

USING MERGERS AND ACQUISITIONS AS STRATEGIC TOOLS: HOW DOES INDIA MEASURE UP?

James De Mello

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Despite the alarming evidence that almost 70% of mergers and acquisitions (M&A) end up causing a decline in shareholders' wealth for the acquiring company (1), and that about 40% of the completed M&A deals end up being divested or restructured within a few years (2), corporate executives around the world continue to use M&A as strategic alternatives to boost the sagging domestic growth rates and declining market shares that characterize most of the developed world.

Table 1 shows that although the annual number of worldwide M&A deals has declined since its peak in 2000, during 2002 and 2003 roughly 20,000 deals were completed each year for a transaction value of around 1.2 trillion dollars.

Critics argue that M&A deals lead to concentration of economic power, job losses, and loss of competitive strength thereby putting the smaller firms and general public at the mercy of the mighty multinational corporations (4). However, if well supervised and implemented, M&A can be used effectively to achieve profitable economies of scale, reduce capital costs, eliminate redundant expenses, and enhance market share. Most economists and practitioners agree that the dismal

track record of M&A is largely due to poor planning, implementation, and integration efforts on the part of corporate executives (5). Lack of efficacy in these critical areas leads to criticism, complaints, and eventually increased governmental regulation and control.

Table 1: Worldwide M&A Deals Completed During January 1995 through September 2004

Date Effective	Number of Deals	Deal Value (\$ Mil)
1995	17,420	530,006.3
1996	20,296	1,044,039.2
1997	22,415	1,299,201.3
1998	25,071	2,143,500.1
1999	27,177	2,359,143.6
2000	29,415	3,594,981.8
2001	22,883	2,122,364.2
2002	19,381	1,272,255.4
2003	20,165	1,163,789.7
2004	15,936	1,053,991.2
Industry Total	220,199	16,725,546.7

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With sluggish domestic economies, and shrinking market shares, corporate executives from developed countries like the USA and UK have been turning their sights on countries in Asia and Latin America. In particular, India and China, with their above average growth rates of between 6% to 8%, skilled workforce, and heavily populated economies, are commanding the most interest in Asia. China, with its historical welcoming of foreign direct investment, has thus far received the lion share of the global business pie, with foreign direct investment (FDI) into China dwarfing that into India by a ratio of almost 10 to 1 (6). India, for its part, has long steered clear of dependence on foreign capital and has chosen to nurture its domestic businesses, and reform its infrastructure and legal systems, albeit, at bullock cart speed (7). However, India's strategy may pay off in the years to come. In a recent paper, entitled "Can India Overtake China?" that was published in the prestigious Foreign Policy journal, Professors Tarun Khanna and Hasheng Yuang have predicted that if things go well, there is a good chance that India's homegrown entrepreneurs, strong intellectual capital base, and relatively more efficient banking and capital market systems will pay rich dividends and place India ahead of China on the global business map (8).

At the 2003 India Economic Summit, prominent political and business leaders carefully analyzed India's strengths and weaknesses, highlighted critical areas for reform, and presented key recommendations for future growth and development. Table 2 presents the recommendations that were made regarding Foreign Direct Investment, Globalization of Indian Industry, and Sino-China Relations. Noteworthy among the recommendations were the need for increasing FDI into India by highlighting India's success stories, increasing India's exports and global market reach, and learning from and collaborating with China, its foremost Asian competitor in the global economy (9).

The objective of this paper is to examine the domestic and cross-border M&A trends in India and China so as to understand and compare the restructuring strategies that have been undertaken by companies in these fast growing Asian economies and thus detect areas that need improvement or that offer opportunities for growth and development. The results of this research will be useful to corporate executives who are considering India as a business expansion and investment site, as well as public

Table 2: Key Recommendations from the India Economic Summit 2003

FOREIGN DIRECT INVESTMENT

- Ease procedural hassles
- Strengthen IPR laws, particularly in pharmaceutical and biotechnology
- **Improve India's image as an investment destination**
- Expedite the reform process and pay greater attention to implementation issues.
- **Highlight FOI success stories in India**
- Harness the Indian Diaspora as a source of investment and as a resource to improve the image of "Brand India"

GLOBALIZATION OF INDIAN INDUSTRY

- **Indian companies should aggressively tap global markets**
- Companies should adapt to the home market through research, delivery localization and innovation
- Companies should build credible brands
- Indian companies should take an export-led approach to enable them to become globally competitive and compete with multinational corporations

SINO-INDIAN RELATIONS

- Indian industry and government should look beyond Beijing and Shanghai for trade and investment, particularly as provinces in China are seeking to invest in India.
- **With both countries occupying different positions in global institutions, "niches" of collaborative engagement should be identified.**
- North-East India and South-West China should develop economic cooperation.
- India and China should collaborate in the field of both primary and secondary education

policy-makers as they consider suitable reforms and implementation plans that will take India closer to its goal of being one of the top 3 economies of the world.

DATA AND METHODOLOGY

The data for this study were collected from the Worldwide Mergers and Acquisitions database (Thomson Financial Corporation). Two separate sets of M&A deals were collected for the period January 1995 through September 2004. For the first data set we searched the database for all completed and unconditional M&A deals involving

Indian and Chinese firms as targets and domestic acquirers. For the second set, we searched the database for all completed and unconditional M&A deals in which foreign acquirers were involved (cross-border).

