

“MERGERS AND ACQUISITIONS IN INDIA AND ITS IMPACT ON SHAREHOLDERS WEALTH”

Amish Bharatkumar Soni.*

Abstract

In this study I had done the analysis in two parts: First part trend analysis (2004 to 2015); second part long term view for shareholders wealth analysis by keep in the mind post merger scenario in the selected companies. To know the long term perspective for shareholders wealth I had done the fundamental analysis of 20 companies. 10 companies from the year 2012 and 10 companies from the year 2013 from specific sectors i.e. Financial services and IT sector and see the effect post merger on the acquiring company with the tools of fundamental analysis. The sector selection is through the analysis of last decade M&A deals around 1000 companies analyzed, and it is founded that Financial series and IT sectors were had highest number of deals in the decade.

Key Words: Mergers & Acquisition, Pre and post merger analysis, Shareholder’s Wealth.

*** Faculty of Management, GLS University, India**

1. 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 Review:

Table 1: Literature Reviews

<u>Sr. No.</u>	<u>Topic Name</u>	<u>Author/ Authors Name</u>	<u>Outline of the Paper</u>
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	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
3	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
4	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 analyzed the wealth of the shareholders
5	Market Response to the Announcement of Mergers and Acquisitions: An Empirical Study from India	Neelam Rani, Surendra S. Yadav and P.K. Jai	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.
6	Mergers and Acquisitions in India: A strategic impact analysis for the corporate enterprises in the post liberalization period	Rabi NarayanKar & 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.
7	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

1.2 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.

1.3 Objective:

1.3.1 Primary Objective:

- Measuring Wealth of Shareholders for long term view

1.3.2 Secondary Objectives:

- To understand the trend in M&A
- To know the effect of merger on the company
- To understand the shareholders wealth after the deal

1.4 Hypothesis:

Hypothesis 1:

H0: Merger and Acquisition deals are negatively affecting the company's financial performance.

H1: Merger and Acquisition deals are having positive effect on the company's financial performance.

Hypothesis 2:

H0: Merger and Acquisition deals are having no differentiation sector wise.

H1: Merger and Acquisition deals are showing different effect on different sectors.

1.5 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 i.e. 2012 and 2013.

Sample Size:

Sample size will be of 20 companies; five companies of financial sector and IT sector from the year 2012 and same for 2013.

Sampling Methods:

Convenience sampling method

2. Results & Discussion:

2.1 Trend Analysis

2.2 Company Analysis: Two Sectors: 20 Companies

- **Financial Services:** 10 Companies; 05 from 2012 and 05 from 2013
- **Information & Technology:** 10 Companies; 05 from 2012 and 05 from 2013

2.1 Trend analysis:

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.

2.1.1. 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 2: 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 3: 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.

2.2 Company Analysis:

Measuring Wealth of Share holders for Long Term by keeping in mind following 20 M&A's deals in the year 2012 and 2013:

2.2.1 Financial Services: 2012

1. **Acquirer Company** : JM Financial Ltd

Target Company : JM Financial Ventures Ltd

JM Financial Consultants Pvt Ltd

JM Financial Securities Private Limited

JM Financial Institutional Securities Pvt Ltd

Merger Date : 17/05/2012

2. **Acquirer Company** : Cholamandalam Investment & Finance Company Ltd

Target Company : Cholamandalam Factoring Ltd

Merger Date : 30/10/2012

3. **Acquirer Company** : Shriram City Union Finance Ltd

Target Company : Shriram Retail Holdings Pvt Ltd

Shriram Enterprise Holdings Pvt Ltd

Merger Date : 30/10/2012

4. **Acquirer Company** : Ganon Trading & Finance Company Ltd

Target Company : SPG Multi Trade Pvt Ltd

VandanaHitech Systems Ltd

ArchanaHitech Consultants Ltd

Merger Date : 09/11/2012

5. **Acquirer Company** : Kailash Auto Fin
Target Company : Careful Projects Advisory Ltd
Panchshul Marketing Ltd
Merger Date : 22/11/2012

2.2.2 Financial Services: 2012

1. **Acquirer Company** : Dee Kartavya Finance Ltd
Target Company : Salvation Developers Ltd
Merger Date : 13/07/2013
2. **Acquirer Company** : Kovalam Investment & Trading Ltd.
Target Company : Sarita Exports Ltd
Memphis Enterprises Ltd
Oswal Finance Company Ltd
Merger Date : 19/08/2013
3. **Acquirer Company** : Shree Global Tradefin Ltd
Target Company : Indrajit Properties Pvt Ltd
Indrajit Power Technology Pvt Ltd
Trump Investments Ltd
Merger Date : 28/08/2013
4. **Acquirer Company** : Suryakripa Finance Ltd.
Target Company : Regal Shipping Pvt Ltd
Merger Date : 31/10/2013
5. **Acquirer Company** : Mahamaya Investments Ltd
Target Company : Millennium Online (India) Ltd
Merger Date : 21/11/2013

