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MERGERS AND ACQUISITIONS: Analysis on Indian merger and acquisition in India with reference from 2005-2015

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*Abstract -*This paper presents secondary study on why companies are going for mergers and acquisition. The emphasis is on what benefits the companies are getting through these process and what all steps they have to consider before going for M&A process. This paper also contains a causal loop structure which gives us clear idea about the benefits of M&A process. This loop structure generalizes the factors and parameters that relate to Mergers and Acquisition. The limitation of this study is that it is purely based on qualitative data. This paper can be extended to further research by conducting analysis on quantitative data. From the literature review it is found out that there is only limited number of studies conducted in the area of mergers and acquisition in India. So this paper consists of Mergers and Acquisition that had happened in India during 2005 to 2015.During these period most of mergers and acquisition occurred in telecom sector. From the data obtained it is found out that most of the companies are going for Mergers and Acquisition to increase their value and to increase their profit. The success of mergers and acquisition can be identified by comparing their stock price and growth rate before the process and after the process. It is also found out that most of the mergers and acquisitions failed due to cultural difference in different organizations. Sudden change in culture can't be approved by the employees in the organization which leads to a failure of the process. It is also found out that most of the companies go for mergers and acquisition to increase their market share and profit and most of the mergers and acquisition in India is success.

Key Words: - Mergers and Acquisition, System dynamics, turnover, performance, Sustainability of business

I.INTRODUCTION

Mergers and Acquisition is becoming a trend in modern world. In short term we can define it as consolidation of companies. Merging means two companies are combined to form a new company where as acquisition means one company is taken over by the other company. In corporate finance world M&A is one of the major aspects. One of the main reasons which motivate the companies to M&A is the value created from this process. The companies go for M&A with the objective of wealth maximization, increasing market share and some other reasons. M&A can takes place by several methods, some of them are by purchasing common stock of the company, by purchasing asset of the targeted company and so on. The main reason for M&A is to diversify the risk, to increase the market share of the company, to increase the plant size and to improve company's performance. In India during the past two years several M&A has happened and some of them has caused a rapid change in the market. There are four types of mergers and acquisition, they are horizontal, vertical, conglomerate and concentric merging.

Even though M&A has certain advantages, this process involves certain challenges. Employee retention, culture and communication are some of the major challenges faced by the companies who undergo this process. From a survey conducted it is found out that communication is one of the major challenges which led to M&A failure. These paper aim to find out the reason why companies are going for mergers and acquisition in India during the past 10 years and what benefits they are getting through M&A.

II. LITERATURE REVIEW

Mergers and Acquisition is a vast area and the number of research conducted in this area is large, so it was easy to get literature on this particular topic. According to reference [14], the financial performance of M&A is influenced by the organizational culture, integration decision and process management. In reference[15], article the success of merging firm depends on the degree of association and cultural differences that separates the merging firms. Controlling the socio cultural factors in an effective manner will also help the merging firm to increase their profit. According toreference[16], the turnover of a M&A firm can be

