



Research Article

## MERGERS & ACQUISITIONS-THE ORDER OF THE DAY

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### ABSTRACT

Mergers and Acquisitions are in operation from time immemorial. M&A is not a new concept. Devas and Asuras entered into an alliance to bring out Amritham from Parkadal. Rama and Sukhreeva mutually helped each other to save their respective spouses from Ravana and Vaali. Lord Krishna tied up with Pandavaas to fulfill the motive behind his avatar. Vijay Television grew in leaps and bounds after it was acquired by Star Television Network. The takeover of OLA cabs by Taxi For Sure is expected to bring a huge revolution in the travelling sector. Business families come together by entering into wedlock. Jayashree of Nalli family got married to Ravi of Kumarans and now she has her own stores called Palam Silks. Roshan Narayanamoorthy of Infosys got married to Lakshmi Srinivasan of TVS. The list is endless. The post merger synergy is a major deciding factor in the entire process. This paper attempts to study the scope of M&A in the present day business scenario.

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### INTRODUCTION

Mergers and Acquisitions are in operation from time immemorial. M&A is not a new concept. Devas and Asuras entered into an alliance to bring out Amritham from Parkadal. Rama and Sukhreeva mutually helped each other to save their respective spouses from Ravana and Vaali. Lord Krishna tied up with Pandavaas to fulfill the motive behind his avatar. Vijay Television grew in leaps and bounds after it was acquired by Star Television Network. The takeover of OLA cabs by Taxi For Sure is expected to bring a huge revolution in the travelling sector. Business families come together by entering into wedlock. Jayashree of Nalli family got married to Ravi of Kumarans and now she has her own stores called Palam Silks. Roshan Narayanamoorthy of Infosys got married to Lakshmi Srinivasan of TVS. The list is endless. The post merger synergy is a major deciding factor in the entire process. There is a need for managers to better focus on post-merger integration issues in order to create merger-induced synergies, rather than simply acquiring bigger size and achieve hidden objectives. (Rajkumar 2009)<sup>1</sup>

#### Statement of the Problem

Mergers & Acquisitions have gained popularity throughout the world in the recent times. They have become popular due

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to globalization, liberalization, technological development and intensely competitive business environment. Mergers and acquisitions are a big part of the corporate finance world. This process is extensively used for restructuring the business organization. In India, the concept of M & A was initiated by the Government bodies. The India economic reform since 1991 has opened up a whole lot of challenges both in the domestic and international spheres. The increased competition in the global market has prompted the Indian companies to go for M & A as an important strategic choice. The trends of M & A in India have changed over the years. The immediate effect of M & A has also been diverse across the various sectors of the Indian economy. The management cannot take it for granted that synergy can be generated and profits can be increased simply by going for mergers and acquisitions. (Satish Kumar & lalit K Bansal)<sup>2</sup>

#### Need and Importance of the Study

Mergers and Acquisitions (M&A) have been around for a long time and has experienced waves of popularity during these times and they are very much an important part of today's business world. They have also become increasingly international which can be due to the rising global competition. The popularity of cross-border M&A's makes it important to look at them from an international perspective.

Merged firms demonstrate better operating performance as compared to both their industries and their pre-merger performance. Merging firms belonging to unrelated industries

1(Raj Kumar, (2009) "Post-Merger Corporate Performance: An Indian Perspective", Management Research News, Vol. 32 Iss: 2, pp.145 - 157)

2(Satish Kumar, Lalit K. Bansal, (2008) "The Impact of Mergers and Acquisitions on Corporate Performance in India", Management Decision, Vol. 46 Iss: 10, pp.1531 - 1543)

appear to be performing better in the long-term as compared to the related firms. Mergers which witness transfer of corporate control demonstrate a better performance than the ones that do not. (Ramakrishnan K 2010)<sup>3</sup>. The present study has made an earnest attempt to examine the scope of recent mergers and acquisitions in India.

### **Objectives of the Study**

- To list out the recent mergers and acquisitions in India
- To examine the scope of recent mergers and acquisitions in India.
- To evaluate the effectiveness of such mergers and acquisitions

### **Limitation of the Study**

- The study has been conducted only based on recent mergers and acquisitions
- The study is limited to India

## **METHODOLOGY**

### **Research Design**

The research design is empirical in nature since the study is conducted using both analytical and diagnostic type of research. The major part of the study is based on primary data.