2.2.3 Information & Technology: 2012

1. **Acquirer Company** : Aurionpro Solutions Ltd
Target Company : Seelnfobiz Pvt Ltd
Merger Date : 08/10/2012
2. **Acquirer Company** : Accelya Kale Solutions Ltd

Target Company : Zero Octa Selective Sourcing India Pvt Ltd
Zero Octa Recruitment & Training (India) Pvt Ltd

Merger Date : 10/10/2012

3. **Acquirer Company** : Tata Consultancy Services Ltd

Target Company : TCS e-Serve Ltd

TCS e-Serve International Ltd

Retail FullServe Ltd

Computational Research Laboratories Ltd

Merger Date : 19/10/2012

4. **Acquirer Company** : Futuristic Solutions Ltd

Target Company : Futuristic Remedies Ltd

Merger Date : 19/10/2012

5. **Acquirer Company** : Firstsource Solutions Ltd

Target Company : Rev IT Systems Pvt Ltd

Merger Date : 03/12/2012

2.2.4 Information & Technology: 2013

1. **Acquirer Company** : Softech Infinium Solutions Ltd

Target Company : Falcon Education Pvt Ltd

Merger Date : 23/01/2013

2. **Acquirer Company** : WEP Solutions Ltd

Target Company : Wep Peripherals Ltd

Merger Date : 01/04/2013

3. **Acquirer Company** : CES

Target Company : Decatrend Technologies Pvt Ltd

Merger Date : 14/06/2013

4. **Acquirer Company** : KPIT Technologies Ltd

Target Company : KPIT Global Solutions Ltd

Merger Date : 23/07/2013

5. **Acquirer Company** : Hexaware Technologies Ltd

Target Company : Caliber Point Business Solutions Ltd

Merger Date : 09/12/2013

2.2.5 Financial Analysis Parameters: Total 21 Parameters

Per Share Ratios

1. Basic EPS (Rs.)
2. Diluted EPS (Rs.)
3. Book Value [InclRevalReserve]/Share (Rs.)
4. PBT/Share (Rs.)
5. Net Profit/Share (Rs.)

Profitability Ratios

1. PBT Margin (%)
2. Net Profit Margin (%)
3. Return on Networth / Equity (%)
4. Return on Capital Employed (%)
5. Return on Assets (%)
6. Total Debt/Equity (X)
7. Asset Turnover Ratio (%)

Liquidity Ratios

1. Current Ratio (X)
2. Quick Ratio (X)

Valuation Ratios

1. Enterprise Value (Cr.)
2. EV/Net Operating Revenue (X)
3. EV/EBITDA (X)
4. MarketCap/Net Operating Revenue (X)
5. Price/BV (X)
6. Price/Net Operating Revenue
7. Earnings Yield

3. Findings and Interpretation:

3.1 Post-Merger Performance:

3.1.1. Financial Services Sector:

Per Share Ratios: Increases in Financial Services Sector

1. Basic EPS (Rs.): 70% companies EPS increases after the deal.
2. Diluted EPS (Rs.): 80% companies Diluted EPS increases after the deal.
3. Book Value [InclRevalReserve]/Share (Rs.): 80% companies Book Value Positively change after the M&A.
4. PBT/Share (Rs.): 80% Increases
5. Net Profit/Share (Rs.): Same 80% Increases

Profitability Ratios: It is affecting positively in many companies after the deal

1. PBT Margin (%): 56% companies show Decreases in this ratio.
2. Net Profit Margin (%): 56% Decreases in this ratio after the deal had happened
3. Return on Networth / Equity (%): 62.5% companies shows Increases
4. Return on Capital Employed (%): 70% companies shows Increases
5. Return on Assets (%): 20% companies shows steady, 60% of them shows increases
6. Total Debt/Equity (X): Majority companies show decreases on this parameter.
7. Asset Turnover Ratio (%): Almost 90% companies shows increases

Liquidity Ratios: It is affecting positively and negatively in many companies after the deal.

1. Current Ratio (X): 50 % companies shows Decreases and remaining 50% shows increase
2. Quick Ratio (X): Still not conclusive, It is 50 % companies shows Decreases and remaining 50% shows increases

Valuation Ratios: Majority Parameters shows decreases here.

1. Enterprise Value (Cr.): 70% companies shows increases.
2. EV/Net Operating Revenue (X): Almost 80% companies shows decrease after the deal.
3. EV/EBITDA (X): Almost 90% companies shows decrease after the deal.
4. MarketCap/Net Operating Revenue (X): 75% companies shows decreases
5. Price/BV (X): Majority shows increases.
6. Price/Net Operating Revenue: Majority shows decreases.
7. Earnings Yield: 50 % companies shows increases.

