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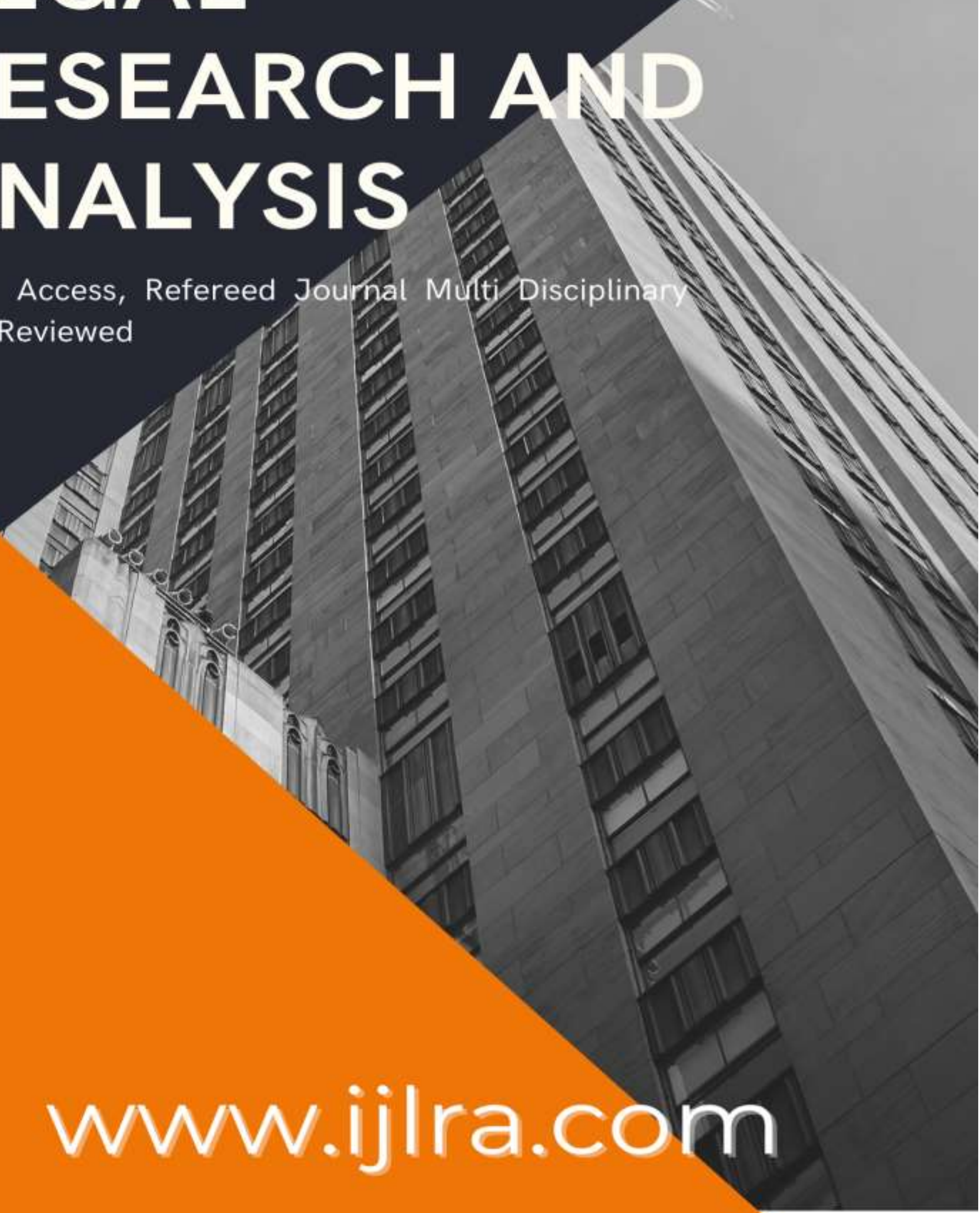

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A STUDY ON MERGERS AND ACQUISITIONS IN INDIA AND THEIR IMPACT ON COMPANIES OPERATING PERFORMANCE

AUTHORED BY - B. SANTOSH KUMAR & SM. AYUB

I. INTRODUCTION

Indian business firms were under a stringent regulatory environment prior to 1990s. Consequently, the growth of Indian business enterprises throughout that period has been disorganized and lacking in planning. The government's reforms process, which began in 1991, has had a significant impact on the operations and management of Indian firms. As a result, corporate enterprises have adopted various strategies for growth and expansion. Mergers and Acquisitions (hereinafter referred as M&A) have become a frequent occurrence in that process. M&A have a long history in the Indian economy. Historically, firms have utilized M&A as a means of expanding. Presently, Indian corporate organizations are redirecting their efforts towards enhancing their core competencies, increasing market share, improving global competitiveness, and consolidating their operations. The presence of foreign competitors has accelerated the process of refocusing. Against this background, Indian business companies have implemented restructuring initiatives mostly through M&A to establish a strong presence and expand in their key areas of focus.