Each data set was carefully analyzed in terms of variables such as: target's industry group and specific sector, acquirer's industry and national affiliation, size, motive, and structure of the deal, acquisition techniques used, and stock premiums paid. Various summary statistics and data tables were compiled to support the findings. Accordingly, various comparative analyses were conducted to detect commonalities and differences in the way these fast growing Asian economies use M&A as strategic tools to deal with the strong winds of competition and globalization.

RESULTS

Worldwide Rankings

Table 3 presents the rankings of the top twenty countries based on the number of completed M&A deals during the

past decade. The USA and UK rank first and second respectively, followed by Germany and Canada. China ranked 15th, with 2544 completed deals involving Chinese target firms, and India ranked 19th with 2117 deals. In terms of transaction value, however, India ranks 38th with deal value totaling \$272 billion, well behind China, which is ranked 16th with transaction value.

What's the relative size of deals completed in India and China?

Table 4 presents the distribution of values of the various deals that were completed in India and China, respectively, by domestic and foreign acquiring firms. The vast majority of the deals (about 97%) in both countries tended to be worth less than \$200 million with an average of under \$20 million. However, while China has accounted for a few large sized deals (each valued at more than \$1 billion), India had not witnessed any domestic deal worth more than \$1 billion up until September 30th.

2004. Furthermore, foreign acquirers have accounted for proportionately more of the total dollars spent on M&A

Table 3 : India and China's Ranking in the Worldwide M&A Arena (1995.1 - 2004.3)

Rank	Target Nation	Ranking Value Inc. Net Debt of Target (\$ Mil)	Mkt. Share	Number of Deals	Rank
	Industry Total	17,391,095.0	1000	220,199	
1	United States of America	8,923,072.5	51.3	78,494	
2	United Kingdom	1,852,807.2	10.7	24,937	2
3	Germany	758,815.0	4.4	12,741	3
6	Canada	596,935.6	3.4	10,212	4
4	France	722,705.7	4.2	8,822	5
8	Australia	353,799.2	2.0	8,650	6
5	Japan	615,891.9	3.5	7,547	7
11	Spain	210,250.4	1.2	4,752	8
7	Italy	473,245.2	2.7	4,095	9
24	Malaysia	68,094.3	.4	3,890	10
9	Netherlands	286,344.7	1.7	3,335	11
10	Sweden	226,980.8	1.3	2,929	12
22	Finland	76,228.7	.4	2,585	13
14	Hong Kong	139,843.0	.8	2,581	14
16	China	127,841.4	.7	2,544	15
13	Switzerland	186,207.0	1.1	2,201	16
12	Brazil	202,210.8	1.2	2,185	17
20	South Africa	90,437.1	.5	2,121	18
38	India	27,206.5	.2	2,117	19
25	Singapore	62,610.7	.4	1,987	20

Table 4 : Size of Deals Completed in India and China involving Domestic Target Firms

Deal Value Range (\$ Mil.)	Number of Deals	India		China		
		Mkt. share	Deal Value (\$ Mil.)	Number of Deals	Mkt. Share	Deal Value (\$ Mil.)
<i>Deals by Domestic Acquirers</i>						
00 - 1999	613	97.8	8,400.5	861	96.3	14,018.4
200.1 - 4999	10	1.6	2,492.0	18	2.0	5,889.6
500.1 - 9999	4	.6	3,103.9	6	.7	3,804.0
1000.1 - 49999				7	.8	14,426.6
5000.1 - 149999				2	.2	2,001.1
15000.1 - 499999						
Deals with value	627	100.0	13,996.3	894	100.0	58,149.6
Deals without value	619			472		
Total Deals by Domestic Acquirers	1246			1366		
<i>Deals By Foreign Acquirers</i>						
00 - 199.9	421	97.2	8,573.7	668	95.8	12,004.8
200.1 - 499.9	9	2.1	2,723.9	15	2.2	3,933.3
500.1 - 999.9		.2	519.9	7	.10	4,438.7
1000.1 - 4999.9		.2	1,195.7	5	.7	8,911.0
5000.1 - 14999.9					.1	6,398.3
15000.1 - 49999.9					.1	34,007.7
Deals with value	433	100.0	13,213.2	697	100.0	69,693.8
Deals without value	438			481		
Total Deals by Foreign Acquirers	871			1178		
Country Total	2117		27,209.50	2544		127,843.40

deals in China (almost \$70 billion out of \$127 billion or 55%) than in India (49%). In fact, just one cross border deal in China valued at over \$34 billion was large enough to surpass India's total declared deal value of \$27.2 billion.

Which industry groups are seeing most of the domestic M&A action?

Table 5 presents the distribution of M&A deals across the Indian and Chinese target firms' broad industrial sectors. The Manufacturing sector accounted for more than 50% of the deals in both countries. The Services sector came in second with Indian firms accounting for more deals (612) than Chinese firms (561). However, the Chinese Services sector accounted for much more of the total value of deals completed in China i.e. \$81.5 billion out of \$127.8 billion worth, and far exceeded the total value of deals completed in India (\$27.2 billion). What is interesting is that the Trade and Natural Resource sectors have accounted for less than 9% of the total number of

deals in India and China (only 407 out of 4661 deals). Perhaps these are the sectors that could offer opportunities for restructuring.

