INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

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VALUE CREATION THROUGH MERGERS AND ACQUISITIONS IN SELECTED INDIAN COMPANIES IN 21ST CENTURY

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ABSTRACT

Corporate restructuring are strategic initiatives to increase the value of the firm. Mergers and acquisitions have been a popular form of corporate restructuring since the dawn of the 21st century. Indian companies across various sectors have invested significant time, money and resources for strategic advantages but the question of whether these amounted to incremental value remains to be evaluated. This paper is an attempt in this direction to examine the stock performance of companies across various industries during merger or acquisition announcement. It uses event study methodology and cumulative average abnormal returns applied within the estimation window for pre-event and post-event analysis. Results show occurrence of both positive and negative cumulative average abnormal returns indicating that value was created as well as depleted as a response to merger or acquisition announcement. However, the direction of stock price movement post announcement remained largely on the positive side which means that negative abnormal returns became positive or higher negative abnormal return turned to lower negative abnormal returns. The volatility of stock prices is noticed majorly in the short run against comparatively stable stock prices in the long run.

KEYWORDS

acquisition, corporate restructuring, cumulative abnormal return, event study, merger.

JEL CODES

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INTRODUCTION

Globalization has galvanised domestic and multinational firms to derive benefits from a combination of businesses or through corporate restructuring to achieve universal competitiveness. To confront the emerging challenges and explore opportunities in the new business environment, firms are going for inorganic growth through various strategic alternatives like mergers and acquisitions (hereafter M&A), strategic alliances, joint ventures etc. The most popular strategy among companies seeking to establish a competitive advantage is through M&A. Strategic imperatives, diversification, reduced volatility of earnings, increased domestic market, greater competitive scope, expectations of capital market, economies of scale and wealth maximization in terms of synergy are the major objectives of M&A. In the last two decades, owing to deregulation in the financial market, market liberalisation, economic reforms, and a number of other events that have occurred in the business environment, business concerns face increased competition not only within the country but also from international business giants.

In the present scenario, M&A very often make headlines of financial dailies. Consolidation through M&A indicates one of the major outcomes of the financial transformation process and contemporary trend in many sectors in Indian economy — for instance, the renewable energy sector (Tata Power acquired Welspun Energy in June 2016), the banking sector (Kotak Mahindra acquired ING Vysya Bank in November 2014, SBI merger with Associate banks in April 2017), the telecom sector (Reliance Communication acquired MTS India from Sistema, Vodafone-Idea merger), the e-commerce sector (Jabong's acquisition by the Flipkart-owned Myntra) and the insurance sector (HDFC Ergo's acquisition of L&T General Insurance in June 2016).The effect of consolidation on the merging entities and on the economy is a multi-dimensional issue. The volume and number of business combinations have increased in parallel with the economic policies introduced in India post liberalisation. In the coming years, with the economy growing at a stable growth rate of around 7%, the Indian companies are well poised to challenge global counter-parts through inorganic growth strategies.

In this context, this research paper proposes to analyse the value created by companies for itself as well as the shareholders in regard to post-merger performance viz-a-viz pre-merger scenario. M&A have been studied in depth through theoretical and empirical literature examining the reasons and effects of such business combinations. While an impressive body of literature exists on mergers in the international context, few studies have been conducted in India, particularly in contemporary dynamic business environment where several sectors are in consolidation mode.

REVIEW OF LITERATURE

Stock Market Reaction to Acquisition Announcements using an Event Study Approach (Isfandiyar Shaheen, 2006) used an event study methodology to examine reaction of stock market to announcement of acquisitions. Its results indicate that target firms experience significant positive abnormal returns surrounding an acquisition announcement. The study found that acquiring firms have negative abnormal returns on the day of announcement for stock-financed acquisitions. *Stock price movement around the merger announcements: insider trading or market anticipation?* (Pawan Jain & Mark Sunderman, 2014) used several event study methodologies and regression to analyse the stock price movement on announcement of a merger. The paper divided mergers in two types: industry merger cases and non-industry merger cases, and into two time periods: recession and boom. *Stock price dynamics around merger and acquisition events* (Manuel Käufeler, 2012) uses the event study methodology and the ANOVA approach. By applying these tools, it measures the dynamics of the abnormal returns generated by Swiss bidding and target firms' shares around M&A deal publications.

