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GOVERNMENT POLICY AND MERGER TRENDS IN INDIA

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Mergers in India are of comparatively recent origin. Besides the grand merger resulting in Associated Cement Companies Ltd., there was hardly any worthwhile merger in the seventies. The activity of merging sick companies with healthy companies gave a momentous to mergers. Section 72-A of the Income Tax Act incorporated in the Finance Act (no.2) 1977, gave an impetus to such mergers. Although the number of sick companies is on the rise, the process of promoting mergers is very slow because the number of merger proposals cleared by the respective High Courts under section 391/394 of the Companies Act, 1956, was as small as 94 during 1980-82. With the MRTP being amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings, India is witnessing a new generation of mergers. The aim of this paper is to study the various dimensions of recent surge in corporate mergers and their policy implications.

The recent surge in mergers in the Indian corporate sector is an eye catching event. Growing big is not the only purpose. The urge to expand vertiaclly and horizontally, technology upgradation with an eye on global market and elimination or effectively meeting competitions is other side of the scenario. If the trend continues, the corporate sector may witness many more mergers and also emergence of a large number of corporate giants. The merger of Reliance Petrochemicals with Reliance Industries is the largest one in the country's corporate history. Apart from growing big, the fear of increasing competition resulting from the tie-ups between Proctor & Gamble and Godreg Soaps has forced Hindustan Lever to seek the merger of Tomco with it. The liberal economic policy acted as a driving force for companies to go in for technology upgradation, expansion and diversification. A number of companies found it essential to merge with related units and subsidiaries to accomplish cost effectiveness and increase production. Many more proposals for mergers are already in the pipeline (See Table 1).

Mergers and Corporate Performance: A Debate

Mergers have played a pivotal role in the growth of most of the leading corporations in the world. As per available information, nearly two-thirds of the gaint public corporations in USA are the outcome of mergers. In Japan and European nations, hundreds of mergers are taking place every year as a regular phenomena of combination and restructure of the business enterprises. However, the seven countries study reports that mergers have

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only modest or even negligible effect and concluded that higher profitability is not necessarily as a result of mergers; shareholders of acquiring firms tend to loose from mergers whereas those of acquired firms may occasionally gain; merging firms experience a negligible increase in market power; economic efficiencies increase as little as sales do expand or as costs of production and eventually prices to customers decline; anticipated benefits of mergers are generally overestimated in the pre-merger phase; there seems to be no difference in effects (as of yet, no reliable long-term studies are available, so it is difficult to draw final conclusions) of vertical, horizontal or conglomerate mergers. Enterprises go in size through merger, but do not improve; mergers have only in the long-run a modest effect, if any, on company performance; management does not improve; surviving top management may gain higher income; no effects are reported in spreading of risks, resistance to distrubance or increased bargaining power and leverage.

Conclusions of the seven countries study on conglomerate mergers are supported by many researchers, albeit, never in the comprehensive manner shown here: No effects on profits: Ingham and Kran (1992), Davidson (1987), Gort (1962), Mueller (1969), Reid (1968), Meeks (1977), Maudelhar (1974), and Lev and Naundeller (1972); Negligible increase in market power: Penrose (1959); Shareholders of acquiring company tend to loose, and those of acquired firms tend to gain: Limmack (1991), Lubatkin (1987), Firth (1969, 1976, 1980), Meeks (1977), Utton (1974), Dodd and Ruback (1977); Earnings of firms engaging in mergers decline after consolidation: Aggarwal, Jeffrey and Maudelkar (1992), Firth (1975), Meeks (1977), Utton (1974), kelley (1967); Anticipated benefits of managers are overestimated in the pre-merger phase: Firth (1976). Acquiring firms are less; Reid (1962); or equally: Kelley (1967); Firth (1979) profitable as compared to non-acquiring firms; management of acquiring firms is the only winner: Firth (1980); Stock prices of merger active firms do not differ significantly from those of non-active firms: Hogarthy (1970).

