# *Chapter – 1*
# ***INTRODUCTION***

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# CHAPTER 1
# INTRODUCTION

## 1.1 INTRODUCTION

The 21st century is an era of globalization, dynamic market and fast growing economies. The competitive edge over the competitor is need of an hour. The main aim of any company is maximization of shareholder's wealth, and for that the corporate across the globe are chasing new competencies and capabilities. The corporate can flourish in several ways. It can select to grow internally and externally, also known as Organic Growth and Inorganic Growth respectively. To achieve internal growth, a firm expands its existing activities by up scaling capacities or establishing new firm with fresh investments in existing product markets. It can also go for product diversification and entering in to unexplored markets[1]. But "Any business which regards itself as a closed community will never develop its full potential"[2]. So another way of achieving faster growth is to select the option of external growth through corporate restructuring, by various means like Mergers, Acquisitions, Joint Ventures *etc*. There are certain advantages of external growth like; the firm can use existing capacities, products and market of another firm, which can save both time and resources.

Corporate Restructuring is planned mainly to achieve financial growth, technological improvement, geographical expansion and sometime for key personnel of the target company. Corporate restructuring is needed to counter challenges in competitive business environment. Most of the organizations carry out corporate restructuring as per the need of the business. They do it through mergers, acquisitions, takeovers, joint ventures and some by demergers as well; while some others make structural changes and carry out resource optimization in the organization[3]. However, it has been observed in various studies that the mergers and acquisitions (M&As) are not always successful. Inspite of this fact the published data by financial analysts show that M&As occur day in and day out across the globe, and the pace of growth in number is increasing year by year. There are many studies in the area of measuring effect of

M&A on financial performance of the company in long run, but there are very few studies measuring its effect in short run. When it comes to studying the effect of M&A in long run as well as short run, together, the number of studies is even less. So an attempt has been made in this study to analyse the effect of acquisition on long as well as short term financial performance of the companies. Global and Indian scenario of M&A is presented in next paragraph to understand the importance of M&A for corporate across the globe, both as per volume and value.

## 1.2 GLOBAL SCENARIO OF MERGER AND ACQUISITION

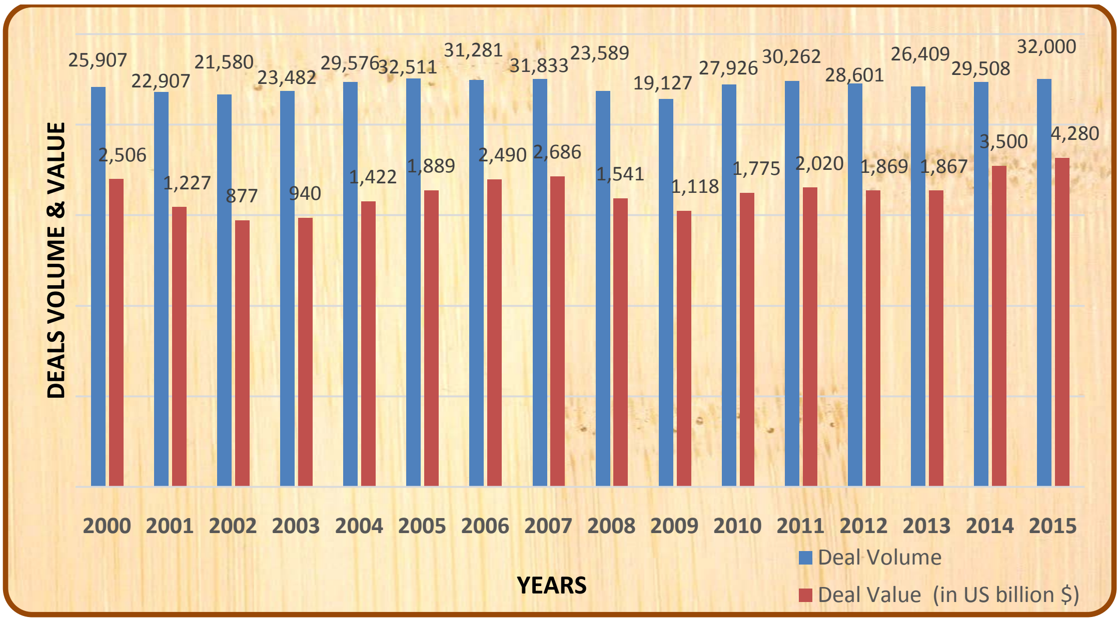
How organizations are making strategic decisions today will define their competitive position in the market tomorrow. M&A are integral part of growth strategy of any organization. Corporate are involved in M&A since 1900s, so M&A have a very long history. But the volume has increased considerably during last three decades, as many firms across the globe have adopted M&A to expand their organizational capabilities in terms of product, market and human resource[4]. Starting with mid 90s, an era of mega mergers, companies entered in to mega deals. The deals like Chrysler and Daimler Benz, Vodafone and Mannesmann have taken place considering the assumption that size matters. Nine out of ten larger deals in history took place during the period of 1998-2000, decade ended with the bursting of the millennium bubble and the great scandals like Enron. The global activity started to rebuild, with the announcement of the $165 billion[5] merger of Time Warner and America OnLine (AOL). In U.S. and Europe the volume of M&A deals reached to $1100[6] billion since 2000. In 2003 M&A activity began to pick up the pace with acquisition of Pharmacia Corporation by Pfizer worth $55billion[7]. In 2004 M&A volume was $ 1,422 billion[6] across the globe and volume in India reached a record to $18.4billion[8] due to cheap accessible debt the mega deals reoccurred like Boston Scientific Corporation acquired Advanced Bionic for $470 million in 2004 and Guidant for $27.2 billion in 2006[9]. Mittal Steel Co. and Arcelor SA merger occurred for $22.7 billion in 2006[8]. M&A deals reached a record $2,686 billion worldwide in 2007[6], the bankruptcy of Lehman Brothers in September 2008 strongly affected M&A markets and a significant decline in activity occurred. M&A deal volume was around 19,000 transactions in 2009[10] and 28,000 transactions in 2010. The rise in deal volume since 2009 continued till 2011, total around 30,000 M&A deals were reported in this period. In 2012 deal volume fall by 9% compared to previous year. The value of worldwide M&A totaled US$2.4 trillion during full year 2013[11], a 6% decrease from comparable 2012 levels and the slowest annual period for global deal making since 2009. Just over 26,409 worldwide deals were announced during full year 2013[11]. Global M&A activity hit $3.5 trillion in 2014[11], which is up 47% from the year before. In 2015 M&A activity across the globe has reached to the highest level up till now with Deals worth 4.28 trillion with healthcare and technology as leading sectors[10].

