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PROSPECTS OF GLOBAL MERGERS AND ACQUISITIONS - AN INDIAN OVERVIEW

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ABSTRACT

In India, the concept of mergers and acquisitions (M&A'S) was initiated by the government bodies. Corporate sector of India was restructured by financial organizations by adopting the M&A policies. This research aims to study the future prospects of worldwide M&A's, and the role of Indian industries in global scenario. The present study tries to understand the extent of external deals made by India. The results reveals that Indian markets have witnessed burgeoning trend in mergers which may be due to business consolidation by large industrial houses, consolidation of business by multinationals operating in India, increasing competition against imports and acquisition activities. M&A's have begun to gain momentum in India; there is plenty of examples of M&A provided in this research which proves that Indian industries have already entered into the M&A process of value creation.

KEYWORDS: Mergers & Acquisitions, Profitability, Globalization, Industries

INTRODUCTION

Despite the challenging conditions, many firms still want to grow through M&A's. In today's global economy M&A'S are being increasingly used world over as a strategy for achieving larger size and faster growth in market share and to become more competitive through economies of scale. The Indian economy has been growing with a rapid pace and has been emerging at the top, be it IT, R&D, pharmaceutical, infrastructure, energy, consumer retail, telecom, financial services, media, and hospitality etc. Investors, big companies, industrial houses view Indian market in a growing and proliferating phase, whereby returns on capital and the shareholder returns are high. The circumstances and reasons for every M&A deal are different and these circumstances impact the way the deal has been approached, managed and executed. However, the success of mergers depends on how well the deal makers can integrate two companies. Each deal has its own flips which are influenced by various extraneous factors such as company's leadership and the ability to retain people. Profits, intellectual property, customer base and peripheral or central to the acquiring company, the motive will determine the risk of such M&A.

REVIEW OF LITERATURE

Many companies resort to M&A's in order to capture a larger market share. For example, the ill-fated deal between Daimler-Benz and Chrysler was done to broaden its market share (Devine, 2002). The key to the success of an M&A lies in the ability of the acquirer to manage the integration of the target company into his existing organization in all respects from winning the hearts and minds of his employees, resolving issues quickly and to eliminate any cultural differences that might arise subsequent to the acquisition (Carleton and Lineberry, 2004). Chunlai Chen and Findlay (2003) also stated that the M&A could be domestic or Cross-Border for the companies that are involved.

This is normally done in order to create a presence or to look at having better opportunities for success in the Industry (Harrison, 2010).

OBJECTIVES OF THE STUDY

The study is about finding the future prospects of M&A'S worldwide. It also describes the trends and the progress of M&A's in India and abroad.

- To identify the future prospects and impact of global M&A'S.
- To analyze the trends & progress of M&A'S in Indian Industries.

MOTIVES FOR MERGERS AND ACQUISITIONS

Strategic Motives

These motives are easiest to justify and are the most influential and important. The chosen takeover target might be the wrong one; the price paid might be too high. If a takeover has a sensible strategic fit it makes sense that it supports the achievement of corporate objectives.

Financial Motives

All M&A'S have financial motives of one kind or another, each is designed to achieve a satisfactory rate of return for the investment and risk been taken. It is the financial returns which drive the deal.

Managerial Motives

Managerial synergies arise when a high-performing management team replaces a poor-performing one. One advantage of acquisitions is that they give the acquirer the opportunity to remove incompetent managers, which could improve the target's performance.

Shareholders Gain

It refer to the increase in the market value of the firm due to the merger. Since the increase in the value of the firm directly benefits its owners, it is said that shareholders gain.

Increasing Capabilities

Increased capabilities may come from expanded research and development opportunities or the capability may come from acquiring a unique technology platform rather than trying to build it.

Economies of Scope

Economies of scope are economies of scale generalized to multi-product firms or to firms related by a chain of supply. They are reached if the average cost of producing two products separately falls when the products are produced jointly.

Economies of Vertical Integration

These are revealed when the sum of the cost of separately owned stages of production falls when a single firm performs the two stages of production.

Cost Saving

What is important for the analysis of merger motives is to identify the type of cost saving, i.e., if it consists on a reduction of average or marginal costs of production, fixed costs or financial costs.

