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MERGERS AND ACQUISITIONS IN INDIA AND ITS LONG TERM IMPACT ON SHAREHOLDERS WEALTH

AMISH BHARATKUMAR SONI
ASST. PROFESSOR
GLS UNIVERSITY
AHMEDABAD

ABSTRACT

In this study I had done the analysis in two part: First trend analysis (2004 to 2015); Second Long term view shareholders wealth analysis. To know the long term perspective for shareholder's wealth I had done the fundamental analysis of 5 companies from the year 2004 and 5 companies from the year 2005) and see the effect post merger on the acquiring company with the tools of fundamental analysis.

KEYWORDS

mergers & acquisition, pre and post merger analysis, share holder's wealth.

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.

LITERATURE REVIEWS

Sr. No.	Topic Name	Author/ Authors Name	Outline of the Paper
1	Long-term Post-merger Performance of Firms in India	K Ramakrishnan	The author had taken sample of 87 domestic mergers and found that in the long run, mergers appear to have been financially beneficial for firms in the Indian industry
2	Business restructuring and its transfer pricing implications	Roy Choudhury, Rakesh Mishra	The article points out that different form of business restructuring will have different tax consequences. Highlighted slum sale of a business or undertaking as per Income tax act 1961
3	The Impact of Domestic Mergers and Acquisitions on Acquirer Shareholders' Wealth in India	Neelam Rani, Surendra S. Yadav and P.K. Jain	Paper Examine share price performance from 2003-2008 by having CAAR tool for some specific duration
4	Leadership Crisis - The Case of PricewaterhouseCoopers India	S.S.Ganesh	In this case he shows how the leadership or top management changes in PWC and the results and hurdles of the same.
5	Procedural Issues in Mergers and Acquisitions of Companies: A Comparison between Nigeria and India	Abubakar Garba, B.M. Abubakar, M.S. Umar	Nigerian authors shows us how to compare the two countries law and how we can make the change in existing body and do the betterment in legality of the country by keeping Indian laws in mind.
6	India tax laws in need of an overhaul	Berry, Rohit	The Author said still a lot needs to be done on the regulations, and one can expect momentum on the open issues only after the new government is in place, which is expected by mid 2009.
7	Taxation framework facilitates M&A in India	Sanghvi, Jayesh, Rohira, Narendra	The contribution of the four authors in M&A tax frameworks shows the contemporaneous economic reforms by the Indian government and restructuring by Indian companies to attain global scale have resulted in sharp rise in M&A activity in recent years
8	Mergers and Acquisitions in India with Special Reference to the Financial Sector: Recent Trends and Patterns	Priya Bhalla	This paper said regarding the upward trend the M&A in India and it increases year by year. Indian companies are showing their strength
9	The Internationalization of Firms from India: Investment, Mergers and Acquisitions	Deepak Nayyar	This paper analyzed the rapid expansion in outflows of foreign direct investment from India and rapid expansion of outward direct foreign investment from India during the early 2000s, but India's share in such investment from developing countries remains modest in terms of both stock and flows.
10	Impact of Mergers and Acquisition on Shareholders Wealth	V K Shobhana and N. Deepa	Related with my topic but they only concentrated the banking sector and analysed the wealth of the shareholders
11	Market Response to the Announcement of Mergers and Acquisitions: An Empirical Study from India	Neelam Rani, Surendra S. Yadav and P.K. Jain	The paper article examined the short-run abnormal returns to India based mergers and acquisitions during 2003–2008 by using event study methodology. There work was based on a sample of 623 M&A.
12	Mergers and Acquisitions in India: A strategic impact analysis for the corporate enterprises in the post liberalization period	Rabi Narayan Kar & Amit Soni	Authors observed that M&As in India were strategic in nature that motives range from growth and expansion to high quality of human resources, strong brand presence and global identity and leadership.
13	Predicting Acquisition in India	Parama Barai and Pitabas Mohanty	122 target firms acquired in 2002- 2005 taken as sample and due to high debt level it continues in India the process of M&A
14	India M&A Trend Report: Q1-Q3 2013	By MergerMarket	India's M&A through Q1-Q3 2013 was valued at US\$ 17bn, 44% below Q1-Q3 2012 (US\$ 30.3bn)
15	CCI Report on A review of Mergers & Acquisitions in India	Hari Kishan	Author had given insight regarding section 5 and 6 of the competition act 2002 and amendment in 2012