A study on merger impact of merger and acquisition on growth performance of selected acquirer banks in India (Dr. G. Manokara & R. Radharukkumani, 2014) explores various motivations of Merger and Acquisitions in the Indian banking sector. This study also examines the changes occurring in the acquiring firms on the basis of financial ground and also the overall impact of Merger and acquisitions on acquiring banks. The result of the study indicates that the banks have been positively affected by the event of Merger and acquisitions. These results suggest that merged banks can obtain efficiency and gains through Merger and Acquisitions. *Impact of Mergers and Acquisitions on the Shareholder Wealth of the Select Acquirer Banks in India: An Event Study Approach* (V K Shobhana & N Deepa, 2012) attempts to determine the shareholder value addition consequent to merger announcements with respect to the six selected bank mergers during the post-liberalisation period, i.e., 1991 to 2005. The results of the study indicate that there is a decline in the shareholder wealth when the securities of the select banks are more prone to market risk, while there is an increase in the shareholder wealth when the systematic risks (market risks) of the select public and private sector banks are the same as that of the market (benchmark) portfolio.

Cross Border Mergers & Acquisitions and its effect on shareholders wealth in India (Jayant Kalghatgi & Dr. Ravidranath.V.Badi, 2013) looks at the effect of such a strategic decision on the shareholders wealth. The study reveals that the shareholders of the acquiring companies gain small positive abnormal returns in and around the announcement period. *Wealth effects of bank mergers in India: a study of impact on share prices, volatility and liquidity* (Muneesh Kumar, Shalini Kumar & Florent Deisting, 2017) examines the impact of merger announcements in Indian banking sector on shareholder's wealth, focusing on three stock characteristics namely, stock returns, volatility and liquidity of the bidder banks. It was found that the merger announcement had a mixed impact on the returns to the shareholders of the bidder banks. *Applications of event study methodology to lodging stock performance* (Barry Bloom, 2011) identifies and discusses the literature

in four primary areas: (a) event study methodology; (b) issues identified with event studies conducted within a single industry, in this case the lodging industry (c) a review of hospitality stocks in general; and (d) a discussion of the extant lodging stock event study literature.

Impact of Domestic and Cross-Border Acquisitions on Acquirer Shareholders' Wealth: Empirical Evidence from Indian Corporate (Neelam Rani, Surendra S. Yadav & P. K. Jain, 2014) compares the impact of domestic acquisitions and cross-border acquisitions on Indian acquirer shareholders' wealth during 2003-2008. The findings reveal that cross-border as well as domestic acquisitions enhance shareholders' wealth of the acquirer company on the announcement. The results indicate that cross-border acquisitions generate higher returns than domestic acquisitions. *Earnings announcements and stock price behaviour on Indian Stock Markets* (Renuka Sharma & Ramesh Chander, 2009) examined the impact of earnings' announcement on the stock price behavior in India. It can be ascertained from the analysis that the investors definitely react to the earnings announcements in a different way under the diverse market conditions. *Stock Price Reactions to Earnings Announcements: Evidence from India* (Sanjay Sehgal & Kumar Bijoy, 2015) examines the stock price reaction around earnings announcement for India. Significant post-event abnormal returns are observed for 35 out of 37 quarters implying strong rejection of semi strong efficiency with regards to earning announcements. The findings are useful for market regulator, investment managers, companies as well as researchers. The study contributes to stock market efficiency and behavioural finance literature for an emerging market.

Market Response to the Announcement of Mergers and Acquisitions: An Empirical Study from India (Neelam Rani, Surendra S. Yadav and P.K. Jain, 2013) examines the short-run abnormal returns to India based mergers and acquisitions during 2003–2008 by using event study methodology. It is found that acquisitions by Indian companies significantly create short-term wealth on the announcement day to the shareholders of acquiring companies. However, the results indicate presence of high event-induced variance in abnormal return. The study reports a high event-induced variance in the abnormal return due to the announcement of mergers and acquisition in Indian context. *A Wave of Mergers and Acquisitions: Are Indian Banks Going Up a Blind Alley?*(Neha Kalra, Shaveta Gupta and Rajesh Bagga, 2013) investigates the mergers in the Indian Banking industry to find out whether Indian banks have achieved performance efficiency during the post-merger period namely in the areas of profitability, liquidity, shareholders wealth and share price volatility. The study exposed the fact that the stock prices react significantly to merger announcements in the short period (30 days pre- and post-merger announcement) but not in long period which also indicated that Indian stock market is efficient in the long-run.

Indication of Overreaction with or without Stock Specific Public Announcements in Indian Stock market (Sitangshu Khatua and H K Pradhan, 2014) tries to find out how stocks overreact in the case of unspecified events in comparison to specified news in the Indian stock market. The study also examines whether there is a relationship between the magnitude of price reversals and the magnitude of gain or loss in the stock market return. Significant cumulative abnormal returns are found, indicating the existence of an overreaction effect. It is also found that the magnitude of price reversal is inversely proportional to the stock return during the event period. *A Study of Wealth Effects of Takeover Announcements in India on Target Company Shareholder* (T Mallikarjunappa & Panduranga Nayak, 2013) assesses the impact of takeover announcement on the stock price performance of target companies by taking a sample of 227 companies which received takeover bids during 1998-2007. Results of the study show that target company shareholders experience substantial and statistically significant cumulative average abnormal returns (CAARs) of 27-37 percent — 37 percent when raw returns are employed and 27 percent when log returns are employed.