**Table 1.1** Global M&A Deals from 2000 to 2015

| Year | Deal Volume | Deal Value (in US billion $) |
|---|---|---|
| 2000 | 25,907 | 2,506 |
| 2001 | 22,907 | 1,227 |
| 2002 | 21,580 | 877 |
| 2003 | 23,482 | 940 |
| 2004 | 29,576 | 1,422 |
| 2005 | 32,511 | 1,889 |
| 2006 | 31,281 | 2,490 |
| 2007 | 31,833 | 2,686 |
| 2008 | 23,589 | 1,541 |
| 2009 | 19,127 | 1,118 |
| 2010 | 27,926 | 1,775 |
| 2011 | 30,262 | 2,020 |
| 2012 | 28,601 | 2,256 |
| 2013 | 26,409 | 2,467 |
| 2014 | 29,508 | 3,500 |
| 2015 | 32,000* | 4,280* |

*Source: Compiled from Mergerstat[6], Grantthornton[4,11],kpmg[10] (*Approx value)*

***Graph:1.1*** Global M&A Deals – 2000 to 2015




## 1.3 HISTORY AND GROWTH OF MERGER AND ACQUISITION IN INDIA

The survival of mankind on this earth for so long proves that Darvin's principle of survival of fittest is no more valid, the principle should be survival of strategist. Strategic alliances are deeply rooted in Indian history. From the golden era of Ramayan and Mahabharat, the kings have adopted many strategies to expand their kingdom. Chandragupt Maurya's kingdom was ranged from Bengal and Assam in east to Kashmir and Nepal in north and also in some parts of southern India[12]. Rajputs have adopted the strategy of matrimonial alliances to conquest and sometimes to save their kingdoms, marriage of king Akbar with Jodhabai is famous example of the same. M&A in corporate world can be termed as derivatives of such historical strategical alliances. In the year 1921, Bank of Calcutta, Bank of Bombay and Bank of Madras were amalgamated to form the Imperial Bank of India[12]. World War II (1939-1945) has also played a major role in Indian economy, because it has changed many political situations in India. During World War II many Indian business houses encashed high profits due to inflationary conditions. There was a sudden craze of expanding the businesses and acquiring control over industrial units. When British Agencies realized that India will get independence soon they started liquidating their holdings to Indian businesses, so the post World War II period was an era of M&As.

Large number of M&As occurred in industries like banking, jute, electricity, textile, sugar, tea plantations *etc*. In 1950 two British companies Duncan Brothers and Octavius Steel were acquired by Goenka group, in 1956 around 200 Insurance companies and provident societies were amalgamated to form Life Insurance Corporation of India earlier known as Oriental Life Insurance Company.

The pace of M&A was very slow before 1990s *i.e.* pre liberalization era. Numbers of M&As were less due to provisions of Industrial Development and Regulation Act 1951, MRTP Act 1969, FERA 1973 as well as Industrial Licensing Policy. Most of the companies were tightly held by Government owned financial institutions and individual promoters. Though Government has done few positive regulatory changes like nationalization of Insurance business and the announcement of new provisions granting tax reliefs in Finance Bill of 1967 and encouragement of merger of sick units with profitable businesses, there were mostly conglomerate mergers during this time[13]. The real momentum of M&As in India came from the economic reforms of Liberalisation, Privatisation and Globaliastion introduced by the Government in 1991. The economic reforms through the relaxation of controls and regulations on production, trade and investment, were aimed at increasing competition, improving efficiency and growth. But this was tough time for Indian corporate and the rule of survival of fittest prevail. High quality and ample product range and services offered by foreign competitors, forced Indian companies to plan rigorous strategies for their survival. In addition to that, Indian companies have to heavily depend on inorganic way of growth through M&As.

