

The background consists of several overlapping, semi-transparent blue geometric shapes, primarily triangles and quadrilaterals, creating a dynamic, layered effect. The colors range from a deep navy blue to a bright, light blue. The shapes are arranged in a way that suggests movement and depth, with some shapes appearing to recede into the background while others come forward.

Business Groups, Mergers & Acquisitions and Competition

Structure of Presentation

- i. The Context and the Study
- ii. Major Observations
 - i. M&As undertaken by Business Groups.
 - ii. Market Competition with Ownership Characteristics.
- iii. Conclusions and Policy Insights

The Context and the Study

- Pre MRTP Regime: Various studies raised the issue of concentration of economic power with the top business groups. Evidence for ownership-wise and product-wise concentration (Hazari, R.K, 1967, MIC, 1965)
- Business power and Economic power, which further enable to gain control over the economy.
- MRTP Act, 1969 was aiming at the prevention of (i) concentration of economic power to the common detriment (ii) controlling monopolies (iii) Monopolistic Trade Practices (MTPs) (iv) Restrictive Trade Practices (RTPs) and (v) Unfair Trade Practices (UTPs).
- Apprehensions on the functioning of the MRTP commission.
 - Evidence for high concentration of economic assets among a handful of business groups. And the ownership of economic assets has been growing over time (Goyal, S.K 1979).
- Amendment of the MRTP Act in September 1991.
- The new Competition Act, 2002: Regulatory focus shifted from ‘economic concentration’ or ‘controlling monopolies’ to ‘promoting competition’.
 - Rule of reason approach followed and ownership of firm is not a concern and thereby concentrated economic power is also not a concern.
 - M&As by business groups might be leading to the aggregate concentration, which may not be revealed in the narrowly-defined product markets.

The Context and...contd.

- Competition regulation is primarily focused on 'economic efficiency' and not addressing 'social fairness' comprehensively (Lianos, 2020).
- Though economic power is the heart of antitrust, the competition assessment is based on narrowly defined markets and quantifiable evidence in general, and generally ignore the political ramifications and the social harms caused by the economic power (Ayal, 2013) .
- The most powerful argument in favor of antitrust is, '*antitrust law reduces the political power of firms, which is rarely made!*' (Zingales, 2012; as in Ayal, 2013).
- Net worth of top 19/25 business groups in Indian GDP is around 14% to 15% (World Billionaire List, December 2020/ Forbes List, October 2020).
- Declining share of bottom 50 percent population, whereas that of Top 1 and Top 10 are increasing (World Inequality Database, December, 2020).
- Strategic M&As as an opportunity to create globally competent firms.
- The purpose behind the creation of business groups and M&As are similar. Reduce the cost of production and increase profitability and competitiveness.
- Good strategy to create globally competent firms, abuse of dominance is only restricted.
- Trade-off emerges between positive and negative effects of the M&As strategy adopted by the big business.

Aims of the Study

- Examined two issues:
 - The extent of M&A undertaken by Indian business groups and the structure of these deals.
 - Competition assessment with ownership characteristics.

