

MERGER AND ACQUISITIONS

T1311

No. Credits 02

No. Hours 30

Mr. Aditya Mishra

Advocate, Supreme Court of India

Founder & Managing Trustee, Law Mantra

Pursuing Ph.D. (Law)- Rajiv Gandhi National Law University, Punjab

Alumni: National Law University and Judicial Academy, Assam & BVP-Pune

Program Objective:-

- ▶ By Studying law in the particular context of humanities and social sciences the students are groomed to respond to governance, administration and human behavior.
- ▶ Student's gain an edge over other peers to lead and shape social and public enterprises such as the State, Community organization and Social Enterprises.
- ▶ Course curriculum facilitates learning Law in a profound way in response to contemporary development with hands on experience in legal knowledge and skills in value frame work in fast changing India set in a de-globalizing world.
- ▶ The Student will be groomed in intellectual integrity, ethics.
- ▶ The Student will improve cognitive, problem solving skills, independent critical thinking with research capabilities
- ▶ Students will be able to cultivate the ability to appreciate role of lawyers injustice education in Globalising world, sustainability, poverty and vulnerability.

Course Objectives:

- ▶ CO (1) To understand the economic activity of M & A taking place in the Indian economy.;
- ▶ CO (2) To understand the merger and acquisition process in the capital market.;
- ▶ CO (3) To understand the leading methods used in the valuation of a firm for merger analysis..
- ▶ CO (4) To understand the techniques of corporate restructuring.

Statutes:

- ▶ Companies Act 2013
- ▶ Companies Act, 1956
- ▶ The Competition Act, 2002
- ▶ Foreign Exchange Management Act, 1999
- ▶ SEBI Take over Code 1994
- ▶ The Indian Income Tax Act (ITA), 1961
- ▶ “Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) (Second Amendment) Regulation, 2018”

