Chapter 2

A REVIEW OF LITERATURE

2.1 - Brief of the Literature Review

'A Review of Literature' is a study of numerous research papers published on the topic of Merger and Acquisition. The literature review is an attempt to find a research gap by researcher. It is an exclusive review of previous studies made on the selected subject matter. It helps in bridge the gap between the sources texts that researcher draw on, and where researcher position himself and mark his own work among these sources. Literature review helps researcher in finalization of research topic. It says what is already being said about the topic selected by the researcher and what is yet to say. It also defines the contribution to the knowledge by other researchers and researcher's own contribution to the knowledge. Literature review is considered as the root of any subject matter in order to digest entire subject matter easily.

In this chapter, for the survey of existing literature, the research papers published in Magazine, Journals, Reference books, Government reports, Internet etc. were referred, as the basis for understanding as well as for exploring feasible research gaps as the starting point. The observations presented in this section are based on this literature review.

2.2 - The General Study of Merger and Acquisition and its related Environment.

1. Michael Grant, Lars Frimanson, Fredrik Nilsson (2015), in their studies stated that, in business interactions and dealings, first impression is very important. While you can't stop people from making quick decisions, the human brain is hardwired in this way as a prehistoric survival mechanism, you can understand how to make those decisions favorable for you.

2*. Arindam Das (2012)*, in his study stated that, an understanding of mergers and acquisitions research with various explanations with the performance of the merger and acquisition deal. After five decades of merger and acquisition research, the findings on merger and acquisition performance are diversified in nature and sometimes not consistent with each other. The explanation of variables studied in the empirical works having reflection on researcher's strategies and approach, construct and measurement, techniques and data availability, leading to inconsistencies among the findings. For understanding, how researchers have measured merger and acquisition performance, the research gap between existing works and identification of the scope of future work is important.

3. Maja Pervan, JosipaVišid, Kristina Barnjak (2015), in their study states that, the importance and value of mergers and acquisitions have reached enormous proportions. However, while some studies reported beneficial influence of mergers and acquisitions on company‘s success, the others found this influence to be neutral or even negative. Furthermore, the majority of studies analyzed mergers and acquisitions activity in USA and UK, therefore this paper aims to detect the consequences of mergers and acquisitions on the performance of companies operating within under-researched European area i.e. Croatia. The analysis was conducted on Croatian companies that were involved in mergers and acquisitions activity in period from 2008 to 2011. The obtained results clearly indicated statistically insignificant differences in target company‘s performances before and after mergers and acquisitions activity. The same results, i.e. statistically insignificant differences, were obtained even when performance of target companies (after acquisition) was compared to the peer companies. Finally, the results showed that despite the growing influence of foreign investors in Croatian economy, the majority of mergers and acquisitions activity was carried out by Croatian companies.

4. Iulian warter, liviu warter (2014), In the new way of competition and globalization, The corporate executives globally adopting restructuring of its operations through different types of expansion strategies by consolidation like mergers and acquisitions in order to compete with the challenges posed by the new pattern of globalization. Cross-border mergers and acquisitions sharply increased over the last two decades and this is partly the result of financial liberalization policies, government policies and regional agreements. This study aims to highlight the leading questions in mergers and acquisitions research and tries to find ways to overcome the inconsistencies of the research findings. In this article, we aim to answer the questions ―Why companies perform mergers and acquisitions? What is actually mergers and acquisitions performance? And ―How to achieve success in mergers and acquisitions

5. Shail Shakya (2019), Banking sector is the most extensively regulated sector in Indian financial market. RBI, the sole regulator has the responsibility of regulating, supervising and assisting the banking companies in carrying out their fundamental activities and meets their liabilities as and when they accrue. Despite the fact that regulation enhances performance at various levels, business growth is the perpetual quest for all companies, and banking companies are not alien to that. Rapid growth of consolidations has depicted that banking operations, though strictly regulated aspire for a high rate of profitability and business presence. There are numerous examples present in Indian context that show varied reasons of mergers and acquisitions in banking sector in India. Some study these on the counts of profits and performance after mergers; others look these mergers as helping the banks in overcoming their likely dissolution.

6. Susan Cartwright, Richard Schoenberg (2006), the complex phenomenon that mergers and acquisitions represent has attracted substantial interest from a variety of management disciplines over the past 30 years. The failure rates of mergers and acquisitions have remained consistently high.

7. Haoxiang Li, Zhe Lin, Xiaohui Shen, Jonathan Brandt, Gang Hua (2018), Corporate and private equity executives foresee an acceleration of merger and acquisition activity in 2018, both in the number of deals and the size of the transactions. Technology acquisition is the new No. 1 driver of mergers and acquisitions pursuits and dealmakers report using non-spread sheet based mergers and acquisitions technology tools to help reduce conflicts, costs, and time. The Deloitte M&A trends report looks at mergers and acquisitions activity by surveying more than 1,000 executives at corporations and private equity firms about the current year and their expectations for the next 12 months.

8. Ishita Ayan Datt (2019), Tata – Corus group born out of a deal between British Steel and Koninklijke Hoogovens in 1999 Corus Stock market felled to 230M from 6 Billion in 2003. It was the biggest foreign acquisition by Indian company in 2007 with USD12 Billion. The deal didn‘t achieve expected result. Steel market felled down. In March 2011 divesting UK unit, sold teeside cast product unit i.e. portfolio restructuring.

9. Sadananda prusty (2012), It is a venture of Aditya Birla Group. In May, 2007 Hindalco acquired Novelis for USD6 Billion. Objectives: High scale of operation, entry into high end downstream of aluminum segment. Novelis has better technological advantage along with Leader in auto sheet market. Consolidated financial result has down trends in profit after mergers and acquisitions.

10. Tata Motors (2018), mergers and acquisitions happened to avoid bankruptcy of Ford. The deal amount was 2.3 Billion US Dollars. After this transaction loss making JLD now became profitable business unit.

11. Manish Sharma (2017) Vodafone Acquired Hutchison telecom international‘s 67% stake in Hutchison Essar. It was fourth largest deal of 2007. This deal is also not performing as per expectations due to earlier tax implications and after jio as a new entrant along with liability of capital gain tax case 1.7 Billion, with retrospective effect.

12. M&M acquired German forging company Schoneweiss & Co. through its subsidiary company. The deal was happened through its subsidiary MFGL Mauritius. To Strong its Europen present Boost Automobiles. Schoneweiss is largest manufacturer of suspension, power train and engine parts.

13. Consist related but distinct transaction. 20% open offer of spice share holder jointly with telekom malasiya international. Idea merger with spice and to TMI offer 14.5% preferential allotment shares in consideration 49 for every 100 shares in spice, largest infusion of FDI in India. Idea purchase 28.14 cr shares – 544cr shares as non-compete fee (less than 25% non-promoters investors –SEBI) Idea will acquire BK Modi‘s stake in spice (40.8%) to turn debt free company.

