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MERGER AND ACQUISITION

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ABSTRACT

The world market economy is currently characterized by the tendency to globalization, which means that companies have to cooperate and tighten her relations. There is no possibility of development of the companies working on the local market. To gain competitive advantages 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. The aim of this paper is to supply the most widely debated issues related to merger and acquisition, different types of Mergers and Acquisitions, why companies' merger, present position of merger and acquisition in 2015 and example of companies merged in 2015.

OBJECTIVES OF THE STUDY

1. To study the importance of Mergers and Acquisitions.
2. To know the current scenario of Mergers and Acquisitions in India.

MEANING OF MERGER

Under merger, two or more companies doing similar business go into liquidation and formed a new company. Its aim is to eliminate the competition among companies. Although the merger of companies in India is governed by the provision of companies act, 1956 but it is more clearly defined in the Income Tax Act, 1961. In other words, in a merger of two companies, the shareholders usually have their shares in the old company exchanged for an equal number of shares in the merged entity. Merger involves the mutual decision of two companies to combine and become one entity. The less important company loses its identity and become part of the more important corporation, which retain its identity.

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TYPES OF MERGER

HORIZONTAL MERGER

In a horizontal merger, one firm acquires another firm that produce and sell an identical or similar product in the same geographic area and thereby eliminates competition between the two firms. A merger between Coca-Cola and the Pepsi beverage division, for example, would be horizontal in nature. The goal of a horizontal merger is to create a new, larger organization with more market share. Because the merging companies' business operations may be very similar, there may be opportunities to join certain operations, such as manufacturing, and reduce costs.

VERTICAL MERGER

Vertical merger take two basic forms forward integration and backward integration. In forward integration, a firm buys a customer and in backward integration, a firm acquires a supplier. Vertical integration by merger does not reduce the total number of economic entities operating at one level of the market, but it might change pattern of industry behavior. An automobile company joining with a parts supplier would be an example of a vertical merger. Such a deal would allow the automobile division to obtain better pricing on parts and have better control over the manufacturing process. The parts division, in turn, would be guaranteed a steady stream of business.

CONGLOMERATE MERGER

Conglomerate merger takes many forms ranging from short-term joint ventures to complete mergers. This type of merger has no direct effect on competition. There is no reduction or other change in the number of firms in either the acquiring or acquired firm’s market. This type of merger also may reduce the number of smaller firms and may increase the merged firm’s political power. A leading manufacturer of athletic shoes, merges with a soft drink firm. The resulting company is faced with the same competition in each of its two markets after the merger

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as the individual firms were before the merger. One example of a conglomerate merger was the merger between the Walt Disney Company and the American Broadcasting Company.

MARKET EXTENSION MERGERS

A market extension merger takes place between two companies that deal in the same products but in separate markets. The main purpose of the market extension merger is to make sure that the merging companies can get access to a bigger market and that ensures a bigger client base. A very good example of market extension merger is the acquisition of Eagle Bancshares Inc by the RBC Centura. Eagle Bancshares is headquartered at Atlanta, Georgia and has 283 workers. It has almost 90,000 accounts and looks after assets worth US $1.1 billion.

PRODUCT EXTENSION MERGERS

A product extension merger takes place between two business organizations that deal in products that are related to each other and operate in the same market. The product extension merger allows the merging companies to group together their products and get access to a bigger set of consumers. This ensures that they earn higher profits. The acquisition of Mobilink Telecom Inc. by Broadcom is a proper example of product extension merger. Broadcom deals in the manufacturing Bluetooth personal area network hardware systems and chips for IEEE 802.11b wireless LAN. Mobilink Telecom Inc. deals in the manufacturing of product designs meant for handsets that are equipped with the Global System for Mobile Communications technology. It is also in the process of being certified to produce wireless networking chips that have high speed and General Packet Radio Service technology. It is expected that the products of Mobilink Telecom Inc. would be complementing the wireless products of Broadcom.

MEANING OF ACQUISITION

Acquisition means the act of one company taking control over another company. No new company is formed under Acquisition. It can be done by means of buying shares of the company being acquired or buying assets of this company. Financial position of the absorbing company is

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usually sound in comparison to the absorbed company. Purchasing company has its own shareholders and shareholders of the selling company may become the shareholder of the purchasing company.

TYPES OF ACQUISTION

NEGOTIATED/FRIENDLY ACQUISITION

A friendly acquisition also called an "takeover", occur when the acquiring company informs the target company's board of directors that it plan to purchase a controlling interest.

OPEN MARKET/HOSTILE ACQUISITION

In this a person or group of persons acquire the shares from the open market, financial institutions, mutual funds, or willing shareholders at price higher than the prevailing market price. This is done to acquire controlling interest in the target company.

BAIL OUT ACQUISITION

In this a financially sick company acquired by a profit earning company to bail it out normally in pursuance ofa scheme of rehabilitation approved by public financial institutions or banks.

WHY MERGE?

Companies would choose to merge together for different reasons:

1. The combined entity would be larger, and have corresponding larger resources for marketing, product expansion, and obtaining financing. This could help them better compete in the marketplace.
2. The combined entity could merge similar Corporate and administrative functions, such as human resources and marketing. They might also combine the production areas if the

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Scompanies produce similar products and reduce costs by having fewer plants or facilities in operation.