NEED/IMPORTANCE OF THE STUDY

- To understand the trend in mergers and acquisition
- To aware the investors regarding the effect, before and after the mergers & acquisitions
- To make their strategies for investments, for both the investors' long term by keeping in mind mergers & acquisitions.

OBJECTIVES**Primary Objective**

1. Measuring Wealth of Shareholders for long term view

Secondary Objectives

1. To understand the trend in M&A
2. To know the effect of merger on the company
3. To understand the shareholder's wealth after the deal

HYPOTHESIS

H0: There is a negative relationship post merger as per the fundamental analysis of the acquiring company

H1: There is a positive relationship post merger as per the fundamental analysis of the acquiring company

RESEARCH METHODOLOGY**RESEARCH DESIGN**

Causal Research

POPULATION

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 two years of Mergers and Acquisitions.

SAMPLE SIZE

Sample size will be of five companies each out of selected two years of above.

SAMPLING METHODS

Convenience sampling method.

RESULTS & DISCUSSION**ANALYSIS****1. TREND ANALYSIS**

Analysis: 5 companies each from 2005 and 2006: Measuring Wealth of Share holders for Long Term

INTRODUCTION

Mergers and Acquisitions (M&As) have been a prominent trend in the advanced capitalist countries since the late nineteenth century. But only in recent times has it become a regular phenomenon in 'developing' countries. The striking feature of the present wave of M&As at the global level is that it includes many cross-border (CB) deals and is propelled by a different set of forces. The total number of M&As worldwide increased almost three-fold during 1990 to 1999. The total value of M&As worldwide has increased more than five-fold during the corresponding period. While the total number of M&As has increased fivefold during 2000-2009 and total value has increased almost nine fold. The global environment that emerged from the new policy regime, i.e. privatization, liberalization in trade, finance and investment, as well as technological changes has created a situation that facilitates CB Mergers (UNCTAD 2000). The Indian evidence suggests that the new economic environment of the nineties has facilitated M&As. Mergers of firms belonging to the same business groups operating in similar product-lines appeared to dominate the Merger-wave in India. The participation of foreign-controlled firms in the M&As process has increased significantly during the second half of the nineties. Around 37.7 per cent of the total Foreign Direct Investment (FDI) made by multinational corporations (MNCs) during 1991-1998 was financed through cross-border M&As activity, and the same per cent increased to around 50% during 2000-2009, either through Acquisition of substantial equity stakes in existing ventures or through buy-out of real assets through asset-sales.

ANALYSIS: TRENDS FROM INDIAN PERSPECTIVE

It is evident that a substantial growth of M&As in the Indian corporate sector has been witnessed after 1990s. For instance, total no. of M&A has increased to 3089 (source: capital line) during 2005-2014 (Table 1) from the level of 1302 during 1990-2004 (Table 2), and 268 during 1980-1990s.

TABLE 1: TREND OF M&AS DURING 2005-2014

Year	Total
2005	283
2006	399
2007	432
2008	298
2009	312
2010	361
2011	292
2012	241
2013	293
2014	178
Total	3089

(Source: Capital Line)

TABLE 2: TRENDS OF M&AS DURING 1990--2004

Year	Total
1990-1995	291
1995-2000	743
2000-2004	268
Total	1302

(Source: Capital Line)

While the Indian corporate houses seem to have been bracing up to face foreign competition during the first phase (1990-1995), the second phase (1995-2000) witnessed a large presence of multinational firms which comes in Indian Market through M&A, in third phase (2000-2004) it shows down fall compare to earlier phase. In these 15 years' total deals were 1302. In the last ten years (2005 to 2014) it goes 3 times more than earlier decade (1995 to 2004). MNCs have actively participated in the M&A process during the second half of the 20th century with a view to gain market entry or to strengthen their presence.