Which specific industries do the targets belong to?

Table 6 presents the distribution of M&A deals in India and China based on the target firms' primary industry affiliation. In India, business services ranked first with 288 out of 2117 deals (13.6%), followed by investment and commodity firms (7.8%), pre-packaged software (6.8%), drugs (6.5%), and chemical and allied products (6.1%), to name the top 5 industries.

In China, on the other hand, investment and commodity firms ranked first (201 deals, 7.9%), closely followed by food and kindred products (6.6%), business services (6.5%), electronic and electrical equipment (6.3%), and real estate and mortgage bankers (5.4%). Thus, no particular industry seems to dominate the M&A scene in

Table 5 · Distribution of M&A Deals Across Target Industry Groups (1995-2004)

Deal Value Range (\$ Mil)	India				China	
	Number of Deals	Mkt. share	Deal Value (\$ Mil.)	Number of Deals	Mkt. Share	Deal Value (\$ Mil.)
DEALS BY DOMESTIC ACQUIRERS						
Manufacturing	633	50.8	6,234.0	724	53.0	12,203.6
Services	370	29.7	4,551.1	284	20.8	34,309.3
Financial	158	12.7	1,195.3	230	16.8	3,822.8
Trade	38	3.1	348.5	73	5.3	1,493.2
Natural Resources	45	3.6	1,633.9	50	3.7	6,272.9
Other	2	.2	33.4	5	4	47.9
Industry Total	1,246	100.0	13,996.3	1,366	100.0	58,149.6
With values	627			894		
Without values	69			472		
DEALS BY FOREIGN ACQUIRERS						
Manufacturing	461	52.9	5,079.0	609	51.7	12,906.20
Services	242	27.8	4,756.3	277	23.5	47,220.30
Financial	94	10.8	877.6	159	13.5	6,544.00
Trade	28	3.2	308.6	72	6.1	793.90
Natural Resources	45	5.2	2,184.2	56	4.8	2,093.10
Other		0.1	7.5	5	0.4	136.30
Industry Total	871	100	13,213.2	1,178	100	69,693.80
With values	433			697		
Without values	438			481		
Country Total	2,117		27,209.5	2,544		127,843.40

either of these two Asian giants, at least as far as frequency of deal making is concerned. However, in terms of transaction value, the Chinese telecommunication sector has dominated the scene with merely 60 deals accounting for almost \$70 billion. In India, there was no clearly dominant industry sector. An examination of the deals made by foreign acquirers in each of these two countries indicates that the distribution is similar, with manufacturing firms accounting for the largest number of deals in both countries.

Which countries do the foreign acquirers belong to?

Table 7 lists the national affiliations of the firms engaged in cross border deals with Indian and Chinese target firms. In India, firms from the USA have dominated the scene by being involved in almost 36% of the total number of cross border deals (312 out of 817 deals). UK firms came in a distant second with roughly 16% (142 deals) of the total number of deals, followed by Germany (47 deals), France (41 deals), and Japan (38 deals) to name the top five. European Firms have accounted for roughly 42% (369 deals) of the total number of deals in India.

In China, on the other hand, firms from Hong Kong have dominated the cross border M&A scene with 34% out of 1178 cross border deals (29%). U.S. firms ranked second with 237 deals (20.1%), followed by Singapore with 119 deals (10%), Japan with 85 deals (7.2%) and the United Kingdom (64 deals or 5.4%). European firms have thus far shown a relatively lower interest in completing M&A deals in China (19.7% or 232 deals).

Which industries do the acquiring firms belong to?

The information presented in Table 8, indicates that financial firms are heavily involved in acquiring domestic targets in both these Asian countries. Indian financial firms have used M&A more often (45.7%) than Chinese firms (40.1%), although the total value of the deals has been significantly less (\$4.3 billion versus \$3.6 billion). The ranking is reversed when cross border deals are considered. Foreign manufacturing firms dominate the M&A arena in China (45% versus 28%) as well as in India (43.3% versus 28.2%).

An examination of deal values indicates that in India, firms from the manufacturing sector have accounted for

Table 6 : Target Industry Distribution (Ranking based on number of deals)