Year 2000-01 showed consolidation in the cement industry and the subsequent emergence of developments suggesting reduced competition. The cement industry consolidation gathered pace with Lafarge's acquisition of Raymond's cement plant and acquisition of DLF Cement and its subsidiary, Ambuja Cement India by Gujarat Ambuja. Other important deals include the buyout of Tetley of UK by Tata Tea and the merger between Propack AG and Essel Packaging. Another notable trend in Indian outbound M&A is acquisition of global companies that are much larger in size. Tata Coffee’s acquisition of the US-based Eight O’Clock, which is around 2.5 times the size of the former, is another such example. In 2002 and 2003 Indian companies focused more on cross border acquisitions. ONGC Videsh, a subsidiary of ONGC

Ltd. acquired 50% stake in an offshore oil block in Angola and Tata Steel acquired Natsteel in Singapore for US$486million[9]. In 2004 Telecom clearly dominated the M&A landscape in terms of value. But Idea's acquisition of Escotel in June 2004, telecom deal-making went into switch-off mode. A couple of high-profile deals Hutch-Aircel and Idea's stake sale to Singapore Telemedia were called off on account of regulatory hurdles. All this changed in 2005, when Hutchison Essar decided to buy out BPL Mobile and opened the floodgates to cellular consolidation. Pharma, software and IT-enabled services were some of the other sectors where there was an increase in the number of deals and deal value [6].

The India continued to attract investors from overseas as well as from within India in 2006. Corporate finance activity in India witnessed 480 deals. Information technology, telecom and finance deals have dominated all M&A activity with a share of 48% of total deal value. 2007 turned a remarkable year for Indian M&A, both at home and abroad. Indian companies have spent more money on overseas then foreign companies did in their domestic markets. The presence of Indian companies felt globally. Domestically also year 2007 was the record year for M&A deal activity. The total number of M&A deals was 676, with major deals like, India’s steel giant Tata steel acquiring Corus- Anglo Dutch company, India’s leading copper and aluminum manufacturer Hindalco acquired Atlanta based Novelis and Vodafone acquiring 67% stake in Hutchison Essar.

Global slowdown hit the year 2008 badly. The value of International investment dropped by over one third in India and Global M&A activity dropped by 31%[15]. Japanese telecom company NTTDoCoMo entered the country by acquisition of Tata Teleservices in this year and Daiichi Sonkyo increased it’s share in Ranbaxy Laboratories Ltd. Finally after collapse of Lahman Brother, majority of countries were affected by global recession. The effect was clearly visible in India too with number of total deals only at 330 in the year 2009. Oil and Gas, Telecom, Pharma, Healthcare and Biotech sectors were the leaders in 2009. The major deals include, Reliance Industries Ltd (RIL)’s offer of one share for every 16 held in Reliance Petroleum (RPL) to merge its refinery subsidiary. The market started reviving from depression towards the end of 2009, M&A again increased the pace in year 2010. Major mergers and acquisitions occurred in telecom, metal & mining and energy sector during this year. In the largest ever telecom takeover by an Indian firm, Bharti Airtel acquired Kuwait-based Zain Telecom's African business. Despite of effect of global crisis, rising in inflation and interest rates, weakening rupee and a volatile stock market, 2011 showed good number of M&A deals. The reversal trend occurred in cross border deals in this year with focus shifting from outbound to inbound deals as compared to 2010. Oil and Gas sector and Telecom sector dominated M&A deals this year.

