Chapter 1

Introduction

Corporate India today is not what it used to be a couple of decades ago. There has been various companies coming together to form another company and companies taking over the existing companies to expand their business. With recession taking toll of many Indian businesses and the feeling of insecurity surging over our businessmen, it is not surprising when we hear about the immense numbers of corporate restructurings taking place. Several companies have been takenover and several have undergone internal restructuring, whereas certain companies in the same field of business have found it beneficial to merge together into one company.

In this context, it would be essential to understand what corporate restructuring and mergers and acquisitions are all about. All our daily newspapers are filled with cases of mergers, acquisitions, spin-offs, tender offers, & other forms of corporate restructuring. Thus important issues both for business decision and public policy formulation have been raised. No firm is regarded safe from a takeover possibility. On the more positive side Mergers & Acquisition’s may be critical for the healthy expansion and growth of the firm. Successful entry into new product and geographical markets may require Mergers & Acquisition’s at some stage in the firm's development. Successful competition in international markets may depend on capabilities obtained in a timely and efficient fashion through Mergers & Acquisition's. Many have argued that mergers increase value and efficiency and move resources to their highest and best uses, thereby increasing shareholder value. To opt for a merger or not is a complex affair, especially in terms of the technicalities involved. We have discussed almost all factors that the management may have to look into before going for merger.

Considerable amount of brainstorming would be required by the managements to reach a conclusion. e.g. a due diligence report would clearly identify the status of the company in respect of the financial position along with the net worth and pending legal matters and details about various contingent liabilities. Decision has to be taken after having discussed the pros & cons of the proposed merger & the impact of the same on the business, administrative costs benefits, addition to shareholders' value, tax implications including stamp duty and last but not the least also on the employees of the Transferor or Transferee Company.

BASIC TERMINOLOGIES

- **MERGERS: -**

Mergers are defined as a combination of two or more companies into a single company where one survives and the other loooses its corporate existence. The survivor acquires the assets as well as the liability of the merged company. Generally the company which survives is the buyer which retains its identity and Seller Company is extinguished. Merger is the fusion of two existing companies. All assets, liabilities and stock of one company stands transferred to Transferee Company in consideration of payment in the form of equity shares of Transferee Company or debentures or cash or a combination of the above methods. **E.g.** TOMCO- LEVER

- **ACQUISITION:-**

Acquisition in general sense is acquiring the ownership in the property. In the context of business combinations, an acquisition is the purchase by one company of a controlling interest in the share capital of another existing company. **E.g.** **ICICI Bank acquires 17.75% in NDTV**. ICICI bank has picked up 17.75% stake in New Delhi Television Limited. The bank has already issued 36, 31,011 equity shares in the company.

Methods of Acquisition:

An acquisition may be affected by

(a) agreement with the persons holding majority interest in the company management like members of the board or major shareholders commanding majority of voting power;
(b) purchase of shares in open market;
(c) to make takeover offer to the general body of shareholders;
(d) purchase of new shares by private treaty;
(e) Acquisition of share capital through the following forms of considerations viz. means of cash, issuance of loan capital, or insurance of share capital.

- **AMALGAMATION: -**

Normally Amalgamation means Mergers.

Halsbury Law of England describes Amalgamation as 'Blending of two or more existing undertakings into one undertaking, the shareholder of each blending company becoming substantially the shareholders in the company which is to carry on the blended undertaking.

- **TAKEOVER:-**

A 'takeover' is acquisition and both the terms are used interchangeably.

Takeover differs from merger in approach to business combinations i.e. the process of takeover, transaction involved in takeover, determination of share exchange or cash price and the fulfillment of goals of combination all are different in takeovers than in mergers. For example, process of takeover is unilateral and the offeror company decides about the maximum price. Time taken in completion of transaction is less in takeover than in mergers, top management of the offeree company being more co-operative.

➢ DE-MERGER OR CORPORATE SPLITS OR DIVISION:-

This takes place when part of a company's undertaking is transferred to a newly formed or an existing company. Some or that part of the shares of the first company are also transferred to the new company. The reminder of the first company's undertaking continues to be vested in it and the share holders of the main company gets reduced by that extent. For **E.g. Godrej to demerge FMCG line**. The Board of Directors of Godrej Soaps Limited has given their approval to demerge its consumer products department into a new Company. The main reason for the demerge is that it is likely to turnaround the results of the companies as well as increase the shareholders value, as explained by the Chairman Mr. A.B. Godrej. As a result of the demerger shareholder having one share of Godrej Soaps will have a share each of the Consumer Products and chemical business respectively.

Chapter 2

Purpose of Mergers and Acquisitions

Apart from the need to accelerate business growth (and, in particular, profit growth), there are several other reasons for strategic diversification. Some of them are: the need to secure supplies of raw materials, a firm customer base, eliminate a competitor, the opportunity of managing a business more profitably than its present management and synergistic advantages, the possibility of utilizing assets in a business more advantageously than its present management, the availability of a strong management team and cash position. Other possible purposes for acquisition are short listed below: -

(1) PROCUREMENT OF SUPPLIES:-

1. to safeguard the source of supplies of raw materials or intermediary product;
2. to obtain economies of purchase in the form of discount, savings in transportation costs, overhead costs in buying department, etc.;
3. to share the benefits of suppliers economies by standardizing the materials.

(2) REVAMPING PRODUCTION FACILITIES:-

1. to achieve economies of scale by amalgamating production facilities through more intensive utilization of plant and resources;
2. to standardize product specifications, improvement of quality of product, expanding

3. market and aiming at consumers satisfaction through strengthening after sale
4. services
5. to obtain improved production technology and know-how from the offeree company
6. to reduce cost, improve quality and produce competitive products to retain and
7. Improve market share.

(3) MARKET EXPANSION AND STRATEGY:-

1. to eliminate competition and protect existing market;
2. to obtain a new market outlets in possession of the offeree;
3. to obtain new product for diversification or substitution of existing products and to enhance the product range;
4. strengthening retain outlets and sale the goods to rationalize distribution;
5. to reduce advertising cost and improve public image of the offeree company;
6. Strategic control of patents and copyrights.

(4) FINANCIAL STRENGTH:-

1. to improve liquidity and have direct access to cash resource;
2. to dispose of surplus and outdated assets for cash out of combined enterprise;
3. to enhance gearing capacity, borrow on better strength and the greater assets backing;
4. to avail tax benefits;
5. To improve EPS (Earning per Share).

(5) OWN DEVELOPMENTAL PLANS:-

The purpose of acquisition is backed by the offeror company's own developmental plans. A company thinks in terms of acquiring the other company only when it has arrived at its own development plan to expand its operation having examined its own internal strength where it might not have any problem of taxation, accounting, valuation, etc. but might feel resource constraints with limitations of funds and lack of skill managerial personnel's. It has to aim at suitable combination where it could have opportunities to supplement its funds by issuance of securities; secure additional financial facilities eliminate competition and strengthen its market position.

(6) STRATEGIC PURPOSE:-

The Acquirer Company view the merger to achieve strategic objectives through alternative type of combinations which may be horizontal, vertical, product expansion, market extensional or other specified unrelated objectives depending upon the corporate strategies. Thus, various types of combinations distinct with each other in nature are adopted to pursue this objective like vertical or horizontal combination.

(7) CORPORATE FRIENDLINESS:-

Although it is rare but it is true that business houses exhibit degrees of cooperative spirit despite competitiveness in providing rescues to each other from hostile takeovers and cultivate situations of collaborations sharing goodwill of each other to achieve performance heights through business combinations. The combining corporate aim at circular combinations is achieved by pursuing this objective.

(8) DESIRED LEVEL OF INTEGRATION:-

Mergers and acquisition are pursued to obtain the desired level of integration between the two combining business houses. Such integration could be operational or financial. This gives birth to conglomerate combinations. The purpose and the requirements of the offeror company go a long way in selecting a suitable partner for merger or acquisition in business combinations.

(9) GENERAL GAINS:-

1. to improve its own image and attract superior managerial talents to manage its affairs;
2. To offer better satisfaction to consumers or users of the product.

Chapter 3

Pros and Cons of Mergers

The major advantages of mergers and acquisitions are as follows:

1) ACHIEVING ECONOMIES OF SCALE AND INCREASE IN MARKET SHARE: -

Reduction in the average cost of production and hence in the unit cost when output is increased is known as Economies of Scale. For instance, sharing central services such as accounting and finance, the office, executive and higher management, legal, sales promotion and advertisement, etc can substantially reduce overhead costs. ***Example:*** The acquisition of TOMCO by Hindustan Lever. HLL at the time of merger was expected to control one-third of the three million-tonne soaps and detergents markets and thus, substantially reduce the threat of competition.

2) SYNERGY: -

It results from complimentary activities, e.g., one firm may have substantial financial resources while the other has profitable investment opportunities. Likewise, one firm may be strong in RD, whereas the other firm may have a very efficient production department. Similarly, one company may have well-established brands but lack marketing organization, and another firm may have a very strong marketing organization. The merged concern in all these cases will be more efficient than the individual firms. Also, a post-merger firm is likely to raise finances at lower rates than that at which either of the pre-merger constituents could have acquired them, as it is perceived to be more secure.

3) FAST GROWTH: -

Mergers often enable the new firm to grow at a faster rate than via the internal expansion route through its own capital budgeting proposals. The reason is that the acquiring company enters a new market quickly, and avoids the delay associated with building a new plant and establishing new products. ***Example:*** RPG group had a turnover of only Rs. 80 Crores in 1979, which has increased to about Rs. 5600 crores in 1996. This was due to acquisition of various companies by RPG group. Some of the companies were Asian cables, Ceat, SAE etc.

4) TAX BENEFITS: -

If a healthy company acquires a sick one, it can avail of income tax benefits under section 72-A of Income Tax Act. This stipulates that subject to the merger fulfilling certain conditions, the healthy company's profit can be set off against the accumulated losses of the sick unit. The money saved thus must be used for the revival of the sick unit. For instance, the existing creditors of the sick unit may be paid off. The healthy company, besides saving on tax, acquires additional manufacturing capacities and strengths. ***Example:*** of a merger to reduce tax liability is the absorption of Ahmedabad Cotton Mills Ltd (ACML) by Arbind Mills in 1979. AMCL was closed in August 1977 on account of labour problem. At that time of merger in April 1979, ACML had an accumulated loss of Rs.3.34 crores. Arbind Mills saved about Rs.2 crores in tax liability for the next two years after the merger because it could set-off ACMLs accumulated loss against its profits.

5) ACQUISITION OF BRAND NAMES, PATENT RIGHTS ETC.:-

A takeover or merger may be a relatively easy way of acquiring established brand names, valuable patent rights, technical know-how etc.

