

CORPORATE GROWTH THROUGH MERGERS AND ACQUISITION: INDIAN AND INTERNATIONAL PERSPECTIVE

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ABSTRACT

In the contemporary business world, mergers and acquisitions have become more important. Mergers and acquisitions (M&A's) are commonly used as a means of reorganising different trade groups. Nowadays, the primary objective of most businesses is to influence global customer behaviour and reap the financial rewards of doing so. By cooperating with other businesses both locally and internationally, you may have a greater impact on the global consumer market. The rising application of deregulation, liberalisation, privatisation and globalisation (LPG), in most nations throughout the globe has enhanced the appeal of M&A's as a foreign growth strategy. When it comes to growing a company's creative portfolio, accessing new markets, obtaining expertise and increasing access to research and development, M&A's are an all-encompassing way of doing so.

KEYWORDS:

Mergers and acquisitions, Consumer, Corporate, Market Place.

INTRODUCTION:

Before the 1990s, Indian businesses were subjected to a rigorous regulation system. As a result, Indian corporations saw a very haphazard expansion throughout this time period. As a consequence of the Government's changes since 1991, Indian businesses have used a variety of development and expansion methods. Mergers and acquisitions have become a typical occurrence as a result of this. The Indian economy has a long history of mergers and acquisitions. Companies have utilised mergers and acquisitions to expand in the past, but currently Indian corporations are centring their growth efforts on areas such as core competencies, market share, global competitiveness, and mergers and acquisitions activity. The entry of international rivals has accelerated this trend of refocusing even more. This is the background against which Indian corporate companies have conducted restructuring efforts, mostly via M&A's, in order to establish themselves as formidable players and to grow in their core areas of expertise.

One of the best methods to accelerate the execution of a growth strategy is via mergers and acquisitions. All industries, including telecommunications and pharmaceuticals, have seen rapid growth as a result of their M&A strategy and other considerations. M&A is a term used to describe transactions between two businesses that result in a merger or acquisition. Merger and acquisition are phrases that are sometimes used interchangeably, although they have distinct legal connotations.

Smaller companies may be bought by larger corporations, who then take over their activities. This is known as an acquisition. While a merger refers to two firms that join forces to establish a new company rather than continue functioning as separate organisations.¹

During the early stages of M&A transactions in India, it was the government and financial institutions that facilitated M&A in a controlled environment. Rivalry has become a need for existence in Indian businesses since their inception in the latter decade of the twentieth century as they face both local and foreign competition. The bulk of Indian organisations have chosen M&A deals to expand in today's market due to rising rivalry among local enterprises on both the domestic and international markets. Global consumer impact may be gained through working with other companies, both nationally and overseas, that already exist or are just getting started, which is the primary objective of most firms. With M&A, a company may broaden its range of products and grow into new markets, while also obtaining access to new sources of information and resources for research and development. M&A also gives companies the resources they need to function globally.

¹Mantravadi, P. And A. Reddy, (2008). "Relative Size in Mergers and Operating Performance: Indian Experience", Working Paper Series, available at: www.ssrn.com."

MERGER AND ITS CLASSIFICATION:

In order to grow their business, organisations often employ mergers as a strategic strategy. Consensual mergers are the norm in business. Merger is the merger of two separate entities into a single entity. Mergers serve a number of objectives, including increasing the long-term profitability of the merging companies, expanding their market share, reducing their operational expenses, and connecting everyday things.²

Mergers Are Classified Into Following Types:

Horizontal Merger

Horizontal mergers occur when two firms in the same industry unite to manufacture a comparable product. When two firms that compete in the same market combine or join forces, this is referred to as a horizontal merger. Mergers of this nature may either have a significant impact on the market or have little to no impact at all on it.

It is less visible when two very tiny enterprises join, or horizontally integrate. Small local restaurants might combine with each other horizontally and have little effect on the food and beverage sector. However, in a significant horizontal merger, the ripple effects might be seen across the market sector and perhaps the whole economy.

Example: A famous example of a horizontal merger is the union of two telecommunications businesses, Vodafone India and Idea Cellular Limited. The combination of Zee Entertainment Enterprises Limited and Sony Pictures Networks India, two of India's largest media businesses competing in the same market, is another example of a horizontal merger.

Vertical merger:

Two firms merging during separate phases of a product's development, known as a "vertical merger," is an example of a merger. In a vertical merger, rivals may have difficulty accessing a crucial component product or a key distribution channel. A merger of two companies in the same industry, for example, would have a significant influence on other manufacturers and distributors.