During the process of M&A, managers perceive financial synergy and or operating synergy in many ways. However, the crucial matter is whether they can produce that potential synergy or not. The objective of this research is to determine whether the assertions made by the corporate sector when engaging in mergers and acquisitions to create synergy are being realized or not in the Indian environment.

M&A are well-established concept that has recently experienced a surge in activity. This increase in M&A activity has provided organizations with additional opportunities to pursue integration for the purpose of achieving growth, expanding market coverage, or fulfilling other strategic needs. The objective of this research is to thoroughly examine the effects of M&A transactions on different stakeholders, with a specific emphasis on the operational performance of companies, the wealth of shareholders, and the impact on consumers.

This study examines diverse effects of M&A in India, specifically looking at how they influence a company's operating performance, shareholders' wealth, and customers. The study seeks to enhance the current understanding of the effects of M&A in the Indian market, providing valuable perspectives for corporate executives, investors, and regulators. The research seeks to enhance decision-making in the dynamic field of corporate restructuring and consolidation by comprehending the complex connections between M&A activities, operating performance, shareholders wealth, and consumer welfare.

Due to globalization, liberalization, privatization, and technical advancements, "Mergers & Acquisitions (hereinafter referred as M&A) has gained massive popularity in recent years". In today's corporate world, this strategy has relevant importance. It is one of the well-accepted techniques companies use to increase their profitability, market share, growth, and survival in the competitive market. Over the years, we have witnessed a large number of companies growing steadily and making it to the top using M&A.[1] "A company's expansion plan might be organic or inorganic. A hike in M&A transactions has given companies another opportunity to expand their growth,[2] market coverage, or any other strategic need."[3] Currently, the global business market is becoming more competitive.[4] Several reasonable and uncertain reasons such as "limiting competition; utilizing the under-utilized market power, human and physical resources, and managerial skills; overcoming the slow growth and profitability problem; achieving diversification; gaining economies of scale; displacing existing management; circumventing government regulation; changing Price Earnings (hereinafter as PE) ratio are responsible for the occurrence of M&A". Due to globalisation, deregulation, and economic reforms, Indian businesses are under a great deal of competitive pressure. Similar to foreign nations, Indian businesses view mergers and acquisitions as critical strategic decisions that can spur growth. Indian businesses are attempting to outbid international businesses. In India, M&A transactions have grown dramatically during the past few decades. The first wave of M&A activity in India began at the close of the 1990s and peaked in 2006–07.

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1 "Bijoy Gupta & Dr. Parimalendu Banerjee, 'Impact of Merger and Acquisitions on Financial Performance: Evidence from Selected Companies in India' (International Journal of Commerce and Management Research, 2017) https://www.managejournal.com/up/conference/20170210153824.pdf (last visited on 02nd February 2024)"
2 Ibid
3 "Ashish Gupta & Dr. Gajraj, 'A Study of Financial Performance of Merger and Acquisition Corporate Sector in India' (International Journal of Advance Research and Innovative Ideas in Education, 2018) https://ijariie.com/FormDetails.aspx?MenuScriptId=212468 (last visited on 02nd February, 2024)"
4 Ibid

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In the last decade of the 20th century, the number and volume of M&A activity have grown significantly. Indian companies wish to expand beyond India's borders.

