

## “Mergers and acquisitions in India and its impact on shareholders wealth”

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**Abstract:** *In this paper I had done shareholders wealth analysis for short term investment. For the same, I had analyzed top 10 (Value wise) mergers and acquisition by Indian companies, in which I had Find the market return and script return of the companies and Index 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 I take BSE 500. I 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 mergers affected shareholders wealth and also used the statistical tools such as ANNOVA and paired t test.*

**Keywords:** *Mergers & Acquisition, Pre and post merger analysis, Share holder’s Wealth, Top Ten Mergers & Acquisition.*

### I. Introduction

The decision to invest in a new asset would mean internal expansion for the firm. The new asset would generate returns raising the value of the corporation. Mergers offer an additional means of expansion, which is external, i.e. the productive operation is not within the corporation itself. For firms with limited investment opportunities, mergers can provide new areas for expansion. In addition to this benefit, the combination of two or more firms can offer several other advantages to each of the corporations such as operating economies, risk reduction and tax advantage.

Today mergers, acquisitions and other types of strategic alliances are on the agenda of most industrial groups intending to have an edge over competitors. Stress is now being made on the larger and bigger conglomerates to avail the economies of scale and diversification. Different companies in India are expanding by merger etc. In fact, there has emerged a phenomenon called merger wave.

The terms merger, amalgamations, take-over and acquisitions are often used interchangeably to refer to a situation where two or more firms come together and combine into one to avail the benefits of such combinations and re-structuring in the form of merger etc., have been attempted to face the challenge of increasing competition and to achieve synergy in business operations.

### 1.1 Literature Reviews

**Table1: Literature reviews**

Sr. No.	Topic Name	Author/ Authors Name	Outline of the Paper
1	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
2	Shareholders wealth effects of Mergers & Acquisitions in different deal activity periods in India	Smita Kashiramka & N.V.Muralidhar Rao	Last ten years ITeS Sector Knowledge gain for shareholders wealth
3	Mergers and Acquisitions in Banking Sector	Prof. Anil K. Saini, Dr. Sambhavna, Dr. Mohender Kumar Gupta, Dr. Shivakumar Deene	Through this paper we will try to find out reasons of merger and acquisition from the experience of Indian banking sector but they shows some futuristic prediction of India Banking Industry and its outcome
4	Impact of Merger & Acquisition Announcement on Share Price – A Case of Selected Indian Listed Companies	Dr.S.Poornima and V.Chitra	Selected the scripts from Jan. 2012 to Dec. 2012 and see the impact in Impact has been analyzed between +7 days from the date of merger and acquisition announcement.
5	Effectiveness of Banks after M & A	Brajesh Kumar Tiwari	Author had compare the defend banks India and gives his opinion statement regarding effectiveness of Banks after M&A shows in merger of Bank of Karad Ltd. (BOK) with Bank of India (BOI) was more effective in it.
6	Impact of Mergers & Acquisitions on Firms’ Long Term Performance: A Pre & Post Analysis of the Indian Telecom Industry	Neha Verma & Dr. Rahul Sharma	The Paper gives health idea about the financial tools to be choosen at the time of pre and pst merger analysis apart from telecom industry as a whole.

7	Effect of Mergers and Acquisitions on Financial Performance: A study of selected Tata group companies in India	Dr. B M Kanahalli & Siddalingya Jayaram	The financial data has been collected for six years from 2004-10. Pre-merger and post-merger financial ratios have been examined using paired sample 't' test. The results of the analysis reveal that there is no significant difference between the financial performance of the companies before and after the merger.
8	Recent Development in Takeover Process in India	Ambika Sangwan	Author talked about different Act affected to takeover deal in India such as Industrial Development and Regulation Act 1951, MRTP Act, FERA Act etc. made hostile takeover almost impossible. There have been consistent new legal developments such as- The Competition Act 2002 and New Companies Act 2013
9	Impact of Mergers and Acquisitions Across Industries in India	Dr. (Mrs.) S. Poornima & S. Subhashini	The aim of this paper is to study the impact of mergers and acquisitions on the financial performance of the acquiring firm during the pre-and post-merger period specifically in the areas of profitability, leverage, liquidity and managerial efficiency of the company.
10	A Study on Pre Merger and Post Merger/Acquisition selected financial Parameters for Selected Cement Companies in India	Dr. Bindiya Kunal Soni	Authors gives good idea regarding the effect of pre and post merger from 2003 to 2013 in Cement Industry
11	Analyzing the long run financial performance of cross border acquisitions of Indian acquiring companies and determinants there of	Reena Kohli	As per the findings of the author 128 cross borders had happen in last 10 years and the trend shows increase from 1997 to 2007. In 1997 and 1998, 1 each compare to, 17, 26 and 28 in 2005, 2006, 2007 respectively.
12	Analysis of Merger and Acquisition in India Indian Competition Law	Namita Rajput, Monika Gupta and Harish Handa	Most important in M&A with respect to the legal part is Competition Law, 2002 they had explained it here in this paper
13	Wealth creation through acquisitions	N. M. Leepsa Chandra Sekhar Mishra	In this paper author had keep in the mind EVA and done their analysis and their most interesting finding says ending is that related deals were more unsuccessful than unrelated deals.
14	United Spirits acquisition by Diageo: Would the wine turn sweet?	Mr. Sidharth Panigrahi	Interesting article regarding the UB Group and Diageo which explain us how to write a case on the recent acquisition and its pros and cons
15	Competition Policy and Law: Academic Perspective	Subhashish Gupta	Another paper on Competition policy and its academics nature for the use of mergers and acquisitions by evaluating the law and finding problems and loopholes for future improvement