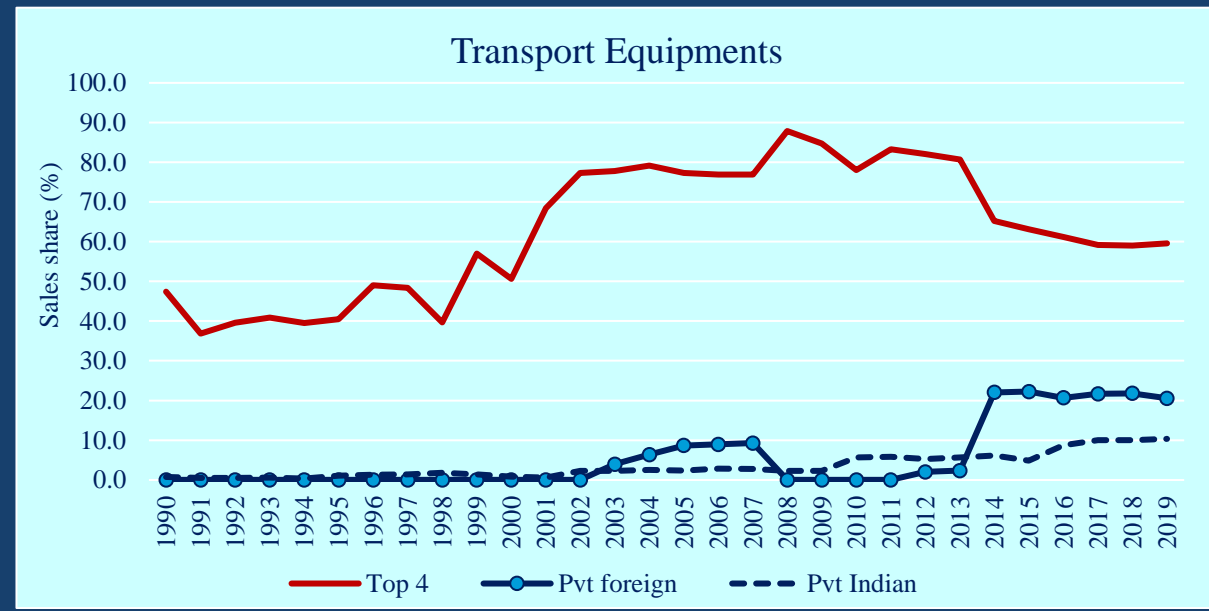
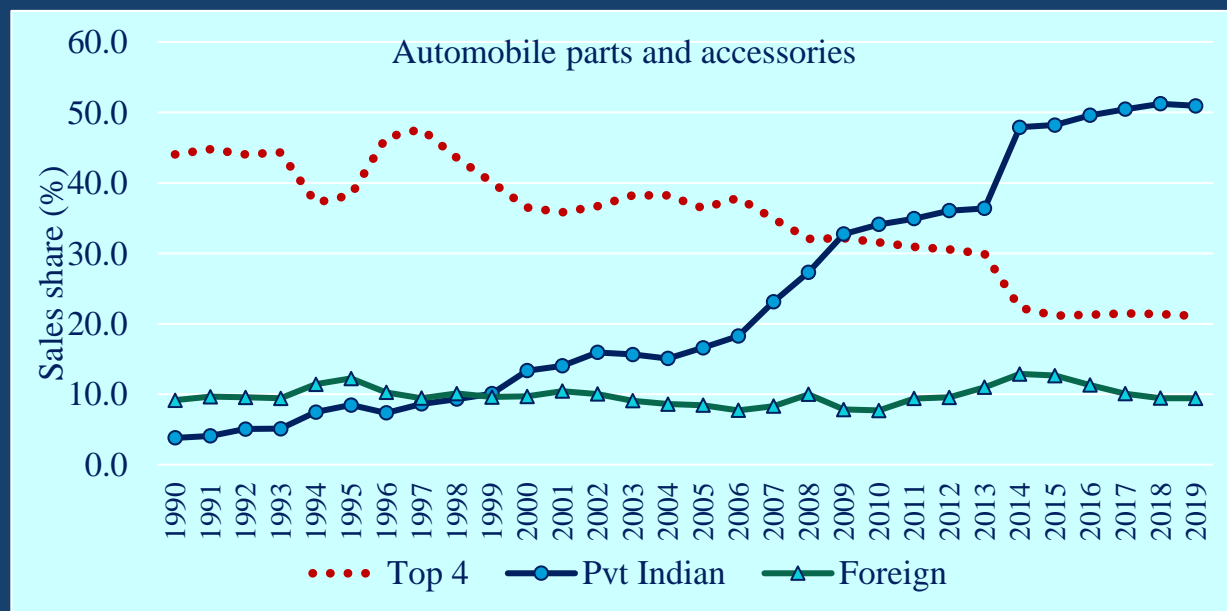
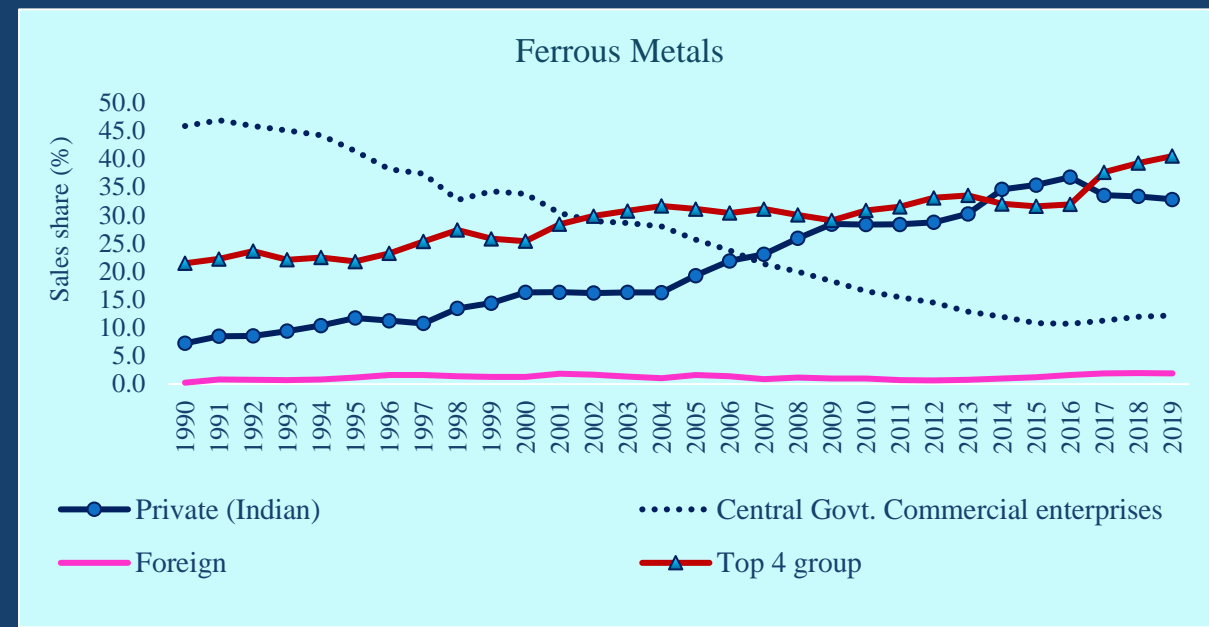
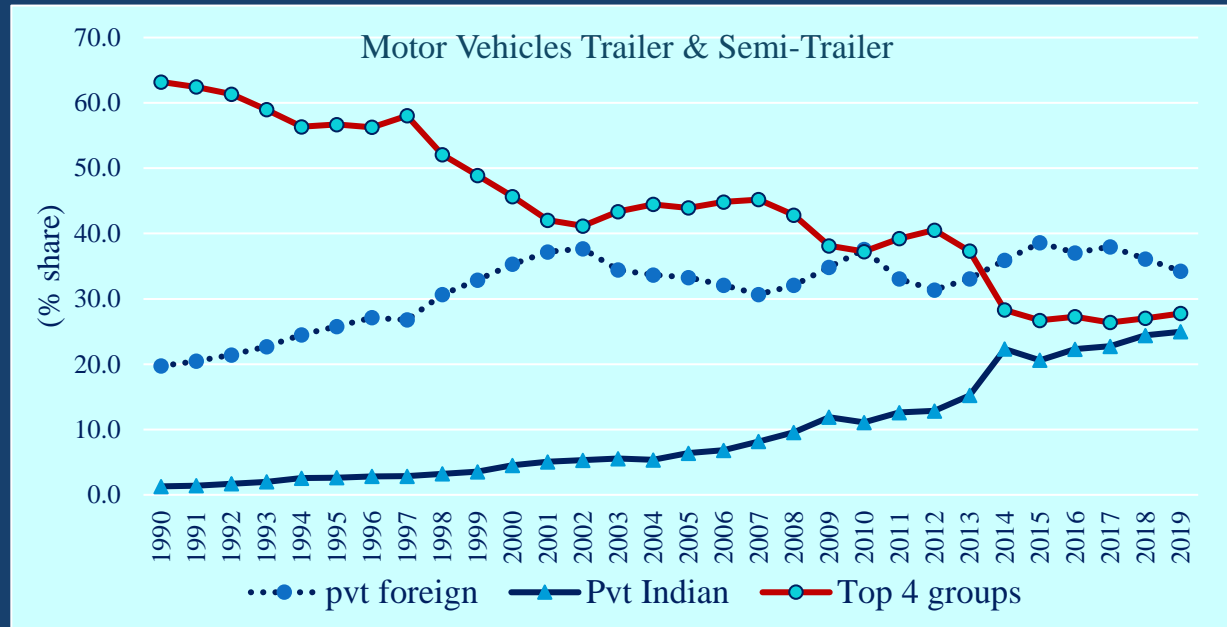
Consolidation Activities of Business Groups