Long-term Post-merger Performance of Firms in India (K Ramakrishnan, 2008) indicates that in the long run, mergers appear to have been financially beneficial for firms in the Indian industry. It also renews confidence in the Indian managerial fraternity to adopt M&As as fruitful instruments of corporate strategy for growth. *Impact of Merger Announcements on Shareholders' Wealth: Evidence from Indian Private Sector Banks* (Manoj Anand and Jagandeep Singh, 2008) analyses five mergers in the Indian banking sector to capture the returns to shareholders as a result of the merger announcements using the event study methodology (Brown and Warner, 1980, 1985; and MacKinlay, 1997). The study found that the merger announcements in the Indian banking industry have positive and significant shareholder wealth effect both for bidder and target banks. *Impact of Mergers and Acquisitions on Shareholders' Wealth in the Short Run: An Event Study Approach* (Neelam Rani, Surendra S Yadav & P K Jain, 2015) found that a market starts reacting prior to the announcement. The study draws the attention of managers to consider cross-border as well as domestic acquisitions as an option to strengthen their competitiveness. *Effects of cross-border acquisitions on performance of Indian acquirers: a lost odyssey?* (Lalitagauri Kulkarni, 2016) examines the short run and long run effects of cross-border acquisitions by Indian firms on the shareholder wealth and the acquiring firms' financial performance. The evidence from comparison of pre-acquisition and post-acquisition Altman z model as well as the profitability ratio shows the deteriorated financial performance of the Indian acquirer firms in the post-merger years.

Cross-border Mergers and Acquisitions: A Performance Evaluation of Indian Acquiring Companies (Ravi Singla, Amarjit Saini & Rituka Sharma, 2012) analyses the impact of such cross-border mergers and acquisitions on the financial performance of Indian acquiring companies. The results of the event window reveal that the shareholders of acquirer firms have witnessed a meagre positive cumulative average abnormal return during the post-merger announcement period. *Event Study on the Reaction of Stock Returns to Acquisition News* (Fotoh Lazarus Elad, 2017) examines the reaction of stock returns to acquisition news. The event of acquisition does appear to be related significantly to the abnormal returns and the null hypothesis being rejected. *M&A Announcements and Their Effect on Return to Shareholders: An Event Study* (Priyanka Shah & Parvinder Arora, 2014) examines a sample of M&A announcements in the Asia-Pacific region during the time period of May 2013 – September 2013 to identify the post-facto effect of M&A announcements on the stock prices of the target and the bidding firms. The target firms depict that the post announcement returns are significantly greater than the pre-announcement returns, indicative of the immediate market reaction to the information disclosure.

Shareholders wealth effects of Mergers & Acquisitions in different deal activity periods in India (Smita Kashiramka, N.V.Muralidhar Rao, 2013) attempts to analyse and compare the wealth impact of M&A announcements during different periods of deal activity in Indian Information Technology and Information Technology enabled Services (IT & ITeS) sector between 1999 to 2009. The results indicate that both the acquiring firms and target firm shareholders gained on acquisition announcement irrespective of the period of announcement of the deal; mergers on the other hand generate wealth losses for the acquiring firms across all periods. It was also found that the overall movement in the stock market affects the magnitude of the gains/losses of acquiring and target firms. *Impact of M&A Announcement on Acquiring and Target Firm's Stock Price: An Event Analysis Approach* (ATM Adnan, Alamgir Hossain, 2016) empirically analyses the differences in stock price reaction due to merger announcement both target and acquiring companies. The findings indicate pre-announcement period price run-up for the both target and acquirer companies which indicate the leakage of information or an anticipation of some good news. On the other hand, post-announcement period price downgraded for the acquirer companies. Noticeably, the trend pattern is not consistent for the both target and acquirer companies over the 10 days period.

The impact of mergers and acquisitions on corporate performance in India (Satish Kumar & Lalit K. Bansal, 2008) concluded that out of total merger cases for more than half of the cases the financial performance has improved in the post-merger time period when comparing with pre-merger time period of the same company; whereas in case of 52 acquisition deals, more than 60 percent of the cases showed an improvement in the financial performance in the post-acquisition time period. Using the single-factor model, *Impact of Merger Announcements on Shareholder' Wealth: Evidence from Indian Private Sector Bank* (Manoj Anand, Jagandeep Singh, 2008) found that the average cumulative abnormal return (CAR) of the bidder banks is positive and substantial. From the study, it emerged that merger announcement in the Indian banking industry has positive and significant shareholders' wealth affect both for the bidder and target banks. *Financial Efficiency of Merged Banks in India after Globalization Period – Factor Analysis Approach* (N. Bharathi, 2010) indicated that the performance of the banks is facilitated with the help of ratios grouped into seven factors both in case of pre and post merger period of banks. So the banks can concentrate their attention by grouping the ratios to improve their performance further.

