EFFECT OF MERGER & ACQUISITION ON RETURNS TO SHAREHOLDER

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Abstract: Mergers and Acquisitions (M&A) are the most popular means of corporate restructuring or business combinations and are a big part of today's corporate finance world. They are considered as one of the strategies for improved financial performance and growth. The companies are expected to perform much better post M&A so that the overall wealth of the shareholders can increase. From the review of literature, it is found that there is no convincing evidence of the impact of M&A on corporate performance. This study is an effort to find out the difference between pre- and post-merger/ acquisition performance of eight companies involved in M&A in terms of Return and volumes. Average of returns, average of volumes and T-Test are used to analyze the effect of shareholder return. The test is carried out by taking into consideration of average return of closing price and average of volume. The companies on which the analysis is done are: LIC, IDBI, Tata Steel, ThyssenKrupp, India bulls housing finance and India bulls' commercial credit ltd, Lakshmi vilas Bank Ltd, Teleperformance and Intelenet Global services. The test aims at finding out the effect on the above-mentioned ratios due to M&A transactions, and analyze if the effect is positive, negative or not significant on the shareholder return of the company.

Keywords: Mergers and Acquisitions, pre- and post-merger, Average of return, Average of volumes.

Extended Abstract

I. Introduction

Merger

The term merger means the combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock. This deal involves no new investments. The consideration in this transaction is in the form of shares. Merger deals are usually made when the combining companies are of similar size. In this transaction, the merging companies' identities are lost, and a new entity is formed, which is a combination of the merging entities. Companies merge with various intentions in mind, which could be for attaining economies of scale, entering into a new product line, entering into a new market, cutting costs, or various other reasons.

Acquisition

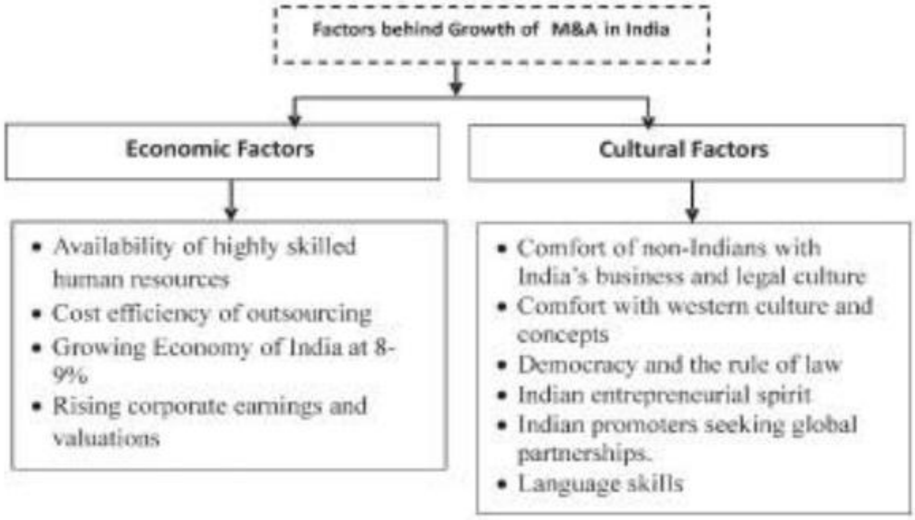
An acquisition occurs when one firm buys the majority or all of the shares of another company in order to take control of that company. Buying more than half of a target company's shares and other assets gives the acquirer the authority to make decisions concerning the newly acquired assets without the permission of the other shareholders. Acquisitions, which are quite prevalent in business, can take place with or without the target company's agreement. On a contrast to mergers, an acquisition or takeover is the purchase of one business or company by another company or other business entity. Such purchase may be of 100%, or nearly 100%, of the assets or ownership equity of the acquired entity. Consolidation occurs when two companies combine together to form a new enterprise. Acquisition involves a takeover of one entity (acquired) by another entity (acquiring). As opposed to mergers, acquisition generally occurs between two or more entities of dissimilar sizes, with the relatively larger entity being the acquiring, and the relatively smaller entity being the acquired entity. The consideration in this transaction is in the form of cash.