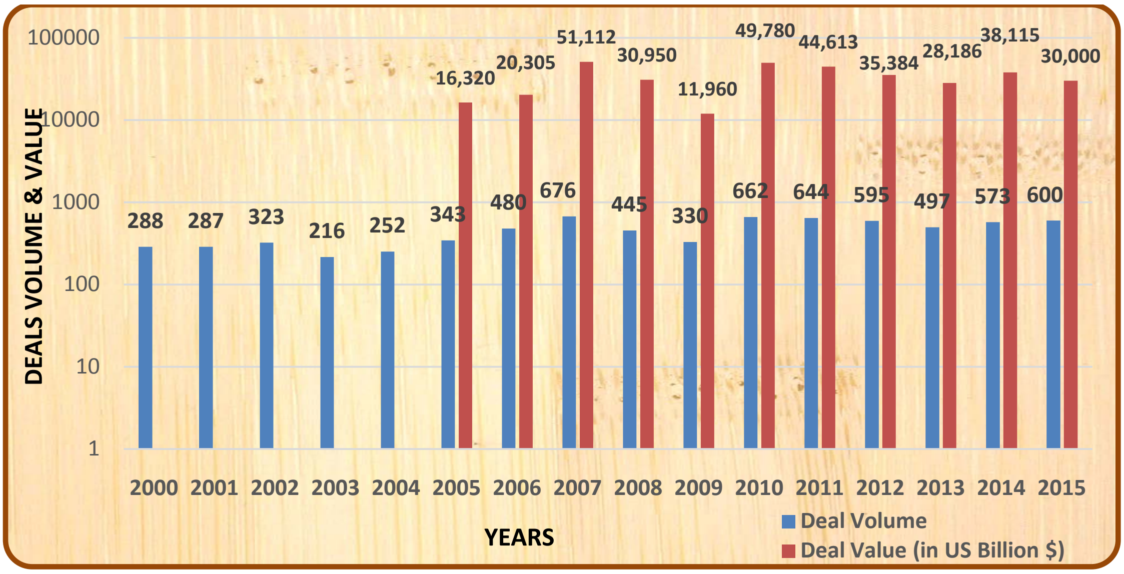
The ongoing concerns about economy have reduced number of M&A deals to 595 as compared to 644 deals in 2011. This year has witnessed deals like ONGC's stake acquisition in the Kashagan Oil field, Gulf Oil's acquisition of Houghton International and Rain commodities acquisition of Ruetgers N.V. Overall M&A values dipped by 20% year to year coupled with a 16% decline in number of deals[16] but during the year 2013, M&A values started increasing up to 15% showing sustained faith of Indian companies in deal making regardless of political situations, economic conditions and external pressures. Unilever announced significant investment in their Indian subsidiary, ONGC, through its overseas arm ONGC videsh, acquired a stake in an oilfield in Azerbaijan. After a slow start to the year 2014, Indian companies struck good deals because of expectation of economic revival after union election. Domestic mergers were leading in this year with Sun Pharma acquiring Ranbaxy, Kotak Mahindra bank merging with ING Vaisya, Flipkart joined hands with Myntra *etc.* In the year 2015, the value of deals has dipped more than 40 per cent from the previous year 2014[11]. Technology firms attracted an unprecedented level of activity in 2015 with 80 deals compared to just 45 in 2014. Other sectors that were highly active include transport and energy, mining and utilities[10]. This was an overall scenario of M&A in India with history of M&A and special focus on last fifteen years. Table 1.2 summarises Indian M&A deals in last 15 year *i.e.* from 2000 to 2015:

***Table 1.2*** Indian M&A Deals from 2000 TO 2015

| Year | Deal Volume | Deal Value (in US billion $) |
|---|---|---|
| 2000 | 288 | NA |
| 2001 | 287 | NA |
| 2002 | 323 | NA |
| 2003 | 216 | NA |
| 2004 | 252 | NA |
| 2005 | 343 | 16,320 |
| 2006 | 480 | 20,305 |
| 2007 | 676 | 51,112 |
| 2008 | 445 | 30,950 |
| 2009 | 330 | 11,960 |
| 2010 | 662 | 49,780 |
| 2011 | 644 | 44,613 |
| 2012 | 595 | 35,384 |
| 2013 | 497 | 28,186 |
| 2014 | 573 | 38,115 |
| 2015 | 600* | 30,000* |

*Source: Compiled from Grant thornton deal trackers[4,11,15,16,17], KPMG[10] and Rabi N.Kar [18]*
*(*Approx value, NA- Not Available)*

***Graph 1.2*** Indian M&A Deals 2000-2015



Next section explains sectoral trends of M&A in India.

## 1.4 SECTORAL TREND OF MERGER AND ACQUISITION IN INDIA

The Indian economy is incredibly diverse, made up of traditional industries such as village farming, fishery, and handicrafts, as well as modern sectors such as telecommunications, transportation, and tourism. In order to give bird's eye view of M&A across major industries in India, this section gives trend of M&A across ten major industrial sectors.

**OIL AND GAS SECTOR:** The Oil and Gas sector is among the core industries in India and plays a major role in decision making of all other sectors of economy. India's Oil and Gas sector contribute over 15% to GDP[19]. In international arena, the oil industry continues to face volatile price swings. In the year 2002, ONGC acquired Sakhalin Oil for $1700 million and Royal Dutch Shell for $660 million[18]. The Kochi refinery Ltd merged with BPCL in 2005 which provided greater stability to BPCL's earnings. In 2007, Reliance Industry took over India's second larger petrochemical company IPCL. The oil sector along with power sector dominated M&A in 2008 with ONGC acquiring San Cristoba oilfield in Venezuela, Reliance Power's acquisition of coal mines in Indonesia and Tata Power Company Limited's acquisition of Geodynamics, a geothermal energy company in Australia[17]. One megadeal happened in the year 2009, Reliance Petroleum Ltd. got merged with Reliance Industries Ltd. for swap ratio of 1:16 shares. Year 2012 saw maximum cross border activity in Oil and Gas sector with ONGC acquiring Kashagan Field and Gulf Oil Corporation acquiring Houghton International. In the year 2015, Essel Group Middle East acquired 60 percent stake in African Oil and Gas exploration project of Simba Energy Inc, a Canadian company[20].