Using a sample of 5 bank mergers from 1994-2004, *Mergers and Acquisitions in Indian banks after liberalisation - an analysis* (Madan Mohan Dutta and Dr. Suman Kumar Dawn, 2012) tried to measure and analyse pre-merger and post-merger financial performance and also to understand the major factors involved for being successful on mergers and acquisitions operations in banking industry in India. Their analysis clearly showed that the performance of merged banks in respect of growth of certain stated parameters was not different from the expectations. *A Study on Pre & Post Performance Evaluation of Merger and Acquisition of Selected Indian Banks* (Jigna Chandrakant Trivedi, 2013) concludes that M&A activity provides lot of qualitative synergistic benefits to the banks. The selected banks DPS, EPS, P/CF and Net NPA/Advances improved significantly after the merger. *Bank mergers and shareholder value creation in India* (Aasif Shah and Malabika Deo, 2013) attempted to contribute to the understanding of short term wealth effects due to unexpected merger announcements. The results demonstrate that merger announcements in Indian banking sector have no significant impact on bidder portfolio. *Do Mergers and Acquisitions Vacillate the Banks Performance* (Muhammad

Irfan Shakoor, Muhammad Nawaz, Muhammad Zulqarnain Asab, Waseem Ahmed Khan, 2014) used ratios of two years earlier and two years after mergers and acquisitions deals and found overall negative impact but these results are of short time period. It concluded that due to expansion in the business activities the organizations per unit cost go to decline.

Mergers and Value Creation: Evidence from the Indian Context (Debi Prasad Satapathy and K.P Kaushik, 2015) published in 'The IUP Journal of Applied Finance' considered domestic mergers for the period 2004-2014 to analyse the effect of merger on shareholder wealth by using BSE listed companies. Their results indicate negative abnormal returns of 1.82% during the announcement period. The findings suggest that the Indian acquiring companies destroy the shareholder wealth during the post-event short-run window period. *Do Malaysian Horizontal Mergers and Acquisitions Create Value?* (Nai Chiek Aik, Taufiq Hassan,Shamsher Mohamad, 2015) examined the value-added phenomenon of Malaysian horizontal merger and acquisition activities (M&A) in the long run for the period 1994–2010. Its findings suggest that bidder firms experience no significant improvement in operating and financial efficiencies in the long run. *Shareholder's Wealth Creation in Mergers and Acquisitions in Indian IT Industry: A Fowler and Rorke Model* (Dr. Anirban Ghatak, 2017) introduced the impact of new variable, merger advisor, on shareholders wealth creation in IT merger announcement. It had also introduced three new models to overcome problem of non-synchronous trading or infrequent trading.

IMPORTANCE OF THE STUDY

The study proposes to fulfill the objective of adding critical amount of information to the work already done on the value created by Indian companies through M&A. There has been a mixed and varied opinion over the post-merger value creation by firms in the Indian context. On one hand, metrics used for measuring value has been a subject of research and on the other, the comparison of the future performance of the firm with pre-merger scenario has been an interest area of many. In the former, researchers have considered the fundamental ratios, stock performance, shareholder wealth generated and valuation of the combined entity whereas in the latter, they have applied econometric models and empirical study based approaches. However, in the Indian context, most of the studies have been done from the point of view of market efficiency. Here lies the scope for this paper to go beyond it and explore other variables to develop a model for post-merger value creation in the Indian context.

STATEMENT OF THE PROBLEM

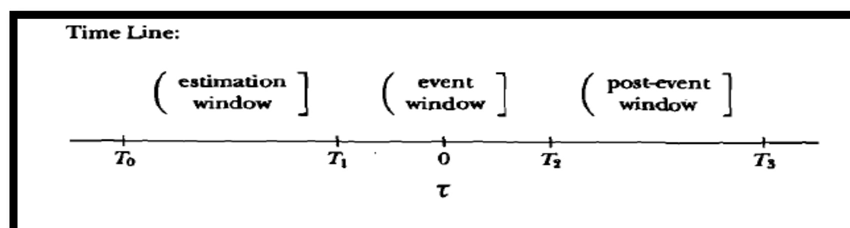
M&A has been a popular strategy for increasing the value delivered by the company, profit margins and cost advantages. Indian M&A landscape has been populated with M&A announcements post 2000. While these restructuring initiatives attracted investor sentiments, the actual value delivered to these investors remains to be evaluated. As the problem of short-run volatility is expected by one and all, the cumulative gains within the estimation window are desired to be towards the positive end of the spectrum as well. The problem statement of this study is to investigate what is the extent of these cumulative gains by the yardstick of average abnormal returns of the stocks against Nifty.