6) DIVERSIFICATION: -

A merger between two unrelated firms would tend to reduce business risk, which in turn reduces the discount rate/required rate of the firm's earnings, thus increasing its market value. In other words, such mergers help stabilize overall corporate incomes which would otherwise fluctuate.

7) DEPLOYMENT OF SURPLUS FUNDS: -

A profit-making company may have surplus funds that it is not in a position to invest profitably. In the present context, many of the companies having a good track record are approaching the capital market for raising resources. Funds are being raised by issuing shares and debentures at a substantial premium, enabling the reduction of average capital cost. At the same time there are companies that are starved of funds due to expansion programs, developmental work or some other reasons (KOEL with Prashant Khosla Pneumatics Ltd.)

8) QUICK ENTRY: -

To gain access to new markets many MNCs prefer merging with a local established company, which knows the behavior of the market and has established consumers. An excellent example of this is the Indian market.

9) AVOIDING CUT-THROAT COMPETITION: -

A merger/takeover route may enable companies to avoid competition in a situation where there are too many players targeting a limited market. ***E.g.,*** VIP took over Universal Luggage and put an end to the massive price discounting, which was eating up their profits.

The major disadvantages of mergers and acquisitions are as follows:

1) ELIMINATION OF THE PERSONAL TOUCH:-

Certain businesses are their success to the strength of character and drive of the proprietor. Huge size of the business makes it quite impossible for any one man to know more than a small portion of the total individuals employed. There in lies the danger that the beneficial effects of the personal touch will be lost. The control of the business both in minor matters of the policy and in day to day administration, must inevitably be delegated in some way. Delay in reaching a decision on a problem is often a common place. Again, there is the ever-present danger that the general scheme of control may break down. Thus where a company has a large output but works on a Small margin of profit, any wastage due to unwisely direction or leakage attributable due to lack of control, may prove serious in the extreme.

On the other hand, the personal ties exist between the proprietor and his customers, just as with his work people. Here, the knowledge that the business is no longer under the old ownership and super vision may have an adverse effect. Goodwill on the either side is a particularly tender plant.

2) LOSS OF TRADE NAME:-

The parties to a proposed merger may object to the potential loss of valuation of trade name. This objection does not seem to be borne out in practice, however for it seems to be the rule rather than the exception to preserve the trade name in some form, depending upon the exact style of merger contemplated. Thus, a merger concluded by the formation of a separate holding company leaves the identity of the constituent companies unaltered. So all outward appearances, each business would continue trading under its own name exactly as before.

3) INCONVENIENCE AND EXPENSES:-

Obviously all business donot readily lend themselves to a profitable merger. It is assumed, however that negotiations would have been broken off where a real stumbling block loomed up in the preliminary discussions. If proceeded with, such a merger would most likely fail in its objective.

As to expenses, much depends upon the form taken upon by the merger. In general, however, the expenses fall into categories:

(a) ***Stamp duties*** on transfer of assets & on authorized share capital of new company.

(b) ***Professional fees*** on valuation of property or other assets, accountancy and legal fees for expert advice.

The above 2 fees paid are very high in Mergers and Acquisitions.

4) MONOPOLY POWERS:-

In the past, mergers have often been denounced as leading to exploitation of the public or giving rise to 'unfair competition' with other traders. While it will be presumptuous to deny all these accusations, on most cases they are based on scanty and inconclusive evidence. The MRTP tribunal should keep a restraining hand on firm's exuberance in this direction. The tests applied in determining whether or not monopoly exists under the MRTP Act 1948, cannot be regarded as exacting. In substance the terms of issue confronting the commission are 2 folded:

a) Does one person or group supply atleast 1/3rd of the market for the goods under the investigation or is 1/3rd atleast supplied by two or more persons who conduct their business in any way to prevent or restrict competition in production or supply.

b) Do such conditions of monopoly or restriction, if established, operate against public interest?

5) PERSONALITY PROBLEMS:-

Another disadvantage inherent in mergers arises from loss of status or affront to personal feelings. Directors in the past, who have been dominant characters in their own business, assuming the forcefulness of a petty dictator in some respects, naturally take unkindly to a change of an organization in which they find themselves merely one of a group of people composing the board of directors. With executive responsibility curtailed, the prospects of finding themselves in a minority position in important matters of policy and thereby outvoted may well rankle. Further two companies which have operated as separate units are now to be merged, will both have their BOD, and reporting to them in turn their own departmental managers. Each company can be regarded as a harmonious team. If the two companies are merged, it means that the duplicate boards of directors exist. In such circumstances, one director say production director, will have to be made senior to his colleagues in the other company. The problem very often resolves itself, of course, the person with better ability, age &reputation, stands head & shoulder above his co-director and is appointed ‘Chief’ by general consensus of opinion. Nevertheless it is a very real factor which must be taken into account in any merger.

Chapter 4

Types of Mergers

Merger or acquisition depends upon the purpose of the offeror company it wants to achieve. Based on the offeror objectives profile, combinations could be vertical, horizontal, circular and conglomeratic as precisely described below with reference to the purpose in view of the offeror company.

1) VERTICAL MERGERS:-

A company would like to takeover another company or seek its merger with that company to expand espousing backward integration to assimilate the resources of supply and forward integration towards market outlets. The acquiring company through merger of another unit attempts on reduction of inventories of raw material and finished goods, implements its production plans as per the objectives and economizes on working capital investments. In other words, in vertical combinations, the merging undertaking would be either a supplier or a buyer using its product as intermediary material for final production.

The following main benefits accrue from the vertical combination to the acquirer company i.e.

(1) it gains a strong position because of imperfect market of the intermediary products, scarcity of resources and purchased products;

(2) Has control over products specifications.

E.g. RPG Groups merger with Harrison Malayalam gave it control over rubber, major tyre input for other group company-CEAT. This was a vertical Backward Integration.

2) HORIZONTAL MERGERS:-

It is a merger of two competing firms which are at the same stage of industrial process. The acquiring firm belongs to the same industry as the target company. The main purpose of such mergers is to obtain economies of scale in production by eliminating duplication of facilities and the operations and broadening the product line, reduction in investment in working capital, elimination in competition concentration in product, reduction in advertising costs, increase in market segments and exercise better control on market.

E.g. The classic example is that of HP and COMPAQ whereby HP has got the Economies of Scale Advantage of COMPAQ.

3) CIRCULAR MERGERS:-

Companies producing distinct products seek amalgamation to share common distribution and research facilities to obtain economies by elimination of cost on duplication and promoting market enlargement. The acquiring company obtains benefits in the form of economies of resource sharing and diversification.

E.g. The merger of HLL & BBILIL wherein HLL having a significant distribution network that Brook Bond got access to. In return HLL got used the very high reserves of Lipton India

4) REVERSE MERGER:-

Reverse merger is a merger of a healthy company into a loss making company which is different from a normal merger where by loss making company mergers with the Profit Making one. **E.g.** ICICI limited & ICICI Bank.

5) CONGLOMERATE MERGERS:-

It is amalgamation of two companies engaged in unrelated industries like DCM and Modi Industries. The basic purpose of such amalgamations remains utilization of financial resources and enlarges debt capacity through re-organizing their financial structure so as to service the shareholders by increased leveraging and EPS, lowering average cost of capital and thereby raising present worth of the outstanding shares. Merger enhances the overall stability of the acquirer company and creates balance in the company's total portfolio of diverse products and production processes.

A typical ***example*** is merging of different businesses like manufacturing of cement products, fertilizers products, electronic products, insurance, investments and advertising agencies. L & T and Voltas Ltd are examples of Conglomerate Mergers. . Firms operating in different geographic locations also proceed with these types of mergers. Conglomerate mergers have been sub-divided into:

- **Financial Conglomerates**

  These conglomerates provide a flow of funds to every segment of their operations, exercise control and are the ultimate financial risk takers. They not only assume financial responsibility and control but also play a chief role in operating decisions. They also:

- Improve risk-return ratio
- Reduce risk
- Improve the quality of general and functional managerial performance
- Provide effective competitive process
- Provide distinction between performance based on underlying potentials in the product market area and results related to managerial performance.

- **Managerial Conglomerates**

  Managerial conglomerates provide managerial counsel and interaction on decisions thereby, increasing potential for improving performance. When two firms of unequal managerial competence combine, the performance of the combined firm will be greater than the sum of equal parts that provide large economic benefits.

6) TRIANGULAR MERGER:-

A method of Merger of two corporations by which the disappearing corporation is merged into the subsidiary of a surviving corporation and the shareholders of the disappearing corporations receives shares of the surviving corporation. In a reverse triangular merger the subsidiary is merged into the disappearing corporation so that it becomes a wholly owned subsidiary of the surviving corporation.

7) CASH MERGER:-

A Merger Transaction in which certain Shareholders or interests in a corporation are required to accept cash for their shares while other shareholders receive other Shareholders receive in continuing enterprise.

8) DEFACTO MERGER: -

A transaction that has the economic effect of a statutory merger but is cost in the form of an acquisition of assets or an acquisition of voting stock is treated as if they were in a statutory merger.

It occurs where one corporation is absorbed by another without compliance with the statutory requirements of a merger.

Chapter 5

Issues to be considered in M&A

The management of the company which is taking over another company should carefully examine the following aspects before a final decision is made:

1. How does the merger help the parent company? Does it add to the existing strengths? Does it provide an assured source of raw materials? Does it provide forward integration? Does it help in optimal utilization of existing resources?
2. Why is the present management selling out? Is the unit inherently OK? Are there any basic problems, which are not open to easy solution?
3. Why should they takeover this particular unit, and not some other unit? What are the unique features? How do they mesh-in with the existing features of the parent company?
4. How financial institutions would react to the proposal? What new conditions are likely to be imposed?
5. What kind of post-merger problems are likely to arise? Is the parent company fully prepared to tackle them?
6. What would be the impact on the share prices of the parent company?
7. What is the right price for the unit? How should it be paid? What should be the exchange ratio between the shares of the parent company and the merger candidate?
8. What would be the impact on the sales turnover, and profitability of the parent company after the merger?

Chapter 6

Basic Procedures of M&A Activity

` Mergers and takeovers normally go through at least the following bare minimum sequence of steps. It is clear that there are number of logical steps the company must undertake for successful acquisition.

They are summarized in 10 stages:

1) VALUATIOIN OF OWN CORPORATE STRENGTH AND WEAKNESS:-

This analysis enables the acquirer to know exactly what it can contribute to target company and also when to consider future possible defensive strategies if it is subjected to a takeover bid itself. For instance, knowledge that it is weak in Research and Development in a key area of is business might mean that it tries to remedy its weakness by acquisition.

One essential feature of a successful acquirer is an excellent management information system which must be capable of handling future growth. The MIS should be reliable so that other companies can be quickly integrated to provide necessary budget and performance data in monitoring acquisitions.

