International Journal of Trend in Scientific Research and Development, Volume 1(3), ISSN: 2456-6470
www.ijtsrd.com

Recent Trends in Mergers and Acquisitions in Indian Cement Industry - An Overview

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ABSTRACT

As we know that economic reform has opened up new challenge, competition among various sectors of the world. These competitions compelled the Indian companies to go for mergers and acquisitions. Mergers and acquisitions are useful for consolidation of markets as well as for gaining a competitive edge in the various sectors of the economy. The immediate effects of the mergers and acquisitions have also been diverse across the various sectors of the Indian economy after 2007. In this context the researcher focuses how the mergers and acquisitions market has experienced an exponential growth. The main objective of this paper is to examine the trends of merger and acquisition in corporate sectors after and before economic reform 1991 in India in the form of mergers and acquisitions deals and also in the GDP The paper recommends that the government may take initiatives for promulgating flexible rules and regulations to avoid the difficulties in the mergers and acquisitions. The financial reforms and convenient rules and regulations have contributed to the growing trends of mergers and acquisitions in India.

KEYWORDS: *economic reform, Mergers and Acquisition, cement consumption, cement production*

INTRODUCTION

Mergers and acquisition has a very long history; it has been existed at least since the 1900s.[1] However, the saliency of M&A has increased considerably during the past two decades as numerous US firms have adopted M&A as a common corporate strategy to expand their organizational capabilities and to take better competitive market positions.[2] This propagation continued during the 1990s, and beyond, including 7,809 M&A transactions with a total value of $1.19 trillion in the United States in 1998 alone.[3] In the process of global waves of reforms there are increased competitions, new regulations and financing possibilities etc. Mergers and acquisitions (M&As) have become popular strategy since global reforms in India 1991. Merger and Acquisition is a process of restructuring the business organization. Today, India has become one of the leading nations in the world in terms of mergers and acquisitions. The estimated value of mergers and acquisitions in India for 2007 was greater than $100 billion which became greater than $700 billion in 2009-10. In this context my paper focuses on the issues of Mergers and Acquisitions in India before and after economic reforms in India. The paper also reveals the changes of the trends of mergers and acquisitions in India.

STATEMENT OF PROBLEM:

India has accepted the economic reforms in the year 1991. This policy has opened up a lot of challenges both in the domestic and international spheres because it implies free economy and open competition of world economy. These open competitions in the world market have prompted the Indian companies to go for mergers and acquisitions as an important strategic choice. The immediate effects of the mergers and acquisitions have also been diverse across the various sectors of the Indian economy.

REVIEW OF LITERATURE:

Nahavandi and Malekzadeh (1993) – he has highlighted that despite the popularity of Mergers and acquisitions, the general consensus is that about 80% of M&A do not reach to their financial goals. Sally Raid. (2007) – he concluded in his study that about

50% simply fail the Mergers and acquisitions in India. Lodorfor (2006) - he has studied the cultural clashes between the two merging companies. Simpson (2000) – the research shows that the opportunity for mergers fails is greatest during the integrated process. Integration fails because of improper managing and strategy, culture differences, delays in communication and lack of clear vision. Thus past research on M&A has focused on either the effect of various financial issues, but my paper focuses on trends of Mergers and acquisitions and global reforms.

OBJECTIVES:

The main objective of my paper is to analyze the trends in mergers and acquisitions from 2008 to 2016

METHODOLOGY:

This study is based in exploratory research method. The study is mainly conducted through the analysis of the available secondary data. The secondary data is collected for the period 2008- 2010 for the purpose of analysis of mergers and acquisition.

TRENDS OF MERGERS AND ACQUISITIONS:

There is growing opportunities for the players of the economy that are in position to acquisition to take advantages of competition raised due to world global reform. In the process of globalization there is need of huge fund as well as manpower and material resources. The business models are also changed. Firms or companies with exciting businesses, either in generating or distributing content, are being created right and left and can be purchased or partnered with very cheaply. Such opportunities can provide substantial value.[8]

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 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. Today the acquisition of foreign companies by the Indian businesses has been the latest trend in the Indian corporate sector. The following are the key factors behind the changing trends of mergers and acquisitions in India

1. Favourable government policies
2. Buoyancy in economy
3. Additional liquidity in the corporate sector
4. Dynamic attitudes of the Indian entrepreneurs

Along with these key factors the increased participation of the Indian companies in the global corporate sector has further facilitated the merger and acquisition activities in India.

As seen from past experience mergers and acquisitions are triggered by economic factors. The macroeconomic environment, which includes the growth in GDP, interest rates and monetary policies play a key role in designing the process of mergers or acquisitions between companies or organizations. The mergers and acquisitions were inspired by globalization. The Mergers took place mainly in the banking and telecommunications industries. They were mostly equity financed rather than debt financed. The mergers were driven long term rather than short term profit motives. Global markets are also considerably influenced by the merger and acquisition trends.