Rationalization

It consists of optimal reallocation of production across the different lines of production of the merging firms or shifting production from a plant with higher marginal costs to another with lower marginal costs, without increasing the joint technological capabilities

Purchasing Power

Cost savings may arrive when by increasing its size, a downstream firm may also increase its buyer power and obtain quantity discounts or just better prices from their upstream suppliers.

Creating Internal Capital Markets

By building up larger firm that creates an internal capital market, value can be generated. A firm is composed of several product lines or geographic areas called divisions. These divisions are owned altogether by a single corporation but are decentralized and their operational decisions are independent among them.

Diversification

The idea of diversification states that the market value of a firm can be increased if it incurs in optimal risk by investing in many uncorrelated instruments. This merger motive is different from the spreading portfolio motive that allows enhancing market power.

Spread Portfolio

It concerns mergers between firms that produce goods in distinct product markets but that are somehow related or complementary, that is, it concerns conglomerate mergers. A merged firm is able to gain market power because its buyers will prefer to be supplied of different inputs by the same firm rather that by different firms.

Free Cash-Flow

The excess of free-cash flows is often considered as a result of management inefficiency. It has been stated that companies that hold high free-cash flows are frequent targets in hostile takeovers.

Survivng

It's never easy for a company to willingly give up its identity to another company, but sometimes it is the only option in order for the company to survive. A number of companies used M&A to grow and survive during the global financial crisis from 2008 to 2012.

MERGERS AND ACQUISITIONS IN INDIA: THE LATEST TRENDS

The Indian economic reform since 1991 has given 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'S. The trends of M&A's in India have changed over the years. The immediate effects of the M&A'S have also been diverse across the various sectors of the Indian economy. With the increasing number of Indian companies opting for, M&A'S India is now one of the leading nations in the world in terms of M&A'S. Acquisition of foreign companies by the Indian businesses has been the latest trend in the Indian corporate sector. The Indian IT and ITES sectors have already proved their potential in the global market.

The other Indian sectors are also following the same trend. Among the different Indian sectors that have resorted to mergers and acquisitions in recent times, telecom, finance, FMCG, construction materials, automobile industry and steel industry are worth mentioning. There are different key factors like dynamic attitude of Indian entrepreneurs, buoyancy in economy, favourable government policies, additional liquidity etc. behind the changing scenario of trends of mergers and acquisition in India. However, this shows that Indian companies have certainly become confident about expanding their operations overseas successfully. India has also come out as the world's 21st largest overseas and foreign investor, with more than 75 billion dollars in foreign investment, just in the past 10 years.

Table 1: Detail of M&A'S Deals Both in Terms of Value and Volume

Deal Summary	Volume			Value (US$MN)		
Year	**2011**	**2012**	**2013**	**2011**	**2012**	**2013**
Domestic	216	234	220	5036	6078	5749
Cross Border	288	262	221	39,577	14,507	17891
Mergers & Internal Restructuring	140	102	59	-	14799	4546
Total M&A	**644**	**598**	**500**	**44,613**	**35,384**	**28,186**
Private Equity	373	401	450	8751	7378	10,392
GRAND TOTAL	**1017**	**999**	**950**	**53,363**	**42,761**	**38,578**
Cross Border Includes						
Inbound	142	140	139	28,732	5955	8642
Outbound	146	122	82	10313	8552	9249

Source: Annual Report of Ministry of External Affairs.