### 1.2 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.

### 1.3 Objective:

#### 1.3.1 Primary Objective:

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

#### 1.3.2 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

### 1.4 Hypothesis:

#### 1.4.1 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

#### 1.4.2 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

### 1.5 Research Methodology:

#### 1.5.1 Research Design:

Causal Research

1.5.2 Population:

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

1.5.3 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.

1.5.4 Sampling Unit:

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

1.5.5 Sample Size:

Sample size will be analyzing top ten mergers and acquisition in India

1.5.6 Sampling Methods:

Convenience sampling method

## **II. Analysis and Interpretation:**

### **2.1 Analysis:**

Top 10 deals as per value wise: Measuring Wealth of Share holders 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 mergers affected shareholders wealth.

### **2.2 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

Source: <http://asiancorrespondent.com/573/top-10-ma-deals-in-india-so-far/>

### **2.3 Interpretation:**

#### **2.3.1. Tata Steel-Corus: \$12.2 billion**

Analysis of Regression Line and ANOVA Table:

R square:

- Pre Merger Analysis
  - Value at R square = 0.2769
  - It shows that value of the script return affected due to the market return only 0.2769 and remaining 0.7231 due to its own.
- Post Merger Analysis
  - Value at R square = 0.33865
  - It shows that value of the script return affected due to the market return only 0.33865 and remaining 0.66135 due to its own.

Paired T Test:

- Pre Merger Analysis
  - T test = 0.0017
- Post Merger Analysis
  - T test = 0.0071
- Both the value is less than 0.05 which means there is a significance between Markets Return and Script Return and abnormality between them

#### **2.3.2. Hindalco-Novelis: \$6 billion:**

Analysis of Regression Line and ANOVA Table:

R square:

- Pre Merger Analysis
    - Value at R square = 0.21889
    - It shows that value of the script return affected due to the market return only 0.22 and remaining 0.78 due to its own.
  - Post Merger Analysis
    - Value at R square = 0.33034
    - It shows that value of the script return affected due to the market return only 0.33 and remaining 0.67 due to its own.
- Paired T Test:
- Pre Merger Analysis
    - T test = 0.037499511
  - Post Merger Analysis
    - T test = 0.00803037
  - Both the value is less than 0.05 which means there is significance between Markets Return and Script Return and abnormality between them

### **2.3.3. ONGC-Imperial Energy: \$2.8 billion:**

Analysis of Regression Line and ANOVA Table:

R square:

- Pre Merger Analysis
  - Value at R square = 0.51
  - It shows that value of the script return affected due to the market return only 0.51 and remaining 0.49 due to its own.
- Post Merger Analysis
  - Value at R square = 0.47
  - It shows that value of the script return affected due to the market return only 0.47 and remaining 0.53 due to its own.

Paired T Test:

- Pre Merger Analysis
  - T test = 0.000394352
- Post Merger Analysis
  - T test = 0.000771212
- Both the value is less than 0.05 which means there is a significance between Markets Return and Script Return and abnormality between them

### **2.3.4. HDFC Bank-Centurion Bank of Punjab: \$2.4 billion**

Analysis of Regression Line and ANOVA Table:

R square:

- Pre Merger Analysis
  - Value at R square = 0.51
  - It shows that value of the script return affected due to the market return only 0.51 and remaining 0.49 due to its own.
- Post Merger Analysis
  - Value at R square = 0.61
  - It shows that value of the script return affected due to the market return only 0.61 and remaining 0.39 due to its own.

Paired T Test:

- Pre Merger Analysis
  - T test = 0.00676546
- Post Merger Analysis
  - T test = 4.71447E-05
- Both the value is less than 0.05 which means there is significance between Markets Return and Script Return and abnormality between them.

### **2.3.5. Tata Motors-Jaguar Land Rover: \$2.3 billion**

Analysis of Regression Line and ANOVA Table:

R square:

- Pre Merger Analysis
  - Value at R square = 0.39

- It shows that value of the script return affected due to the market return only 0.39 and remaining 0.61 due to its own.
- Post Merger Analysis
- Value at R square = 0.34
- It shows that value of the script return affected due to the market return only 0.34 and remaining 0.66 due to its own.