The M&A has become a popular method to enter the global market rapidly. The current business climate has led companies to M&A as a rapidly growing way of growth, with steadily rising competition. changing profit margins and rapidly changing technologies. M&A involves merging of businesses to create a unified corporation, including its properties and debts. As a result of fusion, existing businesses can either yield their judicial entity and set up a new corporation or integrate under one of the present businesses. Organizations also get a majority stake in another business. The first is that two companies (the number of participating companies can be greater than two) participate in the process: an acquirer (buyer or bidder) and a target business (seller or acquired). For years accountants and market readers have immense fascination in the reason behind firms preferring to grow through fusions, what kind of fusions they perform, the monetary execution variables of combinations and the association between combination type and execution. A study of the recent history of fusion has demonstrated a broad spectrum of causes, variations, and outcomes over a of time. The M&A's primary goal, regardless of the purpose is to help businesses produce a greater profit than their own. The integrated enterprise's worth would be the sum of the individual companies' values. M&A was not as effective as expected, and the key factor which had a negative effect upon financial achievement was the incorrect estimation of the worth of the business. Assessment is one of the most dynamic financial theory subjects. Negotiations and following the M&A, the identification of the exact and realistic value of companies in M&A will have a major impact on the success.

M&A refer to the process of combining companies. The distinction between mergers and acquisitions lies in the fact that mergers involve the amalgamation of two companies into a single entity, while acquisitions entail one company being acquired by another. M&A are crucial components of the corporate finance industry. The underlying concept of M&A is based on the notion that the combination of two distinct organizations results in a greater overall value than if they were to operate independently. Companies continuously assess various options for mergers or acquisitions with the primary goal of maximizing wealth. The creation of synergy value is achieved through the merging or merger of two companies. The analysis of synergy value can be conducted by examining the impact on revenues (increased revenues), expenses (reduction of expenses), or the cost of capital (decrease in overall cost of capital).

It is evident that both parties involved in an M&A deal will have divergent perspectives on the valuation of a target company. The selling aims to maximize the company's value, while the buyer seeks to minimize the price. Nevertheless, there exist numerous valid methods for assessing the worth of organizations. The predominant approach to value involves examining comparable companies within the same industry. However, deal makers employ a diverse range of alternative approaches and tools to evaluate a target company.[5]

Acquiring firms typically pay a significant premium above the market value of the companies they purchase. The primary rationale for doing so typically revolves around the concept of synergy; a merger is advantageous for shareholders when the company's share price after the merger rises by the amount of potential synergy.

Rational owners would be exceedingly unlikely to sell if they would gain more by not selling. Buyers would need to pay an additional amount if they want to acquire the company, independent of the pre-merger valuation. For sellers, the premium signifies the potential future success of their company. Buyers view the premium as a portion of the anticipated post-merger synergy that they believe can be realized.

Companies engage in mergers and acquisitions driven by strategic business reasons that primarily revolve around economic factors. These strategies encompass leveraging economies of scale, expanding distribution capabilities and entering new markets to increase market share, diversifying the range of products and services offered, and acquiring smaller companies to benefit from their professional leadership. Additionally, these strategies can help companies withstand challenges in the broader economic and environmental landscape.[6]
As the value of a business's products and services becomes more apparent, the business has the potential to expand and develop. Additionally, it might experience growth through an inorganic mechanism, characterized by a sudden expansion in the number of employees, consumers,

[5] "Natika Poddar-A Study on Mergers and Acquisition in India and Its Impact on Operating Efficiency of Indian Acquiring Company, 2019, https://www.scirp.org/journal/paperinformation?paperid=91980," (last visited 12th March 2024)
[6] "Mergers and Acquisitions, Ministry Of Corporate Affairs, https://www.mca.gov.in/content/mca/global/en/data-and-reports/reports/other-reports/report-company-law/mergers-and-acquisitions.html," (last visited 12th March 2024)

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infrastructural resources, resulting in an overall rise in the entity's sales and earnings. M&A are examples of a growth mechanism that is not based on internal development. Mergers refer to the consolidation of two entities into a single organization, whereas acquisitions include one organization purchasing another in order to integrate it with itself. It can take the form of an acquisition, in which one business purchases another, or a management buyout, in which the management team acquires the business from its owners.

M&A lead to profit maximization. Effective mergers and acquisitions can help the business attain synergistic effects. M&A have a favorable impact on a company's profitability by leveraging economies of scale, reorganizing financial resources, making post-adjustments, reducing costs, and facilitating knowledge spillover.

M&A have emerged as cost-effective solutions for hiring top-tier employees in situations where the labour market lacks sufficient resources. It is common for established and mature organizations to buy up new technical startups. There is evidence to suggest that these M&A can increase the innovative productivity of the acquiring company after the transactions are finished.