2) DEVELOP A CORPORATE PLAN:-

With knowledge of its strength, weakness, opportunity and threat the company should drop a corporate plan both short term and long term. Management should carefully consider its objectivities, if acquisitions form part of corporate plan. Equally shareholders should try to assess the motives of managers who supposedly act on their behalf.

3) DEVELOP AN ACQUISITION STRATEGY: -

Based on the above evaluation the company should:

a) Place an upper limit on the level of investment it can afford without endangering the core business.

b) Identify industries which should not be considered, because of incompatibilities and biases in management.

c) Develop a broad areas of activity where synergies.

4) ELIMINATE INAPPROPRIATE SECTORS:-

Eliminate sectors that are inappropriate to the skills of the acquirer, particularly where nothing can be added to the acquirer or a common unity is not shared.

5) SCREEN FOR PROMISING SECTORS:-

These involve setting criteria's, applicable to the acquirer, which screen and select those sectors that are of interest.

A company reasonable and growing market share in an industry with sound but not necessarily high growth represents a promising sector.

6) SELECTING PROMISING CANDIDATES:-

A number of approaches can be identified here depending on the acquirer's aptitude. One approach is to adapt the view of everything is for sale and select promising candidates, regardless of whether they are for sale or not - Research approach. An alternative is to screen the companies which are for sale – Opportunistic approach. A third is to use the combination of both.

7) EVALUATING PROMISING CANDIDATES AND SELECT MOST SUITABLE:-

Evaluating candidates in terms of competitive capabilities and predicted financial performance.

One approach is to Compare Value Added for Competitors of each activity level. **For e.g.** Retailing and Marketing and identifying which is to be the key to success? An assessment is then made of the combined entity position and the one with the best competitive position is deemed to be the prime target. The prime target is then subjected to considerable financial appraisal. This involves assessment of future financial position as well as the identification of SWOT of the target company.

8) APPROACH, CHOOSE AND NEGOTIATE THE DEAL:-

An approach can be made in many ways. Direct contacts can be made by letter, telephone or advertising in newspapers, personal. Personal can be done by third parties. Completion of the above deal may be made through third parties or by face-face negotiation. Due consideration should be given to the future of existing management and employees, including their pension rights.

9) INTEGRATE THE DEAL:-

The integration of the deal is a very delicate operation which may take a number of years to complete satisfactorily. The integration of management and employees is particularly sensitive; as the natural reaction is that a takeover is a threat to the employment. For successful integration to take place, proper personnel should identify quickly for various jobs in the new company. This can be done by giving bonuses and promotion within the short time. Often an acquisition leads to redundancies.

The implement here is that employees are fully informed of future prospects, are treated with respect and dignity of human being and not as disposable intangible assets. There are three important procedures in this step:

(a)Entering into a Memorandum of Understanding

If the basic price is agreed upon, a MOU is often immediately entered into in which the broad terms are clarified. The broad allocation of responsibilities of further steps between the parties is also mentioned. The specific assumptions that are made between the parties are also listed. An important provision is that the acquiring company will be allowed to undertake a “due diligence” investigation of the affairs of the company to ensure that the statements made by the other party are verified and found to be true.

(b) Entering into final agreement

Depending upon the form of transaction i.e. a merger or a takeover, the relevant legal formalities may be complied with. Some of these may have to be observed prior to entering into the final agreement.

(c) Payment of consideration

Often provision is made for deferred payment where there is uncertainty about the position of affairs of the target company. Depending upon the circumstances, some amount may be retained

10) POST ACQUISITION AUDIT:-

The final, but often neglected stage is to evaluate the acquisition a number of years after integration. The purpose of this is to see how well the acquiree has done come with that image projected. This says something about those involved in evaluating the business as well as the performance of the acquiree. Problems of integration can be carefully assessed and important lessons can be learnt which may save money in future acquisitions.

Chapter 7

Due Diligence in M & A

INTRODUCTION

Due diligence is carried out in order to determine the fair value of the target company and to assess the benefits and problems of the proposed acquisition or merger by inquiring into all the relevant aspects of the business to be acquired. The entire exercise is broken down into sub reviews which make the task simpler and easier. Due diligence is a critical input for successful and hassle free M&A deals.

Why is Due Diligence Conducted?

There are many reasons for conducting due diligence, including the following:

- Confirmation that the business is what it appears to be;
- Identify potential "deal killer" defects in the target and avoid a bad business transaction;
- Conformation of cultural matching of both companies;
- Gain information that will be useful for valuing assets, defining representations and warranties, and/or negotiating price concessions; and
- Verification that the transaction complies with investment or acquisition criteria.

TYPES OF DUE DILIGENCE

1) BUSINESS DUE DILIGENCE

➲ **Nature of the industry (Growing, Mature, Decline)**

➲ **Evaluate the industry in which the company operates in terms of :**

- New start-ups
- Mergers and acquisitions in the industry
- Competitive environment
- Regulatory environment
- Social Standing or Public perceptions
- Availability of investment funds
- Trade Journals Reviews
- Industry future outlook as expressed by relevant trade associations
- Major factors affecting the industry; is the likelihood of the occurrence of such factors, implications for the industry as well as the company of occurrence of such factors.

➲ **Company Insights**

- Comparative analysis
- Market Share
- Products, Services
- Financial Statement Ratios
- Size
- Management
- Fixed Assets
- Capital Structure

- Is the company average, above or below average in relation to its industry? Why?
- Value of Company's Goodwill. Impact on the goodwill due to change in management
- Willingness of outside agencies (suppliers) to continue with new management. Any change in terms of contract, etc.
- Restrictive Covenant terms in the Agreements
- Regular Customer Base

2) FINANCIAL DUE DILIGENCE

The objective of the financial due diligence is to establish the veracity of disclosed financial statements. However, review of internal control in terms of its effectiveness and adequacy, is an additional objective in the course of financial investment. The process of establishing the veracity of disclosed financial information generally involves:

- Establishing fairness of accounting policies adopted
- Identification of off balance sheet items
- Establishing authenticity of the disclosed financial figures.
- Financial ratio analysis
- Under / over valuation of assets and liabilities
- Compliance with Accounting Standards
- Ensuring liquidity and solvency position

3) MARKET DUEDILIGENCE

Market due diligence covers the business of the target company and to understand the competitive position of the new company.

4) HUMAN RESOURCE DUE DILIGENCE

Human Resource due diligence involves the study of the employees of the company with respect to their expertise, leadership qualities and ability to manage the entity. It is important to assess their qualifications, their pay structure, as well as the likelihood that they will remain with the company.

- Nos. of staff employed
- Employee turnover for last three years
- Analyze whether over or under staffed and cost of rectifying the same.
- Any labour problems in the recent past?
- Attachment towards the management
- Wage increment contracts

5) LEGAL DUE DILIGENCE

Legal due diligence is undertaken to achieve the following objectives:

- To assess the impact of likely results of current and potentially pending litigation and result of recently concluded litigation,
- To ensure that the subject company has complied with the provisions of all the relevant statutes and there would be no potential liability on account of non compliance,
- To assess the current and anticipated future impact of government regulations on the entity's cost level. It covers the Companies Act, Direct Tax laws like Income Tax, Wealth Tax etc., Indirect Tax laws like Excise, Sales Tax etc., Labour Welfare laws like Provident Fund, Employees State Insurance Act etc. The information to be collected in Legal Due Diligence includes:

- Names and addresses of the company's attorneys
- Is a discussion with them appropriate, warranted?
- Make inquiries of the company's management and attorney regarding possible lawsuits, contract problems, etc.
- Does the company have good legal records? If not, why not? Assess the implications.
- Make inquiries of the company's management and legal concerning the likelihood of an unfavorable law suits. Assess the implications to the extent there might be legal problems, the company's investment risk might be significantly higher.

6) SYSTEMS DUE DILIGENCE

Systems due diligence is undertaken to ensure that there is proper management and adequate security of the data / information systems.

- Material Procurement systems
- Inventory Updation System
- Logistics Support
- Invoicing System
- Review of IT security policy and procedures,
- Review of software applications and operating systems, and
- Review of disaster recovery and business continuity plans. The result of the due diligence has got a direct bearing on determining the value and viability of the investment. The report normally outlines the current status of IT adopted, its scope, investment required for improvement and post investment action plan.

7) TAX DUE DILIGENCE

The analysis of various taxes is one of the most complex areas that are encountered during the investigation. The objectives of a tax due diligence is:

- To analyze the impact of unpaid taxes/contingent liability.
- To assess the impact of likely results of current and potentially pending litigation and result of recently concluded litigation.
- To assess the liability towards deferred taxes.

STEPS IN DUE DILIGENCE

Due diligence is needed at various stages of an M& A deal. Whether it is evaluating a deal or executing a deal or harvesting a deal, due diligence is vital.

1) EVALUATING A DEAL

A no-access due diligence is generally carried out at the deal evaluation stage itself. This primarily consists of desk-top reviews. It involves combining financial analysis with market intelligence that can be gathered without access to the target company. Such an evaluation is indispensable at the early stage of any M&A deal.

2) EXECUTING A DEAL

At the execution stage of any M&A deal, a detailed due diligence is carried out. The deliverables include a detailed report which focuses on negotiating points and areas it be protected in the acquisition agreement.

3) HARVESTING A DEAL

In this stage, the review covers a rounded view of the business, encompassing its performance and prospects and all issues that may be relevant to an acquirer. The objective of such a review is to uncover the deal issues and ensure that these issues are controlled and dealt with by the seller, rather than being used as negotiating points by the acquirer. Harvesting a deal means doing due diligence on the assumption that buyers are waiting out there. It is doing due diligence at the seller's end. It involves assuming the existence of a buyer, foreseeing his problems and expectations and doing a SWOT analysis before a sell-off. Such a due diligence by the seller might be acceptable to the buyer at times.

4) NO-ACCESS DUE DILIGENCE

This involves a comprehensive desk-top review at the buyer's end. This is just the reverse of harvesting a deal. No-access due diligence assumes there are sellers around and does not entail going to the seller's office. At the buyer's office, a seller's public documents such as annual reports, documents pertaining to the Registrar of Companies, stock exchange documents such as listing agreements are examined. This due diligence helps to decide whether to give an offer if so to which potential seller. To be sure, due diligence adds value to M&A deals and helps to steer clear of potential hurdles. It might not be fool-proof but it certainly is an indicator of potential black holes and road-blocks ahead.

Chapter 8

Valuation in M&A

Valuation of the enterprises, a comprehensive exercise, is the most critical part of any M&A due to the depth of analysis required and number of aspects to be looked into. Corporate Valuation centers around two basic concepts of value. One is going concern value and other is liquidation value.

Going concern value assumes that the company is to stay for ever. Therefore going concern value increases with time and finally becomes a perpetual annuity. Consequently, the going concern value will be present value of annuity for estimated future year plus perpetual annuity.

Liquidation value means when the company is merged or amalgamated, what one gets after incurring all incidental costs. This value normally increases with time, but decreases with use, like plant, machinery, building etc.