Return on Shareholder

The return on equity (ROE) is a financial metric that is calculated by dividing net income by shareholders' equity. The return on net assets is referred to as ROE since shareholders' equity equals a company's assets less its debt. A company's profitability and efficiency in producing profits is measured by its return on equity (ROE). Return on Shareholders (ROS) is used to assess if a stock's ROE is excellent or bad, as well as what is deemed normal among its peers. On its balance sheet, utilities, for example, have a lot of assets and debt relative to a little amount of net income. A typical return on investment (ROI) in the utilities industry might be as low as 10%. A typical ROE of 18 percent or greater may be achieved by a technical or retail business with lower balance sheet accounts compared to net income.

Theoretical implications of the topic

There are several factors which affect the growth of mergers and acquisitions in India as shown in the table below.



Hence, an entity must look into all these factors carefully, and analyze its impact on the entity, in order to attain a successful Merger and Acquisition deal. Today, Merger and acquisition forms a huge part of corporate finance.

Impact of Mergers & Acquisition During COVID19

The coronavirus (COVID-19) epidemic has had and will continue to have a substantial impact on global mergers and acquisitions ("M&A"). Hundreds of thousands of businesses have shut down or drastically reduced their operations in a short period of time, millions of employees have been laid off or furloughed, consumer spending has plummeted, supply lines have been disrupted, and demand for oil and other energy sources has plummeted.

Previous economic downturns, such as the dot-com bubble burst in 2000-2002 and the Great Recession of 2007-2009, have seen the M&A business survive and rebuild. As in past financial and economic crises, uncertainty in the business and finance markets has led to purchasers postponing or lowering their acquisition plans. The impact of the pandemic this time, however, is not just on the financial system as a whole, seller values, and buyers' propensity to execute transactions swiftly, but also on a range of other factors impacting M&A agreements.

The stock price of the acquiring firm falls as a result of the acquiring company paying a premium for the target company or incurring debt to finance the transaction. The target company's short-term share price tends to rise since the shareholders only agree to the deal if the acquisition price exceeds their company's current value. When merger transactions are announced, the combined outcomes are typically positive, both statistically and economically. The market believes the reported transactions will create value, since the overall worth of both the acquirer and the acquired improves on average.

II. Review of Literature

• **The Effect of Mergers and Acquisitions on Shareholder Returns-** Agus Sugiar to The goal of this study is to examine if a purchase of less than 50% of a firm result in the same wealth impact for the bidding and target companies' shareholders. If differences in controlling interest in target enterprises influence the wealth of bidding and target firms' shareholders, they may pick a merger that generates greater anomalous returns.

• **Impact of Mergers and Acquisitions on Shareholders' Wealth in the Short Run-** Neelam Rani, Surendra S Yadav, and P K Jain Using detailed case research techniques, the current study seeks to assess the impact of mergers and acquisitions on short-term returns. This research advises executives to consider cross-border as well as domestic acquisitions as a means of increasing their company's competitiveness. Because the issuance of shares is bad news, they should consider using cash to fund mergers. The target company might be purchased as a subsidiary by management, which could then be absorbed into their own operations.

• **Impact of Acquisition on Corporate Performance in Indian-** Dr. Babli Dhiman- Mr. Bilal A. Parray This paper was created with the goal of examining the impact of acquisitions on the financial performance of acquiring firms by looking at some pre-acquisition and post-acquisition financial ratios of these firms, as well as the differences between pre-acquisition and post-acquisition ratios of firms that go for acquisitions. Selected accounting variables (financial characteristics) are used to quantify financial performance and compare pre- and post-acquisition company performance for three years before and after the M&A, with the year of the acquisition event deleted from comparisons. The operating performance of acquiring corporations has exhibited mixed outcomes in terms of the difference between post-merger and pre-merger performance, according to research literature.

• **Effect Of Mergers and Acquisition on Returns to Shareholders of Conglomerates in Nigeria-** Olowoniyi Adeyemi Olusola & Ojenike Joseph Olusola The investment returns to shareholders of conglomerate firms that have completed mergers and acquisitions, as well as their performance, were examined in this study. The link between net total assets and profit after tax, profits per share, and return on capital employed, on the other hand, illustrates the opposite. Companies should use their increased performance to benefit their shareholders, according to experts.

