PART A : Answer any two

Q1 (a) What is the strategic rationale for a merger deal? (3)

Answer : The strategic rationale for a merger deal includes :

1.Synergies: The combined company is worth more than the individual companies because of higher revenues and/or cost reductions

2.Acquiring resources: Companies can acquire resources like customers, talent, technology, or innovation capabilities etc. e.g. a company can merge with another company which have a technological edge to become more competitive in market place.

3. Grow quickly: Companies can undergo exponential growth in a short period of time through inorganic growth in the form of merger.

4. Mitigating weaknesses and strengthening combined strengths,

Q1 (b) What leads to the failure of a merger or acquisition ? How should a company ensure that merger or acquisition is successful?

Answer : A definite answer as to why mergers fail to generate value for acquiring shareholders cannot be provided because of a host of reasons for failure of M&A . Some of the important reasons include :

1. Unclear objectives, strategy, and metrics

2. Unclear governance and decision-making structures

3.Lack of a strategic plan as well as developing a clear integration plan

4. Failure to manage Post –Merger Integration

5. Lack of management involvement e.g. appointing M&A advisors at high costs for various services is almost mandatory for any large-size deal. But, leaving everything to them just because they get a high fee is a clear sign leading to failure.

6.Flawed data and incorrect analysis and overestimating Synergies which ultimately may result in overpaying for the company. In fact, when the acquirer fails to achieve the synergies required to compensate the price , the merger fails.

7.Faulty Evaluation of target company : Many times acquirers fail to carry out the detailed due diligence of the target company. They make a wrong assessment of the benefits from the acquisition and end up paying a higher price.

8.Overlook or ignore organizational culture and human capital issues and pay scant attention to integrating these softer issues into the "hard" integration process.

9. Poor Cultural Fits , Lack of Trust and Communication Barriers.

10. Inability to retain key people

11 Insufficient due diligence: For M&A becoming successful , it is important that both the acquirer and target must thoroughly perform the due diligence process to understand and assess how well the companies will work together post M&A.

12. Many acquisitions fail because of a mismatch in the size between acquirer and target. When a company acquires too big target, it leads to 'acquisition indigestion'

13. Poor Strategic Fit and Organization Fit

14. Excessive Leverage : Often cash merger causes the acquirer debt trapped. After the merger a major portion of the acquirer's earnings is consumed in interest payments.

15. Uncontrollable external factors and wrong time in industry cycle,

Crafting an effective M&A strategy is crucial for achieving success in the business world. The essential steps to follow when executing M&A deals so that success of the M&A deal is ensured includes :

1.Aligning business goals is a fundamental step in developing a successful merger and acquisition strategy. This involves identifying and ensuring that the objectives of both companies are in sync, allowing for seamless integration and increased synergy e.g. if

Company A aims to expand its product offering and access new markets, merging with Company B, which possesses a strong distribution network and complementary products, can create a competitive advantage. Therefore, by smart aligning of goals, companies can leverage their combined strengths and achieve shared objectives efficiently.

In fact, this step sets the foundation for a well-executed M&A process, driving value creation and growth.

2. Due Diligence is a critical step in M&A strategy, ensuring informed decision making and mitigating risks. By carefully evaluating the financial, legal, and operational aspects of a potential M&A , companies can avoid costly mistakes **e.g.** conducting comprehensive financial analysis helps uncover any hidden liabilities or overvalued assets, reviewing legal documentation can identify potential compliance issues. and understanding the operational capabilities and cultural fit of the target company allows for strategic planning and successful integration.

3. It is crucial to carefully assess the strategic fit and compatibility with the existing business, ensuring alignment of cultures, values, and goals.

4. A well-thought-out integration plan is a crucial component of any successful M&A strategy. It sets the foundation for a smooth transition and maximizes the potential for value creation. One important aspect of this plan is aligning the systems and processes of the two companies e.g. by integrating their IT infrastructure, both companies can benefit from streamlined operations and increased efficiency. Additionally, developing a comprehensive communication strategy ensures that employees are clear on the vision and objectives of the combined organization, fostering a sense of unity and minimizing disruption. Therefore, developing a detailed integration plan and proactive communication strategy is essential to minimize disruptions during the transition.