OBJECTIVES

1. To analyse four major mergers and acquisitions in India across different industries.
2. To examine value of firm from stock performance during mergers and acquisitions in selected Indian companies post 2000.
3. To analyse the impact of merger announcement on stock returns in India post 2000.

RESEARCH METHODOLOGY

This paper attempts to measure stock performance with respect to the stock price movements with the help of event study methodology to find abnormal returns pre, during and post the M&A event. An event study methodology attempts measurement of valuation after-effects of a corporate event, such as a merger or earnings announcement, by examining the stock price movements before, during and after the announcement of the event. The underlying assumption in this method is that there is an unbiased processing of information by the market efficiently and in an unbiased manner. Thus, it enables us to see the effect of the event on prices.



Mechanics of Event Study

Event studies are vital in the context of business events as it attempts to highlight the magnitude of abnormal performance at the time of the event indicating evidence on the reaction to the event. Event study decisions are characterized on the basis of time period under consideration. Short horizon event studies generally have the time window for study as less than twelve months. On the other hand, long horizon event studies include more than twelve months of event study period. CAR (Cumulative Abnormal Return) is one of the most used short horizon event study in the field of M&A. CAR is a way of analyzing merger performance based on stock market returns of both acquirer and target firm. It is used to assess short term merger performance from windows ranging from 11 days to 3 days around the merger announcement date. The following steps comprise the mechanics of event study:

Event Definition and Date of Announcement

The event or the action of study is expected to convey some information that potentially influences the stock prices. The first step in the event study methodology is defining the event as the date on which it is first announced to the public. Day 0 is the day of announcement on which the event first appears in any newspaper. In majority of cases, the stock exchanges are informed the same day on which the acquisition is first announced to the public. In a few cases, the intent of acquisition is announced before the approval date (almost 10 trading days), to capture the effect of this leakage event window of 20 days before the announcement has been observed. The most critical assumption of event study methodology is that there is no confounding event during the event window.

Event studies are important in the context of corporate affairs as it attempts to highlight the magnitude of abnormal performance at the time of the event indicating considerable evidence on investor's reaction of the event. Existing literature characterize event study decisions based on the time frame of the study in consideration. Short horizon event studies generally include window period of less than twelve months. On the other hand, long horizon event studies include those whose event study period is more than twelve months. One of the most used short horizon event study in the field of mergers is Cumulative Abnormal Return (CAR). CAR is an academic way of analyzing merger performance based on stock market returns of both acquirer and target firm. It is an event study analysis used to access short term merger performance from windows ranging from 11 days to 3 days around the merger announcement date.

Estimation Model and Definition of Abnormal Return

The estimation model is the model used to estimate the expected returns. The traditional single factor market model has been considered to estimate the expected returns. It involves the regression of a stock's returns against a market index. For the present study, the value weighted market index—NSE Nifty returns has been used for regression.

The key issue in event studies is what portion of the price movement is actually caused by the event of interest. In other words, it is required to extract the impact of the one particular event on stock returns. This leads to the concept of abnormal returns. The abnormal return is the differences between the actual return and

the expected return on a particular day. The abnormal return of the jth stock (AR_{jt}) is obtained by subtracting the normal or expected returns in absence of the event $E(R_{jt})$, from the actual return in the event period, (R_{jt}) as per following equation:

$$AR_{jt} = R_{jt} - E(R_{jt})$$

The market model approach relates the return of a security to the return of the market portfolio as per the market model:

$$R_{jt} = \alpha_j + \beta_{mt} + \varepsilon_{jt}$$

where t = −280, …, −26, α_j is a constant term for the jth stock, β_j is the beta of the jth stock, R_{mt} is the market returns, and ε_{jt} is an error term.

The parameters of the model are estimated by using the time-series data from the estimation period that precedes each individual announcement. The parameters estimated from the market model are then used in the calculation of abnormal returns for each day in the event window. The estimated parameters are then matched with the actual returns in the event period. The daily excess return, i.e., abnormal return of firm j for the day t (ARjt) is estimated from actual returns during the event period and the estimated coefficients from the estimation period as per the following equation:

$$AR_{jt} = R_{jt} - \left(\hat{\alpha} + \hat{\beta} R_{mt}\right)$$

where t = −20, …, +20.

The average abnormal return (AAR_t) for each day in the event window is calculated as the following equation:

$$AAR_t = \frac{1}{N}\sum_{j=1}^{N} AR_{jt}$$

where, N is the number of firms.