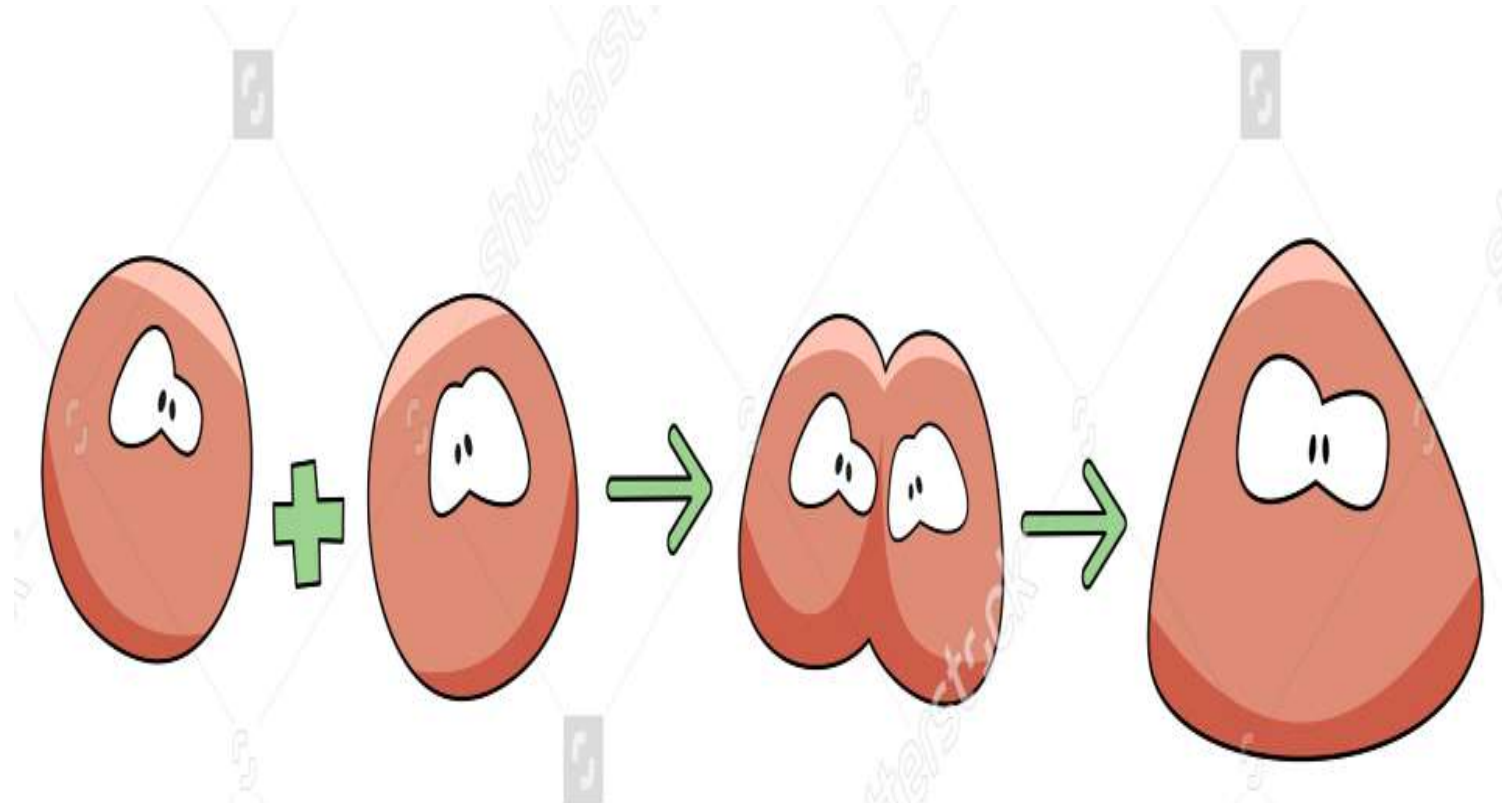
Case Studies

- ▶ Vodafone-Idea Merger
- ▶ L&T's Acquisition of Mindtree
- ▶ Flipkart's acquisition of Myntra
- ▶ Sun-Pharmaceuticals & Ranbaxy Merger
- ▶ Thomas Cook & Sterling Holidays Merger
- ▶ Vedanta & Cairn India Merger
- ▶ Tata Steel & Corus
- ▶ Flipkart & Ebay
- ▶ Axis Bank & Freecharge
- ▶ Telenor, Airtel & Tatatel

WHAT IS MERGERS AND ACQUISITION?

Mergers and acquisitions (M&A) are defined as **consolidation** of companies.





MERGER

WHAT IS MERGER?

- Mergers is the **combination of two companies** to form **one new company**.
- The combination of the two companies involves a **transfer of ownership**.
- Both companies **surrender their stock** and **issue new stock** as a new company.

WAYS OF MERGER

A MERRGER CAN TAKES PLACE IN FOLLOWING

WAY:

- BUY PURCHASING OF **ASSETS**
- **BUY PURCHASING COMMON SHARES**
 - BY EXCHANGING **SHARES FOR ASSETS**
 - BY EXCHANGING **SHARES FOR SHARES**

