**Introduction**

**Introduction to Merger and Acquisition:**

Merger and acquisition refers to the aspects of corporate strategy, corporate finance and management dealing with the buying and selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly with out having to create another business entity.

An acquisition is friendly or hostile. In a friendly takeover a companies cooperate in negotiation. In the hostile takeover, the takeover target is unwilling to be bought or the target board has no prior knowledge of the offer. Acquisitions usually refers to a purchase of a smaller firm by a larger one. Sometimes, however, a smaller firm will acquire management control of a larger or longer established company and keep its name for the combines entity. This is known as reverse takeover.

Although merger and amalgamation mean the same, there is a small difference between the two. In a merger one company acquires the other and the other ceases to exist. In an amalgamation two or more companies come together and form a new business entity.

The merging of two companies into one is not a recent idea - there were "waves" of corporate mergers back in the 1920s, the 1960s and the 1980s - but the enormous scale on which companies have swallowed each other up over the past decade far exceeds what has gone before. The total worldwide value of mergers and acquisitions in 1998 alone was $2.4 trillion, up by 50% from the previous year. However, research suggests that a large proportion of mergers and acquisitions do more harm than good to companies and their shareholders:

The process of mergers and acquisitions has gained substantial importance in today's corporate world. This process is extensively used for restructuring the business organizations. In India, the concept of mergers and acquisitions was initiated by the government bodies. Some well known financial organizations also took the necessary initiatives to restructure the corporate sector of India by adopting the mergers and acquisitions policies. The Indian economic reform since 1991 has opened up a whole lot of challenges both in the domestic and international spheres. The increased competition in the global market has prompted the Indian companies to go for mergers and acquisitions as an important strategic choice. The trends of mergers and acquisitions in India have changed over the years. The immediate effects of the mergers and acquisitions have also been diverse across the various sectors of the Indian economy.

**Mergers and Acquisitions across Indian Sectors**

Among the different Indian sectors that have resorted to mergers and acquisitions in recent times, telecom, finance, FMCG, construction materials, automobile industry and steel industry are worth mentioning. With the increasing number of Indian companies opting for mergers and acquisitions, India is now one of the leading nations in the world in terms of mergers and acquisitions.

The merger and acquisition business deals in India amounted to $40 billion during the initial 2 months in the year 2007. The total estimated value of mergers and acquisitions in India for 2007 was greater than $100 billion. It is twice the amount of mergers and acquisitions in 2006.
Motives behind M&A

The dominant rationale used to explain M&A activity is that acquiring firms seek improved financial performance. The following motives are considered to improve financial performance:

- **Economy of scale**: This refers to the fact that the combined company can often reduce its fixed costs by removing duplicate departments or operations, lowering the costs of the company relative to the same revenue stream, thus increasing profit margins.
- **Economy of scope**: This refers to the efficiencies primarily associated with demand-side changes, such as increasing or decreasing the scope of marketing and distribution, of different types of products.
- **Increased revenue or market share**: This assumes that the buyer will be absorbing a major competitor and thus increase its market power (by capturing increased market share) to set prices.
- **Cross-selling**: For example, a bank buying a stock broker could then sell its banking products to the stock broker's customers, while the broker can sign up the bank's customers for brokerage accounts. Or, a manufacturer can acquire and sell complementary products.
- **Synergy**: For example, managerial economies such as the increased opportunity of managerial specialization. Another example is purchasing economies due to increased order size and associated bulk-buying discounts.
- **Taxation**: A profitable company can buy a loss maker to use the target's loss as their advantage by reducing their tax liability. In the United States and many other countries, rules are in place to limit the ability of profitable companies to "shop" for loss making companies, limiting the tax motive of an acquiring company. Tax minimization strategies include purchasing assets of a non-performing company and reducing current tax liability under the Tanner-White PLLC Troubled Asset Recovery Plan.
- **Geographical or other diversification**: This is designed to smooth the earnings results of a company, which over the long term smoothens the stock price of a company, giving conservative investors more confidence in investing in the company. However, this does not always deliver value to shareholders (see below).
- **Resource transfer**: resources are unevenly distributed across firms (Barney, 1991) and the interaction of target and acquiring firm resources can create value through either overcoming
  - **Vertical integration**: occurs when an upstream and downstream firm merges (or one acquires the other). There are several reasons for this to occur. One reason is to internalize an externality problem. A common example is of such an externality is double marginalization. Double marginalization occurs when both the upstream and downstream firms have monopoly power; each firm reduces output from the competitive level to the monopoly level, creating two deadweight losses. By merging the vertically integrated firm can collect one deadweight loss by setting the downstream firm's output to the competitive level. This increases profits and consumer surplus. A merger that creates a vertically integrated firm can be profitable
Absorption of similar businesses under single management: similar portfolio invested by two different mutual funds namely united money market fund and united growth and income fund, caused the management to absorb united money market fund into united growth and income fund.

Classification of merger

**Horizontal merger**: Is the merger of two companies which are in produce of same products. This can be again classified into large horizontal merger and small horizontal merger. Horizontal Merger helps to come over from the competition between two companies merging together strengthens the company to compete with other companies. Horizontal merger between the small companies would not effect the industry in large but between the larger companies will make

**Vertical merger** Is a merger between to companies producing different goods or services for specific finished product. Vertical merger takes between the customer and company or a company and supplier of its products.

**Conglomeration Merger**: Two mergers that have no common business area. A conglomeration is the merger of two companies that have no related products or markets.

Merger and Acquisition Advisory Firms:

As the growths are increasing of merger and acquisitions the corporate advisory has become a very important role in the merger and acquisition projects. Corporate advisory refers to the activity of advising organizations, including corporations, institutions and government bodies, on mergers and acquisitions and other transactions that involve a change in ownership of a company or business. In investment banking circles, this activity is commonly known by the general term M&A (Mergers and Acquisitions). Transaction types include mergers, acquisitions, disposals, defenses, spin-offs, demergers, joint ventures, privatizations, leveraged buyouts and many others. Transactions may be "public" transactions, where the target is a listed public company, or "private" transactions, where the target company is not listed. There will normally be a minimum of two parties to an M&A transaction, namely the bidder and the target. In a sale transaction, there will also be a vendor, i.e. the seller of the target business.

In practice, there may be a significant number of advisers on any particular M&A transaction. On a large, public transaction, these include:

- Financial advisers, usually investment banks and/or specialist corporate advisory firms. Typically both the bidder and the target (or vendor, in a sale transaction) will retain at least one financial adviser. On larger or more complex transactions, it is common for several financial advisers to be retained by each party to the transaction. In the UK, the Takeover Code mandates
the retention of an independent adviser by a target company and that the advice must be made known to shareholders

• Legal advisers, usually specialist corporate law advisers. External legal advisors are normally retained even when financial advisers are not used.

• Financiers, either investment banks and/or corporate banks, whose job is to arrange and/or provide the finance required for the bidder to complete the transaction.

• Independent experts, separate from the financial advisors to the bidder and target, are required in some markets such as Australia and New Zealand. Their role is to provide independent financial advice to the shareholders of the target company as to whether the transaction is in their best interests.

• Other advisers, including management consultants, accounting advisors, auditors and financial PR advisors.