Third important dimension that emerges in corporate valuation is ***price and the market value of Share*** of the company. The valuation of shares is not an exercise merely to comply with statutes but is also a major business decision. It is necessary to find out what is the value of the shares of both the acquiring and the acquired Company to decide the share exchange ratio. The essence of valuation is predicting the future.

FACTORS AFFECTING VALUATION

There are certain basic factors which affect the value of a company's share. The valuation based on similar assumptions and methods would be different due to the factors affecting valuation. Some of the factors are listed below

- ***The nature of company's business***
- ***The caliber of managerial personnel***
- ***Prospects of expansion***
- ***Financial structure of the company***
- ***The legal implications***
- ***The incidence of direct and indirect taxes***
- ***Government policy in general and in relation to particular industry***
- ***Future maintainable profit***
- ***Current market price of shares***
- ***Industry in which the Company belongs***
- ***Economic situation***
- ***Transferability of Shares***
- ***Asset Base***
- ***Customers***
- ***Ruling rate of return in alternative investments***
- ***Market Price of the shares***
- ***Size of shareholding***

METHODOLOGY OF VALUATION

I) VALUATION OF SHARES

Profitability Based Methods

Valuation of shares may be classified as valuation for quoted shares and valuation for unquoted shares. In order to decide the exchange ratio the most important part is the valuation of shares.

The profitability based valuation can be further classified into:

(i) Yield method
(ii) Future maintainable profit method
(iii) Discounted cash flow method
(iv) Profit Earning Capacity Value method

The approach to valuation of shares on this basis would need determination of two factors

- Average future maintainable profit, and
- Rate of capitalization

(i) YIELD METHOD

This method considers dividend as the base for valuation of shares. Future maintainable profit is estimated and the same is capitalised by a predetermined rate of capitalisation. This method is not very popular and is used very rarely. It is used only in case of small shareholdings.

Computation

- **i.** Work out the average dividend per share.
- **ii.** Estimate the future dividend for the estimated period say three to five years.
- **iii.** Work out weighted average for the estimated future dividend.
- **iv.** Estimate the rate of capitalisation
- **v.** The weighted average dividend is capitalised based on the dividend yield rate of the shares of listed companies.

(ii) FUTURE MAINTAINABLE PROFIT METHOD

The working under this method includes valuation on the basis of pre-determined earnings based on future earnings. Usually future maintainable profit method is used for going concern companies. This method is highly popular and is often used. While working out the value under the earnings based method future projections are considered but it may not be possible to work out reasonably accurate future projections, so finally majority of the valuations are worked out based on past profits by taking clue from the projections for future growth.

Computation

- **i.** Estimate future maintainable profits after adjusting for any extra-ordinary or non-recurring items.
- **ii.** Decide on the rate of capitalisation of profits
- **iii.** Capitalise the future maintainable profits
- **iv.** Divide the capitalised profits by the number of equity shares to arrive at the value per share.

(iii) DISCOUNTED CASH FLOW METHOD

This method is based on time value of money and is suitable when future cash flows are uneven and inconsistent. This is the most popular method and is used often. The discounted cash flow technique uses the expected free cash flows from the business for determining the value of business. The value of business is equal to the sum of the present value of various future cash flows to the business.

Computation

i. Determine the number of years for which the future cash flow can be worked out on reasonable assumptions.
ii. Determine the end values of the business.
iii. Determine the discounting rates.
iv. Determine the future cash flows.
v. Add the residual value of the business at the end of the period of work to the discounted value.
vi. From the value arrived at above, deduct the amount of loans, if any.
vii. Divide the value at above by the total no. of shares to arrive at the value of per share.

(iv) PROFIT EARNING CAPACITY VALUE METHOD

The valuation under this method is based on the capacity of the company to earn profits in the future. Under this method the valuation is done on the basis of past trends and future expected profitability of the company. Unusual profits in the near past are ignored.

Computation

i. The value is calculated after considering the past trends and expected trends in profits of the company.
ii. The average profits before tax for the last three years are computed on the basis of simple or weighted average.
iii. Provision for tax and preference dividend is deducted therefrom.
iv. The profits arrived are divided by number of shares to compute the earnings per share.
v. The Profit Earning Capacity Value is calculated as: EPS / Capitalization rate.
vi. Mostly inverse of P/E ratio is used as the capitalization rate.

(v) VALUATION BASED ON MARKET VALUE

This method is based on the value of shares in the existing market. The value for which the assets are available in the open market is considered for its valuation. This method is used for companies or firms acquired on a going concern but this method is not so popular and is not frequently used.

The value of unquoted and unlisted shares is arrived at after discounting the value arrived for quoted and listed shares. The discounting rate depends upon the liquidity factor, current profitability, management policies, asset holding etc.

(vi) ASSET BASED METHODS

Valuation on assets of an unlisted and an unquoted company is done on a different footing as compared to listed and quoted company.

This method is used generally when profit trends cannot be established or when the company is under liquidation.

Under this method the valuation is arrived at on the basis of the assets available with the company. The total asset of the company as reduced by the total liabilities is called the net asset value of the company. It represents the true net worth of the business after providing for all the outside, present and potential liabilities. It is generally used when the business is acquired as a going concern.

Computation

Total Assets	xxx
(-)Total Liabilities	xxx
Net Assets or Net Worth	xxx.

OR

Share capital(equity capital)	xxx
Free Reserves	xxx
(-) Contingent Liabilities	xxx.
Net assets or Net Worth	xxx.

Net Asset Value per share = Net Worth / Number of shares including fresh and bonus shares.

II)VALUATION OF ASSETS

Some companies may prefer to acquire / takeover or merge only the assets of the target company to avoid the burden of liabilities of the target company. The assets can be valued under three methods viz

(i) Market Value Method
(ii) Book Value Method
(iii) Replacement Method

(i) MARKET VALUE

The value for which the assets are available in the open market is considered for its valuation. This method is used when the business is considered as a going concern.

(ii) BOOK VALUE

The assets acquired are acquired at the value in which they appear in the books. This method is generally used when the target company is under liquidation.

(iii)REPLACEMENT VALUE

The total cost of replacing the assets to be acquired is computed considering the following aspects

- Gestation period
- Basic infrastructure cost
- Cost of transport
- Cost of installation
- Cost of finance to purchase the assets, if any

III) VALUATION OF BRANDS

The value of brand is the present value of the future benefits from its ownership. In order to calculate the value of the brand one needs to access:

i. The current and future benefits of the brand in terms of brand cash flow;

ii. The multiple or discount rate that would be applicable to these earnings or cash flows; and

iii. The reasonable level of return on capital employed in business.

There are various approaches to brand evaluations. Interbrand approach to brand valuation is widely accepted and followed by the practitioners. It is based on the assessment of the strength of the brands. It postulates that, stronger the brand, higher the brand earning multiplier and lower the discount rate; and vice versa. The confidence of the valuation is based on the quality of inputs that have been used in identifying the strength of the brand. Hence, prerequisite for a reasonably accepted brand valuation is availability of adequate information on marketing, financial; trademark legal information is collected and put together in a meaningful manner.

Conclusion:

Valuation is not a mere calculation of figures and numbers but it is a lot more than that. The final valuation under any one method for two different companies is bound to vary as valuation is a subjective concept and also the assumptions and future projections vary from company to company and valuer to valuer.

Chapter 9

Accounting in M&A

As per Accounting Standards there are two main methods of accounting for mergers:

(i) The pooling of interests method; and

(ii) The purchase method.

Pooling of interest method is normally used in case of a merger, while purchase method is used in case of an acquisition.

(i) The Pooling of Interest Method

Under the pooling of interest method, the assets, liabilities and reserves of the transferor Company are recorded by the transferee Company at their existing carrying amounts.

If, at the time of the merger, the transferor and the transferee companies having conflicting accounting policies, a uniform set of accounting policies is adopted following the merger. The effects on the financial statements of any changes in accounting policies are reported in accordance with Accounting Standard (AS) 5, 'Prior Period and Extraordinary Items and Changes in Accounting Policies'.

(ii) The Purchase Method

Under the purchase method, the transferee Company accounts for the merger either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor Company on the basis of their fair values at the date of merger. The identifiable assets and liabilities include assets and liabilities not recorded in the financial statements of the transferor Company.

Where assets and liabilities are restated on the basis of their face values, the determination of fair values may be influenced by the intentions of the transferee Company. For example, the transferee Company may have a specialised use for an asset, which is not available to other potential buyers. The Transferee Company may intend to effect changes in the activities of the transferor Company which necessitate the creation of specific provisions for the expected costs, e.g. planned employee termination and plant relocation costs.

➲ Consideration

The consideration for the merger may consist of securities, cash or other assets. In determining the value of the consideration, an assessment is made of the fair value of its elements. A variety of techniques is applied in arriving at fair value.

For E.g. When the consideration includes securities, the value fixed by the statutory authorities may be taken to be the fair value. In case of other assets, the fair value may be determined by reference to may apply. Some believe that, in addition to an exchange of equity shares, it is necessary that the shareholders of the transferor Company obtain a substantial share in the transferee Company obtain a substantial share in the transferee Company even to the extent that it should not be possible to identify any one party as dominant therein. This belief is based in part on the view that the exchange of control of one Company for an insignificant share in a larger Company does not amount to a mutual sharing of risks and benefits.

Many mergers recognize that adjustments may have to be made to the consideration in the light of one or more future events. When the additional payment is probable and can reasonably be estimated at the date of amalgamation, it is included in the calculation of the consideration. In all other cases, the adjustment is recognised as soon as the amount is determinable [see Accounting Standard (AS) A, Contingencies and Events Occurring after the Balance Sheet Date].

➲ Treatment of Reserve on merger

If the merger is a 'merger in the nature of merger', the identity of the reserves is preserved and they appear in the financial statements of the transferee Company in the same form in which they appeared in the financial statements of the transferor Company.

Thus, for example, the General Reserve of the transferor Company becomes the General Reserve of the transferee Company, the Capital Reserve of the transferor Company becomes the Capital Reserve of the transferee Company and the Revaluation Reserve of the transferor Company becomes the Revaluation Reserve of the transferee Company. As a result of preserving the identity, reserves which are available for distribution as dividend before the merger would also be available for the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of the transferor Company is adjusted in reserves in the financial statements of the transferee Company.

If the merger is a 'merger in the nature of purchase', the identity of the reserves other than the statutory reserves dealt with in paragraph 18, is not preserved. The amount of the consideration is deducted from the value of the net assets of the transferor Company, acquired by the transferee Company. If the result of the computation is negative, the difference is debited to goodwill arising on amalgamation and dealt with in the manner stated in paragraphs 19=20. If the result of the computation is positive, the difference is credited to Capital Reserve.