TYPES OF MERGERS

1. Horizontal Mergers
2. Vertical Mergers
3. Conglomerate Mergers
4. Concentric Mergers

1. HORIZONTAL MERGERS

A Merger occurring between companies in the same industry



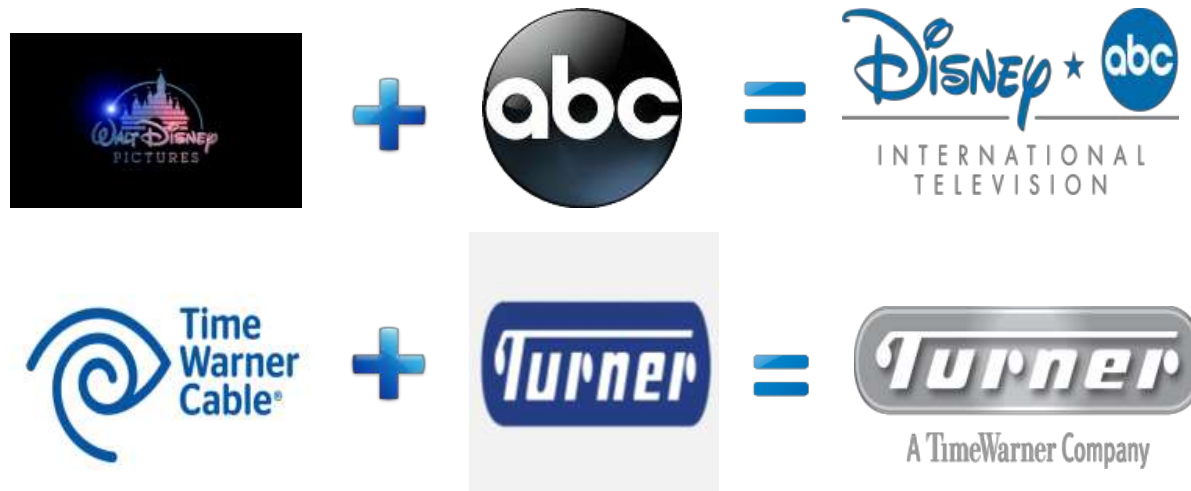
2. VERTICAL MERGER

When two companies produce same goods and services for one specific product



3. CONGLOMERATE MERGERS

A merger between firm involved in totally unrelated business activity



4. CONCENTRIC MERGERS

The merger of firms which are into similar type of business





WHAT IS ACQUISITION?

When one company takes over another and **clearly established** itself as a **new owner** , the purchase is called an acquisition



TYPES OF ACQUISITION?

- 1. Friendly acquisition**
- 2. Reverse acquisition**
- 3. Back flip acquisition**
- 4. Hostile acquisition**

1. FRIENDLY ACQUISITION

Both the companies approve the acquisition under **friendly** terms.

EXAMPLE:



1.75 billion euro's (\$2.37 billion)

2. REVERSE ACQUISITION

A **private** company takes over a **public** company.

EXAMPLE:

clearwire®
wireless broadband



3. BACK FLIP ACQUISITION

The **purchasing company** becomes a **subsidiary** of the purchased company.

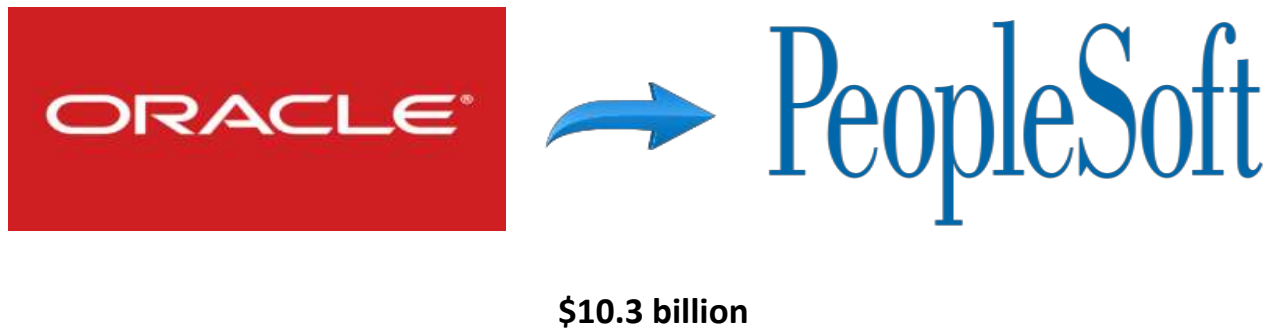
EXAMPLE:



4. HOSTILE ACQUISITION

Here, the entire process is done by **force**.

EXAMPLE:



DIFFERENCES BETWEEN M&A

| <u>BASIS</u> | <u>MERGERS</u> | <u>ACQUISITION</u> |
|---------------------------|--|---|
| MEANING | Fusion of two or more companies voluntarily form a new company | When one entity purchases the business of other entity |
| Formation of new firm | yes | no |
| purpose | To decrease competition & increase operational efficiency | For instantaneous growth |
| Size of business | Size of merging companies is more or less same | Size of the acquiring company is bigger than acquired company |
| No. of companies involved | 3 | 2 |

MERGERS: WHY & WHY NOT

WHY IS IT IMPORTANT

- Increase market share
- Economies of scale
- Profit for research and development
- Reduction of competition

PROBLEM WITH MERGER

- Clash of corporate cultures
- Increased business complexity
- Employees may be resistant to change

ACQUISITION: WHY & WHY NOT

WHY IS IT IMPORTANT

- Increase market share.
- Increased diversification.
- excessive competition and cost maximization

PROBLEM WITH ACQUISITION

- Inadequate valuation of target.
- Inability to achieve synergy.
- Finance by taking huge debt

MOTIVES FOR MERGERS & ACQUISITION

- Economies of large scale business:
Enjoys both internal and external economies.
- Elimination of competition:
It eliminates intense & wasteful expenditure by different competing organization.
- Desire to enjoy monopoly power:
M&A leads to monopolistic control in the market.
- Adoption of modern technology:
corporate organization require large resources.