Example: In this case of a vertical merger, Zee Entertainment Enterprises Limited Ltd. (ZEEL) and Dish TV India Limited (DISH) have agreed to combine their broadcasting and distribution businesses.

Congeneric Merger:

Two merging companies may be in the same industry, but they have no shared customers or suppliers. Congeneric mergers occur. In this case, the goods or markets of the two firms merging are unrelated. In other words, there are no commercial relationships between them. Diversification of risk is generally the driving force for such a combination.³

There are two types of a conglomerate merger:

A pure conglomerate merger consists of two or more firms that are completely unconnected and operate in different markets.

Companies that want to broaden their product offerings or reach new markets come together in a mixed conglomerate merger.

Example: It is an example of a congeneric merger since both Thomas Cook India and Sterling Holiday Resorts were active in the tourist business, but their client bases and process chains were unconnected to one other.

Market-Extension Merger:

Companies that provide the same goods or services but operate in separate markets unite in a market-expansion merger. Gaining access to a broader market and, therefore, a larger client base is the purpose of a merger with market expansion.⁴

²“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.”

³“Mantravadi, P. And Reddy, A. V. 2008), Post-Merger Performance of Acquiring Firms from Different Industries in India, International Research Journal of Finance and Economics, Issue 22, pp.192-204.”

⁴“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.”

Example: Market-extension mergers like the one between Mittal Steel and Arcelor Steel, located in Luxembourg, are common.

Product-Extension Merger:

A product-extension merger brings together firms in the same market that provide comparable goods and services. Both businesses' goods and services are not identical, yet they are linked.

Example: This type of merging has never occurred in India. However, from a global perspective, the combination of Pepsi Co and Pizza Hut is a famous example of this kind of merger. Both enterprises were in the food and beverage industry, but they didn't sell exactly the same items as each other.

ACQUISITION AND ITS CLASSIFICATION:

The acquisition of a smaller firm by a bigger commercial entity is sometimes referred to as an "acquisition." Acquisition is a general term for the act of one corporation purchasing the whole stock of another. When one firm buys a majority stake in another, this is referred to as a reverse takeover.

There Are Two Basic Forms Of Acquisitions:

Stock Purchase

When buying a target company's stock, the buyer gives the target company's shareholders cash or stock in return for the target company's equity. In this case, the target's shareholders are compensated, not the target itself compensation.⁵

Asset Purchase

The acquirer buys the target's assets and pays the target directly in an asset acquisition.

ADVANTAGES OF M&A:

Some of the Advantages of M&A Are:

Unlocking Synergies

"Mergers and acquisitions (M&A) are often undertaken in order to maximise the value of the merged firm by exploiting existing synergies."

In certain cases, synergies are the result of lower costs or better revenues. When it comes to revenue synergies, cross-selling, gaining market share, or raising pricing are the most common methods of generating them. Cost synergies, on the other hand, are easier to quantify and compute.⁶

Higher Growth

As a result of M&A, a firm is able to generate more revenue and expand quicker than if it were to develop organically. Aggressive M&A strategies may be used by a corporation to save money and risk by purchasing or merging with a newer company that has the most up-to-date skills.

Stronger Market Power

When companies combine horizontally or vertically, they gain more market power, which gives them the ability to influence pricing and better manage their supply chain.

Diversification

By acquiring other businesses, organisations are able to diversify their income streams and distribute their risk over a broader range of sources. In the event that one source of income declines, a different source of revenue may be able to maintain or even increase, thereby reducing the company's overall risk.

Tax Benefits

There are situations when an M&A transaction might provide tax advantages if the target firm is in a key sector or in a nation that has an advantageous tax policy in place. The tax losses may also be used to minimise the purchasing firm's tax bill by acquiring a company that has net tax losses.

Geographical Or Other Capital Investment

⁵Bhide, M. G., Prasad, A. And Ghosh, S. 2002), Banking Sector Reforms: A Critical Overview, Economic and Political Weekly, Vol.37, No.5, pp 399-408."

⁶Kumar, R., (2009). "Post-Merger Corporate Performance: an Indian Perspective", Management Research News 32 (2), pp. 145-157."

It is the goal of mergers and acquisitions (M&A) to smooth out a business's financial results over time, giving conservative investors greater confidence in the company. In turn, this provides the corporation with fresh sales prospects and new avenues for commercial exploration.⁷

Biggest M&A In India, In Recent Times

Indian mergers and acquisitions (M&A) have grown tremendously during the last few years.

