International Journal of Business Management and Economics Research.
Volume 1, Number 1 (2014), pp. 1-12

http://www.irphouse.com

Analysis of Mergers and Acquisition in India: As a Tool of Export Competitiveness

Ms. Monika

Assistant Professor, Department of Commerce
Motilal Nehru (E) College, University of Delhi
E-mail: monikarajput2010@gmail.com

Abstract

We all know after 1991, after a plethora of policy changes and the much need New Economic Policy 1991, it could only have become possible to look outside. In that process, mergers and acquisitions (M & As) have become a common phenomenon. M & As are not new in the Indian economy. In the past also, companies have used M & As to grow and now, Indian corporate enterprises are refocusing in the lines of core competence, market share, global competitiveness and consolidation.. Amid all this one term has been constantly in news if we talk about ambitious business strategies to expand – Mergers and Acquisitions. This process of refocusing has further been hastened by the arrival of foreign competitors. In this backdrop, Indian corporate enterprises have undertaken restructuring exercises primarily through M & As to create a formidable presence and expand inBuilding a business from scratch is not impossible but surely a tough idea that why concepts like turnkey, management key projects exists How many times have we heard that an Indian Company is expanding in other markets, country and it is acquiring an outside country or being merged with some other entity for the synergy benefits?

Keywords: merger, acquisition, motive, export effectiveness, globalization
Motive = that which induces a person to act in a certain way (the Oxford paperback dictionary 1988 Compiled by Hawkins, Joyce M.). Unspecific, not a decisive factor like determinant. Motive = that which induces a person to act in a certain way (the Oxford paperback dictionary 1988 Compiled by Hawkins, Joyce M.). Unspecific, not a decisive factor like determinant.

The Problem Statement

1. To justify the hype surrounding increasing instances of M & A which may

have led to the enactment of Competition Act of India?
2. To assess the efficiency level after merger and benefits of synergy really achieved by the firms in terms of its export competitiveness.
3. Keeping aside the various benefits occurring to any domestic company such as factor rich theory content, or in house nurturing, or any advantages it experiences regarding exchange rate movement which could result in better export aptitude.

Objectives of this Research:
The specific objectives are as follows: -
1. To assess the export competitiveness intensity thorough M & A
2. Checking Penetration level of Indian Firms going global through M & A route.

A macro level prospective…
Significance of the study.
As we know, economic reforms started in 1991, after LPG introduced. Investment level and competition level saw unprecedented increase during this era. Many scholars have analyzed as to why M & A have become such popular way to expand. Few points are worth of noting here:
1. Means of expansion in quick terms, banking upon globalization rules
2. Quick means to access technological changes which could have taken a long to produce indigenously
3. Foreign collaborators and management
4. Increasing export level and means to go global
5. Getting cost competitiveness through economies of scale and scope.

Scope of the study: -
Mainly 15 different Industry have been looked at during the initial decade starting from 1991.

Chemicals, Drugs & Pharma, Petrochemical, Plastic & Rubber Energy, Gas, Power & Oil, N Metallic Minerals, Airlines, Hotels & Travel, Paper, Printing & Publishing, Food Industry, Textiles & Wearing Apparel, Finance & Banking, Chemicals, Drugs & Pharma, Petrochemical, Plastic & Rubber, Energy, Gas, Power & Oil, Non Metallic Minerals, Airlines, Hotels & Travels, Paper, Printing & Publishing, Food Industry, Textiles & Wearing Apparel, Finance & Banking.

(Source: research paper on Mergers and Acquisition from internet and library)

Limitation of the study:
1. The study and the research will include few sector and that to base on the listed company in order to get scrutinize data.

2. The research will not be able to depict the influence of any qualitative data which could very easily impact the policy changes.

The Methodology

The methodology which will be used for carrying out the report will be used as follows: -.

Types of Data Source. For present research work, mainly secondary data will be used. Research will be broadly classified into two sections. Various statistical tools will be used to suggest and analyze the secondary data.

Sample Size: - The sample size includes data of companies merged together taken from 15 different sectors and to check **Its performance over a period of 10 years, 1991 to 2000,** mainly based on exporting capacity.

i. Data of at least 15 different companies along with its merged format or acquired format, before and after, will be collected.

Tools of collecting Secondary Data

Various statistical tools will also be used to analyze the secondary data.