5.Once all due diligence has been completed and a comprehensive integration plan is in place, it is time to execute the deal. This involves the coordination of various stakeholders and the implementation of the integration plan. For example, combining different sales forces to streamline operations and increase market share can result in improved sales performance. Another practical example is consolidating supply chains to achieve cost savings and enhance overall efficiency. The execution phase is crucial for achieving the desired synergies and realizing the strategic value of the merger or acquisition.

6. Post-Merger evaluation and adjustment is an important phase in any M&A strategy. This stage allows companies to assess the success of the merger and make necessary adjustments for optimal performance. By analyzing key performance indicators and financial data, companies can identify areas of improvement and implement changes accordingly. For example, let's consider a hypothetical merger between a technology company and a software development firm. During the post-merger evaluation, they may find that their sales teams are duplicating efforts and not effectively targeting the right customer segments. As a result, the company have to decide on restructuring the sales department, reallocating resources and implementing new strategies to optimize customer outreach.

Another crucial aspect of post-merger evaluation is assessing cultural integration. By conducting employee surveys and interviews, companies can gauge how well teams are adapting to the new organizational structure. Based on the feedback received, companies can then implement training programs or cultural initiatives to foster better collaboration and a unified company culture. Hence, diligent post-merger integration is of utmost importance to fully leverage the synergies and realize the anticipated benefits.

7. A comprehensive analysis of potential risks and challenges should be conducted to devise contingency plans and overcome obstacles.

8..Engaging experienced advisors and experts in the M&A process can significantly enhance the chances of success.

Q1 (c) Why do companies go for restructuring exercises? Briefly discuss any three forms of restructuring exercises that are being practiced by Indian corporate houses.

Answer: Activities related to expansion or contraction of a firm’s operations or changes in its assets or financial or ownership structure are referred to as corporate restructuring.

Companies may undergo restructuring for a variety of reasons including financial, operational, and strategic goals.

1.Financial : Companies may restructure to improve profitability, reduce costs, or address financial distress. This could include cutting long-term expenses, abandoning unprofitable divisions, or reorganizing debt.

2.Operational : Companies may restructure to increase efficiency, access to operating efficiency.

3.Strategic : Companies may restructure to adapt to changing business environments, gain a competitive advantage, or shift their strategic focus.

Restructuring may involve other motives such as meeting liquidity problems, to become more competitive to respond to changes in business environment , reducing risk both business risk and financial risk , obtaining tax benefits and/or better tax efficiency , reviving a sick company and so on.

Forms of Corporate restructuring:

Corporate restructuring in India follow one of three basic forms :

1.Merger or Consolidation : A merger refers to the absorption of one firm by another. The acquiring firm retains its name and identity, and it acquires all of the assets and liabilities of the acquired firm. After a merger, the acquired firm ceases to exist as a separate business entity.

A consolidation is the same as a merger except that an entirely new firm is created. In a consolidation , both the acquiring firm and the acquired firm terminate their previous legal existence and become part of the new firm.

A merger is legally straightforward and does not cost as much as other forms of acquisition. It avoids the necessity of transferring title of each individual asset of the acquired firm to the acquiring firm.

On the basis of the line of business of merging companies , the mergers are classified as follows :

(a) Horizontal Merger : When two or more companies in the similar line of business merge together , it is horizontal merger e.g. two companies manufacturing cement combine together it is horizontal merger. The rationale for such mergers include elimination of competition, economies of scale in production , distribution & marketing, increase in market share & power and increase in synergy etc.

In recent times, Indian market has seen many horizontal mergers such as Myntra acquiring Jabong, OLA Cabs acquiring Taxi for sure and First Cry merging Baby Oye.

(b)Vertical Merger : It occurs when business firms in different stages of production or distribution combine together. Generally, in a vertical merger , the acquirer and the acquired companies are in the same industry with strong supplier –buyer relationship. The acquired company may be either a supplier or customer of the acquirer company. In vertical mergers ,

a firm may acquire another firm ‘upstream’ from it such as suppliers of raw materials and/or firms ‘downstream’ from it , such as its product distributors. The rationale for such mergers include providing opportunities for indirect price discrimination, creating barriers to entry of competitors, eliminating the suppliers or the distributors as the case may be with countervailing power, to minimize transaction cost of doing business and ensure assured supplies of products for running the business etc.

Example of vertical Merger : Microsoft’s 2014 acquisition of Nokia’s Devices and services division. This acquisition guaranteed Microsoft that Nokia would continue to offer telephones with Microsoft ‘s mobile operating system.