Following Are The Some Of The Biggest M&A In India:

Zee Entertainment – Sony India Merger

Both Zee Entertainment Enterprises Limited and Sony Pictures Networks India, two of India's most prominent media businesses, have decided to unite. There is a chance that the combined business will become one of the country's most sought-after and biggest corporations. Investors should anticipate both firms to reap the benefits of their merger and the associated synergies by participating in the company's future success as well as speeding up corporate development.

Vodafone and Idea Merger

In the wake of the 2G Scam and Reliance Jio's entrance into the Indian market, several existing telecom businesses were on the verge of bankruptcy. In response to Reliance Jio's low-cost offerings, a pricing war erupted in the telecommunications industry. Vodafone India and Idea Cellular Limited, two of the major players in the telecom industry at the time, both battled as the market got more and more competitive. One company was formed from the merger of these two businesses. Both Idea and Vodafone benefited from the deal. Vodafone and Idea unveiled their new corporate brand, 'Vi,' which signified the finality of the two companies' merger. According to current estimates, the combined company's value is just \$23,00,000,000 (USD \$23,00,000,000).

Hindustan Unilever Limited's and GlaxoSmithKline Consumer Healthcare Ltd Merger

Fast-moving consumer goods corporation Hindustan Unilever Limited (HUL) is the country's top player. When GlaxoSmithKline Consumer Healthcare Ltd and HUL announced their merger in December 2018, it was a big deal. Taking advantage of the health and wellness megatrend is HUL's primary goal in the deal, which will help the company build a long-term, profitable food and beverage business in India. INR 3,17,000,000,000,000/- Indian Rupees three hundred and seventeen billion dollars is the total worth of the business in this transaction.⁸

Bharti Infratel and Indus Towers merger

Indus Towers, India's biggest mobile tower installation firm, and Bharti Infratel, a telecoms infrastructure company, combined in 2020 to become Indus Tower Limited, a mega tower company. For its 11.15 percent eleven decimal one-fifth stake in Indus Towers, the debt-ridden Vodafone Idea earned just INR 37,60,00,00,000 Indian Rupees three thousand seven hundred sixty crore in cash.

Bank of Baroda and Vijaya Bank and Dena Bank merger

In 2019, Vijaya Bank and Dena Bank merged with the Baroda Bank of India, creating one large financial institution. Bank of Baroda made the announcement in December 2020 that it had been successful in merging 3,898 Vijaya Bank and Dena Bank branches, along with 98 outposts.

Flipkart and eBay India merger

Flipkart and eBay India integrated their businesses in 2017. Flipkart buyers would benefit from eBay's extensive worldwide inventory, while eBay customers would have access to Flipkart merchants' more distinctive Indian assortment as a result of the combination.

Arcelor and Mittal Merger

Arcelor Steel, a steel firm located in Luxembourg, amalgamated with Mittal Steel. There is currently just one firm in the world that produces more steel than ArcelorMittal. Lakshmi Mittal, chairman of Mittal Steel, has made an unsolicited offer to acquire Arcelor in the form of a takeover attempt. Following a drawn-out battle, the two corporations ultimately decided to combine forces in order to become the largest steel conglomerate in the world, which now has a ten percent share of the overall steel market. The transaction involves a total of thirty-eight billion and three hundred million United States Dollars.

⁷“CMIE: Economic Intelligence Service, Monthly Review of the Indian Economy, various Issues, CMIE, Mumbai.”

⁸“Badreldin, A. And Kalhoefer, C. 2009), The Effect of Mergers and Acquisitions on Bank Performance in Egypt, Working Paper No.18, GUC, Cairo.”

Tata Group's Acquisition Of Air India

“A winning proposal of INR 1800,000,000,000,000 for a 100% share in Air India was made by the Tata group's subsidiary Talace in January 2022.” Since the Tata company owns a controlling stake in AirAsia India and the Singapore Airlines-affiliated Vistara, it's possible that this acquisition is part of Tata's overall aviation plan.