Not investigated in the seven countries study, but corroborated elsewhere, are the following hypothesis: Acquisition for the purpose of horizontal, expansion or vertical integration are less profitable than acquisition for diversification purposes: Pfeffer-Salancik (1978), Barton and Sharman (1984), Farrell and Shapiro (1990). The Correlation between technological intensity and diversification found by Gort (1962) is thought to be spurious, as both may be related to selling to dominant customers, e.g, to government; Pfeffer and Salancik (1978), and Michel (1985).

Not only this, but committee's report on market power and the law and on mergers and competition policy set out at some length the reasons for the concern about the mergers and for the introduction of merger controls. The main concerns in those reports were related to (the merger wave of the post war period, which reached a peak in the late 1960s) the high and increasing levels of market (Kim and Singhal, 1993) and overall concentration (Aaronvitch, 1975) in many countries, to which mergers were shown to have contributed

significantly and harmful effects on competition, prices and efficency that high concentration was considered to have. It was not overlooked that high concentration may have advantages related to economies of scale, greater technical progressiveness and generally greater efficiency in production and distribution. On the other hand, the main disadvantages of high levels of market concentration were seen to lie in higher prices, excess profits and restricted consumer choice due to the greater case of collusion as well as greater market power possessed by dominant firms. Highly concentrated industries also often present barriers to the entry of new firms some of which may due to technical factors relating to economies of scale and expensive technology. Others may be the result of the behaviour of the firms, including in certain circumstances exclusive dealing agreements and, in the view of some high advertising expenditures.

The exploratory study of 30 corporate mergers (see Table 2) examined the dynamics of major corporate restructuring through mergers. In more specific terms, the study will seek to answer the following questions: (1) Why do corporate mergers have taken place? (2) What forms of corporate mergers are common in India? (3) Who are the initiators/beneficiaries of corporate mergers? (4) What circumstances have compelled companies to merge with other companies? (5) What type of companies are prone to corporate mergers? (6) Which companies are likely to be the merging companies? and finally (7) What are the possible effects of corporate mergers on the performance of merged companies?

Forms of Corporate Mergers

Corporate mergers may take any form depending upon the purpose of the offer or company it wants to achieve. The most popular form of corporate mergers are horizontal (New India Sugar and Bharat Sugar; Tata Finance and Tata Industrial Finance; Hindustan Lever and Tomco; Indian Shavings and Sharpedge; Park Davis and Warner Hindustan; Nicolas Lab and Gujrat Glass, ABB and HBB, Arvind Mills and Nagari Mills, Bajaj Hindusthan and Sharda Sugar, English Electric Co., and General Electri Co., Chemplast and MCIC, Morarjee Gokuldas and Devangare, SOL and Dexo Lab, Supreme Industries and AKS, Tata Chemicals and Tata Fertilizers). The other forms of mergers are vertical (Ballarpur and J G Glass; Brookebond and Tea Estate, Doomdooma and Lipton, Nicolas Lab and Gujrat Glass, Reliance Industries and Reliance Petro, Saw Pipes and Swastic Udyog) and conglomerate (Birla Jute and Indian Lanoleum; KEC International and Cetex; Ceat Tyres and Murphy; Mahaveer Spinning and Mohta Steels, Gokak Patel and Forbes, JCT and KKPL and SSWL, Nicco Industries and Nicco Corporation, Shaw Wallace and 14 Firms, Sharptek Ceramics and Sharpteck Granite, and Voltas and Volrho).

