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MERGER AND ACQUISITION: THE PHENOMENAL CHANGE TO BUSINESS ASPECT

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ABSTRACT

A lot of news comes in the newspaper as headlines regarding the mergers and acquisitions, takeovers and restructuring of the companies. The merger and acquisition is the fascinating word in today's corporate world. There found various studies which has been conducted in manufacturing and banking sector for the mergers and acquisition but only very few studies have been undertaken for mergers and acquisitions as a general aspect in the business world. The majority of the studies have been conducted with a specialisation on effect of mergers and acquisition on the financial performance of corporates for the future aspect and a very least attention have been given on impact of mergers and acquisition as far as the share prices of corporates and their market valuation is considered. The most of the mergers and acquisitions came into existence in India after 1991, when the liberalisation has started taking place with the increased liberalisation and modernization. The corporates started realising the importance of merger and acquisition in the initial years when studies on merger and acquisition started. The primary focus was on evaluating the pace of merger and acquisition and the effect in the long run performance but the focus was mainly in manufacturing and banking sector and that too with a very small sample and less case studies. This research paper has been undertaken with the object of making analysis of impact of mergers and acquisitions for long run as well as short run effect of selected sample firms and hence this study could help in evaluating the effect of a merger and acquisition for the past as well as future time frame. We have taken a sample from the last 10 year time span, with consideration to almost all kinds of industries where mergers and acquisition has taken place. The researcher expects that the study will definitely make a contribution to size of data in further acquisitions and mergers to be taking place in future, from the acquirer company's point of view. This will also assist corporate houses in developing their strategic cognitive process while they are making acquisition in other companies and it will also help them to evaluate how the value can be enhanced in the short run as well as in long run by a proper merger and acquisition methodology.

KEYWORDS: *Mergers, Collaborations, Takeover, Joint Venture, Industries, Liberalisation, Modernisation.*

Introduction

In India the merger and acquisition has came into existence in 1991 when the liberalisation policy came into existence and the government has opened the roots for the foreign investors through the foreign direct investment channels and a cross border business association started. At that time it was felt that studies on mergers and acquisition shall be conducted so that effect of mergers and acquisition can be evaluated. Descriptive researchers have been conducted in analysing the long term performance of such mergers and acquisitions. Various studies have also evaluated the effect of payments made in merger and acquisition and the cultural diversity on performance of shares after merger and acquisition takes place. Some of the study has also evaluated the ownership structure before and after merger and acquisition. From the descriptive analysis of literature review, the researcher came to know that the studies which have been conducted for analysis of effect of mergers and acquisition on efficiency of stock market, they all have been evaluating the impact of foreign institutional

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investor investments, the issue of bonus shares and the recording of the profit content in merger and acquisition. Hence the researcher has followed an event study methodology for making analysis of impact of mergers and acquisition, as a very least studies have been conducted from the acquirer's point of view. It is the general observation of the researcher that while entering into mergers and acquisition transaction, the focus of participant firms is towards the higher abnormal returns as against the premium (also known as goodwill) which they pay for the acquisition. With globalisation and enhanced information based industrial reconstruction an inorganic growth is indeed for better performance after merger and acquisition. The study is attempt to fill up the gap in information on mergers and acquisition taking place in India by combining the effect on acquisition for the long run.

Corporate Restructuring the Phenomenon Based for Every Kind of Merger

The corporate restructuring is a consolidated term which describes various methods through which a company restructure its existing structure including the mergers and acquisition. When we talk about restructuring there are various organisational changes such as the change in corporate strategy to achieve the new goals according to both firms, making new investments in the plant and machinery, better research and development for combined firm and similar others. There are various ways of making corporate restructuring such as mergers and acquisitions, joint ventures, strategic collaborations, takeovers. Generally the requirement of corporate restructuring arises when the existing business does not operate or perform efficiently according to the expectations of industry and do not fulfil the success criteria such as profitability, improvement in wealth and capturing of the market share. The corporate restructuring is one of the complex and fundamental phenomena which any corporate adopt to makeover it's present position. In general it could include change in ownership, change in assets and business compositions, capital mix and compromise with companies creditors and debenture holders. The ultimate purpose of merger and acquisition is to boost up the shareholders value including a threefold structure which consist of portfolio restructuring, financial restructuring and organisational restructuring. These are the part of corporate restructuring. Let us have a discussion about all these terms one by one for a better understanding

- **Merger and Acquisition:** when the two or more companies comes together where the shareholders of one company is offered with securities of other company known as acquiring company in exchange of their existing shares, then it's called as merger. On the other hand when one company acquires majority share of other company that it is called as acquisition.
- **Takeover**: Where one company acquires other company by making bids. In this process the company whose shares are publicly traded is offered by other company for acquiring their outstanding shares by this way the company takes the control on other company.
- **Joint Venture:** Cooperation of two companies with a specific objective to achieve it is called as joint venture once the objective is achieved the joint ventured ends.
- **Strategic Collaborations:** it is a kind of an appointment between two companies, when they decide to share the resources for a specific project but at the same time keeping themselves independent. It is almost same as joint venture but in a strategic collaboration the Association of both the companies are limited for a particular project where companies pool the resources for creating a separate entity.