Target Industry	Number of Deals	INDIA			Number of Deals	CHINA		
		Rank	Mkt. Share	Transaction Value (\$Mil)		Rank	Mkt. Share	Transaction Value (\$Mil)
Business Services	288		13.6	3,217.5	167	2	6.5	1,154.3
Investment & Commodity Firms/Dealers/Exch	166	2	7.8	719.2	201		7.9	2,280.4
Prepackaged Software	144	3	6.8	1,066.8	74	13	2.9	565.3
Drugs	137	4	6.5	1,241.8	97	9	3.8	699.2
Chemicals and Allied Products	130	5	6.1	2,966.2	134	6	5.3	1,850.7
Food and Kindred Products	103	6	4.9	831.5	167	3	6.6	2,500.0
Metal and Metal Products	84	7	4.0	1,320.4	110	7	4.3	2,987.4
Textile and Apparel Products	79	8	3.7	239.5	57	15	2.2	340.4
Machinery	74	9	3.5	388.9	97	10	3.8	977.3
Telecommunications	72	10	3.4	1,995.4	60	14	2.4	69,034.6
Electronic and Electrical Equipment	67	11	3.2	161.0	159	4	6.3	2,659.9
Stone, Clay, Glass, and Concrete Products	63	12	3.0	1,370.0	53	16	2.1	554.9
Electric, Gas, and Water Distribution	52	13	2.5	2,662.8	95	11	3.7	8,328.7
Hotels and Casinos	51	14	2.4	396.4	37	22	1.5	468.4
Oil and Gas: Petroleum Refining	45	15	2.1	2,163.8	43	19	1.7	7,071.6
Transportation Equipment	43	16	2.0	226.7	91	12	3.6	3,174.5
Credit Institutions	34	17	1.6	945.3	3	48	1	0
Transportation and Shipping (except air)	33	19	1.6	360.7	IOI	8	4.0	1,826.9
Agriculture, Forestry, and Fishing	33	18	1.6	1,443.1	21	31	0.8	257.8
Commercial Banks, Bank Holding Companies	31	20	1.5	382.5	28	26	1.1	461.1
Paper and Allied Products	29	21	1.4	280.8	42	20	1.7	919.1
Radio and Television Broadcasting Stations	24	22	1.1	243.7	16	38	0.6	38.5
Construction Firms	23	23	1.1	81.9	33	24	1.3	2,287.8
Wholesale Trade-Nondurable Goods	23	25	1.1	291.9	28	27	1.1	191.7
Measuring, Medical, Photo Equipment; Clocks	23	24	1.1	116.5	25	29	1.0	101.1
Communications Equipment	22	26	1.0	712.1	31	25	1.2	1,176.6
Rubber and Miscellaneous Plastic Products	20	27	1.0	78.8	51	17	2.0	624.7
Computer and Office Equipment	19	29	0.9	102.4	28	28	1.1	639.9
Advertising Services	19	28	0.9	5	19	35	0.8	76.2
Printing, Publishing, and Allied Services	18	31	0.9	52.4	14	40	0.6	31.1
Motion Picture Production and Distribution	18	30	0.9	210.5	3	49	1	11.1
Soaps, Cosmetics and Personal-Care Products	17	32	0.8	112.0	35	23	1.4	2,680.0
Wholesale Trade-Durable Goods	16	33	0.8	146.7	49	18	1.9	218.0
Miscellaneous Retail Trade	13	35	0.6	114.5	21	32	0.8	271.2
Health Services	13	34	0.6	28.6	7	43	0.3	9.0
Mining	12	36	0.6	211.3	42	21	1.7	1,036.6
Real Estate: Mortgage Bankers and Brokers	10	37	0.5	25.7	136	5	5.4	2,299.7
Educational Services	9	38	0.4	2.6	5	45	0.2	39.7
Miscellaneous Manufacturing	8	39	0.4	1.3	22	30	0.9	130.2
Air Transportation and Shipping	7	40	0.3	80.5	21	33	0.8	378.6

Table 7: Acquirer's National Affiliation

Acquirer Ultimate Parent Nation	Number of Deals	INDIA		Number of Deals	CHINA	
		Mkt. Share	Deal Value (\$ Mil)		Mkt. Share	Deal Value (\$ Mil)
United States of America	312	35.8	4546.7	237	20.1	8,765.3
United Kingdom	142	16.3	3,752.1	64	5.4	3,409.6
Germany	47	5.4	555.3	30	2.6	361.6
France	41	4.7	466.0	31	2.6	644.3
Japan	38	4.4	225.3	85	7.2	2,475.1
Netherlands	35	4.0	231.8	22	1.9	215.0
Singapore	30	3.4	594.5	119	10.1	1,759.8
Switzerland	26	3.0	122.6	13	1.1	134.3
Australia	24	2.8	590.3	20	1.7	171.1
Sweden	24	2.8	102.4	5	.4	53.0
Hong Kong	21	2.4	1,170.1	341	29.0	48,033.2
Malaysia	18	2.1	36.9	30	2.6	621.3
Mauritius	16	1.8	21.8			
Canada	15	1.7	267.9	30	2.6	163.2
Italy	10	1.2	121.7	7	.6	129.5
South Korea	6	.7	53.9	31	2.6	609.1
South Africa	6	.7	66.1	3	.3	37.5
Philippines	5	.6	30.0	3	.3	103.7
Bahrain	5	.6	2.0			
Finland	4	.5	23.3	9	.8	639.5
Denmark	4	.5	50.7	8	.7	113.0
Austria	4	.5	7.7	3	.3	2.5
Israel	4	.5	10.5		1	.0
Belgium	3	.3	.0	12	1.0	379.6
Thailand	3	.3	.0	7	.6	3.7
Norway	3	.3	.0	4	.3	.0
Supranational	3	.3	11.3	2	.2	362.0
Brazil	3	.3	2.3			
Qatar	3	.3	17.0			
United Arab Emirates	3	.3	70.3			
Bermuda	2	.2	24.5	5	.4	160.4
Spain	2	.2	23.0	4	.3	17.7
Indonesia	2	.2	.0	2	.2	61.2
Oman	2	.2	15.4			
Greece	1	.1	.0	2	.2	15.2
Mauritania	1	.1	.0			
Pakistan	1	.1	.0			
Sri Lanka	1	.1	.0			
Tunisia	1	.1	.0			
TOTAL	871	100.0	13,213.2	1,178	100.0	69,693.8