TABLE 1: Merger proposals in the pipeline

Merging Cos.	*Merged Co.*	*Remarks*
Hindustan paper Corporation	Hindusthan Newsprints Ltd.	To restructure ailing HPC
J.K. Corporation	Orissa Synthetics	Turnaround of a sick company
Information Technology Ltd.	International Informatics Society	Significant presence in software exports, products and training
William Magor	Bishnath Tea Co.	To create a holding Co.
Flowmore Polyester Ltd	SRF	To seek tax benefits
Metrochem Industries Ltd.	Vivela Dye Chemicals	To save sales tax
Torrent Pharma	India Infusions Ltd.	To seek tax concessions
Jindal Strips	Jindal Ferro	Synergetic benefits
Kissan Products	BBLIL	To make entry into the meal's component market
Nicco Corporation	Nicco Batteries	Tax benefits
Hindustan Organic Chemicals	Hind Flurocarbons	To increase plant capacity
Ramganga Fertilizers	Vamorganic	To seek tax benefits
Cimmco	Indian Plastics Cimmco Spinners	To boost turnover
Operations Research Group	Marketing and Research Group	To seek synergic benefits
Krishna Enterprises	Shri Krishna Polyester.	To boost turnover
Elite Industries		
Krishna Textiles		

Merging Cos.	*Merged Co.*	*Remarks*
20th Century Capital Corp.	20th Century Finance Corp	To achieve synergy in business development
Bombay Paints	Grauev & Weil	To develop sound business base
Miami Pharma	Lakme	To seek tax benefits
Titaghur Paper Mills	Titaghur Steel Mills	To rehabilitate TPM
Balrampur Chini Mills	Bhabnam Sugar	To raise $300 million through Euro issue
Vorion	Mohan Brewaries	To fund expansion program
Carbon Corporation Ltd.	Graphite Vicars	To seek operational synergy
Bharat Pipes & Fittings	Bharat Pipes	To consolidate business
PUD Plastics		
Isha Steels	Amforge	To restructure for better synergy
Wipro Infotech	Wipro (1)	To generate cash
Wipro System		
Pepsico	KFC (1)	Part of reoganisation of Pepsico
Kirloskar Leasing	Kirloskar Invest.	To overcome overlapping of operations
Star Industrial India	Associated Precision Ltd.	To seek tax benefits (merged)
Reliance Polyethene	Reliance Industries	To achieve operational efficiency
Reliance Polyprolene		

TABLE 2: Features of Sample Companies

Year of merger	*Merged Cos.*	*Merging Cos.*
1988	Asea Brown Bovery	Hindustan Brown Bovery
1988	Ballarpur Industries	J.G. Glass
1988	Chemplast	MCIC
1988	Mahaveer Spining	Mohta Steel
1988	Park Davis	Warner Hindusthan
1989	Ceat Tyres	Murphy
1989	New India Sugar	Bharat Sugar
1989	Tata Chemicals	Tata Fertilizers
1989	Voltas	Volrho
1990	Bajaj Hindusthan	Sharda Sugar
1990	JCT	KKPL
		SSWL
1990	KEC International	CETEX
1990	Nicco Corporation	Fermanite Nicco
		Nicco Steel
		Nicco renamed as Nicco Corp
		Nicco Orissa renamed as Nicco Ind.
		Nicco Corp. merged with Nicco Ind.
		Nicco Ind. merged with Telelink Nicco
		Telelink Nicco renarmed Nicco Corp.
1990	Nicolas Lab	Gujrat Glass
1990	Nobel Soya	Vegoils
1991	Arvind Mills	Nagari Mills
1991	Birla Jute	Indian Lanoleum
1991	Morarjee Gokuldas	Devangare
1991	Shaw Wallace	Arunachaleswar Finance & Investment
		Bailygunge Investments
		Dakshineswar Investments
		Davari Investments
		Ganapathi Investments
		Gati Investments
		Kailash Tobacco Products
		Mahadev Investments
		Pakshiraj Investments
		Parasakti Investments
		Paraganas Investments
		Sandhead Investments
1991	Spartek Ceramics	Spartek Granite.
1991	Supreme Industries	A.K. Structures
1991	Tata Finance	Tata Industrial Finance
1992	English Electrical Co.	General Electric Co.
1992	Gokak Patel	Forbes, Forbes Campbell
1992	Indian Shaving Products	Sharpedge
1992	Reliance Industries	Reliance Petro
1992	Saw Pipes	Swastic Udyog
1992	Standard Organics Ltd.	Daxo Lab
1993	Brook Bond	Lipton
		Tea Estate
		Doomdooma Tea
1993	Hindusthan Lever	Tomco