(c) Conglomerate Merger : It happens when the companies having unrelated business combine together. The main rationale for such merger is diversification of risk. Through a conglomerate merger , the acquiring company can enhance its overall stability in the fast changing and competitive market conditions and can also balance the total portfolio of business in terms of better use of resources available with it and generation of revenue. For Example, by 2015, Google had acquired more than 170 companies since 2003. And while all are familiar with Google’s Android OS for cell phones , what many may not be aware of is that Google acquired Android in 2015. In Indian scenario, L&T and Volta’s merger is termed as Conglomerate merger.

Example of successful mergers in India :

(a) India’s largest PSB , SBI , has brought in five of its associates into SBI .From the fiscal year 2018, all the associates will operate as SBI.
(b) The merger of Ambani Group entities, Reliance Petroleum Ltd. and Reliance Industries Ltd, resulting in one of the largest private firm in India , Reliance Industries Ltd. (RIL) .
(c) The merger of Hindustan Computers Ltd., Hindustan Instruments Ltd, Indian software company Ltd. and India Reprographics Ltd. resulted in one of the leading IT company of India namely HCL.

2.An acquisition is defined as a corporate transaction where one company purchases a portion or all of another company's shares or assets. In other words, an acquisition is the purchase by one company (the acquirer) of a substantial part of the assets or securities of another (the target company) . The purchase may be a division of the target company or a large part (or all) of the target company’s voting shares.

Acquisitions are typically made in order to take control of, and build on, the target company's strengths and capture synergies in operation, marketing , and R&D among others. Synergistic 100 percent acquisitions may also lead to a decrease in the cost of capital because the combined entity may be able to borrow at lower rates than standalone entities , or the combination may increase the debt capacity or reduce systematic risk.

Acquisitions are often amicable, meaning both companies are on-board with and negotiate the terms of the transaction.

The rationale for acquisition includes economies of scale that may arise from the acquisition allowing the combined firm to become more cost-efficient and profitable, greater pricing power from reduced competition and higher market share, which should result in higher margins and operating income, gaining access to new technologies etc. Moreover, acquisitions can also be used to diversify one company's portfolio and reduce risk by spreading out investments across different sectors.

Examples of successful acquisitions :

(a)Tata Steel-Corus Acquisition (2007): Among the few instances of an Indian company acquiring a western giant is Tata Steel's acquisition of Corus, a major European steel producer. It stands as one of the largest outbound acquisitions by an Indian company. Valued at approximately $12 billion, this deal propelled Tata Steel into the league of global steel giants. The acquisition provided Tata Steel with access to new markets, advanced technology, and a stronger global presence.

(b) **Hindalco-Novelis Acquisition (2007)**: Hindalco Industries, an Indian aluminum producer, made a significant mark on the global stage with its acquisition of Novelis, a leading player in aluminum rolled products. The deal, valued at around $6 billion, gave Hindalco access to Novelis' expertise, global customer base, and advanced technology. This acquisition elevated Hindalco's position as a global aluminum player and opened doors to new growth opportunities.

(c) Walmart-Flipkart Acquisition (2018): In a landmark move, retail giant Walmart acquired a majority stake in Flipkart, one of India's leading e-commerce companies. With a valuation of $16 billion, the acquisition marked Walmart's entry into the Indian market. The deal enabled Walmart to tap into India's burgeoning e-commerce sector and leverage Flipkart's extensive customer base and supply chain infrastructure.

3. Joint Venture (JV): There are three types of strategic alliances: Joint Venture, Equity Strategic Alliance, and Non-equity Strategic Alliance.

Joint venture is an agreement by two or more entities to accomplish specified business objective. It created for specific purpose it will dissolved after achieving object. Under this strategy, an entity is formed by two or more companies to undertake financial act together. The entity created is called the Joint Venture. Both the parties agree to contribute in proportion as agreed to form a new entity and also share the expenses, revenues and control of the company.

Joint ventures are increasingly becoming important strategic tools for companies as they respond to market disruptions and drive innovation and growth. A joint venture can provide the benefits of collaboration without the financial risks associated with an acquisition. Joint ventures (JVs) are a common method of combining the business prowess, industry expertise, and personnel of two otherwise unrelated companies. This type of partnership allows each participating company an opportunity to scale its resources to complete a specific project or goal while reducing total cost and spreading out the risks and liabilities inherent to the task.

