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CROSS-BORDER MERGERS AND ACQUISITIONS IN THE INDIAN PHARMACEUTICAL INDUSTRY UNDER THE COMPETITION ACT, 2002

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Abstract

Corporations choose mergers and acquisitions to boost growth and differentiate themselves from competitors. M&As contribute to increased client numbers, market and segment expansion, technological advancement, and cost savings. In 1991, economic reforms began, and as a result of globalisation, economies began to integrate. It was believed that, as a result of globalisation, foreign businesses would destroy Indian markets by purchasing Indian corporations. However, cooperation between Indian and foreign businesses has made it possible for both parties to benefit. These days, Indian businesses are expanding overseas and purchasing foreign companies, demonstrating their value and worth.

Following the period of economic reforms and post-globalisation, Indian businesses have been expanding in the face of both new market opportunities and obstacles. The presence of foreign multinational corporations (MNCs), the evolving global economic climate, the awakening of customers, and the shifting political landscape all put pressure on the enterprises. By investing in tactics that enable them to accomplish these particular aims, corporates are encouraged to seek and broaden the market for their products and to increase their client base.

FMCG, telecommunication, healthcare, textiles, finance, and pharmaceuticals are some of the main industries where M&As are prevalent. Pharmaceuticals are one of these industries that are always growing in the Indian market. The goal and benefits of mergers and acquisitions are being investigated in this study.
The Indian market by examining the results of two corporate categories. The companies in India's pharmaceutical industry that chose to merge and those that did not. A variety of metrics are used to examine the performance aspect. It demonstrated that corporations performed better after the merger than they did before.

Keywords: Pre-merger, performance, pharmaceutical industry, globalisation, and economic reforms.

Introduction

The first wave of M&A in India was made possible by a change in industrial strategy in 1991. Reforms in the Foreign Exchange Regulation Act (FERA) in 1993 and the Foreign Exchange Management Act (FEMA) in 2000 followed the removal of the restrictive clauses of the Monopolies and Restrictive Trade Practices (MRTP) Act, which helped M&A initiatives. However, the Competition Policy Act of 2002 established a Competition Commission of India (CCI) in order to eliminate influences that reduce competition. This commission aimed to investigate anti-competitive practices that could lead to abuses of market dominance, such as cartel formation, collusive bidding, and consolidation through M&A. India's economic reforms have significantly reduced firm-level rigidities. In the modern era, corporate restructuring is a response to the chance provided by policy to address the new viable challenges. In the process, the companies are purportedly attempting to boost their worth and maintain their competitiveness. The swift expansion of the Indian economy has strengthened domestic businesses to take on more challenging investment activities, which have led to a remarkable increase in M&A over the past ten years. Domestic businesses have made steps to bolster their Indian multinational businesses (MNEs), which have seized the opportunity to expand their presence and dominance in international marketplaces as a result of the situation's growing spirited pressures (Basant, 2000).

The basis of the globalisation approach that fully supports the existence, influence, and contribution of foreign-owned businesses in national economies is the expansion of competition, financial liberalisation that permits capital flows, and rapid technical advancements. Many corporate reorganisation events of domestic companies are also triggered by this. Numerous industrial sectors have been redesigned as a result of the process, which has resulted in a significant reallocation and migration of the firm's assets. Strong mergers and acquisitions (M&A) activity is being supported globally by the current industrial ownership structure. The tendency has tended to accelerate the reorganisation of the firm's core capabilities and organisational structure.

The sectoral organisation of M&A activity in India is a key feature. It's interesting to note that companies in the service sector were the first to start M&A as a means of expansion, both domestically and internationally. Later, Indian manufacturing companies connected them. The success of the service sector has a strong positive knock-on effect on the pharmaceutical industry on a global scale. In order to strengthen their position in structured international markets like the US, Germany, and the UK, Indian pharmaceutical companies led the next round of mergers and acquisitions. The pharmaceutical industry grew to be a significant participant in M&A activities on a national level. Software and pharmaceutical companies' successful clearance of M&A had far-reaching effects on Indian businesses in other industries, including steel, chemicals, and automobiles.

