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Topic: Mergers and Acquisitions: Trend Analysis of Three Decades Post liberalisation and its Impact upon the Future of India

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Findings

A nation's economy plays a pivotal role in determining its success or failure. Economies are often considered the barometer of a nation's growth, stability, and overall well-being. As such, the primary objective of any state is to reach the highest economic altitudes, thereby stimulating growth and creating opportunities for prosperity. In the modern world, the economy is not only a reflection of the country's current standing but also an indicator of its future potential. Governments, therefore, consistently pursue strategies aimed at ensuring that their economies remain dynamic, competitive, and progressive. One of the most significant policy shifts in India's post-independence era, which has had a profound effect on its economic trajectory, occurred in 1991 with the introduction of the LPG (Liberalization, Privatization, and Globalization) policies. Spearheaded by Finance Minister Dr. Manmohan Singh, the LPG reforms are widely regarded as the most significant transformation of the Indian economy since independence, fundamentally altering its economic structure and international positioning.

However, the road to economic success does not simply rely on liberalization policies alone. The true success of an economy hinges on how efficiently businesses operate and grow within it. In this regard, mergers and acquisitions (M&A) have proven to be powerful tools for achieving corporate growth and stability. Companies, in both domestic and international markets, constantly seek to expand, diversify, and optimize their operations to stay competitive. M&A offers a route for businesses to scale quickly, access new markets, and gain technological advantages.

The introduction of the LPG (Liberalization, Privatization, and Globalization) policies in India in 1991 revolutionized the country's economic landscape, fostering growth, opening markets, and enhancing corporate restructuring activities, particularly through mergers and acquisitions (M&As). However, while the impact of these policies on India's economy is widely acknowledged, there is no centralized, comprehensive database that allows for easy access to relevant information regarding M&As and their effects. The data regarding M&As is scattered across various platforms, making it difficult for researchers, policymakers, and stakeholders to analyse trends, patterns, and economic outcomes. It is crucial for the government to consolidate this data and create a centralized portal that offers both qualitative and quantitative data on M&As annually, facilitating better analysis of their impact on the Indian economy.

In addition to consolidating data, there needs to be a more robust machinery in place to analyse and monitor M&A activities in India. The government must develop a framework to assess both the pre and post-merger processes to understand the financial performance, market positioning, and long-term effects of these corporate restructuring activities. A dedicated portal could offer insights into various M&A transactions, ensuring that the government, businesses, and researchers have a clearer understanding of the impact of these deals. This platform could also monitor the effectiveness of government policies aimed at encouraging M&As and their role in shaping the economic landscape.

One significant concern that has emerged from research on M&As is the failure of many deals due to inadequate due diligence. This often leads to missed opportunities, financial losses, and a lack of integration post-merger. The Ministry of Corporate Affairs should introduce comprehensive guidelines to outline the steps involved in conducting thorough due diligence, ensuring that businesses are adequately prepared for such transactions. Mandating disclosures at every stage of the M&A process can also help ensure transparency and reduce risks associated with poorly executed deals.

The legal and regulatory framework surrounding M&As in India is currently fragmented and unclear. Multiple laws, including the Companies Act of 2013, the Banking Regulation Act of 1949, and the Foreign Exchange Management Act of 1999, contain provisions that govern various aspects of mergers. However, the lack of a single consolidated body of provisions makes it challenging for companies to navigate these legal landscapes. It is suggested that the government codify all provisions related to M&As into one comprehensive framework to streamline the process and reduce confusion for companies considering mergers. This will also ensure consistency in the application of regulations and provide clear guidelines for corporate restructuring.

Additionally, to enhance transparency and accountability, companies involved in M&As should be required to disclose authentic data regarding their activities. This will aid research efforts and provide valuable insights into the factors influencing the success or failure of these transactions. Clear, standardized reporting will also assist the government in monitoring and regulating M&A activities more effectively.

Another issue lies in the complexity of cross-border M&As. Data on these activities is currently bundled with Foreign Direct Investment (FDI) statistics, making it difficult to isolate the specific impact of M&As on India's economy. To improve transparency, the government should establish a separate database for cross-border M&As, categorizing inbound and outbound transactions by company and year. Simplifying the laws governing cross-border M&As will also make the process more accessible for both domestic and international entities, reducing barriers to international trade.

The Ministry of Corporate Affairs should also work towards defining key terms such as "Merger," "Compromise," and "Control" in the legal framework. Clear definitions of these terms will prevent confusion and help resolve disputes more efficiently. It will also aid in creating a more standardized approach to interpreting and enforcing M&A regulations.

The current regulatory process for M&As involves numerous permissions from various regulatory bodies and tribunals, making the procedure lengthy and complex. To promote ease of doing business and encourage more companies to engage in corporate restructuring, the approval process should be time-bound. Streamlining this process would also align with the government's broader agenda to create a more business-friendly environment in India.

Finally, the current takeover code places more emphasis on the acquirer rather than the target company, focusing on friendly takeovers while providing minimal defenses against hostile bids. There should be more provisions for target companies to protect themselves from hostile takeovers. A clear framework for such defense mechanisms will ensure a balanced and fair approach to corporate takeovers, encouraging both acquirers and targets to operate within a regulated environment.

In conclusion, the rapid growth of M&A activities in India, especially after the 1991 LPG reforms, has highlighted the need for a more organized, transparent, and effective regulatory framework. By consolidating data, streamlining processes, and clarifying legal provisions, the government can foster an environment conducive to successful M&A transactions. This will not only enhance India's economic growth but also create a more competitive, efficient, and transparent corporate ecosystem.