### **Sources of Data**

Primary data has been collected from the management and employees of companies involved in recent mergers and acquisitions in India.

Secondary data is collected from various published and unpublished sources including Journals, Magazines, Publications, Reports, Books, Dailies, Periodicals, Articles, Research Papers, Websites, Manuals, and Booklets.

### **Scope of Mergers and Acquisitions**

M&A has become a daily transaction now-a-days. Mergers and acquisitions are an important area of capital market activity in restructuring a corporation and had lately become one of the favored routes for growth and consolidation. The reasons to merge, amalgamate and acquire are varied, ranging from acquiring market share to restructuring the corporation to meet global competition. One of the largest and most difficult parts of a business merger is the successful integration of the enterprise networks of the merger partners. The main objective of each firm is to gain profits. M&A has a great scope in sectors like steel, aluminium, cement, auto, banking & finance, computer software, pharmaceuticals, consumer durable food products, textiles etc. Mergers that create maximum value treat the transaction as a complete lifecycle – beginning with pre-deal strategy, progressing through deal execution and continuing with post-merger integration. Most successful merger and acquisition (M&A) transactions are characterized by the superior execution of an explicit value-capture strategy, which we call the “life-cycle approach.” To achieve this, top managements in the most successful transactions have relied on four key principles: treat M&A as a holistic process; focus

on value creation, not just integration; accelerate merger planning and execution; and use culture as a value-creation tool. (Ravi *et al* 2005)<sup>4</sup>

It is an indispensable strategic tool for expanding product portfolio's, entering into new market, acquiring new technologies and building new generation organization with power & resources to compete on global basis. With the increasing number of Indian companies opting for mergers and acquisitions, India is now one of the leading nations in the world in terms of mergers and acquisitions. Till few years ago, rarely did Indian companies bid for American-European entities. Today, because of the buoyant Indian economy, supportive government policies and dynamic leadership of Indian organizations, the world has witnessed a new trend in acquisitions. Indian companies are now aggressively looking at North American and European markets to spread their wings and become global players. Almost 85 per cent of Indian firms are using Mergers and Acquisitions as a core growth strategy.

### **Recent Mergers and Acquisitions in India**

Mergers and acquisitions (M & A) is the area of corporate finance management and strategy dealing which deals with purchasing and/or joining with other companies. Though the two are often mentioned together, a merger is very different from an acquisition. A merger, in a nutshell, involves two corporate entities joining forces and becoming a new business entity, with a new name. It usually involves two companies of same size and stature joining hands. An acquisition, on the other hand, involves one bigger business taking over a smaller company which may be absorbed into the parent company or run as a subsidiary. The company being taken over is referred to as the ‘target company’ in the corporate world. The following mergers and acquisitions were the most happening events in the corporate arena during 2014.

#### **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. Flipkart co-founder Sachin Bansal insisted that this was a “completely different acquisition story” as it was not “driven by distress”, alluding to a plethora of small e-commerce players either having wound up or been bought over in the past two years. Together, both company heads claimed, they were scripting “one of the largest e-commerce stories”.

#### **Asian Paints- Ess Ess Bathroom Products**

Asian paints signed a deal with Ess Ess Bathroom Products Pvt. Ltd to acquire its front end sales business for an undisclosed sum in May, 2014. “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,” Asian Paints said in a filing to the BSE on Wednesday. Ess Ess produces high end products in bath

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<sup>3</sup>(Ramakrishnan K, (2010) "Mergers in Indian Industry: Performance and Impacting Factors", Business Strategy Series, Vol. 11 Iss: 4, pp.261 - 268

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<sup>4</sup>(Ravi Chanmugam, Walt Shill, David Mann, Kristen Ficery, Bill Pursche, (2005) "The Intelligent Clean Room: Ensuring Value Capture in Mergers and Acquisitions", Journal of Business Strategy, Vol. 26 Iss: 3, pp.43 – 49)

and wash segment in India and taking them over led to a 3.3% rise in share price for Asian paints.

#### **RIL- Network 18 Media and Investments**

Reliance Industries Limited (RIL) took over 78% of shares in Network 18 on 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 Awaaz.

#### **Merck- Sigma Deal**

One of the leading Indian manufacturers, Merck KGaA took over US based Sigma-Aldrich Company for \$17 billion in cash, hoping the deal will help boost its lab supplies business. Sigma is the leading supplier of organic chemicals and bio chemicals to research laboratories and supplies groups like Pfizer and Novartis with lab substances.