<u>Mergers and Acquisitions as Corporate Strategy for Global Expansion</u>

Mergers and acquisitions (M&A) are a strategic option for businesses to grow internationally since they allow them to quickly enter new and foreign markets, profit from economies of scale, and acquire critical expertise and qualified personnel. Many scholars attribute the notable increase in cross-border mergers and acquisitions to growing trade globalisation industry alliances, privatisation, and national liberalisation (Shimizu, Hitt, Vaidyanath, and Pissano, 2004).

As the main organisational resource and the basis for the development of organisational competencies, knowledge plays a crucial part in driving these differences. In businesses today, knowledge-related competencies are significantly more important than they were a short time ago. Given that associations are a collection of skills, a key concern for businesses is how to shape the skills they require to achieve their development goals. According to Jay Chatzkel and Hubert Saint-Onge (2007), businesses can either develop gradually or engage in acquisitions that provide them with the assets they need to guarantee the things they would not otherwise undertake.

According to Sudarsanam (2003), mergers and acquisitions are the methods by which two businesses work together to achieve specific intended business goals. These relationships have significant ramifications for many other communities, including employees, managers, rivals, communities, and the economy, in addition to the businesses themselves. The term "acquisition" has been used by Capron (1990) to refer to the purchase of an industry or an alternative full corporation by one corporation from a continuing corporation. He has utilised the expression. "Horizontal acquisition" refers to the purchase of a company in the same industry. According to Barkema and Vermeulen (1998), Kogut and Singh (1988), and Newburry and Zeira (1997), acquisition access in a foreign market is defined as the purchase of stocks of a recognised company in the host country by another company headquartered outside the country, either alone or with one or more partners, in a quantity sufficient to exercise control.

As a result, one of the main driving forces behind the growth of foreign direct investment (FDI) has been acquisition. The most recent trends in the deregulation of international capital markets have given acquisitions new importance as a strategy for foreign direct investment. According to Hennart (1991), a higher degree of industrial concentration led Japanese manufacturing stakeholders to purchase respectable US businesses. According to Harrigan (1985), Mowery (1988), and Ohmae (1985), complementarities between partners operating in distinct product marketplaces with potentially minute encounters of advantages increase the viability of the combined strength. Assistance between businesses with similar product market structures, however, raises the prospect of a conflict of interest. One strategy for overcoming this conflict between two partners is found in one company's gripping grasp of this shared strength through the acquisition of the other institution. Increased industry awareness or alliances are typically achieved through mergers and acquisitions. In light of the merger and acquisition phenomenon, the Indian framework must be investigated.

<u>Factors causative of the choice of the firm to increase worldwide through Mergers and Acquisitions</u>

The majority of M&A transactions are motivated by the desire to achieve financial synergies, increase market power, get admittance to distribution channels, or gain access to creative geographical areas. This indicates that not all M&A is motivated by technology factors. Nonetheless, there are several high-tech sectors where innovation is essential to maintaining a competitive edge in the current globalised environment. These businesses will choose the best innovation and financial strategy and feel that M&A has an impact on technological functioning, even if the transaction is not dictated by innovation. According to Gantumur and Stephan (2007), technical know-how is a key to success in the current market, while factors such as firm size, history, and equity are less and less analytical prerequisites.

Recovering and strengthening the company's financial situation, known as the synergy influence, is one of the main goals of all alliances and restructuring that result from mergers and acquisitions. These synergies can result in significantly increased effectiveness through the use of increased efficacy, economies of scale, market expansion, and greater purchasing power (Catwright, Cooper, 1996).

Additionally, higher levels of R&D spending are made possible via mergers and acquisitions. Increased risk and the possibility of buying another company to avoid being bought are mentioned in the organisational goals. Subjective motivations are linked to rewards, which are typically monetary and expand over time. However, the outcome of the merger and acquisition strategy depends not only on these strategic and financial considerations but also on changes in governmental policy, technological advancements, and environmental conditions.