In the process of mergers and acquisitions 1270 Indian activities recorded deals worth of 50 billion USD. The number of activities have decreased by less 6 per cent and value of deals also decreased by 18 per cent in 2008 The share of Indian cross-border deals in the total value of deals has also decreased, but is still high with 66 per cent. Especially the number and value of foreign acquisitions in India has dropped. In respect to number of transactions almost all sectors have experienced a decrease with the notable exceptions of real estate retail, energy & power, and healthcare. The Indian Companies acquiring foreign businesses are more common since 2006-07. Buoyant Indian Economy, extra cash with Indian corporate, Government policies and newly found dynamism in Indian businessmen have all contributed to this new acquisition trend. This trend of Mergers and acquisitions of Indian companies in the world markets is an indication of the participation in the overall globalization process. The following table shows the Top ten Indian Companies acquired the foreign companies in the 2007-08. Out of the top Ten Indian Companies acquired the foreign companies the highest deal of mergers and acquisitions was Tata steel companies deal which is 1200 million dollar.

MARKET OVERVIEW

Industry to grow at 5-6 per cent CAGR between FY17 – FY20. Capacity addition of 133 million tons per annum (mtpa) between FY13-17. Cement consumption is expected to grow by 5.0-5.5 per cent in FY18 on the back of increased spends on roads and railways, push towards affordable housing by central government and materialisation of pent-up demand.

The pace of merger and acquisition activity in the Indian cement industry has picked up over the last year, with the country's leading cement producers in particular looking to strengthen their positions at the top.

The Aditya Birla Group's UltraTech Cement is leading the acquisition trail to build a stronger base. The company is currently the single-largest cement producer in India, with a total domestic capacity of 66.6Mta in 2017. One of the newest players in the local cement industry its domestic capacity has increased more than 10-fold since FY98 adopting a two-pronged strategy of organic and inorganic growth. Earlier this week, it was reported that the company is nearing completion of an agreement to acquire the cement division of Jaiprakash Associates for INR160bn, with local sources saying the deal is expected to close in July. This acquisition will increase UltraTech's capacity by a further 20Mta, and the group is currently constructing a 3.5Mta integrated plant in Dhar, in Madhya Pradesh. These additions will take UltraTech's Indian production base to more than 90Mta by the middle of 2019.

Meanwhile, LafargeHolcim has initiated a process of merging of its Indian operations ACC and Ambuja Cement following months of speculation that a union could be on the cards. With a capacity of 33.41Mta, ACC is the larger of the two, with 17 plants located across the country. Ambuja Cement has a capacity of 29.65Mta, spread across five integrated plants and eight grinding units. A combination of the two groups would give a combined capacity of 63Mta. The move is being considered "with a view to combine the strengths of both businesses so as to benefit all stakeholders," ACC said in a statement. Analysts believe the merger,

Graph No. 1
Cement consumption and production in India.

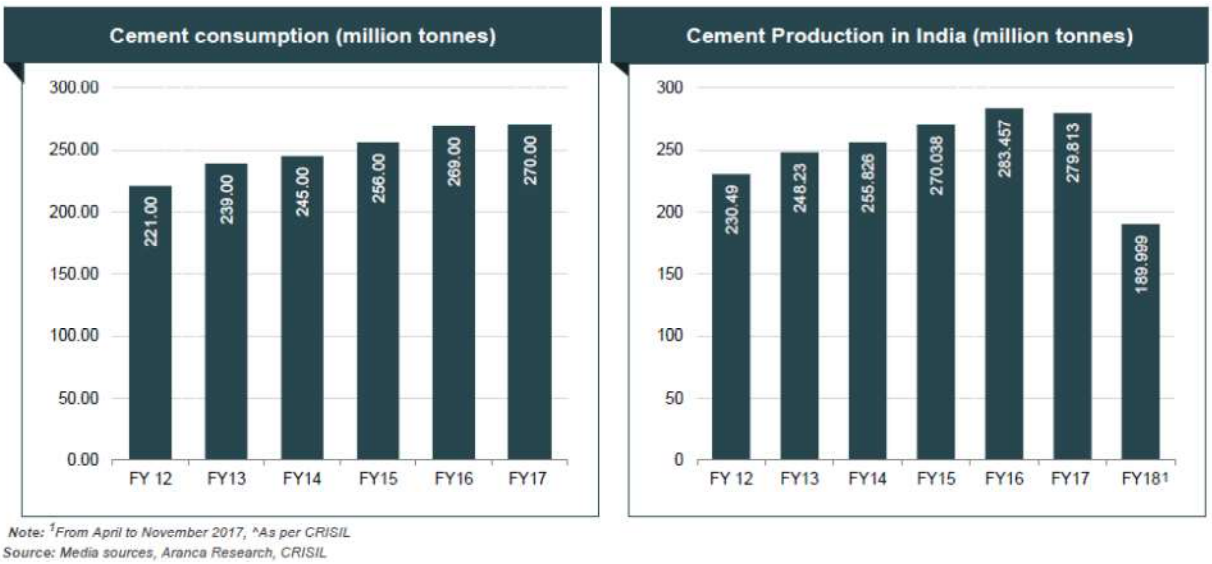

Table No.1
Top Acquisitions made by Indian companies

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