Definition of Cumulative Abnormal Return (CAR)

The cumulative abnormal return for a given security is simply the sum of daily abnormal returns over the event window. Over an interval of two or more trading days beginning with day T1 and ending with day T2, the cumulative average abnormal return (CAAR) is calculated as per following equation:

$$CAAR_{T_1T_2} = \frac{1}{N}\sum_{j=1}^{N}\sum_{t=T_1}^{T_2} AR_{jt}$$

RESULTS AND DISCUSSION

A. SUN PHARMA'S ACQUISITION OF RANBAXY

Date of announcement of acquisition: 6th April 2014 (Day 0)

Estimation window (-20 days): 17th March-5th April 2014

Post-event window (+20 days): 7th April-26th April 2014

TABLE 1

Date	Adjusted Close of Sun Pharma	Daily Returns of Sun Pharma	Adjusted Close of Nifty	Daily Returns of Nifty
18-Mar-14	571.83		6516.65	
19-Mar-14	577.71	1.03%	6524.05	0.11%
20-Mar-14	582.54	0.84%	6483.10	-0.63%
21-Mar-14	572.87	-1.66%	6493.20	0.16%
24-Mar-14	571.78	-0.19%	6583.50	1.39%
25-Mar-14	571.78	0.00%	6589.75	0.09%
26-Mar-14	559.25	-2.19%	6601.40	0.18%
27-Mar-14	553.28	-1.07%	6641.75	0.61%
28-Mar-14	555.89	0.47%	6695.90	0.82%
31-Mar-14	567.29	2.05%	6704.20	0.12%
1-Apr-14	564.68	-0.46%	6721.05	0.25%
2-Apr-14	567.79	0.55%	6752.55	0.47%
3-Apr-14	571.04	0.57%	6736.10	-0.24%
4-Apr-14	564.38	-1.17%	6694.35	-0.62%
7-Apr-14	580.47	2.85%	6695.05	0.01%
9-Apr-14	621.83	7.12%	6796.20	1.51%
10-Apr-14	607.42	-2.32%	6796.40	0.00%
11-Apr-14	620.00	2.07%	6776.30	-0.30%
15-Apr-14	608.40	-1.87%	6733.10	-0.64%
16-Apr-14	605.89	-0.41%	6675.30	-0.86%
17-Apr-14	616.94	1.82%	6779.40	1.56%
21-Apr-14	613.19	-0.61%	6817.65	0.56%
22-Apr-14	611.91	-0.21%	6815.35	-0.03%
23-Apr-14	617.48	0.91%	6840.80	0.37%
25-Apr-14	613.93	-0.58%	6782.75	-0.85%

TABLE 2

	pre event	post event
Beta	-0.089	1.827
Expected return	6.4%	21.7%
Actual return	-1.09%	82.70%
Abnormal return	-7.51%	60.95%

The 10-year Indian government bond yield as on 15th Dec was 7.133% and the equity risk premium ($R_m – R_f$) according to a recent study conducted by Damodaran in NYU Stern in January 2017 in 8% for India. Based on this, the Beta for the -20day pre event window and +20day post event window were calculated using CAPM (Capital Asset Pricing Model) to find the required return.

$$E(R_i) = R_f + \beta_i[E(R_M) - R_f]$$

The actual return was estimated with respect to the market beta of 1. Therefore, actual return for pre-event window is: -0.089-1 = -1.09% and for post-event window is 1.827-1 = 82.7%. The difference between the actual return and the expected return gives the abnormal return:
Pre event window: -1.09% - 6.4% = -7.51%
Post event window: 82.7% - 21.7% = 60.95%

B. KOTAK'S ACQUISITION OF ING VYSYA

Date of announcement of acquisition: 20th November 2014 (Day 0)
Estimation window (-20 days): 31st October-20th November 2014
Post-event window (+20 days): 21st November-10th December 2014

TABLE 3

Date	Adjusted Close of Kotak	Daily returns of Kotak	Adjusted Close of Nifty	Daily returns of Nifty
31-Oct-14	2443.55		8322.20	
3-Nov-14	2440.70	-0.12%	8324.15	0.02%
5-Nov-14	2400.55	-1.65%	8338.30	0.17%
7-Nov-14	2385.75	-0.62%	8337.00	-0.02%
10-Nov-14	2410.05	1.02%	8344.25	0.09%
11-Nov-14	2391.65	-0.76%	8362.65	0.22%
12-Nov-14	2398.00	0.27%	8383.30	0.25%
17-Nov-14	2424.05	1.09%	8430.75	0.57%
20-Nov-14	2424.70	0.03%	8401.90	-0.34%
21-Nov-14	2421.10	-0.15%	8477.35	0.90%
24-Nov-14	2429.15	0.33%	8530.15	0.62%
25-Nov-14	2431.45	0.09%	8463.10	-0.79%
26-Nov-14	2425.45	-0.25%	8475.75	0.15%
27-Nov-14	2424.35	-0.05%	8494.20	0.22%
28-Nov-14	2411.95	-0.51%	8588.25	1.11%
1-Dec-14	2383.25	-1.19%	8555.90	-0.38%
2-Dec-14	2418.20	1.47%	8524.70	-0.36%
3-Dec-14	2426.30	0.33%	8537.65	0.15%
4-Dec-14	2421.65	-0.19%	8564.40	0.31%
5-Dec-14	2422.50	0.04%	8538.30	-0.30%
8-Dec-14	2413.10	-0.39%	8438.25	-1.17%
9-Dec-14	2429.40	0.68%	8340.70	-1.16%
10-Dec-14	2474.60	1.86%	8355.65	0.18%