Examples :

(a) Joint ventures has been an important part of McDonald's strategy for global growth. They partner with local businesses to access market knowledge, customers, and infrastructure. This helps them navigate competition and regulations in different countries.

(b) Tata Starbucks Private Limited, formerly known as Tata Starbucks Limited, is a 50:50 joint venture coffee company, owned by Tata Consumer Products and Starbucks Corporation, that owns and operates Starbucks outlets in India. India.

Q 2 (a) What do you mean by business alliances through joint Venture mode ?

Answer: Joint ventures (JVs) are a type of strategic alliance where two or more businesses combine their resources and capital to achieve a goal, such as a new project or business.
JVs can have many advantages, such as access to new markets, increased productivity, and lower production costs. Joint ventures offer several benefits. They allow businesses to pool resources, such as technology, industry expertise, and market access, leading to enhanced operational capacity and greater market penetration.

Examples :

(a) Joint venture of Union Bank of India and Dai-ichi life, a leading life insurance company of Japan . The JV is named as Star Union Dai-ichi Life Insurance Co. Ltd. (SUD Life)

(b) Joint venture of ICICI Bank, India's leading private sector bank, and Prudential plc, a prominent international financial services group headquartered in the UK . The JV is named as ICICI Prudential Life Insurance Company

(c) Joint venture between the Tata Group and the American International Group (AIG). The Tata Group holds 74% stake in the venture, while that of the AIG is 26% . The JV is named as Tata AIG General Insurance Co. Ltd.

(d) Joint venture between Tata Sons and Singapore Airlines, and is operated as Tata SIA Airlines Limited. The airline began operations on January 9, 2015, with its first flight between Delhi and Mumbai. The JV is named as Vistara

Q2.(b) Explain in brief the process of Deal Making in M&A.

Answer : M&A deal is the process of combining companies through various types of transactions. The most popular one is an acquisition, where one company buys another and transfers ownership. One of the biggest steps in the M&A process is analyzing and valuing acquisition targets. This usually involves two steps: valuing the target on a standalone basis and valuing the potential synergies of the deal.

The M&A process is a complex and multi-step procedure businesses undergo to merge with or acquire other companies. This includes formulating the strategy, target identification , deal structuring and negotiations, due diligence, closing the deal and post-merger integration..

Structuring an M&A deal:

The step by step process includes :

- ✓ Develop an acquisition strategy
- ✓ Search for potential target
- ✓ Initial acquisition conversations between parties
- ✓ Perform valuation analysis
- ✓ Negotiations
- ✓ Due diligence
- ✓ Purchase, sale contract, and financing
- ✓ Closing and integration of the acquisition

The M&A transaction can be divided in 5 Steps :

The 5 stages of an M&A transaction :

1.Assessment and preliminary review : This information highlights the history, products/services, supply chain and distribution networks, customer base, sales and marketing strategies, growth potential, management structure, competitive landscape, and, last but certainly not least, financial performance

2.Negotiation and Letter of Intent (LOI) .: A letter of intent (LOI) is often written to initiate a business transaction and help define expectations with customers, partners, and vendors before creating a binding agreement. One essential tool in this process is the M&A process letter, which serves as a roadmap for prospective buyers, outlining the steps and expectations involved in the sale.

M&A negotiations include a series of strategic discussions, financial evaluations, due diligence and legal considerations to define the terms and conditions of a transaction. Effective negotiations should lead to a mutually beneficial and value-creating outcome for all parties. Moreover, Deal Structuring is an integral part of the M&A process, where the objectives of all parties involved are prioritized. It involves determining the negotiation circumstances, identifying and managing risks, assessing risk tolerance, and establishing conditions for negotiations.

3.Due diligence : It is an evaluation process that is standard in any business deal to fully understand the risks and rewards of undertaking a M&A.

4. Negotiations and closing.

5.Post -closure integration/implementation. : Post-Merger Integration is the process of bringing two or more companies together with the aim of maximizing synergies to ensure that the deal lives up to its predicted value.