Motives of Corporate Mergers

There is no single reason for a merger but a multitude of reasons cause mergers. The common motives are synergetic operating economics (Merger of Hindustan Computers, Hindustan Reprographics, Hindustan Telecommunications and Indian Computer Software Co into HCL Ltd.; Eicher Goodearth, Eicher Farm Machinary and Continental Auto Ancialiary Ltd. into Eicher Ltd.; Spartek Ceramics and Spartek Granite, Chemplast and MCIC), Diversification (Voltas with Volrho; Reliance Industries with Reliance Petro; Bajaj Hindustan with Sharda Sugar, Saw Pipes and Swastic Udyog, KEC International and CETEX, Ceat Tyres and Murphy, Nicolas Lab and Gujrat Glass, Tata Finance and Tata Industrial Finance, Mahaveer Spining and Mohta Steel, New India Sugar and Bharat Sugar, Shaw Wallace and 14 Firms), growth (Reliance Petro with Reliance Industries; Tata Finance with Tata Industrial Finance, Gokak Patel and Forbes, Indian Shavings Products Ltd and Sharpedge, Standard Organics Ltd and Daxo Lab) consolidation (Nicco Corp & Formite Nicco, Nicco Steel, Nicco Orissa, Telelink), profit enhancement of the company (Indian Shaving Products with Sharpedge; GEC with EECI), achieving efficiency (Tata Chemicals with Tata Fertilizers; JCT and KKPL and SSWL; Hindustan Lever and Tomco) increasing market power (Brookebond and Tea Estate, Doomdooma Tea and Lipton, ABB and HBB) turnaround of sick companies (Morarjee Gokuldas and Devangare, Ballarpur and J.G. Glass, Arvind Mills and Nagari Mills and Supreme Industries and AKStructures), escape from the clutches of the restrictive policy under DPCC (Park Davis and Hindustan Warner), and tax advantages (Ahmedabad Laxmi Mills and Arvind Mills; Shrigopal Industries and Maharaja Umaid Singh Mills, Centron and Brookebond; Kelvinator with Aravali Swachalit Vahan; Deccan Wire and Panywam Cements; Relianace with Sidhpur Mills).

Supporters of Mergers

Mergers are caused with the support of shareholders, managers and promoters of the combining companies. From the point of shareholders, mergergs enhanced the value of investments in shares. The sale of shares from one company's share-holders to another and holding investent in shares give rise to greater values i.e. the opportunity gain in alternative investments. Shareholders may gain from merger in different ways viz., from the gains and achievements of the company i.e., through (a) relisation of monopoly profits (Brookbond and Tea Estate, Doomdooma Tea and Lipton, ABB and HBB, EEI and GEC); (b) economies of scale (Sharda SUgar and Bajaj hindustan; Gujrat Glass and Nicolas LabS), (C) diversification of product lines (Indian Lenoleum and Birla Jute, Ceat tyres and Murphy, Chemplast and MCIC, Mahaveer Spining and Mohta Steel), (d) acquisition of human assets and other resources not available otherwise (J G Glass and

Ballarpur, Bharat Sugar Mills and New India Sugar Mills, Park Davis and Hindustan Warner, Tata Fertilizer and Tata Chemicals), and (E) better investment opportunities in combination (Sharpedge and Indian Shavings, Tata Finance and Tata Indûstrial Finance), realisation of gains from the merger and acquisition to shareholders in the above form might not be generalised but one or more features are generally be available in each merger where shareholders have attractions and favour mergers.