TABLE 4

	pre event	post event
Beta	0.759	-0.093
Expected return	13.20%	6.39%
Actual return	-24.10%	-1.09%
Abnormal return	-37.30%	-7.48%

The 10-year Indian government bond yield as on 15th Dec was 7.133% and the equity risk premium (R_m-R_f) according to a recent study conducted by Damodaran in NYU Stern in January 2017 in 8% for India. Based on this, the Beta for the -20day pre event window and +20day post event window were calculated using CAPM (Capital Asset Pricing Model) to find the required return, as was done in the Sun Pharma's case above.
The actual return was estimated with respect to the market beta of 1. Therefore, actual return for pre-event window is: 0.759-1 = -24.10% and for post-event window is -0.093-1 = -1.09%. The difference between the actual return and the expected return gives the abnormal return:
Pre event window: -24.10% - 13.20% = -37.30%
Post event window: -1.09% - 6.39% = -7.48%

C. HCL'S BUYOUT OF AXOM GROUP

Date of announcement of acquisition: 15th December 2008 (Day 0)
Estimation window (-20 days): 26th November - 15th December 2008
Post-event window (+20 days): 16th December - 4th January 2009

TABLE 5

Date	Adjusted Close of HCL	Daily returns of HCL	Adjusted Close of Nifty	Daily returns of Nifty
26-Nov-08	54.78		2752.25	
27-Nov-08	54.24	-0.98%	2754.61	0.09%
28-Nov-08	52.64	-2.96%	2755.10	0.02%
1-Dec-08	51.60	-1.96%	2682.90	-2.62%
2-Dec-08	47.87	-7.23%	2657.80	-0.94%
3-Dec-08	46.01	-3.88%	2656.45	-0.05%
4-Dec-08	45.96	-0.12%	2788.00	4.95%
5-Dec-08	45.38	-1.25%	2714.40	-2.64%
8-Dec-08	44.77	-1.35%	2784.00	2.56%
10-Dec-08	45.48	1.58%	2928.25	5.18%
11-Dec-08	44.23	-2.74%	2920.15	-0.28%
12-Dec-08	41.06	-7.18%	2921.35	0.04%
15-Dec-08	39.75	-3.17%	2981.20	2.05%
16-Dec-08	47.10	18.49%	3041.75	2.03%
17-Dec-08	46.80	-0.65%	2954.35	-2.87%
18-Dec-08	51.74	10.55%	3060.75	3.60%
19-Dec-08	53.55	3.51%	3077.50	0.55%
22-Dec-08	51.37	-4.07%	3039.30	-1.24%
23-Dec-08	47.72	-7.12%	2968.65	-2.32%
24-Dec-08	44.37	-7.02%	2916.85	-1.74%
26-Dec-08	43.24	-2.55%	2857.25	-2.04%
29-Dec-08	43.03	-0.49%	2922.20	2.27%
30-Dec-08	44.48	3.38%	2979.50	1.96%
31-Dec-08	44.14	-0.77%	2959.15	-0.68%
2-Jan-09	46.82	6.07%	3046.75	2.96%

TABLE 6

	pre event	post event
Beta	0.453	2.205
Expected return	10.95%	24.97%
Actual return	-54.69%	120.50%
Abnormal return	-65.65%	95.53%

The actual return was estimated with respect to the market beta of 1. Therefore, actual return for pre-event window is: 0.453-1 = -54.69% and for post-event window is 2.205-1 = 120.50%. The difference between the actual return and the expected return gives the abnormal return:

Pre event window: -54.69% - 10.95% = -65.65% and Post event window: 120.50% - 24.97% = 95.53%

D. JET-SAHARA MERGER

Date of announcement of acquisition: 13th April 2007 (Day 0)

Estimation window (-20 days): 17th March – 13rd April 2007 and Post-event window (+20 days): 14th April – 3rd May 2007