2(c) What do you understand by synergy? How is it created and measure*d?*

Synergy in M&A is simply the additional value created on business combination of two or more firms, which is more than the sum of value created by each individually. Synergy takes into consideration the **supplementary and complementary resources combination** that creates large value gain/ economic gains for the participating firms. M&A lead to expansion in some way or the other. They are based on the principle of synergy which says 2+2 = 5

There are five components of synergy:

1. Level A :Economies of scale

2.Level B :Economies of scope

3. Level C :Economies due to competitive positioning

4.Level D: Economies due to corporate positioning

5. Level E: Economies due to financial strategy

The first two levels are typically related to the enhancement of efficiency.

The next two levels relate to striving for greater effectiveness.

And finally, the last level relates to a portfolio approach to corporate strategy. This Level talks about diversification which could provide opportunities for the retention and growth of cash within the firm. For Example, there are a number of M&A that results in lesser tax outflows. Typically , the profits of one of the partners could be offset against the losses of another. Other financial benefits that fall within this category include advantages due to joint investment of cash proceeds.

Based on above, the sources of Synergy may be :

1. Revenue Enhancement : A combined firm may generate greater revenues than two separate firms. Increased revenues can come from marketing gains, strategic benefits and market power.
2. Cost Reductions : A combined firm may operate more efficiently than two separate firms. A merger can increase operating efficiency in ways like economy of scale, economies of vertical integration, technology transfers, complementary resources , elimination of inefficient management
3. Tax Gains : Tax Reduction may be a powerful incentive for some acquisitions. This reduction can come from
   - ✓ The use of tax losses
   - ✓ The use of unused debt capacity
   - ✓ The use of surplus funds
4. Reduced Capital Requirements : As due to economies of scale , mergers can reduce operating costs. It follows that mergers can reduce capital requirements (both fixed and working capital) as well

Synergy can be measured as under : .

1.Suppose firm A is contemplating acquiring firm B. The value of firm A is V_A and the value of firm B is V_B. (It is reasonable to assume that for listed companies, V_A and V_B can be determined by observing the market prices of the outstanding securities). The difference between the value of the combined firm V_{AB} and the sum of the values of the firms as separate entities is the synergy from the M&A.

Synergy = V_{AB} --- (V_A + V_B)

In words, synergy occurs if the value of the combined firm after the merger is greater than the sum of the value of the acquiring firm and the value of the acquired firm before merger.

2. Where does Synergy come from ?

As we know that earnings and its resultant cash flows (CF) create value. We define incremental CF at date t , as the difference between the cash flows at date t of the combined firm and the sum of the CF of the two separate firms.

We know that the CF in any period t can be written as :

Incremental CF of acquisition at date t = Incremental Revenue at date t of the acquisition – Incremental Costs at date t of the acquisition – Incremental acquisition Taxes at date t --- Incremental Capital Requirements at date t

Here, Incremental Capital Requirements is the incremental new investment required in fixed assets and working capital

It follows from the classification of incremental cash flows that the possible sources of synergy fall into four basic categories : Revenue enhancement, Cost reduction, Lower taxes , and Capital requirements. Therefore, improvements in at least one of these four basic categories create synergy.

3. The synergistic gains as discussed above are shared between the two firms i.e. the acquirer and the acquired. In general , the acquiring firm pays a premium for the acquired or target firm. For example, , if the stock of the target firm is selling for Rs. 50, the acquirer might need to pay Rs.60 a share, implying a premium of Rs. 10 or 20%. The gain to the target firm here is Rs. 10.

Now, Suppose that the synergy from the merger is Rs. 30. The gain to the acquiring firm would be Rs.20 i.e. (Rs. 30 – Rs.10) . The acquirer would actually lose if the synergy were less than the premium of Rs. 10.

In real life situations there may be other motives of M&A besides synergy. The managers are likely to view a potential merger differently. Even if the synergy from the merger is less than the premium paid to the target , the managers of the acquiring firm may still benefit . For example, the revenues of the combined firm after the merger will almost certainly be greater than the revenues o the acquiring firm before the merger. The managers may receive higher compensation once they are managing a larger firm. Even beyond the increase in compensation , managers generally experience greater prestige and power when managing a larger firm. Conversely, the managers of the target could lose their jobs after the acquisition. They might very well oppose the takeover even if their shareholders would benefit from the premium.

Q3(a) What is Due Diligence?

Answer : Due diligence is a systematic process of acquiring and analyzing information that help a buyer or a seller determine whether to proceed with the transaction. The information obtained relates to all aspects of the business to be purchased.

Due Diligence process evolves from the legal concept" caveat emptor' i.e. take utmost care to examine various aspects of the prospective target company before going forward in deal process It starts with the detailed investigation process by an investor or his advisor(s) for the target company's business.