➲ Treatment of Goodwill Arising on merger

Goodwill arising on merger represents a payment made in anticipation of future income and it is appropriate to treat it as an asset to be amortised to income on a systematic basis over its useful life.

Due to the nature of goodwill, it is frequently difficult to estimate its useful life with reasonable certainty. Such estimation is, however made on a prudent basis. Accordingly, it is considered appropriate to amortise goodwill over a period not exceeding five years unless a somewhat longer period can be justified.

Factors, which may be considered in estimating the useful life of goodwill arising on merger, include.

(a) The foreseeable life of the business or industry ;

(ii) The effects of product obsolescence, changes in demand and other economic factors;

(iii) The service life expectancies of key individuals or groups of employees;

(iv) Expected actions by competitors or potential competitors; and

(v) Legal, regulatory and contractual provisions affecting the useful life.

➲ Balance of Profit and Loss Account

In the case of an 'merger in the nature of merger', the balance of the Profit and Loss Account appearing in the financial statements of the transferor Company is aggregated with the corresponding balance appearing in the financial statements of the transferee Company. Alternatively, it is transferred to the General Reserve, if any.

In the case of a 'merger in the nature of purchase', the balance of the Profit and Loss Account appearing in the financial statements of the transferor Company, whether debit or credit, loses its identity.

➲ **Treatment of Reserves Specified in a Scheme of merger**

The scheme of merger sanctioned under the provisions of the Companies Act, 1956, or any other statute may prescribe the treatment to be given to the reserves of the transferor Company after its merger. Where the treatment is so prescribed, the same is followed.

➲ **Disclosure**

For all mergers, the following disclosures are considered appropriate in the first financial statements followed the merger: names and general nature of business of the merged companies; effective date of merger for accounting purposes; the method of accounting used to reflect the merger; and particulars of the scheme sanctioned under a statute.

For merger accounted for under the pooling of interests method, the following additional disclosures are considered appropriate in the first financial statements following the merger:

(a) description and number of shares issued, together with the percentage of each Company's equity shares exchanged to effect the merger;

(b) The amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

For merger accounted for under the purchase method, the following additional disclosures are considered appropriate in the first financial statements following the merger:

(i) consideration for the merger and a description of the consideration paid or continently payable; and

(ii) The amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortization of any goodwill arising of merger.

➲ Merger after the Balance Sheet Date

When a Merger is effected after the balance sheet date but before the issuance of the financial statements of either party to the merger, disclosure is made in accordance with as 4, 'Contingencies and Events Occurring after the Balance Sheet Date', but the merger is not incorporated in the financial statements. In certain circumstances, the merger may also provide additional information affecting the financial statements themselves, for instance, by allowing the going concern assumption to be maintained.

Chapter 10

Merger in Banking Sector

ICICI Bank and Bank of Madura

ICICI Bank has been scouting for a private banker for merger, with a view to expand its asset and client base and geographical coverage. Though it had 21 percent of stake, the choice of Federal bank, was not lucrative due to the employee size (6600), per employee business is as low at Rs.161 lakh and a snail pace of technical upgradation. While, BOM had an attractive business per employee figure of Rs.202 lakh, a better technological edge and had a vast base in southern India when compared to Federal bank.

While all these factors sound good, a cultural integration would be a tough task ahead for ICICI Bank.

ICICI Bank has announced a merger with 57-year-old Bank of Madura, with 263 branches, out of which 82 of them are in rural areas, with most of them in southern India. As on the day of announcement of merger (09-12-00), Kotak Mahindra group was holding about 12 percent stake in BOM, the Chairman BOM, Mr. K.M. Tyagarajan, along with his associates was holding about 26 percent stake, Spic group has about 4.7 percent, while LIC and UTI were having marginal holdings. The merger will give ICICI Bank a hold on South Indian market, which has high rate of economic development.

The board of Directors at ICICI has contemplated the following synergies emerging from the merger:

- **Financial Capability**

The amalgamation will enable them to have a stronger financial and operational structure, which is suppose to be capable of greater resource/ deposit mobilization. And ICICI will emerge as one of the largest private sector banks in the country.

- **Branch network**

The ICICI's branch network would not only increase by 264, but also increases geographic coverage as well as convenience to its customers.

- **Customer base**

The emerged largest customer base will enable the ICICI bank to offer banking and financial services and products and also facilitate cross-selling of products and services of the ICICI group.

- **Technological edge**

The merger will enable ICICI to provide ATMs, Phone and the Internet banking and financial services and products to a large customer base, with expected savings in costs and operating expenses.

♦ **Focus on Priority Sector**

The enhanced branch network will enable the Bank to focus on micro-finance activities through self-help groups, in its priority sector initiatives through its acquired 87 rural and 88 semi-urban branches.

The ***swap ratio*** has been approved in the ratio of ***1:2*** – two shares of ICICI Bank for every one share of BOM. The deal with BOM is likely to dilute the current equity capital by around 12 percent. And the merger is expected to bring 20 percent gains in EPS of ICICI Bank. And also the bank's comfortable Capital Adequacy Ratio (CAR) of 19.64 percent has declined to 17.6 percent.

TABLE 1:- Comparative Study of Financial Strength of ICICI Bank & BOM

Financial Standings of ICICI Bank and Bank of Madura (Rs. in crore)				
Parameters	**ICICI Bank**		**Bank of Madura**	
	1999-2000	**1998-99**	**1999-2000**	**1998-99**
Net worth	1129.90	308.33	247.83	211.32
Total Deposits	9866.02	6072.94	3631.00	3013.00
Advances	5030.96	3377.60	1665.42	1393.92
Net profit	105.43	63.75	45.58	30.13
Share capital	196.81	165.07	11.08	11.08
Capital Adequacy Ratio	19.64%	11.06%	14.25%	15.83%
Gross NPAs/ Gross Advances	2.54%	4.72%	11.09%	8.13%
Net NPAs /Net Advances	1.53%	2.88%	6.23%	4.66%

♦ **The 'Generation Gap'**

The merger of 57-year old Bank of Madura, south based **old generation bank** with a fast growing tech savvy **new generation bank**, might create some problems initially. For sure, the stock merger is likely to bring cheer to shareholders and bank employees of BOM, and some amount of discomfort and anxiety to those of ICICI Bank.

The scheme of amalgamation will increase the equity base of ICICI Bank to Rs. 220.36 cr.

ICICI Bank will issue 235.4 lakh shares of Rs.10 each to the share-holders of BOM. The merged entity will have an increase of asset base over Rs.160 billion and a deposit base of Rs.131 billion.

The merged entity will have 360 branches and a similar number of ATMs across the country and also enable the ICICI to serve a large customer base of 1.2 million customers of BOM through a wider network, adding to the customer base to 2.7 million.

♦ **Managing rural branches**

ICICI's major branches are in major metros and cities, whereas BOM spread its wings mostly in semi urban and city segments of south India. There is a task ahead lying for the merged entity to increase dramatically the business mix of rural branches of BOM. On the other hand, due to geographic location of its branches and level of competition, ICICI Bank will have a tough time to cope with.

- **Managing Software**

Another task, which stands on the way, is technology. While ICICI Bank, which is a fully automated entity, is using the package, Banks 2000, BOM has computerized 90 percent of its businesses and was conversant with ISBS software. The BOM branches are supposed to switch over to Banks 2000. Though it is not a difficult task, with 80 percent computer literate staff would need effective retraining which involves a cost. The ICICI Bank needs to invest Rs.50 crore, for upgrading BOM's 263 branches.

- **Managing Human resources**

One of the greatest challenges before ICICI Bank is managing human resources. When the head count of ICICI Bank is taken, it is less than 1500 employees; on the other hand, BOM has over 2500. The merged entity will have about 4000 employees which will make it one of the largest banks among the new generation private sector banks. The staff of ICICI Bank is drawn from 75 various banks, mostly young qualified professionals with computer background and prefer to work in metros or big cities with good remuneration packages. While under the influence of trade unions most of the BOM employees have low career aspirations. The announcement by H.N. Sinor, CEO and MD of ICICI, that there would be no VRS or retrenchment, creates a new hope amongst the BOM employees. It is a tough task ahead to manage. On the other hand, their pay would be revised upwards. Is it not a Herculean task to integrate two work cultures?

TABLE 2:- Crucial Parameters

CRUCIAL PARAMETERS						
Name of the Bank	Book value of Bank on the day of merger announcement	Market price on the day of announcement of merger	Earnings per share	Dividend paid (in %)	P/E ratio	Profit per employee (in lakh) 1999-2000
Bank of Madura	183.0	131.60	38.7	55%	3%	1.73
ICICI Bank	58.0	169.90	5.4	15%	-	7.83

- **Managing Client base**

The client base of ICICI Bank, after merger, will be as big as 2.7 million from its past 0.5 million, an accumulation of 2.2 million from BOM. The nature and quality of clients is not of uniform quality. The BOM has built up its client base for a long time, in a hard way, on the basis of personalized services. In order to deal with the BOM's clientele, the ICICI Bank needs to redefine its strategies to suit to the new clientele.

CONCLUSION

ICICI Bank, a large private sector bank (a strong bank) took over Bank of Madura (relatively less strong bank) in order to expand its customer base and branch network. When we look at the key parameters such as net worth, total deposits, advances and NPAs (given in the table) the ICICI Bank is in a much better position. The net worth of the former is four folds higher than the latter.

And in terms of total deposits and advances the former is three fold higher than the latter. When we look at the NPA ratios, the gross NPAs to gross advances and net NPAs to net advances and the non-performing assets are four fold higher in latter case, than that of the former. The ICICI Bank which was looking for a strategic alliance after it received its proceeds from ADS issue had a tie up with BOM only to expand its customer base and branch network. Although integration of different work cultures and managing client bases of different cadres is a difficult task, one has to wait and watch to what extent the alliance will be successful.

Chapter 11

Merger in Cement Sector

CEMENTING THE FUTURE

GRASIM- L&T Cement

Grasim Industries under the head of its Chairman Mr. Kumaramangalam Birla has revolutionised the cement industry by making the largest acquisitions in the country till date.

Grasim Industries has taken a giant step towards becoming a global-scale cement player by agreeing to buy the cement division of rival Larsen & Toubro (L&T) in one of the countries largest M&A transactions. At value of Rs. 2,200 crore it can be termed as the largest corporate deals in the country till date.

➲ THE TIMELINE

It all began in November 2001, when Birla saw an opportunity on being sounded out that Reliance Industries wanted to sell its 10.5% stale in L&T. Grasim paid Rs. 766.5 Crore at the rate of Rs. 306 per share for the stake, which at that time was a pure financial investment. The company augmented its stake in phases till it reached 14.5% in October 2002. Till this time it was a strategic decision to accomplish mutual benefits.