1. Document Review: - Obtaining the actual forms and operating documents currently being used. Reviews blank copies of forms and samples of actual completed forms.
2. Observation: - analyzing annual reports and press releases, verifying the statements made during the interviews held on these topic.
3. Web Search: - The information related to these sectors will be studied from internet and other published papers.
4. Various policies from Government will be dealt In details by referring various government publications and reference book, journals, published data from time to time.
5. Research of journals, periodicals, technical materials, , electronics/internet search, professionals meetings, seminars and discussions, etc.

Hypothesis:

1. H_0: No significant difference in export intensity after M & A route has been taken by Indian Industry.
2. H_1: Significant difference in export intensity after M & A route has been taken by Indian Industry.

Meaning of meregr

A merger is a combination of two or more distinct entities into one; the desired effect being not just the accumulation of assets and liabilities of the distinct entities, but to achieve several other benefits such as, economies of scale, acquisition of cutting edge technologies, obtaining access into sectors / markets with established players etc. Generally, in a merger, the merging entities would cease to be in existence and would merge into a single surviving entity. Very often, the two expressions "merger" and "amalgamation" are used synonymously. But there is, in fact, a difference. Merger generally refers to a circumstance in which the assets and liabilities of a company (merging company) are vested in another company (the merged company). The merging entity loses its identity and its shareholders become shareholders of the merged company. On the other hand, an amalgamation is an arrangement, whereby the assets and liabilities of two or more companies (amalgamating companies) become vested in another company (the amalgamated company). The amalgamating companies all lose their identity and emerge as the amalgamated company; though in certain transaction structures the amalgamated company may or may not be one of the original companies. The shareholders of the amalgamating companies become shareholders of the amalgamated company.

Types/Kinds of merger:

Horizontal Mergers. Also referred to as a ‘horizontal integration’, this kind of merger takes place between entities engaged in competing businesses which are at the same stage of the industrial process.[2] A horizontal merger takes a company a step closer towards monopoly by eliminating a competitor and establishing a stronger presence in the market. The other benefits of this form of merger are the advantages of economies of scale and economies of scope.

Vertical Mergers. Vertical mergers refer to the combination of two entities at different stages of the industrial or production process. For example, the merger of a company engaged in the construction business with a company engaged in production of brick or steel would lead to vertical integration. Companies stand to gain on account of lower transaction costs and synchronization of demand and supply. Moreover, vertical integration helps a company move towards greater independence and self-sufficiency. The downside of a vertical merger involves large investments in technology in order to compete effectively.

Congeneric Mergers. These are mergers between entities engaged in the same general industry and somewhat interrelated, but having no common customer-supplier relationship. A company uses this type of merger in order to use the resulting ability to use the same sales and distribution channels to reach the customers of both businesses.[3]

Conglomerate Mergers. A conglomerate merger is a merger between two entities in unrelated industries. The principal reason for a conglomerate merger is utilization of financial resources, enlargement of debt capacity, and increase in the value of outstanding shares by increased leverage and earnings per share, and by lowering the average cost of capital.[4] A merger with a diverse business also helps the company to foray into varied businesses without having to incur large start-up costs normally associated with a new business.

Cash Merger. In a typical merger, the merged entity combines the assets of the two companies and grants the shareholders of each original company shares in the new company based on the relative valuations of the two original companies. However, in the case of a ‘cash merger’, also known as a ‘cash-out merger’, the shareholders of one entity receive cash in place of shares in the merged entity. This is a common practice in cases where the shareholders of one of the merging entities do not want to be a part of the merged entity.

Types/kinds of acquisitions

Friendly takeover. Also commonly referred to as ‘negotiated takeover’, a friendly takeover involves an acquisition of the target company through negotiations between the existing promoters and prospective investors. This kind of takeover is resorted to further some common objectives of both the parties.

Hostile Takeover. A hostile takeover can happen by way of any of the following actions: if the board rejects the offer, but the bidder continues to pursue it or the bidder makes the offer without informing the board beforehand.

Leveraged Buyouts. These are a form of takeovers where the acquisition is funded by borrowed money. Often the assets of the target company are used as collateral for the loan. This is a common structure when acquirers wish to make large acquisitions without having to commit too much capital, and hope to make the acquired business service the debt so raised.

Bailout Takeovers. Another form of takeover is a ‘bail out takeover’ in which a profit making company acquires a sick company. This kind of takeover is usually pursuant to a scheme of reconstruction/rehabilitation with the approval of lender banks/financial institutions. One of the primary motives for a profit making company to acquire a sick/loss making company would be to set off of the losses of the sick company against the profits of the acquirer, thereby reducing the tax payable by the acquirer. This would be true in the case of a merger between such companies as well.