TABLE 7

Date	Adjusted Close of Jet	Daily returns of Jet	Adjusted Close of Nifty	Daily returns of Nifty
19-Mar-07	580.17		3678.90	
20-Mar-07	628.70	8.36%	3697.60	0.51%
21-Mar-07	663.28	5.50%	3764.55	1.81%
22-Mar-07	661.14	-0.32%	3875.90	2.96%
23-Mar-07	627.56	-5.08%	3861.05	-0.38%
26-Mar-07	611.57	-2.55%	3819.95	-1.06%
28-Mar-07	624.78	2.16%	3761.10	-1.54%
29-Mar-07	645.89	3.38%	3798.10	0.98%
30-Mar-07	629.05	-2.61%	3821.55	0.62%
2-Apr-07	599.40	-4.71%	3633.60	-4.92%
3-Apr-07	628.41	4.84%	3690.65	1.57%
4-Apr-07	611.62	-2.67%	3733.25	1.15%
5-Apr-07	623.24	1.90%	3752.00	0.50%
9-Apr-07	639.73	2.65%	3843.50	2.44%
10-Apr-07	641.17	0.23%	3848.15	0.12%
11-Apr-07	605.41	-5.58%	3862.65	0.38%
12-Apr-07	625.47	3.31%	3829.85	-0.85%
13-Apr-07	622.25	-0.52%	3917.35	2.28%
16-Apr-07	628.60	1.02%	4013.35	2.45%
17-Apr-07	631.78	0.51%	3984.95	-0.71%
18-Apr-07	633.77	0.31%	4011.60	0.67%
19-Apr-07	636.95	0.50%	3997.65	-0.35%
20-Apr-07	682.60	7.17%	4083.55	2.15%
23-Apr-07	722.04	5.78%	4085.10	0.04%
24-Apr-07	716.08	-0.83%	4141.80	1.39%
25-Apr-07	718.76	0.37%	4167.30	0.62%
26-Apr-07	721.34	0.36%	4177.85	0.25%
27-Apr-07	706.44	-2.07%	4083.50	-2.26%
30-Apr-07	713.05	0.94%	4087.90	0.11%
3-May-07	717.32	0.60%	4150.85	1.54%

TABLE 8

	pre event	post event
Beta	0.721	0.760
Expected return	12.90%	13.21%
Actual return	-27.94%	-24.01%
Abnormal return	-40.84%	-37.22%

The actual return was estimated with respect to the market beta of 1. Therefore, actual return for pre-event window is: 0.721-1 = -27.94% and for post-event window is 0.760-1 = -24.01%. The difference between the actual return and the expected return gives the abnormal return:
Pre event window: -27.94% - 12.90% = -40.84%
Post event window: -24.01% - 13.21% = -37.22%

FINDINGS

From the above event studies performed in this attempt for analyzing value creation by M&A, we notice that there is a mixed result of the movement of stock process and no defined pattern of share price movement was seen. But, we observe that the direction of stock market returns has largely remained on the positive side as negative abnormal returns became positive after the event or highly negative return became less negative post the announcement. It is also observed that in most of the cases, on announcement of the merger, the beta of the stock increases and therefore an investor undertaking the higher risk involved in investing in such a stock should be earning better returns after the event although the amount of stock movement upside varies across sectors. It was found that most of the volatility in the stock price movement occurred in the short run and all of them should stable long run returns, although the nature of the long run abnormal returns showed mixed results, i.e., some mergers shows initial positive thrust but later a negative return scenario while the others show initial dip with positive long-run sentiments.

SUGGESTIONS

It is recommended to analyse the performance of the firm in an extended time frame before and after the M&A announcement. Besides stock return, the analysis can also involve other parameters to measure synergies generated like employee well-being, capital gains and marginal cost advantages. It is suggested that an estimation model can be developed to predict the returns post M&A within the estimation window by accounting for different beta coefficients.

CONCLUSION

India is becoming a highly sought after destination for M&A deals and must concentrate upon increasing the ease of doing business in the country by improving the business environment. The rules and regulations related to the Indian business environment are easing as it has been appreciated by 30 positions jump in ease of doing business ranking. The year 2016 recorded 7 deals of value over a billion dollars and 44 deals over $100 million, contributing about 75% of total deal values. In terms of sectors, the overall M&A deals were driven by BFSI (Banking, Financial services and Insurance), energy, pharmaceutical and telecommunication collectively contributing over $20 billion. Deal outlook for the coming years seems to be positive due to robust growth in domestic M&A activity and deleveraging initiatives by the corporate. There is a consolidation wave across different sectors such as telecom, manufacturing, banking etc. which will support the growth in M&A deals.

LIMITATIONS

This paper attempted to capture the stock performance of the acquiring companies contrasting before and after scenarios of M&A announcement. However, it suffers from the limitation of small event window. The analysis is done for short run changes in share price movement which are not much relevant in the long run as companies make M&A decisions eyeing long-term synergy benefits. It fails to capture synergies accruing to the firm in the form of increased profits although it shows gains to the equity shareholders from the M&A.

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