14. This deal was at goodwill and led Daiichi at net loss. Poor performance of Ranbaxy due to FDA banned and wrong decision in hedging currency risk. FDA banned 30 drugs of Ranbaxy in USA manufactured at paonata saheb and Diwas plant. Poor performance has been observed before deal analysis. It seems win – win.

15. C.H.Unnikrishnan (2013), Taro was undervalued at 39.5USD, where stock market stands at 45USD, NYSE. Valuation objected. It was in the interest of both the companies and shareholder. It was affected adversely on company‘s performances. Three years long court battle.

16. Taslima Khan (2014), Historical event ‘Flipkart buys Myntra’ in Indian E-Commerce business. The Acquisition is not due to financial crisis but to gain competitive advantage. It was about scaling the two businesses in much faster to expand market share in fashion. Both companies operate separately.

17. To become largest mobile commerce platform, Snapdeal acquired Free charge and it was Fifth acquisition in a year. The transaction has objective of covering young generation customer base.

18. Mergers and Acquisitions of Financial Institutions: A review of the post -2000, Provide study of over 150 Financial Institutions. European Banks succeed, Desired to obtain Too big to fail status, Adverse effect on borrowers, depositors, external stake holders. North American banks mergers are efficiency improving, but mixed picture regarding stake holder’s wealth creation.

19. Geert Duyster(2006), Primary both the things facilitate entry into new markets and their effectiveness in achieving scale and scope economics. No research is available; Innovation is driving force in 20th century. Focus on their effect on the innovative performance of companies involved.

20. Tarik Ismail(2001,) Establishing connection and understanding of previous literature of mergers and acquisition and analyzing its effects on the financial performance in attempt to determine factors that might influence post- merger and acquisition performance, Previous studies: Market, Accounting, Qualitative mixed measures. Other factors having disputes : Discharge of Purchase consideration (in Cash or shares), Book to market ratio, Types of mergers and acquisition - related or not, firm size, cross broader transaction, time period, macroeconomics conditions.

21. Vazirani, Nitin (2012) The Asia – Pacific region, significant growth in deal volume and value. Deals have increased from 2091 transaction in the year 2000 to 6939 in 2011. The aggregate deal value jumped 103% from 193USD Billion to 393USD Billion, Not produced anticipated benefits. Ignores of HR is major factor for failure of mergers and acquisition. Attracts public attention.

22. Calipha, R., Tarba, S. and Brock, D (2010), mergers and acquisition process has two phases, pre and post including due diligence and integration phases. Transaction is having objective of achieving access of new market, gaining new scare resources. Other factors associated with success of mergers and acquisition. The no. of deals of mergers and acquisition increased, less than 50% succeed.

23. Amish Bharatkumar Soni, (2016,) a study of shareholders wealth analysis for short term investment. Researcher had Found, the market return and script return of the companies and Index before and after merger and acquisition through regression line. The change in the closing price of the script and Indices value has been compared for BSE 500 with X as an independent variable and Y as a dependent variable. i.e. script prices of the particular company and try to fit regression line Y on X to see that after merger and before merger how this mergers affected shareholders wealth.

24. Momodou Sailou Jallow (2017), this research is aiming to examine the effect of merger & acquisitions on financial performance on United of Kingdom firms. The research was done on 40 companies. Which are listed on London Stock Exchange (LSE) and had undergone consolidation in the year of 2011. Comparison is made between 5-years before and after merger & acquisition by taking financial ratios as consideration. The independent variable of the study is Mergers and acquisition and dependent variables are Return on Assets, Return on Equity, Earning per Share, and Net Profit Margin. Variables namely return on Assets, Return on Equity and Earning per Share are found to have a significant effect of merger and acquisition. The outcome shows that the net profit margin not affected by mergers while return on asset return on equity and earning per share affected by mergers and acquisition.

25. Alam Ansari , M.Mustafa(2018) Merger and Acquisition is the most effective ways to accelerate the growth implementation plan of companies. All industries have been using mergers and acquisition as an aggressive strategy for growth. Merger and acquisition in is not a new concept and burst in mergers and acquisition has given further space to companies to look for integration for their growth, market coverage or any other strategic requirement. The present research paper is studying the effect of mergers and acquisition on the financial performance of various corporate sectors in India.

26. Mani Arora, Anil Kumar (2012), to study the concept of mergers and acquisition in detail, examples of some companies have been taken into consideration. The objective is to find out the major issues associated with pre and post merging situations with special emphasis on the human aspect. Mergers and acquisition is a phenomenon which is easy to think but hard to implement. Three phases of mergers – pre merger, transition phase and the post-merger phase have its own advantages as well as difficulties, if handled with proper care synergies can be withdrawn but a little mistake can spoil the whole transition. Both management and employees have to work hard at their own level to make it a successful one because man is the major factor during the whole deal.

27. Harpreet Singh Bedi, The merger and acquisition is surrounded by various factors that play their parts in helping the mergers and acquisitions in India. Certain favorable factors are namely favorable stable government policies and authorities, enthusiasm in economy due to developing phase, additional liquidity in the corporate sector, and dynamic attitudes of the Indian entrepreneurs and corporate executives. These favorable factors are reason for the change in trends of mergers and acquisitions in India. Merger and acquisition is pretty old strategy and globally accepted for corporate expansion. Even after number of research has been made on the same, is not able to provide conclusive evidence either this strategy enhance the efficiency or destroy the wealth. The effect of merger and acquisition is debatable topic. This article is about the trend and progress of merger and acquisition in India.

28. Bijoy Gupta , Parimalendu Banerjee (2017), This paper studies the effect of merger and acquisitions on the financial performance namely profitability and liquidity position from the view point of Indian acquirer firms. Study analyzes financial performance for three years before and after merger and acquisition of the companies. The study is based on secondary data using audited financial statements of the company. The conclusion of this study shows that there is no significant improvement in financial performance in terms of profitability and liquidity of acquirer companies after merger and acquisition but performance of the company even declined.

29. Manuel Portugal Ferreira, (2014) Mergers and acquisitions are important modes through which firms carry out their domestic and international strategies and have been noted as the CEOs favorite strategy. As a significant field of study, mergers and acquisition -research has accumulated substantial knowledge. This study examines the extant strategy and international business literature on mergers and acquisition. methodologically, we examined a sample of 334 articles published in sixteen leading management/business journals, during a 31 year period — from 1980 to 2010. The results provide a global perspective of the field, identifying the works that have had the greater impact, the intellectual interconnections among authors and works, the main research traditions, or themes, delved upon on mergers and acquisition related research. Structural and longitudinal analyses reveal the changes in the intellectual structure of the field over time.

30. Dr. K. B. Singh (2013) in research article titled that "The impact of mergers and acquisitions on corporate financial performance in India." did a survey among the Indian corporate managers in 2006 taking the data from Grant Thornton. The study found that Merger and Acquisition activities are an effective and widely accepted form of business strategy by Indian corporates executives. The three main objectives behind any Merger and Acquisition, for corporates today were found to be:

- ✓ Increasing revenue and profitability,
- ✓ Rapid growth in production with economies of scale and quick time to market,
- ✓ Adoption of new technology or competence.

