of the organization may vary, just as they may be beneficial in some situations. The article that follows provides information on the effects on management, employees, and shareholders.

A company's productivity and earnings are intended to be increased through mergers and acquisitions. At the same time, the goal is to lower the company's expenses.

always work out. Sometimes the primary objective of the process becomes less focused.

Numerous factors influence the success of mergers, acquisitions, and takeovers. Not only do those mergers and acquisitions impact the entire workforce within that business, but they also damage the company's reputation. In addition to departing from the intended goal, there are other psychological effects during the process. Mergers and acquisitions may have an impact on shareholders, employees, and senior leaders, according to studies.

The effects of mergers and acquisitions on employees: Employees are the ones who are most affected by mergers and acquisitions. Everyone knows that layoffs are inevitable anytime there is a merger or acquisition. In the event that the new firm is successful, fewer employees will be needed to complete the same tasks. In these situations, the business would want to reduce the number of

employees. Employees may actually benefit from being laid off and move on to better opportunities if they have the necessary abilities. However, it is typically observed that the laid-off individuals would not have contributed significantly to the new organizational structure. Their expulsion from the newly established organization can be explained by this. These workers would then search for other jobs and could have to settle for a lot less money than they were paid in their former position. Although this might not result in extremely high unemployment rates, workers will still need to make concessions. If not drastically, the mild undulations created in the local economy cannot be ignored fully.

Impact of mergers and acquisitions on upper management

A "clash of the egos" may be a real consequence of mergers and acquisitions as they affect upper management. There may be differences between the two organizations' cultures. Under the new arrangement, the manager might be expected to put such strategies or policies into effect, which he might not fully agree with. Executives are occupied with either resolving conflicts within the organization or moving on when such a scenario occurs, diverting the organization's primary emphasis. But if the boss has a degree or other appropriate credentials, moving to a different organization might not be difficult at all.

Shareholders of the acquired company

The people who gain the most are the owners of the acquired company. This is due to the fact that most of the time, the purchasing firm pays a bit more than is necessary. It is impossible for a man to understand the disadvantages of a house he has just purchased unless he lives there. In order for the shareholders to give up their shares, the business must make an offer that is higher than the going rate in the market. The local economy may benefit from paying a greater price to purchase a business.

The people most impacted are the acquiring company's shareholders. The stockholders of the acquired company suffer if we quantify the benefits they received in degrees, just as they would if we measured the benefits in degrees. The debt load that comes with a purchase is the cause of this.

## IX. STATEMENT OF OBJECTIVE

Analyzing the idea, procedure, and effects of mergers and acquisitions (M&A) in the context of Indian business life is the main goal of this research. In the post-liberalization period, it seeks to investigate how M&A functions as a strategic tool for company growth, consolidation, and competition. The purpose of the text is to: Gain an understanding of the terms, categories, and legal frameworks that regulate mergers and acquisitions in India.

1. Analyze how the Indian economy's M&A tendencies have been influenced by past changes and current events.
2. Examine the steps that are taken during the merger and acquisition process, from the beginning to the end.
3. Evaluate the effects of M&A operations on important parties, including as shareholders, employees, and management.
4. Assess the strategic ramifications, advantages, and difficulties of mergers and acquisitions for business expansion and economic advancement.

## X. CONCLUSION

In India, mergers and acquisitions have become effective tools for strategic expansion and company reorganization. As globalization and economic liberalization have taken hold, M&A has become a more popular strategy for Indian companies looking to increase their market reach, diversify their activities, increase their competitiveness, and realize economies of scale. Further enabling this change has been the development of regulatory frameworks including the SEBI Takeover Code, the MRTTP Act changes, and liberalized FDI policies.

Increased profitability, technical innovation, and better resource use are just a few advantages of mergers and acquisitions, but they also come with a number of drawbacks. Employee layoffs, management disputes, cultural integration problems, and financial concerns frequently determine whether such endeavors succeed or fail in the end. In addition to good strategic planning, successful post-merger integration and human resource management are also critical to the long-term effects of M&A.

To sum up, mergers and acquisitions in India are a reflection of the country's dynamic business

environment and increasing adherence to international business standards. When carried out with specific goals, careful consideration, and moral leadership, M&A may be a driving force behind innovation, long-term expansion, and the bolstering of India's standing in the world economy.

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