Table B : Acquiring Firms' Industry Affiliation

Acquirer Ultimate Parent Nation	Number of Deals	INDIA			CHINA		
		Mkt. Share	Deal Value (\$ Mil)	Number of Deals	Mkt. Share	Deal Value (\$ Mil)	
DOMESTIC ACQUIRERS							
Financial	569	45.7	4,302.6	548	40.1	3,670.3	
Manufacturing	405	32.5	5,694.0	467	34.2	7,189.3	
Services	203	16.3	2,340.2	215	15.7	33,339.4	
Other	22	1.8	153.8	52	3.8	261.1	
Trade	19	1.5	787.7	80	3.7	726.0	
Natural Resources	28	2.3	718.1	34	2.5	2,963.5	
Industry Total	1,246	100.0	13,996.3	1,366	100.0	58,149.6	
FOREIGN ACQUIRERS							
Manufacturing	377	43.3	4,795.9	529	44.9	11,918.1	
Financial	247	28.4	4,788.5	328	27.8	9,265.3	
Services	168	19.3	2,692.9	216	18.3	45,996.9	
Trade	32	3.7	81.5	56	4.8	1,990.0	
Natural Resources	38	4.4	792.8	39	3.3	203.4	
Other	9	1.0	61.6	10	0.9	320.1	
Industry Total	871	100.0	13,213.2	1,178	100.0	69,693.8	
Country Total	2,117		27,210	2,544		127,843	

a slightly larger proportion of transaction value in the case of domestic (40%) as well as cross border deals (36%) with financial firms ranking a close second. In China, however, acquiring firms from the service industry have accounted for the lion share of transaction value in both domestic (57%) and cross border (66%) deals.

Firms from the trade and natural resource sectors have been relatively less active in implementing M&A deals in both India and China, accounting for around 5% of the total number of deals. As pointed out earlier, these two sectors should be further investigated for possible restructuring opportunities and/or policy changes.

DEAL STRUCTURE

Corporations can restructure themselves in a variety of ways such as mergers, acquisitions of stock, asset acquisitions, buybacks, and exchange offers. Table 9 lists and defines the various forms of restructuring that firms generally use when undertaking M&A deals. Table 10 shows the distribution of the forms of M&A deals completed in India and China by domestic and foreign (Cross Border) acquirers respectively. Partial interest acquisitions far outnumbered all the other forms of M&A deals in both these Asian countries. In India, asset

acquisitions slightly outnumbered acquisitions of majority interest (424 deals versus 378 deals) primarily due to the structure of domestic deals. In China it was the other way around with acquisitions of majority interest outnumbering asset acquisitions (621 to 422 deals respectively). This was true in the case of both domestic as well as cross border deals. Mergers seem to be far less popular in both Asian countries (accounting for only around 10% of the total number of deals).

What are the popular acquisition techniques used in India and China?

Table 11 summarizes the distribution of acquisition techniques used by firms when completing M&A deals within India and China. Within India, domestic acquirers prefer to take advantage of opportunities arising from divestitures and privatization efforts via private negotiations, tender offers, open market purchases, stock swaps, and tender mergers. Although financial acquirers and investor groups tend to be heavily involved in both countries, leveraged buyouts and management buyouts tend to be hardly used. China far outnumbered India in terms of privatization deals in both the domestic as well as the cross border arenas. Foreign buyers used stock

Table 9 : Form of the Transaction

MERGER: A combination of business takes place or 100% of the stock of a public or private company is acquired.

ACQUISITION: deal in which 100% or a company is spun off or split off is classified as an acquisition by shareholders.

ACQUISITION OF MAJORITY INTEREST: the acquirer must have held less than 50% and be seeking to acquire 50% or more, but less than 100% of the target company's stock.

ACQUISITION OF PARTIAL INTEREST: deals in which the acquirer holds less than 50% and is seeking to acquire less than 50%, or the acquirer holds over 50% and is seeking less than 100% of the target company's stock.

ACQUISITION OF REMAINING INTEREST: deals in which the acquirer holds over 50% and is seeking to acquire 100% of the target company's stock.

ACQUISITION OF ASSETS: deals in which the assets of a company, subsidiary, division, or branch are acquired. This code is used in all transactions when a company is being acquired and the consideration sought is not given.

ACQUISITION OF CERTAIN ASSETS: deals in which sources state that "certain assets" of a company, subsidiary, or division are acquired.

