IRACST – International Journal of Commerce, Business and Management (IJCBM), ISSN: 2319–2828
Vol. 4, No.2, April 2015

MERGER AND ACQUISITION

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ABSTRACT: **In today's competitive scenario, a company cannot think of long term survival if it get stick on the particular operations. To gain competitive advantage it has to restructure its activities as per the demand of time by using any form of corporate restructuring such as through Mergers and Acquisitions. Mergers and acquisitions improve market efficiency by capturing synergies between firms. The prospect of increasing profitability and market share by acquisition or merger has continued to exercise a more immediate and seductive appeal to organizations. This paper aims at finding out different types of Mergers and Acquisitions and investigating the effects of merger and acquisition negotiations on subsequent target company's effectiveness and to find out how Make in India Campaign is helpful for the companies to have an advantageous Merger or Acquisition deal.**

INTRODUCTION

Sometimes the companies have to restructure their activities to make the organization more balanced, profitable and also enable the company to achieve its objectives in more simplified manner, than previously. The basic objective of restructuring is reorganizing the existing operations keeping in view the continuance of business and improving the firm's profitability. Thus restructuring is a process by which a firm does an analysis of itself at a point of time and alert what it owes and owns, refocuses itself to the specific tasks of performance improvements. There are many areas of restructuring such as in the area of finance, technology, marketing and manpower. A company can restructure itself by adopting either expansion techniques or disinvestment techniques. Mergers and acquisitions are involved in expansion techniques.

OBJECTIVES OF THE STUDY

1. To study the significance of Mergers and Acquisitions.
2. To know how Make In India Campaign will open the avenues for Mergers and Acquisitions.

MEANING

Merger:

Under merger, two or more companies keeping in view their long term business interest combine into one economic entity to share the risk and financial rewards. So however in strict sense merger is used for fusion of two companies to achieve the expansion and diversification.

Although the merger of companies in India is governed by the provisions of Companies Act, 1956 but its more clear definition has been given in the Income Tax Act, 1961.

So, we can say that, the merger is the combination of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock.

Types of Merger

- Horizontal mergers: In it, two or more concerns dealing in same product/services join together to avoid competition, to eliminate duplication of facilities and to gain economies of scale.
- Vertical mergers: It means merger of firms engaged at different stages of production/ distribution of same product/ service to take up two different stages of work to ensure speedy production or quick service.
- Conglomerate mergers: It means merging of two concerns dealing in totally different activities to diversify their activities which may be induced by some common features such as distribution channels, technology, etc.

<u>Acquisition:</u>

An acquisition or takeover is the purchase of one business or company by another company or other business entity. Such purchase may be of 100%, or nearly 100%, of the assets or ownership equity of the acquired entity. Acquisitions are divided into "private" and "public" acquisitions, depending on whether the acquired or merging company (also termed a target) is or is not listed on a public stock market. Some public companies rely on acquisitions as an important value creation strategy. An additional dimension or categorization consists of whether an acquisition is friendly or hostile. "Acquisition" usually refers to a purchase of a smaller firm by a larger one. Sometimes, however, a smaller firm will acquire management control of a larger and/or longer-established company and retain the name of the latter for the post-acquisition combined entity. This is known as a reverse takeover.

Types of Acquisition

- Negotiated/ Friendly acquisitions: This type of acquisition is organized by incumbent management with a view to parting with the control of management to another group, through negotiation.
- Open market/ Hostile acquisition: This is done to acquire the management of, or acquire controlling interest in, the target company; a person or group of persons acquire the shares from the open market, financial institutions, mutual funds, or willing shareholders at

a price higher than the prevailing market price.

- Bail out acquisition: In this a profit earning company acquires a financially sick company to bail it out normally in pursuance of a scheme of rehabilitation approved by public financial institutions or scheduled banks.

DIFFERENCE BETWEEN MERGER AND ACQUISITION

Merger is considered to be a process when two or more companies come together to expand their business operations whereas, when one company takes over the other and rules all its business operations, it is known as acquisitions. In this process of restructuring, one company overpowers the other company and the decision is mainly taken during downturns in economy or during declining profit margins.

A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forceful or a helpless association where the powerful company either swallows the operation or a company in loss is forced to sell its entity. In case of a merger there is a friendly association where both the partners hold the same percentage of ownership and equal profit share.

Another difference is, in an acquisition usually two companies of different sizes come together to combat the challenges of downturn and in a merger two companies of same size combine to increase their strength and financial gains along with breaking the trade barriers.

EXAMPLES OF MERGERS AND ACQUISITIONS IN INDIA

Here is a list of some of the most happening mergers and acquisitions in India in the year 2014, listed in random order.

1. Flipkart- Myntra: The huge and most talked about takeover or acquisition of the year. The seven year old Bangalore based domestic e-retailer acquired the online fashion portal for an undisclosed amount in May 2014. Industry analysts and insiders believe it was a $300 million or Rs 2,000 crore deal.

