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# IMPACT OF MERGERS AND ACQUISITION ON INDIA AND ASIA

Authored By- Prarthana Markod

Trade and Commerce has been a part and parcel of lives of the people since ages. In the ancient times trade used to be in the nature of a “Sole Proprietorship” where in the whole control of profits, assets and expenses were in the hands of the sole owner! Then with time came the need of a business companion so as to expand the reach of business in terms of assets, knowledge and of course profits.

However, due to the limitations of a partnership firm, there came a concept of Company in the **17th century**, which was first witnessed in Europe as the not-for-profit entities to build institutions, such as hospitals and universities, for the public good.<sup>1</sup>

**8<sup>th</sup> century BC** in India, early organizations, called *Shreni*, were the first firms that could independently enter into contracts or own property, which also meant they could sue and be sued.<sup>2</sup>

Thus, we may safely say that there has been a change in the structure of commercial organizations and the related laws like Contract Act, Partnership Act, Company Law, MRTP Act and many more, with the change in the needs and the global trend of the economy.

Concepts like Limited Liability Partnership, Joint Ventures, BPO and KPO were not known to the people a few years back, and in this context the concept of Mergers and Acquisition is gaining popularity these days in the corporate sector.

Mergers and acquisitions (M&A) is a general term that describes the consolidation of companies or assets through various types of financial transactions, including mergers, acquisitions, consolidations, [tender offers](#), purchase of assets, and management acquisitions.<sup>3</sup>

The concept of merger and acquisition in India was not popular until the year 1988. During that period a very small percentage of businesses in the country used to come together, mostly into a friendly acquisition with a negotiated deal. The key factor contributing to fewer companies involved in the merger is the regulatory and prohibitory provisions of MRTP Act, 1969.

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<sup>1</sup>‘A Short History of Corporations’ (*Newint*, 5 July 2002) <<https://newint.org/features/2002/07/05/history>> assessed 20/10/2021.

<sup>2</sup> James Allen, James Root, and Andrew Schwedel ‘3,000 Years of Business History in Two Minutes’ (*Bain*, 22 June 2017) < <https://www.bain.com/insights/3000-years-of-business-history-in-two-minutes-video/>> assessed 20/10/2021.

<sup>3</sup> Adam Hayes ‘Guide to Mergers and Acquisition’ (*Investopedia* 19 August 2021) <<https://www.investopedia.com/terms/m/mergersandacquisitions.asp>> assessed 20/10/2021.

The year 1988 witnessed one of the oldest business acquisitions or company mergers in India. It is the well-known ineffective unfriendly takeover bid by Swaraj Paul to overpower DCM Ltd. and Escorts Ltd.<sup>4</sup>

According to a report from Bain, the [3600 M&A](#) deals that took place between 2015 and 2019 amounted to more than [\\$310 Billion](#). According to the report over [60% of the deals](#) by volume and trade were attributed to industrial goods, energy, telecom, and the media sector.<sup>5</sup>

Today India has witnessed major M&A which includes the recent merger of Zee Entertainment and Sony India Merger, Vodafone Idea Merger, Walmart Acquisition of Flipkart and many more.

Now the question is why has Mergers and Acquisition in India seen an upward graph in the recent times though it has to go through several Rules and Laws like SEBI-SAS&T Regulations, 1997 (Securities and Exchange Board of India), Competition Act, 2002 (Competition Commission of India), Income Tax Act, 1961 (Department of Revenue), Transfer of Property Act, 1882, Indian Stamp Act, etc. during the process of incorporation.

Thus, the reason can be seen in both at a macro level and at a micro level.

**Micro Level/ Merging or Amalgamated Company:** There are countless reasons for the companies to merge, and out of them the main or the popular reason for such a decision is growth and development of the business of the company! A business merger may give the acquiring company an impetus to grow its market share and the customer base. In addition, diversification in the business puts companies at an advantage to explore and exploit various opportunities and resources in the commercial market.

Adding to this as M&A creates a pool of Assets, Intellects and Resources, the future processes become cost effective and economical in nature which in turn benefits the customers with a wide range of products and services at a minimal cost.

**Macro Level/ Economy of the Country:** Ultimately all the decisions and the activities taken up by a commercial entity poses impact on the economy of the country! The impact is not necessary to be beneficial for the all the economies as each and every country is structured on the basis of the demographic features, raw materials, relation with other foreign country, role of the Government in the economy etc. However, it is noteworthy to highlight the positive impact of the M&A of two organizations in the economy!