1. **Objective:**

   The goal of this article is to bring full picture of the impacts of the mergers and acquisitions and how all these directly or indirectly affects the various paradigms of the society through investors or consumers. The objective of this research is to investigate mergers and acquisitions legal statues in India and observe how it has evolved over the years through attempting the case studies.

2. **Research Questions:**

   i. How M&A evolved in India and its legal and regulatory framework?

   ii. What is the impact of M&A on the operating performance of companies in India, specifically in terms of revenue growth, cost-efficiency, and profitability and on the financial well-being of shareholders, specifically in terms of changes in stock prices, dividend policies, and total value generation?

   iii. What is the impact of strategic reasons, such as synergies, market growth, and competitive positioning, on the decision of Indian companies to engage in mergers and acquisitions?

iv. What are the enduring findings and suggestions of all these impacts to carry out the M&A?

II. THE HISTORY OF MERGERS AND ACQUISITIONS IN INDIA

Mergers and Acquisitions were introduced to the Indian corporate sector in 1988. During that era, only a small fraction of enterprises in India engaged in friendly acquisitions with negotiable terms. The key aspect that enabled only a few corporations to engage in the merger was the regulatory and prohibitory restrictions of the MRTP Act of 1969.[7] It was obvious in this Act that companies or firms must go through a rigorous and demanding process to obtain approval for Mergers and Acquisitions.

In 1988, Indian corporations witnessed a significant business purchase or firm merger. Swaraj Paul of Escorts Ltd successfully outmaneuvered DCM Ltd in a widely recognized hostile takeover offer that was deemed futile. Subsequently, many other Non-Resident Indians emerged to purchase different companies as part of their stock exchange portfolio.

Since the Second World War, Mergers and Acquisitions have played a crucial role in reshaping the industrial sector in India. During and after the Second World War, there was an increase in the number of Mergers and Acquisitions due to changes in economic, social, and political factors. During wartime, inflation allowed many Indian businessmen to accumulate wealth through increased profits, dividends, and illicit funds. During the war, many businesses entered the industry, leading to increased activity on stock exchanges.[8]

1. MEANING AND CONCEPT OF MERGERS AND ACQUISITIONS

The term Mergers and Acquisitions is commonly used interchangeably, although it encompasses various types of financial and economic operations aimed at obtaining ownership in other organizations.

Mergers and acquisitions (M&A) are the process of combining firms or their significant business assets through financial transactions. A firm has several options to expand its operations and control another company. It can choose to fully purchase and integrate the other company, merge with it to establish a new entity, acquire significant assets from it, make a

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[7] "Anastasia Belyh- Historical Analysis of M&A Waves, Last updated on September 23, 2019, https://cleverism.com/historical-analysis-ma-waves-mergers-acquisition/," (last visited on 15th March 2024)

[8] "Basant Rakesh.: "Corporate Response to Economic Reforms" Economic and Political Weekly, Mar4, 2000".

formal bid to buy its stock, or forcefully take over the company against its will. All these activities are mergers and acquisitions (M&A).[9]

Merger

A merger is a process where one company buys the assets and liabilities of another company, resulting in the amalgamation of the two or more companies. After a merger, the buying firm may assume the role of a separate corporation, but it does not lose its original identity. In a merger, one of the two companies involved in mergers and acquisitions loses its identity as it becomes part of another existing company. Another option is for an established company to initiate the creation of a new company and merge their individual identities into a newly formed entity. This would involve transferring not only their businesses and operations, but also all their assets and liabilities to the newly established company[10].

The shareholders of the company will not be affected and will maintain their shareholding in the combined company as well. The shareholders will receive a distribution of new shares in the merged company instead of the shares they obtained in the merging firm. The share exchange ratio, as determined under the merger's terms and regulations, has been previously accepted by all or at least the identified shareholders of both the merging company and the merged company. These approvals were obtained in separate meetings of the general bodies and were also sanctioned by the court.

Acquisitions

An acquisition refers to the combination of two or more companies into a single new company or organization, without necessarily involving a negotiation process. During a conventional acquisition, Company A purchases Company B. Company A acquires full ownership of Company B. There are two possible outcomes for Company B: it might be fully integrated and no longer exist as a separate business, or Company A could choose to keep Company B as it was before the acquisition. Limited absorption is sometimes employed when the acquiring business intends to later sell the acquired company for a profit.