Need of Merger and Acquisition

Today's corporate world is an era of dynamic and globalised market with the rapid growing economies. The competitive age need a struggle to rule over the competitors. The major objective of any company is making their wealth maximisation. For this purpose the company always look after the new competencies, skills and capabilities. A company can enrich in the various ways like it can develop itself internally or it can develop itself externally. In the corporate world they are commonly known as inorganic growth and organic growth. When a company opt for internal growth, it focuses on expanding its existing activities by an expansion of its capacities, developing new market through fresh investment and entering into the new product markets. It may also choose a diversification strategy for exploring the unexplored markets. However in any case it cannot develop and use its full potential and hence it need to opt the method of external growth for achieving the fastest growth by the way of corporate restructuring. These ways may include mergers, acquisitions and joint ventures. There are various advantages of external growth, where the firm can use its existing capacity, the products and markets to the last extent by saving a lot of its times and resources. A corporate restructuring has various dimensions which makes it attractive and fascinating. These aspects includes the financial growth, the technological advancement, the geographical expansion and to make a takeover target. A corporate restructuring is majorly helps in encountering the competitive scenario of business environment. Most of organisation makes their corporate restructuring and strategy according to the requirement of their business. It can be done through merger or takeover or joint venture and even sometimes the demerger, while other makes through structural changes and optimization of their resources. However one negative aspect of merger and acquisition is that they are always not successful and good for business. Sometimes the disaster comes into picture by merger and acquisition. However in spite of above fact the pace of growth of mergers and acquisition throughout the world is increasing. Various studies in the area of financial impact of mergers and acquisition are taking place continuously, so that mergers and acquisitions can be taken into consideration in future with better financial growth. In the world as well as in Indian level the scenario of merger and acquisition is securing a lot of importance for developing the corporates from the all aspects and perspectives.

Laws Relating to Mergers and Acquisition in India

Merger and Acquisition is a legal activity which is governed by various legal provisions. However which law will be applicable on which kind of merger and acquisition depends upon the nature of merger and acquisition, such as whether it is between the 2 private companies, whether it is between 2 public companies or whether any foreign investor is involved in such merger and acquisition. The laws which are generally applicable to merger and acquisitions are covering various aspects such as exchange regulations, security laws, anti money laundering law, taxation law, securities act and other similar. Some of them are as below

- **The companies at 2013**: The new company sector which passed in 2014 incorporates various sections from section 283 to section 470 directly or indirectly covering the merger and acquisition phenomena. Broadly its includes establishment of national company law tribunal and national company law appellate tribunal.
- **The securities exchange Board of India Act 1992:** Section 12 of securities and exchange board of India act 1992 provides for manipulative and descriptive devices, provisions for trading and provisions relating to the substantial acquisition of control in any company, as far as the acquisition of more than 15% of shares of any company is concerned. The act provides that no acquirer can acquire the shares or voting rights along with the shares already held by him if such acquisition allows him to exercise 15% or higher amount of voting right in any company, without making a public announcement of his intention of doing so.
- **The income tax act 1961:** Although under the income tax act 1961 merger has not been defined but the term amalgamation has been defined under section 2 of income tax act. With the objective of encouraging more restructuring through the modes of mergers or acquisitions or amalgamation, a special provisions have been incorporated in the act. The finance act 1999 clarifies various issues for business restructuring so as to facilitate restructuring easy for the tax purposes. This will definitely help in accelerating the internal liberalisation.
- **The Foreign Exchange Management Act 1999:** The interconnected laws regarding issue and allotment of the shares to foreign investors in the process of mergers and acquisition, the (exchange management transfer or issue of security by non-resident regulation) 2000 has been issued by Reserve Bank of India in May 2000. These regulations provide for some general guidelines for issue of shares and securities by any Indian corporate to a person residing outside India or a foreign investors at the time of merger and acquisition.

Effect of Merger and Acquisition on Financial Aspect of Acquiring Company

The result of above research is showing that in long run, financial position of acquiring firm does not show the positive results. This may be due to the decrease in long term profits or the higher depreciation on increased size of asset base. The acquirer Company’s total expenditure also increases because the resources of both the companies get merged into one. The acquisition does not impact the other performance measures significantly that is why it is suggested that the acquiring firm should have a specialisation in the process of integration. For the use of resources with that of acquired firm so that better liquidity, better profitability and better valuation measures can be adopted. A merger and acquisition could have a positive impact on the price of share of the acquirer company, for the shareholders of acquired company. It is also recommended that they shall be careful and vigilant while they are entering for merger and acquisition. They can also take a decision to exit and not to be the part of shareholder of Acquirer Company. Like all other options the mode of financing and the way of acquisition shall also be considered regarding the abnormal returns which could be obtained through burger and acquisitions.

Conclusion

Present study makes analysis of impact of mergers and acquisition on the financial aspects of both the companies especially of Acquirer Company in long run as well as in the short run. The impact of acquisition and merger on the future performance has been analysed through various financial techniques such as ratio and the other short term event methodology. Although the merger & acquisition are very important strategy for making the restructuring of any corporate at the global level. The research on merger and acquisition is not at all provides conclusive evidence that it actually provides or gives better efficiency or it do not cooperate in increasing the wealth. So, it is a long matter of debate at the global level, that what the exact consequences of mergers and acquisitions are. The research on mergers and acquisition is still restricted to certain category of industries. Through various studies it has been observed that the acquiring firms do not get that much of benefit in the long run from the merger and acquisition activities but in short run the gains are undoubtedly profitable. Many studies have been conducted to finding out the effect of acquisition on finances of the business but the most of the studies are conducted in the area of targeted firms and very few studies have been conducted from the acquirer's point of view. It is also observed in the study that the target firms also experiences a very abnormal returns as against the acquirer firms against a very high amount of payment of goodwill for acquisition. However, the most objective of this research is to find out whether the corporate restructuring activities is actually useful or not for both the firms and what will they play in the future growth of acquirer and acquiring firms.

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