2. PILOT STUDY**ANALYSIS**

Measuring Wealth of Share holders for Long Term view:

As a Pilot study taken 05 Companies each from the year 2005 and 2006

Analysis

Measuring Wealth of Share holders for Long Term by keeping in mind following random 10 M&A's:

Year 2005

1.

Acquirer Company : JSW Steel Ltd
Target Company : Jindal Iron & Steel Co Ltd
Merger Date : 21/03/2005
Sector : Steel

2.

Acquirer Company : Tata Motors Ltd
Target Company : Tata Finance Ltd (Merged)
Merger Date : 30/07/2005
Sector : Finance

3.

Acquirer Company : Welspun India Ltd
Target Company : Glofame Cotspin Industries Ltd (merged)
Merger Date : 4/8/2005
Sector : Textiles

4.

Acquirer Company : Chambal Fertilizers & Chemicals Ltd
Target Company : India Steamship Company Ltd (merged)
Merger Date : 22/08/2005
Sector : Shipping

5.

Acquirer Company : Gujarat Narmada Valley Fertilizers Company Ltd
Target Company : Narmada Chematur Petrochemicals Ltd (merged)
Merger Date : 28/10/2005
Sector : Petrochemicals

Year 2006

1.

Acquirer Company : Dabur India Ltd
Target Company : Balsara Hygiene Products Ltd (merged)
Merger Date : 27/01/2006
Sector : FMCG

2.

Acquirer Company : Century Plyboards (India) Ltd
Target Company : Shyam century Ferrous Ltd
Merger Date : 28/02/2006
Sector : Miscellaneous

3.

Acquirer Company : V I P Industries Ltd
Target Company : Blow Plast Ltd (merged)
Merger Date : 10/3/2006
Sector : Plastic products

4.

Acquirer Company : Torrent Power Ltd
Target Company : Torrent Power AEC Ltd (merged)
Merger Date : 23/03/2006
Sector : Power Generation & Distribution

5.

Acquirer Company : Tata Consultancy Services Ltd
Target Company : Tata Infotech Ltd (merged)
Merger Date : 23/03/2006
Sector : IT – Software

Ratios and Measures for Analysis**1. Profitability Check**

- a. Sales
- b. PAT
- c. Net profit margin
- d. EPS (annualized) (Unit Cur)

2. Liquidity Ratio

- a. Current Asset
- b. Debtor ratio
- c. Inventory Turnover ratio

3. Solvency Ratio

- a. Debt – Equity Ratio
- b. Interest Cover Ratio
- c. Impact on Capital Market
- d. Equity Paid Up
- e. Dividend
- f. Book Value
- g. Market Capitalization

4. Impact on the Cash Flows

- a. Operating Activities
- b. Investing Activities
- c. Financing Activities

5. Returns

- a. ROCE (%)
- b. RONW (%)

6. Forex Investment

- a. Revenue earnings in Forex
- b. Revenue Expenses in Forex

FINDINGS**OVERALL FINDINGS****2005**

	JSW	Tata	Welspun	Chambal	GNFC
	Steel	Motors	India	Fertilizers	
Particulars					
Profitability Check					
Net Sales	↑	↑	↑	↑	↑
PAT	↑	↑	↑	↓	↑
Net profit margin	↑	↓	↓	↓	↓
EPS (annualized) (Unit Cur)	↑	↑	↓	↓	↑
Liquidity Ratios					
Current Ratio	↓	↑	↑	↓	↑
Inventory Ratio	↓	↓	↓	↓	↑
Debtors Ratio	↑	↑	↑	↑	↓
Solvency Ratios					
Debt-Equity Ratio	↓	↑	↓	↓	↓
Interest Cover Ratio	↑	↓	↓	↑	↑
Impact on Capital Market					
Equity Paid Up	↑	↑	↑	↑	↑
Book Value (Unit Cur)	↑	↑	↑	↑	↑
Market Capitalisation	↑	↑	↓	↑	↑
Dividend (annualized%)	↑	↑	↓	↓	↑
Impact on Cash Flow					
Operating Activities	↓	↑	↓	↓	↑
Investing Activities	↓	↓	↑	↓	↓
Financing Activities	↑	↓	↓	↑	↓
Return					
ROCE (%)	↓	↓	↓	↓	↑
RONW (%)	↓	↓	↓	↓	↓
Forex Investment					
Revenue earnings in Forex	↑	↑	↑	↑	↑
Revenue expenses in Forex	↑	↑	↑	↑	↑