- Objectives of Indian corporates for Mergers and Acquisitions are.

Objectives behind the Mergers and Acquisitions transactions	**Response in %**
i. To improve revenue and profitability	**33%**
ii. Faster growth in scale and quicker time to market	**28%**
iii. Acquisition of new technology or competence	**22%**
iv. To eliminate competition and increase market share	**11%**
v. Tax shield and investment savings	**3%**

(Table 2.1: Source - Grant Thornton (India).The M & A and Private Equity scenario-2006)

31. Sanjay Dhir , Amitami(2012,) in research article titled that "Decision-Making for Mergers and Acquisitions: The Role of Agency Issues and Behavioral Biases." discuss on biases and agency issues in Mergers and Acquisitions. They are found the various reasons for disappointing results, which are as follows:

- ✓ Agency Issues: The relationship between the shareholders and managers of Mergers and Acquisitions firms fits the clarity of pure agency relationship. Pure Agency Relationship should result as no surprise to find out the issues related to the 'separation of ownership and control' in the recent times. The researcher was able to study the agency issues as the ownership entities are confidentially associated with the problem of agency. A negative return to shareholders in bidding firms could be examined by agency costs. That is, the manager of a bidding firm may favors takeovers, but such managerial activities are rational and not in the interest of the shareholders.
- ✓ Behavioral Biases: The study suggests that CEO may genuinely believe that Mergers and Acquisitions are in the best interest of the shareholders but this belief is not realistically based. The following eight aspects provide a new focus on the behavior of CEO which is separate from agency issues and Hubris hypothesis:
- ✓ Over confidence / Hubris bias: Hubris bias is defined as "overstated self-confidence or pride". Previous research has studied the impact of hubris or overconfidence of firm decisions and results including Merger and Acquisition premiums and venture failures. The study suggests that firms that are over confident pay higher premiums depending on internal rather than external financing. Misrealisations of forecast earnings and taking on more value destroy Mergers and Acquisitions activity.
- ✓ Anchoring bias: Anchoring is the term used to describe a manager's tendency to be dependent too heavily on a piece of information when making decisions. During normal decision making of acquisitions, individuals are overly dependent on specific information or a specific value and then adjust to that value to account for other elements of the acquisition that may have negative effects on Mergers and Acquisitions success.
- ✓ Confirmation bias: Conformation bias is a tendency to search for or to interpret information in a way that confirms one's preconception leading to

statistical errors. Conformation bias is a type of cognitive bias. It represents an error of inductive inference towards conformation. Experiments tend to seek conformity data and opinions, which lead on to systematic over confidence in favoured hypotheses.

- ✓ Availability bias: When confirmed with decision of Mergers and Acquisitions, the CEO estimates the probability of Mergers and Acquisitions based on how easy that outcome is. The CEO is mainly dependent on the media for stock information. The influence of the media tends to be in the wrong direction towards misevaluation of stock.
- ✓ Escalation of commitment: Escalation commitment refers to the psychological considerations of people who continue to support or believe in something that is repetitively failing. In managerial decision making, escalation of commitment can refer to either continuing with high priced Mergers and Acquisitions bid, or may also refer to overestimating one's own managerial capacity or ability. With escalation of commitment there is a compulsion to 'not let go'.
- ✓ Winner's curse: A tendency for the winning bid in an acquisition to exceed the intrinsic value of the firm purchased is quite prevalent. Because of incomplete information, emotions or any other number of factors regarding the firm being acquired, bidders can have a difficult time to determine the firm's intrinsic value. In short, the Winner's Curse says that in such a bidding process, the winner will tend to overpay. The winner may overpay or be cursed in one of the following two ways: i) the winning bid exceeds the value of the acquired firm such that the winner is worse off in absolute terms: or ii) the value of the assets is less than the bidder anticipated, so the bidder may still have a net gain but will be worse off than anticipated.
- ✓ Hindsight bias: Hindsight bias may cause memory distortions, where the recollections and reconstructions of content can lead to false theoretical outcomes. It has been suggested that the effect can cause extreme methodological problems while trying to analyze, understand, and interpret results in Mergers and Acquisitions activities.
- ✓ Narrow framing or risk aversion: Aversion to certain losses and narrow framing may result in an overly static acquisition strategy that will result in

suboptimal growth in shareholder's wealth. However, while narrow framing may result in a too- conservative acquisition strategy that fails to fully utilize upward potential, aversion to sure losses can lead to a consolidator over investing, increasing his losses by continuing to invest when the market signals indicate otherwise throwing good money after bad.

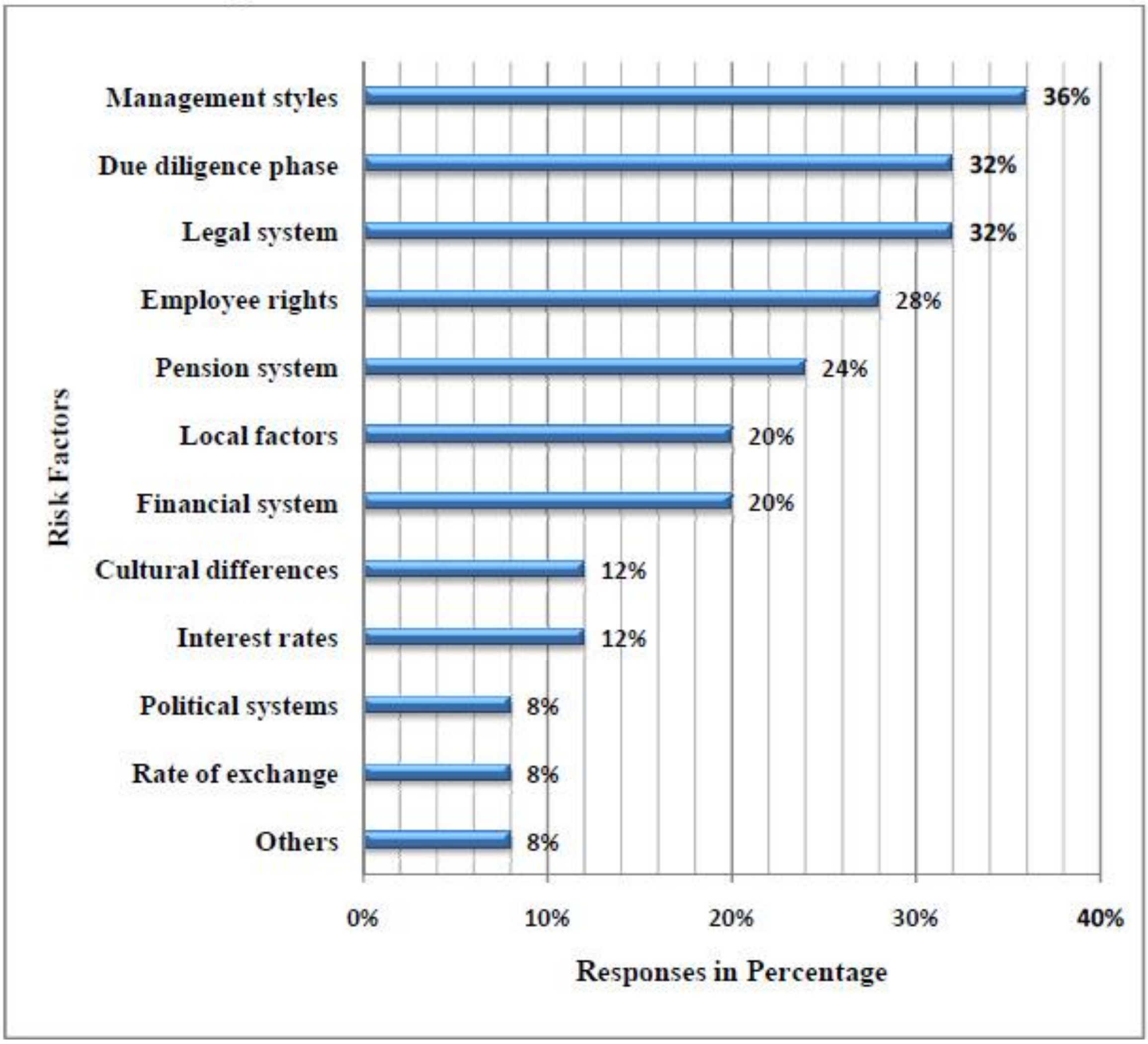
32. T.B. Rubinshtein (2011) in article titled "Estimating the effect of mergers and acquisitions in Metallurgy." explains that, the companies do not merge without a good intention. Therefore, the effect of Merger and Acquisition activities are determined by the synergetic effect when the impact of two firms is greater than the sum of the effects resulted by each of them, i.e. 2+2>4. The synergetic effect of Mergers and Acquisitions in a transaction can be expressed in the form of VAB > VA + VB. It is widely believed that the synergistic effect is inherent to the bidding companies. The study found that the size of the premium is the biggest factor in the competition for Mergers and Acquisitions activities.