determined only after a minimum of four years and after four years only we can determine whether the M&A is success or not. In reference[10], study, they are discussing how performance and turnover is related and they have found that it is related only during active turnover periods and the takeover activity has an immense effect on the managerial discipline. They have founded this by studying the takeover which was happened during two five year periods.Reference [1], states the stakeholders are the one affected due to M&A process, After 5 years of merger completion they suffer a loss of 10% on their wealth. The amount of loss depends upon the size of the target company and if the size is high the possibility of loss is also high.Reference[6] Highlights the tax attribute has an effect on the targeted and acquiring company during the acquisition announcement period. After conducting a cross sectional test they have found out that tax variable is affected by the stock return in a hypothesized direction.Reference[4], is stating that mergers and acquisition is a large area to conduct a research and there are many areas available that has not even touched by any of the researcher's. He also says that doing a research in M&A has an excellent future.Reference[5], research shows that the impact of mergers and acquisition on people at work is mainly depend upon the culture of the merged firm, the long term and short term response of the employees and the method in which their process is managed. Inreference[7], are discussing how M&A benefits the banking sector and they have found out that the bidding banks are getting more benefits as compared to targeted banks and the result of M&A is purely depends on the financing method used by the acquiring bank.According toreference [11] study inflation is an important factor that will affect mergers and acquisition. In his paper he is discussing about the various factors that can affect the inflation. Inreference [8] the study is focusing on how the liberalization has affected the M&A and corporate enterprise.Reference [3], focuses on finding out in which sector M&A have happened more during a particular period. The study finds out that most of the M&A is happening in financial and pharmaceutical sector. Reference [9] focuses on studying the recent trends that have been happening in M&A based on Indian companies. Reference [15] examines how M&A affects the Indian Financial Service sector. The study was conducted by analyzing 80 cases of M&A that has happened from March1993 to February 2010.

From the literature review it is found out that there are only limited number of researches relating to mergers and acquisition in India. So this paper will be focusing on Indian Mergers and Acquisition because of its large scope and why companies are going for these process and what benefits they are getting from these. To find out the relationship between the factors affecting Mergers and Acquisition, system dynamics approach can be a good technique. In this paper we have developed causal loop diagram to understand the relationship between two factors.

III.SYSTEM DYNAMICS APPROACH

System Dynamics is a way to deal with understanding the non linear conduct of complex frameworks over a time using flows, feedback loops, stocks and time delays. It was first developed in the year 1950 which helps the manager to get better knowledge of the industrial processes. In reference [2], system dynamics model is used to assess how financing and investing policy can affect the firm value. To find out these they have used financial management approach, sustainable growth approach and resource based approach. So from these it is clear that system dynamics can be used in research areas based on finance. According toreference [13] system dynamic model is used to find out the effectiveness and efficiency of system dynamics in corporate governance. By this study the importance of system dynamics in corporate governance is identified. In reference[12] system dynamics is used to find out how the performance of corporate can be improved by using system dynamics methodology. The conclusion of the paper is that system dynamics has high potential in in understanding the performance behavior of corporate.

III.1Causal Loop Diagram

According to reference [17] Causal loop diagram is a system which visualizes the relationship between various variables in a system. It consists of a set of edges and nodes where variables are represented as nodes and edges show the connection between variables. The relation can be either positive or negative. A positive relation means the variables are moving in the same direction and negative relation means the two variables are moving in opposite direction.The positive feedback loops are called reinforcing loops and are denoted by R/+. While negative loops are called balancing loops and are denoted by B/-.

III.2Variable definition:

Organization culture: It incorporates qualities and practices that add to the exceptional social and mental condition of an association.

Process Management: It is the group of exercises of arranging and observing the execution of a business procedure.

Performance: Here performance refers to how well a company is performing after mergers and acquisition process.

Turnover: It refers to the sales that had taken place in the organization after mergers and acquisition process.

Cultural difference: The culture is different in different organization, so this should be considered as an important factor.

Stakeholder: A stakeholder is a person or a group that has an enthusiasm for an organization, and can either influence or be influenced by the business.

Financing Methods: It refers to the method used to finance a particular merger and acquisition process. It includes paying in cash, initial public offerings, debt acquisitions etc.

Top management decision making process: It means that the management decision is an important factor in a merger and acquisition because they are the ones who decide whether they have to go for these process or not and what type of mergers and acquisition they have to select.

Knowledge Relatedness: This can be defined as how much knowledge an organization has related to mergers and acquisition before going to these processes.

Market Share: It refers to how much portion of a market is controlled by a particular organization.

Business diversification: It refers to the reason for which a company is going for mergers and acquisition. If they want to diversify their business it can increase the number of mergers happening.

Business expansion: If a company wants to expand its business it can also increase the number of mergers and acquisition happening in the economy.