According to Ohmae (1989), most businesses can no longer maintain a critical edge in all of the analytical know-how that modern commodities rely on. As a result, choosing outside sources of knowledge creates an essential.
Purchasing a dominant foreign company gives the acquirer access to resources, including patent-protected technology, improved organisational and marketing abilities, and the ability to get around certain government

regulations that create barriers to entry for other companies (Errunza and Senbet, 1981).

Shimizu et al. (2004) support this viewpoint by arguing that companies may engage in mergers and acquisitions in order to utilise intangible assets. This line of reasoning is consistent with Caves (1990), who Shimizu et al. (2004) support by arguing that businesses may engage in mergers and purchases to make use of intangible assets. This line of reasoning is consistent with Caves' (1990) discussion that the purchase of a foreign rival gives the acquirer the ability to take over a more diverse pool of specific assets and, as a result, seize more opportunities. In international mergers and acquisitions, these factors become much more crucial.

Cross-Border Mergers and Acquisitions in the Indian Pharmaceutical Industry

According to a survey by Equity Master, the Indian pharmaceuticals market is the thirteenth largest in terms of value and the third largest in terms of volume. India is the world's largest supplier of generic medications, making up 20% of global exports in terms of volume. Consolidation has recently become a crucial aspect of the Indian pharmaceutical sector due to the industry's extreme disintegration.

India holds a significant place in the world's pharmaceutical industry. Additionally, the country boasts a sizable pool of scientists and engineers with the potential to lead the industry to even higher levels in the future. Currently, Indian pharmaceutical companies supply more than 80% of the antiretroviral medications used worldwide to treat AIDS (acquired immune deficiency syndrome). Aurobindo, Cipla, Desano, Emcure, Hetero Labs, and Laurus Labs have signed six sub-licenses with the UN-backed Medicines Patent Pool, enabling them to produce generic anti-AIDS medications. Tenofovir Alafenamide (TAF) for 112 developing nations.

Growth of the Indian Pharmaceutical Industry

The Indian pharmaceutical industry is expected to grow at a rate of more than 15% annually between 2015 and 2020, surpassing the worldwide pharmaceutical industry, which is projected to grow at a rate of 5% annually during the same time. According to an Indian ambassador to the US, the market is expected to grow to US$55 billion by 2020, making it the sixth largest pharmaceutical market globally in terms of absolute size. With about 80% of the market share (in terms of revenues), branded generics dominate the pharmaceutical industry. According to data from the Ministry of Commerce and Industry, India has also maintained its advantage over China in pharmaceutical exports, which increased by 11.44% annually to US$12.91 billion in FY 2015–16. Furthermore, it is anticipated that Indian pharmaceutical exports will increase by 8–10% in FY 2016–17. Pharmaceutical product imports increased by 0.80 per cent year over year to $1,641.15 million.

In general, the number of drug sanctions imposed on Indian firms by the US Food and Drug Administration (USFDA) has nearly doubled from 109 in FY 2014–15 to 201 in FY 2015–16. The nation contributes roughly 30% (by volume) and 10% (by value) of the $70–80 billion US generic market.

With sales of USD 2.36 billion in March 2016, Dr Reddy's dominated the Indian pharmaceutical market. With sales of USD 2.09 billion in FY16, Lupin was the second-largest segment in the Indian pharmaceutical business, while Cipla came in third with an income base of USD 2.089 billion for March 2016 sales. With a revenue base of USD 1.17 billion for March 2015 sales, Aurobindo was ranked fourth in the market. In 2015, the top 10 firms held about 39% of the market share, while the top four companies acquired 20%.

Pharma giants raise their R&D spending.

Sun Pharma has spent the most on research and development in FY16, followed by Dr Reddy's. In the March quarter of FY16, Sun Pharma's R&D expenditure was 9.1% of total sales, which grew at a pace of 23% YoY compared to the March quarter of FY15. Lupin's R&D expenditure is expected to increase from 12% in FY16 to 12-15% of revenues in FY17. The Indian healthcare industry is expected to grow from its current USD 70 billion to USD 280 billion by 2020.