Present trend and observation (mainly till

The functional importance of M & As is undergoing a sea change since liberalization in India. The MRTP Act and other legislations have been amended paving way for large business groups and foreign companies to resort to the M & A route for growth. Further The SEBI (Substantial Acquisition of Shares and Take over) Regulations, 1994 and 1997, have been notified. The decision of the Government to allow companies to buy back their shares through the promulgation of buy back ordinance, all these developments, have influenced the market for corporate control in India.

M & As as a strategy employed by several corporate groups like R.P. Goenka, Vijay Mallya and Manu Chhabria for growth and expansion of the empire in India in the eighties. Some of the companies taken over by RPG group included Dunlop, Ceat, Gramaphone India. Mallya‟s United Breweries (UB) group was straddled mostly by M & As. Further, in the post liberalization period, the giant Hindustan Lever Limited has employed M & A as an important growth strategy. The Ajay Piramal group has almost entirely been built up by M & As. The south based, Murugappa group built an empire by employing M & A as a strategy. Some of the companies acquired by Murugappa group includes, EID Parry, Coromondol Fertilizers, Bharat Pulverising Mills, Sterling Abrasives, Cut Fast Abrasives etc. Other companies and groups whose growth has been contributed by M & As include Ranbaxy Laboratories Limited and Sun Pharmaceuticals Industries particularly during the second half of the 1990s. During this decade, there has been plethora of M & As happening in every sector of Indian industry. Even, the known and big industrial houses of India, like Reliance Group, Tata Group and Birla group have engaged in several big deals.

(Source: Paper by R.N Kar and Soni, Amit)

Methodology

First we need to take into consideration various outside factors which may influence the export competitiveness. Their individual impact also needs to be analyzed in order to get a meaningful picture of overall study. Here are the various variables to study:

Market Concentration(A): On the one hand, greater degree of sellers' concentration may allow the firms to exercise their monopoly power in the domestic market and thereby may cause X-inefficiency. On the other hand, in a concentrated market, the firms may have greater scope to reap the benefits of economies of scale. This may reduce the average cost of production of the firms and thereby may provide competitive edge in the international market. Lower concentration in the domestic market may also force the firms to innovate and improve, and thereby may improve their export competitiveness (Porter, 1990). In addition, greater market competition can result in better managerial practices, and greater scope to penetrate international market. The nature of impact depends on how these opposite forces empirically dominate each other.

Import Intensity (B): Greater competition from imports is likely to enhance efficiency and hence export competitiveness. However, greater import intensity may strengthen the incumbents' position in the domestic market and thereby may restrict entry of new firms into the industry. It may also force many of the smaller firms to leave the industry. As a result, competition in the domestic market may decline reducing the urge of the firms to be competitive.

Presence of MNC (C): Presence of the MNCs in an industry is expected raise its export competitiveness in a significant way as these enterprises enjoy certain benefits that are not generally available to many of the domestic firms. The MNCs have greater access to superior production technology and management know-how (Ramstetter, 1999). This helps these enterprises to produce their products more efficiently. The MNCs also possess internally established brands and sophisticated marketing networks that help them to penetrate in the international market in a larger way. In addition, the demonstration effects or technology externalities and emerging competitive threats from the MNCs can increase innovative efforts of the domestic firms. When it is so, the industries with larger presence of the MNCs are likely to have greater export competitiveness.

Capital Intensity (D): Higher capital intensity of the firms in an industry deters entry and, therefore, reduces possible competitive threats and their export competitiveness. Similarly, when the capital equipment's are imported, the firms may not necessarily have competitive advantage in the international market. However, lack of competition may also encourage in-house R & D enhancing competitiveness of the firms. Further, higher capital intensity of the firms can make them more export competitive when capital goods embody better technology.

The nature of impact of capital intensity on export competitiveness, therefore, depends on the relative strength of these diverse forces.

In-house R & D Intensity (E): Innovation is expected to have significant influence on technological competitiveness of the firms (Grossman and Helpman, 1995), and hence on their export performance. Greater in-house R & D enables the firms to move up along the supply chain by producing new varieties of products, and improving quality of the existing product, whereas process related innovation reduces the cost of the products and their prices. Hence, the industries with greater innovative efforts by the firms are likely to have higher export competitiveness. However, greater in-house R & D efforts may give new opportunities to the firms in the domestic market. It may also restrict entry of new firms and hence competition in the domestic market. This, in turn, may reduce efficiency and competitiveness of the firms in the international market.