Managers are concerned with improving operations of the company (Gokak Patel and Forbes), managing the affairs of the company effectively for alround gains (Hindustan Lever and Tomco), and growth of the company (JCT and KKPL and SSWL, Saw Pipes and Swastic Udyog, Shaw Wallace and 14 firms, Spartek Ceramics and Spartek Granite) that provided better deals in raising their status, perks and fringe benefits. Mergers where all these things are the guaranteed outcome get support from managers. At the same time, where managers have fear of displacement at the hands of new management in merging company and also resultant depreciation from the merger then support from them becomes difficult.

Mergers do offer to company promoters the advantage of increasing the size of their company (Reliance Industires and Reliance Petro; Brookebond and Lipton, Tea Estate and Doomdooma Tea) and financial strength (Tata Finance and Tata Industrial Finance). They can convert a closely-held and private limited company into public company without contributing much wealth and without loosing control. In HCL, only Hindustan Reprographics Ltd., was public limited company whereas the other three mergying companies were private limited cos. The promoters of Hindustan Computers were alloted shares worth 1.27 crore on merger in a new company called HCL Ltd. This gave them 86% stake in HCL's equity of Rs. 1.48 crore shares. This gain was against their original investment of meagre Rs. 40 lakhs in Hindustan Computers and they did not invest any money extra in getting shares worth Rs 1.48 crore; Another recent example is of Jaiprakash Industries Associates and Jay Pee Rewa Cement. Jai Prakash Associates was a closely held company. The merger enabled the promoters to have stake at 60% (Rs. 39.85 crores) in Jai Prakash Industries Ltd., against an investment of Rs. 4.5 crore in Jaiprakash Associates. Thus merger invariably results into monetary gains for the promoters and their associates in the surviving company. Sometimes promoters merge companies with healthy companies under the same management to give them the benefit of better management (Arvind Mills and Nagari Mills, KEC International and Cetex, Morarjee Gokuldas and Devengare, SOL and Daxo Lab, Voltas and Volrho, Supreme Industries and AKS).

Proneness to Merger

The companies who are more prone to merger are those who are facing the problem of complete ersosion of networth (Volrho, J G Glass, Murphy, Dexo

Lab); huge accummulated losses (Volrho, Tomco, J G Glass, Murphy, Sharpedge, Devengare, Bharat Sugar, Nobel Soya); poor performance (Volrho, Murphy); mismanagement (Volrho); high level of indebtedness (Tomco); technological obsolescence (Mohta Steel); large workforce (Tomco); government policy (Tata Fertilizers, Warner Hindustan); and product obsolescence (Daxo Lab). Reliance Petro, Lipton, Tea Estate, Doomdooma Tea, Hindustan Brown Bovery, Forbes, GEC, KKPL, SSWL, Swastic Udyog, Spartek Granite, and Tata Industrial Finance merged with their parent organisations to connsolidate their business position.

The main target of such companies are either the parent organisations (Reliance Industries, JCT, Nicco Corp., Brooke Bond, Gokak Patel, Saw Pipes, Spartek Ceramics, Tata Finance, Bajaj Hindustan, Arvind Mills, Ballarpur, Birla Jute, Ceat, ISPL, KEC International, Morarjee Gokuldas, Nicolas Lab, New India Sugar, Supreme Industries, Tata Chemicals, Voltas, ABB and EEC); or competing firms (Hindustan Lever).

Most of the merging companies are sick companies (Volrho, Tata Fertilizers, AKS, Bharat Sugars, Daxo Lab, Nagari Mills, J.G. Glass, Indian Lanoleums, Murphy, Sharpedge, Cetex, Devengare who have merged with the healthy companies. Other companies are either subsidiary of multinationals (HBB and GEC) or are of small size (Sharda SUgar, MCIC, KKPL, SSWL, Mohta Steel, 14 firms, Nicco firms and Spartek granite). Others who have merged were either to seek the benefits of synergetic operational economies (Lipton, Tea Estate, Doomdooma Tea, Tata Industrial Finance and Swastic Udyog) or to meet competitiveness (Tomco).