[9] "Adam Hyes- Mergers and acquisitions: Types, Structures and Valuation, Updated on 20th Feb 2024, https://www.investopedia.com/terms/m/mergersandacquisitions.asp," (last visited on 14th March 2024)
[10] "Andrade, Gregor, Mark, Mitchell and Erick Stafford :"New Evidence and Perspectives on Mergers" Journal of Economic Perspective, 15[2], spring, 2001, pp103-120. https://www.aeaweb.org/articles?id=10.1257/jep.15.2.103" (last visited on 04th March, 2024)

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III. IMPACT OF MERGERS AND ACQUISITIONS ON CONSUMERS

Product offerings and quality changes

Until now, there is a facet of mergers and acquisitions (M&A) outcomes that has nearly never been investigated. What kind of feelings do customers have about businesses that have engaged in mergers and acquisitions strategies? Furthermore, what are the experiences that customers have had after the organisations from which they purchase goods and services have merged with another business.

Everyone in the public is on board. A significant number of customers are of the opinion that mergers and acquisitions can be beneficial to them. Their strategy is correct. Consumers are aware that businesses engage in mergers and acquisitions in order to broaden their presence into additional markets, develop new skills, and boost revenue.

There is a concern that they have regarding the personnel of both companies. There are a significant number of mergers that customers are exposed to, and the most of them are in the banking and cable industries. Consumers in those industries have the impression that a significant portion of the reason for the formation of the merger between the two companies is to reduce the amount of money spent on labour costs jointly. For customers, this is a negative component of mergers and acquisitions since it makes them feel uneasy to think that their jobs could be in jeopardy.[11] Employees are not the beneficiaries of mergers and acquisitions, according to the biggest number of respondents, who stated that the benefits of these transactions belong to the corporations and shareholders.

The provision of services is a concern for them. Once the transaction is complete, customers want to know whether the services they enjoy will still be accessible to them. During the course of the deal, consumers show anxiety about it, despite the fact that the majority of consumers believe that the products and services offered by companies that have undergone mergers and acquisitions have improved after the agreement has been completed.

IV. CASE STUDIES

[11] Et Special, "Product Management in M&As: Navigating Complexity and Maximising Value" (*The Economic Times*, September 22, 2023) https://economictimes.indiatimes.com/jobs/mid-career/product-management-in-mas-navigating-complexity-and-maximising-value/articleshow/103867305.cms?from=mdr, (last visited on 4th April 2024)

Sun Pharmaceutical Industries Limited's acquisition of Ranbaxy Laboratories Limited changed product offerings and quality in India. Sun Pharmaceutical Industries, a major Indian pharmaceutical business, acquired Ranbaxy Laboratories in April 2014.[12] The $3.2 billion transaction was one of India's largest pharmaceutical acquisitions at the time.

- Sun Pharma extended its product portfolio by acquiring Ranbaxy Laboratories, enabling it to reach more therapeutic categories and markets. Sun Pharma obtained access to Ranbaxy's brands and pipeline of generic and branded pharmaceutical goods across therapeutic areas.
- Enhancing Product Quality and Compliance: - Ranbaxy Laboratories suffered regulatory and quality control issues before the acquisition, including FDA warning letters and product recalls owing to manufacturing methods and quality concerns. To address quality difficulties, Sun Pharma implemented strict quality control methods, upgraded manufacturing facilities, and improved regulatory compliance. Sun Pharma could use its quality assurance and compliance skills to improve Ranbaxy's products and manufacturing processes after the acquisition.
- Product Line Rationalization: In the merging process, Sun Pharma reviewed Ranbaxy's product portfolio to eliminate redundancies and overlap. Product lines were rationalized to optimize resources, eliminate low-performing or non-strategic items, and invest in high-potential brands and therapeutic areas.
- Sun Pharma exploited the acquisition to enhance its R&D capabilities by merging Ranbaxy's infrastructure, experience, and intellectual property assets. The combined R&D resources helped Sun Pharma innovate, produce new drugs faster, and compete in domestic and international markets.[13]
- Improved Market Position and Competitive Advantage: - Sun Pharma's acquisition of Ranbaxy Laboratories strengthened its leadership in the Indian pharmaceutical industry and global markets.[14] Sun Pharma increased its market share in India and abroad by offering a wider range of high-quality pharmaceutical products and harnessing synergies between the two companies.