Things started to speed up only in August 2002 when Commonwealth Development Corporation (CDC), a private equity investor, floated a proposal to pick up a 6.8% stake in L&T. Grasim felt that this would spoil its plan and hence Grasim put a proposal to L&T board for a Vertical Demerger of cement business.

On November 29th, Birla hit a road block when SEBI blocked the open offer by Grasim for 20% of L&T and initiated an enquiry into whether Grasim had grabbed the management control over L&T via the backdoor. The L&T management tried to put through a structured demerger proposal and at that stage the financial institutions, the largest shareholder in the company, appeared to be backing the management.

On 27th January 2003, Grasim board decided to submit a new proposal for L&T board's consideration. According to this proposal, Grasim valued the cement business of L&T at Rs. 130 per share and the remaining business of L&T at Rs. 162.50 per share. The equity value of L&T as a whole was valued at Rs. 292.50 per share.

In March 2003, credit rating agency ICRA was invited by the L&T board to evaluate both L&T's and Grasim's Proposal. SEBI clears Grasim proposal and gives a go ahead for the open offer for 20% in L&T.

On May 7 2003, Grasim's open offer for acquiring 20% stake in L&T at price of Rs. 190per share kicks off. On May 23 2003, ICRA submitted the report. The report favored the Grasim's plan.

On 17th June 2003, the final deal was struck and under this plan L&T will first spin off its cement business into a separate company in which it will own 20%. Grasim and other shareholders would own the remaining 80%, in proportion to their current shareholding in the parent company. Grasim, which now owns 15.74% in L&T, will see its stake in the cement company drop to 12.6%. Grasim will then buy 8.5% from L&T at Rs. 171.30 and make an open offer for 30% of the cement company at the same price. The offer price values the cement business at Rs. 6051 Crore. If the offer is successful, Grasim will end up owning 51% in the company, which is called as Cemco. L&T stake will drop from 20% to 11.5% as it would have sold 8.5% to Grasim. Grasim will sell its 15.7% stake in L&T engineering (after the Demerger) to employees trust for Rs. 470 Crore. The total price would be around Rs. 2200 crore which is the largest till date so far.

THE COMPLETE PICTURE

	Rs Crore	Stake
SEWING UP CEMCO	1,030	12.6%
EXISTING INVESTMENT IN L&T AS ON JUNE 17, 2003	362	8.5%
OPEN OFFER FOR 30% OF CEMCO	1,278	30%
TOTAL OUTFLOW	1,640	38.5%
INFLOW ON ACCOUNT OF SALE OF ENGINEERING COMPANY TO FOUNDATION	470	
NET INVESTMENT FOR A 51% STAKE	2,200	

➲ **THE RESULT**

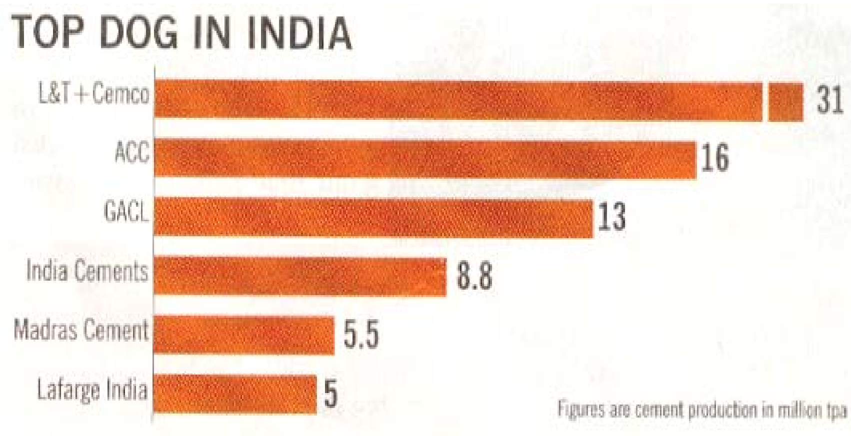
(i) Grasim's Share soared to a 52 week high of Rs.414 on that day. The share prices of Grasim shoot up by 12 % on the next day of the deal and the scrip witnessed record 3.1 million transactions on that day.

(ii) The synergy between both the companies will be high as both are under single management and is expected to save a minimum of Rs 100 crore every year.

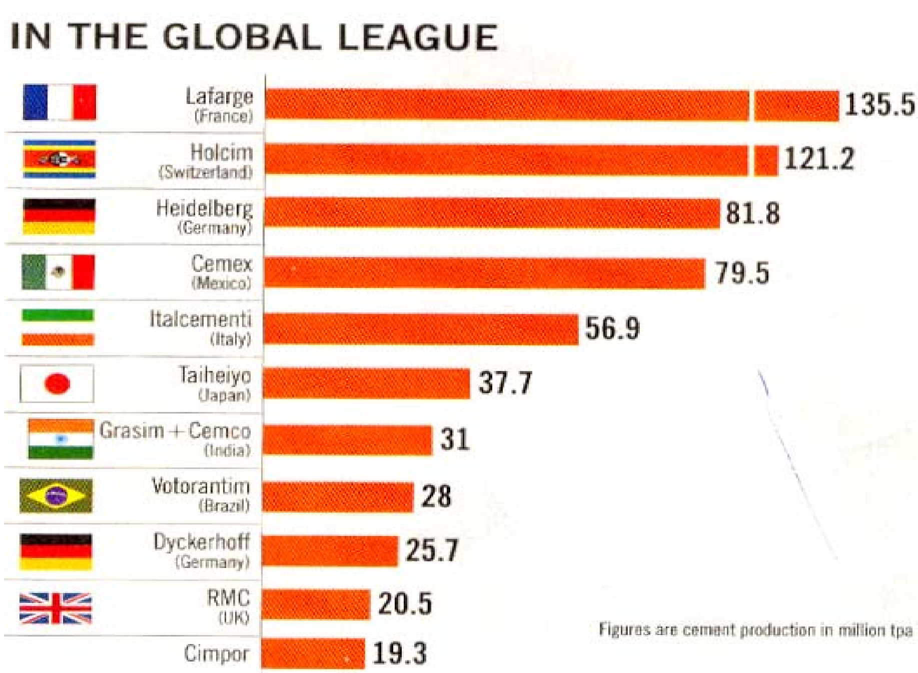
(iii) This consolidation will give the top players, mainly Grasim and Gujarat Ambuja-ACC, a control over the cement prices in the market. , the three groups L&T-Grasim, Gujarat Ambuja- ACC and India Cements control nearly half of the Indian cement market. The rest of the market is occupied by some 50 companies. This closes the door for any multinational to gain foothold in the Indian market.

(iv) Grasim will get L&T Brand rights till March 2005. This will provide the company, optimum time to device an appropriate strategy for Cemco.

(v) Grasim will become the No. 1 player in the country after the Acquisition. It will now control 42% of the total country's purchases. Grasim's capacity will increase to 31 million tonnes which will be double the capacity of ACC its nearest competitor. Grasim will now be the leader in Southern and Western Markets of the country.



(vi) Grasim will become the 7th largest producer of cements in the world.



Chapter 12

Cases on Success and Failure of Merger

CASE STUDY 1

GlaxoSmithKline Pharmaceuticals Limited, India (Merger Success).

Glaxo India Limited and SmithKline Beecham Pharmaceuticals (India) Limited have legally merged to form *GlaxoSmithKline Pharmaceuticals Limited* in India (GSK). It may be recalled here that the global merger of the two companies came into effect in December 2000.

Commenting on the prospects of GSK in India, Vice Chairman and Managing Director, GlaxoSmithKline Pharmaceuticals Limited, India, Mr. V Thyagarajan said, *"The two companies that have merged to become GlaxoSmithKline in India have a great heritage – a fact that gets reflected in their products with strong brand equity."* He added, *"The two companies have a long history of commitment to India and enjoy a very good reputation with doctors, patients, regulatory authorities and trade bodies. At GSK it would be our endeavor to leverage these strengths to further consolidate our market leadership."*

GlaxoSmithKline, India

The merger in India brings together two strong companies to create a formidable presence in the domestic market with a market share of about 7 per cent.

With this merger, GlaxoSmithKline has increased its reach significantly in India. With a field force of over 2,000 employees and more than 5,000 stockiest, the company's products are available across the country. The enhanced basket of products of GlaxoSmithKline, India will help serve patients better by strengthening the hands of doctors by offering superior treatment and healthcare solutions.

GlaxoSmithKline, Worldwide

GlaxoSmithKline plc is the world's leading research-based pharmaceutical and healthcare company. With an R&D budget of over ₤2.3 billion (Rs.16, 130 crores), GlaxoSmithKline has a powerful research and development capability, encompassing the application of genetics, genomics, combinatorial chemistry and other leading edge technologies.

A truly global organization with a wide geographic spread, GlaxoSmithKline has its corporate headquarters in the West London, UK. The company has over 100,000 employees and supplies its products to 140 markets around the world. It has one of the largest sales and marketing operations in the global pharmaceutical industry.

CASE STUDY 2

TATA – TETLEY (Merger *Failure*).

The Tata group was infusing a fresh 30 million pounds into Tata tea that had been used to buy an 85.7% stake in the UK-based Tetley last year. Already high on a heady brew of a fresh buy and caffeine, most missed what Krishna Kumar's statement meant.

Tata Tea's much hyped acquisition of Tetley, one of the world's biggest tea brands, isn't proceeding according to the plan. 15 months ago, the Kolkata based Rs 913 crore Tata Tea's buyout of the privately held The Tetley Group for Rs 1843 crore had stunned corporate watchers and investment bankers alike. It was a coup! An Indian company had used a leveraged buyout to snag one of the Britain's biggest ever brands. It was by far, the biggest ever leveraged buyout by an Indian company.

Tata Tea didn't pay cash upfront. Instead, it invested 70 million pounds as equity capital to set up Tata Tea. It borrowed 235 million to buy the Tetley stake. The plan was that Tetley's cash flows would be insulated from the debt burden.

When Tata Tea took the big gamble to buy Tetley, its intent was very clear. The company had established a firm foothold in the domestic market and had a controlling position in growing tea. Going global looked like the obvious thing to do. With Tetley, the second largest brand after Lipton in its bag, Tata Tea looked ready to set the Thames on fire.

Right from the start, Tetley was never an easy buy. In 1996, Allied Domecq, the liquor and retail conglomerate had put Tetley on the block. Even then Tata Tea, nestle, Unilever and Sara lee had put in bids, all under 200 million pounds, allied wanted to cash on the table. Tata Tea didn't have enough of its own. The others bids also did not go through. Eventually, Tetley group together with a consortium of financial investors like Prudential and Schroders bought the entire equity stake for 190 million pounds in all cash deal.

Two years later, Tetley went for an IPO, hoping to raise 350-400 million pounds. But the IPO never took place. Soon afterwards, the investors began looking for exit options. Tetley was once again on the block.