**IT AND IT RELATED SERVICES SECTOR:** India is the world's largest sourcing destination for Information Technology industry, accounting for approximately 67 percent of US market[21]. The importance of size, pricing pressure and global companies consolidating and building offshore capabilities has made M&A more useful for Indian IT companies. HCL Technologies did ten deals to acquire companies in 2001 and 2005 onwards. Wipro acquired eight companies. IT & ITeS led the M&A volume proportion with 23.5% share of total number of M&A deals in 2007[11]. Again IT and ITes topped with 124 deal in 2011[16] with Serco acquiring Internet Global Services Ltd., Genpact Ltd. acquiring Headstrong Corporation from US. In 2015, Infosys Ltd bought minority stake in Whoop, a US based start up. With Government of India's 'Digital India Initiative' number of cross border M&A deals is expected to boost up[22].

**FOOD AND BEVERAGE SECTOR:** In India, the food sector has emerged as a high growth and high profit sector due to its immense potential for value addition, particularly within the food processing industry. In early 1990s when India opened its alcoholic beverage industry, a number of global players entered through M&As. The Williamson Magor Group has built an enviable track record for negotiated merger, acquisition and takeovers. In 2000, Tata Tea acquired UK based Tetly as a part of it's globalization drive.  Food and Beverage industry was major contributor in 2007 in terms of M&A deal volume[8]. In the year 2012, major players in this sector have undergone M&A, like Marico acquiring personal care brands of Paras Pharma, Wipro Ltd. acquiring L.D.Waxson Group and Godrej consumer products Ltd acquiring 60% stake in Chilean firm Cosmetica Nacional.

**PHARMACEUTICAL AND HEALTHCARE SECTOR:** The Indian pharmaceuticals market is the third largest in terms of volume and thirteenth largest in terms of value[23], India is the largest provider of generic drugs globally with the Indian generics accounting for 20 per cent of global exports in terms of volume[24]. After the year 2000-2001, consolidation has become an important characteristic of the Indian pharmaceutical market as the industry is highly fragmented. Many M&A deals took place during 2000 to 2005, like Dr Reddy's Lab, Ranbaxy, Matrix Lab and Torrent Pharma have made large acquisitions by taking over generic drug manufacturers in the foreign markets. In 2011 new rule for inbound M&A has come for this sector. Pharma was the second highest contributor in M&A deals in 2012[17]. India enjoys an important position in the global pharmaceuticals sector. The country also has a large pool of scientists and engineers who have the potential to steer the industry ahead to an even higher level. Pharma contributed maximum share in M&A in the year 2015 and first quarter of 2016[24]. Lupin acquired US-based GAVIS Pharmaceuticals in a deal worth US$ 880 million in July 2015 to enhance its product pipeline in dermatology, controlled substances and high-value specialty products. Novel Laboratories Inc. Cipla Ltd acquired two US-based generic drug makers, InvaGen Pharmaceuticals Inc. and Exelan Pharmaceuticals Inc. for US$ 550 million[24]. This deal was announced in September 2015 and completed in February 2016. Emcure Pharmaceuticals acquired Canada's International Pharmaceutical Generics Ltd and its marketing arm Marcan Pharmaceuticals in January 2016 in order to boost its global expansion drive[11].

**STEEL SECTOR:** Growth for India’s steel industry has been hampered by regulatory and environmental hurdles, land acquisition delays and social opposition. But players are finding ways to expand capacities as demand for steel races in one of the fastest growing economies of the world. In 2005, Tata Steel acquired Singapore base steel company Natsteel. Ispat invested $300 million for acquiring the steel plant of Bulgaria's largest steel mill Kremikovtzi[25]. Steel sector was a leader in sectoral values in 2007 with $14.9 billion[15]. Tata steel acquired Corus, the UK steel maker, Essar Steel India Ltd. acquired Algoma steel Inc. and JSW steel took over Jindal United steel Corporation. In 2011, JSW Steel acquired Ispat Industries and Bellary Steel. In April 2012, Mesco Steel acquired Odisha-based Maithan Ispat for Rs 1,160 crore. In 2016, the country has become the world's third largest steel consumer after China and the US and is the world's third largest steel producer after China and Japan [25].

**TELECOMMUNICATION SECTOR:** India is currently the second- largest telecommunication market and has the third highest number of internet users in the world[26]. Industry witnessed the first round of merger wave through the Birla-Tata-AT & T consortium. The Government sold it’s stake in VSNL to Tata in 2002, which was very beneficial to Tata in many terms like becoming dominant player in the international long distance calls, internet service *etc.* This fast growing sector saw a fair amount of M&As in 2006, with Aditya Birlas Group bought out the Tata Group in Idea Cellular and Telekom Malaysia acquired 49 percent stake in Spice Telecom[23]. One of the deals of this sector was Vodafone acquiring 67 percent stake in Hutchison Essar, India’s fourth largest player in this sector in 2006-07. The sector claimed 33 percent share of total deal value in 2008 and the largest deal was NTTDoCoMo’s acquisition of a 26% stake in Tata Teleservices. Other major deal was Idea Cellular's acquisition of Spice Telecom[27]. In 2009 Etisalat DB Telecom acquired 45 percent stake in Swan telecom[28]. In the largest ever telecom takeover by an Indian firm, Bharti Airtel acquired Kuwait based Zain Telecom's African business for $10.7 billion (about Rs 48,000 crore) in 2010. The sector along with Oil and gas dominated M&A deal in the year 2011[16]. A sector wise analysis in 2015 showed that M&A activity was driven by telecom, which contributed to 38 per cent of deal values. One of the important deals in 2015 include American Tower Corporation's 51 per cent majority stake in Viom Network for USD 1.2 billion[28].