2. Asian Paints- Ess Ess Bathroom Products: The Company on May 14, 2014 has entered into a binding agreement with Ess Ess Bathroom Products Pvt. Ltd and its promoters to acquire its entire front-end sales business including brands, network and sales infrastructure.

3. RIL- Network 18 Media and Investments: Reliance Industries Limited (RIL) took over 78% shares in Network 18 in May 2104 for Rs 4,000 crores. Network 18 was founded by Raghav Behl and includes moneycontrol.com, In.com, IBNLive.com, Firstpost.com, Cricketnext.in, Homeshop18.com, Bookmyshow.com while TV18 group includes CNBC-TV18, CNN-IBN, Colors, IBN7 and CNBC Awes.

4. Ranbaxy- Sun Pharmaceuticals: Sun Pharmaceutical Industries Limited, a multinational pharmaceutical company headquartered in Mumbai, Maharashtra which manufactures and sells pharmaceutical formulations and active pharmaceutical ingredients (APIs) primarily in India and the United States bought the Ranbaxy Laboratories. The deal is expected to be completed in December, 2014.
5. TCS- CMC: Tata Consultancy Services (TCS), the $13 billion flagship software unit of the Tata Group, has announced a merger with the listed CMC with itself as part of the group's renewed efforts to consolidate its IT businesses under a single entity.

6. Yahoo- Bookpad: The search engine giant, Yahoo, acquired the one year old Bangalore based startup Bookpad for a little under $15 million, though the exact amount has not been disclosed by either of the two parties concerned.

MERGERS AND ACQUISITIONS: A TRUMP CARD

- Synergy Effect: The very first advantage of Merger & Acquisition is synergy that offers a surplus power that enables enhanced performance and cost efficiency. When two or more companies get together and are supported by each other, the resulting business is sure to gain tremendous profit in terms of financial gains and work performance.
- Cost efficiency: This is because any kind of merger actually improves the purchasing power as there is more negotiation with bulk orders. Apart from that staff reduction also helps a great deal in cutting cost and increasing profit margins of the company. Apart from this increase in volume of production results in reduced cost of production per unit that eventually leads to raised economies of scale.
- Competitive edge: With these, it is easy to maintain the competitive edge because there are many issues and strategies that can be well understood and acquired by combining the resources and talents of two or more companies.
- Increase in market power: A merger and acquisition deal increases the market power of the company which in turn limits the severity of the tough market competition. This enables the merged firm to take advantage of hi-tech technological advancement against obsolescence and price wars.

MAKE IN INDIA: PAVING WAY FOR MERGERS AND ACQUISITIONS

The audacious Make-In-India programme, launched by the new Government at the centre, has unfolded a plethora of new opportunities, equations and new ways to make India self-reliant in the coming decade. The Defence sector, which has been listed as one of major areas urgently needing indigenisation, appears to have braced up for consolidation through new mergers and acquisitions.

And the beginning has just begun!

Privately-run Mahindra & Mahindra (M&M), which is steadily stepping into India's burgeoning and lucrative defence sector, has already made the foray to acquire ABG Shipyards.

M&M has clearly showed its seriousness about doing business in the defence sector and has inked a number of partnership deals with many global defence and aerospace companies to produce systems and equipment for the industry.

One of the primary goals of pushing Make-In-India in Defence Sector is to achieve economies of scale involving cost advantages for an organization with increased scale of production and operation over a period of time. Such economies of scale would be possible if and when the Government, and moreover, the customer, i.e. the Indian Military, reposes its faith in the indigenous defence systems and make a pitch for their production and induction.

It will bring in a new revolution towards designing, developing, producing high technology military systems and platforms to meet the domestic demand as well as to compete at the global stage.

Similarly, in other sectors too companies are deciding to restructure themselves through mergers and acquisitions to make the dream of Prime Minister's 'MAKE IN INDIA' meaningful.

CONCLUSION

Merger and Acquisition will certainly be helpful for the restructuring of companies to bring them in competitive front and to gain many other advantages either by expanding or disinvesting. One technique doesn't fit in all situations. Many companies find that the best way to get ahead is to expand ownership boundaries through mergers and acquisitions. For others, separating the public ownership of a subsidiary or business segment offers more advantages. At least in theory, mergers create synergies and economies of scale, expanding operations and cutting costs. Investors can take comfort in the idea that a merger will deliver enhanced market power. Merged companies often enjoy improved operating performance because of redesigned management incentives. Additional capital can fund growth organically or through acquisition. Meanwhile, investors benefit from the improved information flow from the merged companies. M&A comes in all shapes and sizes, and investors need to consider the complex issues involved in M&A. The most beneficial form of equity structure involves a complete analysis of the costs and benefits associated with the deals.

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