Mergers and Acquisitions in India And Its Impact on Shareholders Wealth

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Abstract- Merger and Acquisition is the most effective ways to accelerate the growth implementation plan of companies. All industries have been using M&A as an aggressive strategy for growth. Merger and acquisition in are not a new concept and burst in M&A has given further space to companies to look for integration for their growth, market coverage or any other strategic requirement. The present research paper aims at studying the impact of mergers and acquisition on the financial performance of corporate sector in India. (On acquiring companies) For the purpose of analysis list of data of 6 companies has been considered from period 2012- 2017. The result suggested that there is no significant change on the financial performance of corporate sector in India after merger.

Indexed Terms- Mergers, Acquisitions, Financial ratios, Post-Merger

I. INTRODUCTION

- WHAT IS A MERGER?

A merger is an agreement that unites two existing companies into one new company. There are several types of mergers and also several reasons why companies' complete mergers. Mergers and acquisitions are commonly done to expand a company's reach, expand into new segments, or gain market share. All of these are done to increase shareholder value. Often, during a merger, companies have a no-shop clause to prevent purchases or mergers by additional companies.

A merger is a financial activity that is undertaken in a large variety of industries: healthcare, financial institutions, private investments, industrials, and many more. There are two main types of mergers: horizontal and vertical.

Horizontal mergers occur when two businesses in the same industry combine into one. This type of combination can cause anti-trust issues depending on the industry. For instance, GM and Ford may not be allowed to merge because of anti-trust laws.

Vertical mergers occur when two businesses in the same value chain or supply chain merge. For example, a hamburger restaurant might merge with a cow farm.

II. HOW A MERGER WORKS

A merger is the voluntary fusion of two companies on broadly equal terms into one new legal entity. The firms that agree to merge are roughly equal in terms of size, customers, and scale of operations. For this reason, the term "merger of equals" is sometimes used. Acquisitions, unlike mergers, or generally not voluntary and involve one company actively purchasing another.

- Define Mergers: Merger means the combination of two companies.

- Types of Mergers

There are various types of mergers, depending on the goal of the companies involved. Below are some of the most common types of mergers.

- Conglomerate

This is a merger between two or more companies engaged in unrelated business activities. The firms may operate in different industries or in different geographical regions. A pure conglomerate involves two firms that have nothing in common. A mixed conglomerate, on the other hand, takes place between organizations that, while operating in unrelated business activities, are actually trying to gain product or market extensions through the merger.

III. WHAT IS AN ACQUISITION?

An acquisition is when one company purchases most or all of another company's shares to gain control of that company. Purchasing more than 50% of a target firm's stock and other assets allow the acquirer to make decisions about the newly acquired assets without the approval of the company’s other shareholders. Acquisitions, which are very common in business, may occur with the target company's approval, or in spite of its disapproval. With approval, there is often a no-shop clause during the process.

We mostly hear about acquisitions of large well-known companies because these huge and significant deals tend to dominate the news. In reality, mergers and acquisitions (M&A) occur more regularly between small- to medium-size firms than between large companies.

IV. WHY MAKE AN ACQUISITION?

Companies acquire other companies for various reasons. They may seek economies of scale, diversification, greater market share, increased synergy, cost reductions, or new niche offerings.

V. ACQUISITION PROCESS

Acquisitions are vessels of corporate growth, creating major growth steps. Through one acquisition, a buyer can achieve three to five years of organic growth in one single step. Often, acquisitions bring a new customer base that is strategic for the acquirer. The new customer base brings new potential sources of revenue. Additionally, an acquisition brings a new set of products or services. This new line-up will strengthen your existing product portfolio and give you more ways to create sales growth.

Acquisition success depends on the strength of the underlying acquisition process, including valuation, structure and operational integration. Acquirers should focus on building discipline into each step of this process. Managing each step involves resource planning across the enterprise and the creation of multi-disciplinary teams. While the front end of the acquisition process is a financial, the more important steps are sales and operationally focused. Strong project management and interdepartmental coordination are needed to ensure success.

Companies that bring a holistic integrative approach to managing them usually generate the highest returns. Companies that are overly financial in their approach, that overlook operational planning and integration usually do not generate attractive returns.

VI. MERGERS AND ACQUISITIONS IN INDIA

A business taking over another business occurs more frequently than you think. These takeovers are known as acquisitions. Situations, where two or more companies come together to form a single company, are known as mergers. The Indian law recognizes these mergers as ‘Amalgamation’.