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<sup>4</sup> Ajay Gehi 'Mergers and Acquisition' (*Mergers and Acquisition*) <<https://www.mergersandacquisitions.in/history-of-merger-and-acquisition-in-india.htm>> Assessed 20/10/2021.

<sup>5</sup> PTI Merger and acquisitions jump over 17 per cent to USD 25.3 billion in Q1: Report *Economic Times* (India, 22 April 2021)<<https://economictimes.indiatimes.com/news/economy/indicators/merger-and-acquisitions-jump-over-17-per-cent-to-usd-25-3-billion-in-q1-report/articleshow/82198541.cms?from=mdr>> Assessed 20/10/2021.

In the times of Globalization and “Cut throat competition,” a merger can help the company to pierce through the international businesses with the help of advanced technologies, increased customer base and rich resources, and the best example to support this point is of Merger between Disney and Pixar in 2007. Disney has been the biggest name in family entertainment for decades, creating classics such as *Cinderella*, *Mary Poppins*, and *The Lion King*. Pixar was a newer entry on the market, but made a huge impact with its beloved films *Toy Story* and *Finding Nemo*.

The merger allowed Disney to consolidate its brand as the biggest provider of family-friendly films and it allowed Pixar to greatly increase its production process and release two new films per year. The post-merger Pixar films, including *Up* and *WALL-E*, have been hugely successful.<sup>6</sup>

Another big advantage of M&A to the country is to uplift the Loss-making companies by merging it with large companies so that the economy is freed of NPAs, Bad loans, improper utilization of public money and the burden on the government to recapitalize the organizations again and again.

The classic example of amalgamation of the 10 public sector banks into four big banks is worthy to be spoken of! Through this our Finance Minister Nirmala Sitharaman aspires to create big next generation banks with enhanced capacity to increase credit and bigger risk appetite, with national presence and global reach.

**Cross border Merger;** is a bye-product of Mergers and Amalgamation which has seen an upward trend in the era of Globalization and Liberalization in the major economy.

Cross-border acquisition is when one company acquires a company that is based on a different country or a foreign country to form a new legal entity. The two countries involved are called Host Country (target company) and Home Country (acquiring company). Cross Border mergers leads to expansion in terms of capital, resources resulting into entry in international markets.

The most important effect of Cross border mergers is the inflow of Foreign Direct Investment (FDI) in the Home country. IMF defines FDI as “The acquisition of at least ten percent of the ordinary shares or voting power in a public or private enterprise by non-resident investors. Direct investment involves a lasting interest in the management of an enterprise and includes

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<sup>6</sup> ‘5 Successful business merger examples and-the factors that contributed to their success’ (*Northstar Investment Bank*) <<https://www.northstarib.com/resources/5-successful-business-merger-examples-and-the-factors-that-contributed-to-their-success>> Assessed 21/10/2021.

reinvestment of profits.”

Cross-border mergers and acquisitions can be beneficial to a host country as the potentially profitable assets can be used in investing in a profitable multi-national venture rather than using it in never ending domestic economic crisis.

The trend of FDI was initiated during the 19th century when a new international trade wave had begun which succeeded in establishing giant businesses and profitable economy.

The international business regime had stressed on the need for having a communal and cooperative business practices across globe for mutual and overall growth of the nations. Such thought adopted by many developed countries and cooperative associations like WTO, IMF etc, strived for more capital inflows to many developing countries like India and China.<sup>7</sup>

Though most of the M&A purchases have originated from developed countries, but the growth of M&A purchases from developing countries has increased noticeably over the past decade. Annual OFDI flows from developing countries have grown faster than those from developed countries over the past 15 years and they have contributed well to the world economy during the recent economic difficulties in developed markets.

Among developing regions, Asia has been at the forefront of OFDI (**An outward direct investment (ODI) is a business strategy in which a domestic firm expands its operations to a foreign country**).<sup>8</sup> The OFDI stock from developing Asia reached more than \$2 trillion or 10.5% of the world total in 2009.<sup>9</sup>

The recent amendments to the FDI policy of India have shown a positive sign for the country and also for many sick units which can utilize the opportunity to renovate and reinvent themselves. Out of all rapidly growing south-east Asian nations, India is one of the benchmark destinations for many foreign investors. As per the report of the Indian Finance ministry published in Financial Times, London, India had attracted \$31 billion of FDI in 2015 followed by China with \$28 billion and then by US with \$27 billion.<sup>10</sup>

Adding to this, India's share in BRICS in global FDI flows total to \$322 billion in Financial Year 2014-2015, which is 22% of the overall world's flows also have proven the growth of

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<sup>7</sup> Ms. Ramya Sree. M Relevance of Indian Mergers & Acquisitions to FDI (2016) VOLUME 1, ISSUE 8, AIJRRLSJM <<http://publications.anveshanaindia.com/wp-content/uploads/2016/09/RELEVANCE-OF-INDIAN-MERGERS-ACQUISITONS-TO-FDI.pdf>> Assessed 20/10/2021.