33. Prasad, D.S. Reddy, D.Raghunatha (2010) Mergers and Acquisitions activity as a strategy for expansion, modernization, and technological innovation or for realizing complementary benefits (synergies) has been pursued by the corporate world both in times of economic stability or instability. The increase in the numbers, size, and frequency of Mergers and Acquisitions deals have increased the need for sound practical frameworks for the analysis and structuring of this transaction.

34. Marks and Mirvis (2008), in book titled that "Joining Forces: Making one plus one equal three in Mergers, Acquisitions and Alliances." Explain the continuum ranging from License agreement, alliances, and joint ventures to Mergers and Acquisitions green field start-up investments. Mergers and Acquisitions activities provide a faster path towards the objective of corporate growth. The corporate growth through Merger and Acquisition activities has several advantages compared to other modes of growth, namely Licensing, Strategic Alliances and Joint Ventures. It is because of this reason that Mergers and Acquisitions allows for accelerated growth and faster response to the market as well as a reduction in the number of competitors operating in the industry.

35. Angelica Kedzierska – Szczepaniak (2008) in dissertation report titled that "Financial Aspects of Mergers & Acquisitions of companies quoted on the Warsaw Stock Exchange; dean perspective for European program since 2008." investigates the comparisons of some Mergers and Acquisitions made all over the world. The study considers the internal risk factors and external risk factors. The study observed that 40% of the transactions failed. The previous research done in Europe and USA shows that many of the Mergers and Acquisitions are destined to fail. The Merger and Acquisition deals have high volume of risk and those risk factors are mainly influenced by the acquirers. Therefore, mitigating the risk involved in the mergers and Acquisitions activity is a great task to the modern financial manager. Identify and analyzing those risk factors is a major function of the financial manager to evaluate the performance by considering those risk factors. The main goal of the study is to present the most important risk factors of mergers and acquisition transaction.

response



(Figure 2.1: Source - Study based on acquiring in mid-market Europe made by Goldsmith Agio Helms, January 2006)

The literature contains many examples of studies carried out on the success and failures of Mergers and Acquisitions. While other areas of literature lack clear outcomes and conclusions, however, the key issues frequently quoted in review of literature as per the primary reasons for relatively unsuccessful results are as listed below:

- ✓ An inability to agree to terms: - The proposed Mergers and Acquisitions may never even be implemented because senior managers in the two companies are unable to agree to terms for the Mergers and Acquisitions.
- ✓ Overestimation of the true value of the target: - The acquirer often pays more for the target than its actual worth.
- ✓ The target being too large relative to the acquirer: - The literature suggests that the difficulties associated with Mergers and Acquisitions increase the functions of the relative size of the target.
- ✓ A failure to realize all identified potential synergies: - The underlying rational behind Mergers and Acquisitions often influenced by the potential to generate and exploit synergies is significantly more difficult than anticipated.
- ✓ An inability to implement change: - Large scale Mergers and Acquisitions generate a considerable amount of change. In Mergers and Acquisitions of equals all sections of each organization may be subjected to change of varying degree.
- ✓ External change: - Mergers and Acquisitions logic is sometimes superseded by events. Even the best strategic planners can occasionally fail to see sudden and large scale changes in the external market.
- ✓ Short comings in the implementation and integration process: - Poor implementation frequently shows up in the literature as a primary reason for failure. The most common reason for poor implementation is inadequate planning and control.
- ✓ Failure to achieve technological fitness: - It can be extremely difficult to merge two entirely different technological systems. It is very common problem area in Mergers and Acquisitions.