VII. DIFFERENCE BETWEEN MERGER AND ACQUISITION

Merger and acquisition are the two most commonly applied corporate restructuring strategies, which are often uttered in the same breath, but they are not one and the same. These are the form of external expansion, whereby through corporate combinations, business entities purchase a running business and grows overnight. It helps the business in maximizing the profit and growth by increasing the level of production and marketing operation. While merger means "to combine", Acquisition means "to acquire."

A merger occurs when two separate entities combine forces to create a new, joint organization. Meanwhile, an acquisition refers to the takeover of one entity by another. Mergers and acquisitions may be completed to expand a company's reach or gain market share in an attempt to create shareholder value.

VIII. FIVE BIGGEST MERGERS AND ACQUISITIONS IN INDIA

1. ARCELOR MITTAL

The biggest merger valued at $38.3 billion was also one that was the most hostile. In 2006, Mittal Steel announced its initial bid of $23 billion for Arcelor which was later increased to $38.3 billion. This deal was frowned upon by the executives because they were influenced by the patriotic economics of several governments. These governments included the French, Spanish, and that of Luxembourg. The very fierce French opposition was criticized by the French, American, and British Media.

ArcelorMittal

Then Indian commerce minister Kamal Nath even warned that any attempt by France to block the deal would lead to a trade war between India and France. The Arcelor board finally gave in to the deal in June for the improved Mittal offer. This resulted in the new company Arcelor-Mittal controlling 10% of global steel production.

2. VODAFONE IDEA MERGER

Reuters reported the Vodafone Idea merger to be valued at $23 billion. Although the deal resulted in a telecom giant it is safe to say that the 2 companies were pushed to do so due to the entry of Reliance Jio and the price war that followed. Both companies struggled amidst the growing competition in the telecom industry. The deal worked both for Idea and Vodafone as Vodafone went on to hold a 45.1% stake in the combined entity with the Aditya Birla group holding a 26% stake and the remaining by Idea. On the 7th of September, Vodafone Idea unveiled its brand-new identity 'Vi' which marked the completion of the integration of the 2 companies.

3. WALMART ACQUISITION OF FLIPKART

Walmarts acquisition of Flipkart marked its entry into the Indian Markets. Walmart won the bidding war against Amazon and went onto acquire a 77% stake in Flipkart for $16 billion. Following the deal, eBay and Softbank sold their stake in Flipkart. The deal resulted in the expansion of Flipkart's logistics and supply chain network.

Flipkart itself had earlier acquired several companies in the ecommerce space like Myntra, Jabong, PhonePe, and eBay.

4. TATA AND CORUS STEEL

Tata's takeover of Corus Steel in 2006 was valued at over $10 billion. The initial offers from Tata were at £4.55 per share but following a bidding war with CSN, Tata raised its bid to £6.08 per share. Following the Corus Steel had its name changed to Corus Steel and the combination resulted in the fifth-largest steel making company.

The following years were unfortunately harsh on Tata's European operations due to the recession in 2008 followed by reduced demand for steel. This eventually resulted in a number of lay-offs and sales of some of its operations.

5. VODAFONE HUTCH-ESSAR

The world's largest mobile operator by revenue – Vodafone acquired a 67% stake in Hutch Essar for $11.1 billion. Later in 2011 Vodafone paid $5.46 billion to buy out Essar's remaining stake in the company. Vodafone's purchase of Essar marked its entry into India and eventually the creation of Vi. Unfortunately, the Vodafone group was soon embroiled in a tax controversy over the purchase with the Indian Income Tax department.

IX. LITERATURE REVIEW

Following were the major efforts at research in the subject, which have been referred for this study purpose. Singh and Kumar's Study (1994), "The role played by BIFR in the revival of sock industrial units through the medium of mergers" With the help of three case studies, they concluded that rehabilitation of sick company by merging with the health company is the most effective way of their rehabilitation.

All the three cases (namely Kothari General Food Corporation Ltd with Brooke Bond India Ltd Challapalli Sugars Ltd With KCP Ltd And Sewa Paper Lid With Ballarpur Industries Ltd.) Could be termed as successful mergers and BIFR seemed to have fulfilled its assured objective of revival of sick companies another conclusion draw was that tax implications were singularly the most inviting feature for healthy company to merge with sick company.