Paired T Test:

- Pre Merger Analysis
- T test = 0.00339788
- Post Merger Analysis
- T test = 0.00683
- Both the value is less than 0.05 which means there is significance between Markets Return and Script Return and abnormality between them.

### **2.3.6. Sterlite-Asarco: \$1.8 billion**

Analysis of Regression Line and ANOVA Table:

R square:

- Pre Merger Analysis
- Value at R square = 0.58
- It shows that value of the script return affected due to the market return only 0.58 and remaining 0.42 due to its own.
- Post Merger Analysis
- Value at R square = 0.55
- It shows that value of the script return affected due to the market return only 0.55 and remaining 0.45 due to its own.

Paired T Test:

- Pre Merger Analysis
- T test = 8.7042E-05
- Post Merger Analysis
- T test = 0.00017
- Both the value is less than 0.05 which means there is significance between Markets Return and Script Return and abnormality between them.

### **2.3.7. Suzlon-RePower: \$1.7 billion**

Analysis of Regression Line and ANOVA Table:

R square:

- Pre Merger Analysis
- Value at R square = 0.21
- It shows that value of the script return affected due to the market return only 0.21 and remaining 0.79 due to its own.
- Post Merger Analysis
- Value at R square = 0.45
- It shows that value of the script return affected due to the market return only 0.45 and remaining 0.55 due to its own.

Paired T Test:

- Pre Merger Analysis
- T test = 0.04386
- Post Merger Analysis
- T test = 0.00118
- Both the value is less than 0.05 which means there is significance between Markets Return and Script Return and abnormality between them.

### **2.3.8. RIL-RPL: 1.69 billion:**

Analysis of Regression Line and ANOVA Table:

R square:

- Pre Merger Analysis
- Value at R square = 0.87
- It shows that value of the script return affected due to the market return by 0.87 and remaining 0.13 due to its own.

- Post Merger Analysis
  - Value at R square = 0.76
  - It shows that value of the script return affected due to the market return by 0.76 and remaining 0.24 due to its own.

Paired T Test:

- Pre Merger Analysis
  - T test = 2.1E-09
- Post Merger Analysis
  - T test = 5.3E-07
- Both the value is less than 0.05 which means there is significance between Markets Return and Script Return and abnormality between them.

**2.3.9. Videocon-Daewoo: \$731 million:**

Analysis of Regression Line and ANOVA Table:

R square:

- Pre Merger Analysis
  - Value at R square = 0.074
  - It shows that value of the script return affected due to the market return only 0.93 and remaining 0.26 due to its own.
- Post Merger Analysis
  - Value at R square = 0.033
  - It shows that value of the script return affected due to the market return only 0.03 and remaining 0.97 due to its own.

Paired T Test:

- Pre Merger Analysis
  - T test = 0.24741
- Post Merger Analysis
  - T test = 0.44011
- 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.

**2.3.10. Ranbaxy-Betapharm: \$630 million**

Analysis of Regression Line and ANOVA Table:

R square:

- Pre Merger Analysis
  - Value at R square = 0.085
  - It shows that value of the script return affected due to the market return only 0.915 and remaining 0.915 due to its own.
- Post Merger Analysis
  - Value at R square = 0.087
  - It shows that value of the script return affected due to the market return only 0.087 and remaining 0.913 due to its own.

Paired T Test:

- Pre Merger Analysis
  - T test = 0.21229
- Post Merger Analysis
  - T test = 0.206681449
- 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.

**TABLE 2: Overall Finding of Top Ten Mergers and Acquisitions by Indian Companies:**

No.	Company Name	Pre Merger		Post Merger	
		R Square	Paired T Test	R Square	Paired T Test
1	Tata Steel	0.2769	0.0017	0.33865	0.0071
2	Hindalco	0.21889	0.037499511	0.33034	0.00803037
3	ONGC	0.51	0.000394352	0.47	0.000771212
4	HDFC	<b>0.51</b>	0.00676546	<b>0.61</b>	0.000047144
5	Tata Motor	0.39	0.00339788	0.34	0.00683
6	Sterlite	<b>0.58</b>	0.0000870	<b>0.55</b>	0.00017
7	Suzlon	0.21	0.04386	0.45	0.00118
8	RIL	<b>0.87</b>	0.000000021	<b>0.76</b>	0.00000053

9	Videocon	0.074	<b>0.24741</b>	0.033	<b>0.44011</b>
10	Ranbaxy	0.085	<b>0.21229</b>	0.087	<b>0.206681449</b>

## 2.4 Hypothesis Analysis:

### 2.4.1 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.

### 2.4.2 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 that 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.

## III. Conclusion

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.

## IV. Scope for further Research

From the research it clearly shows that the short term we get the clarity regarding the effect of market return with the script return but we have to now check for the long term to see the financial stability of the companies. With that we can come to more precise conclusion.

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