Wipro's Acquisition Of Capco

Wipro purchased UK-based IT consultancy firm Capco in March 2021 for \$1.500,000,000 (US\$1 billion, five hundred million) dollars alone. The banking, financial services, and insurance sector remains the most important/largest vertical for Indian IT services businesses, and this purchase gives Wipro the potential to become a bigger participant in this sector. Wipro gains access to Capco's large customer base and the chance to provide Capco services integrated with Wipro's present service offerings to their combined customer base. New and current customers have a higher chance of getting bigger transactions now that you're competing with your colleagues.⁹

HDFC Life's Acquisition Of Exide Life Insurance

HDFC Life, the life insurance arm of mortgage lender HDFC, has purchased Exide Life Insurance from Exide Industries for an INR 66,87,00,00,000 /- Indian Rupees six thousand six hundred and eighty-seven crores only. HDFC Life intends to expand its operations in Tier II and Tier III cities, mainly in southern and eastern India, through this purchase.

Tata Steel's Acquisition Of Corus

Indian steel giant Tata Steel is the biggest, while European rival Corus is the second-largest steel producer in the world. For \$12,020,000,000 United States Dollar twelve billion twenty million alone, Tata Steel has become the world's fifth-largest steel manufacturer since 2007. Tata Steel gained synergies in production, procurement, research & development, logistics, and back-office operations with the purchase of Corus, a high-value product maker in an area of the globe where high-value goods are in high demand.

Walmart's Acquisition Of Flipkart

The acquisition of Flipkart by Walmart represented the company's first foray into the Indian market. After a bidding battle, Walmart spent \$16,000,000,000 United States Dollar sixteen billion to acquire a 77% interest in Flipkart, beating Amazon in the process. As a result, Walmart was able to better compete with Amazon in a major market. As a consequence, Flipkart's logistics and supply chain network expanded.

Zomato's Acquisition Of Uber eats

Zomato, an online platform for food delivery and the discovery of restaurants, has recently acquired the Indian operations of Uber Eats, which is the company's food delivery business. The transaction reportedly took place for approximately three hundred and fifty million United States Dollar three hundred and fifty million dollars. Because Uber's food delivery service was losing money in India, the firm took the decision to do business in this manner in order to save expenses.

Zomato's Acquisition of Blinkit

Zomato plans to buy Blinkit, previously known as Grofers, in an all-stock acquisition of INR 4,448,00,00,000 (about \$4,438,000,000) in order to join the fast market for online grocery delivery. Zomato will now have access to Blinkit's 400 dark locations as a result of this transaction. Online food aggregators have just introduced an app called Zomato Instant that promises meal delivery within 10 minutes, and the purchase of dark establishments coincides with this promise.¹⁰

Tata Motor's Acquisition Of Jaguar's Land Rover

“It was in June 2008 when Tata Motors Ltd., headquartered in India, announced it had finalised the purchase of the two iconic British brands Jaguar and Land Rover from Ford Motors for a sum of US\$ 2,300,000,000 United States Dollar two billion three hundred million.” For a failing Ford, it permitted

⁹“Cowling, K et al.: Mergers and Economic Performance, Cambridge: Cambridge University Press 1980.”

¹⁰“Mantravadi, P. And Reddy, A. V. 2008), Post-Merger Performance of Acquiring Firms from Different Industries in India, International Research Journal of Finance and Economics, Issue 22, pp.192-204.”

the elimination of two loss-making car units. High-end automobiles, as well as the possibility to add two iconic luxury brands to its line-up and a worldwide footprint, were gained via this transaction.¹¹

CONCLUSION:

M&A has been shown time and time again to be an effective strategy for helping firms navigate the present economic climate and grow. Mergers and acquisitions, expanded operations and synergy effects seem to have helped local businesses become more efficient and competitive in the worldwide market. When foreign firms are brought in via M&A, the local market seems to be under more pressure to enhance its competitiveness.

This research demonstrates that firms choose mergers and acquisitions for a number of reasons, and that they are rewarded for doing so. The findings of this study may be found here. This may be transformed into a stock and flow model that is capable of being simulated if the required inputs are provided. For the purpose of the study, the researchers intended to determine whether or not the nature of an organization's acquisitions—whether they were local or international had an impact on the performance of that organisation. According to the results and analyses derived from the acquiring company's financial metrics, acquisitions have distinct impacts on local and cross-border enterprises than they do on local firms. There is a noticeable improvement in the company's performance when the right acquisition is made. Mergers and acquisitions are judged to be successful based on a company's financial statements, such as a profit and loss statement. Acquisitions are judged on a number of criteria, including the company's profit and loss, market share, the interests of shareholders, and the company's ability to expand its operations. Looking at the market value of the firm provides a quick way to gauge its likelihood of success.

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