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MERGERS AND ACQUISITIONS IN INDIA

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ABSTRACT

Merger can be define by a very simple statement that it is a combination of two things, especially when two companies involve in each other and form a new company and in acquisitions one company takeover the one company. Companies use merger and acquisitions as a tool for spreading their business and for long term profitability. Most of time mergers and acquisitions take place with a mutual agreement. In mergers two companies come together to frame a completely new business entity or one company give permission to another to occupied its business. In this case one company completely loses its identity. Many countries follow and enforce law regarding mergers in trade units. In India mergers and acquisitions governed by the Indian Companies Act, 1956, under sections 391 and 394. For mergers and acquisitions the consent of the High Court is required and 3/4th part of the shareholders and creditors should present in the General Board Meetings of the concerned firms. Broadly mergers can be of four types. Very common and simple merger is horizontal merger, where similar business entity merges together. Another type of merger is vertical merger where companies merge together which has different level of production in the same product. Third type of merger is congeneric merger where two companies are in the same general industry but they don't have any common clients. Last but not the least is conglomerate merger where both the companies are in unrelated business with each other.The biggest mergers and acquisitions in India are Idea and Vodafone. It is India's largest telecom mergers and word's 2nd largest. Tata steel the biggest steel company in India and Corus the leading name in Europe Steel. Mergers and acquisitions have both the sides positive and negative. Companies increases their profit, they can invest more in research and development activities. On the other hand merger and acquisition increase the market share of company it leads the monopoly condition which finally increases the product's market retail price. Mergers and acquisitions increase the size of company and its production but some where it dilutes the coordination and communication within the company. Although mergers and acquisitions have its negative sides but still companies go for mergers and acquisitions because these reduces the competitions, enhance the power of supply chain, these provides growth to the business and many more.

KEYWORDS: *Long Term Profitability, Mutual Agreement, Shareholders, Creditors, Conglomerate.*

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Introduction

Definition of Mergers and Acquisitions

Merger is an agreement in which two companies show their consent to form a new company.in this type of merger both the companies are of equal size and have almost similar number of customers. A merger can be a cash merger, stock merger or both. In case of cash merger the acquiring company pays cash to the target company for their stocks. On the other hand stock merger takes place when acquiring company offers stock to the target company. In acquisition again there are two companies one is acquirer which is generally bigger in nature and one is acquired company which is comparatively small is nature. In acquisition the acquirer company purchased most or all the share of acquired company. Once purchase more than 50% of the stock and other assets the acquirer company can take the decision about acquired company without the consent of its shareholders.

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Legal Side of Mergers and Acquisitions

Mergers and acquisitions come under Companies Act, 1956, section 391 to 394. As discussed that mergers and acquisitions are mutual consent between the two companies but this process mainly driven by court. High Court decision and approval are very important in such kind of decisions. Other than high court approval the presence of shareholders and creditors at the General Board Meetings are also required. 3/4th Shareholders and Creditors should be present at the General board Meetings of the concerned entity. 210 days are permits for the companies for this process under Indian law. The tax allowances are allocated under the Indian Income Tax Act. If companies want to qualify this they need to fulfill the requirements related to section 2(19AA) and section 2(1B) of the Indian Income Tax Act according to the geographical area. In case of foreign company merger the guidelines are different and targeted foreign companywould be acknowledged as a transfer and would be chargeable under the Indian tax law.

Types of Mergers and Acquisitions

It is mostly of four types. These are as below:

- **Horizontal Merger/ Acquisition:** In this type of merger/ acquisition both the companies are in the same industry and at same product line.These both the companies are in direct competition. This type of merger/acquisition is mostly use to increase the economics of scale, to gain large market share and for cost-cutting purpose. This type of mergers/ acquisitions create either very large or little/no-effect on the market.
- **Vertical Merger/ Acquisition:** Two companies which are in different stage of production of a same product decide to merge/acquire in each other it called vertical merger/ acquisition. This type of mergers/ acquisitions creates buyer-seller relationship between two firms. Vertical merger/ acquisition can be of two types- (a) Forward integration where one company merges/acquired with another company which is ahead in production stage. (b) Backward integration where one company merges/ acquired with another company which is in back foot in production stage.
- **Congeneric Merger/ Acquisition:** This type of merger/ acquisition occurs when two merging/ acquiring companies are from same general industry but they don’t have mutual customer/supplier/buyer relationship.
- **Conglomerate Merger/ Acquisition:** When two unrelated business firms merge/ acquire it called conglomerate merger/ acquisition. These companies have no common business ties.

Mergers and Acquisitions in India

In India there are several mergers and acquisitions have taken place. Few of them are as below:

- **Vodafone and Idea:** Indian subsidiary of Vodafone and Idea cellular merge in the year 2018 by the final approval of National Company Law Tribunal. This deal creates India’s largest telecom by subscriber (430 million) and by 37% of market share. It gives tough competition to the market leaders Airtel and Reliance Jio.
- **Vodafone-Hutchison Essar:** Vodafone purchased controlling stake in Hutchison Essar. Vodafone joined hands to increase its business by rapid speed.
- **Snapdeal and Freecharge:** This acquisition was taken place in the year 2015 when e-commerce startup company Snapdeal acquires Freecharge which is a mobile recharge service in April.
- **Myntra and Flipkart:** Flipkart acquire Myntra in May 2014. Myntra was its fashion rival.
- **Ola and Taxi for Sure:** In March 2015 India’s largest ride-hailing service company Ola acquire small but value centric Taxi.

Advantages of Mergers and Acquisition

Companies go for merger and acquisition because of following reasons:

- **Deduction in Operation Cost:** Due to a bigger company in comparison of individual company its operation cost reduces because company achieve economic of scale.
- **Market Share:** Through these processes companies could increase their market share in comparison to individual company.

- **Increase in Revenue and Profit:** Companies can increase their revenue by bigger company and as it increases its profit company can invest more in research and development.
- **Larger Market Coverage:** Through acquisition/merger company increase their geographical are to get better market coverage.

Disadvantages of Mergers and Acquisition

Acquisition/Merger has its negatives side as well. Few of them are as below:

- **Monopoly and Higher Price:** After merger and acquisition the company reduces the competition. It leads monopoly in the market in this condition the bigger company can set the higher price for the customers.
- **Poor Coordination and Communication:** As companies merge/ acquire another company in this case different cultural employees come together and they need to work for a common goal. But due to cultural difference they have poor coordination and communication with each other.
- Managing large base of shareholders and other stake holders is a costly affair after merger and acquisition.

Conclusion

Mergers and acquisitions are not new in the business world. It's gaining importance in market place. It is a most effective way to enter in a foreign country. Company can increase its production capacity, customer base, profitability, revenue, research and development. India has many successful mergers and acquisitions. If companies can make effective strategies for mergers and acquisitions they can beat the competition in their area.

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