#### **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. Ranbaxy shareholders will get 4 shares of Sun Pharma for every 5 Ranbaxy shares held by them. The deal, worth \$4 billion, will lead to a 16.4 dilution in the equity capital of Sun Pharma.

#### **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. At present, CMC employs over 6,000 people and has annual revenues worth Rs 2,000 crores. The deal was inked a few days back. TCS already held a 51% stake in CMC.

#### **Tata Power- PT Arutmin Indonesia**

India's largest private power producer, Tata Power, purchased 30% stake in Indonesian coal manufacturing firm for Rs 47.4 billion. Earlier this year, they sold off 5% of its stake in PT Arutmin Indonesia (Arutmin) and PT Kaltim Prima Coal (KPC) for Rs. 250 billion due to falling coal prices globally. It plans to sell the remaining 25% stake for \$ 1 billion soon.

#### **Tirumala Milk – Lactalis**

The largest dairy player in the world, Groupe Lactalis SA, acquired the 18 year old Hyderabad based Tirumala Milk products for a whopping Rs 1750 crore (\$275 million) in January, 2014. Founded in 1896 by D Brahmanandam, B Brahma Naidu, B Nageswara Rao, Dr N Venkata Rao and R Satyanarayana, Tirumala is the second largest private dairy company in South India. Lactalis acquired 100% of their shares.

#### **Aditya Birla Minacs- CSP CX**

Aditya Birla Nuvo Ltd (ABNL) owned ABNL IT & ITeS Ltd. was sold to a Canadian based technology outsourcing firm marking Aditya Birla's exit for the IT industry. The deal was

chalked out with a group of investors led by Capital Square Partners (CSP) and CX Partners (CXP) for \$260 million (approximately Rs. 1,600 crore).

#### **Sterling India Resorts- Thomas Cook India**

Billionaire Prem Watsa owned Thomas Cook India bought the Sterling Resorts India for Rs 870 crores in, marking Thomas Cook's entry into the hospitality sector. Thomas Cook had earlier acquired Ikya Human Solutions in 2013.

#### **Scale or scope?**

For many acquirers, viewing a deal through the lens of Scale vs. Scope yields critical insights about the long-term value of a potential acquisition. Scale deals involve a high degree of business overlap between the target and acquirer, fueling a company's expansion in its existing business. In scope deals, the target is a related but distinct business, enabling an acquirer to enter a new market, product line or channel. Both can be useful—and "scale vs. scope" has been a great debate in the M&A world. Today, the verdict is in. Inexperienced acquirers tend to focus mainly on scale deals, those that improve or consolidate their position in a given market. Experienced acquirers average a 50-50 mix of scale and scope deals, improving their market positions while also adding product lines, geographic reach or other important capabilities. Different patterns of risk and reward accompany each kind of deal. Scale deals, historically, have put cost synergies at the top of the deal thesis: *If we buy this company, we will have a larger presence in the market and realize greater economies of scale.* The risk is that the acquirer winds up creating a slow-moving behemoth and the synergies never materialize. Scope deals, by contrast, usually put growth at the top of the deal thesis: *Buying this company gives us access to new and faster-growing markets.* The risk here is that the acquirer will stumble as it learns to manage an unfamiliar business. Because of the intrinsic differences between scale deals and scope deals, every element of the deal cycle, from strategy through integration, has to be managed differently. Scale deals succeed on the basis of rapid overall integration, capture of cost synergies and full cultural integration. Scope deals succeed when the acquirer preserves the unique attributes of the company it has just bought, integrating the two only where it matters and when the two businesses begin to cross-pollinate, creating platforms for future growth. As an acquiring company becomes more experienced, it learns the differences between scale and scope deals, and can thereby manage the risks and maximize the benefits.

#### **CONCLUSION**

Not every company has what it takes to pursue M&A successfully. The best have a deep understanding of their strategy and begin from a position of strength. They commit to developing a repeatable model, and they make the necessary investments. Their reward, is growth-in revenue, earnings and total shareholder return—that far outstrips the competition. Thus in nut shell we can say that M&A have become common in our country's business set up. There is a tremendous need for people to grow and become global players expanding their business spheres. If success is to be achieved in M&A cohesive, well integrated and motivated workforce is required who is willing to take on the challenges that arise in the process of M&A and there should be proper

organization among employees and they should be provided with proper working conditions.

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