**BANKING SECTOR:** As per the RBI, Indian banking sector is sufficiently capitalized and well regulated. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have with stood the global downturn well[29]. In India, over the past 45 years, about 40 banks and non-banking financial companies have been merged[8]. M&A is continuous phenomena in banking sector, within a span of 14 years *i.e.*1996 to 2010 ICICI undertook 9 M&A deals. Other major mergers in this sector include, merger of SCICI in 1996, ITC Classic finance in 1997, Anagram Finance in 1998, Bank of Madura Ltd in 2001, ICICI Personal Financial Service Ltd in 2002, ICICI Capital Services Ltd in 2002, Standard Chartered Grindlays Bank in 2002, Sangli Bank Ltd in 2007 as well as The Bank of Rajasthan Ltd in 2010[30]. In the year 2007, this sector attracted overseas as well as domestic investment taking 15% of the total deal flow by value and 19% by number[8]. This sector contributed to 9% of total deals in 2011 with the deals like Nippon Life Insurance Company Ltd. acquiring Reliance Life Insurance Company Ltd. and 12% in 2012[17]. Major M&A deals in 2014 were domestic deals, like Kotak Mahindra bank acquiring ING Vysya bank. The total deals were 43. In 2016, Kotak Mahindra Bank Limited has bought 19.9 percent stake in Airtel M Commerce Services Limited to set up a payments bank[29].

**AUTOMOBILE SECTOR:** The Indian auto industry is one of the largest in the world. It accounts for 7.1 percent in GDP and in year 2014-15, around 31 percent of small cars sold globally are manufactured in India[31]. The automobile industry, especially auto ancillary have been at forefront of the acquisition spree. The major cross border deals include Tata Motor's acquisition of Daewoo Commercial Vehicle and Hispano Carrocerain 2004 and Bharat Forge acquired Federal Forge from US in

2005[8]. These acquisitions have opened the window to serve markets like China, Korea, Italy and Spain. Indian auto majors want to integrate low cost sourcing of components and technical knowhow to compete successfully in international market. However, in the year 2007 and 2008 globally dependent industry like automotive and pharma lost their shine. There were few deals in these years one of the major deals was Tata Motors acquiring Jaguar Land Rover from Britain in 2008. Year 2011 showed recovery period for M&A deals in all the sectors including automobile. The important deal in 2011 in automobile sector was Mahindra and Mahindra Ltd acquiring 70 % stake in South Korean company Ssang Yong. Overall, deal volumes in this sector have moved from 51 deals in 2011 to 42 deals in 2012, 36 deals in 2013 and 22 deals in 2014[32].

**CEMENT SECTOR:** India is the second largest producer of cement in the world[33]. Ever since it was deregulated in 1982, the Indian cement industry has attracted huge investment, both from Indian as well as well as foreign investors. In the year 2000, greater M&A activity remained restricted to the cement and technology sectors with Lafarge's buyout of Raymond's cement plant and the Gujarat Ambuja group to emerge bigger and stronger to counter the Lafarge threat. Gujarat Ambuja bought out DLF Cement and its subsidiary Ambuja Cement India Ltd. in 2000. This industry is dominated by major players who hold 60 percent of the market. In 2004, the Aditya Birla Group took over L&T's cement division, making Birlas the largest Indian cement player with over 31 million tonnes. In the year 2007, the cement sector made up for 7 percent of the total deal value, out of which 87 percent was driven by a single acquirer, Holcim by increasing it's holding in ACC from 22 percent to 56 percent[33]. In 2012, Dalmia Cement (Bharat) Ltd acquired Adhunik Cement. In 2016, Ultratech acquired six cement factories of Jaiprakash Associates[33].

**MEDIA AND ENTERTAINMENT SECTOR:** The Indian Media and Entertainment industry is a sunrise sector for the economy and is making high growth strides. The industry has been largely driven by increasing digitization and higher internet use over the last decade. But the scope of going for M&As in this sector is restricted due to lake of corporatization, restriction on crossholdings in media and lack of clarity in government policies. In 1998, TV18 and CNBC Asia entered in to joint venture to launch CNBC in India. Through acquisition of Hathway and Datacom in 2000 Star plus reentered cable market and distribution of DTH. The year 2003 was a period of M&A by major players like SUN TV took over the Telugu channel Gemini TV. In 2005 TV 18 bought 46 percent stake in Jagran TV and in 2007 Network18 bought 50 percent stake in MTV, VH1 and Nickelodeon. Nine Network Entertainment India Pvt. Ltd. merged in Balaji Telefilms[8]. In 2007, the media sector saw 45 deals[8] in private equity. Temasek invested Rs 11 billion in Inx Media, a TV broadcast company and South Asia Entertainment Holding Limited acquired 20 percent stake in Sun Direct TV by paying Rs. 7 billion[15]. In 2009, Reliance Capital bought 18 percent stake in Bloomberg UTV, a joint venture of Bloomberg and UTV and in 2012, TV 18 Broadcast Ltd acquired Eenadu Television Network[17]. In 2016 there were many major deal in this sector like, US based investment firm Tiger Global management LLC acquired 25 percent stake in The Viral Fever, online video creator from India and STAR India acquired entire broadcast business of MAA Television[34]. Over the last few years, digital media has proved its supremacy over traditional media such as printed newspapers and magazines and in coming years, shifting consumer spending and behavior, and an ever-increasing pace of technological changes will increase the pace of M&A in this industry. From the review of M&A movement in major sectors, it can be observed that after liberalisation pace of M&A movement has increased.