3.1.2 Information & Technology Sector:

Per Share Ratios: Decreases in Financial Services Sector

1. Basic EPS (Rs.): 60% companies EPS decrease after the deal.
2. Book Value [InclRevalReserve]/Share (Rs.): 60% companies Book Value Positively change after the M&A.
3. Dividend / Share (Rs.): Majority companies show decreases.
4. PBT/Share (Rs.): 60% Decreases
5. Net Profit/Share (Rs.): 60% companies shows Decreases after the deal

Profitability Ratios: The ratios under this parameter shows decreases

1. PBT Margin (%): 60% companies show Decreases in this ratio.
2. Net Profit Margin (%): 70% Decreases in this ratio after the deal had happened
3. Return on Networth / Equity (%): 60% companies shows Decreases
4. Return on Capital Employed (%): 60% companies shows Decreases
5. Return on Assets (%): 60% companies shows Decreases
6. Total Debt/Equity (X): Majority companies show increase only on this parameter.
7. Asset Turnover Ratio (%): 70% companies shows decreases

Liquidity Ratios: It is affecting negatively in many companies after the deal.

1. Current Ratio (X): 80 % companies shows Decreases
2. Quick Ratio (X): Clearly again, It is 80 % companies shows Decreases

Valuation Ratios: Majority Parameters shows increases here.

1. Enterprise Value (Cr.): 90% companies shows increases.
2. EV/Net Operating Revenue (X): 80% companies shows increases after the deal.
3. EV/EBITDA (X): 70% companies shows increase after the deal.
4. Market Cap/Net Operating Revenue (X): 80% companies shows increases
5. Price/BV (X): 80% companies shows increases here also.
6. Price/Net Operating Revenue: Majority shows increase
7. Earnings Yield: 70 % companies shows decreases.

3.2 Overall Findings:**Table 4: Financial Services**

<u>Sr. No.</u>	<u>Company Name</u>	<u>Positive Effect</u>	<u>Negative Effect</u>	<u>Overall</u>
1	JM Financial Ltd	13	5	Positive
2	Cholamandalam Investment & Finance Company Ltd	12	7	Positive
3	Shriram City Union Finance Ltd	14	6	Positive
4	Ganon Trading & Finance Company Ltd	12	8	Positive
5	Kailash Auto Fin	12	8	Positive
6	Dee Kartavya Finance Ltd	17	2	Positive
7	Kovalam Investment & Trading Ltd	7	12	Negative
8	Shree Global Tradefin Ltd	9	9	Neutral
9	Suryakripa Finance Ltd.	3	18	Negative
10	Mahamaya Investments Ltd	10	3	Positive

Table 5: Information & Technology

<u>Sr. No.</u>	<u>Company Name</u>	<u>Positive Effect</u>	<u>Negative Effect</u>	<u>Overall</u>
1	Aurionpro Solutions Ltd	19	2	Positive
2	Accelya Kale Solutions Ltd	18	2	Positive
3	Tata Consultancy Services Ltd	15	5	Positive
4	Futuristic Solutions Ltd	8	13	Negative
5	Firstsource Solutions Ltd	11	9	Positive
6	SoftechInfinium Solutions Ltd	6	14	Negative
7	WEP Solutions Ltd	6	12	Negative
8	CES	5	12	Negative
9	KPIT Technologies Ltd	14	6	Positive
10	Hexaware Technologies Ltd	10	10	Neutral

In financial services sector there are 70% companies' shows post-merger positive effect and while in information and services sector shows 50% companies positive effect after the deal.

4. Conclusion:

4.1 Financial Services:

- **Per Share Ratios:** Positive
- **Profitability Ratios:** Positive
- **Liquidity Ratios:** Neutral
- **Valuation Ratios:** Negative

4.2 Information Technology:

- **Per Share Ratios:** Negative
- **Profitability Ratios:** Negative
- **Liquidity Ratios:** Positive
- **Valuation Ratios:** Positive

In financial services sector majority parameters shows positive effect, but valuation wise it goes negative from the deal while in I.T valuation ratios and Liquidity Ratios are positive and on other two that is per share & profitability it shows negative effect.

4.3 Hypothesis Testing:

Hypothesis 1:

H0: Merger and Acquisition deals are negatively affecting the company's financial performance.

H1: Merger and Acquisition deals are having positive effect on the company's financial performance.

In financial services sector it is clear that the H0 is rejected and in IT sector it shows more negative effect on financial performance post merger so in that sector we can say H0 is accepted.

Hypothesis 2:

H0: Merger and Acquisition deals are having no differentiation sector wise.

H1: Merger and Acquisition deals are showing different effects on different sectors.

Here, now it is clear that sector wise the M&A deals are differentiating. H0 is rejected and we can say that M&A deals showing different effects on different sectors.

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.

5. 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 as it is varying sector to sector.

6. Scope for further Research:

From the research it clearly shows that in long term investors perspective, we can consider some more sectors from the last decade and see there is any change in sector wise or not. With that we can come to more precise conclusion.

7. Acknowledgement:

I would like to acknowledge the N. R. Institute of Business Management (GLS University) to support my research, my PHD Guide Dr. Sneha S. Shukla and last but not least my family members for their continuous support.

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