Mergers and Acquisitions (F): M & A can affect the export competitiveness of a firm in two possible ways. On the one hand, M & A may result in greater monopoly power, and when it is so, lack of competitive threat in the market is likely to reduce efficiency and export competitiveness of the firms. On the other hand, integration of firms through M & A can help the firms to reap the benefits of large-scale production and hence to lower costs and prices of the products in the international market. Besides, increase in market concentration following

M & A may also encourage the firms towards greater in-house R & D yielding new and better products[10] as well as lowering costs and prices. This can enhance competitiveness of the firms in the international market. The nature of impact of M & A on export competitiveness of a firm, therefore, depends on the relative strength these diverse possibilities.

Selling Intensity (G): Selling efforts of a firm refer to firm's expenditure towards -

advertising, distribution and marketing. While advertising benefits the firms in the form of product differentiation and image advantage in the market, marketing and distribution related complementary assets help them in reaching the consumers. This means that the industries with greater selling efforts by the firms are expected to have higher competitiveness in the international market. However, entry barriers created through advertising and resulting monopoly may induce the firms to concentrate in the domestic market. Besides, increase in market concentration may also reduce firms' efficiency and competitiveness in the long run. Hence, the impact of selling strategies on export competitiveness of the firms is not clear and remains an important empirical question.

Profitability (H): It is commonly perceived that higher profitability of the existing firms in an industry comes from their greater market power. When it is so the firms may suffer from the problem of X-inefficiency and the costs of operation may rise above the minimum possible level, reducing competitiveness in the international market. Besides, the firms earning high profitability in the domestic market may not be so enthusiastic to penetrate in the international market. On the other hand, it is also possible that greater profitability would encourage new firms to enter into the industry resulting in greater market competition, and hence enhanced export competitiveness of the firms. The nature of impact of profitability on export competitiveness of a firm, therefore, depends on relative strength of these diverse forces.

Expressing all the above factors in equation form which can determine the impact on export competitiveness:

EXP f (CON, IMP, MNC, CI, R & D, FTPI, M & A, SELL, PROF)

The Herfindahl-Hirschman Index (HHI) is the most widely used measure of market concentration in empirical research. Import intensity can be measured from imports data and domestic productivity ratios. HHI index is commonly accepted measure of market concentration. It is calculated by squaring the market share of each firm competing in a market, and then summing the resulting numbers. The HHI number can range from close to zero to 10, 000. The HHI is expressed as:

HHI = s1^2 + s2^2 + s3^2 +... + sn^2 (where sn is the market share of the ith firm).

The closer a market is to being a monopoly, the higher the market's concentration (and the lower its competition). If, for example, there were only one firm in an industry, that firm would have 100% market share, and the HHI would equal 10, 000 (100^2), indicating a monopoly. Or, if there were thousands of firms competing, each would have nearly 0% market share, and the HHI would be close to zero, indicating nearly perfect competition.

Trends in Import Intensity in 1990s

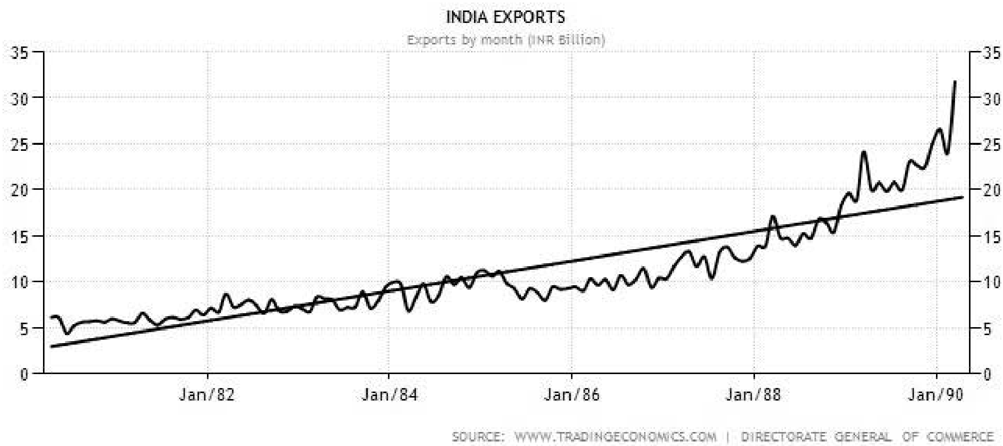
Studies By	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Sathe	11.45	11.09	10.26	10.10					
Burange			9.27	11.07	10.22	10.65	11.54	12.27	11.28

She has defined import intensity as imported raw material requirement of exports as a percentage share of total export. She found that the imported raw materials' intensities of industries have a declining trend. She found that the imported raw materials' intensities of industries have a declining trend and their values vary between 10.10 to 11.45 per cent.