It can be inferred from the aforementioned logic that Indian players will need to increase their presence in the global generics industry. Additionally, the Indian pharmaceutical sector needs to undergo a paradigm change, and major Indian companies need to put more emphasis on developing innovative drugs. Indian players will be able to participate at every stage of the industry's value chain, from bulk pharmaceuticals to generic preparations to unique drugs, thanks to their ability to identify novel drug compounds. While gradually establishing a presence in crucial areas (in both regulated and semi-regulated markets) will help Indian players maintain their own territory, they will need to engage in determined competition in research-driven areas in order to generate significant long-term gains. The rising levels of exports and foreign investments show how important international procedures are to Indian pharmaceutical companies. The Product Patent Act's impact is evaluated in terms of the Drug and Pharmaceutical Index and operational income growth rate. The market's perceptions of the changes in India's regulatory framework are favourable. Due to the implementation of the global intellectual property protection framework, the ratio of Forex earnings to total income, exports, and outside investments has been gradually increasing in India. An analysis of mergers and acquisitions as a tool for the Indian pharmaceutical industry's global expansion will provide managers with a vision to completely understand the strategy's learning, value-enriching, and foreign market entry promises.

Review of Literature

The literature review suggests using mergers and acquisitions as a fresh tactic in the Indian industry nowadays. Numerous researchers have conducted cross-sectional and longitudinal studies on the various aspects of the choice to combine and acquire, ranging from the factors that influence the strategy to its effects on the acquiring firms. These evaluations have been conducted across multiple industries and in an industry-specific manner.

M&A is a crucial corporate strategy. In industrialised nations like the US and those in Europe, this fact has long existed and been thoroughly examined. There is a significant amount of material that is unwavering in its acceptance of the post-merger performance and implications. However, it is crucial to describe the causes behind M&A and the problems that make this business endeavour possible before determining the impact of M&A. M&A are driven by a wide range of complex factors, and no one approach can fully explain them.

The goals of M&A may vary depending on the concerns of managers and shareholders, as well as how they deviate from the owners' value maximisation strategy (Trautwein, 1990). Efficiency theory, which maintains that M&A are assumed to achieve interactions that contain financial synergies, operational synergies, and managerial synergies, could be used to explain the first rationale for M&A activity. Financial synergies are what lower the combined firms' capital costs. They reduce a company's investment portfolio's systemic risk. Unrelated M&A is frequently used to achieve these synergies (Singh & Montgomery, 1987).

A company's scale could increase as a result of M&A, giving it a better approach to financing than small, independent entities. By combining the operations of two units that are significant to economies of scale and scope, operational synergies increase. Having a joint sales force, lowering production costs, or allowing a company to offer exclusive goods and services in the market through technology are all ways to achieve economies of scale and information transfers (Porter, 1987), but firms that aim for linked markets that is, horizontal and vertical transactions are better able to achieve operational synergies (Seth, 1990; Singh & Montgomery, 1987).

Findings

- According to the profitability ratios, the post-merger and acquisition is more profitable than the pre-merger and acquisition.
- The liquidity ratio showed that following a merger or acquisition, the firms' liquidity power also increased.
- Financial ratios show that following a merger or acquisition, the companies are more financially stable.
- The Indian pharmaceutical sector used alliances, mergers, and acquisitions to better consolidate.

Conclusion

The study found that the Indian pharmaceutical business engaged in greater consolidation through mergers, acquisitions, partnerships, and asset sales in line with worldwide trends. Even if domestic companies control the mergers, international companies are actively participating in alliances and acquisitions, which have become promising as a result of the relaxation of several policy regulations. The performance analysis revealed that there is a significant difference in the marketing expenditure of merging firms compared to their non-merging counterparts throughout the post-merger period, and the majority of the firms used it more as a market expansion strategy than as a technology enhancer. Although one of the main justifications for these tactics is capacity expansion, the analysis shows an opposing trend as it increases during the post-merger era. The majority of businesses are using mergers as a means of expanding their product offerings and maintaining risk-free operations.

Limitations

- This process could only assess a small number of the very big enterprises in the Indian pharmaceutical industry.
- Many tools are used in fundamental analysis; only a select few were examined.
- The measured study frame is constrained.
- Secondary data was utilised in this instance.

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