3. The combined entity might have less competition in the marketplace. If the products of the two companies competed for customers, they could combine their offerings and use resources for improving the product, rather than marketing against each other.
4. The combined entity might have **synergy** in operations. Synergy is when combined operations show lower costs or higher profits than would be expected by just adding their financial information together on paper. This could be due to **economies of scale**, where costs are lower due to higher volume of production, or due to **vertical integration**, where greater control over the production process is achieved due to owning more steps in the production process.
5. After merger the combined entity would have larger resources for marketing, product expansion, and obtaining financing. This could help them better compete in the marketplace.

WHY ACQUIRE?

Acquisitions are undertaken for strategic reasons. For example:

1. A company might acquire another company to obtain a specific product. It can be less expensive to purchase a company offering a product you'd like to sell than building the product yourself. Software companies often purchase smaller companies that offer extensions to their product line if they become popular with customers, so they can add the functionality to their primary offering.
2. A company might acquire other companies to increase its size. A larger company may have more visibility in the marketplace, and also better access to credit and other resources.
3. A company might acquire another to obtain control over a critical resource. For example, a jewelry company might acquire a gold mine, to ensure they have access to gold without market price fluctuations.

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EXAMPLES OF MERGER AND ACQUISITION IN INDIA Here is a list of mergers and acquisitions in India in the year 2015

- Kolkatta based FMCG company **Emami Ltd** acquires Australian personal care firm **Fravin Pty Ltd**
- **Temasek Holdings Pte Ltd**, the Singapore govt's investment arm acquires Punj Llyod stake in **Medanta** super speciality hospital owned by Global Health Pvt Ltd
- Mumbai based Piramal MNC's **Piramal Enterprises Ltd** acquires **Coldstream Laboratories Inc**
- **Hike**, messenger app by a Joint Venture of Bharati enterprises and SoftBank acquires US-based **Zip Phone**
- Mumbai based conglomerate's division **Godrej Consumer Products Ltd** acquires South Africa's **Frica Hair (Pty) Ltd**
- Chennai based hospital chain, **Apollo Hospital** acquires **Nova Speciality**
- Pune based Bharat Forge Ltd MNC's, German arm **CDP Bharat Forge Holding GmBH** acquires **Mecanique Generate Langroise (MGL)**, A French oil and gas machining company
- Thomas cook owned Quiz Coro Ltd acquires Indian arm of American MNC **Aramark** (Hospitality and healthcare facility management)
- New Delhi based online marketplace **Snapdeal** acquires **Exclusively.com**
- Star India acquires telugu language based **MAA network**
- **BookMyShow** acquires Bangalore based Eventifier
- Malaysia based **Foodpanda** acquires food ordering portal **Just Eat India**
- New Delhi based online restaurant based **Zomato** buys Turkish rival **Mekanist**
- Anil Ambani's Mumbai based **Reliance Infrastructure** acquires India's largest ship building and heavy industries company **Pipavav Defence and offshore Engineering Company Ltd**
- Bengaluru based online cab aggregator **Ola Cabs** acquires **TaxiforSure**
- Rupert Murdoch owned Newscorp inc acquires VCCircle Network

- Mumbai based **Star India Pvt ltd** owned by 21^{st} century Fox acquires **Screen** entertainment weekly from Indian Express Group
- German speciality chemicals manufacturer **Evonik Industries AG** acquires Mumbai based catalyst supplier **Monarch Catalyst Pvt Ltd**

CURRENT POSITION OF MERGER AND ACQUISITION

In 2014, there were 569 M&A transactions worth $37.05 billion. Domestic transactions in 2015, with over 300 deals, saw the highest number of transactions since 2007. The report noted that though cross-border deals increased 16 percent year on year on back of 11 deals valued over $500 million each, poor corporate performance in 2014-15 and emerging global uncertainties have kept outbound transactions within restrained during 2015. Prashant Mehra, partner, Grant Thornton India, said: "The total deal activity in 2015 seems to be slightly below 2014 but there is good continuing momentum."The average deal size in domestic M&A has come down from around $64 million to $28 million, and the average deal size for inbound investments has moved up from $66 million to $103 million."This throws a few indicators such as firstly, since the 'Make in India' initiative is working and the overall macro- economic indicators are looking good, India has started attracting foreign investment in the key sectors which is further corroborated by the fact that India has been the largest receiver of FDI in H1 of 2015 with $31 billion," Mr Mehra said. With inflation in control and GDP growth being revised to now end higher than anticipated, all the necessary ingredients seem to be in place for growth in deal activity as well, he said."The recent FDI norms and the much awaited GST (Goods and Services Tax) will perhaps be a game changer and will further accelerate the deal activity from an inbound investment, domestic M&A and PE perspective," he added.

CONCLUSION

Merger and Acquisition will certainly be helpful by expanding or disinvesting. One technique doesn't fit in all situations. Mergers create synergies and economies of scale, cutting costs and expanding operations. The combined entity would be larger, and have corresponding larger resources for marketing, product expansion, and obtaining financing. This could help them better

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compete in the marketplace. The combined entity could merge similar Corporate and administrative functions, such as human resources and marketing. They might also combine the production areas if the companies produce similar products and reduce costs by having fewer plants or facilities in operation. A company might acquire other companies to increase its size. A larger company may have more visibility in the market place, and also better access to credit and other resources. A company might acquire another to obtain control over a critical resource. For example, a jewelry company might acquire a gold mine, to ensure they have access to gold without market price fluctuations.

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