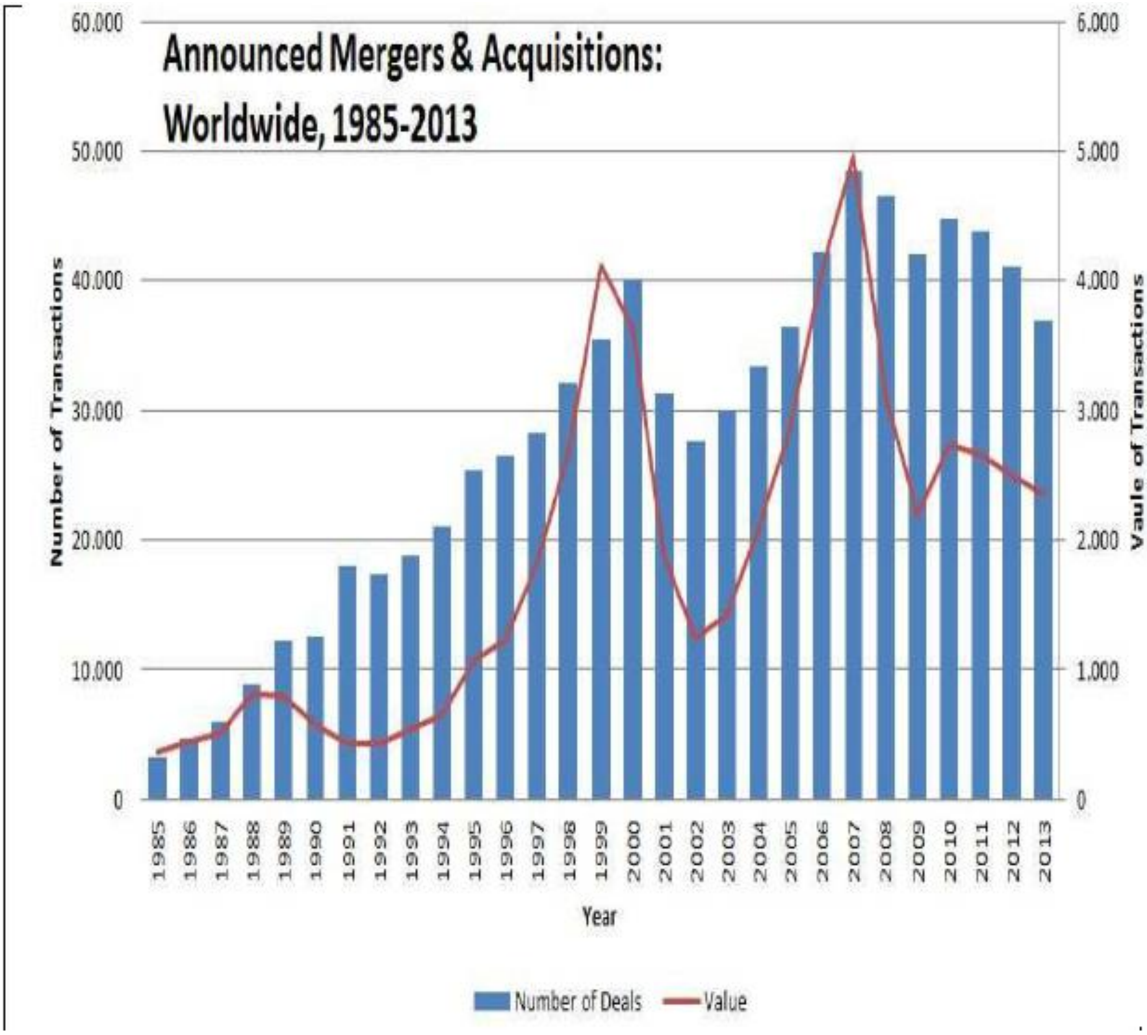
- ✓ Conflicting culture: - The incompatibility of corporate culture is another reason for failure. It is very common to observe the formation of conflict when two corporate cultures are thrown together with inadequate preparation.
- ✓ A weak central core in the target: - Targets may be unfocused on or there may be problems with the central or core elements in the company.

36. David. M. Schweiger and Philippe very (2003), in book titled "Creating value through merger and acquisition integration." Investigated that, target firms have intrinsic value that is based on a firm's worth as a standalone entity. This synergy value is based on the cash flow stream it can produce as a going concern. If the acquirer pays more than the intrinsic value based on the market prices then the value is destroyed. Unless, a bidder can utilize the acquisition deal to increase the cash flows of either the seller or bidder, both of them cannot create. This concept is called as "Synergy". The relationship between synergy, price, and value is illustrated in Figure explain the basic sources of synergy namely, cost synergy, revenue synergy, market power and intangibles.

37. Nupponen (1995,) in article titled "Post acquisition performance: Combination, Management & Performance measurement in horizontal integration." argues for the evaluation of strategic and organizational fitness. Further, the author also discusses key factors on pre-Acquisition planning to reach the synergies. To be discussed factors are the quality of strategic planning, speed of integration, Communication, Common cultures. The pre-acquisition factors have potential effect on the post-acquisition performance.

2.3 - Mergers and Acquisitions – Around the globe scenario

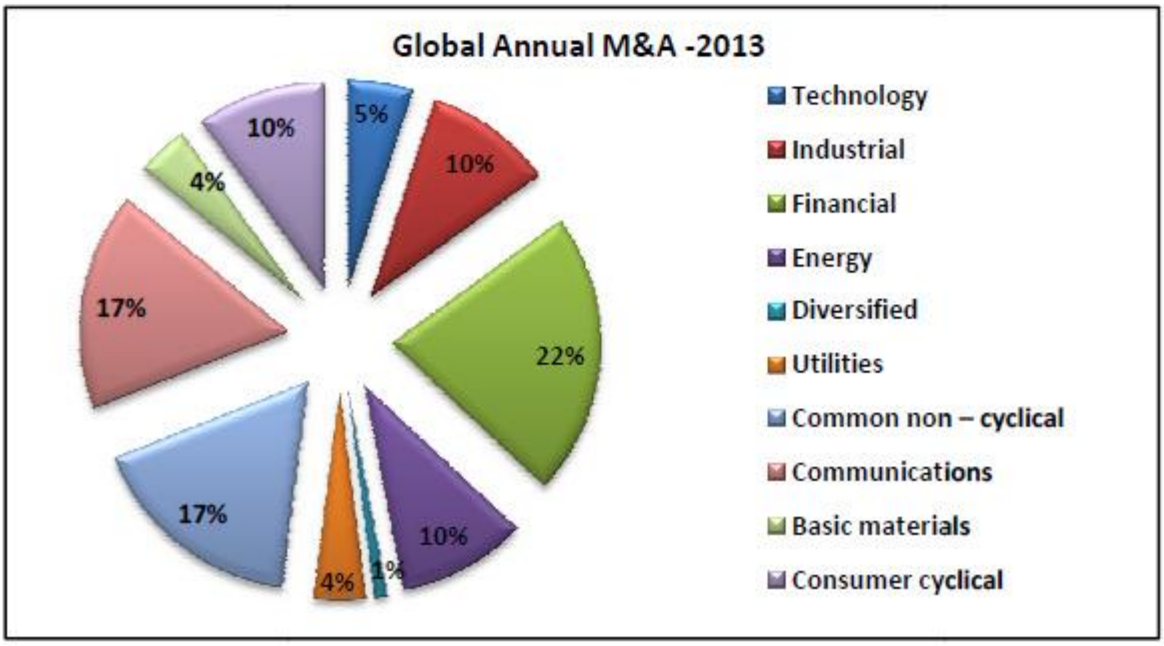
The previous research reported a decreasing trend of Mergers and Acquisitions activities since 2009 as global market risk and the valuation gap changed the mindset of entering deals as well as the frequency of transactions falling. Majority of the small to medium size of the deals decreased because of the emerging global market and the growing opportunity of private equity financing would rapidly increase transactions levels. But the transactions level simultaneously increased as the year improved with "huge inflows" of operational performance in the second quarter of 2013. Global transactions increased by 5% in the first 3 quarters compared with the year 2012. So, this resulted in continuous increase in the numbers of Merger and Acquisition deals as well as in terms of value.



(Figure 2.2: Source: Institute of Merger, Acquisition and Alliances)

According to a recent study done by KPMG (Klynyeld Peat Marwick Goerdeler) resulted 85% of Mergers and Acquisitions failed. The total shareholders return of 115 global Mergers and Acquisitions activities resulted with negative 58% according to the study done A.T.Kearney. Above Chart observed that after the industrial policy as well as after the financial crises period the number of transactions became more but the total value of the deal became declined.