Dr. V. K. Shobhana and Dr. N. Deepa (2011)2 made a probe into the fulfilment of motives as vowed in the merger deals of the nine select merged banks. The study uses Summary Statistics, Wilcoxon Matched Paired Signed Rank Test and't' test for analysis and interpretation of data pertaining to the five pre and post-merger periods each.

The result indicates that there has been only partial fulfilment of the motives as envisaged in the merger deals

EglDuksait and Rima Tamosiunien (2009)3 described the most common motives for companies decision to participate in mergers and acquisitions transactions. The reason is growth, synergy, access to intangible assets, diversification, horizontal and vertical integration and so on arises from the primary company's motive to grow.

Most of the motivations for mergers and acquisitions feature serve as means of reshaping competitive advantage within their respective industries. However, it may be that some of the motives identified affect some industries more than others, and in that sense they can be expected to be associated with a greater intensity of mergers and acquisitions in certain sectors rather than others.

According to Fraclicx and Bolster (1997), the main factor in making or breaking the merger equation is the culture. Moreover, culture is described as a unique solution for both internal and external problems (Schein, 1985a. Cited in Schroeder and self, 2003)

The term "Culture Clash" will describe about the function of two companies such as values, missions, style and philosophies These are all the factors considered to be dangerous factors when two companies decide to combine (Bijilsma-Frankema, 2001; Cited in Nguyen and Kleiner, 2003). According to Beer et al 91993), the company which is going for mergers and acquisition need to change the culture to fit the strategy.

Drennan (1992), every organization has got its own culture. The Larson and Gonedes (1969) model holds that the exchange ratio will be determined by each firm's assessment of the post-merger price / earnings multiple and postulates that each firms requires that its equivalent price per share be at least maintained as a result of the merger.

According to the author, they developed a model to know the price or earnings which will show the profit and loss in that model. In order to check whether the M&A actually increases the market value of the companies so Conn and Nielson (1997) developed the Larson and Gonedes model.

Cross Border Mergers & Acquisitions and Its Effect on Shareholders Wealth in India Jayant Kalghagi&Dr.Ravindranath V. Bad Use of the Research Tools: AAR, CAAR, T test

X. RESEARCH METHODOLOGY

Research Design: Causal Research

Populationof the study

The population of my research is taken of ten years of Indian Listed Companies Mergers and Acquisitions from financial year 2004 to 2014

Sampling Frame: Indian companies who are registered in the Stock exchanges so, the list of registered Indian companies in the stock exchanges becomes the part of my sampling frame.

Sampling Unit: Sampling unit will be primarily consisting of the recent wealthiest Mergers and Acquisitions.

Sample Size: Sample size will be analysing top ten mergers and acquisition in India

Sampling Methods: Convenience sampling method

XI. NEED/IMPORTANCE OF THE STUDY

- To aware the investors regarding the effect, before and after the mergers & acquisitions for short term investments

- To make their strategies for investments, for the investors' short-term view by keeping in mind mergers & acquisitions.

XII. RESEARCH OBJECTIVES

Primary Objective:

- Measuring Wealth of Shareholders for short term view with statistical methods

Secondary Objectives:

- To know the short-term effect pre- and post-merger compare to market
- To compare the market return and script return
- To understand the short-term effect of the deal

XIII. HYPOTHESIS OF THIS STUDY

- Hypothesis 1

H0: The script return is not affected due to the market return in both i.e., Pre and Post Merger H1: The script return is affected due to the market return in both i.e., Pre- and Post-Merger

- Hypothesis 2

H0: There is no significance between Markets Return and Script Return and no abnormality between them

H1: There is significance between Market Return and Script Return and there is abnormality between them

- Analysis and Interpretation:

Top 10 deals as per value wise: Measuring Wealth of Shareholders for Short Term. Also find the market return and script return to find the shareholder's wealth pre-merger and post-merger with the help of the regression line. For the same, the changes in the closing prices of the script and compare it with Indices value, here we take BSE 500. We had taken X as an independent variable i.e., BSE 500 and Y as a dependent variable i.e., script prices of the particular company and try to fit regression line Y on X to see that after merger and before merger how this merger affected shareholders wealth.

- Value wise Top 10 M&A Deals in India:

In these top 10 deals Indian Company is the one which is Acquirer of the other company.