BUYBACK: deals in which the company buys back its equity securities or securities convertible into equity, either on the open market through privately negotiated transactions, or through a tender offer. Board authorized repurchases are included.

swaps more often in China than in India (35 versus 3 deals). However, in the domestic arena, Indian acquirers used stock swaps more often than Chinese acquirers did (33 versus 8 deals).

for only 4 of the top 25 deals ranging in values from \$780 million to \$1.2 billion. These deals were ranked 14th, 16th, 19th, and 21st respectively, and involved Indian acquirers. In China, on the other hand, foreign acquirers accounted for 12 out of 21 deals. Firms from Hong Kong (6), USA (3), Japan, Singapore, and the UK (1 each) were involved. The largest sized deals in China were done in the telecommunications industry with the largest deal valued at \$34 billion.

How does India stack up against China?

Table 12 presents the deal characteristics of the top 25 deals (based on transaction value) that were completed in China and India over the past decade. India accounted

Table 10 : Distribution of Form of Restructuring Deals in India and China

India Domestic	India Domestic		India Cross Border		India Total		China Domestic		China Cross Border		China Total	
	# of deals	%	# of deals	%	# of deals	%	# of deals	%	# of deals	%	# of deals	%
Acquisition of Certain Assets	3	0.24%	2	0.23%	5	0.24%	5	0.36%	5	0.42%	10	0.39%
Acquisition of Assets	260	20.72%	164	18.81%	424	19.93%	213	15.55%	209	17.68%	422	16.54%
Acquisition or Majority Interest	205	16.33%	173	19.84%	378	17.77%	346	25.26%	313	26.48%	659	25.82%
Acquisition of Partial Interest	615	49.00%	406	46.56%	1021	48.00%	669	48.83%	429	36.29%	1098	43.03%
Acquisition or Remaining Interest	49	3.90%	72	8.26%	121	5.69%	22	1.61%	89	7.53%	111	4.35%
Buybacks	8	0.64%	1	0.11%	9	0.42%	2	0.15%	0	0.00%	2	0.08%
Exchange Offer	1	0.08%	0	0.00%	1	0.05%	0	0.00%	0	0.00%	0	0.00%
Mergers	114	9.08%	54	6.19%	168	7.90%	113	8.25%	137	11.59%	250	9.80%
TOTAL	1255	100%	872	100%	2127	100%	1370	100%	1182		2552	100%

Table 11 : The Most Popular Acquisition Techniques Used

Acquisition Technique	INDIA				CHINA			
	Number of Deals	Mkt. Share	Rank	Deal Value (\$Mil)	Number of Deals	Mkt Share	Rank Share	Deal Value (\$Mil)
Domestic Acquirers								
Not Applicable	419	33.6	1	3,289.3	635	46.5	1	10,169.5
Divestiture	258	20.7	2	3,080.4	385	28.2	2	28,526.4
Privately Negotiated Purchase	207	16.6	3	1,820.3	224	16.4	3	1,730.5
Financial Acquirer	148	11.9	4	492.6	55	4.0	5	1,027.1
Acquirer is an Investor Group	130	10.4	5	332.3	52	3.8	6	5,517.9
Tender Offer	110	8.8	6	944.9	4	3	16	443.5
Open Market Purchase	76	6.1	7	582.9	16	1.2	9	56.6
Privatization	40	3.2	8	1,063.2	81	5.9	4	19,829.7
Stock Swap	33	2.7	9	3,776.2	8	6	11	639.5
Tender/Merger	11	9	10	156.8	2	2	20	442.5
Mandatory Offering	10	8	11	42.5	2	2	21	1.0
Industry Total	1,246	100.0		13,996.3	1,366	100.0		58,149.6
foreign Acquirers								
Not Applicable	433	49.7	1.0	3,704.1	746	63.3	1.0	13,739.5
Divestiture	169	19.4	2.0	3,160.0	290	24.6	2.0	42,645.3
Financial Acquirer	99	11.4	3.0	1,747.1	45	3.8	4.0	432.6
Privately Negotiated Purchase	98	11.3	4.0	1,794.3	29	2.5	7.0	1,438.4
Tender Offer	46	5.3	5.0	831.7	0		24	
Open Market Purchase	41	4.7	6.0	1,016.3	7	6	90	67.5
Acquirer is an Investor Group	32	3.7	7.0	1,068.0	38	3.2	5.0	1,782.0
Privatization	16	1.8	8.0	601.0	46	3.9	3.0	9,982.0
Tender/Merger	10	1.2	9.0	304.7	1	1	19.0	0
joint Venture	7	8	10.0	201.8	16	1.4	8.0	1,566.0
Rumored Deal	6	7	11.0	600.6	7	6	10.0	2,548.9
Stock Swap	3	3	15.0	1303.7	35	3	6	884.8
Industry Total	871	100.0		13,213.2	1,178	100.0		69,693.8

RELATIVE STOCK PREMIUMS PAID

One of the main reasons why M&A deals fail is because of the high premiums paid by the acquiring firm. Table 13 presents the average stock prices and stock price premiums paid on domestic and cross border acquisition deals completed within India and China over the past decade. In developed countries, such as the USA and UK, premiums paid by the acquirer to the target firm's shareholders have averaged about 25%-30%, with hostile takeovers generally having the highest premiums.

In India, domestic acquirers paid average premiums ranging from about 62% (based on 4-week and 1-week earlier prices) to 42% (1-day prior to announcement

date). foreign acquirers have tended to pay much higher premiums, which average around 150-160%.