The telecom sector has declined by 11% of the total volume. The telecom sector has reported the biggest growth by deal volume year over year rising nearly 42% from 2012. The reason for the hike was an agreement of buy the Vodafone group stake by Verizon communications Inc for USD130.1 million to its wireless joint venture business. From the above Chart it has been observed that the high volume deals are occurred in financial, communications and non- cyclical industries in the year 2013 and also the low volume of Merger.

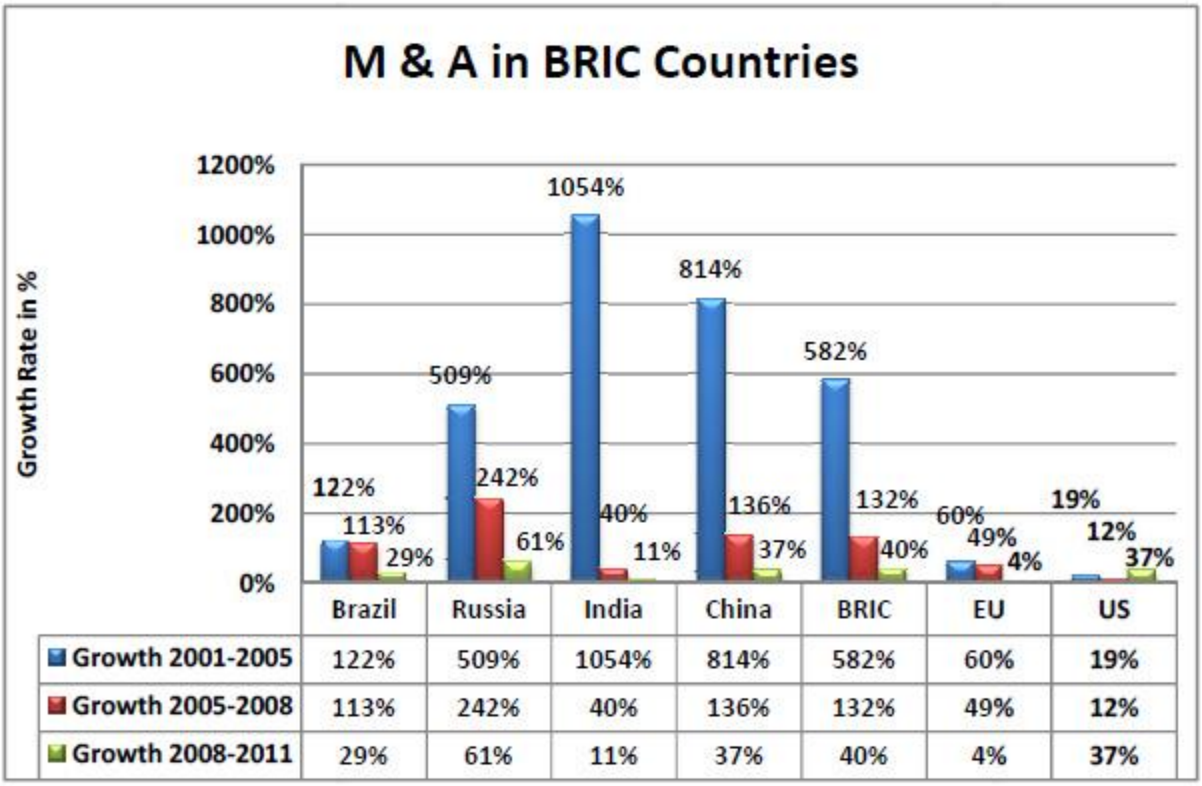


(Figure 2.3: Source - www.imaa.org)

2.4 - Mergers and Acquisitions – Indian scenario

In recent years the need of outsourcing financial resources has begun to fall and resulted as accelerating the global Mergers and Acquisitions activities. India has shown a positive strength in global financial outsourcing. The private equity firms and investment bankers are major destinations for increasing Mergers and Acquisitions. In India, there is a rapid increase in financial outsourcing after the deep struggle and global financial meltdown.

In the below chart, it has been observed that India has very less growth compared to Brazil, Russia, China and US due to the impact of financial crisis, strict policies and procedures, scrutinizes and changes in levy results the growth rate became fall from 40% to 11% within 3 years. And Acquisition transactions are observed in diversified, utilities and basic materials resulted less than 5%. According to the Grant Thornton Report-2012 the first quarter Mergers and Acquisitions value declined significant by 23%.



	Brazil	Russia	India	China	BRIC	EU	US
Growth 2001-2005	122%	509%	1054%	814%	582%	60%	19%
Growth 2005-2008	113%	242%	40%	136%	132%	49%	12%
Growth 2008-2011	29%	61%	11%	37%	40%	4%	37%

(Figure 2.4: Source - Grant Thornton Report – 2012)

38. Jung Hur.et.al (2011), this study is an empirical explanation to the observed disparity in outbound Mergers and Acquisitions inflows of developing and developed countries over the past two decades. The study shows that most of cross border Mergers and Acquisitions has flown toward developed countries. These results implied that, with the current speed of institutional reforms in some developing countries, the disparity is likely to persist. The previous research shows that the effect of institutional reform on cross- border Mergers and Acquisitions in developing countries is smaller than in developed countries.

39. Harpreet Singh Bedi (2010), in the research article titled that "Mergers & Acquisitions in India- An analytical study." This study investigated the present trends and progress of Mergers and Acquisitions by comparing the number of deals and number of transactions based on year wise as well as industry wise. The findings suggest that increase in the total amount of deals was by 615%. The total of Merger and Acquisition deals of the manufacturing sector increased by 27.2% in the service sector which increased tremendously by 1.218%.

2.5 - Key Indications for Mergers and Acquisitions

The literature suggests that managers have various motives for Mergers and Acquisitions. These motives were classified into four broad categories: namely economic motives, synergy motives, strategic motives and managerial motives. It holds that some factors do contribute to a firm's competitive advantage resulting in a positive performance. In some cases other factors can have negative effects on organizational competitiveness and performance. Two areas of motives are suggested, namely; efficiency motives and strategic motives. The efficiency motives are concerned with development of various factors, such as managerial synergies or even the use of firm specific assets. Such motive includes increasing profitability, pursuit of market power, economies of scale, cost reductions and creation of barriers to entry.

40. Ye Cai, Merih Sevilir (2012), examines Merger and Acquisition activities with board connections between an acquirer and the target firm. The study shows that acquirers obtain significantly higher announcement return. "The first type is where the two firms share a common director before the deal announcements; this is referred to as first degree connections". The second type is where one director from the acquirer and one director from the target firm have been serving on the board of a third firm before the deal announcements. This is known as second degree connections".