## 1.5 RATIONALE OF THE STUDY

The study of business combination has been carried out since long. Empirical evidences of the same are found in foreign research available during first half of 1900$^{th}$ century. But initially the researches were focusing on some different aspects like M&A movements of particular era, M&A deals in specific industries *etc*. For example **Meech S P (1930)[35]** has studied the possible benefits of consolidation to be contributed by the financing function, department, or activities. Many studies were focusing on merger movements of a particular century like **John Lintner and J. Keith Butters (1950)[36]** found that around 2000 companies in US disappeared because of merger movement that had taken place between 1940-47. Federal government was worried because these mergers were resulting in industrial concentration and small businesses were affected. The studies during sixties (1960-1970) were either case

studies from the US based companies or they were concentrating on accounting treatment of business combinations [**Anelise Nick Mosich (1963)**[37]]. In late 60s and in the beginning of 70s the researches were focused mainly on conglomerate mergers [**Samuel R. Reid (1968)**[38]]. Every second article was talking about conglomerate merger, may be because the era of conglomerate mergers had started in 1970s and mainly horizontal type of mergers were common in the industry prior thereto. The valuation aspect was also highlighted during this period. **S. R. Sapienza(1964)**[39] explored the basic problem of valuation with particular emphasis on intangible assets.
The study based on evaluation of effect of M&A on long term performance of the company using CAPM, financial ratios or any other tool has started after 1970. The 1970s and 1980s were active era for M&As and for research on them in most of the countries. During these decades, economics and finance researchers (especially in US and UK) made great strides in understanding the operations of capital markets to analyse the effect of M&A on short term performance of the companies. Researchers focused on the ways in which causes and effects of M&As might be modeled and measured. During this period, many researches on these and related issues have been conducted abroad. However, not much research was available on this topic relevant to the Indian conditions since it is relatively a new phenomenon which has gained momentum only during the last decade of 20th century.

In India, the studies on analysing the effect on M&A have gained momentum after liberalisation in 1991 because the pace of M&A has increased mainly after that. Initially studies were based on analysing the effect of M&A on long term performance of the companies. But majority of the studies were focusing on manufacturing and financial sector only and that too with a small sample or based on case studies. Very few studies were based on broader aspect and with the bigger sample covering majority of sectors. In addition to that none of the studies have integrated all the important issues pertaining to M&A in one study to have a holistic view. Also, the majority of the studies are based on merger, limited numbers of studies are available in the area of acquisition. The number of researches further reduces when the effect of M&A on both long term as well as short term performance of the companies is considered.

The Event study methodology for measuring the effectiveness of M&A through study of the changes in stock prices near the announcement date has come in picture after 1970s at global level. Very few articles were published using Event Study Methodology during 1970-2000 in India and abroad. After 2000 many articles are based on this methodology. In India this methodology was applied after liberalization policy of 1991, when government opened doors for foreign investors and the pace of cross border business combination increased. There was a felt need to study effect of M&A on stock market movements in short run around the event. However, the preference found for event study methodology is yet to pick up its momentum. Researchers are mainly focusing on the long run performance measures. Some articles have analysed the price pressure effect, incentive effect, effect of mode of payment and cultural diversity on performance of shares as well as effect of ownership structure on it. It has been also observed through study of related literature that whichever studies are conducted to test the efficiency of Indian stock markets has studied the impact of Foreign Institutional Investors' (FII's) Investments, issue of bonus shares, stock split or the information content of profit booking announcement. The researches on event study methodology analysing the effect of M&A are mainly focusing on acquired or target firms and very few studies are conducted for acquirer firms. It is observed through studies that target firms experience higher abnormal returns than acquirer because acquirers pay higher premiums for their targets for acquisition. But the purpose of present research is to find out, whether corporate restructuring activity, which is happening day in and day out across the globe, is beneficial for the firm which is initiating it and playing the most important role in it *i.e.* acquiring firm.

Even though M&A have been an important corporate strategy all over the globe for several decades, research on M&As has not been able to provide conclusive evidence on whether they enhance efficiency or destroy wealth. There is thus an ongoing global debate on the effects of M&As on firms. Moreover, with globalization and the emergence of knowledge based industry with increasing emphasis on inorganic growth, the M&A in India needs a fresh look. This study attempts to fill this gap in knowledge about M&As and specially in the area of acquisitions in India by examining the effect of acquisition on long term as well as short term performance of the companies.

