Long Term Performance Of Mergers & Acquisitions In India

Harita Nair, Dileep G Menon

***Abstract*: The research paper studies mergers and acquisitions (M&As) in India and examines the post-M&A performance using data from 2001 to 2015. The long-term performance after a year of M&A is taken for study and is measured in comparison with the combined performance of Companies before merger. We find that, certain characteristics of the companies like pre-merger operating performance and attitude of deals – friendly or not are important determinants of long-term post-M&A operating performance. However, for M&As in that period, there appears to be no major effect on performance of firms' characteristics linked to M&A activity such as consideration structure, cash reserves of the acquirer, same industry and target's share acquired.**

***Index Terms*: Mergers, Acquisitions, Domestic Companies, India, ROA, Margin.**

I. INTRODUCTION

It is one of the important objectives of a firm to maintain a sustainable growth rate along with earning profits. This is made possible by acquiring or getting merged with other firms for diversification and expansion. The firms overcome issues by efficiently using the combined resources. So, it may have positive or negative impact on the firms being merged or acquired. The quantity of mergers and acquisitions performed by listed Indian companies are developing. Driven by new national approaches, high venture return rate, and low industry fixation, recorded Indian listed companies are searching for expansion, adding up new divisions to their existing ones.

In this paper we are doing a study on intra-regional Mergers & Acquisitions in the Indian region using data from 2001 to 2015. We examine the determinants of the pre & post M&A performance of companies in this region and also the impact of global crisis on such deals that had happened in India. We have taken various indicators to understand the change in operating performance of the companies Post-merger or Acquisition. The main aim of this study is to understand the impact of nature of deals, structure of consideration, industry relatedness, cash reserves of the Acquirer and target share acquired on the operating performance of the Companies pre & post –merger. The operating performance is measured using Return on Total Assets & Margin or profitability of the companies. Also, a comparison is done on the basis of the pre-M& A combined performance of target and acquirer as well as post M&A performance of the merged entity.

As a general rule, numerous companies may experience the ill effects of an M&A action, as companies face a few obstructions which keep such advantages from being legitimately executed. Obstructions develop at the dimension of individuals and procedure. On one hand, expanded formalization of asset allocation and other administration choice regions unfavourably influence performance, and comparative difficulties rise at the dimension of key capacities. Then again, the human aspect of M&A is similarly relevant. Thus, the inquiry of post-M&A operating performance has been tended to by numerous researchers in the course of the most recent three decades. Companies either experience negative or no additions from M&A and a few investigations show that acquirers can improve working execution after M&As.

II. LITERATURE REVIEW

Alice, Gulen and Mihai in their study examined the effect of policy uncertainty on mergers and acquisitions. Analysing a sample of 100 firms from 1985 to 2009 they found that political and regulatory uncertainties regarding taxes, government spending and monetary and fiscal policy have strong negative association with mergers and acquisitions. Further they found that deal premiums, fees, MAC clauses cause policy uncertainty which in turn leads to increasing negotiating power to the target company. Weihong, Kecheng, Ling, Yong and Ximmeng examined the impact of firms M&A on their performance in emerging economies. Using 148 pharmaceutical firms from 2008 to 2016 they performed a least squared regression and found that value chained extension and technology seeking M&A have a positive relation with the firm's performance. Additionally, the found that the growth ability, size, age and exclusive assets of the firm positively impact the firm's performance and corporate governance, property rights and solvency of the firms have no impact on the firm's performance after their M&A. Lu, Yang, Yuqian and kam studied the wealth effects of M&A using a new measure of linguistic distance.

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They found that linguistic distance and acquires abnormal returns have a negative relation between them and the main reasons for the negative effect are the deals are not in high-tech industries, acquirers are not from known popular industrial areas and Further they found that cultural distance matters in corporate decision making.

Cong and Monica studies the performance of cross border mergers with respect to developed markets. Analysing 186 Chinese firms cross border mergers they found that there is a positive relation between business ties and performance of cross-border mergers when there is technological innovation in acquiring a firm and cultural distance causes a negative relationship between technology and performance of cross border mergers.

Christopher, Jian and Gokhan in their study examined whether investors can expect from post IPO mergers and acquisitions. Using US IPO'S deal structure from the year 1980 to 2008 they found that characteristics of IPO deals like underwriter quality, pricing, proceeds, ownership structure and promotional activities predict whether a newly public firm subsequently becomes a bidder or target. Further they suggest that more implications might happen as going public in only one factor which has an effect of future M&A.

Aziz Jon and Micah in their paper investigate the role of intellectual property rights protection in cross border merger and acquisition. Analysing top 50 M&As across countries they found that intellectual property rights have an impact on merger activities only in intellectually capital-intensive industries and when acquirer country has more intellectual rights protection than target country. Additionally, the found that synergy gains in cross border M&A have positive relation with intellectual property rights

Marc, Iulia and Frances examine the relation between foreign M&A and firm's productivity. The study was limited to UK based micro firms for the period of 1999 to 2007. They find

Dr. Trivedi studied the pre and post-performance evaluation of Merger and Acquisition. Analysing top companies of BSE and NSE he found that post-merger there is improved PAT, PBDIT and PBT. The author concludes that M&A is a tool for expansion and wealth maximization of companies and Shareholders respectively.