It was until Feb 2000 that the due diligence was completed. By this time, the Tata's were ready with their offer. They would pay 271 million pounds to buy the entire Tetley equity and the funds would go towards first paying off Tetley's 106 million debt. The balance would go the owners.

The offer price did not include rights to Tetley coffee business, which was sold to the US-based Rowland Coffee Roasters and Mother Parker's Tea and Coffee in Feb 2000 for 55 million pounds.

For Tetley new owners, too, the problems were only just beginning. The deal hinged on Tetley's ability, over and above covering its own debts, to service the loans Tata Tea had taken for the acquisition. That's where reality bites.

Consider the facts. When Tata Tea acquired Tetley through Tata Tea, it sunk in 70 million pounds as equity and borrowed 235 million pounds from a consortium to finance the deal. Implicit in the LBO was that Tetley's future cash flows would fund the SPV's interest and principal repayment requirements. At an average interest rate of 11.5%, Tetley needed to generate 22 million pounds in interest alone on a loan of 190 million pounds. Add to this the interest on the high cost vendor loan notes of 30 million pounds—it worked out to be 4.5 million and the charges on the working capital portion, amounting to 2 million pounds per annum. All this works out to about 28 million pounds in interest alone per year.

At the same time, it also has to pay back the principal of 110 million pounds over a nice period through half yearly installments. This works out to 12 million pounds per year. If you were to assume that depreciation and restructuring charges were pegged at last year's levels, the bill tots up to 48 million pounds a year. In FY 1999, the Tetley's cash flows were 29 million pounds.

Some of the problems could have been obviated if Tetley's cash flows had increased by 40 % in FY 2001 over the previous year. That way, the company would have covered both its own commitments as well as of the Tata's. But the situation worsened. Major UK retailers clamped down on grocery prices last year. That substantially reduced Tetley's pricing flexibility.

Besides, the UK tea markets have been under pressure for some time now. According to the UK government's national food survey, there has been a substantial fall in the consumption of mainstream teas- tea-bag black teas drunk with milk and sugar. Also the tea drinking population in UK has come down from 77.1% to 68.3% in 1999. On the other hand, natural juices and coffee have consistently increased their market share.

So, when it was confronted by Tetley's sliding performance, what options did Tata Tea have? On its own, it could not do much. The last year has been one of the worst years for the Indian tea industry and Tata Tea has also been affected. The drop in tea prices and a proliferation of smaller brands in the organized segment have taken toll on Tata Tea's performance. In FY 2001, Tata Tea's net profit fell by 19.59% from Rs 124.63 crore to Rs 100.21 crore, Income from operations declined by 8.72%.

But letting Tetley sink under the weight of the interest burden would have been an unthinkable option, given the prestige attached to the deal.

Thus from the above case we infer that Tata had to shell out a lot of money to cover all the debts of Tetley which was found not worthy enough by the general public.

Chapter 13

Reasons for failure of Mergers

The seven basic reasons as to why mergers fail are as follows:-

(1) CULTURE CLASH

The cultures of the companies are not compatible and compete for dominance. If the battle is drawn out, the businesses of both companies suffer while attention is diverted to the contest. If the culture of one of the companies is totally subsumed, it may destroy a key element of its prior success.

(2) PREMIUM TOO HIGH

Particularly in hostile takeovers, the acquirer may pay too high a premium. While the shareholders of the acquired company, particularly if they receive cash, do well, the continuing shareholders are burdened with overpriced assets, which dilute future earnings. This will come into sharp focus next year as companies are forced by the new merger accounting rules to revalue and write off goodwill booked in prior-year acquisitions.

(3) BOARDROOM SCHISMS

When mergers are structured with 50/50 board representation or substantial representation from the acquiree, care must be taken to determine the compatibility of the directors following the merger. A failure to focus on this aspect of the merger can create or exacerbate a culture clash and retard or prevent integration. All too often, the continuing directors fail to meet and exchange views until after the merger is consummated.

(4) MANAGEMENT'S FAILURE TO INTEGRATE

Often the acquirer's concern with respect to preserving the culture of the acquired company results in a failure to integrate, with the acquired company continuing to operate as before and many of the expected synergies not being achieved. **A well-conceived plan for business integration, without disruptive culture clash, is the single most important element of a successful merger.**

(5) REGULATORY DELAY

The announcement of a merger is a dislocating event for the employees and other constituents of one or both companies. It is customary to have detailed plans to deal with potential problems immediately following an announcement. However, when there is the possibility of regulatory delay, the risk of substantial deterioration of the business increases as time goes on, with valuable employees and customer and supplier relationships being lost. This loss is a key consideration in evaluating whether a particular merger should be undertaken. It is necessary to include in this evaluation the relationship between the desire to limit antitrust divestitures and the costs attributable to the delay in consummating the merger.

(6) OVER LEVERAGE

Cash acquisitions frequently result in the acquirer assuming too much debt. Future interest costs consume too great a portion of the acquired company's earnings. An even more serious problem results when the acquirer resorts to cheaper short- term financing and then has difficulty refunding on a long-term basis. A well-thought-out capital structure is critical for a successful merger.

(7) POOR BUSINESS FIT

The conglomerate acquisitions of the '60s are the most cogent examples, but the lessons seem to be forgotten periodically. Technology acquisitions where the architectures did not fit are a 1990s example, such as the rush by some companies to acquire Internet firms or other new era businesses they did not understand.

Chapter 14

Post Merger Activities

The most vital aspect of a merger is the post merger management. By that time the old promoters would have quit happily with their money, and the merchant bankers with their fat fee. Now that you have the baby in your hands, how are you going to hold it? This will decide the ultimate success of failure of the merger.

The post merger management issues can be broadly understood from technical, commercial, financial, managerial and human angles.

➲ TECHNICAL ASPECTS

The existing technical team has to be carefully handled so that they are motivated to stay and become more productive. Any vacuum in the technical team immediately after the take over may have adverse consequences. The technology absorption, the process validation parameters and the quality improvement programs should be carefully assessed and modified wherever necessary.

➲ COMMERCIAL ASPECTS

The funds-flow management should be paid adequate attention. Wastage and leakage should be controlled. The relationship with the banks and financial institutions should be maintained cordially.

➲ HUMAN ASPECTS

Mergers are not just about balance sheets, cash flows or synergies as construed generally but they are also about people making the synergies real.

Typically, M&A's are driven by financial, strategic and legal considerations. The "people issue" is often ignored or considered only after the deal is signed. In the era of knowledge based economy and high tech business people are even more important because major value of enterprises is ascribed to the people factor.

Research evidence has repeatedly demonstrated that mergers have had an unfavorable impact on profitability. Instead of achieving the projected economies of scale, mergers have become associated with lowered productivity; worse strike records, higher absenteeism and poorer accident rates rather than greater profitability. It has been suggested that in the long term between 50-80 percent of all mergers and takeovers are considered to be financially unsuccessful and in financial return represent 'at best an each way bet'. This high rate of merger failure is mainly ascribed to the ignorance of 'people factor'.

Interestingly, merger has been found to require more social adjustments than major life events. Understanding the likely effect of mergers and acquisitions on those people taken-over is a pre-condition to sensitive and successful integration management. Managerial relationships are a well-recognised source of merger problems, but the successful integration of senior management alone is insufficient if the line managers and the rest of the workforce are factious. Employees need not be direct participants in the negotiation or execution of an acquisition to feel its impact, for it produces a psychological ripple throughout the organisation.

Notable Points as far as Human Aspect involved in M&A's

- Mergers and acquisitions create an expectancy of change and increase organizational cohesiveness.
- Mergers and acquisition are emotive events which affect everybody.
- The acquiring management is invariably overconfident in their estimation of the speed and ease with which they can achieve integration.
- Mergers and acquisition result in unplanned personnel losses.
- Need for assessment of organizational culture of transferor and transferee companies.

Most important is the human aspect. The existing team should not lose their morale and motivation. They should be reassured about the continuance of good management practices.

All these principles, when they are in a book, sound like simple motherhood statements if one does not follow these simple rules, the company may end up paying a huge price.

➲ MANAGERIAL ASPECTS

The senior management team should be evaluated in terms of result-orientation. Dead wood should be removed. Talent should be encouraged. Efforts should be made to build a cohesive team of top management.

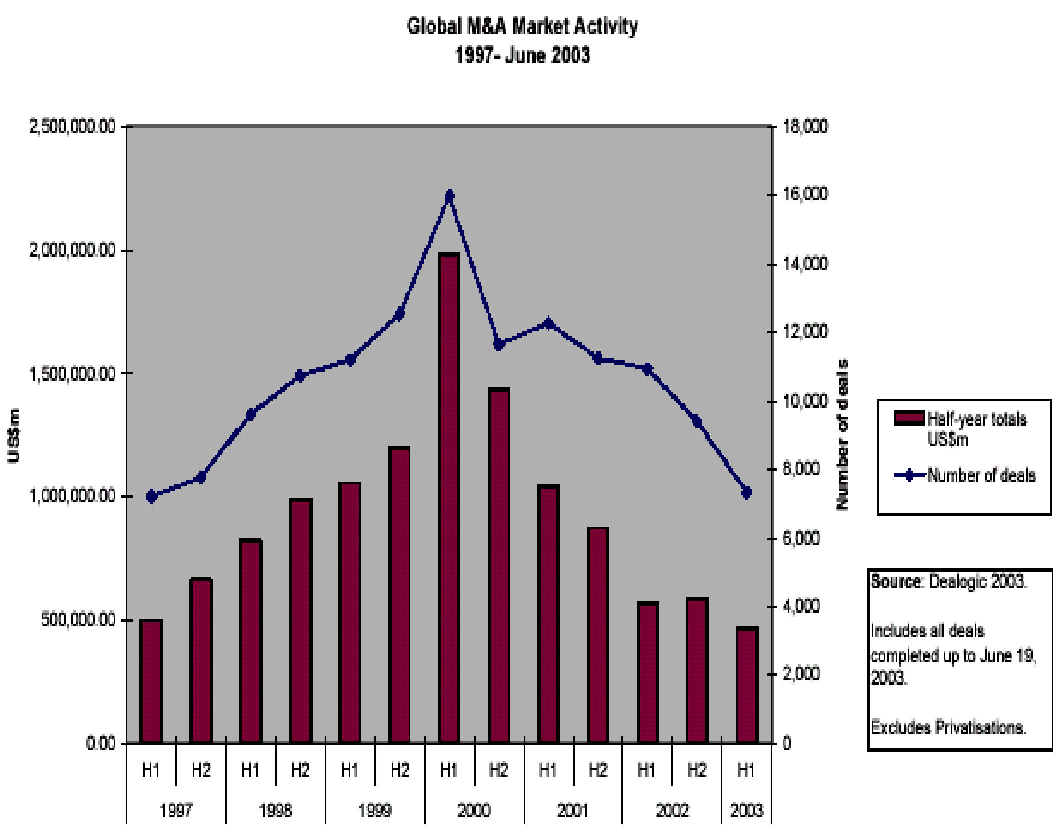
Chapter 15

Recent Scenario and Trends in M &A

GLOBAL SCENARIO

GLOBAL activity in mergers and acquisitions (M&A's) continues to slow down this fiscal too. The number of M&A deals, globally, has fallen sharply compared to the same period in 2002 and while the total value of completed activity is also on the decline.