- **Better synergies:** Business groups consists of multiple affiliated companies and large number of products. Most of the target firms are also multiproduct, very often concentrate on the production (business) of products in the same and related value chain. The acquired resources can be used more efficiently to the appropriate unit of production, which will generate forward and downward linkages for the business groups compared to the standalone firms.
- **Synergy creation and market expansion through M&As** will be much more to the business groups as it consists of multiple arrays of units with a large number of conglomerate products.
- Business group affiliation along with M&As makes it easy to withstand competition from other firms.
- **Data:** PROWESS, CMIE + Venture Intelligence Database, data coverage from January 2004 to July 2019 for 43 groups.
- 43 groups or their affiliated companies are appearing in 1083 transactions. Out of this, 352 transactions are minority deals or sales of various assets. The rest, 731 transactions can be counted as majority acquisitions.
- **The top business groups are the top in consolidation activities too.** Tata, Reliance and Mahindra made 34% of deals.
 - Tata consolidated in 23 sectors, Birla in 22; Reliance in 16, and Mahindra in 14. L&T 12, TVS 11 sectors.
 - IT & ITES consists of 18% of all transactions (134 out of 732 majority deals) made by T.B.G. Followed by Automobiles, Basic Metals etc. Within IT & ITES: HCL and Wipro (22&20 deals resp.)
 - In the automobile sector, Mahindra and Tata are the top deal makers, & accounted for more than 50 percent of all transactions in the sector.
 - In basic metals, 25 out of the 48 deals belong to Tata and OP Jindal (OPJ) groups. Tata has 14 and OPJ has 11 transactions each.

