BHARAT SCHOOL OF BANKING

Merger, Acquisition, Amalgamation, JV

Merger

A **merger** refers to a combination of **two** or **more** companies, usually of **same size**, into **one company**.

What happens in merger?

- The **shareholders** of the company being **merged** become **shareholders** of the larger company
- The **assets** and **liabilities** of a company get vested into the assets and liabilities of another company
- **Identity** of one ore more entities (smaller companies) is **lost** to the larger company (to whom the smaller companies are merged), but **no new entity** is formed

It can be thought as a **marriage** between **two** companies of same size, in which one company **survives** its own **name** (larger company), and the other (smaller company) ceases to exist as a **legal entity.**

For example, merger of **ING Vysya Bank** with **Kotak Mahindra Bank (KMB)**

Types of Mergers

1. Horizontal Merger - It occurs when the two merging companies both produce **similar product** in the same **industry** or **sector.**

For example, merging of Coca-cola and Pepsi beverage division would be a Horizontal merger.

2. Vertical Merger - It occurs when both the merging companies operate in the same **industry**, but at **different stages** in the production of the **same finished good**.

For example, merger of a **tire** producing company with a **car** manufacturing company would be a Vertical merger.

3. Conglomerate Merger - It occurs when the two merging firms operate in **different industry** or **sector**.

For example, if a shoe company, merges with a soft drink company, then it would be an example of Conglomerate Merger.

Amalgamation

Amalgamation is the transfer of all or some part of assets and liabilities of one or more companies to a **new company**.

What happens in Amalgamation?

- All of the companies lose their **identities**, and a **new separate entity** is born
- **Shareholders** of all the companies get **shares** of the **new company**

For example, **Maruti Motors** operating in India and **Suzuki** based in Japan **amalgamated** to form a **new company,** named **Maruti Suzuki (India) Limited**.

Acquisition

Acquisition of a company (usually smaller) by another company (usually bigger) refers to the transfer of **ownership right** in the property and asset of acquired company to the acquiring company, without any **combination** of companies.

What happens in Acquisition?

- **Acquiring company** purchases **majority stake (>50 %)** in the **acquired company**, thus getting the **controlling/ownership right**
- Both the **acquiring** and the **acquired** company **survive** as **legal entities**.

For example, **Facebook** acquired **Whatsapp** in **USD 19 billion** last year.

Joint Venture (JV)

Joint Venture is a **business agreement** between two or more companies for a **finite time**, to develop a **new entity** and **new assets**, by contributing their **equity/stock**.

The companies exercise their control over the **new enterprise**, and **share - revenues/profits** and **expenditures/losses.**

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What happens in Joint Venture?

- Both the companies remain **independent**. They just **contribute** in the **Joint Venture** for a particular product as per agreement, for a **finite time**
- Control, Profits, Losses, Costs, etc. are shared by themselves as per agreement

For example, **Tata Docomo** is a **joint venture** between **Tata Teleservices** (India) and **NTT Docomo** (Japan).