• **Impact Of Mergers and Acquisition Announcement on Shareholder's Wealth-** Timcy Sachdeva, K.P. Kaushik, Neena Sinha From 1991 to 2010, the current study examines the impact of 85 mergers and acquisitions on the wealth of Indian acquiring business owners. The goal of this paper is to look at how a merger announcement affects the wealth of the acquiring company's Indian shareholders. Using regression analysis and secondary data, the study looks at 85 acquirers. In order to obtain trustworthy findings, a non-parametric generalized sign test was also applied.

• **A Study of Financial Performance of Merger and Acquisition Corporate Sector in India-**Ashish Gupta, Dr. Gajraj Mergers and acquisitions are the most efficient means to accomplish a company's growth strategy. M&A has been used as an aggressive expansion strategy across all sectors. Mergers and acquisitions are not a new notion, and the recent surge in M&A has offered organizations more room to seek integration for their growth, market coverage, or any other strategic need. The purpose of this research paper is to investigate the influence of mergers and acquisitions on the business sector's financial performance in India.

• **The Impact of M&A on Bank's Financial Performance: Evidence from Emerging Economy -** Hussain Muhammad, Muhammad Waqas, Stefania Migliori The expansion of bank mergers and acquisitions has been a worldwide phenomenon. Bank M&A has frequently been motivated by performance in many developing economies: Evidence from the influence of M&A on bank's financial emerging policies for reorganizing the banking system in the aim of economic growth. Corporate Ownership & Control, which improves financial system stability.

• **Mergers & Acquisition in the Indian Banking Sector: Impact on Shares & Performance Check**

Mergers and acquisitions are a relatively recent development in the Indian banking industry. It will enable banks to achieve world-class status and provide superior value to stakeholders. The impact of a merger on a company's stock and the effect on the equity share of the shareholder's capital will be the focus of this paper. It will also look at the main factors influencing the bank's performance before and after the merger.

III. Research methodology

Statement of the problem: Examine how mergers and acquisitions affect financial results of companies in terms of performance of entities prior to, and after merging/acquisition. The success rate of M&A deals is low, with acquisitions having a success rate of less than 50 percent. Hence, there needs to be proper analysis of performance of, and synergy between companies in order to ensure successful M&A deals. The primary motive for mergers and acquisitions (M&A) is to improve the company's shareholder value. The new business paradigm is the creation of shareholder value. It is recognized as one of the most important objectives for enterprises. Even if profit isn't the primary aim, a firm that continually reports losses generates less revenue than it consumes. As a result, because profits are used to pay retentions and dividends, a company's earnings have an influence on shareholder value. Mergers can only be effective if they improve shareholder value. Today, the high competition has made it necessary for companies to merge/ acquire to survive.

Objectives of the Study:

The main objectives of the study are:

1. To know the pre-merger impact on stock return.

2. To know the post-merger impact on stock return.

3. To examine the relationship between pre- and post-merger.

Scope of the Study:

The primary objective of this study is to determine the impact of merger and acquisition deals on the operating performance, financial performance, and shareholder wealth of the sample companies by comparing their performance before and after the transactions and calculating their pre- and post-merger or acquisition values. In the past, there have been Mergers and acquisitions between top companies, in order to stay above competition. This research looks into the effect of such M&A deals on the post-merger/ acquisition performance of the entities.

This study considers four M&A they are:

1. Teleperformance acquired Intelenet Global Services

2. LIC acquired IDBI bank

3. Tata steel merged with Thyssen Krupp

4. Indian bulls Housing Finance Ltd merged and Indian bulls commercial Credit Ltd merged with Lakshmi Vilas Bank Limited (LVB)

The study is conducted by taking into consideration the pre- and post- merger values of historical data (closing price of shares):

1. Return (Average of Return)

2. Volume (Average of Volume)

The study is done taking into consideration values of ratios for two years pre- and post- merger.

The information gathered from this research can be used to interpret and analyze the possible effect of future M&A deals in the industry.

Hypothesis:

Hypothesis 1: There is significant variation in the value of Return on Average, before and after the M&A deal.

Hypothesis 2: There is significant variation in the value of Return on volume, before and after the M&A deal.