Ownership-wise Concentration

- Presence of multiple affiliated companies in same business segment (Mazumdar, S, 2008).
 - Tata has 18 companies in basic metals, 13 in machinery and 23 in motor vehicles; Mahindra has 22 in motor vehicles, 5 in machinery and 7 in basic metals.
 - OP Jindal has 19 companies in basic metals (market share 2.6% in 1990-95, increased to 15.7% during 2014-19). Many companies engage in similar business within this group. And related M&As are also common.
 - All affiliates are not contributing substantial sales revenue for the same segment. However they provide forward and backward linkages within the same segment.
 - Ownership-wise concentration becomes important.
- Product-wise Concentration with Ownership Characteristics
- Chaudhuri, A (1975) on localized or product-wise concentration, *‘though product-wise concentration is important and reveals glimpses of the nature and extent of the concentration of economic power, it is inadequate for a full understanding of the problem. As the economy grows, the product-wise concentration may show a declining trend. And most importantly, the economic power exercised by the top business groups is not only on a particular product or group of products but over a large number of economic activities.’*
- Examined three sub-sectors, i.e., basic metals, machinery, and automobiles. Further disaggregated the sub-sector in some cases. For example, ferrous metals is examined from basic metals; and from the automobile sector, (i) trailer & semi trailer vehicles (ii) automobile parts and accessories and (iii) other transport equipment are examined.

Foreign and Indian Owned shares



Source: Calculated using PROWESS, CMIE

*Machinery also same declining trend

Ownershipwise...contd.

- When groups are considered instead of top firms, concentration levels increase.
 - Ferrous metals: In 2019, top firms, Tata Steel and JSW owns 20% market share, whereas ownership-wise share will become 35% (sales) and (42% assets). OPJ: continuous increase from 3 to 21% in 2019.
- **Sectoral Variations:** The presence of business groups are increasing in products like basic metals and other transport equipment. In sub-sectors like motor vehicles and machinery, the market shares owned by the top business groups are declining.
- Wherever the presence of Indian business groups decline, there has been the increasing presence of foreign firms. Standalone firms are also increasing their presence in these areas.
- Nevertheless, market shares are higher when we consider the affiliate companies as a group, rather than as individual firms. This may be the reason why these firms could sustain in the market compared to the standalone firms.

Key Message and Policy Insights

- Competition regulation is dealing with market control and thereby focusing on the concept of ‘economic efficiency’ not comprehensively on ‘social fairness’.
- Top business groups are also top in M&As.
- M&As has been contributing to not only capacity and market expansion, but also vertical linkages to the product profile of business groups. Acquired assets of the financially distressed targets are also contributing to strengthen the market position of groups.
- The umbrella of B.G helps not to be takeover too. M&As should be strategically used by the groups to become globally competitive and strengthen their position in technology oriented core sectors with employment and growth potential. Also it is an opportunity to acquire strategic resources abroad.
- Nevertheless it is possible that the business group/s (or such eminent firms) to acquire top firms across various conglomerate products (which are normally approved by the regulator as there is no overlap). Thus in the long run, this particular group may have a greater control over various product segments.
- The regulators should ensure the economic and political power of groups are not leading to market imperfections.