Burange has calculated import intensity of manufacturing sector for the period 1991–92 to 1997–98. He has defined import intensity as the ratio of imported raw materials used to value of output. The yearly values of import intensity varied within the range of 9.27 to 12.27 per cent with an increasing trend with some exceptions.

There is a good deal of evidence that overseas M & As of Indian companies in overwhelming cases have been primarily motivated to access the global market. In general, M & As as compared to green-field route gives acquiring companies direct access to an existing market in the form of customer base of the acquiring company. For example, Asian Paints (India) Ltd. has acquired 50.1 percent stake in Berger International Ltd (BIL) incorporated in Singapore. According to the managing director of Asian Paints this acquisition 'offers access to the high growth emerging markets. The acquiring company has operations in 11 countries covering China, South-East Asia, the West Asia and the Caribbean Islands. The Vice President of Asian Paints points out that the primary objective of his company's overseas acquisitions is 'to hasten the company's strategy to go global. Also Dr Reddy Laboratories Ltd has made its first overseas acquisition by taking over UK-based Chief Executive of the company expressed that this acquisition has ensured entry of Dr Reddy Laboratories into the UK generics market through the BMS group's established product basket and strong marketing network.

Now we will take a look at the export level of Indian Industry before and after 1990 to have a rough idea so as to how M & A other activities helped in increasing export.



Both the charts clearly show us the unprecedented level of difference in the export pattern during this two decade. In later half of 1990, we saw huge no of M & A which is evident from the table below. Now it clearly indicates the total amount of exports rising more than 150 billion INR in the end of 1999. If we look at the export pattern before 1990, in the above panel it shows maximum amount of exports touching a figure of 30 odd billions INR. It suggest many reasons which has attributed to the fact of increasing level of export but, here M & A remains to be of top reason as a rapid, ambitious means of expanding business outside.

Conclusion on the basis of Research:

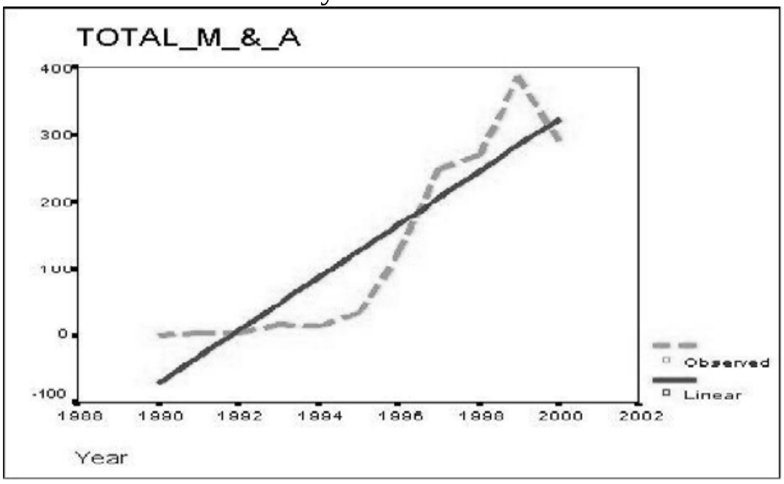
Restructuring of business largely through M & A, operation at a greater scale, and other synergy effects seem to have helped the firms to enhance their efficiency and competitiveness in international market. On the other hand, entry of the foreign firms through M & A seems to have raised competitive pressure in the domestic market forcing the firms to boost their competitiveness. In addition, better technology knowhow and managerial efficiencies of the MNCs and import of foreign technology might have raised firms' export competitiveness. However, M & A may undermine firms' innovative efforts and hence their competitiveness, particularly when integration with the MNCs helps the firms to have easy access to better technology. This may discourage the firms towards in-house R & D. Second, market concentration does not have any significant impact on export competitive-ness of the firms. This is contradictory to the proposition that lower market concentration and hence greater domestic rivalry forces the firms to innovate and improve, which in turn raise their shares and profits in export markets (Porter, 1990). This may largely be due to no significant increase in market concentration in majority of the industries following economic reforms. In majority of the industries, market concentration has either declined or has remained largely the same in the 1990s, and the wave of M & A has failed to influence market concentration