Company Growth: It means a business produces huge positive money streams or income, which increment at essentially speedier rates than the overall economy.

Company strength: it refers to how strong a company is in terms of revenue and profit.
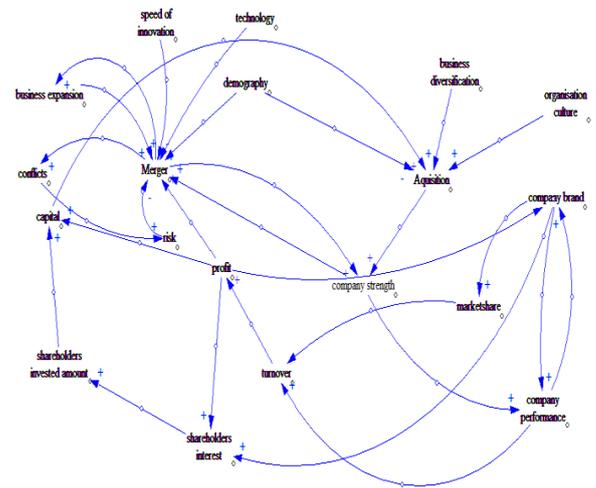

Figure 1 Causal Loop diagram for Mergers and Acquisition

Using vensimsoftware of system dynamics methodology, Causal loop structure for mergers and acquisition (Figure 1) has been developed which portrays the factors affecting mergers and acquisition. The important aspects that should be measured to understand the success are profit and loss for the company and market share. Increase in profit will contribute to company brand, once company brand increases it gives positive effect on market share and positive effect on market share will influence the turnover and hence increases the profit. Increase in number of Acquisition will increase the company strength and it will increase the performance and turnover and it will increase the capital and if the capital increases it will lead to more acquisition. Merging with other company will increase the company strength and increase the performance of the company and it will be having an influence in its turnover and it will increase the profit and it will increase the merger. Once the company performance increase it will affect the turnover of the company and increase in turnover will influence the profit and once profit increases the company brand name. If a company has a good brand name it will increase the shareholders interest and it will influence the shareholders to invest more in the company and once the investment increases it will increase the capital and with more capital the company can go for more acquisitions.Merger will increase the conflict and

conflict will increase the risk and increase in risk will reduce merger and this loop shows a negative relationship.

In figure1 there are many exogenous variables which have an effect on mergers and acquisition. Demography, speed of innovation and technology are some independent variable which have an effect on merger. Organizational difference and business diversification are the external variables which have an effect on acquisition.After the causal loop diagrams the various factors affecting the M&A has identified. Now this paper will be focusing on total number of M&A happened in India during each year and their total value.

Table:1- Details of Merger and acquisition from 2005-2015

Year	Number	Value (bill USD)
2005	1254	36.24
2006	1449	34.33
2007	1510	56.25
2008	1402	48.63
2009	1294	14.10
2010	1329	59.52
2011	1045	35.40
2012	1070	36.33
2013	956	31.80
2014	1085	31.45
2015	1250	51.33

Figure2: Graph showing value and number of M&A from 2005-2015

https://imaa-institute.org/m-and-a-statistics-countries/
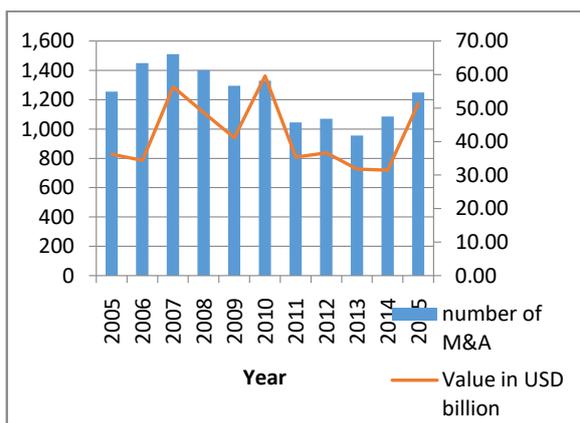
The table1 andfigure 2 shows total number of mergers and acquisition happened in India and value of total mergers and acquisition. From the table