It investigates the target company's financial, legal & operational aspects. It allows acquirer to identify potential risks and liabilities associated with target company's and make informed decision

Due diligence on transactions are getting more robust, with –in depth coverage limited not only to the financial, commercial, tax and legal aspects of a transition , *but also extending to promoters background checks on ethics, and corporate governance practices because of big M&A failure stories across the globe.*

Q3 (b) Differentiate between sell-off and spin-off with suitable examples.

Sell-offs- In this type of restructuring, the parent company divests a part of the company to a third party for cash or securities. Such sale may cover assets, product lines, divisions of the undertaking or subsidiaries.

Sell-offs is similar to 'Divestiture'. Divestiture involves the sale of a division , unit or a part of the asset of a company to another. Divestiture may be adopted due to operational contingencies, such as inadequate size of operation, poor performance or debt reduction.

In a sell-off the seller may benefit from the sale proceeds, which could be put to more profitable use in other businesses within the group or the sale proceeds could be used to mitigate financial distress. Sell off may also add value to the seller by eliminating negative synergy or by releasing managerial resources to the divested business.

Example : (a) .CEAT Ltd. sold its nylon cord division to SRF India (b) Piramal Health Care sold its pharmaceuticals business to Abbott Laboratories (c) TISCO sold its cement plant to Lafarge.

Spin offs –

In this type of restructuring, an existing (parent company) company , spin –off its division or business unit into a new independent company or set up as its subsidiary. In other words, it is a creation of a new legal entity by the parent company.

The existing shareholders in the parent company get proportionate shareholding in the newly created company. So, there is no change in ownership and the same shareholders continue to own the newly created entity in the same proportion as previously held in the parent company. There is no money transaction and subsidiary assets are not re-valued . After spin-offs, the shareholders own shares in the two companies rather their just one.

Spin-offs is regarded as devices for enhancing corporate values by raising efficiency and performance. The principal sources of efficiency gain and performance improvement are as follows:

(a) **Sharper focus :** Provide a greater focus to each of the spin-off businesses of the company as well as to unlock shareholder value.

(b) **Improved incentives & Accountability :** A spin-off strengthens managerial incentives and heightened its accountability.

(c) **Division of a Business Empire :** An effective way of dividing a business empire and resolving the issue of succession

Unlike, sell-offs / divestitures the parent company does not receive any payment in case of spin-off

Examples :

(a) RIL spin-off of Jio Financial services as a separate company

(b) Voltas Ltd. (A Tata Group Company) transferred its Switch Gear & Transformers businesses as going concern to Voltas Switch Gears Ltd. and Voltas Transformers Ltd. Thus, the parent company (Voltas Ltd) has created two wholly owned subsidiaries i.e. Voltas Switch Gears Ltd. and Voltas Transformers Ltd

(c) American Tel com Giant – AT&T got split-up into 4 separate units namely AT&T wireless, AT&T Broadband, AT&T Consumer and AT & T Business.

(d) Max India Ltd. spin-off its division, Max Healthcare and formed a new company known as Max Healthcare Institute Ltd.

Q3(c)Explain the concepts of horizontal merger , vertical merger and conglomerate merger

Answer :

Horizontal merger : A horizontal Merger involves two firms operating & competing in the same type of business activity. For Example , merger between firms engaged in Confectionary manufacturing and soft drinks manufacturing., a burger chain acquirers another burger chain to increase the number of stores and presence in the community .The key objective here is to gain greater market share through economies of scale (cost efficiency)

The rationale for horizontal mergers include elimination of competition, economies of scale in production , distribution & marketing, increase in market share & power and increase in synergy etc.

Since horizontal merger involves two or more firms operating and competing in the same type of business activity, it decrease the number of firms in an industry and this makes it easier for the industry members to collude for monopoly profits. and/or enabling it to engage in anti- competitive practices.

In recent times, Indian market has seen many horizontal mergers such as Myntra acquiring Jabong, OLA Cabs acquiring Taxi for sure and First Cry merging Baby Oye.

The merger of RPL with RIL in 2002 represents the largest ever merger in India creating the country's largest private sector company on various financial parameters , such as sales, assets, net worth, cash profits etc.