1. Tata Steel-Corus: $12.2 billion
2. Hindalco-Novelis: $6 billion
3. ONGC-Imperial Energy: $2.8 billion
4. HDFC Bank-Centurion Bank of Punjab: $2.4 billion
5. Tata Motors-Jaguar Land Rover: $2.3 billion
6. Sterlite-Asarco: $1.8 billion
7. Suzlon-RePower: $1.7 billion
8. RIL-RPL: 1.69 billion
9. Videocon-Daewoo: $731 million
10. Ranbaxy-Betapharm: $630 million

- Analysis of Regression Line and ANOVA Table

Table No. 1-PRE-MERGER AND POST-MERGER R SQUARE VALUE

Serial No.	Company Name	Pre value	Post value
1	Tata Steel-Corus	0.2769	0.33865
2	Hindalco-Novelis	0.21889	0.33034
3	ONGC-Imperial Energy	0.51	0.47
4	HDFC Bank-Centurion Bank of Punjab	0.51	0.61
5	Tata Motors-Jaguar Land Rover	0.39	0.34
6	Sterlite-Asarco	0.58	0.55
7	Suzlon-RePower	0.21	0.45
8	RIL-RPL	0.87	0.76
9	Videocon-Daewoo	0.074	0.033
10	Ranbaxy-Betapharm	0.085	0.087

Table No. 2-PRE-MERGER AND POST-MERGER T TEST VALUE

Serial No.	Company Name	PreValue	Post Value	Result
1	Tata Steel-Corus	0.0017	0.0071	Significance between Markets Return and Script Return
2	Hindalco-Novelis	0.037499511	0.00803037	Significance between Markets Return and Script Return

3	ONGC-Imperial Energy	0.000394352	0.000771212	Significance between Markets Return and Script Return
4	HDFC Bank Centurion Bank of Punjab	0.00676546	4.71447E-05	Significance between Markets Return and Script Return
5	Tata Motors -Jaguar Land Rover	0.00339788	0.00683	Significance between Markets Return and Script Return
6	Sterlite -Asarco	8.7042E-05	0.00017	Significance between Markets Return and Script Return
7	Suzlon-RePower	0.04386	0.00118	Significance between Markets Return and Script Return
8	RIL-RPL	2.1E-09	5.3E-07	Significance between Markets Return and Script Return
9	Videocon-Daewoo	0.24741	0.44011	No significance between Markets Return and Script Return
10	Ranbaxy-Betapharm	0.21229	0.206681449	No significance between Markets Return and Script Return

In these Table no. 2 only two compaies Videocon-Daewoo and Ranbaxy-Betapharm Both the value is more than 0.05 which means there is no significance between Markets Return and Script Return and no abnormality between them.

RESULT AND DISCUSSION

- Hypothesis 1: (R square)

H0: The script return is not affected due to the market return in both i.e. Pre and Post Merger

H1: The script return is affected due to the market return in both i.e. Pre and Post Merger At least .51 means there is an influence of market return on script in both pre and post-merger. From the above table we can say that, pre-merger script return compare to market return out of 10 there are 7 times shows that the value of the script return affected due to its own rather than market return. So, H0 is accepted in majority of the cases.

- Hypothesis 2: (Paired T test)

H0: There is no significance between Markets Return and Script Return and no abnormality between them

H1: There is significance between Market Return and Script Return and there is abnormality between them. Here, 0.05 value of t test consider as parameter for the test. If a value of t test is less than 0.05 than there is no significance between Markets Return and Script Return and no abnormality between them and if a value of t test is more than 0.05 than there is significance between Market Return and Script Return and there is abnormality between them in both the cases pre and post-merger. From the above table we can say that out of 10 there are 08 companies show the value less than 0.05 which means H0 is rejected and hence there is a significance between market return and script return and there is abnormality between them.

CONCLUSION OF THE STUDY

To conclude, I can say that there the trend shows upward movement in the deals of M&A in India and the investors have to keep in mind this corporate structure decision while they are investing in the companies. To the short term investors I would like to suggest from the first hypothesis analysis 70% companies' shows that the value of the script return affected due to its own rather than market return. So, H0 is accepted in majority of the cases. And from the second hypothesis analysis 80% companies' shows significance between market return and script return and there is abnormality between them. In both the hypothesis there is no significance difference between pre and post-merger analysis of the company but it differ from the market return. So, as an investor for short term they have to look in this strategic alliance and then develop their short term investment strategies.

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