## 1.6 OBJECTIVES OF THE STUDY

As the study intends to examine (I) the effect of acquisition on financial performance of the companies in long run (Overall and Sectoral Analysis) and (II) the effect of acquisition announcement on share price of the acquirer companies, precisely the objectives of the present study can be laid out as follows:

(i) To summarise the sectoral review of Mergers and Acquisitions in India.

(ii) To get the theoretical understanding of different forms of corporate restructuring.

(iii) To study the effect of acquisition deals on financial performance of the acquiring companies in long run.

(iv) To investigate stock market reaction of acquiring companies on announcement of acquisition deals (Efficient Market Hypothesis).

## 1.7 CONTRIBUTION OF THE STUDY

News regarding mergers, acquisitions, restructuring, takeovers *etc.* make news paper headlines daily. M&A are buzzwords today for corporate across the globe. On the research front in India, the frequency of researches on M&A has increased specially after economic liberalization in 1991 on account of increase in the volume of M&A. Majority of the studies carried out are as case studies or in manufacturing or in banking sector. There are very few studies which cover different sectors of the industry. Moreover, majority of the studies focus on examining effect of M&A on long term financial performance of the company. Less attention is given to analyzing impact of M&A announcement on share prices of the company surrounding the event date.

The present study attempts to analyse the effect of acquisition on long term as well as short term performance of sample firm. This will help to compare the effect of acquisition on both time horizons. The adequate sample is selected from the year 2007 and 2008 representing all the important sectors of the economy. Thus, the study shall contribute to the wealth of knowledge in the area of acquisition especially from the acquiring company's view point and is likely to help corporate houses in strategic decision making towards, whether acquiring control in other companies will enhance the value of the company in the short run and will it improve the performance of the same in the long run.

## 1.8 ORGANIZATION OF THE STUDY

The present study is divided in seven chapters.

The **Chapter One "Introduction"** deals with the introductory part of the research work. The present chapter deals with global scenario of merger and acquisition, history of merger and acquisition in India, sectoral trend of M&A in India, rationale of the study, objectives of the study. It also spells out the contribution of the study and organization of the study in terms of different chapters and sections.

The **Chapter Two "Conceptual Framework"** discusses the theoretical aspects of corporate restructuring, meaning and categories of M&A, history of merger waves, motives behind M&A, caution while planning for M&A, process of M&A and regulatory framework governing M&A.

The **Chapter Three "Review of Literature"** presents relevant studies carried out internationally and in India by the various researchers. It gives an overview about the results of previous researches from the literature concerning the subject and helps to find the gap in previous studies. This chapter is divided into two parts. **Section 1** deals with review of studies relating to India and foreign countries measuring the effect of M&A on financial performance of the companies in long run. **Section 2** deals with review of studies relating to India and foreign countries measuring the effect of M&A announcement on share price of the companies, based on Event Study Methodology.

The **Chapter Four "Research Methodology"** details research methodology of the study. The chapter mainly deals with data source, sample and study period of both long run and short run analysis. This chapter is divided in to two sections: **Section 1** presents methodology adopted to study the effect of acquisition on financial performance of the companies in long run. This includes selection of measures for evaluation, hypotheses, statistical tools used for analysis and limitation of the study.

**Section 2** discusses methodology adopted to study the effect of acquisition announcement on share price of the companies. This comprises of various steps in Event Study Methodology to test the Semi Strong form of Efficient Market Hypothesis, hypotheses framed, statistical tool used for analysis and limitation of the study.

The **Chapter Five "Analysis of the Effect of Acquisition on Financial Performance of the Companies in Long Run"** presents empirical results pertaining to the impact of acquisition on long term financial performance of selected acquiring firms in India. The analysis is carried out in two stages, overall analysis as well as sectoral analysis. The sample consists of 66 acquiring companies for acquisition carried out during the year 2007 and 2008. These 66 acquiring companies are further divided into 9 sectors. To study the change in long term financial performance, sixteen different financial ratios are calculated for five years before the acquisition and five years after the acquisition for both overall as well as sectoral analysis. Based on this calculation the attempt is made to check the effect of acquisition on financial performance of the sample acquiring companies on overall as well as sectoral basis.

The **Chapter Six "Analysis of the effect of Acquisition Announcement on Share Price of the Companies"** presents the announcement effect of acquisition on security prices of selected acquiring firms. The Event Study Methodology is used to analyse the effect of acquisition on share prices of acquiring firm around the date of announcement of acquisition. The Semi Strong Form of Efficient Market Hypothesis is tested in this chapter, according to which price reflects all publically available information and prices instantly change to reflect new public information.

The **Chapter Seven "Conclusions and Suggestions"** summarizes the findings of this research study and provides recommendations based on findings. It also highlights Significance and Limitations of the present study. At the end of the chapter, further areas of research on the merger and acquisition are also highlighted. Finally, thesis has been supported with selected Bibliography and Webliography.

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