<sup>8</sup> **Will Kenton** ‘Outward Direct Investment (ODI)’ (*Investopedia* 31 January 2021) <[https://www.investopedia.com/terms/o/outward\\_direct\\_investment.asp](https://www.investopedia.com/terms/o/outward_direct_investment.asp)> assessed 20/10/2021.

<sup>9</sup> Douglas H. Brooks and Juthathip Jongwanich Cross-Border Mergers and Acquisitions and Financial Development: Evidence from Emerging Asia (2011) Asian Development Bank Series no. 249 <<https://www.adb.org/sites/default/files/publication/28703/economics-wp249.pdf>> Assessed 20/10/2021.

<sup>10</sup> Ms. Ramya Sree. M Relevance of Indian Mergers & Acquisitions to FDI (2016) VOLUME 1, ISSUE 8, AIJRRLSJM <<http://publications.anveshanaindia.com/wp-content/uploads/2016/09/RELEVANCE-OF-INDIAN-MERGERS-ACQUISITONS-TO-FDI.pdf>> Assessed 20/10/2021.

FDIs in promoting economic growth and development.<sup>11</sup>

Notable acquisitions by Indian companies in the last decade are Tata Steel - Corus, Hindalco – Novelis, Lupin – Gavin and Tata Motors - Jaguar Land Rover.

**Adding to this, Mergers during Covid-19 in Asia is worthy to note!** Despite of a complete lockdown in the whole world, Asia was successful in locking profitable deals due to factors such as recovery in trade, manufacturing activities and a strong GDP growth forecast.<sup>12</sup>

According to UNCTAD's [World Investment Report 2021](#), published on 21 June, Foreign Direct Investment (FDI) flows to developing countries in Asia increased by 4% to \$535 billion in 2020.<sup>13</sup>

According to the UNCTAD, India comes among the top 5 Host countries in terms of Mergers and Acquisition, along with China, Singapore, UAE and Hong Kong.

Supporting the above data; 2 major acquisitions took place in India during Covid-19 which were of Big Basket and Tata Group for USD 1.3 billion and acquisition of Numaligarh Refinery by Engineers India and Oil India for USD 1.28 billion.<sup>14</sup>

To conclude, I do not intend to overshadow the failures and fatalities caused by risky mergers like failure of Tata Steel-Corus, HDFC & Max Life, Reliance Communication & Aircel and of Snapdeal & Flipkart, however if we look at the effect of Mergers and Acquisition as a whole, such mergers and acquisition has helped the economy to compete with the developed countries and have its entity in the international market.

Therefore, strict Due diligence must be followed during the process of Mergers and Acquisition also there must be equal contribution by the government of the Country so that the economy is at par with the best economies of the world!

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<sup>11</sup> Ms. Ramya Sree. M Relevance of Indian Mergers & Acquisitions to FDI (2016) VOLUME 1, ISSUE 8, AIJRRLSJM <<http://publications.anveshanaindia.com/wp-content/uploads/2016/09/RELEVANCE-OF-INDIAN-MERGERS-ACQUISITONS-TO-FDI.pdf>> Assessed 20/10/2021.

<sup>12</sup> 'Investment flows to developing Asia defy COVID-19, grow by 4%' (UNCTAD, 21 June 2021) <<https://unctad.org/news/investment-flows-developing-asia-defy-covid-19-grow-4>> Assessed 21/10/2021.

<sup>13</sup> 'Investment flows to developing Asia defy COVID-19, grow by 4%' (UNCTAD, 21 June 2021) <<https://unctad.org/news/investment-flows-developing-asia-defy-covid-19-grow-4>> Assessed 21/10/2021.

<sup>14</sup>PTI Merger and acquisitions jump over 17 per cent to USD 25.3 billion in Q1: Report *Economic Times* (India, 22 April 2021)< <https://economictimes.indiatimes.com/news/economy/indicators/merger-and-acquisitions-jump-over-17-per-cent-to-usd-25-3-billion-in-q1-report/articleshow/82198541.cms>> Assessed 21/10/2021.