2006

	Dabur	Century	VIP	Torrent	TCS
	India	Plyboard	Industries	Power	
Particulars					
Profitability Check					
Net Sales	↑	↑	↑	↓	↑
PAT	↑	↑	↑	↓	↑
Net profit margin	↑	↑	↑	↑	↓
EPS (annualized) (Unit Cur)	↑	↑	↑	↑	↓
Liquidity Ratios					
Current Ratio	↑	↓	↑	↓	↑
Inventory Ratio	↓	↓	↓	↓	↓
Debtors Ratio	↑	↑	↓	↓	↑
Solvency Ratios					
Debt-Equity Ratio	↓	↑	↓	↑	↓
Interest Cover Ratio	↓	↑	↓	↑	↑
Impact on Capital Market					
Equity Paid Up	↑	↑	↑	↓	↑
Book Value (Unit Cur)	↓	↑	↑	↓	↑
Market Capitalisation	↓	↓	↑	↑	↓
Dividend (annualized%)	↑	↑	↑	↑	↓
Impact on Cash Flow					
Operating Activities	↑	↑	↑	↓	↑
Investing Activities	↓	↑	↑	↓	↓
Financing Activities	↑	↓	↓	↑	↓
Return					
ROCE (%)	↑	↑	↑	↓	↓
RONW (%)	↑	↑	↑	↓	↓
Forex Investment					
Revenue earnings in Forex	↑	↑	↑	↓	↑
Revenue expenses in Forex	↑	↑	↑	↓	↑

POST MERGER PERFORMANCE

1. 90% companies post merger average sales have increase.
2. PAT of 09 companies has increased after the merger year.
3. Though sales and PAT are increasing Net Profit Margin of only a 05 companies have increased (post merger).
4. EPS of 07 companies have increased after the merger and 03 companies EPS have decreased.
5. 60% companies' current ratio is increasing (post merger).
6. Inventory ratio of only 1 company has increased post merger while 09 companies post merger inventory ratio has decreased.
7. Out of the 10 sample companies, 07 companies post merger Debtors ratio shows increase.
8. Debt-equity ratio 30% companies' only shows increase remaining 70% shows decrease.
9. Interest coverage ratio of 60% companies' shows increases.

COMPANIES' SHOWS INCREASE AFTER THE MERGER

1. Equity Paid Up : 90%
2. Book Value (Unit Cur) : 80%
3. Market Capitalisation : 60%
4. Dividend (annualized%) : 70%
5. Operating Activities : 60%
6. Investing Activities : 30%
7. Financing Activities : 40%
8. ROCE (%) : 40%
9. RONW (%) : 30%
10. Revenue earnings in Forex : 90%
11. Revenue expenses in Forex : 90%

Profitability Check : Positive
Liquidity Ratios : Average
Solvency Ratios : Average
Impact on Capital Market : Positive
Impact on Cash Flows : Negative
Returns : Negative
Forex Investment : Positive

Hypothesis: Overall we can say **Null hypothesis is rejected**; mean there is a positive relationship post merger as per the fundamental analysis of the acquiring company

RECOMMENDATIONS/SUGGESTIONS

To the long term investors, I have to say it is good to invest by keeping in mind post merger & acquisition effect on stock prices.

CONCLUSION

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.

SCOPE FOR FURTHER RESEARCH

From the research it clearly shows that in long term investors perspective, I had not reached to the clear majority of neither positive nor negative sign so, I have to do the industry wise analysis of selected years and carry forward the research now industry specific. With that we can come to more precise conclusion.

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