➢ **FIG 1:**



The numbers of M&A deals are down by 33 per cent from 10,943 in the first half of 2002 to 7,324 in the first half of this year. The total value of global transactions stands at $464 billion for 2003 to-date, compared to the $571-billion deals closed during the first half of 2002, a reduction of 19 per cent. In the previous two years up to June 2002, values fell 45 per cent (H1 2002 over H1 2001) and 48 per cent (H1 2001 over H1 2000).

The economic uncertainty, the Iraq conflict and the SARS outbreak, are the basic reasons for the sixth consecutive half-yearly drop in M&A figures, particularly in the Asia Pacific region.

TABLE 4:- Top ten global Deals in 2003

Bidder Full Name	Bidder Nationality	Target Full Name	Target Nationality	Completion Date	Bid Value US($)m
Pfizer	United States	Pharmacia	United States	16 Apr 2003	57,822
Credit Agricole	France	Credit Lyonnais (82.21%)	France	26 May 2003	16,435
HSBC	United Kingdom	Household International	United States	28 Mar 2003	14,465
France Telecom	France	MobilCom	Germany	04 Mar 2003	7,109
Edizione	Italy	Autostrade SpA (54.8%)	Italy	22 Feb 2003	6,463
Carnival	United States	P&O Princess Cruises	United Kingdom	17 Apr 2003	5,620
Blackstone Group	United States	TRW Automotive (80%)	United States	03 Mar 2003	4,700
RWE	Germany	American Water Works.	United States	10 Jan 2003	4,566
Cadbury Schweppes	United Kingdom	Pfizer (Adams confectionery business)	United States	31 Mar 2003	4,200
E.ON	Germany	Ruhrgas (40%)	Germany	07 Mar 2003	4,044

INDIAN SCENARIO

The declining trend witnessed in India has been in line with the global trends in M&A's, as evident from the comparison between the values of domestic and cross-border deals during 2000-03. Despite the difficult climate, the number of deals that failed to cross the finishing line has reduced, which may be due to the increased caution in announcing deals that have less chances of achieving financial close.

In India, the trend of M&A activity across sectors showed a declining trend and in the past three years — or six half years — the first half of 2003 has been the least active half year with only 119 deals compared to 172 in the first half of 2002, a fall of 31 per cent. In value terms, the total deal size in the first half of 2003 has been $1,431.59 million, almost 50 per cent less than the figure of $ 2,756.2 million in the first half of 2002.

In the first half of 2003, the manufacturing sector accounted for 35 per cent of the number of transactions, followed by the services sector at 21 per cent and the banking and financial sector at 12 per cent. In value terms, the manufacturing sector contributed 30 per cent, followed by information technology (18.5 per cent) and the services sector (16 per cent).

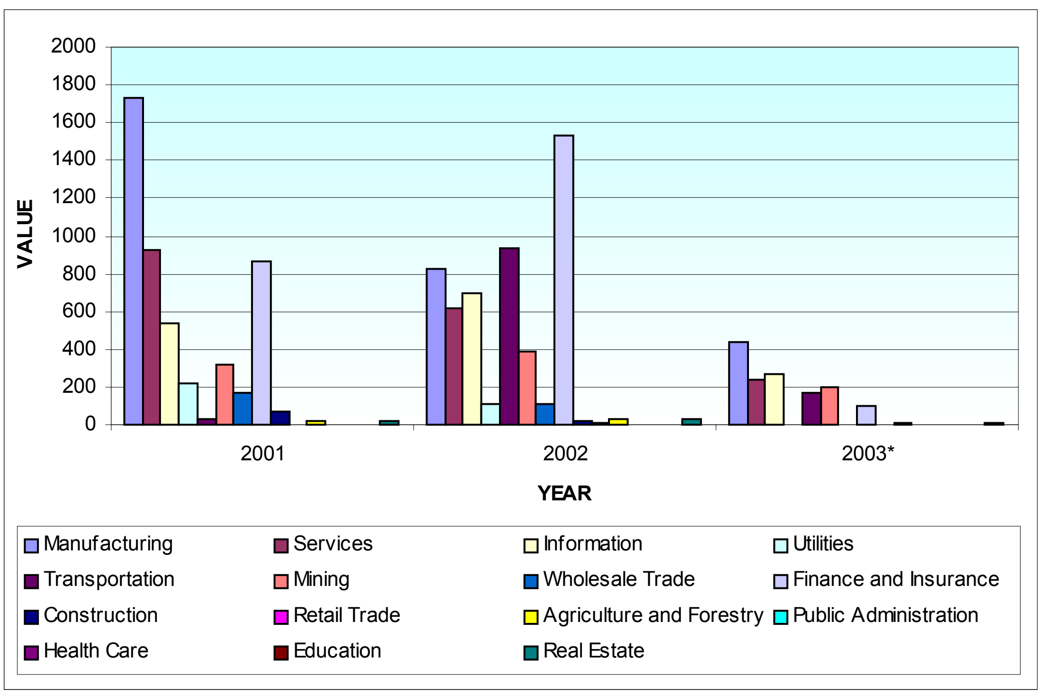
In the current year, the largest deals worth more than $100 million have been the merger of Indo Gulf's metals business with Hindalco ($240 million), the acquisition of Gujarat Adani Port by Peninsular and Oriental Steam Ltd ($135 million), the acquisition of Mangalore Refineries by ONGC ($125 million) and the acquisition of Hughes Tele.com by Tata Sons ($106 million).

TABLE 5:- India Sector Wise Deal Data

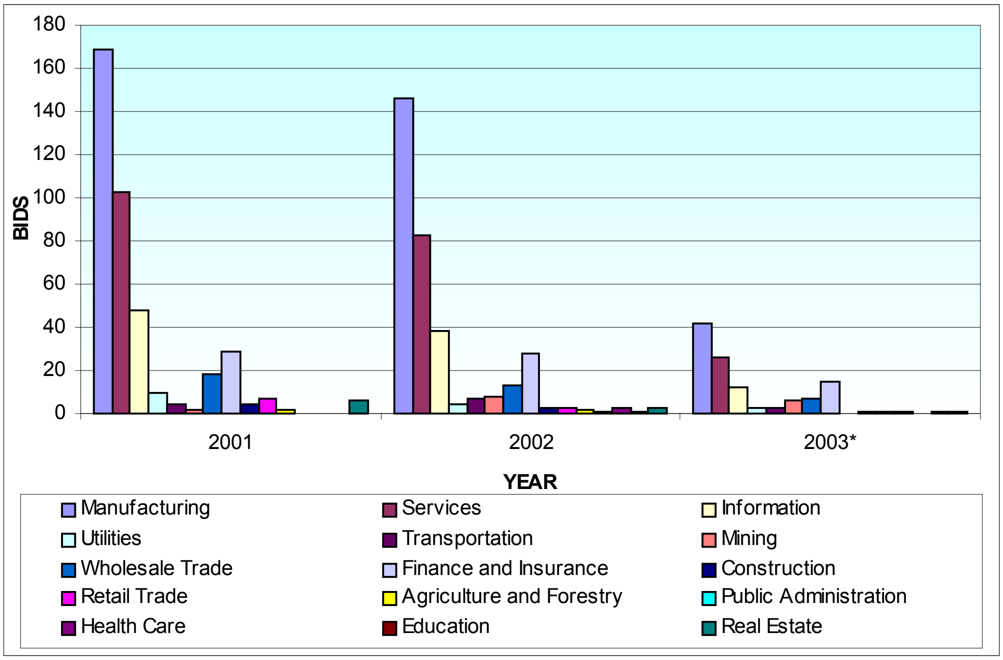
	2001		2002		2003*	
INDUSTRY SECTOR	**VALUE**	**BIDS**	**VALUE**	**BIDS**	**VALUE**	**BIDS**
Manufacturing	1731.23	169	823.81	146	437.94	42
Services	925.72	103	616.52	83	236.16	26
Information	541.93	48	698.50	38	264.39	12
Utilities	220.54	10	106.25	4	0.00	3
Transportation	30.23	4	938.47	7	166.48	3
Mining	320.00	2	388.44	8	200.74	6
Wholesale Trade	173.19	18	105.96	13	2.29	7
Finance and Insurance	863.82	29	1536.13	28	104.11	15
Construction	68.96	4	20.30	3	0.00	0
Retail Trade	3.12	7	6.44	3	12.37	1
Agriculture and Forestry	17.00	2	26.35	2	2.00	1
Public Administration	0.00	0	0.00	1	0.00	1
Health Care	0.00	0	0.00	3	0.00	0
Education	0.00	0	0.00	1	0.00	1
Real Estate	19.16	6	28.78	3	5.11	1
Total	4914.13	404	5317.02	345	1431.59	119

***- 1st Half**

➢ **FIG 2:**



➢ FIG 3:


180
160
140
120
100
80
60
40
20
0
BIDS
2001
2002
2003*
YEAR
Manufacturing
Services
Information
Utilities
Transportation
Mining
Wholesale Trade
Finance and Insurance
Construction
Retail Trade
Agriculture and Forestry
Public Administration
Health Care
Education
Real Estate

Chapter 16

Conclusion

The Mergers and Acquisitions (M&A) scenario is hotting up. Major corporations worldwide are embarking on growth plans to achieve higher turnover and profits. Merger, acquisitions and takeovers all form an important part of this strategy. While mega deals are being struck abroad, India is also getting a taste of such deals. With the end of Government protectionism and entry of multinational companies many companies are compelled to change their old ways. Many Indian companies are looking for partners to compete in the fast changing world.

Mergers and acquisitions will become the order of the day. In the years to come we will witness some very surprising M&A's which would change the entire structure of that industry and benefit the merged entity. In India mergers in the Public sector can create some of the biggest companies of the world. Among the many advantages of M&A, the market capitalization of the merged entity will thwart the possibility of any hostile takeover attempt.

Viewing from the Indian scenario, mergers will be an important aspect of strategy in the new age business. Many Indian companies-especially those run by business families--are watching the global M&A process eagerly. Telecom sector is also now approved by SEBI for M&A activity.

It can be seen that even IT firms have started merging because of cut throat competition prevailing in the IT market. It has become really difficult for firms to survive in the competition. TCS acquiring CMC is the first of many more to come. With the globalization of business, its time for Indian companies to look at the M&A process seriously to cut costs and corner new markets. Thus mergers and acquisitions are picking up momentum and are surely here to stay.