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Indian businesses amalgamate to face competition better

Corporate combinations, in the form of mergers, acquisitions, amalgamations, and takeovers are important for inorganic or external growth of business. Intense competition, levelling off trade barriers, free flow of capital across countries, and globalisation of businesses are reasons for widespread activities of corporate restructuring. Business amalgamation help businesses access financial resources better, manage businesses more efficiently by pooling marketing, technical, and distribution skills from amalgamating companies. Amalgamation is thought as a means of cost reduction, better administration, optimum utilisation of resources, and finally more value to company.

Currently, Indian companies are facing intense competition at home and abroad. This results in amalgamation to strategise marketing and operations around company's core activity to maximise growth.

DPSC (Dishergarh Power Supply Company) Ltd., incorporated in 1919, is one of the oldest power generation, transmission, distribution, and supply Company in West Bengal. IPCL (Indian Power Corporation Limited) is the holding company of DPSC (with 93% share), engaged in renewable energy generation. In 2012, IPCL is amalgamated into DPSC with a share swap of 11:100, i.e., every shareholder of IPCL holding 100 shares of INR 1 is entitled to receive 11 fully paid shares of DPSC of INR 1.

The second example is from construction industry. The construction and engineering company Gammon India Ltd. (GIL) is currently in process of amalgamating its 100% subsidiary, Pravara Renewable Energy Ltd. (PREL) within itself. The company posted a net loss of INR 261.6 crore in third quarter Oct-Dec 2012, and now intends to accommodate its debt recast plan through this corporate restructuring.

Finally, in a recent announcement, Tata Metaliks Ltd. (TML) agreed to amalgamate with Tata Steel from 1 April 2013. The decision came following dissolution of Tata Metaliks Kubota Pipes Ltd. (TMKPL), supplier of ductile iron pipe for water transport and sewerage system. The joint venture company (TMKPL), formed in 2007 through collaboration between Kubota, and One Steel of Japan, and TML of India with equity participation (44:5:51), came to an end later in March. Upon selling their shares to TML, TMKPL became 100% subsidiary of TML. According to Kubota, to face severe sales competition in current Indian DI pipe market, company would need to be cost-competitive in iron making area, where both Kubota (pipe maker) and One Steel (pipe supplier) have no role to play. Finally, Tata Metaliks (TML) and its fully-owned subsidiary Tata Metaliks Kubota Pipes Ltd. (TMKPL) agreed to amalgamate with Tata Steel with share swap ratio of 4:29, meaning every shareholder of TML holding 29 shares of INR 10 each, will get 4 shares of Tata Steel of INR 10 each. It is hoped that due to amalgamation the company will take advantage of resources of Tata Steel to become cost competitive in the area of iron making.