Methodology

Type of Research	Exploratory Research
Sampling plan: **Target population**	From period of 2017-2020 companies before and after which have undergone merger and acquisition.
Sources of data	Secondary data – online research papers from EBSCO, Google Scholar, and various websites.
Tool for collection of data	Information from Capital-line, Money Control, Tijori, yahoo finance (historical data)

IV. Tools used for Analysis

• Software Tool: R studio

• Data Visualization: Exploratory data visualization using Microsoft Excel.

• Data analysis techniques – T-test

V. Data Analysis

Summary of the Hypothesis:

Average of Return		
Hypothesis: **H_0**: There is no significant variation in the value of Return on Average, before and after the M&A deal. **H_a**: There is significant variation in the value of Return on Average, before and after the M&A deal.		
Companies	**p-value**	**Null Hypothesis**
LIC	0.8808	Failed to be rejected
IDBI.NS	0.8853	Failed to be rejected
India Bulls	0.8334	Failed to be rejected
Intelenet Global Services	0.7499	Failed to be rejected
Lakshvilas.NS	0.4268	Failed to be rejected
Tata Steel	0.1694	Failed to be rejected
TEP.PA	0.9738	Failed to be rejected
Thyssen Krupp	0.3308	Failed to be rejected

Return on Volume		
Hypothesis: **H_0**: There is no significant variation in the value of Return on Volume, before and after the M&A deal. **H_a**: There is significant variation in the value of Return on Volume, before and after the M&A deal.		
Companies	**p-value**	**Null Hypothesis**
LIC	3.019e-05	Rejected
IDBI.NS	0.07564	Failed to be rejected
India Bulls	9.12e-09	Rejected
Intelenet Global Services	0.008059	Failed to be rejected
Lakshvilas.NS	0.01376	Failed to be rejected
Tata Steel	1.232e-05	Rejected
TEP.PA	0.5403	Failed to be rejected
Thyssen Krupp	3.649e-06	Rejected

VI. Findings

Objective 1: To know the pre-merger impact on stock return.

• There is inverse relation between return and volume for LIC, Tata Steel, India Bulls.

• There is no inverse relation between return and volume for Thyssen Krupp, IDBI.NS, TEP.PA, Intelenet Global Services, Lakshvilas.NS.

Objective 2: To know the post-merger impact on stock return.

• There is inverse relation between return and volume for LIC, Tata Steel, India Bulls, Thyssen Krupp, TEP.PA, IDBI.NS

• There is no inverse relation between return and volume for Intelenet Global Services, Lakshvilas.NS.

Objective 3: To examine the relationship between pre- and post-merger.

• There is significant no variation in the value of Return on Average, before and after the M&A deal for LIC, IDBI.NS, India Bulls, Intelenet Global Services, Lakshvilas.NS, Tata Steel, TEP.PA and Thyssen Krupp.

• There is significant variation in the value of Return on Volume, before and after the M&A deal for LIC, India Bulls, Tata Steel and Thyssen Krupp.

• There is no significant variation in the value of Return on Volume, before and after the M&A deal for IDBI.NS, Intelenet Global Services, Lakshvilas.NS, TEP.PA.

VII. Limitations

• Limited number of companies are available in the industry, which have undergone M&A transactions.

• Data for the companies are available for limited number of years, since a couple of M&A deals under consideration have undergone M&A recently.

• The study of financial performance of companies is based solely on the value of certain financial ratios.

VIII. Discussions and Conclusions

Mergers and acquisitions are used to enhance an entity's performance quickly, stay on top of the market, and meet the difficulties offered by competitors. There are numerous forms of mergers and acquisitions depending on the rationale for the transaction, which might include overcoming competition, driving business more efficiently, providing better services, entering new markets or service lines, and so on.

Companies must extensively analyze their current market condition, identify flaws, search the market for companies that might benefit them through M&A transactions, and then, only after detailed analysis, engage in M&A transactions. The study found that mergers and acquisitions may have both positive and negative effects on a company's shareholder return. As a result of the merger and acquisition of shareholder return, the examination of firms in India reveals both positive and negative effects on key financial parameters (average of return and average of volumes) of organizations. Contradictions, as well as a lack of synergy between the organizations involved, may be the causes of bad M&A outcomes. A thorough proforma analysis must be conducted in order to estimate the effect of M&A transactions between the companies involved in order to ensure good financial performance of companies through good synergy, and after proper analysis, a decision must be made on whether or not to proceed with the M&A deal.