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Vertical merger : It occurs between firms in different stages of production operation. When firms involved in different stages of production or services (value chain) combine to gain competitive advantage , it is called vertical merger. A vertical merger integrates the

operations of a supplier and a customer In vertical mergers , a firm may acquire another firm 'upstream' from it such as suppliers of raw materials and/or firms 'downstream' from it , such as its product distributors.

Thus, vertical mergers may be a forward or backward .In a forward vertical merger, the supplier acquires the customer. Here, the company may merge with its customer, dealer and distributors e.g. a dairy farming/processing plant acquires a cheese manufacturing plant, Reliance Petroleum could integrate forward if it decides to sell its entire output through its own petrol pumps instead of through Indian Oil Corporation .

In a backward vertical merger , the customer acquires the supplier. Here, the company may merge with its supplier of inputs e.g. a retail Stores chain acquired the source of manufacture, Coca-Cola integrated vertically backward when it bought its franchisers and bottlers.

There are many reasons, why firms might want to be vertically integrated between different stages of value chain. Transactions within a firm may eliminate the costs of searching for prices, contracting, payment collecting and advertising and may also reduce the costs of communicating and of co-ordinating production. Moreover, planning for inventory and production may be improved due to more efficient information flow within a single firm.

Therefore, the rationale for vertical mergers include providing opportunities for indirect price discrimination, creating barriers to entry of competitors, eliminating the suppliers or the distributors as the case may be with countervailing power, to minimize transaction cost of doing business and ensure assured supplies of products for running the business etc.

Example of vertical Merger : Microsoft's 2014 acquisition of Nokia's Devices and services division. This acquisition guaranteed Microsoft that Nokia would continue to offer telephones with Microsoft 's mobile operating system.

Conglomerate merger: Firms involved in unrelated activities or different industries may combine generally to smooth out wide fluctuations in earnings to achieve consistent long-term growth. This type of arrangement can be very desirable when the investors in the newly created conglomerate want to create a strong presence in two different markets.. Generally,

firms in mature industries having poor prospects of growth diversify through this mechanism.

Among conglomerate mergers , three types have been distinguished i.e. (a) Product extension mergers broaden the product line of firms. These are mergers between firms in related business activities and may also be called concentric mergers. (b) A geographical market extension merger involves two firms whose operations have been conducted in no overlapping geographic areas. (c) Pure conglomerate mergers involves unconnected or unrelated business activities under a single banner.
The main rationale for such merger is diversification of risk. Through a conglomerate merger , the acquiring company can enhance its overall stability in the fast changing and competitive market conditions and can also balance the total portfolio of business in terms of better use of resources available with it and generation of revenue. For Example, by 2015, Google had acquired more than 170 companies since 2003. And while all are familiar with Google's Android OS for cell phones , what many may not be aware of is that Google acquired Android in 2015. In Indian scenario, L&T and Volta's merger is termed as Conglomerate merger.

Q4. Read the case study carefully and answer the following question.

(1) What do you mean by internal development/internal growth? What decides for the company to go for internal growth strategies or external growth strategies (mergers and acquisitions)?

Internal development and mergers are mutually supportive activities. Growing companies adopt various forms of M&As and other restructuring practices depending on the existing opportunities and limitations. The characteristic and competitive structure of an industry will affect the strategies employed The factors and situations favoring M&As in part relate to industry characteristics. In an industry with excess capacity, horizontal mergers call be used to close down high-cost firms to decrease industry supply and to boost efficiency in the balance firms. In addition, a number of industries, earlier operating on small-scale operations, have been rolled up into bigger units. The larger units have been able to achieve economies of scale not achieved by smaller individual units.

A few more advantages of M&As or external growth may also be highlighted. An acquisition helps the acquirer to acquire a firm already in place with a historical track record. Some complexities are still possible, but can be eased off to some extent

by appropriate due diligence.

An Acquisition usually involves paying a premium, but the cost of acquiring a company may be estimated in advance.

An acquisition may also represent acquiring a segment divested from another firm. The logic is that the segment can be managed in a better way when added to the activities of the buying firm. Another important motive for M&As is to increase the strength of the acquiring firm. For example, the exceptional growth of Cisco Systems was achieved by acquisition of companies with the technology and talent to expand capabilities.