BENEFITS OF MERGERS & ACQUISITION

- Greater value generation:

M&A generally succeed in generating cost efficiency through the implementation of economies of scale.

- Gaining cost efficiency:

The joint companies benefits in terms of cost efficiency. as 2 firms form new bigger company.

- Increase in market share:

An increase in market share is one of the possible benefits of M&A.

- Gain higher competitiveness:

The new firm is usually more cost-efficient and competitive as compared to its financially weak parent organization.

PROBLEMS OF MERGERS & ACQUISITION

- Integration difficulties
- Large or extraordinary debt
- Managers overly focused on acquisition
- Overly diversified

STRATEGIES OF MERGER AND ACQUISITION

- There is an important need to assess the market by deciding the growth factors through future market opportunities .
- The integration process should be taken in line with consent of management from both the companies venturing into the merger.
- Restructuring and future parameters should be decided with exchange of information and knowledge from both ends.

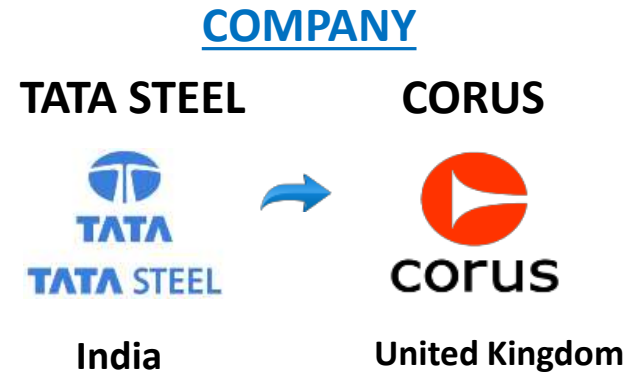
TOP 5 MERGER AND ACQUISITION DEALS



1.TATA STEEL–CORUS: (\$12.2 billion)



IMAGE:
Mutharaman, Tata Steel MD
Ratan Tata, Tata Chairman
J.Leng, Corus Chairman
Varin, Corus CEO



- January 30,2007
- Largest Indian Takeover
- After the deal TATA'S became the 5th largest STEEL company
- 100 % stake in CORUS paying Rs 428/- per share

2.VODAFONE-HUTCHISON ESSAR: (\$11.1 billion)



IMAGE:
ARUN SARIN, CEO of Vodafone and
ASIM GHOSH, MD of Hutchison Essar

COMPANY

VODAFONE → HUTCHISON ESSAR



United Kingdom



India

- TELECOM sector
- 11 February 2007
- 2nd Largest takeover deal
- 7 % stake holdings in Hutch

3.HINDALCO-NOVELIS: (\$6 billion)



IMAGE:
**KUMAR MANGALAM, Aditya Birla Group
Chairman.**
STEVE FISHER, Novelis Chairman .

COMPANY

HINDALCO



NOVELIS



- June 2008
- Hindalco aquired noviles
- Hindalco entered fortune-500 listing of worlds largest companies by sales revenue

4. RANBAXY- DAIICHI SANKYO (\$4.5billion)



IMAGE:

**MALVINDER SINGH, ex CEO of Ranbaxy.
TAKASHI SHODA, President & CEO of
Daiichi Sankyo.**

COMPANY

RANBAXY

RANBAXY

India

DAIICHI SANKYO



Daiichi-Sankyo

Japan

- Pharmaceuticals sector.
 - June 2008.
- Largest ever deal in the indian pharma.
- Daiichi sankyo has mejarity stake of more than 50 % in ranboxy .
- 15th biggest drug maker.

5.ONGC–IMPERIAL ENERGY: (\$2.8 billion)



IMAGE:

CHRISTOPHER HOPKINSON, Imperial
ENERGY, CEO.

DINEDH KUMAR SARRAF, MD and chairman,
ONGC.

COMPANY

ONGC

IMPERIAL ENERGY



India

United Kingdom

- January 2009.
- Imperial energy company is one of the biggest UK company.
- ONGC has 97 % of stake in Imperial energy .
- ONGC wanted to tap Siberian market.