Third, competition from imports does not necessarily enhance export competitiveness of the firms. Import competition may enhance efficiency and may create opportunity for greater exports for the larger firms, but it can also squeeze opportunities for the small firms in the domestic market forcing them to leave the industry. When it is so, many of the larger firms may prefer to concentrate in the domestic territory and their export intensity may decline. A balance between these two diverse forces may leave export competitiveness of the industry unchanged even if import competition increases.

Chart shows total no of M & A during 1990-2000.

Trend line equation

Total M & A=- 110.768+ 39.518 years



INDUSTRY / YEARS	1990 -91	1991 -92	1992 -93	1993 -94	1994 -95	1995 -96	1996 -97	1997 -98	1998 -99	1999 -00	2000 -01	Total
Pharma				2	0	5	27	47	29	57	34	201
Petro chem.						4	11	5	11	13	13	57
Energy, Gas, Power				1	0	3	6	13	15	16	17	71
Non metallic Mineral					2	3	2	11	11	19	7	55
Tourism, travels						2	4	7	6	13	3	35
Paper products						1		9	4	1	4	19
Food products			3	1	2	8	8	10	9	20	13	74
Textiles, wearing	1	0	0	0	1	0	4	4	12	6	6	34
Finance, Banking			1	0	1	0	7	24	35	51	33	152
It & telecom				3	0	0	11	20	31	45	51	161
Electricals, Electronics				2	0	0	7	11	13	11	13	57
Basic metal, alloy				1	3	4	9	13	15	15	11	71
Equipment,												
Machinery				4	3	2	12	26	25	30	11	113
Transport												
Equipment						1	4	13	13	24	10	65
Tobacco, beverages				2	2	0	0	4	3	5	6	22
Others							12	31	37	61	58	199
TOTAL M & A	1	0	4	16	14	33	124	248	269	387	290	1386

The trend analysis has substantiated the fact that Indian companies have adopted M & As as a strategic choice for growth and expansion in general and particularly more prominently during the difficult period of 1996-97 and 1997-98. The analysis of M & As trends for the entire period gives two distinct phases of M & As for the different sectors of the Indian industry, that is the period from 1990-91 to 1995-96 and 1996-97 to 2000-01. During the first period, there have been 68 M & As where as in the second phase 1318 M & As have been found. That is why the second phase can safely be called as the first M & A wave in India. The study has ignored the impact on target companies due to the typical constraints of obtaining Indian M & As data as stated in the study. Further, there are possible differences in the accounting methods adopted by different companies in the sample which is also ignored. The study has also not used any control groups for the comparison (industry average or firms with similar characteristics) as has been found in other studies.

REFERENCES

[1] http: //business.gov.in/growing_business/mergers_acq.php
[2] http: //www.tradingeconomics.com/india/exports
[3] Saple V. (2000) “”“Diversification, Mergers and their Effect on Firm Performance: A Study of the Indian Corporate Sector”, Review of Quantitative Finance and Accounting. Page No.67.
[4] Mantravadi, P. and A. Reddy, (2008). "Relative Size in Mergers and Operating Performance: Indian Experience", Working Paper Series, available at: www.ssrn.com (accessed March 15, 2008)
[5] 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
[6] N. M. Leepsa & Chandra Sekhar Mishra, (2009), “Post Merger Financial Performance: A Study with Reference to Select Manufacturing Companies in India”, International Research Journal of Finance and Economics ISSN 1450-2887.
[7] Kumar, R., (2009). "Post-Merger Corporate Performance: an Indian Perspective", Management Research News 32 (2), pp. 145-157.
[8] CMIE: Economic Intelligence Service, Monthly Review of the Indian Economy, various Issues, CMIE, Mumbai.
[9] Cowling, K et al.: Mergers and Economic Performance, Cambridge: Cambridge University Press. 1980.
[10] Das, Nandita.: “A Study of the Corporate Restructuring of Indian Industries in the Post New Industrial Policy Regime. The Issue of Amalgamations and Mergers” Unpublished Ph.d. Thesis submitted to University of Calcutta, 2000.