In contrast, the average premiums paid in China are substantially lower and often negative. These findings provide further testimony to the claim that Indian firms have historically tried to steer clear of dependence on foreign capital, while Chinese firms have welcomed FDI with open arms. Foreign firms eager to tap the huge Indian market have had to drive tough negotiations with Indian target firms. This trend, although beneficial to target stockholders in the short run, needs to change if India wants to tap the much-needed FDI capital for the development of its infra-structure.

Table 12 : Top 25 Deals

Date Effective	Target Name	Target Industry Sector	Target Nation	Acquirer Name	Acquirer Industry Sector	Acquirer Nation	% of Shares Acq.	% Owned After	% sought	Value of Transaction (\$mil)	Cross Border
07/0/2002	CH Mobile HK(BVI)-Mobile	Telecommunications	China	China Mobile(Hong Kong)Ltd	Telecommunications	Hong Kong	100	100	100	1,035.27	Yes
12/31/2003	China Telecom-Fixed Line Asset	Telecommunications	China	China Telecom Corp Ltd	Telecommunications	China	100	100	100	9,675.83	No
12/0/1999	Fujian Mobile.Henan Mobile	Telecommunications	China	China Telecom Hong Kong Ltd	Telecommunications	Hong Kong	100	100	100	6,398.29	Yes
10/01/2000	Sinopec Corp	Oil and Gas; Petroleum Refining	China	Investor Group	Investment & Commodity Firms, Dealers Exchanges	China	31	31	31	3,642.2	No
06/15/1998	jiangsu Mobile Communications	Telecommunications	China	China Telecom Hong Kong Ltd	Telecommunications	Hong Kong	100	100	100	2,899.92	Yes
12/31/2002	Unicom New Century(BVI)Ltd	Telecommunications	China	China Unicom Ltd	Telecommunications	Hong Kong	100	100	100	2,720.81	Yes
12/22/2000	GH Water Supply(Holdings)Ltd	Electric, Gas, and Water Distribution	China	Guangdong Investment Ltd	Transportation and Shipping (except air)	Hong Kong	81	81	81	2,327.67	Yes
11/16/2001	Shanghai Baosteel Corp-Steel	Metal and Metal Products	China	Baoshan Iron & Steel Co Ltd	Investment & Commodity Firms, Dealers, Exchanges	China	100	100	100	2,203.98	No
06/30/2004	Procter & Gamble-Hutchison Ltd	Soaps, Cosmetics, and Personal-Care Products	China	Procter & Gamble Co Personal-Care Products	Soaps, Cosmetics, and	United States	20	100	20	2,000.00	Yes
08/18/2004	BoCOMM	Commercial Banks, Bank Holding Companies	China	HSBC Holdings PLC{HSBC}	Commercial Banks, Bank Holding Companies	United Kingdom	19.9	19.9	19.9	1,749.26	Yes
1/04/2002	China Unicom(BVI)Ltd	Telecommunications	China	China United Telecom Corp Ltd	Telecommunications	China	22.8	73.8	22.8	1,359.08	No
08/16/1999	Enron Oil-Oil & Gas Prop.China	Oil and Gas; Petroleum Refining	China	Enron Corp	Wholesale Trade-Nondurable Goods	United States	100	100	100	1,229.87	Yes
03/21/1997	Brooke Bond Lipton India Ltd	Agriculture, Forestry, and Fishing	India	Hindustan Lever Ltd	Soaps, Cosmetics, and Personal-Care Products	India	100	100	100	1,195.68	No
12/31/2001	Sinopec Star Petroleum Co	Oil and Gas; Petroleum Refining	China	Sinopec Corp	Oil and Gas; Petroleum Refining	China	100	100	100	1,102.90	No
08/04/1997	Argyle Centre Phase I	Retail Trade-General Merchandise and Apparel	China	Honnex Development Firms,Dealers, Exchanges	Investment & Commodity	China	100	100	100	1,070.02	No
06/09/2003	Dongfeng Motor Corp	Transportation Equipment	China	Nissan Motor Co Ltd	Transportation Equipment	japan	50	50	50	1,031.99	Yes
09/19/2002	Reliance Petroleum Ltd	Oil and Gas; Petroleum Refining	India	Reliance Industries Ltd	Chemicals and Allied Products	India	36	100	36	930.978	No
03/30/2002	ICICI Ltd	Credit Institutions	India	ICICI Banking Corp	Commercial Banks, Bank Holding Companies	India	100	100	100	796.218	No
12/31/1997	Shanghai Shidongkou No 2-Power	Electric, Gas, and Water Distribution	China	Huaneng Power Intl Inc	Electric, Gas, and Water Distribution	China	100	100	100	787.965	No
03/04/2001	Global Electronic Commerce	Business Services	India	Global Tele-Systems Ltd	Wholesale Trade-Durable Goods	India	100	100	100	780.011	No
08/20/1997	Shanghai Investment and Trust	Commercial Banks, Bank Holding Companies	China	Temasek Holdings(Pte)Ltd	Investment & Commodity Firms,Dealers, Exchanges	Singapore			4.2	762.077	Yes
10/22/2001	Avansys Power Co Ltd	Electronic and Electrical Equipment	China	Emerson Electric Co	Measuring, Medical, Photo Equipment Clocks	United States	100	100	100	750	Yes
01/01/2001	Shandong Huaneng Power	Electric, Gas, and Water Distribution	China	Huaneng Power Intl Inc	Electric, Gas, and Water Distribution	China	100	100	100	696.813	No
03/31/2004	Maoming Petrochemical-Ethylene	Chemicals and Allied Products	China	Sinopec Corp	Oil and Gas; Petroleum Refining	China	100	100	100	668.473	No