Table 2: The Top Acquisitions Made by Indian Companies Worldwide

Acquired Company	Acquirer	Deal Amount	Date of Deal
Corus Group (U.K.)	Tata Steel	U.S. $12.11 billion	January 31, 2007
Zain Africa	Bharti Airtel	$10.7 billion	February, 2010
Novelis (U.S.)	Hindalco Industries	U.S. $6 billion	Feb 11, 2007
Jaguar Cars and Land Rover (U.K.)	Tata Motors	U.S. $ 2.3 billion	2008
Honiton Energy Holdings (China)	Tanti group	U.S. $2 billion	April, 2010
Abbot Point Coal Terminal (Australia)	Adani Enterprises	$2-billion	May, 2011
Algoma Steel (Canada)	Essar Steel Global	$1.85 billion	April, 2007
Marcellus Shale (U.S.)	Reliance Industries	$1.7 billion	April, 2010
Minnesota Steel (U.S.)	Essar Steel Holdings	$1.65 billion	April, 2007
Wockhardt	Negma Laboratories	$265 million	2007
Imperial Energy Plc.	Oil and Natural Gas Corp.	$1.9 billion	2009
Bennett Coleman & Co	Virgin Radio	$53.2 million	2008
Oil & Gas Assets (Kashagan oilfield)	ONGC	$5 billion	November, 2012
Port Terminals (Abbot Point X 50 Coal Terminal) Australia	Adani Enterprises	$1.97 billion	May, 2011
Orient-Express Hotels (Bermuda)	Indian Hotels Co	$1.67 billion	October, 2012
Empresa Mixta. (Venezuela)	ONGC Videsh, Oil India, Repsol YPF, Petroliam Nasional Bhd - Petronas and Indian Oil Corp	$1.54 billion	February, 2010

Table 2: Contd.,

Oil & Gas Assets (Campos Basin Oil Fields)(Brazil)	Oil & Natural Gas Corp	$1.4 billion	January, 2006
Oil & Gas Assets (Eagle Ford shale gas field) (United States)	Reliance Industries	$1.35 billion	June, 2010

Source: Annual Report of Ministry of External Affairs.

Table 3: India's Total Inbound and Outbound Deals for 2013

India's Inbound Deals (2013) Top 5 Sectors – US$MILLION			India's Outbound Deals (2013) Top 5 Sectors – US$MILLION		
Sector	2012	2013	Sector	2012	2013
Pharma, Healthcare & Biotech	1416	2451	Oil & Gas	1098	5649
Telecom	10	1943	Automotive	164	1166
Manufacturing	230	789	Pharma, Healthcare & Biotech	1099	567
IT	430	753	Real Estate	47	503
Power & Energy	75	740	Telecom	6	365

Source: Annual report of Ministry of External Affairs.

INDUSTRY–WISE TRENDS OF M&A'S IN INDIA

Pharmaceuticals Industry

Pharmaceutical sales in India are expected to grow by 14.4 per cent to US$ 27 billion in 2016 from US$ 22.6 billion in 2012. India's pharmaceutical exports stood at US$ 14.84 billion in FY 2013–14. "India has been able to make its name as a quality supplier of affordable medicines across the globe. The cumulative drugs and pharmaceuticals sector attracted FDI worth US$ 11,588.42 million in the period April 2000–February 2014.

Major Deals

Sun Pharma to buy out Ranbaxy for US$ 4 billion. The landmark deal makes the combined Sun–Ranbaxy entity the fifth largest generic drug-maker in the world, with estimated revenues of US$ 4.2 billion for the year ended December 31, 2013. Chrys Capital has invested around US$ 40 million in Torrent Pharma, expanding its portfolio of healthcare companies and taking up the total exposure in the sector to nearly US$ 300 million.

Indian Steel Industry

India is slated to become the second-largest steel producer in the world by 2015. Steel production in the country has increased at a compound annual growth rate (CAGR) of 6. 9 percent over 2008-2012.

India's real consumption of total finished steel grew by 0.6 per cent year-on-year in April-March 2013-14 to 73.93 MT.

Major Deals

JSPL Group has commissioned a Greenfield 2 MT steel plant in Sohar, Oman at an investment of US$ 800 million. Steel Authority of India Ltd (SAIL) has secured contracts for supplying over 117,000 tonnes of rails after successful bids for two global tenders floated by Rail Vikas Nigam Ltd (RVNL), for major upcoming passenger rail line projects in India. JSW Steel plans to commission Rs 4,500 crore (US$ 748.55 million) cold rolling mill (CRM) at its integrated steel plant in Torangal, Karnataka. The unit, which will produce high-strength auto-grade steel, has an installed capacity of 2.3 million tonnes per annum (MTPA). JSW Steel is also set to acquire Welspun Maxsteel for about

Rs 1,100 crore (US$ 182.98 million) in a move aimed at sourcing cheaper raw material, bringing down production cost and enhancing its presence in the northern and western markets.