John and David examine the effect of changes in corporate control on the way shareholder gain from announcements of selling and buying airlines. The study was restricted to Latin American Airlines. Through an event study analysis, they found that some companies gain abnormal returns that are statistically significant after selling announcements but have negative returns during a buying session announcement.

Rekha, Julie and Tuan examine the post-merger performance of companies in ASEAN countries. The results show that industry operating performance trends to decline in the subsequent 3 years of M&A. Further they found that M&A completed during financial crisis turned out to be more profitable than the mergers done before and after the crisis. Profitability was due to size of the target; cross border natures deals and friendly deals which were important determinants of long-term operating performance of the firm. Iveta in his study examined the dependence of activity of acquisition, tax rate and economic performance

According to many studies done it is believed that cash financed deals wind up faster than stock financed or mixed deals. As the payment is made through cash, the deal also finishes fast. Thus, it helps in developing synergetic value for the merged entity faster.

Hypothesis Development

Independent of the company's inspirations driving money or stock strategy for an arrangement, studies show that that money financed bargains are moderately increasingly advantageous to offering firms. Money offers can prompt a higher gainful improvement than transactions financed with stock or a blend of securities (Ghosh, 2001; Linn and Switzer, 2001).

H1: Cash financed deals have a positive impact on Post M&A performance

M&As inside a similar industry can be connected to companies' requirement for retaining assets fundamental for focused advantage and company benefit. The event of M&As between firms in a similar industry can significantly change the business environment for new entities in that industry. The effect on performance of an industry related merger tends to create a positive impact than mergers between companies of different industries (Haleblian et al., 2009).

H2: Post merger performance will be positive due to same industry merger

Many studies conducted suggest that companies with more cash reserves are likely to create a negative impact on performance of the merged entity after merger and acquisition because it will lead to losses to the companies (Healy et al., 1992; Jensen, 1986).

H3: Companies with high cash reserves going for merger will experience no effect on performance

The level of target share gained in an M&A specifically decides the degree to which acquiring companies could exercise their authority over them (Jensen, 1986). An arrangement that prompts a majority shareholding in the objective improves the probability of a gainful improvement. (Harford, 1999; Martynova et al., 2007).

H4: Majority stake creates a positive impact on performance after merger.

Deal attitude plays role in any M&A as it's an arrangement between two entities, there has to be some kind of understanding, mutual agreements, to bridge gaps, as the merged entity will have less cultural differences if it is friendly than neutral or any other attitude. (Kruse et al., 2007; Morck et al., 1988).

H5: Deal attitude affects the post-merger performance of the merged entity.o.

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III. METHODOLOGY

For Sample Selection

This study focuses on Indian M&A activity for the period 2001–2015. We have only taken domestic transactions, and publicly listed companies are both target and acquirer. The details of each transaction were extracted from the Mergers and Acquisitions Database of Thomson Reuters. The data includes deal value, percentage of shares sought, held & acquired and owned after the transaction, nationality of both target & Acquirer Company and industry of each acquirer and target, deal attitude, consideration structure and amount, stock price of the acquirer on the day of announcement and one day after announcement. There are 106 deals under study only including domestic transactions.

Sample description

The table presented below shows the statistics of the sample of 106 Domestic deals. While collecting data for 111 deals, we could get limited information for five of the deals which have been excluded for the purpose of analysis. The sample has been divided according to the completion year where 82% of the deals have come in to effect after the 2007-08 financial crisis and 18% before the crisis.

Similarly, nearly 25% of the deals had been financed by cash only and nearly 30% had been financed with only stock. The attitude of deal is friendly for 90% of arrangements rest 10% is neutral. Around 83% of deals are majority and rest are minority deals where majority deal means deal where more than 20% shares are acquired and those where less than 20% are acquired are minority ones.

Effective year			**Consideration structure**		
	No. of Deals	**%**		**No. of Deals**	**%**
2002	2	2%	Cash only	27	25%
2003	3	3%	Stock only	31	29%
2004	2	2%	Unknown	25	24%
2006	1	1%	Other	23	22%
2007	2	2%			
2008	8	7%	**Deal Attitude**		
2009	5	5%	Friendly	95	90%
2010	22	21%	Neutral	11	10%
2011	17	16%	**Percentage of share acquired**		
2012	5	5%	Minority deals	88	83%
2013	20	19%	Majority deals	18	17%
2014	16	15%	**Industry relatedness**		
2015	3	2%	Same industry	63	59%
			Different industry	43	41%

Table 1: Types of Deals

Similarly, the deals within the same industry or consolidated are nearly 60% and rest 40% are deals with diversification or mergers with different industries.