The board connection between two firms may improve information flow and communication between the firms, and increase each firm's knowledge and understanding of the other firm's operations and corporate cultures. The study found that the average acquirer's abnormal return from 2 days after the acquisition announcement is 0.12% in the first degree connections. The study shows that the takeover premium in first degree connections is lower. One possibility is that the more direct nature of first degree connections may result in better deals with greater possibility.

41. T. B. Rubinshtein (2011), explains that the decomposition of the synergies must be taken into account. The effect for the acquired company is determined by the size of which is 20%- 40%. The effect for the acquiring firm is the same synergetic effect, less premium and other costs. The study reveals that the process of Mergers and Acquisitions in the industry develops especially in the post crisis period which determines the importance of methods for assessing their effectiveness for the parties to Mergers and Acquisitions.

42. David Lewis (2010), explained that a company's profits significantly increase, to increase the cash balances and pay off debt and deal with internal affairs rather than bringing on new entities and those have a bond with both by financially and managerially to bring on growth through Mergers and Acquisitions.

43. Rabi Narayan Kar, Amit Soni (2009), investigated the Merger and Acquisition trends for different sectors of the Indian industry. The results found that Mergers and Acquisitions have been proved beneficial in terms of Indian company's growth in size, and achieved better market share. Throughout the period of the study turnover increased after the companies experienced Mergers and Acquisitions.

44. Sathish Kumar, Lalit K.Bansal (2008), concludes that corporate enterprises cannot blindly take advantage of going in for Mergers and Acquisitions in order to gain synergy in profitability. The results indicate that in several cases of Mergers and Acquisitions the acquiree entities were able to generate synergy in the long run in terms of higher cash flows, more business, and diversifications and cost cuttings.

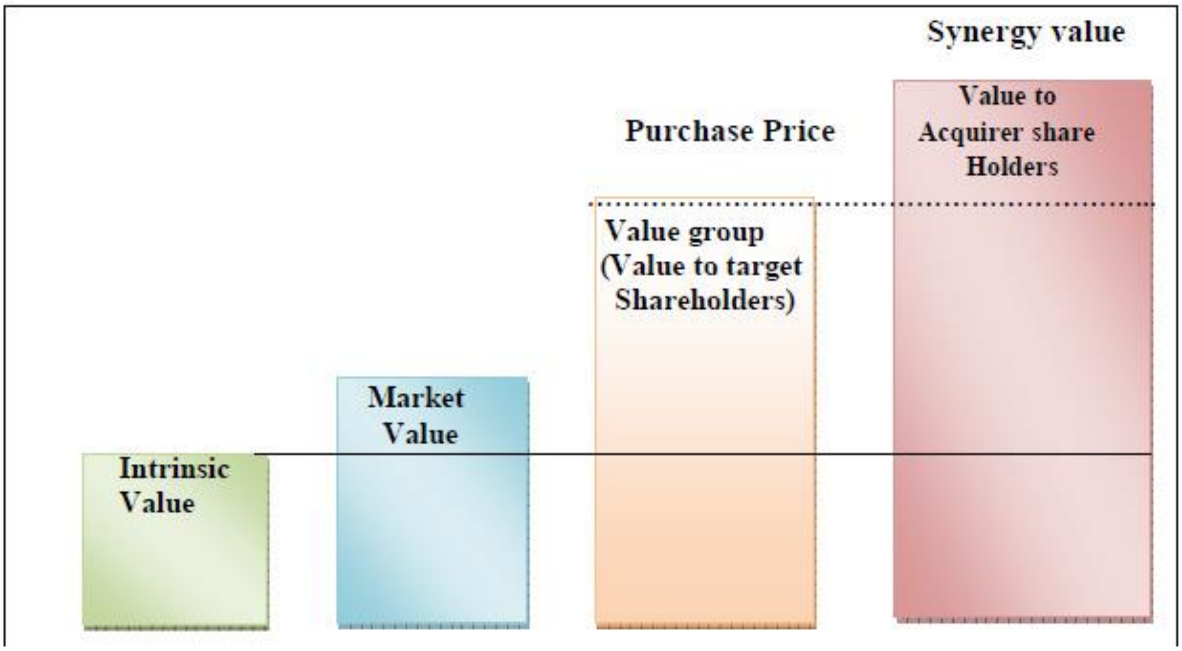
45. Viktor Brage (2007), measures the value creation through Mergers and Acquisitions by comparing related and unrelated firms. The studies aimed to empirically test whether unrelated firms create greater value than related Mergers and Acquisitions. The sample consisting of 15 related and 15 unrelated Mergers and Acquisitions was selected and the difference between benchmark and post consummation values of intellectual capital served as a tool of measuring the value creation by each Mergers and Acquisitions deal.

46. C. Ranganathan (2001), examined the value created for over 80 firms that were involved in Mergers and Acquisitions -1999, event study methodology was used for the market model that is used for estimating share prices. The study found that

Mergers and Acquisitions create significant and positive impact on the shareholders wealth of acquiring entities. This study suggests that Mergers and Acquisitions to be suitable for meaningful corporate diversification strategies. Entities with fewer resources for succeeding in market need to consider as an alternate way of bridging their resources and capabilities.

47. John.T.et.al (2001), observed that, the Merger and Acquisition activities are a strongly auto-correlated process. The non-periodic cycle in the time series of Mergers and Acquisitions activity can be attributed to the presence of long memory dynamics. This evidence of long term dependence is robust to the estimation method employed and potential presence of shifts in the mean of the series. This study suggesting that long memory is a genuine, essential feature of data. Modeling mergers activity as a long range dependent process provides insights into the persistence of shocks, which dissipate at the low hyperbolic rate of decay. Movements in Mergers and Acquisitions activity appear to be influenced not only by their present history but also by realizations from the distant past. Persistence in mergers activity is consistent growth.

48. Robert G. Eccles et.al (2001), explains that the purchase consideration of an acquisition will nearly always be higher than the intrinsic value of the company. The important factor is to determine the difference in “synergy value”. The value that will result from addition and improvement made on combination of entities. This value accrues to the acquirer company’s shareholders rather than the acquiree company’s shareholders. The synergy value in a particular case of acquisition by paying maximum price is justified by the acquirers. The usual expectations are when someone negotiates to buy a privately held company or in a stock-for-stock merger transactions or when the two firms are of comparable size and value. However, premium can even be paid in stock deals, especially when one company is much smaller than the other or when a disproportionate amount of the synergies are obtained from one of the firms.



(Figure 2.5 : Source - Mergers and Acquisitions – HBR publication)

2.6 - Positive impact of Mergers and Acquisitions

49. K. B. Singh (2013) study aimed to analyze the profitability and leverage position by comparing the key financial ratios during three years prior to and a three year post merger period. These ratios were compared and tested for any statistical significant difference by using paired-T-test. The study found that there was long term improvement in financial performance of merging companies.

50. Bigyan Prakash Verma, Pranab Maji, Santhosh Nair (2013), in their study discovered that value addition has more to do with operational efficiency of the banking company in particular. The researcher thought that, economic growth may make its constituents to tend toward over- optimism and then price their actions to the real economic world. Most of times, over confidence leads to bad risk mitigation/ management practices and thus leads the financial institutions to stare at mounting loss that culminated due to their ill- practices.