Indian Textiles Industry

India has successfully placed its innovative range of man-made fibres (MMF) textiles in almost all the countries across the globe. MMF production increased by about 4 per cent during the period April 2013–February 2014. The industry (including dyed and printed) attracted foreign direct investment (FDI) worth Rs 6,710.94 crore (US$ 1.11 billion) during April 2000 to February 2014.

Major Deals

Private Equity (PE) firm Ever stone plans to invest Rs 100 crore (US$ 16.62 million) for an undisclosed minority stake in the fashion label of designer Ritu Kumar. Raymond's 'Complete Man' plans to enter the developed markets in the US, Europe and East Asia as the textile company seeks to expand the network of its Made to Measure (MTM) stores. With plans to invest around Rs 200 crore (US$ 33.24 million), the company is looking for partners to help it grow its overseas business. Arvind Ltd has picked up the 49 per cent stake held by the Murjani Group in Calvin Klein in India.

Indian Oil and Gas Industry

The Indian oil and gas (O&G) sector is projected to touch US$ 139,814.7 million by 2015 from US$ 117,562.9 million in 2012. In 2011, India's O&G sector witnessed one of the biggest FDI deals in the country, with British Petroleum (BP) formalising a US$ 7.2 billion partnership with Reliance Industries, for exploring offshore gas reserves. At the end of FY 2011–12, India had total reserves of 1330 billion cubic metres (bcm) of natural gas and 760 million metric tonnes (mt) of crude oil.

Major Deals

Bharat Petroleum Corp Ltd (BPCL) plans to invest around US$ 4 billion to increase its refining capacity. The company has will hike its refining capacity from the current annual output of 30.5 mt to 47.5 mt by 2016–17. The lubricants-making arm of Malaysia's national oil company, Petronas, has formalised a land-lease agreement with Maharashtra Industrial Development Corporation (MIDC) for building a lubricant plant near Mumbai. Petronas Lubricants International aims to consolidate its position in the growing Indian lubes market that is projected to reach US $8 billion by 2017. The plant will cost around US$ 50 million and will possess an initial capacity of 60 kilo tonne per annum (kta). ONGC Videsh Ltd (OVL), the overseas arm of Oil and Natural Gas Corporation (ONGC), has agreed to buy an additional 12 per cent stake in a Brazilian oil block from Brazil's Petrobras for US$ 529 million. Procurement and construction (EPC) projects believed to be around Rs 1,100 crore (US$ 177.57 million) in the hydrocarbon segment in the United Arab Emirates (UAE) and Qatar.

Indian Mines Industry

The country is endowed with huge resources of many metallic and non-metallic minerals. Since independence, there has been a pronounced growth in the mineral production both in terms of quantity and value. India produces as many as 87 minerals, which include 4 fuels, 10 metallic, and 47 non-metallic, 3 atomic and 23 minor minerals.

Major Deals

FDI up to 100 per cent is allowed with prior Government approval in mining and mineral separation of titanium bearing minerals & ores, its value addition and integrated activities subject to sectoral regulations and the Mines and Minerals (Development and Regulation Act 1957). FDI for separation of titanium bearing minerals and ores will be subject to the following additional conditions, viz.:

- FDI up to 100% shall be allowed for mineral separation only if value addition facilities are set up within India along with transfer of technology.
- Disposal of tailings during the mineral separation shall be carried out in accordance with regulations framed by the Atomic Energy Regulatory Board such as Atomic Energy (Radiation Protection) Rules, 2004, and the Atomic Energy (Safe Disposal of Radioactive Wastes) Rules, 1987. The FDI in the mining sector during the September 2011 is USD 103.03 million.

Indian Food Processing Industry

India is the world's second largest producer of food next to China and has the potential of being the biggest, backed by its food and agricultural sector. Currently growing at more than 10 per cent per annum, it is expected to touch US$ 194 billion by 2015 from a value of US$ 121 billion in 2012, Everest Spices plans to set up spices processing units in the East African country Zanzibar at an investment of about Rs 100 crore (US$ 16.73 million).