it is clear that a total of 13,644 M&A transaction have occurred during the entire period from 2005 to 2015. The maximum number of M&A took place during the year 2007(1510) while the lowest are observed during 2013(956). The number of M&A happened during 2011 to 2015 is low as compared to a period from 2005 to 2010. The total number of M&A reported during the period of 2011 to 2015 is 5,406 which is 39.62% of the total M&A recorded during the entire period of study. The growth rate of M&A is steady till 2010 and after 2010 it started to decline in a slow rate and only 956 M&A has occurred during the year 2013. Compared to first five years the M&A growth rate has been declined by 20% during 2010 to 2015.From the data available it is clear that the purpose for which they are going for mergers and acquisition is varying from company to company. Mergers and acquisition process involves various challenges such as cultural difference, lack of experience in all business verticals of the companies to whom they are merged and some companies are also forced to reduce their workforce to an optimum level. From the above table it was understood that many of the companies are going for mergers and acquisition to expand their business in a particular country. Mergers and acquisition also helps to increase the market power of the country. The purpose of M&A has explained by considering two examples. First, Ultratech cement has acquired Samruddhi cement with the purpose of consolidating cement business into single entity, thereby creating a platform that will help in pursuing aggressive growth going forward. Reliance industry has acquired reliance petroleum. The purpose of the transaction was to allow Reliance Industries Ltd to emerge as one of the largest manufacturer of polypropylene as well as to enhance shareholder value and reduce operating costs. Tube investment of India has acquired Shanthi gear limited. The purpose of the transaction was for Murugappa Group to enter new sector of business by providing its customers more products and services. From the above three examples it is clear that the purpose of mergers and acquisition depends upon the need of the company.

IV.FINDINGS

Purpose for which companies are going for mergers and acquisition

- To consolidate the operating structure and to increase the operating synergies of business
- To transfer the debt of one company to another.
- To consolidate the entire business into a single entity which will allow to create a

platform that will help the company for their aggressive growth.

- To take advantage of sound investment opportunity.
- To strengthen a company's core business and enhance market position to create synergies
- To strengthen their existing operations and to expand their business in a particular area where they are not established yet.
- To provide a speed, high quality, comprehensive and cost effective solution to its domestic customers.
- To create synergies and enhance shareholders value.
- To strengthen their business in terms of market strategy, brand image and financial strength.
- To offer a new product to the market by acquiring another company.

Major benefits the companies are getting through Mergers and Acquisition process are:

- It can increase the market power of the company.
- By sharing the resources and services economies of scale is formed by the company.
- The biggest benefit a company will get after mergers and acquisition is that the amount they have to pay as tax will be reducing i.e. Tax benefit.
- It will help to increase the market share of the company and also provide a wider customer base.
- Mergers and Acquisition will allow a company to reduce its cost and overheads.
- It also helps the company to attain quality staff and more industry or sector knowledge.

V.LIMITATIONS

There were only limited study conducted on Indian mergers and acquisition so it was difficult to get literature on Indian mergers and acquisition. The data of some companies were no available due to their privacy policy and due to time constraint the study is only based on qualitative data and quantitative data is not considered in this study.

VI.CONCLUSION

This paper shows why companies are going for mergers and acquisition and what all benefits the company is getting through this process. Further, this can be developed into a stock and flow model and

simulated with proper data collection. It is found that the main aspects in measuring the benefits of mergers and acquisition are the financial statements like Profit and Loss and balance sheet analysis of the company. The success of M&A is measured by considering the factors like Profit and loss for the company, market share, and shareholders interest and company growth. Easy method of finding the success rate is by looking the market value of company. But this paper is only limited to qualitative study and this paper can be further carry out for quantitative study by analyzing the financial statements and market value of the company.

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