Effects of Mergers on Corporate Performance

Mergers have positive effects on the sale (ABB, Arvind Mills, Ballarpur Industries, Birla Jute, Brook Bond, Ceat Tyres, English Electric Co., Hindustan Lever, Indian Shaving Products, JCT, KEC International, Mahaveer Spining Mills, Morarjee Gokuldas, Nicolas Lab, Park Davis, Reliance Industries, Saw Pipes, Shaw Wallace, SOL, Spartek Ceramics, Supreme Industries, Tata Chemicals Ltd., Tata Finance, Voltas), total assets (ABB, Ballarpur Industries, Bajaj Hindusthan, Birla Jute, Brook Bond, Ceat Tyres, English Electric Co., Hindustan Lever, Indian Shaving Products, JCT, Mahveer Spining, Nicolas Lab., Park Davis, Reliance Industries, Shaw Wallace, Supreme Industries, Tata Chemical Ltd.), net profits (ABB, Brook Bond, English Electric CO., Hindustan Lever, Nicolas Lab, Shaw Wallace, Supreme Industries, Tata Chemicals), gross profits (ABB, Arvind Mills, Brook Bond, English Electric Co., Hindustan Lever, Indian Shaving Products, Morarjee Gokuldas, NICCO Corporation, Nicolas Lab, Reliance Industries, SOL, Supreme Industries, Tata Chemicals) P/E ratio (BrookBond, Morarjee Gokuldas Nicolas lab) and EPS (Arvind Mills, Brook Bond, English Electric Co., Indian Shaving Products, Reliance Industries, Tata Finance).

Mergers had negative effects on sales (KEC International, New India

Sugar, Saw Pipes), equity share capital (New India Sugar), total assets (Morarjee Gokuldas), net profits (Ballarpur Industries, Ceat Tyres, JCT, Mahaveer Spining, Park Davis, Supreme Industries, Voltas) gross profits (Ballarpur Industries, Birls Jute, JCT, KEC International, Mahaveer Spining, New India Sugar), P/E ratio (ABB, Arvind Mills, Ballarpur Industries, Bajaj Hindusthan, Birla Jute, English Electric CO., Hindustan Lever, Indian Shavings Products, JCT, KEC International, Mahaveer Spining, NICCO Corporation, New India Sugar, Park Davis, Reliance Industries, Saw Pipes, Shaw Wallace, SOL, Supreme Industries, Tata CHemicals, Tata Finance, Voltas), and EPS (ABB, Ballarpur Industries, Bajaj Hindusthan, Birls Jute, Ceat Tyres, Hindusthan Lever,JCT, KEC International, Mahaveer Spining, Morarjee Gokuldas, Nicco Corporation, Nicolas Lab, Park Davis, SOL, Tata Chemicals, Voltas).

Implications for Government Policy

It is shown in the preceding paragraphs how prominent growth by mergers has been in recent years, and the paragraphs that followed it have yielded three generalisations with particular reference to state policy on mergers.

First, one of the most dominating reasons for mergers is an increase in market share, atleast in the static sense. After the merger, Hindustan Lever.-Tomco will control 75% of the market in toilet soaps, 28.4% in detergent powder and 10% in detergent cakes. With the Brooke Bond and Lipton mergers, the two companies will control 70% of the market in branded tea. If Gillette takeover the Malhotra brothers, together with ISPL, Gilltte will control 87.5% of the market for razor blades. If ITC and VST merge, that amount to 69.9% of the market for cigarettes. If Bajaj Auto succeeds in taking over LML that is 86.3% of the market for scooters. Parle and Coca-Cola control 60% of the market for soft drinks. Such dominance should not be tolerated. It is to this end, that there was an explicit 'dominance clause' in the Monopolies and Restrictive trade Practices Act. The ideal of a perfectly competitive market structure is virtually impossible to find. Real life market structures are characterised by imperfect competion, monopolies and oligopolies, branding and product differentiation. In this real world, dominant market share are the norm rather than the exception, Small may be beautiful, but beauty has nothing to do with business. Insignificant market share cannot be ensured except by fiat. It was such fiat that MRTP sought to imposed Article 39 of the Directive Principles of State Policy to state "that the ownership and control of the material resources of the community are so distributed as best to subserve the common good" and "that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment. A mega merger can lead to other producers being hurt. But that can not be accepted as common detriment. Common detriment should rightfully mean the common detriment of consumers. That is, increased concentration of economic power and large