Major Deals

Packaged food industry is the fifth largest sector in India. The industry is currently pegged at US$ 39.7 billion in India and is expected to reach US$ 65.41 billion by 2020, owing to the rise in middle class income, changing urban lifestyle and modern retail trade. Residents in urban areas are the largest consumers of processed food, consuming 78 per cent of all packaged food in 2011. Indian agricultural and processed food exports during April–December 2013 stood at US$ 16,578.91 million as compared to US$ 15,206.22 million during the same period last year. The share of food processing export in total exports from India is around 12 per cent. Food processing industries in India attracted foreign direct investments (FDI) worth US$ 5,360.89 million during the period April 2000–January 2014.

Indian Civil Aviation

India is currently the 9th largest aviation market handling 121 million domestic and 41 million international passengers. Today, more than 85 international airlines operate to India and 5 Indian carriers connect over 40 countries. Total domestic passengers carried by the scheduled domestic airlines between January and May 2013 were 25.998 million, as against 25.808 million during the corresponding period of previous year thereby registering a growth of 0.74 per cent.

Major Deals

No-frill carrier Indigo lead in terms of market share with 29.7 per cent of the pie, followed by Jet Airways-Jet Lite combine at 25.3 per cent, Air India Domestic at 19.2 per cent, Spice Jet at 17.5 per cent, and Go Air at 8.3 per cent for the month of July 2013. Jet has become the first Indian airline to place an order of fuel-efficient 737 Max aircraft with the plane-maker Boeing. Boeing and Jet have recently inked a purchase agreement wherein Jet has agreed to buy 50 such planes at a cost of around US$ 5 billion. The service of 737-Max is expected to commence by 2017.

Indian Insurance Industry

The industry aims to hike penetration levels to five per cent by 2020, and has the potential to touch US$ 1 trillion over the next seven years. The foreign direct investment (FDI) is likely to be increased from 26 per cent to 49 percent. The total market size of the insurance sector in India was US$ 66.4 billion in FY 13. India ranked 10th among 147 countries in the life insurance business in FY 13, with a share of 2.03 per cent. The life insurance premium market expanded at a CAGR of 16.6 per cent from US$ 11.5 billion to US$ 53.3 billion during FY 03–FY 13. The non-life insurance premium market also grew at a CAGR of 15.4 per cent, from US$ 3.1 billion in FY 03 to US$ 13.1 billion in FY 13.

Major Deals

ING Vysya Life Insurance recently changed its name to Exide Life Insurance. For FY 2013–14, the company doubled its profits to Rs 53 crore (US$ 8.83 million) on the back of renewal premium and better efficiency and product mix. Investment in India's pension sector is projected to cross US$ 1 trillion by 2025, following the passage of the Pension Fund Regulatory and Development Authority (PFRDA) Act 2013. Insurance companies in the country will spend about Rs 12,100 (US$ 2.01 billion) crore on IT products and services in 2014, a 12 per cent increase over 2013, according to Gartner Inc. The forecast includes spending by insurers on internal IT (including personnel), software, hardware, external IT services and telecommunications. The Rs 1200 crore (US$ 200.16 million) software segment is predicted to be the fastest external segment, with overall growth of 18 per cent in 2014.

DATA ANALYSIS-FROM THE INDIAN EXPERIENCE

Total across the board, M&A's grew a healthy 56.8 per cent to $ 24.7 billion compared over 2012, driven by a 43.5 and 83.1 per cent increase in the inbound and outbound M&A's, respectively. Completed M&A deals involving domestic companies totalled $ 29 billion, up 49.5 per cent from $ 19.4 billion in 2012. Energy and power sectors lead the M&A Street with 21.1 per cent market share or worth $ 6.7 billion, which is a whopping 173.3 per cent increase over 2012.

The total M&A and private equity (PE) deals during the first half of 2014 were valued at US$ 23.17 billion (560 deals) as compared to US$ 17.65 billion (460 deals) during the corresponding period in 2013. PE has seen significant upstick in volumes with 40 per cent greater volume, as compared to 2013.

Moreover, the total value of outbound deals (Indian companies acquiring businesses outside India) during the first half of 2014 were US$ 1.56 billion (45 deals). The total value of inbound deals (foreign companies or their subsidiaries acquiring Indian companies) during the first half of 2014 were valued at US$ 5.35 billion (89 deals) as compared to US$ 4.09 billion (65 deals) during the corresponding period in 2013.