Deal features

	ROA	MARGIN
Cash reserves	1.692E-013	-5.403E-011
PRE ROA	-1.946	-106.329
PRE MARGIN	1.156	-6.469
Unknown	.295	-8.110
Other	.005	40.408
Cash	.100	-12.992
Crisis period	.035	-42.309
Consolidation	-.156	-15.955
% Target share Acquired	-.001	.143
Small Target less than 10%	-.183	33.061
Minority deals	.050	-92.037
Majority deals	.264	-42.138
Friendly Deal	.486	-136.414

Table 2: Deal qualities & change in working execution

The table above shows the coefficients of each variable taken for ROA as well as Margin calculated post-merger and we can say for some variables the coefficients are negative which shows they have an inverse relationship with the indicator. In this study we have taken two main operating performance indicators –

ROA= EBDITA/Total Assets

MARGIN= EBDITA/Sales

Where EBDITA is the earnings before depreciation & amortisation, Interest, Taxes taken from the profit & loss account, Total assets is the book value of all the assets taken from balance sheet, Sales is again the net sales which is revenue from operations taken from the profit & loss account.

Regression Analysis With the same data we have done a regression analysis in SPSS by taking ROA & Margin as dependent variables and the time for which it is taken is for next year after the effective date of Merger and other 8 independent variables for the same – Cash reserves of the acquirer pre-merger , Pre ROA & Pre Margin of the combined assets, sales and pre-tax cash flows of both acquirer and target, Deal attitude dummy variable for friendly deals as 1 and others 0 , consideration structure as dummy variable with cash financed deals as 1 and other stock financed deals and unknown deals as 0, Target share acquired shows the percentage of shares acquired or owned after merger, Same industry as dummy variable for same industry deals as 1 and diversifications as 0 and Financial crisis as dummy variable where deals during 2007-08 are 1 and others 0.

***Post ROA** = β0 + β1 Pre ROA+ β2 Pre-Margin+ β3 cash reserves+ β4 Deal attitude+ β5 Consideration structure+ β6 Target share acquired+ β7 Same industry+ β8 Financial crisis+ e*

***Post Margin** = β0 + β1 Pre ROA+ β2 Pre-Margin+ β3 cash reserves+ β4 Deal attitude+ β5 Consideration structure+ β6 Target share acquired+ β7 Same industry+ β8 Financial crisis+ e*

IV. RESULT AND ANALYSIS

Our findings show that in India, after mergers & acquisitions which factors are significant or show significance to the operating performance of the merged company. The data that we had taken for analysis includes combined data of pre-merger target and acquirer also.

Model	Sig.
(Constant)	.520
PRE ROA	.000
PRE-MARGIN	.000
Deal Attitude	.041
Crisis period	.933
Same industry	.411
% Target Acquired	.964
Cash reserves	.818

Table 3: Dependent Variable: Post ROA

The output of analysis tells us that pre-merger performance (ROA &Margin) is significant where pre ROA has a negative effect on the Post ROA which means when the pre ROA is diminishing before M&A the Post ROA will tend to increase significantly but pre Margin has a positive effect on Post ROA which tells that if pre margin is increasing before merger, Post ROA will significantly increase after merger and vice versa. Also, the deal attitude is significant or we can say has impact on the Post ROA. So, our results are consistent with our hypothesis H5 & H3.

Model	Sig.
(Constant)	.002
Cash reserves	.603
PRE ROA	.281
PRE-MARGIN	.757
Deal Attitude	.005
Consideration	.516
Crisis period	.530
Same industry	.406
% Target Acquired	.369

Table 4: Dependent Variable: Post Margin

Analysis done with Post margin as dependent variable shows impact of only deal attitude whether friendly or neutral with a positive coefficient which means that it has a positive effect on the performance after merger. Also, the financial crisis did not have impact on the Indian M&As as there were only few deals during the crisis period which were not significant. The factors like – consideration structure, if cash financed or stock financed, target share acquired whether majority deals or minority, same industry or not do not affect the performance after merger significantly. We find out that over the sample period it is observed that deal attitude has strong significance. It is also observed that there is a huge difference in the results when Return on assets and sales margin is used. Return on assets is getting a more good fit while doing regression analysis than when using sales margin.

V. DISCUSSION AND CONCLUSION

This research mainly contributes to the study on mergers & acquisitions in India. The sample study of domestic deals of only publicly listed companies have been take over 2001-2015.Using different indicators of operating performance of resulting companies after M&A and conducting regression analysis for two main indicators ROA & Margin of sales, we could find that overall the performance after merger is affected by the combined performance of both companies pre-merger and the attitude of deal also has impact on the long term performance.

Our results also have many other implications, during financial crisis few deals happened and because they were all domestic deals or we can say within their region, after M&A their performance was positively affected. Also, friendly deals happened to positively impact the post-merger performance.

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It is recognised that this research study has various restrictions; so, the outcomes may not give a thorough picture in understanding the long-term performance M&As. So mainly, organisations taken in this study were confined only to publicly listed firms. Therefore, future studies should attempt to incorporate private acquirers just as targets. This will help recognise the contrasts between the M&A elements of private and open acquirers and targets. In addition, this paper utilised surviving technique of finding changes in performance after one year following the year when M&A became effective. However, it isn't certain in the case if merged entities can infer all the synergistic value inside this time span, and concentrating over a longer period will give an understanding into M&A execution in India. Also, for some deals incomplete data was available due to nonexistence of the target companies in the market or due to time constraints.

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