market share are bad only if they result in a loss in consumer welfare. There is a need to protect consumer interests through checking abuses of market power such as undue restraints on competition. Price fixing, collusive tendering, market and consumer allocation arrangements and predatory and discriminatory pricing are all examples of restrictive business practices. These are no doubt difficult to monitor and control, the focus must be on checking these, not on checking the merger themselves.

Second, mergers are invariably result in a far-reaching impact on the organisation that is merged. Whether planned or unplanned, almost all parts of the organisation undergo a profound change as the cultural ripple effects of mergers takeplace. these effects are immediately evident in relation to 'financial management, performance target setting, performansce reporting; marketing and industrial relations policies'. These changes lead to 'discomfort, tension and dissonance in the established managerial ranks, often followed by stoik acceptance and resignation'. On the positive side, these effects may lead to a greater receptivity for new ideas, products, and technologies. For managing the impact of mergers and takeovers, both the parties should tread cautiously. The acquiring firms of management should realise that transitions of acquired firms from the old styles of management would take some time. Most existing managers should be provided an opportunity to assimilate rather than being force to quit. All in all, mutuallity of common objectives, trust and confidence translated in the specific terms of the operations of the business alone can provide the common meeting ground for that (post-merger) transformation to take roots, to be nurtured and sustained, and to be productive in future.

Finally, managers of sick companies with healthier ones within the group donot always do well by the shareholders with obvious reasons. First, the proposed exchange ratio often leads to a situation where the investor ends up getting odd lots of the other company. In such cases, irrespective of the performance of the merged company, the investor runs the risk of getting stuck with shares he cannot sell easily. Hence, even if the merged company manages to perform well the liquidity of shares held by the investors is poor. Second, there is always the risk that the stronger company may succumb to the pressure of the loss making division and end up slipping itself. Even if the promoters are generous enough to announce an exchange ratio that does not lead to odd lots and the merged company performs well, waiting for mergers to be actually executed is painful, so, the investors looking at such options should be ready for another long innings while making a commitment to the same group.

The past pace of liberalisation has shaken up the rusted juggernaut of Indian corporate sector. Now there is pressure and compulsion on every enterprise to expand and modernise lest they might not survive because of the incresing number of players in the field. The miniscule stakes with which industrial houses had hitherto controlled corporate empires have also come under strain. The burden of accountability too has increased with the

enhanced role of shareholders and capital market.

Mergers in India should grow faster so that the sick units could be rehabilitated providing continuity of employment to the working force, utilisation of the assets blocked up in the sick units and adding constructively to the prosperity of the nation through increased production. The merger cult in India has yet to catch fire with merchant bankers and financial consultants acquiring skills in grinding the companies to absorb sick units and put the sick units again on successful operations. To remove sickness from the industry, merger is one of the best available alternative which requires attention from all corners particularly from professionals, consultants, financial managers, bankers and merchant bankers, who owe responsibilities of providing guidance and know-how to corporate clients on considerations like tax structures; legal environment, accounting treatment, financial planning, capital restructuring, valuation techniques, evaluation of assets and property of the corporate undertakings contemplating merger. On the contrary, the small and medium size enterprises are working under threats from economic environment which is full of problems for them viz., inadequacies of resources, outdated production techniques, non-systematised management pattern faltering marketing efforts and weak financial structure. Their existence remains under challenge in the absence of keeping pace with growing automation and techniques obsolescence and lack of product innovations. These units remain, at times, under threat from large units. Their reorganisation through merger could offer succour to reestablish them in viable units of optimum size.

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