The total value of domestic deals during the first half of 2014 were US$ 7.65 billion (117 deals) as compared to US$ 3.01 billion (115 deals) during the corresponding period in 2013. The total merger and acquisitions (M&A) and private equity (PE) deals in the month of January 2014 were valued at US$ 1.6 billion (86 deals) as compared to US$ 1.19 billion (74 deals) during the corresponding period of 2013. Moreover, the total value of outbound deals (Indian companies acquiring businesses outside India) in January 2014 was US$ 275 million (6 deals). The total value of inbound deals (foreign companies or their subsidiaries acquiring Indian businesses) in January 2014 were valued at

US$ 556 million (14 deals). The total values of domestic deals in the month of January 2014 were US$ 45 million (8 deals). There has been a significant growth in M&A'S activities in India during the last few years across a variety of different industries. Large transactions have resulted in major restructuring and changes in asset ownership.

REASONS FOR DECREASE OR FAILURE OF M&A'S

Overpayment

This is very common cause of failure of M&A'S. Overpayment leads to expectation of higher profitability which is not possible. Excessive goodwill as a result of overpaying needs to be written off which reduces the profitability of the firm.

Integration Issues

Business cultures, work ethics, etc. needs to be flexible and adaptable. Inefficiencies or administrative problems are a very common occurrence in a merger which often nullifies the advantages of the mergers.

Faulty Strategic Planning & Unskilled Execution

Over expectation of strategic benefit lead to failures of mergers. Planning is a crucial exercise that will help determine the success or failure of a merging organization.

Culture Differences

Inability to manage cultural differences are main causes of failed mergers. Cultural differences that cannot be resolved affect communications, decision-making, productivity and employee turnover at all levels of the organization.

Loss of Customers

All companies need to remember: it's the people who produce profits, represent the company, establish rapport with the customers, and, ultimately make the combined company succeed.

CONCLUSIONS

The current scenario gives a different picture about M&A, it is very important that companies do not take decisions based on the current scenario alone. It is important for an organization to do in depth research before proceeding for an M&A. A carelessly carried out research about the acquisition causes the destruction of acquirer's wealth. Unrelated diversification has been associated with lower financial performance, lower capital productivity and a higher degree of variance in performance. Indian markets have witnessed burgeoning trend in mergers which may be due to business consolidation by large industrial houses, consolidation of business by multinationals operating in India, increasing competition against imports and acquisition activities.

Therefore, it is good time for business houses and corporate to watch the Indian market going global, and grab the opportunity. Due to the increase in global competition firms are finding necessary to compete in foreign markets as well as their domestic markets in order to remain competitive. Even though M&A have been an important element of corporate strategy all over the globe for several decades, research on M&A's has not been able to provide conclusive evidence on whether they enhance efficiency or destroy wealth. There is thus an ongoing global debate on the effects of M&A's on firms.

RECOMMENDATIONS FOR SUCCESSFUL M&A'S

M&A's, if properly executed can create greater value. Based on thorough analysis and due diligence company should proceed with the takeover. Finance, legal and HR departments collect data on various measures which can help in monitoring and assessing the success of an M&A such as increase or decrease in share price, revenue, operating profit, productivity levels, profitability, and market share and so on. Following aspects should be always kept in mind while undergoing any activity of M&A.

- Identifying opportunities for providing competitive benchmarking measurements for fast improvement in company.
- Measuring market and technical trends to forecast future growth potential of company's technology.
- Personal ambition/motives of industry & financial reward which the firm will earn due to M&A should be targeted.
- Big takeover attract media and boosts up reputation but companies should link reward to growth. Peer Pressure and Pressure from advisers & media to do takeovers should be taken care of.
- Concern that firm may be left behind or Over-confidence should be taken care of.
- Always make use of surplus cash and high share price and Bargain hunting & asset stripping
- Motive should be to extend the business- locations, markets, and globalisation
- Improving negotiation and price by knowing the company's exact market position.
- Providing credibility and insurance to investors and bankers.
- Measuring customer attitudes on company's products to indicate their image in market.

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