51. N.M Leepsa (2012), traced the difference in after merger and acquisition performance compared with before merger and acquisition in terms of profitability, liquidity and solvency. The study observed that the combined cases of mergers, return on capital employed has gone up in the post Mergers and Acquisitions period. Ignoring the statistical significance, the liquidity, debt equity ratio and interest coverage ratio went up where as working capital turn over and return on net worth declined. The study confirmed that the financial performance was not the only parameter for Mergers and Acquisitions success.

52. Iqbal Mahamood et.al (2012), investigated how Mergers and Acquisitions impact share price. It covered 8 samples of companies which passed through Mergers and Acquisitions phase in Pakistan during the years 2000-2002. All the companies listed on the Karachi Stock Exchange were observed through the study. Results indicate that positive changes resulted in the share price of five companies and negative impact in the share price of the two companies were found one month after the merger. So, the result indicates that Mergers and Acquisitions positively affect the share price of companies.

53. Prakash Singh (2009), examined the profit efficiency and cost efficiency of the acquiring firm to see whether through consolidation there were gains or not. The study found that Mergers and Acquisitions do not seem to impact the cost and profit efficiency in an adverse manner and loss which incurred initially was recovered quickly in the long run. The study suggests that a lot of hype surrounding Mergers and Acquisitions in India should be driven from bottom to top and not from top to bottom. Mergers do not create value unless there is sound economic rationale and synergies that claimed but not actually realized.

54. Sathish Kumar, Lalit K.Bansal (2008), found that out of 52 Mergers and Acquisitions cases, more than 60% (31+) of the cases showed a significant improvement in financial performance in after Mergers and Acquisitions period of the same companies.

55. Sang-Yong Tom Lee, Kim Seng Lim (2006), investigated the impact of Mergers and Acquisitions on value of IT and Non-IT firms. The result shows that the Mergers and Acquisitions announcements create significant gains in firm value. The study finds stronger support for positive impact on gains in the firm value among IT and Non- IT firms. Based on the results it suggests that the smaller strategic alliances partners are better than their large partner. However, the study fails to find any significant difference in impact of firm value between Mergers and Acquisitions and joint ventures.

2.7 - Negative impact of Mergers and Acquisitions

56. Abhishek Raghuvanshi, Anvitha Raghuvanshi (2014), investigated the factors affecting shareholders gains on the announcement of merger and acquisitions for both the acquirer and acquiree entities. This finding of the study suggests the following points:

- ✓ The acquirers usually misjudge the benefits that drive out of mergers and the same may be noted by the market. Acquirers’ shareholders may not be rewarded with capital gain by the market when such firm decides to go for acquisition. The gains are very small.
- ✓ Higher premium being paid may not be viewed adversely by the markets for acquiring firms.
- ✓ Higher premium mean more returns for the target firms, and thus, they can earn large gain by negotiating for higher premiums from the acquiring firms.
- ✓ Acquiring values firms may stand in good stead in terms of gaining from acquisitions, as compared to growth or glamour firms.
- ✓ Market may be viewing acquisitions of relatively smaller companies more favorably than those large firms.

57. Maria Evelyn Jucunda.M, Sharon Sophia (2014), in their study aimed to find out whether acquirers add value. The result shows that acquirers have a neutral effect on the Indian stock market. The finding suggests that acquirers using stock as a method of payment no longer receive negative returns. This is an important finding as it nullifies the classical theories in the method of payment literature, which suggests that acquirers using stock will receive negative returns. The results might be due to the Hubris effect, which states that over presumption of bidders about the targets, will lead to over payment for the targets leading to negative returns.

58. Kanika, Nancy (2013), this study analyzed and compared the pre and post Mergers and Acquisitions financial performance. Mergers and Acquisitions are not leading to a significant change in the performance of firms. Also the overall effect of these merger and acquisitions on the entities even though not much significant, has been positive for at least one of the objectives of all the entities. It is not easy for the company to regain that amount of money in a short span of few years.

59. Indumathi.G (2013), studied the wealth of both acquirer and acquiree companies in the before and after merger and acquisition period. All the sample merged companies did not achieve significant t-value for the all activity ratios. The analysis found that there is a better combined performance of the acquirer and target companies than the industry in respect of solvency position during the post-merger period and notify that all the sample companies did not perform better than the industry in respect of price earnings ratio.

60. Qingzhong Ma et.al (2011), investigated the impact of mergers on the value of the firm by the changes in their intrinsic value. The study found that mergers destroy industry adjusted intrinsic value on average. Dependent on the literature on post mergers show that they have failed to achieve a gain to merged firms. The results suggests that overvaluation is measured against an estimated book value of equity, whether Price to Value (P/V) or Price to Book (P/B) used as a substitute for overvaluation. The study reveals that the decline in intrinsic value in post completion activity are due to both shrink in predicted earnings and to a smaller degree boost in forecast overall cost of capital.

61. Subhan Ullah.et.al (2010), examined that, the corporate marriage is long lasting and productive in terms of value to the firm through investigating the pre and post mergers performance. The analyses consider the Net Present Value (NPV) approach of valuation. The result suggests that, the stock prices under perform both in absolute and relative terms against the market index. The mergers have resulted in a substantial Research and Development (R&D) reduction and downsizing instead of a potential employment haven

2.8 - Research gaps

The previous studies analyze the performance by considering equal time limit for long term as well as short term. Therefore, this research analysis depend on the long term performance in terms of value added/ shortfall by comparing three years before the acquisition and three years after the acquisition shows that acquirers of targets firms improve the economic value added as the value addition as a result of the acquisition or not.

Mergers and Acquisitions create a value for the acquiring firm in terms of short term profitability and operating performance but generally struggle to realize longer-term value. This is an outwardly contradictory result which can perhaps be explained by the timing issues surrounding the deals.

Previous research had mainly focused on ascertaining whether or not, acquisitions create value. It seems there is some support for a positive, negative and in few cases the results are contradictory in most of global mergers and acquisitions. Therefore, this study focuses on investigating the impact of Indian acquiring firms on value creation matters.

Performance measured by long run event studies is overwhelmingly negative, while the evidence using accounting performance measures are mixed. There is no evidence that Mergers and Acquisitions value of firm improves overtime. Indeed, there is some evidence that more recent Mergers and Acquisitions may have been the most detrimental to shareholders wealth. Hence, this study confined to 3 years before acquisition and 3 years after acquisition to reduce contradictory and financial tools are confined to profitability, operating and leverage position for evaluating the value of the firm.

According to the previous studies, the observations of firm value are few. In those few studies are normally considered the market capitalization and enterprise value for evaluating the firm performance and firm value. Therefore, this study has mainly focused on Economic Value Added (EVA) as a performance metric to identify the value added or shortfall in the post period of Mergers and Acquisition. Based on the economic value added model, the calculations are done to find out Firm Value, Economic Value Added and Value Added/ Short Fall. The calculated value it helps analyze the relative objectives which are framed.