Answer :

Restructuring is defined as " a set of discrete significant measures taken in order to boost growth and competitiveness of a firm and thereby to augment its value"

Restructuring generally includes a array of company actions, from selling business lines to attaining new business lines, entering into JVs, forming business alliances and so on

Big Sized companies started to continuously evaluate its portfolio of business, capital mix, and ownership and assets arrangements to find opportunities for increasing the shareholder value. In search of excellence and competitive edge, businesses experimenting with various tools and ideas.

Mergers & Acquisitions have emerged as one of the most potent tools of corporate consolidation and restructuring

Two ways to Growth :

Corporate enterprises can achieve growth through both internal and external growth strategies. Both should be mutually reinforcing. The firm has to take a strategic decision about a particular path based on its core competencies and related business models.

1.Greenfield expansions leading to *organic growth* in one's own unit may be by way of process of introducing or developing new products

2. Brownfield expansions leading to *inorganic growth* through business combinations which includes M&A, Takeovers, Alliances & Joint Ventures etc.

Business combinations/Restructuring through inorganic growth is an ideal mechanism of intensification in fast changing business environment because

- ✓ The world is moving at a rapid pace with changes in business models & business dynamic
- ✓ Increasing pressure on margins have necessitated higher volume of business, ensuing M&A ,
- ✓ Trends of demerger of non profitable businesses for sustainable development
- ✓ All round resource optimization in active businesses to reorganize functioning profit and to stay fit in competition
- ✓ Corporate are in a hurry to expand/reorganize to adapt to changing technologies, achieving core competency and remain competitive in market place with end objective of gaining market share and market power

Considering the underlying challenges, it is more important than ever for dealmakers to have a strategic roadmap for inorganic growth.

For buyers, that means the following:

- ✓ ensuring M&A **strategy** is aligned with corporate strategy, including transformation and business model reinvention
- ✓ evaluating how **AI** will impact business models—for the acquirer and the target
- ✓ conducting deeper **data analysis** and **due diligence** to increase confidence in the business case
- ✓ putting a plan in place to identify and retain key **talent**
- ✓ refining an approach to **sustainability** to both preserve and create value
- ✓ developing a **compelling equity story** with a robust value creation plan
- ✓ getting early **buy-in from investment committees and board**

For **sellers**, that means the following:

- ✓ conducting regular **strategic reviews** to ensure the company's portfolio is optimised including considering the disposal of non-performing or non-core parts of the business
- ✓ performing in-depth **pre-sale preparation**, including comprehensive business due diligence and scenario planning
- ✓ ensuring **credible links between offering documents and supporting data**, including historical and projected financial information

Both buyers and sellers will need to be open to alternative structures, including partnerships, alliances, rolling part of a seller's equity interest, earn outs and other forms of capital structuring

Companies expect to get the following advantages through various corporate restructuring strategies:

- **Market Share** — Mergers provide for a larger share of the combined market for the merged firm. Increasing your market share is as simple as offering your customers more of what they want and need. One way to achieve this result is through a horizontal merger. **Reduced Competition** -Company restructuring strategies resulting in a horizontal merger also have the added benefit of reducing competition.
- **Scale in Growth** — Mergers and acquisitions allow companies to increase in size and become a more dominant force in the marketplace than their rivals. If you want to build a business by organic means, you'll have to wait for a long time. However, acquisitions and mergers (i.e., inorganic expansion) may accomplish this in rapid succession
- **Scale in Cost** — It is possible to reduce the cost per unit of production by merging two or more businesses. The fixed cost per unit decreases when the total output of a product rises.
- **Tax Advantages** — Companies often utilize mergers and acquisitions for tax reasons, particularly in cases where a profit-and-loss firm merges with another. The set-off and carry-forward provisions of Section 72A of the Income Tax Act, 1961, provide a significant tax benefit.

- **Technology Adoption** — Companies must pay attention to new technological breakthroughs and how they might be applied to the commercial world. Enterprises can gain a competitive advantage by acquiring smaller firms that have unique technology.
- **Brand Adoption** — Brand loyalty is a huge driving factor in sales, and many companies will opt to buy a well-known brand rather than start from scratch in order to reap the benefits.
- **Diversification** — Some companies hope to expand their offerings via the joining of businesses engaged in unconnected fields. It aids in the smoothing of the company's business cycles, hence lowering risk by having a large number of enterprises.
- **Saving an Insolvent Company** — The Insolvency and Bankruptcy Code, 2016 has opened up a new channel for the purchase of a company that is in the process of going bankrupt