Table 13: M&A Deals in India and China - Average Prices and Stock Premiums

	Average Share Price	Average Day	Stock Premiums 1 Week	4 Weeks
INDIA Domestic Acquirers	Rs. 194.642	47.24	62.73	6.55
INDIA Foreign Acquirers	Rs. 318.08	53.47	16.21	62.25
CHINA - Domestic Acquirers	5.40 CY	-62.80	-62.91	-62.60
CHINA - Foreign Acquirers	3.83 CY	62.49	-26.37	-33.05

1 CY= Rs 54

Table 14 : Strategic Motives for M&A Deals

Strategic Motive for M&A Deal	India Domestic Acquirers	%	China Domestic Acquirers	%	India Foreign Acquirers	%	China Foreign Acquirers	%
General strategy to take advantage of sound investment opportunities	37	19%	43	16%	14	1%	87	22%
Strengthen existing operations/expand presence in primary market	30	16%	49	18%	16	12%	45	11%
Allow to offer new products and services	11	12%	21	8%	11	8%	22	6%
Create synergies: eliminate duplicate services/operations	16	8%	12	4%	8	4%	17	4%
Other reasons	16	8%	29	11%	4	3%	14	4%
Expand presence in new/foreign markets	13	7%	35	13%	26	20%	126	32%
Concentrate on core businesses/assets	11	6%	28	10%	13	10%	10	3%
Strengthen existing operations/expand presence in secondary market	8	4%	3	1%	9	7%	25	6%
General restructuring of business operations	7	4%	18	7%	4	3%	11	3%
Raise cash through disposal	7	4%	14	5%	1	1%	10	3%
with regulatory requirements	6	3%	2	1%	7	5%	0	0%
competitors technology/strategic assets	6	3%	0	0%	1	1%	7	2%
shareholder value	5	3%	3	1%	5	4%	11	3%
used to pay down existing outstanding debt	3	2%	11	4%	2	2%	4	1%
Expand presence in new geographical regions	2	1%	1	0%	11	8%	0	0%
Dispose of surplus cash on hand		1%	0	0%		1%		0%
Private Equity Buy and Build strategy	0	0%	0	0%	1	1%	0	0%
Change in legislation allows increased foreign ownership	0	0%	0	0%	2	2%	4	1%
	191	100%	269	100%	133	100%	394	100%

What are the driving forces behind the M&A deals in India and China?

Table 14 presents the proportional breakdown of the strategic factors that firms have indicated as their reasons

for undertaking and completing the M&A transactions. Indian firms undertake domestic M&A primarily to take advantage of sound investment decisions, strengthen existing operations, expand primary market share, offer

new products and services. create synergies. eliminate duplicate operations/services. expand presence into new markets, concentrate on core businesses. and strengthen their presence in secondary markets (10). Interestingly enough. only 3% of the firms indicated that they were interested in doing M&A to increase shareholder value. The relative rankings of the various factors were similar in China as well with the highest proportion (18%) of domestic firms indicating that the "strengthening of existing operations/expansion of presence in primary market" was their main purpose for undertaking the M&A deal.

In the case of cross border acquisitions by foreign acquirers, although the rankings of the various factors were similar. there were some marked differences in their relative proportions. A much higher proportion of foreign acquirers indicated that they completed deals in China to expand their presence in new/foreign markets as compared with foreign acquirers in India (32% versus 20%). Furthermore. relatively more of the foreign acquirers seemed to feel that deals in China were attractive because they offered sound investment opportunities (22% versus 11%). Foreign acquirers in India were more likely to look for deals that helped them concentrate on their core businesses/assets (10% versus 3%) and to offer new products and services (8% versus 6%).

Summary and Conclusions

The results of this research show that firms in India and China have been using M&As quite regularly, at about the same rate, and for very similar strategic reasons. However. India has lagged behind China in the area of large sized deals, especially with respect to cross border transactions. The size of premiums in India has been much larger making it less attractive for foreign firms to shop around for bargains. Moreover, India's lack of reliance on FDI is clearly evident.

If India is going to achieve its goal of becoming one of the top 3 economies in the world. it will have to continue and possibly accelerate its high rate of growth to around 10%. Growth requires capital. which means that India

must either significantly raise its savings rate or attract higher rates of FDI like China did during the 1990s. Cross border M&As provide for long lasting relationships and major investment in infrastructure. China has already made significant progress in restructuring its state-owned enterprises and improving conditions for cross border mergers and acquisitions (11). It has also raised its global profile by buying oil and gas fields in Indonesia and Latin America, pharmaceutical manufacturers in Japan. and telecommunications companies in Asia (12). Indian regulators must attempt to make M&A more attractive and easier to complete and the government must encourage businesses to restructure and grow.

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