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[12] "Sun-Ranbaxy $4 Billion Merger Completed" (*The Economic Times*, March 24, 2015) https://economictimes.indiatimes.com/industry/healthcare/biotech/pharmaceuticals/sun-ranbaxy-4-billion-merger-completed/articleshow/46677498.cms?from=mdr, (last visited on 4th April 2024)

[13] "Sun-Ranbaxy $4 Billion Merger Completed" (*The Economic Times*, March 24, 2015) https://economictimes.indiatimes.com/industry/healthcare/biotech/pharmaceuticals/sun-ranbaxy-4-billion-merger-completed/articleshow/46677498.cms?from=mdr, (last visited on 4th April 2024)

[14] "SUN PHARMA – RANBAXY MERGER - Sun Pharmaceutical Industries Ltd." (*Sun Pharmaceutical Industries Ltd.* -, August 26, 2022) https://sunpharma.com/sun-pharma-ranbaxy-merger/, (last visited on 4th April 2024)

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- Sun Pharmaceutical Industries' acquisition of Ranbaxy Laboratories shows how mergers and acquisitions can impact product offers and quality in India's pharmaceutical business. Sun Pharma leveraged the acquisition to develop, innovate, and create value for stakeholders through strategic integration and quality efforts.

V. CONCLUSION

A firm can achieve expansion through the use of mergers and acquisitions as instruments. Mergers and acquisitions are seen as an essential component of business strategy by companies operating in India. The merger or purchase of another company is something that a firm might think about doing in order to get entry to the market through an established brand, eliminate competitors, obtain a market share, acquire competence, decrease tax liabilities, or offset the cumulative losses of one company against the profits of another company.

In India, the corporate landscape is heavily shaped by mergers and acquisitions (M&A), each of which has a substantial impact on the strategies that corporations deploy, the dynamics of the market, and the expansion of the economy. M&A activity is a crucial factor in shaping the corporate landscape. When considering whether or not to merge with another company or buy such a company, a number of strategic considerations are taken into account. These considerations include market positioning, the potential for synergy, and the financial repercussions. Despite the fact that they give opportunities for expansion and the generation of value, mergers and acquisitions (M&A) transactions present a variety of risks and challenges to the companies and stakeholders involved in the transaction.

The goal of this study is to evaluate the influence that mergers and acquisitions (M&A) activities have on the operating performance of companies, the wealth of shareholders, and the purchasing power of consumers in the setting of India. Specifically, the study will focus on India. This research makes a contribution to a more in-depth understanding of the environment in which mergers and acquisitions take place in India and the consequences that it has for corporate stakeholders. It does this by analysing the factors that drive mergers and acquisitions, evaluating the effects of those elements, and making recommendations.

It has been observed that the outcomes of mergers and acquisitions (M&A) have been inconsistent with relation to the financial success of the company. Some mergers have led to greater efficiency and profitability, while others have been confronted with challenges in terms of integration and the realisation of synergy. There have been some mergers that have resulted in enhanced efficiency and profitability.

For firms that are engaged in mergers and acquisitions (M&A) operations, it is of the utmost importance to carry out extensive due diligence, concentrate on post-merger integration strategies, and have clear performance metrics to evaluate the success of the merger.

The Wealth of Shareholders: Mergers and acquisitions deals usually have a substantial impact on the wealth of shareholders on a regular basis. In situations when it is expected that mergers will create value by means of synergies, market expansion, or cost savings, positive market reactions are observed through the establishment of market reactions.

When it comes to mergers and acquisitions, on the other hand, the destruction of shareholder value can be caused by either inappropriate execution or excessive valuation of the deal. For this reason, it is essential for companies to make the creation of value their top priority and to ensure that their strategies for mergers and acquisitions are aligned with the long-term interests of their Shareholders.

Repercussions for Customers: Transactions that involve mergers and acquisitions have the potential to have a range of repercussions for customers, including modifications to product offerings, pricing strategies, and the quality of service. However, there is a risk that there will be less competition, which might potentially limit the options available to customers and result in higher prices. There is a possibility that mergers will result in economies of scale and improved product and service offerings for customers, but there is also the possibility that there will be less competition.

Transactions that involve mergers and acquisitions ought to be subjected to stringent monitoring by regulatory agencies in order to guarantee that they do not result in anti-competitive activity or have a detrimental effect on consumers.

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